

# Narrabri Shire Council

## ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2019

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*A strong and vibrant regional growth centre providing a quality living environment for the entire Shire community*



# Narrabri Shire Council

## GENERAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2019

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*A strong and vibrant regional growth centre providing a quality living environment for the entire Shire community*



# General Purpose Financial Statements

for the year ended 30 June 2019

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## Overview

Narrabri Shire Council is constituted under the Local Government Act 1993 (NSW) and has its principal place of business at:

46-48 Maitland Street  
Narrabri NSW 2390

Council's guiding principles are detailed in Chapter 3 of the LGA and includes:

- principles applying to the exercise of functions generally by council,
- principles to be applied when making decisions,
- principles of community participation,
- principles of sound financial management, and
- principles for strategic planning relating to the development of an integrated planning and reporting framework.

A description of the nature of Council's operations and its principal activities are provided in Note 2(b).

Through the use of the internet, we have ensured that our reporting is timely, complete and available at minimum cost. All press releases, financial statements and other information are publicly available on our website: [www.narrabri.nsw.gov.au](http://www.narrabri.nsw.gov.au).

# Narrabri Shire Council

## General Purpose Financial Statements

for the year ended 30 June 2019

### Understanding Council's Financial Statements

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#### Introduction

Each year, individual Local Governments across NSW are required to present a set of audited financial statements to their council and community.

#### What you will find in the Statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2019.

The format of the financial statements is standard across all NSW Councils and complies with both the accounting and reporting requirements of Australian Accounting Standards and requirements as set down by the Office of Local Government.

#### About the Councillor/Management Statement

The financial statements must be certified by senior staff as 'presenting fairly' the Council's financial results for the year and are required to be adopted by Council – ensuring both responsibility for and ownership of the financial statements.

#### About the Primary Financial Statements

The financial statements incorporate five "primary" financial statements:

##### 1. The Income Statement

Summarises Council's financial performance for the year, listing all income and expenses. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

##### 2. The Statement of Comprehensive Income

Primarily records changes in the fair value of Council's Infrastructure, property, plant and equipment.

##### 3. The Statement of Financial Position

A 30 June snapshot of Council's financial position indicating its assets, liabilities and "net wealth".

##### 4. The Statement of Changes in Equity

The overall change for the year (in dollars) of Council's "net wealth".

##### 5. The Statement of Cash Flows

Indicates where Council's cash came from and where it was spent. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

#### About the Notes to the Financial Statements

The Notes to the Financial Statements provide greater detail and additional information on the five primary financial statements.

#### About the Auditor's Reports

Council's financial statements are required to be audited by the NSW Audit Office.

In NSW the auditor provides 2 audit reports:

1. an opinion on whether the financial statements present fairly the Council's financial performance and position, and
2. their observations on the conduct of the audit, including commentary on the Council's financial performance and financial position.

#### Who uses the Financial Statements?

The financial statements are publicly available documents and must be presented at a Council meeting between seven days and five weeks after the date of the audit report.

The public can make submissions to Council up to seven days subsequent to the public presentation of the financial statements.

Council is required to forward an audited set of financial statements to the Office of Local Government.

**General Purpose Financial Statements**  
for the year ended 30 June 2019

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**Statement by Councillors and Management made pursuant to Section 413(2)(c) of the Local Government Act 1993 (NSW) (as amended)**

**The attached General Purpose Financial Statements have been prepared in accordance with:**

- the *Local Government Act 1993 (NSW) (as amended)* and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the *Local Government Code of Accounting Practice and Financial Reporting*.

**To the best of our knowledge and belief, these statements:**

- present fairly the Council's operating result and financial position for the year
- accord with Council's accounting and other records.

**We are not aware of any matter that would render these statements false or misleading in any way.**

**Signed in accordance with a resolution of Council made on 17 December 2019.**



**Cr Catherine Redding**  
**Mayor**  
17 December 2019



**Cr Cameron Staines**  
**Deputy Mayor**  
17 December 2019



**Mr Stewart Todd**  
**General Manager**  
17 December 2019



**Mr Tim McClellan**  
**Responsible Accounting Officer**  
17 December 2019

## Income Statement

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018 <sup>1</sup>
<b>Income from continuing operations</b>				
<u>Revenue:</u>				
20,344	Rates and annual charges	3a	20,303	19,810
11,226	User charges and fees	3b	7,939	15,479
1,482	Interest and investment revenue	3c	1,521	1,553
2,317	Other revenues	3d	2,477	2,134
9,840	Grants and contributions provided for operating purposes	3e,3f	11,444	12,621
16,990	Grants and contributions provided for capital purposes	3e,3f	10,242	2,522
<u>Other income:</u>				
–	Net share of interests in joint ventures and associates using the equity method	14	20	46
62,199	<b>Total income from continuing operations</b>		53,946	54,165
<b>Expenses from continuing operations</b>				
16,583	Employee benefits and on-costs	4a	15,791	15,451
282	Borrowing costs	4b	282	340
12,768	Materials and contracts	4c	12,940	14,984
9,950	Depreciation and amortisation	4d	9,602	10,458
3,961	Other expenses	4e	4,610	4,162
–	Net losses from the disposal of assets	5	576	1,344
43,544	<b>Total expenses from continuing operations</b>		43,801	46,739
18,655	<b>Operating result from continuing operations</b>		10,145	7,426
18,655	<b>Net operating result for the year</b>		10,145	7,426
18,655	Net operating result attributable to council		10,145	7,426
1,665	<b>Net operating result for the year before grants and contributions provided for capital purposes</b>		(97)	4,904

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

The above Income Statement should be read in conjunction with the accompanying notes.

## Statement of Comprehensive Income

for the year ended 30 June 2019

\$ '000	Notes	2019	2018 <sup>1</sup>
<b>Net operating result for the year (as per Income Statement)</b>		<b>10,145</b>	<b>7,426</b>
<b>Other comprehensive income:</b>			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	9(a)	46,290	6,837
<b>Total items which will not be reclassified subsequently to the operating result</b>		<b>46,290</b>	<b>6,837</b>
<b>Total other comprehensive income for the year</b>		<b>46,290</b>	<b>6,837</b>
<b>Total comprehensive income for the year</b>		<b>56,435</b>	<b>14,263</b>
Total comprehensive income attributable to Council		56,435	14,263

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

## Statement of Financial Position

as at 30 June 2019

\$ '000	Notes	2019	2018 <sup>1</sup>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalent assets	6(a)	1,380	854
Investments	6(b)	50,000	56,000
Receivables	7	12,495	7,115
Inventories	8a	2,992	3,067
Other	8b	362	687
<b>Total current assets</b>		<u>67,229</u>	<u>67,723</u>
<b>Non-current assets</b>			
Infrastructure, property, plant and equipment	9(a)	492,633	428,052
Investments accounted for using the equity method	14	247	227
<b>Total non-current assets</b>		<u>492,880</u>	<u>428,279</u>
<b>TOTAL ASSETS</b>		<u>560,109</u>	<u>496,002</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	10	3,297	3,829
Income received in advance	10	549	503
Borrowings	10	763	836
Provisions	11	4,102	3,794
<b>Total current liabilities</b>		<u>8,711</u>	<u>8,962</u>
<b>Non-current liabilities</b>			
Payables	10	196	181
Borrowings	10	5,150	5,913
Provisions	11	8,745	74
<b>Total non-current liabilities</b>		<u>14,091</u>	<u>6,168</u>
<b>TOTAL LIABILITIES</b>		<u>22,802</u>	<u>15,130</u>
<b>Net assets</b>		<u>537,307</u>	<u>480,872</u>
<b>EQUITY</b>			
Accumulated surplus	12a	236,475	226,330
Revaluation reserves	12a	300,832	254,542
<b>Council equity interest</b>		<u>537,307</u>	<u>480,872</u>
<b>Total equity</b>		<u>537,307</u>	<u>480,872</u>

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

The above Statement of Financial Position should be read in conjunction with the accompanying notes.



## Statement of Changes in Equity

for the year ended 30 June 2019

\$ '000	Notes	2019			2018 <sup>1</sup>		
		Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance		226,330	254,542	480,872	218,904	247,705	466,609
<b>Opening balance</b>		<b>226,330</b>	<b>254,542</b>	<b>480,872</b>	<b>218,904</b>	<b>247,705</b>	<b>466,609</b>
Net operating result for the year		10,145	–	10,145	7,426	–	7,426
<b>Net operating result for the period</b>		<b>10,145</b>	<b>–</b>	<b>10,145</b>	<b>7,426</b>	<b>–</b>	<b>7,426</b>
<b>Other comprehensive income</b>							
– Gain (loss) on revaluation of IPP&E	9(a)	–	46,290	46,290	–	6,837	6,837
<b>Other comprehensive income</b>		<b>–</b>	<b>46,290</b>	<b>46,290</b>	<b>–</b>	<b>6,837</b>	<b>6,837</b>
<b>Total comprehensive income</b>		<b>10,145</b>	<b>46,290</b>	<b>56,435</b>	<b>7,426</b>	<b>6,837</b>	<b>14,263</b>
<b>Equity – balance at end of the reporting period</b>		<b>236,475</b>	<b>300,832</b>	<b>537,307</b>	<b>226,330</b>	<b>254,542</b>	<b>480,872</b>

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under *AASB 139 Financial Instruments: Recognition and Measurement*

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## Statement of Cash Flows

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018
<b>Cash flows from operating activities</b>				
<u>Receipts</u>				
20,305	Rates and annual charges		19,848	19,176
11,512	User charges and fees		7,979	16,001
1,608	Investment and interest revenue received		1,513	1,483
26,573	Grants and contributions		17,735	15,689
–	Bonds, deposits and retention amounts received		35	216
2,457	Other		5,365	3,523
<u>Payments</u>				
(16,556)	Employee benefits and on-costs		(15,755)	(15,836)
(12,562)	Materials and contracts		(16,078)	(17,107)
(284)	Borrowing costs		(246)	(292)
(3,961)	Other		(5,192)	(5,384)
29,092	<b>Net cash provided (or used in) operating activities</b>	13b	15,204	17,469
<b>Cash flows from investing activities</b>				
<u>Receipts</u>				
8,224	Sale of investment securities		78,000	51,000
813	Sale of infrastructure, property, plant and equipment		584	903
<u>Payments</u>				
–	Purchase of investment securities		(72,000)	(55,000)
(36,564)	Purchase of infrastructure, property, plant and equipment		(20,388)	(16,592)
(27,527)	<b>Net cash provided (or used in) investing activities</b>		(13,804)	(19,689)
<b>Cash flows from financing activities</b>				
<u>Payments</u>				
(836)	Repayment of borrowings and advances		(874)	(1,096)
–	Repayment of finance lease liabilities		–	(2)
(836)	<b>Net cash flow provided (used in) financing activities</b>		(874)	(1,098)
729	<b>Net increase/(decrease) in cash and cash equivalents</b>		526	(3,318)
4,509	Plus: cash and cash equivalents – beginning of year	13a	854	4,172
5,238	<b>Cash and cash equivalents – end of the year</b>	13a	1,380	854
Additional Information:				
35,207	plus: Investments on hand – end of year	6(b)	50,000	56,000
40,445	<b>Total cash, cash equivalents and investments</b>		51,380	56,854

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

## Notes to the Financial Statements

for the year ended 30 June 2019

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## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 1. Basis of preparation

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These financial statements were authorised for issue by Council on 31 January 2020. Council has the power to amend and reissue these financial statements.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the *Local Government Act 1993 (NSW)* and Regulations, and the Local Government Code of Accounting Practice and Financial Reporting. Council is a not for-profit entity for the purpose of preparing these financial statements.

The financial statements are presented in Australian dollars and are rounded to the nearest thousand dollars.

Unless otherwise indicated, all amounts disclosed in the financial statements are actual amounts. Specific budgetary amounts have been included for comparative analysis (to actuals) in the following reports and notes:

- Income statement
- Statement of cash flows
- Material budget variations

and are clearly marked.

#### (a) New and amended standards adopted by Council

During the year, Council adopted all standards which were mandatorily effective for the first time at 30 June 2019.

Those newly adopted standards which had an impact on reported position, performance and/or disclosures have been discussed in Note 12.

#### (b) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities and certain classes of infrastructure, property, plant and equipment.

#### (c) Significant accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires Council to exercise its judgement in the process of applying its accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Council and that are believed to be reasonable under the circumstances.

#### Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

- i. estimated fair values of infrastructure, property, plant and equipment;
- ii. estimated tip remediation provisions; and
- iii. employee benefit provisions.

#### Significant judgements in applying the council's accounting policies

Council has made a significant judgement about the impairment of a number of its receivables.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 1. Basis of preparation (continued)

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#### Monies and other assets received by Council

##### (a) The Consolidated Fund

In accordance with the provisions of Section 409(1) of the Local Government Act 1993 (NSW), all money and property received by Council is held in the Council's Consolidated Fund unless it is required to be held in the Council's Trust Fund.

Cash and other assets of the following entities have been included as part of the Consolidated Fund:

- General Purpose Operations
- Water Services
- Sewerage Services

##### (b) The Trust Fund

In accordance with the provisions of Section 411 of the *Local Government Act 1993 (NSW)* (as amended), a separate and distinct Trust Fund is maintained to account for all money and property received by the council in trust which must be applied only for the purposes of, or in accordance with, the trusts relating to those monies. Trust monies and property subject to Council's control have been included in these reports.

#### Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities that are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

#### New accounting standards and interpretations issued not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods (and which have not been early adopted by Council).

Council's assessment of these new standards and interpretations are set out below:

##### AASB 16 Leases

AASB 16 will result (for YE 19/20 and beyond) in almost all operating leases being recognised on the balance sheet by Council (alongside existing finance leases) with the distinction between operating and finance leases removed.

Under the new standard, a financial liability (ie. a lease liability) and an asset (ie. a right to use the leased item) will be recognised for nearly all arrangements where Council commits itself to paying a rental fee for the use of a specific asset.

The only exceptions are short-term and low-value leases which are exempt from the accounting (but not disclosure) requirements of AASB 16 - Leases.

Council staff have reviewed Council's leasing arrangements over the last 12 months taking into consideration the new lease accounting rules in AASB 16 (applicable from 1/7/19).

Council's activities as a lessor are not considered material and hence Council does not expect any significant impact on the financial statements. However, some additional disclosures may be required from next year.

##### AASB 15 Revenue from Contracts with Customers and associated amending standards.

AASB15 introduces a five-step process for revenue recognition, with the core principle of the new standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 1. Basis of preparation (continued)

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Accounting policy changes will arise in the timing of revenue recognition, treatment of contracts costs and contracts which contain a financing element.

The changes in revenue recognition requirements in AASB15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures.

Based on a comprehensive analysis of Council's income streams, AASB15 is expected to have a material impact in the next financial year. Council will have to recognise \$327k of liability on transition. The liability represents the amount of unsatisfied performance obligations as at 30 June 2019 for unexpended grants.

#### **AASB 1058 Income of NFP Entities**

AASB 1058 supersedes all the income recognition requirements relating to councils, previously in AASB 1004 Contributions.

Under AASB 1058 the future timing of income recognition will depend on whether the transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service) related to an asset (such as cash or another asset) received by an entity.

AASB 1058 also applies when Council receives volunteer services or enters into other transactions in which the consideration to acquire an asset is significantly less than the fair value of the asset, and where Council's objective is principally to enable the asset to further its objectives.

Upon initial recognition of the asset, this standard requires Council to consider whether any other financial statement elements (called 'related amounts') should be recognised in accordance with the applicable accounting standard, such as:

- a. contributions by owners
- b. revenue, or a contract liability arising from a contract with a customer
- c. a lease liability
- d. a financial instrument, or
- e. a provision.

If the transaction is a transfer of a financial asset to enable Council to acquire or construct a recognisable non-financial asset to be controlled by Council (i.e. an in-substance acquisition of a non-financial asset), Council will recognise a liability for the excess of the fair value of the transfer over any related amounts recognised. Council will then recognise income as it satisfies its obligations under the transfer similarly to income recognition in relation to performance obligations under AASB 15.

If the transaction does not enable Council to acquire or construct a recognisable non-financial asset to be controlled by it, then any excess of the initial carrying amount of the recognised asset over the related amounts is recognised as income.

Council will not be recognising services provided by volunteers. Whilst these services provide considerable value to the community, Council is not financially placed to purchase them should volunteers cease to provide these services.

The specific impacts of AASB1058 for Council on transition will be to recognise a \$1,542k liability for unsatisfied performance obligations as at 30 June 2019 for unexpended grants excluding roads. Currently road grant funding is received in arrears of the work being done.

#### **AASB 2018-8 Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities**

This Standard provides a temporary option for not-for-profit entities to not apply the fair value initial measurement requirements for right-of-use assets arising under leases with significantly below market terms and conditions, principally to enable the entity to further its objectives (for example, concessionary or peppercorn leases).

The Standard requires an entity that elects to apply the option (i.e. measures a class or classes of such right-of-use assets at cost rather than fair value) to include additional disclosures in the financial statements to ensure users understand the effects on the financial position, financial performance and cash flows of the entity arising from these leases.

As per a NSW Office of Local Government recommendation, Council has elected to measure right-of-use assets (under a concessionary or peppercorn lease) at cost. The standard requires additional disclosures be provided in relation to below market-value leases measured at cost.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 1. Basis of preparation (continued)

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The specific impacts of AASB2018-8 for Council are expected to be immaterial as Council has not determined any instances where it lesses property for concessional lease payments.

Council has not applied any pronouncements before its operative date in the annual reporting period beginning 1 July 2018.

#### **Other Accounting Standards**

There are no other released standards (with future effective dates) that are expected to have a material impact on Council.

Council has elected not to apply any pronouncements before their operative date in these financial sttements.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 2(a). Council services - financial information

Income, expenses and assets have been directly attributed to the following functions or activities.  
Details of those functions or activities are provided in Note 2(b).

\$ '000	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Total assets held (current and non-current)	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>Services</b>										
Strategic Management and Governance	48	–	1,515	1,121	(1,467)	(1,121)	–	–	826	997
Workforce Management	104	99	1,423	928	(1,319)	(829)	–	–	1,431	1,312
Community and Customer Relations	2	80	675	114	(673)	(34)	–	–	–	–
Financial Services	178	61	1,420	963	(1,242)	(902)	–	–	3,840	4,630
Information Services	110	–	614	967	(504)	(967)	106	–	2,775	853
Property Services	250	326	1,931	779	(1,681)	(453)	56	–	21,130	19,934
Airport	197	213	741	650	(544)	(437)	–	–	12,633	12,687
Depot Services	(26)	–	164	360	(190)	(360)	–	–	2,034	1,847
The Crossing Theatre	1,162	1,115	1,797	1,941	(635)	(826)	9	–	7,091	7,348
Libraries	79	168	723	639	(644)	(471)	51	112	2,347	2,010
Planning and Regulatory Services	2,209	3,189	1,459	1,154	750	2,035	39	80	12,620	12,286
Environmental Health Services	258	290	374	466	(116)	(176)	242	159	180	65
Solid Waste Management	3,618	3,661	3,463	3,270	155	391	145	2	11,664	2,408
Economic Development	585	248	1,297	921	(712)	(673)	575	248	2,022	2,147
Cemeteries	167	182	281	244	(114)	(62)	–	–	991	742
Swimming Pools	497	521	1,555	1,456	(1,058)	(935)	131	163	9,789	8,806
Parks and Open Spaces	214	428	2,275	2,297	(2,061)	(1,869)	345	264	13,261	10,163
Saleyards	179	201	333	291	(154)	(90)	–	–	2,277	1,984
Tourism	238	189	736	607	(498)	(418)	28	27	1,383	1,203
Infrastructure Delivery Support	11	3	69	405	(58)	(402)	–	–	–	30
Design and Investigation Services	9	1	507	530	(498)	(529)	–	–	–	–
Fleet Management	307	247	(359)	–	666	247	–	–	11,864	11,717
Emergency Support	262	203	553	827	(291)	(624)	174	202	683	1,098
Transport (Roads & Ancillary Services)	7,891	13,027	12,735	19,512	(4,844)	(6,485)	4,836	3,547	338,580	296,314
Water Services	10,590	6,105	3,814	3,240	6,776	2,865	5,890	968	50,034	46,427
Sewerage Services	3,836	3,778	3,706	3,057	130	721	456	122	46,341	44,891
General Purpose Income	20,971	19,830	–	–	20,971	19,830	7,382	7,000	4,313	4,103
<b>Total functions and activities</b>	<b>53,946</b>	<b>54,165</b>	<b>43,801</b>	<b>46,739</b>	<b>10,145</b>	<b>7,426</b>	<b>20,465</b>	<b>12,894</b>	<b>560,109</b>	<b>496,002</b>



## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 2(b). Council services - component descriptions

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Details relating to Council's services as reported in Note 2(a) are as follows:

#### **Strategic Management and Governance**

Civic leadership and organisational management setting and implementing Council's strategic agenda.

#### **Workforce Management**

Staff management, recruitment, work health and safety compliance and organisational development.

#### **Community and Customer Relations**

Deliver quality customer service, administrative support and corporate records management, engage in communications with the community and maintaining the Council brand and reputation.

#### **Financial Services**

Financial reporting, financial support, investment services, rates management, accounts receivable, front counter reception, accounts payable, payroll services, asset administration, procurement services and stores management.

#### **Information Services**

Maintenance of Council's information technology infrastructure, technical support and records management services.

#### **Property Services**

Management of land, buildings and property assets (incl. caravan parks), provision of geospatial information services (GIS), management of Council's property insurance portfolio and overseeing asset management across the organisation.

#### **Airport**

Management services for the Narrabri Airport including airside and landside operations and aviation fuel facilities.

#### **Depot Services**

Enclosures and secure areas to store and house Council assets, buildings and storage facilities to meet Council's requirements.

#### **The Crossing Theatre**

Provides, promotes, attracts and facilitates event and entertainment opportunities for residents and visitors. Services include cinemas, front of house services (box office, candy bar & point of sale), The Crossing Café, user pays events, user pays live events and entrepreneurial live events.

#### **Libraries**

Provision of library services in Narrabri, Wee Waa and Boggabri. Also includes Council's share in the Central Northern Regional Library.

#### **Planning and Regulatory Services**

Strategic land use planning, statutory land use planning, building certification, local activity approvals, development compliance, environmental health and companion animal management.

#### **Environmental Health Services**

Environmental health and weeds management.

**Notes to the Financial Statements**

for the year ended 30 June 2019

**Note 2(b). Council services - component descriptions (continued)**

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**Solid Waste Management**

Kerbside domestic and commercial waste collection, operation of a waste disposal facility at Narrabri, kerbside recycling collection, reprocessing services for kerbside collected organic material and co-mingled recycling and "drop-off" facilities at Council sites throughout the shire to divert material from landfill to reprocessing / reuse.

**Economic Development**

Economic promotion and marketing of Narrabri Shire, investment attraction and lobbying, assist existing business community, management of Council's communication engagements, community development and seeking grant opportunities for Council and the community.

**Cemeteries**

Cemetery management services for eight operational cemeteries and four closed cemeteries in towns and villages across the shire; including cemetery information management, interment services and on-going grounds maintenance.

**Swimming Pools**

Outdoor swimming pools in Narrabri, Wee Waa and Boggabri, an indoor heated pool in Narrabri and an artesian bore bath (swimming pool) at Pilliga.

**Parks and Open Spaces**

Management and maintenance of amenity and open spaces, sporting facilities, recreation parks, public amenities and dump points, public waste / litter control, monuments and memorials, street trees and town CBD precincts.

**Saleyards**

Facilitates the sale of cattle in Narrabri by local graziers and provides ancilliary services for stock transporters and drivers.

**Tourism**

Information services to visitors, tourism and business operators, the tourism industry and the shire community. This includes tourism marketing and promotion of the shire, supporting local event organisers and products and tourism infrastructure co-ordination and development.

**Infrastructure Delivery Support**

Business support to the Infrastructure Delivery directorate including co-ordination of activities, annual budget maintenance and supervision, financial analysis, monitoring and reporting, long-term asset management planning, contracts administration and tender management services.

**Design and Investigation Services**

Site survey work, design and drafting infrastructure projects, capturing traffic count data, assessing heavy vehicle applications and maintaining alcohol free zones.

**Fleet Management**

Acquisition, maintenance and disposal of Council's plant and vehicle fleet.

**Emergency Support**

Financial support to the NSW Rural Fire Service (RFS), Fire and Rescue NSW (town fire brigades) and the NSW State Emergency Service (SES).

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 2(b). Council services - component descriptions (continued)

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#### **Transport (Roads and Ancillary Services)**

Quarries management, stormwater management, street lighting, routine maintenance of urban, local and regional roads (sealed and unsealed), bridges, footpaths, kerb and guttering and parking areas. Also includes the asset renewal / replacement of all of these infrastructure asset categories.

Contract services are also provided to the Roads and Maritime Service (RMS) for maintenance, repairs and emergency response support on the Newell and Kamilaroi highways.

#### **Water Services**

Water supplies provided to Baan Baa, Bellata, Boggabri, Gwabegar, Narrabri, Pilliga and Wee Waa.

#### **Sewerage Services**

Sewerage services provided to Boggabri, Narrabri and Wee Waa.

#### **General Purpose Income**

Ordinary rates income, untied general purpose grants and unrestricted interest and investment income.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 3. Income from continuing operations

\$ '000	2019	2018
<b>(a) Rates and annual charges</b>		
<b>Ordinary rates</b>		
Residential	4,371	4,300
Farmland	6,328	6,209
Mining	975	954
Business	1,273	1,234
Less: pensioner rebates (mandatory)	(156)	(144)
<b>Rates levied to ratepayers</b>	<b>12,791</b>	<b>12,553</b>
Pensioner rate subsidies received	86	79
<b>Total ordinary rates</b>	<b>12,877</b>	<b>12,632</b>
<b>Special rates</b>		
Tourism	65	65
<b>Rates levied to ratepayers</b>	<b>65</b>	<b>65</b>
<b>Total special rates</b>	<b>65</b>	<b>65</b>
<b>Annual charges</b>		
Domestic waste management services	1,372	1,285
Water supply services	1,787	1,732
Sewerage services	3,064	2,961
Waste management services (non-domestic)	1,209	1,151
Less: pensioner rebates (mandatory)	(159)	(112)
<b>Annual charges levied</b>	<b>7,273</b>	<b>7,017</b>
Pensioner subsidies received:		
– Water	32	33
– Sewerage	28	28
– Domestic waste management	28	35
<b>Total annual charges</b>	<b>7,361</b>	<b>7,113</b>
<b>TOTAL RATES AND ANNUAL CHARGES</b>	<b>20,303</b>	<b>19,810</b>

Council has used 2016 year valuations provided by the NSW Valuer General in calculating its rates.

#### Accounting policy for rates and charges

Rates and annual charges are recognised as revenue when Council obtains control over the assets comprising these receipts.

Pensioner rebates relate to reductions in rates and certain annual charges for eligible pensioners' place of residence in the local government area that are not subsidised by the NSW Government.

Pensioner rate subsidies are received from the NSW Government to provide a contribution towards the pensioner rebates.

Control over assets acquired from rates and annual charges is obtained at the commencement of the rating year as it is an enforceable debt linked to the rateable property or, where earlier, upon receipt of the rates.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
<b>(b) User charges and fees</b>		
<b>Specific user charges</b>		
<small>(per s.502 - specific 'actual use' charges)</small>		
Water supply services	2,322	2,743
Sewerage services	40	332
Other	–	4
<b>Total specific user charges</b>	<b>2,362</b>	<b>3,079</b>
<b>Other user charges and fees</b>		
<b>(i) Fees and charges – statutory and regulatory functions (per s.608)</b>		
Planning and building regulation	225	222
Private works – section 67	–	6
Regulatory/ statutory fees	115	142
<b>Total fees and charges – statutory/regulatory</b>	<b>340</b>	<b>370</b>
<b>(ii) Fees and charges – other (incl. general user charges (per s.608))</b>		
Aerodrome	202	207
Caravan park	88	86
Cemeteries	173	181
Lease rentals	37	44
Leaseback fees – council vehicles	162	152
Park / Oval rents	8	12
RMS (formerly RTA) charges (state roads not controlled by Council)	1,820	8,298
Saleyards	192	199
Swimming centres	258	280
Tonnage charges - gravel	37	122
Tonnage charges - mining	1,417	1,301
Waste disposal tipping fees	805	1,033
Water / Sewer connection fees	34	109
Other	4	6
<b>Total fees and charges – other</b>	<b>5,237</b>	<b>12,030</b>
<b><u>TOTAL USER CHARGES AND FEES</u></b>	<b><u>7,939</u></b>	<b><u>15,479</u></b>

**Accounting policy for user charges and fees**

User charges and fees are recognised as revenue when the service has been provided.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
<b>(c) Interest and investment revenue (including losses)</b>		
<b>Interest on financial assets measured at amortised cost</b>		
– Overdue rates and annual charges (incl. special purpose rates)	126	127
– Cash and investments	1,395	1,426
<b><u>TOTAL INTEREST AND INVESTMENT REVENUE</u></b>	<b><u>1,521</u></b>	<b><u>1,553</u></b>

**Interest revenue is attributable to:****Unrestricted investments/financial assets:**

Overdue rates and annual charges (general fund)	70	127
General Council cash and investments	509	361

**Restricted investments/funds – external:**

Development contributions		
– Section 7.11	318	347
Water fund operations	335	438
Sewerage fund operations	265	266
Domestic waste management operations	20	14
Other externally restricted assets	4	–

<b>Total interest and investment revenue</b>	<b><u>1,521</u></b>	<b><u>1,553</u></b>
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**Accounting policy for interest and investment revenue**

Interest income is recognised using the effective interest rate at the date that interest is earned.

**(d) Other revenues**

Diesel rebate	255	91
Fines	3	14
Legal fees recovery – rates and charges (extra charges)	9	48
Insurance claims recoveries	77	101
Insurance premium refunds	75	–
Recoverable expenses	236	264
Rental income – other council properties	208	133
Sales – general	413	278
The Crossing Theatre	1,170	1,108
Other	31	97
<b><u>TOTAL OTHER REVENUE</u></b>	<b><u>2,477</u></b>	<b><u>2,134</u></b>

**Accounting policy for other revenue**

Council recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to Council and specific criteria have been met for each of Council's activities as described below. Council bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Rental income is accounted for on a straight-line basis over the lease term.

Fines are recognised as revenue when the penalty has been applied.

Sales are recognised when physical possession has transferred to the customer which is deemed to be the point of transfer of risks and rewards.

All other revenue is recorded when the payment is due, the value of the payment is notified, or the payment is received, whichever occurs first.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 3. Income from continuing operations (continued)

\$ '000	Operating 2019	Operating 2018	Capital 2019	Capital 2018
<b>(e) Grants</b>				
<b>General purpose (untied)</b>				
<b>Current year allocation</b>				
Financial assistance	3,624	3,449	–	–
<b>Payment in advance - future year allocation</b>				
Financial assistance	3,758	3,551	–	–
<b>Total general purpose</b>	<b>7,382</b>	<b>7,000</b>	<b>–</b>	<b>–</b>
<b>Specific purpose</b>				
Bushfire and emergency services	174	202	–	–
Community care	884	32	–	–
Economic development	100	150	–	–
Environmental programs	–	46	101	–
Heritage and cultural	82	14	–	–
Library	51	64	–	48
LIRS subsidy	131	163	–	–
Noxious weeds	242	159	–	–
Recreation and culture	43	96	10	210
Sewerage services	–	–	456	122
Storm / flood damage	–	912	–	–
Traffic route lighting subsidy	58	56	–	–
Transport (other roads and bridges funding)	400	400	3,778	70
Transport (roads to recovery)	601	2,110	–	–
Water supplies	–	–	5,740	968
Other	127	71	105	1
<b>Total specific purpose</b>	<b>2,893</b>	<b>4,475</b>	<b>10,190</b>	<b>1,419</b>
<b>Total grants</b>	<b>10,275</b>	<b>11,475</b>	<b>10,190</b>	<b>1,419</b>
<b>Grant revenue is attributable to:</b>				
– Commonwealth funding	7,983	9,110	–	–
– State funding	2,292	2,365	10,190	1,419
	<b>10,275</b>	<b>11,475</b>	<b>10,190</b>	<b>1,419</b>

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 3. Income from continuing operations (continued)

\$ '000	Notes	Operating 2019	Operating 2018	Capital 2019	Capital 2018
<b>(f) Contributions</b>					
<b>Developer contributions: (s7.4 &amp; s7.11 - EP&amp;A Act, s64 of the LGA):</b>					
<b>Cash contributions</b>					
S 7.4 – contributions using planning agreements		–	–	–	1,000
S 7.12 – fixed development consent levies		–	–	52	103
<b>Total developer contributions – cash</b>		<b>–</b>	<b>–</b>	<b>52</b>	<b>1,103</b>
<b>Total developer contributions</b>	21	<b>–</b>	<b>–</b>	<b>52</b>	<b>1,103</b>
<b>Other contributions:</b>					
<b>Cash contributions</b>					
RMS contributions (regional roads, block grant)		1,169	1,146	–	–
<b>Total other contributions – cash</b>		<b>1,169</b>	<b>1,146</b>	<b>–</b>	<b>–</b>
<b>Total other contributions</b>		<b>1,169</b>	<b>1,146</b>	<b>–</b>	<b>–</b>
<b>Total contributions</b>		<b>1,169</b>	<b>1,146</b>	<b>52</b>	<b>1,103</b>
<b>TOTAL GRANTS AND CONTRIBUTIONS</b>		<b>11,444</b>	<b>12,621</b>	<b>10,242</b>	<b>2,522</b>

**Accounting policy for grants and contributions**

Control over grants and contributions is normally obtained upon their receipt (or acquittal) and is valued at the fair value of the granted or contributed asset at the date of transfer.

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner, or used over a particular period, and those conditions were un-discharged at reporting date, the unused grant or contribution is disclosed above.

Council has obligations to provide facilities from contribution revenues levied on developers under the provisions of sections 7.4, 7.11 and 7.12 of the *Environmental Planning and Assessment Act 1979*.

While Council generally incorporates these amounts as part of a Development Consents Order, such developer contributions are only recognised as income upon receipt by Council, due to the possibility that individual development consents may not be acted upon by the applicant and, accordingly, would not be payable to Council.

Developer contributions may only be expended for the purposes for which the contributions were required, but Council may apply contributions according to the priorities established in work schedules.

A liability is recognised in respect of revenue that is reciprocal in nature to the extent that the requisite service has not been provided at reporting date.

All unexpended grant and contribution funds are shown as externally restricted cash, refer to Note 6.



## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
<b>(g) Unspent grants and contributions</b>		
<b>Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:</b>		
<b>Operating grants</b>		
Unexpended at the close of the previous reporting period	466	1,218
<b>Add:</b> operating grants recognised in the current period but not yet spent	703	464
<b>Less:</b> operating grants recognised in a previous reporting period now spent	(391)	(1,216)
<b>Unexpended and held as restricted assets (operating grants)</b>	<b>778</b>	<b>466</b>
<b>Capital grants</b>		
Unexpended at the close of the previous reporting period	212	28
<b>Add:</b> capital grants recognised in the current period but not yet spent	322	208
<b>Less:</b> capital grants recognised in a previous reporting period now spent	(55)	(24)
<b>Unexpended and held as restricted assets (capital grants)</b>	<b>479</b>	<b>212</b>
<b>Contributions</b>		
Unexpended at the close of the previous reporting period	12,497	12,752
<b>Add:</b> contributions recognised in the current period but not yet spent	982	1,961
<b>Less:</b> contributions recognised in a previous reporting period now spent	(928)	(2,216)
<b>Unexpended and held as restricted assets (contributions)</b>	<b>12,551</b>	<b>12,497</b>

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 4. Expenses from continuing operations

\$ '000	2019	2018
<b>(a) Employee benefits and on-costs</b>		
Salaries and wages	12,130	11,843
Travel expenses	63	53
Employee leave entitlements (ELE)	2,234	1,666
Superannuation	1,277	1,235
Workers' compensation insurance	666	777
Fringe benefit tax (FBT)	150	131
Training costs (other than salaries and wages)	97	183
Protective clothing	43	64
Other	98	138
<b>Total employee costs</b>	<b>16,758</b>	<b>16,090</b>
Less: capitalised costs	(967)	(639)
<b>TOTAL EMPLOYEE COSTS EXPENSED</b>	<b>15,791</b>	<b>15,451</b>

**Accounting policy for employee benefits and on-costs**

Employee benefit expenses are recorded when the service has been provided by the employee.

*Retirement benefit obligations*

All employees of Council are entitled to benefits on retirement, disability or death. Council contributes to various defined benefit plans and defined contribution plans on behalf of its employees.

*Superannuation plans*

Contributions to defined contribution plans are recognised as an expense as they become payable.

Council participates in a defined benefit plan under the Local Government Superannuation Scheme, however, sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, ie. as an expense when it becomes payable.

**(b) Borrowing costs****(i) Interest bearing liability costs**

Interest on loans	244	285
<b>Total interest bearing liability costs expensed</b>	<b>244</b>	<b>285</b>

**(ii) Other borrowing costs**

Interest applicable on interest free (and favourable) loans to Council	38	55
<b>Total other borrowing costs</b>	<b>38</b>	<b>55</b>

<b>TOTAL BORROWING COSTS EXPENSED</b>	<b>282</b>	<b>340</b>
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**Accounting policy for borrowing costs**

Other borrowing costs are expensed.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
<b>(c) Materials and contracts</b>		
Raw materials and consumables	7,148	9,694
– Contractor and consultancy costs	4,518	3,981
– Waste collection	1,154	1,149
Auditors remuneration <sup>2</sup>	54	53
<b>Legal expenses:</b>		
– Legal expenses: planning and development	20	30
– Legal expenses: debt recovery	24	48
– Legal expenses: other	22	29
<b>Total materials and contracts</b>	<b>12,940</b>	<b>14,984</b>
<b>TOTAL MATERIALS AND CONTRACTS</b>	<b>12,940</b>	<b>14,984</b>

**2. Auditor remuneration**

During the year, the following fees were incurred for services provided by the auditor of Council, related practices and non-related audit firms

NSW Auditor General: Audit and review of financial statements

	54	53
<b>Total Auditor remuneration</b>	<b>54</b>	<b>53</b>

**(d) Depreciation of IPP&E**

Plant and equipment	979	1,024
Office equipment	155	107
Furniture and fittings	71	71
Land improvements (depreciable)	89	88
<b>Infrastructure:</b>		
– Buildings	781	602
– Other structures	675	653
– Roads	3,645	4,880
– Bridges	442	328
– Footpaths	133	75
– Stormwater drainage	121	123
– Water supply network	966	832
– Sewerage network	1,256	1,388
– Swimming pools	207	202
– Other open space/recreational assets	82	85
<b>Total depreciation costs</b>	<b>9,602</b>	<b>10,458</b>
<b>TOTAL DEPRECIATION FOR IPP&amp;E</b>	<b>9,602</b>	<b>10,458</b>

**Accounting policy for depreciation expenses of IPP&E****Depreciation**

Depreciation is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note 9 for IPPE assets.

Depreciation is capitalised where in-house assets have contributed to new assets.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
<b>(e) Other expenses</b>		
Advertising	280	188
Agency collection fees	103	79
Bad and doubtful debts	35	26
Bank charges	24	22
Catering	31	30
Cleaning	144	133
Contributions / levies to other levels of government		
– Emergency services levies (includes FRNSW, SES, and RFS)	369	378
Councillor expenses – mayoral fee	26	25
Councillor expenses – councillors' fees	106	104
Councillors' expenses (incl. mayor) – other (excluding fees above)	58	65
Donations / contributions to other organisations (section 356)		
– community assistance scheme	114	158
– contribution to Central Northern Libraries	220	218
Fees & permits	52	50
Insurance	658	559
Office expenses (including computer expenses)	519	413
Postage	48	18
Printing and stationery	143	65
Property - electricity and heating	758	744
Property - other expenses	152	153
Recoverable expenses	4	104
Street lighting	292	278
Subscriptions and memberships	228	169
Telephone and communications	130	104
Valuation fees – assets	7	22
Valuation fees – rating	58	57
Other	51	–
<b>Total other expenses</b>	<b>4,610</b>	<b>4,162</b>
<b>TOTAL OTHER EXPENSES</b>	<b>4,610</b>	<b>4,162</b>

**Accounting policy for other expenses**

Other expenses are recorded on an accruals basis as Council receives the goods or services.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 5. Gains or losses from the disposal, replacement and de-recognition of assets

\$ '000	Notes	2019	2018
<b>Property (excl. investment property)</b>			
Proceeds from disposal – property		9	35
Less: carrying amount of property assets sold/written off		(145)	(40)
<b>Net gain/(loss) on disposal</b>		<b>(136)</b>	<b>(5)</b>
<b>Plant and equipment</b>			
	9(a)		
Proceeds from disposal – plant and equipment		552	737
Less: carrying amount of plant and equipment assets sold/written off		(851)	(741)
<b>Net gain/(loss) on disposal</b>		<b>(299)</b>	<b>(4)</b>
<b>Infrastructure</b>			
	9(a)		
Proceeds from disposal – infrastructure		23	131
Less: carrying amount of infrastructure assets sold/written off		(164)	(1,177)
<b>Net gain/(loss) on disposal</b>		<b>(141)</b>	<b>(1,046)</b>
<b>Real estate assets held for sale</b>			
	8		
Less: carrying amount of real estate assets sold/written off		–	(289)
<b>Net gain/(loss) on disposal</b>		<b>–</b>	<b>(289)</b>
<b>Investments</b>			
	6(b)		
Proceeds from disposal/redemptions/maturities – investments		78,000	51,000
Less: carrying amount of investments sold/redeemed/matured		(78,000)	(51,000)
<b>Net gain/(loss) on disposal</b>		<b>–</b>	<b>–</b>
<b>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</b>		<b>(576)</b>	<b>(1,344)</b>

**Accounting policy for disposal of assets**

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

The gain or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer and the asset is de-recognised.

## Note 6(a). Cash and cash equivalent assets

\$ '000	2019	2018
<b>Cash and cash equivalents</b>		
Cash on hand and at bank	380	354
Cash-equivalent assets		
– Deposits at call	1,000	500
<b>Total cash and cash equivalents</b>	<b>1,380</b>	<b>854</b>

**Accounting policy for cash and cash equivalents**

For Statement of Cash Flow presentation purposes, cash and cash equivalents include: cash on hand; deposits held at call with financial institutions; other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 6(b). Investments

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
<b>Investments</b>				
b. 'Financial assets at amortised cost' / 'held to maturity' (2018)	50,000	–	56,000	–
<b>Total Investments</b>	<u>50,000</u>	<u>–</u>	<u>56,000</u>	<u>–</u>
<b>TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS</b>	<u>51,380</u>	<u>–</u>	<u>56,854</u>	<u>–</u>
<b>Financial assets at amortised cost / held to maturity (2018)</b>				
Term deposits	50,000	–	56,000	–
<b>Total</b>	<u>50,000</u>	<u>–</u>	<u>56,000</u>	<u>–</u>

**Accounting policy for investments****Accounting policy under AASB 9 – applicable from 1 July 2018**

Financial instruments are recognised initially on the date that the Council becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

**Financial assets**

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

**Classification**

On initial recognition, Council classifies its financial assets into the following categories – those measured at:

- amortised cost
- fair value through profit and loss (FVTPL)
- fair value through other comprehensive income – equity instrument (FVOCI-equity)

Financial assets are not reclassified subsequent to their initial recognition.

**Amortised cost**

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows, and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Council's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the Statement of Financial Position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment.

Interest income, impairment and gains or loss on de-recognition are recognised in profit or loss.

**Accounting policy under AASB 139 – applicable for 2018 comparatives only****Classification**

Council previously classified all of its financial assets in the held-to-maturity category. Investments were classified at initial recognition and re-evaluated at each reporting date.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 6(b). Investments (continued)

Held-to-maturity investments were non-derivative financial assets with fixed or determinable payments and fixed maturities that Council had a positive intention and ability to hold to maturity. Assets in this category were measured at amortised cost.

**Recognition and de-recognition**

Regular purchases and sales of financial assets are recognised on trade-date: the date on which Council commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and Council has transferred substantially all the risks and rewards of ownership.

**Impairment of financial assets**

Council assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

## Note 6(c). Restricted cash, cash equivalents and investments – details

\$ '000	2019		2018	
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	51,380	–	56,854	–
<b>attributable to:</b>				
External restrictions	34,773	–	36,358	–
Internal restrictions	16,559	–	20,430	–
Unrestricted	48	–	66	–
	51,380	–	56,854	–

\$ '000	2019	2018
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## Details of restrictions

**External restrictions – included in liabilities**

Specific purpose unexpended loans – general	203	466
Leards Forest Environmental Trust	253	261
Kamilaroi Highway Group Funds	63	56
<b>External restrictions – included in liabilities</b>	<b>519</b>	<b>783</b>

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 6(c). Restricted cash, cash equivalents and investments – details

**External restrictions – other**

Developer contributions – general	11,939	12,091
RMS contributions	612	406
Specific purpose unexpended grants	1,257	678
Water supplies	10,471	12,543
Sewerage services	9,596	9,509
Domestic waste management	379	348

**External restrictions – other**

	<u>34,254</u>	<u>35,575</u>
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**Total external restrictions**

	<u>34,773</u>	<u>36,358</u>
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**Internal restrictions**

Plant and Vehicle Replacement	1,879	2,562
Employees Leave Entitlement	1,160	1,160
Carry Over Works	230	309
Deposits, Retentions and Bonds	341	305
Airport Reserve	454	479
Boggabri (Oakham Street) Reserve	–	100
Buildings Infrastructure	1,321	1,527
Corporate Information System	–	839
Crown Reserves Management	68	68
Election Costs	127	97
FAG Payments Received in Advance	3,758	3,550
Friends of the Crossing Theatre	63	47
Heritage (Old Gaol)	–	3
Housing (Doctors) Reserve	152	152
Library	–	47
Narrabri CBD Masterplan	136	136
Narrabri Depot Reserve	–	171
Office Equipment	26	45
Parks & Gardens (Bulk Water Sale Reserve)	234	279
Parks & Gardens (Tree Replacement Reserve)	7	7
Quarries Restoration and Improvements	301	275
Risk Management	181	152
RMS Single Invitation Contract (warranty)	100	100
Roads Infrastructure Reserve	498	1,830
Roads Infrastructure (Stormwater) Reserve	572	487
Roads: Narrabri West (Old Turrawan Rd) Masterplan	150	150
Service Reviews Reserve	200	200
Smart Community Strategies	250	250
Statutory Land Planning Reserve	245	195
Strategic Project Master Planning	450	450
Swimming Pools	952	855
Tonnage Payments – Gravel (maintenance)	–	18
Tonnage Payments – Gravel (upgrade)	–	3
Tonnage Payments – Mining	2,083	3,108
Waste Management	621	474

**Total internal restrictions**

	<u>16,559</u>	<u>20,430</u>
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**TOTAL RESTRICTIONS**

	<u>51,332</u>	<u>56,788</u>
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## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 7. Receivables

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
<b>Purpose</b>				
Rates and annual charges	1,931	–	1,476	–
Interest and extra charges	287	–	281	–
User charges and fees	923	–	497	–
Accrued revenues				
– Interest on investments	555	–	553	–
– Other income accruals	2,726	–	3,355	–
Government grants and subsidies	4,551	–	584	–
Net GST receivable	1,373	–	300	–
Other debtors	219	–	139	–
<b>Total</b>	<b>12,565</b>	<b>–</b>	<b>7,185</b>	<b>–</b>
<b>Less: provision of impairment</b>				
Rates and annual charges	(21)	–	(21)	–
Interest and extra charges	(16)	–	(16)	–
User charges and fees	(33)	–	(33)	–
<b>Total provision for impairment – receivables</b>	<b>(70)</b>	<b>–</b>	<b>(70)</b>	<b>–</b>
<b>TOTAL NET RECEIVABLES</b>	<b>12,495</b>	<b>–</b>	<b>7,115</b>	<b>–</b>
<b>Externally restricted receivables</b>				
<b>Water supply</b>				
– Specific purpose grants	2,313	–	–	–
– Rates and availability charges	637	–	467	–
– Other	665	–	2	–
<b>Sewerage services</b>				
– Specific purpose grants	77	–	–	–
– Rates and availability charges	339	–	240	–
– Other	214	–	–	–
<b>Total external restrictions</b>	<b>4,245</b>	<b>–</b>	<b>709</b>	<b>–</b>
<b>Unrestricted receivables</b>	<b>8,250</b>	<b>–</b>	<b>6,406</b>	<b>–</b>
<b>TOTAL NET RECEIVABLES</b>	<b>12,495</b>	<b>–</b>	<b>7,115</b>	<b>–</b>

\$ '000	2019	2018
<b>Movement in provision for impairment of receivables</b>		
Balance at the beginning of the year (calculated in accordance with AASB 139)	70	250
+ new provisions recognised during the year	–	25
– amounts already provided for and written off this year	–	(205)
<b>Balance at the end of the period</b>	<b>70</b>	<b>70</b>

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 7. Receivables (continued)

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#### Accounting policy for receivables

##### Recognition and measurement

Receivables are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days.

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

##### Impairment

##### Accounting policy under AASB 9 applicable from 1 July 2018

Impairment of financial assets measured at amortised cost is recognised on an expected credit loss (ECL) basis.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating ECL, Council considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on Council's historical experience and informed credit assessment, and including forward-looking information.

When considering the ECL for rates debtors, Council takes into account that unpaid rates represent a charge against the rateable property that will be recovered when the property is next sold. For non-rates debtors, Council uses the presumption that an asset which is more than 90 days past due has seen a significant increase in credit risk.

Council uses the presentation that a financial asset is in default when:

- the other party is unlikely to pay its credit obligations in full, without recourse by Council to actions such as realising security (if any is held) or
- the financial assets (for non-rates debtors) are more than 90 days past due.

Credit losses are measured as the present value of the difference between the cash flows due to the entity in accordance with the contract, and the cash flows expected to be received. This is applied using a probability weighted approach.

On initial recognition of the asset, an estimate of the expected credit losses for the next 12 months is recognised. Where the asset has experienced significant increase in credit risk then the lifetime losses are estimated and recognised.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

Council writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, eg. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

##### Accounting policy under AASB 139 – applicable for 2018 comparatives only

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off by reducing the carrying amount directly.

An allowance account (provision for impairment of receivables) is used when there is objective evidence that Council will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation are considered indicators that the receivable is impaired. When a receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Income Statement.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 7. Receivables (continued)

Rates and annual charges outstanding are secured against the property. A provision for impairment for this receivable classification is only raised when the value of the property (for rating purposes) is less than the debt currently recorded against the property.

## Note 8. Inventories and other assets

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
<b>(a) Inventories</b>				
<b>(i) Inventories at cost</b>				
Real estate for resale	1,675	–	1,675	–
Stores and materials	396	–	381	–
Trading stock	921	–	1,011	–
<b>Total inventories at cost</b>	<b>2,992</b>	<b>–</b>	<b>3,067</b>	<b>–</b>
<b><u>TOTAL INVENTORIES</u></b>	<b><u>2,992</u></b>	<b><u>–</u></b>	<b><u>3,067</u></b>	<b><u>–</u></b>

**(b) Other assets**

Prepayments	362	–	372	–
Assets held for sale	–	–	315	–
<b><u>TOTAL OTHER ASSETS</u></b>	<b><u>362</u></b>	<b><u>–</u></b>	<b><u>687</u></b>	<b><u>–</u></b>

**(i) Other disclosures**

\$ '000	Notes	2019 Current	2019 Non-current	2018 Current	2018 Non-current
<b>(a) Details for real estate development</b>					
Residential		1,675	–	1,675	–
<b>Total real estate for resale</b>		<b>1,675</b>	<b>–</b>	<b>1,675</b>	<b>–</b>
(Valued at the lower of cost and net realisable value)					
<b>Represented by:</b>					
Acquisition costs		1,675	–	1,675	–
<b>Total costs</b>		<b>1,675</b>	<b>–</b>	<b>1,675</b>	<b>–</b>
<b>Total real estate for resale</b>		<b>1,675</b>	<b>–</b>	<b>1,675</b>	<b>–</b>
<b>Movements:</b>					
Real estate assets at beginning of the year		1,675	–	1,964	–
– WDV of sales (expense)	5	–	–	(289)	–
<b>Total real estate for resale</b>		<b>1,675</b>	<b>–</b>	<b>1,675</b>	<b>–</b>

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 8. Inventories and other assets (continued)

The following inventories and other assets, even though classified as current are not expected to be recovered in the next 12 months;

\$ '000	2019	2018
<b>(b) Current assets not anticipated to be settled within the next 12 months</b>		
Real estate for resale	1,675	–
	<u>1,675</u>	<u>–</u>

**Accounting policy for inventories and other assets****Raw materials and stores, work in progress and finished goods**

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**Inventory held for distribution**

Inventory held for distribution is held at cost, adjusted where applicable for any loss of service potential.

**Land held for resale/capitalisation of borrowing costs**

Land held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed, borrowing costs and other holding charges are expensed as incurred.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 9(a). Infrastructure, property, plant and equipment

\$ '000	as at 30/6/2018			Asset movements during the reporting period						as at 30/6/2019		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals <sup>(1)</sup>	Carrying value of disposals	Depreciation expense	Adjustments and transfers	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress	8,394	–	8,394	17,812	–	–	–	–	–	26,206	–	26,206
Plant and equipment	16,042	(6,618)	9,424	2,261	(851)	(979)	–	–	–	16,674	(6,819)	9,855
Office equipment	1,816	(1,158)	658	–	–	(155)	–	–	–	1,816	(1,313)	503
Furniture and fittings	1,517	(951)	566	–	–	(71)	–	–	–	1,517	(1,022)	495
<b>Land:</b>												
– Crown land	–	–	–	–	–	–	–	–	4,387	4,387	–	4,387
– Operational land	9,991	–	9,991	–	(145)	–	145	(1,548)	–	8,443	–	8,443
– Community land	3,068	–	3,068	–	–	–	–	(1,857)	–	1,211	–	1,211
Land improvements – depreciable	5,475	(1,885)	3,590	–	–	(89)	–	–	–	5,475	(1,974)	3,501
<b>Infrastructure:</b>												
– Buildings	41,331	(15,132)	26,199	–	(164)	(781)	170	–	–	41,332	(15,908)	25,424
– Other structures	24,399	(4,019)	20,380	–	–	(675)	–	–	–	24,399	(4,694)	19,705
– Roads	247,294	(95,448)	151,846	–	–	(3,645)	–	–	38,984	209,140	(21,955)	187,185
– Bridges	31,218	(8,120)	23,098	–	–	(442)	–	–	3,848	37,958	(11,454)	26,504
– Footpaths	5,499	(1,920)	3,579	–	–	(133)	–	–	1,481	7,859	(2,932)	4,927
– Bulk earthworks (non-depreciable)	91,740	–	91,740	–	–	–	–	–	45	91,785	–	91,785
– Stormwater drainage	9,677	(4,714)	4,963	–	–	(121)	–	–	–	9,678	(4,836)	4,842
– Water supply network	64,964	(36,680)	28,284	–	–	(966)	–	–	437	66,003	(38,248)	27,755
– Sewerage network	98,135	(64,837)	33,298	–	–	(1,256)	–	–	513	99,705	(67,150)	32,555
– Swimming pools	10,732	(3,177)	7,555	–	–	(207)	–	–	–	10,732	(3,384)	7,348
– Other open space/recreational assets	2,550	(1,131)	1,419	–	–	(82)	–	–	–	2,550	(1,213)	1,337
<b>Reinstatement, rehabilitation and restoration assets (refer Note 11):</b>												
– Tip assets	–	–	–	–	–	–	8,665	–	–	8,665	–	8,665
<b>Total Infrastructure, property, plant and equipment</b>	<b>673,842</b>	<b>(245,790)</b>	<b>428,052</b>	<b>20,073</b>	<b>(1,160)</b>	<b>(9,602)</b>	<b>8,980</b>	<b>(3,405)</b>	<b>49,695</b>	<b>675,535</b>	<b>(182,902)</b>	<b>492,633</b>

(1) Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 9(a). Infrastructure, property, plant and equipment (continued)

	as at 30/6/2017			Asset movements during the reporting period									as at 30/6/2018		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals <sup>1</sup>	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Tfrs from/(to) 'held for sale' category	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
<b>\$ '000</b>															
Capital work in progress	27,414	–	27,414	1,600	1,823	–	–	(22,297)	(146)	–	–	–	8,394	–	8,394
Plant and equipment	15,305	(6,484)	8,821	2,320	–	(720)	(1,024)	27	–	–	–	–	16,042	(6,618)	9,424
Office equipment	1,339	(1,051)	288	157	277	–	(107)	43	–	–	–	–	1,816	(1,158)	658
Furniture and fittings	1,627	(1,055)	572	70	–	(5)	(71)	–	–	–	–	–	1,517	(951)	566
<b>Land:</b>															
– Operational land	8,451	–	8,451	–	150	(40)	–	–	–	(145)	–	1,575	9,991	–	9,991
– Community land	3,068	–	3,068	–	–	–	–	–	–	–	–	–	3,068	–	3,068
Land improvements – depreciable	5,365	(1,797)	3,568	13	31	–	(88)	66	–	–	–	–	5,475	(1,885)	3,590
<b>Infrastructure:</b>															
– Buildings	36,527	(15,135)	21,392	537	59	(169)	(602)	640	–	(170)	–	4,512	41,331	(15,132)	26,199
– Other structures	21,408	(3,389)	18,019	1,641	293	(19)	(653)	1,099	–	–	–	–	24,399	(4,019)	20,380
– Roads	233,549	(91,029)	142,520	234	164	(402)	(4,880)	14,210	–	–	–	–	247,294	(95,448)	151,846
– Bridges	25,763	(10,131)	15,632	4,695	711	(573)	(328)	2,961	–	–	–	–	31,218	(8,120)	23,098
– Footpaths	5,252	(1,845)	3,407	222	–	–	(75)	25	–	–	–	–	5,499	(1,920)	3,579
– Bulk earthworks (non-depreciable)	91,740	–	91,740	–	–	–	–	–	–	–	–	–	91,740	–	91,740
– Stormwater drainage	9,678	(4,592)	5,086	–	–	–	(123)	–	–	–	–	–	9,677	(4,714)	4,963
– Water supply network	59,632	(36,134)	23,498	1,224	736	(16)	(832)	3,198	–	–	–	476	64,964	(36,680)	28,284
– Sewerage network	96,026	(62,116)	33,910	93	–	–	(1,388)	–	–	–	–	683	98,135	(64,837)	33,298
– Swimming pools	11,494	(3,358)	8,136	3	–	(1)	(202)	28	–	–	(409)	–	10,732	(3,177)	7,555
– Other open space/recreational assets	2,578	(1,061)	1,517	–	–	(13)	(85)	–	–	–	–	–	2,550	(1,131)	1,419
<b>Total Infrastructure, property, plant and equipment</b>	<b>656,216</b>	<b>(239,177)</b>	<b>417,039</b>	<b>12,809</b>	<b>4,244</b>	<b>(1,958)</b>	<b>(10,458)</b>	<b>–</b>	<b>(146)</b>	<b>(315)</b>	<b>(409)</b>	<b>7,246</b>	<b>673,842</b>	<b>(245,790)</b>	<b>428,052</b>

(1) Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 9(a). Infrastructure, property, plant and equipment (continued)

**Accounting policy for infrastructure, property, plant and equipment**

Infrastructure, property, plant and equipment are held at fair value. Independent comprehensive valuations are performed at least every five years, however the carrying amount of assets is assessed by Council at each reporting date to confirm that it is not materially different from current fair value.

Water and sewerage network assets are indexed at each reporting period in accordance with the Rates Reference Manual issued by Department of Industry (DoI) – Water.

Increases in the carrying amounts arising on revaluation are credited to the revaluation reserve. To the extent that the increase reverses a decrease previously recognising profit or loss relating to that asset class, the increase is first recognised as profit or loss. Decreases that reverse previous increases of assets in the same class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the class; all other decreases are charged to the Income Statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

When infrastructure, property, plant and equipment are acquired by Council for nil or nominal consideration, the assets are initially recognised at their fair value at acquisition date.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

<b>Plant and Equipment</b>	<b>Years</b>	<b>Buildings</b>	<b>Years</b>
Office equipment	2 to 10	Buildings: masonry	50 to 150
Office furniture	5 to 30	Buildings: other	10 to 60
Computer equipment	2 to 5		
Vehicles	3 to 5	<b>Water and Sewer Assets</b>	
Heavy plant / road making equipment	10 to 15	Reservoirs	80 to 100
Other plant and equipment	5 to 15	Bores	60
		Reticulation pipes: PVC	80
<b>Other Equipment</b>		Reticulation pipes: other	50 to 100
Playground equipment	10 to 20	Pumps and telemetry	15 to 30
Benches, seats, etc.	10 to 30	Water meters	10 to 15
<b>Transportation Assets</b>		<b>Stormwater Assets</b>	
Sealed roads: surface	20	Drains	80
Sealed roads: structure	90	Culverts	80
Unsealed roads	30	Flood control structures	80
Bridges: concrete	100		
Bridges: other	100	<b>Other Infrastructure Assets</b>	
Footpaths: bitumen	20	Swimming pools	20 to 60
Footpaths: concrete	90	Other open space / recreational assets	10 to 40
Kerb & gutter	50 to 140	Other infrastructure	10 to 50
Bulk earthworks	Infinite		

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

**Land under roads**

Land under roads is land under roadways and road reserves including land under footpaths, nature strips and median strips.

Council has elected not to recognise land under roads acquired before 1 July 2008 in accordance with AASB 1051 Land Under Roads.

Council has also not acquired any land for roadways after 1 July 2008 when asset recognition is required in accordance with AASB 116 Property, Plant and Equipment.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 9(a). Infrastructure, property, plant and equipment (continued)

**Crown reserves**

Crown reserves under Council's care and control are recognised as assets of Council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated.

Improvements on Crown reserves are also recorded as assets, while maintenance costs incurred by Council and revenues relating to the reserves are recognised within Council's Income Statement.

**Rural Fire Service assets**

Council does not believe it has 'control' over Rural Fire Services assets. Until such time as discussions on this matter have concluded and the legislation changed, Council will not recognise these assets in its financial statements.

## Note 9(b). Externally restricted infrastructure, property, plant and equipment

\$ '000	2019			2018		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
<b>Water supply</b>						
WIP	11,010	–	11,010	4,013	–	4,013
Plant and equipment	244	221	23	244	221	23
Office equipment	5	5	–	5	5	–
Land						
– Operational land	260	–	260	260	–	260
Buildings	178	97	81	178	94	84
Other structures	92	25	67	92	25	67
Infrastructure	66,003	38,248	27,755	64,964	36,680	28,284
<b>Total water supply</b>	<b>77,792</b>	<b>38,596</b>	<b>39,196</b>	<b>69,756</b>	<b>37,025</b>	<b>32,731</b>
<b>Sewerage services</b>						
WIP	2,141	–	2,141	569	–	569
Plant and equipment	114	106	8	114	106	8
Furniture and fittings	3	3	–	3	3	–
Land						
– Operational land	1,688	–	1,688	1,688	–	1,688
Buildings	419	255	164	419	247	172
Other structures	158	68	90	158	68	90
Infrastructure	99,705	67,150	32,555	98,135	64,837	33,298
<b>Total sewerage services</b>	<b>104,228</b>	<b>67,582</b>	<b>36,646</b>	<b>101,086</b>	<b>65,261</b>	<b>35,825</b>
<b>TOTAL RESTRICTED I,PP&amp;E</b>	<b>182,020</b>	<b>106,178</b>	<b>75,842</b>	<b>170,842</b>	<b>102,286</b>	<b>68,556</b>



## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 10. Payables and borrowings

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
<b>Payables</b>				
Government departments and agencies	242	–	66	–
Goods and services – operating expenditure	74	–	–	–
Accrued expenses:				
– Borrowings	4	–	6	–
– Salaries and wages	222	–	410	–
– Employee expense oncosts	244	5	242	5
– Other expenditure accruals	1,926	–	2,525	–
Security bonds, deposits and retentions	149	191	129	176
Leards Forest Environmental trust	253	–	261	–
Kamilaroi Highway Group funds	63	–	56	–
Friends of the Crossing Theatre funds	63	–	93	–
Other	57	–	41	–
<b>Total payables</b>	<b>3,297</b>	<b>196</b>	<b>3,829</b>	<b>181</b>
<b>Income received in advance</b>				
Payments received in advance	549	–	503	–
<b>Total income received in advance</b>	<b>549</b>	<b>–</b>	<b>503</b>	<b>–</b>
<b>Borrowings</b>				
Loans – secured <sup>1</sup>	763	5,150	836	5,913
<b>Total borrowings</b>	<b>763</b>	<b>5,150</b>	<b>836</b>	<b>5,913</b>
<b><u>TOTAL PAYABLES AND BORROWINGS</u></b>	<b><u>4,609</u></b>	<b><u>5,346</u></b>	<b><u>5,168</u></b>	<b><u>6,094</u></b>

(1) Loans are secured over the general rating income of Council.

Disclosures on liability interest rate risk exposures, fair value disclosures and security can be found in Note 20.

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
<b>(a) Payables and borrowings relating to restricted assets</b>				
<b>Externally restricted assets</b>				
Water	–	–	91	–
Sewer	–	–	23	–
Payables and borrowings relating to externally restricted assets	–	–	114	–
<b>Total payables and borrowings relating to restricted assets</b>	<b>–</b>	<b>–</b>	<b>114</b>	<b>–</b>
<b>Total payables and borrowings relating to unrestricted assets</b>	<b>4,609</b>	<b>5,346</b>	<b>5,054</b>	<b>6,094</b>
<b><u>TOTAL PAYABLES AND BORROWINGS</u></b>	<b><u>4,609</u></b>	<b><u>5,346</u></b>	<b><u>5,168</u></b>	<b><u>6,094</u></b>

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 10. Payables and borrowings (continued)

\$ '000	2019	2018
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**(b) Current payables and borrowings not anticipated to be settled within the next twelve months**

The following liabilities, even though classified as current, are not expected to be settled in the next 12 months.

Payables – security bonds, deposits and retentions	322	21
<b>Total payables and borrowings</b>	<b>322</b>	<b>21</b>

**(c) Changes in liabilities arising from financing activities**

\$ '000	as at 30/6/2018					as at 30/6/2019
	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	6,749	(836)	–	–	–	5,913
<b>TOTAL</b>	<b>6,749</b>	<b>(836)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>5,913</b>

\$ '000	as at 30/6/2017					as at 30/6/2018
	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	7,790	(1,041)	–	–	–	6,749
Finance lease liabilities	2	(2)	–	–	–	–
<b>TOTAL</b>	<b>7,792</b>	<b>(1,043)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>6,749</b>

\$ '000	2019	2018
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**(d) Financing arrangements****(i) Unrestricted access was available at balance date to the following lines of credit:**

Credit cards/purchase cards	300	300
<b>Total financing arrangements</b>	<b>300</b>	<b>300</b>

**Drawn facilities as at balance date:**

– Credit cards/purchase cards	25	19
<b>Total drawn financing arrangements</b>	<b>25</b>	<b>19</b>

**Undrawn facilities as at balance date:**

– Credit cards/purchase cards	275	281
<b>Total undrawn financing arrangements</b>	<b>275</b>	<b>281</b>

**Additional financing arrangements information****Breaches and defaults**

During the current and prior year, there were no defaults or breaches on any of the loans.

**Security over loans**

Loans are secured over future cash flows.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 10. Payables and borrowings (continued)

**Accounting policy for payables and borrowings**

Council measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.

The financial liabilities of the Council comprise trade payables and loans liabilities.

**Payables**

These amounts represent liabilities for goods and services provided to the council prior to the end of financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective-interest method.

Borrowings are classified as current liabilities unless Council has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

## Note 11. Provisions

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
<b>Provisions</b>				
<b>Employee benefits</b>				
Annual leave	1,061	–	1,016	–
Sick leave	326	–	296	–
Long service leave	2,571	80	2,380	74
Other leave (TIL, RDO)	144	–	102	–
<b>Sub-total – aggregate employee benefits</b>	<b>4,102</b>	<b>80</b>	<b>3,794</b>	<b>74</b>
<b>Asset remediation/restoration:</b>				
Asset remediation/restoration (future works)	–	8,665	–	–
<b>Sub-total – asset remediation/restoration</b>	<b>–</b>	<b>8,665</b>	<b>–</b>	<b>–</b>
<b><u>TOTAL PROVISIONS</u></b>	<b><u>4,102</u></b>	<b><u>8,745</u></b>	<b><u>3,794</u></b>	<b><u>74</u></b>

\$ '000	2019	2018
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**(a) Current provisions not anticipated to be settled within the next twelve months**

The following provisions, even though classified as current, are not expected to be settled in the next 12 months.

Provisions – employees benefits	2,150	2,168
	<u>2,150</u>	<u>2,168</u>

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 11. Provisions (continued)

#### (b) Description of and movements in provisions

\$ '000	ELE provisions				Total
	Annual leave	Sick leave	Long service leave	Other employee benefits (TOIL, RDO)	
<b>2019</b>					
At beginning of year	1,016	296	2,454	102	3,868
Additional provisions	793	22	253	301	1,369
Amounts used (payments)	(845)	(11)	(288)	(274)	(1,418)
Remeasurement effects	97	19	232	15	363
Total ELE provisions at end of period	1,061	326	2,651	144	4,182
<b>2018</b>					
At beginning of year	947	280	2,406	78	3,711
Additional provisions	856	31	305	34	1,226
Amounts used (payments)	(809)	(20)	(296)	(12)	(1,137)
Remeasurement effects	22	5	39	2	68
Total ELE provisions at end of period	1,016	296	2,454	102	3,868

\$ '000	Other provisions	
	Asset remediation	Total
<b>2019</b>		
At beginning of year	–	–
Other	8,665	8,665
Total other provisions at end of period	8,665	8,665
<b>2018</b>		
At beginning of year	–	–
Total other provisions at end of period	–	–

#### Nature and purpose of non-employee benefit provisions

##### Asset remediation

Council has a legal / public obligation to make, restore, rehabilitate and reinstate the Council landfill and quarries.

##### Accounting policy for provisions

Provisions are recognised when Council has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of Council's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

##### Employee benefits

##### Short-term obligations

Liabilities for wages and salaries (including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service) are recognised

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 11. Provisions (continued)

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in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

#### **Other long-term employee benefit obligations**

The liability for long-service leave and annual leave that is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### **On-costs**

The employee benefit provisions include the aggregate on-cost liabilities that will arise when payment of current employee benefits is made in future periods. These amounts include superannuation and workers compensation expenses which will be payable upon the future payment of certain leave liabilities which employees are entitled to at the reporting period.

The obligations are presented as current liabilities in the Statement of Financial Position if Council does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

### **Provisions for close-down and restoration, and environmental clean-up costs – tips and quarries**

#### **Restoration**

Close-down and restoration costs include the dismantling and demolition of infrastructure, and the removal of residual materials and remediation of disturbed areas. Estimated close-down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the development or during the operation phase, based on the net present value of estimated future costs.

Provisions for close-down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, eg. updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals.

#### **Rehabilitation**

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each reporting date, and the cost is charged to the Income Statement.

Provision is made for the estimated present value of the costs of environmental clean-up obligations outstanding at the reporting date. These costs are charged to the Income Statement. Movements in the environmental clean-up provisions are presented as an operating cost, except for the unwinding of the discount which is shown as a borrowing cost.

Remediation procedures generally commence soon after the time the damage, remediation process, and estimated remediation costs become known, but may continue for many years depending on the nature of the disturbance and the remediation techniques.

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors, including changes to the relevant legal requirements, the emergence of new restoration techniques, or experience at other locations. The expected timing of expenditure can also change. As a result, there could be significant adjustments to the provision for close down and restoration and environmental clean-up, which would affect future financial results.

Other movements in the provisions for close-down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations, and revisions to discount rates, are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Close-down and restoration costs are a normal consequence of landfill operations, and the majority of close-down and restoration expenditure is incurred at the end of the life of the operations. Although the ultimate cost to be incurred is uncertain, Council estimates the respective costs based on feasibility and engineering studies using current restoration standards and techniques.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 12. Revaluation reserves and changes in accounting policies

## (a) Nature and purpose of reserves

**Infrastructure, property, plant and equipment revaluation reserve**

The infrastructure, property, plant and equipment revaluation reserve is used to record increments / decrements of non-current asset values due to their revaluation.

## (b) Changes in accounting policies due to adoption of new accounting standards (not-retrospective)

During the year, Council adopted a number of new accounting standards. The impact of the adoption and associated transition disclosures are shown below.

The Council has adopted AASB 9 Financial Instruments for the first time in the current year with a date of initial adoption of 1 July 2017. As part of the adoption of AASB 9, the Council adopted consequential amendments to other accounting standards arising from the issue of AASB 9 as follows:

– AASB 101 Presentation of Financial Statements requires the impairment of financial assets to be presented in a separate line item in the income statement. In prior year, this information was presented as part of other expenses.

– AASB 7 Financial Instruments: Disclosures requires amended disclosures due to changes arising from AASB 9. These disclosures have been provided for the current year.

The key changes to Council's accounting policy and the impact on these financial statements from applying AASB 9 are described below.

Changes in accounting policies resulting from the adoption of AASB 9 have been applied retrospectively except Council has not restated any amounts relating to classification and measurement requirements, including impairment, which have been applied from 1 July 2018.

## Note 13. Statement of cash flows - additional information

\$ '000	Notes	2019	2018
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## (a) Reconciliation of cash assets

Total cash and cash equivalent assets	6(a)	1,380	854
<b>Balance as per the Statement of Cash Flows</b>		<b>1,380</b>	<b>854</b>

## (b) Reconciliation of net operating result to cash provided from operating activities

<b>Net operating result from Income Statement</b>		10,145	7,426
<b>Adjust for non-cash items:</b>			
Depreciation and amortisation		9,602	10,458
Net losses/(gains) on disposal of assets		576	1,344
Amortisation of premiums, discounts and prior period fair valuations			
– Interest exp. on interest-free loans received by Council (previously fair valued)		38	55
Share of net (profits)/losses of associates/joint ventures using the equity method		(20)	(46)
<b>+/- Movement in operating assets and liabilities and other cash items:</b>			
Decrease/(increase) in receivables		(5,380)	(1,472)
Increase/(decrease) in provision for impairment of receivables		–	(180)
Decrease/(increase) in inventories		75	31
Decrease/(increase) in other current assets		325	(441)

continued on next page ...

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 13. Statement of cash flows - additional information (continued)

\$ '000	2019	2018
Increase/(decrease) in payables	74	1
Increase/(decrease) in accrued interest payable	(2)	(7)
Increase/(decrease) in other accrued expenses payable	(787)	(111)
Increase/(decrease) in other liabilities	244	254
Increase/(decrease) in provision for employee benefits	314	157
<b>Net cash provided from/(used in) operating activities from the Statement of Cash Flows</b>	<b>15,204</b>	<b>17,469</b>

## Note 14. Interests in other entities

## Associates

The following information is provided for associates that are individually material to the Council. Included are the amounts as per the individual associates' financial statements, adjusted for fair-value adjustments at acquisition date and differences in accounting policies, rather than the Council's share.

## (a) Net carrying amounts – Council's share

\$ '000	Nature of relationship	Measurement method	2019	2018
Central Northern Regional Libraries	Associate		247	227
<b>Total carrying amounts – material associates</b>			<b>247</b>	<b>227</b>

## (b) Details

	Principal activity	Place of business
Central Northern Regional Libraries	Public Library Services	Tamworth

## (c) Relevant interests and fair values

\$ '000	Interest in outputs		Interest in ownership		Proportion of voting power	
	2019	2018	2019	2018	2019	2018
Central Northern Regional Libraries	14%	14%	14%	14%	14%	14%

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 14. Interests in other entities (continued)

\$ '000	Central Northern Regional Libraries	
	2019	2018
<b>(d) Summarised financial information for associates</b>		
<b>Statement of financial position</b>		
<b>Current assets</b>		
Cash and cash equivalents	508	730
<b>Non-current assets</b>	1,221	856
<b>Net assets</b>	<b>1,729</b>	<b>1,586</b>
<b>Reconciliation of the carrying amount</b>		
Opening net assets (1 July)	1,586	1,264
Profit/(loss) for the period	143	322
<b>Closing net assets</b>	<b>1,729</b>	<b>1,586</b>
<b>Council's share of net assets (%)</b>	14%	14%
<b>Council's share of net assets (\$)</b>	247	227
<b>Statement of comprehensive income</b>		
Income	1,620	1,828
Interest income	13	13
Depreciation and amortisation	(273)	(268)
Other expenses	(1,217)	(1,251)
<b>Profit/(loss) from continuing operations</b>	<b>143</b>	<b>322</b>
<b>Profit/(loss) for period</b>	<b>143</b>	<b>322</b>
<b>Total comprehensive income</b>	<b>143</b>	<b>322</b>
<b>Share of income – Council (%)</b>	14%	14%
<b>Profit/(loss) – Council (\$)</b>	20	46
<b>Total comprehensive income – Council (\$)</b>	20	46

**Accounting policy for associates**

Interests in associates are accounted for using the equity method in accordance with *AASB128 Investments in Associates and Joint Ventures*.

Under this method, the investment is initially recognised as a cost and the carrying amount is increased or decreased to recognise the Council's share of the profit or loss and other comprehensive income of the investee after the date of acquisition.

If Council's share of losses of an associate equals or exceeds its interest in the associate, Council discontinues recognising its share of further losses.

Council's share in the associates gains or losses arising from transactions between itself and its associate are eliminated.

Adjustments are made to the associates accounting policies where they are different from those of Council for the purposes of the consolidated financial statements.



## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 15. Commitments

\$ '000	2019	2018
<b>Capital commitments (exclusive of GST)</b>		
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
<b>Property, plant and equipment</b>		
Plant and equipment	681	1,245
Buildings	–	45
Other structures	841	216
Roads	960	–
Bridges	–	936
Footpaths	143	–
Water supply network	4,552	10,441
<b>Total commitments</b>	<b>7,177</b>	<b>12,883</b>
<b>These expenditures are payable as follows:</b>		
Within the next year	7,177	7,663
Later than one year and not later than 5 years	–	5,220
<b>Total payable</b>	<b>7,177</b>	<b>12,883</b>
<b>Sources for funding of capital commitments:</b>		
Future grants and contributions	5,248	11,593
Unexpended grants	288	–
Externally restricted reserves	–	661
Internally restricted reserves	1,641	629
<b>Total sources of funding</b>	<b>7,177</b>	<b>12,883</b>

**Details of capital commitments**

Council has contractual commitments for the following projects: Narrabri Water Augmentation, Cooma Road (Narrabri) Shared Path, Narrabri Creek Shared Path, Kerb & Gutter replacements and some major plant (fleet) replacements. All projects are expected to be completed in the 2019/20 financial year.

## Note 16. Contingencies and other assets/liabilities not recognised

The following assets and liabilities do not qualify for recognition in the Statement of Financial Position, but their knowledge and disclosure is considered relevant to the users of Council's financial report.

**LIABILITIES NOT RECOGNISED****1. Guarantees****(i) Defined benefit superannuation contribution plans**

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named The Local Government Superannuation Scheme – Pool B (the Scheme) which is a defined benefit plan that has been deemed to be a 'multi-employer fund' for purposes of AASB119 Employee Benefits for the following reasons:

- Assets are not segregated within the sub-group according to the employees of each sponsoring employer.
- The contribution rates have been the same for all sponsoring employers. That is, contribution rates have not varied for each sponsoring employer according to the experience relating to the employees of that sponsoring employer.
- Benefits for employees of all sponsoring employers are determined according to the same formulae and without regard to the sponsoring employer.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 16. Contingencies and other assets/liabilities not recognised (continued)

– The same actuarial assumptions are currently used in respect of the employees of each sponsoring employer.

Given the factors above, each sponsoring employer is exposed to the actuarial risks associated with current and former employees of other sponsoring employers, and hence shares in the associated gains and losses (to the extent that they are not borne by members).

*Description of the funding arrangements.*

Pooled employers are required to pay standard employer contributions and additional lump sum contributions to the fund.

The standard employer contributions were determined using the new entrant rate method under which a contribution rate sufficient to fund the total benefits over the working life-time of a typical new entrant is calculated. The current standard employer contribution rates are:

Division B	1.9 x times employee contributions
Division C	2.5% salaries
Division D	1.64 x times employee contributions

The additional lump sum contribution for each Pooled Employer is a share of the total additional contributions of \$40 million per annum from 1 July 2018 to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2018. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities as at 30 June 2018.

The adequacy of contributions is assessed at each triennial actuarial investigation and monitored annually between triennials.

*Description of the extent to which Council can be liable to the plan for other Council's obligations under the terms and conditions of the multi-employer plan*

As stated above, each sponsoring employer (Council) is exposed to the actuarial risks associated with current and former employees of other sponsoring employers and hence shares in the associated gains and losses.

However, there is no relief under the Fund's trust deed for employers to walk away from their defined benefit obligations. Under limited circumstances, an employer may withdraw from the plan when there are no active members, on full payment of outstanding additional contributions. There is no provision for allocation of any surplus which may be present at the date of withdrawal of the Council.

There are no specific provisions under the Fund's trust deed dealing with deficits or surplus on wind-up.

The amount of Council employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2019 was \$105,895.59. The last valuation of the Scheme was performed by Mr Richard Boyfield, FIAA on 31 December 2018, and covers the period ended 30 June 2018.

The amount of additional contributions included in the total employer contribution advised above is \$105,894.59. Council's expected contribution to the plan for the next annual reporting period is \$114,387.08.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2019 is:

Employer reserves only *	\$millions	Asset Coverage
Assets	1,798.7	
Past Service Liabilities	1,784.2	100.8%
Vested Benefits	1,792.0	100.4%

\* excluding member accounts and reserves in both assets and liabilities.

The share of this deficit that is broadly attributed to Council is estimated to be in the order of 0.15%.

Council's share of that deficiency cannot be accurately calculated as the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils. For this reason, no liability for the deficiency has been recognised in Council's accounts. Council has a possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 16. Contingencies and other assets/liabilities not recognised (continued)

The key economic long term assumptions used to calculate the present value of accrued benefits are:

Investment return	5.75% per annum
Salary inflation *	3.50% per annum
Increase in CPI	2.50% per annum

\* Plus promotional increases

The contribution requirements may vary from the current rates if the overall sub-group experience is not in line with the actuarial assumptions in determining the funding program; however, any adjustment to the funding program would be the same for all sponsoring employers in the Pooled Employers group.

**(ii) Statewide Limited**

Council is a member of Statewide Mutual, a mutual pool scheme providing liability insurance to local government.

Membership includes the potential to share in either the net assets or liabilities of the fund depending on its past performance. Council's share of the net assets or liabilities reflects Council's contributions to the pool and the result of insurance claims within each of the fund years.

The future realisation and finalisation of claims incurred but not reported to 30/6 this year may result in future liabilities or benefits as a result of past events that Council will be required to fund or share in respectively.

**(iii) StateCover Limited**

Council is a member of StateCover Mutual Limited and holds a partly paid share in the entity.

StateCover is a company providing workers compensation insurance cover to the NSW local government industry and specifically Council.

Council has a contingent liability to contribute further equity in the event of the erosion of the company's capital base as a result of the company's past performance and/or claims experience or as a result of any increased prudential requirements from APRA.

These future equity contributions would be required to maintain the company's minimum level of net assets in accordance with its licence requirements.

**(iv) Other guarantees**

Council has provided no other guarantees other than those listed above.

**2. Other liabilities****(i) Third party claims**

The Council is involved from time to time in various claims incidental to the ordinary course of business including claims for damages relating to its services.

Council believes that it is appropriately covered for such claims through its insurance coverage.

Council has had legal proceedings commenced against it by the Environmental Protection Authority (EPA) in the Local Court.

Council has been charged with two offences that if proven could result in a total fine of \$220,000. With costs, Council estimates a maximum liability of \$320,000.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 16. Contingencies and other assets/liabilities not recognised (continued)

## ASSETS NOT RECOGNISED

## (i) Land under roads

As permitted under AASB 1051, Council has elected not to bring to account land under roads that it owned or controlled up to and including 30/6/08.

## Note 17. Financial risk management

## Risk management

Council's activities expose it to a variety of financial risks including (1) price risk, (2) credit risk, (3) liquidity risk and (4) interest rate risk.

Council's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance.

Council does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by Council's finance section under policies approved by Council.

A comparison by category of the carrying amounts and fair values of Council's financial assets and financial liabilities recognised in the financial statements is presented below.

\$ '000	Carrying value 2019	Carrying value 2018	Fair value 2019	Fair value 2018
<b>Financial assets</b>				
<b>Measured at amortised cost</b>				
Cash and cash equivalents	1,380	854	1,380	854
Receivables	12,495	7,115	12,495	7,115
Investments				
– 'Financial assets at amortised cost' / 'held to maturity' (2018)	50,000	56,000	50,000	56,000
<b>Total financial assets</b>	<b>63,875</b>	<b>63,969</b>	<b>63,875</b>	<b>63,969</b>
<b>Financial liabilities</b>				
Payables	3,493	4,010	3,493	4,010
Loans/advances	5,913	6,749	5,913	6,749
<b>Total financial liabilities</b>	<b>9,406</b>	<b>10,759</b>	<b>9,406</b>	<b>10,759</b>

Fair value is determined as follows:

- **Cash and cash equivalents, receivables, payables** – are estimated to be the carrying value that approximates market value.
- **Borrowings and held-to-maturity investments** – are based upon estimated future cash flows discounted by the current mkt interest rates applicable to assets and liabilities with similar risk profiles, unless quoted market prices are available.
- Financial assets classified (i) **'at fair value through profit and loss'** or (ii) **'available-for-sale'** – are based upon quoted market prices (in active markets for identical investments) at the reporting date or independent valuation.

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital.

Council's finance area manages the cash and Investments portfolio.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 17. Financial risk management (continued)

Council has an investment policy which complies with the Local Government Act 1993 and Minister's investment order 625. This policy is regularly reviewed by Council and its staff and a monthly investment report is provided to Council setting out the portfolio breakup and its performance as required by Local Government regulations.

The risks associated with the instruments held are:

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **Liquidity risk** – the risk that Council will not be able to pay its debts as and when they fall due.
- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.

Council manages these risks (amongst other measures) by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees.

## (a) Market risk – price risk and interest rate risk

The impact on result for the year and equity of a reasonably possible movement in the price of investments held and interest rates is shown below. The reasonably possible movements were determined based on historical movements and economic conditions in place at the reporting date.

\$ '000	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
<b>2019</b>				
Possible impact of a 1% movement in interest rates	510	510	(510)	(510)
<b>2018</b>				
Possible impact of a 1% movement in interest rates	565	565	(565)	(565)

## (b) Credit risk

Council's major receivables comprise (i) rates and annual charges and (ii) user charges and fees.

Council manages the credit risk associated with these receivables by monitoring outstanding debt and employing stringent debt recovery procedures.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

Council makes suitable provision for doubtful receivables as required and carries out credit checks on most non-rate debtors.

There are no material receivables that have been subjected to a re-negotiation of repayment terms.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 17. Financial risk management (continued)

**Receivables – rates and annual charges**

Credit risk on rates and annual charges is minimised by the ability of Council to secure a charge over the land relating to the debts – that is, the land can be sold to recover the debt. Council is also able to charge interest on overdue rates and annual charges at higher than market rates which further encourages the payment of debt.

\$ '000	Not yet overdue	Overdue	Total
<b>Credit risk profile</b>			
<b>2019</b>			
Overdue	–	1,931	1,931
<b>2018</b>			
Overdue	–	1,476	1,476

**Receivables - non-rates and annual charges**

Council applies the simplified approach for non-rates and annual charges debtors to provide for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision. To measure the expected credit losses, non-rates and annual charges debtors have been grouped based on shared credit risk characteristics and the days past due.

The loss allowance provision as at 30 June 2019 is determined as follows. The expected credit losses incorporate forward-looking information.

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
<b>2019</b>						
Gross carrying amount	3,055	6,193	85	873	428	10,634
<b>ECL provision</b>	–	–	1	17	15	33
<b>2018</b>						
Gross carrying amount	3,908	1,767	8	22	4	5,709
<b>ECL provision</b>	–	23	–	10	–	33

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 17. Financial risk management (continued)

## (c) Liquidity risk

Payables and borrowings are both subject to liquidity risk – the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due.

Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer.

Payment terms can (in extenuating circumstances) also be extended and overdraft facilities utilised as required.

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs and debt servicing requirements. Council manages this risk through diversification of borrowing types, maturities and interest rate structures. The finance team regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

The timing of cash flows presented in the table below to settle financial liabilities reflects the earliest contractual settlement dates. The timing of expected outflows is not expected to be materially different from contracted cashflows.

The amounts disclosed in the table are the undiscounted contracted cash flows and therefore the balances in the table may not equal the balances in the statement of financial position due to the effect of discounting.

\$ '000	Weighted average interest rate	Subject to no maturity	payable in:			Total cash outflows	Actual carrying values
			≤ 1 Year	1 - 5 Years	> 5 Years		
<b>2019</b>							
Trade/other payables	0.00%	340	3,153	–	–	3,493	3,493
Loans and advances	3.99%	–	5,468	817	–	6,285	5,913
<b>2018</b>							
Trade/other payables	0.00%	305	3,705	–	–	4,010	4,010
Loans and advances	3.99%	–	1,120	6,081	204	7,405	6,749

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 18. Material budget variations

Council's original financial budget for 2018/19 was adopted by the Council on 26/06/2018 and is unaudited.

While the Income Statement included in this General Purpose Financial Statements must disclose the original budget adopted by Council, the Local Government Act 1993 requires Council to review its financial budget on a quarterly basis, so that it is able to manage the various variations between actuals versus budget that invariably occur throughout the year.

This note sets out the details of **material variations** between Council's original budget and its actual results for the year as per the Income Statement – even though such variations may have been adjusted for during each quarterly budget review.

Material variations represent those variances between the original budget figure and the actual result that amount to **10%** or more.

**Variation Key:** **F** = Favourable budget variation, **U** = Unfavourable budget variation.

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----		
<b>REVENUES</b>					
Rates and annual charges	20,344	20,303	(41)	0%	<b>U</b>
User charges and fees	11,226	7,939	(3,287)	(29)%	<b>U</b>
Council received \$3,130k less than budgeted for RMS charges (state roads not controlled by Council). This is a very difficult item to budget for as it relies upon the programmed works of the RMS.					
Interest and investment revenue	1,482	1,521	39	3%	<b>F</b>
Other revenues	2,317	2,477	160	7%	<b>F</b>
Operating grants and contributions	9,840	11,444	1,604	16%	<b>F</b>
Mainly due to the timing of the Commonwealth Government's payment of Financial Assistance Grant instalments.					
Capital grants and contributions	16,990	10,242	(6,748)	(40)%	<b>U</b>
Augmentation works on the Boggabri and Wee Waa sewerage treatment plants didn't get a far as initially expected due to a complicated design process. \$5,895k of income was budgeted in 2018/19. It is anticipated that the construction contracts for these projects will be awarded in February 2020.					
Joint ventures and associates – net profits	–	20	20	∞	<b>F</b>
Council did not budget for the operating result of its share of the Central Northern Regional Libraries as it is immaterial.					
<b>EXPENSES</b>					
Employee benefits and on-costs	16,583	15,791	792	5%	<b>F</b>
Borrowing costs	282	282	–	0%	<b>F</b>
Materials and contracts	12,768	12,940	(172)	(1)%	<b>U</b>
Depreciation and amortisation	9,950	9,602	348	3%	<b>F</b>
Other expenses	3,961	4,610	(649)	(16)%	<b>U</b>
With the implementation of a new corporate information system this year, Council's costs capture is much more specific which has resulted in some variations of budgeted amounts and actual results within both Materials and Contracts and Other Expenses. This is largely the reason for this variance, more so than anything distinctive.					
Net losses from disposal of assets	–	576	(576)	∞	<b>U</b>
Council did not budget for profit or loss on disposal of plant and infrastructure assets as they are generally expected to be immaterial. The recorded loss on disposal of property and infrastructure in note 5 (\$277k) was for the sale of a child care centre in Narrabri below market value.					



## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 18. Material budget variations (continued)

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----	
<b>STATEMENT OF CASH FLOWS</b>				
<b>Net cash provided from (used in) operating activities</b>	29,092	15,204	(13,888)	(48)% <b>U</b>
This variation flows through from the variations noted in the Income Statement already listed.				
<b>Net cash provided from (used in) investing activities</b>	(27,527)	(13,804)	13,723	(50)% <b>F</b>
This is a result of reduced capital works expenditure.				
<b>Net cash provided from (used in) financing activities</b>	(836)	(874)	(38)	5% <b>U</b>

## Note 19. Fair value measurement

The Council measures the following asset and liability classes at fair value on a recurring basis:

– Infrastructure, property, plant and equipment

The fair value of assets and liabilities must be estimated in accordance with various accounting standards for either recognition and measurement requirements or for disclosure purposes.

AASB 13 Fair Value Measurement requires all assets and liabilities measured at fair value to be assigned to a 'level' in the fair value hierarchy as follows:

**Level 1:** Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

**Level 2:** Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

**Level 3:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 19. Fair value measurement (continued)

#### (1) Assets and liabilities that have been measured and recognised at fair values

2019	Notes	Date of latest valuation	Fair value measurement hierarchy			Total
			Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
<b>Recurring fair value measurements (IPP&amp;E)</b>						
		30/06/19	–	–	9,855	9,855
		30/06/19	–	–	503	503
		30/06/19	–	–	495	495
		30/06/19	–	–	4,387	4,387
		30/06/19	–	–	8,443	8,443
		30/06/19	–	–	1,211	1,211
		30/06/19	–	–	3,501	3,501
		30/06/19	–	–	25,424	25,424
		30/06/19	–	–	19,705	19,705
		30/06/19	–	–	187,185	187,185
		30/06/19	–	–	26,504	26,504
		30/06/19	–	–	4,927	4,927
		30/06/19	–	–	91,785	91,785
		30/06/19	–	–	4,842	4,842
		30/06/19	–	–	27,755	27,755
		30/06/19	–	–	32,555	32,555
		30/06/19	–	–	7,348	7,348
		30/06/19	–	–	1,337	1,337
<b>Total infrastructure, property, plant &amp; equipment</b>			–	–	<b>457,762</b>	<b>457,762</b>

2018	Notes	Date of latest valuation	Fair value measurement hierarchy			Total
			Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
<b>Recurring fair value measurements (IPP&amp;E)</b>						
		30/06/18	–	–	9,424	9,424
		30/06/18	–	–	658	658
		30/06/18	–	–	566	566
		30/06/18	–	–	–	–
		30/06/18	–	–	9,991	9,991
		30/06/18	–	–	3,068	3,068
		30/06/18	–	–	3,590	3,590
		30/06/18	–	–	26,199	26,199
		30/06/18	–	–	20,380	20,380
		30/06/18	–	–	151,846	151,846
		30/06/18	–	–	23,098	23,098
		30/06/18	–	–	3,579	3,579
		30/06/18	–	–	91,740	91,740
		30/06/18	–	–	4,963	4,963
		30/06/18	–	–	28,284	28,284
		30/06/18	–	–	33,298	33,298
		30/06/18	–	–	7,555	7,555
		30/06/18	–	–	1,419	1,419
<b>Total infrastructure, property, plant &amp; equipment</b>			–	–	<b>419,658</b>	<b>419,658</b>

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 19. Fair value measurement (continued)

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Note that capital WIP is not included above since it is carried at cost.

#### (2) Valuation techniques used to derive level 2 and level 3 fair values

Where Council is unable to derive fair valuations using quoted market prices of identical assets (ie. level 1 inputs) Council instead utilises a spread of both observable inputs (level 2 inputs) and unobservable inputs (level 3 inputs).

The fair valuation techniques Council has employed while utilising level 2 and level 3 inputs are as follows:

#### Infrastructure, property, plant and equipment (IPP&E)

##### Plant & Equipment, Office Equipment and Furniture & Fittings

Plant & Equipment, Office Equipment and Furniture & Fittings are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items. Examples of assets within these classes are as follows:

- Plant and Equipment - Graders, trucks, rollers, tractors and motor vehicles.
- Office Equipment - Computers, photocopiers, calculators etc.
- Furniture & Fittings - Chairs, desks and display boards.

There has been no change to the valuation process during the reporting period.

##### Crown, Operational & Community Land

Crown, Operational & Community Land are based on either the Land Value provided by the Valuer General or an average unit rate based on the Land Value for similar properties where the Valuer General did not provide a Land Value having regard to the highest and best use for the land. Operational Land is based on the Valuer General's land value as these are representative of the actual market values in the Narrabri Shire LGA. As these rates were not considered to be observable market evidence they have been classified a Level 3.

There has been no change to the valuation process during the reporting period.

##### Land Improvements

Land Improvements include the Wee Waa Levee, sporting ovals, cemeteries, etc. The cost approach has been utilised whereby replacement cost was estimated for each asset by taking into account a range of factors. No market based evidence (Level 2) could be supported, therefore these assets were all classified as having been valued using Level 3 valuation inputs.

There has been no change to the valuation process during the reporting period.

##### Buildings

Buildings are valued using the Rawlinson's Construction Guide in June 2013 using the cost approach. The approach estimated the replacement cost for each building by componentising the building into significant parts. While all buildings were physically inspected and the unit rates based on square metres from Rawlinson's Construction Guide, no market based evidence (Level 2) could not be established. As such these assets were classified as having been valued as Level 3 valuation inputs.

While the costs were current and the impact of depreciation negligible, the building has been classified as Level 3 as they are immaterial in relation to the overall value of the asset type.

There has been no change to the valuation process during the reporting period.

##### Other Structures

Other Structures comprise of Aerodrome runway, lighting, irrigation systems, fencing etc. The cost approach has been utilised whereby replacement cost was estimated for each asset by taking into account a range of factors. No market based evidence (Level 2) could be supported, therefore these assets were all classified as having been valued using Level 3 valuation inputs.

There has been no change to the valuation process during the reporting period.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 19. Fair value measurement (continued)

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#### **Roads, Bridges, Footpaths and Bulk Earthworks**

Roads comprise road carriageway, roadside shoulders, kerb & gutter.

All roads, bridges, footpaths and bulk earthwork assets were valued using Level 3 valuation inputs using the cost approach. This approach estimates the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors.

While unit rates are based on quantitative dimensional units such as square metres or lineal metres and can be supported from market evidence (level 2), other inputs such as estimates of useful lives, remaining life profiles and asset conditions require extensive professional judgement which impacts significantly on the final determination of the assets fair value.

As a result, the valuation is classified as having been valued using Level 3 valuation inputs.

There has been no change to the valuation process during the reporting period.

#### **Stormwater Drainage**

Assets within this class comprise pits and pipes.

The 'Cost Approach' estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per pit or similar could be supported from market evidence (Level 2) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally, due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets.

There has been no change to the valuation process during the reporting period.

#### **Water Supply Network**

Assets within this class comprise reservoirs, pumping stations and water pipelines.

The 'Cost Approach' estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per pit or similar may be supported from market evidence (Level 2) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally, due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets. These assets are indexed each year in line with the NSW Reference Rates Manual as publish by the Office of Water.

There has been no change to the valuation process during the reporting period.

#### **Sewerage Network**

Assets within this class comprise treatment works, pumping stations and sewerage mains.

The 'Cost Approach' estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per pit or similar may be supported from market evidence (Level 2) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally, due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets. These assets are indexed each year in line with the NSW Reference Rates Manual as publish by the Office of Water.

There has been no change to the valuation process during the reporting period.

#### **Swimming Pools**

Assets within this class comprise Council's Aquatic Centre and other outdoor swimming pools.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 19. Fair value measurement (continued)

Swimming pools were valued in-house by experienced staff using the cost approach. The approach estimated the replacement cost for each pool by componentising its significant parts.

While some elements of gross replacement values may be supported from market evidence (Level 2 input) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value.

There has been no change to the valuation process during the reporting period.

**Other Open Space / Recreational Assets**

Assets within this class comprise playground equipment, BBQs, outdoor fitness facilities, etc. The cost approach has been utilised whereby replacement cost was estimated for each asset by taking into account a range of factors. No market based evidence (Level 2) could be supported as such these assets were all classified as having been valued using Level 3 valuation inputs.

There has been no change to the valuation process during the reporting period.

## (3) Fair value measurements using significant unobservable inputs (level 3)

a. The following tables present the changes in level 3 fair value asset classes.

\$ '000	P&E, Office Equip & Furniture	Land & Improves	Buildings & Other structures	Transport and other assets	Stormwater drainage
<b>2018</b>					
<b>Opening balance</b>	9,681	15,087	39,411	253,299	5,086
Purchases (GBV)	2,894	260	4,269	23,222	–
Disposals (WDV)	(725)	(40)	(188)	(975)	–
Depreciation and impairment	(1,202)	(88)	(1,255)	(5,283)	(123)
FV gains – other comprehensive income	–	1,575	4,512	–	–
Transfers to Held for Sale	–	(145)	(170)	–	–
<b>Closing balance</b>	<b>10,648</b>	<b>16,649</b>	<b>46,579</b>	<b>270,263</b>	<b>4,963</b>

<b>2019</b>					
<b>Opening balance</b>	10,648	16,649	46,579	270,263	4,963
Purchases (GBV)	2,261	–	–	–	–
Disposals (WDV)	(851)	(145)	(164)	–	–
Depreciation and impairment	(1,205)	(89)	(1,456)	(4,220)	(121)
FV gains – other comprehensive income	–	982	–	44,358	–
Transfers to Held for Sale	–	145	170	–	–
<b>Closing balance</b>	<b>10,853</b>	<b>17,542</b>	<b>45,129</b>	<b>310,401</b>	<b>4,842</b>

\$ '000	Water supply network	Sewerage network	Pools, Other Open Space Rec Assets	Total
<b>2018</b>				
<b>Opening balance</b>	23,498	33,910	9,653	<b>389,625</b>
Purchases (GBV)	5,158	93	31	<b>35,927</b>
Disposals (WDV)	(16)	–	(14)	<b>(1,958)</b>
Depreciation and impairment	(832)	(1,388)	(287)	<b>(10,458)</b>

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 19. Fair value measurement (continued)

\$ '000	Water supply network	Sewerage network	Pools, Other Open Space Rec Assets	Total
FV gains – other comprehensive income	476	683	(409)	6,837
Transfers to Held for Sale	–	–	–	(315)
<b>Closing balance</b>	<b>28,284</b>	<b>33,298</b>	<b>8,974</b>	<b>419,658</b>
<b>2019</b>				
<b>Opening balance</b>	<b>28,284</b>	<b>33,298</b>	<b>8,974</b>	<b>419,658</b>
Purchases (GBV)	–	–	–	2,261
Disposals (WDV)	–	–	–	(1,160)
Depreciation and impairment	(966)	(1,256)	(289)	(9,602)
FV gains – other comprehensive income	437	513	–	46,290
Transfers to Held for Sale	–	–	–	315
<b>Closing balance</b>	<b>27,755</b>	<b>32,555</b>	<b>8,685</b>	<b>457,762</b>

## c. Significant unobservable valuation inputs used (for level 3 asset classes) and their relationship to fair value.

The following table summarises the quantitative information relating to the significant unobservable inputs used in deriving the various level 3 asset class fair values.

\$ '000	Fair value (30/6/19)	Valuation technique/s	Unobservable inputs
<b>Infrastructure, property, plant and equipment</b>			
Plant & Equipment	9,855	Cost used to approximate fair value	<ul style="list-style-type: none"> <li>• Depreciated Historical Cost</li> <li>• Remaining Useful Life</li> <li>• Residual Value</li> </ul>
Office Equipment	503	Cost used to approximate fair value	<ul style="list-style-type: none"> <li>• Depreciated Historical Cost</li> <li>• Remaining Useful Life</li> <li>• Residual Value</li> </ul>
Furniture / Fittings	495	Cost used to approximate fair value	<ul style="list-style-type: none"> <li>• Depreciated Historical Cost</li> <li>• Remaining Useful Life</li> <li>• Residual Value</li> </ul>
Crown Land	4,387	Land values for similar land averaged m <sup>2</sup> rate	<ul style="list-style-type: none"> <li>• Land Value (price per m<sup>2</sup>)</li> </ul>
Operational Land	8,443	Land values for similar land averaged m <sup>2</sup> rate	<ul style="list-style-type: none"> <li>• Land Value (price per m<sup>2</sup>)</li> </ul>
Community Land	1,211	Land values obtained from NSW Valuer-General	<ul style="list-style-type: none"> <li>• Land Value (price per m<sup>2</sup>)</li> </ul>
Land Improvements	3,501	Cost used to approximate fair value	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Asset Condition</li> <li>• Remaining Useful Life</li> <li>• Residual Value</li> </ul>
Buildings	25,424	Cost used to approximate fair value	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Asset Condition</li> <li>• Remaining Useful Life</li> <li>• Residual Value</li> </ul>
Other Structures	19,705	Cost used to approximate fair value	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Asset Condition</li> <li>• Remaining Useful Life</li> <li>• Residual Value</li> </ul>
Roads	187,185	Unit rates per m <sup>2</sup> or length	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Asset Condition</li> <li>• Remaining Useful Life</li> <li>• Residual Value</li> </ul>

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 19. Fair value measurement (continued)

\$ '000	Fair value (30/6/19)	Valuation technique/s	Unobservable inputs
Bridges	26,504	Unit rates per m <sup>2</sup> or length	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Asset Condition</li> <li>• Remaining Useful Life</li> </ul>
Footpaths	4,927	Unit rates per m <sup>2</sup> or length	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Asset Condition</li> <li>• Remaining Useful Life</li> </ul>
Bulk Earthworks	91,785	Cost used to approximate fair value	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Asset Condition</li> <li>• Remaining Useful Life</li> <li>• Residual Value</li> </ul>
Stormwater Drainage	4,842	Cost used to approximate fair value	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Asset Condition</li> <li>• Remaining Useful Life</li> </ul>
Water Supply Network	27,755	Cost used to approximate fair value	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Asset Condition</li> <li>• Remaining Useful Life</li> </ul>
Sewerage Network	32,555	Cost used to approximate fair value	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Asset Condition</li> <li>• Remaining Useful Life</li> </ul>
Swimming Pools	7,348	Cost used to approximate fair value	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Asset Condition</li> <li>• Remaining Useful Life</li> <li>• Residual Value</li> </ul>
Other Open Space / Recreational Assets	1,337	Cost used to approximate fair value	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Asset Condition</li> <li>• Remaining Useful Life</li> <li>• Residual Value</li> </ul>

## (4) Highest and best use

All of Council's non-financial assets are considered as being utilised for their highest and best use.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 20. Related party transactions

#### (a) Key management personnel

Key management personnel (KMP) of the council are those persons having the authority and responsibility for planning, directing and controlling the activities of the council, directly or indirectly.

The aggregate amount of KMP compensation included in the Income Statement is:

\$ '000	2019	2018
<b>Compensation:</b>		
Short-term benefits	1,030	877
Post-employment benefits	83	71
Other long-term benefits	241	227
<b>Total</b>	<b>1,354</b>	<b>1,175</b>

#### (b) Other transactions with KMP and their related parties

Council has determined that transactions at arm's length between KMP and Council as part of Council delivering a public service objective (e.g. access to library or Council swimming pool by KMP) will not be disclosed.



## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 21. Statement of developer contributions

Under the *Environmental Planning and Assessment Act 1979*, Council has significant obligations to provide Section 7.11 (contributions towards provision or improvement of amenities or services) infrastructure in new release areas.

It is possible that the funds contributed may be less than the cost of this infrastructure, requiring Council to borrow or use general revenue to fund the difference.

## Summary of contributions and levies

	as at 30/6/2018			as at 30/6/2019					
	Opening Balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)	
\$ '000	Cash	Non-cash							
Roads	7	–	–	–	–	–	7	–	
Parking	18	–	–	1	–	–	19	–	
Open space	31	–	–	1	–	–	32	–	
Community facilities	23	–	–	1	–	–	24	–	
Other	41	–	–	1	–	–	42	–	
Bushfire	19	–	–	–	–	–	19	–	
<b>S7.11 contributions – under a plan</b>	<b>139</b>	<b>–</b>	<b>–</b>	<b>4</b>	<b>–</b>	<b>–</b>	<b>143</b>	<b>–</b>	
<b>S7.12 levies – under a plan</b>	<b>1,142</b>	<b>51</b>	<b>–</b>	<b>27</b>	<b>(177)</b>	<b>–</b>	<b>1,043</b>	<b>–</b>	
<b>Total S7.11 and S7.12 revenue under plans</b>	<b>1,281</b>	<b>51</b>	<b>–</b>	<b>31</b>	<b>(177)</b>	<b>–</b>	<b>1,186</b>	<b>–</b>	
S7.4 planning agreements	10,810	–	–	287	(344)	–	10,753	–	
<b>Total contributions</b>	<b>12,091</b>	<b>51</b>	<b>–</b>	<b>318</b>	<b>(521)</b>	<b>–</b>	<b>11,939</b>	<b>–</b>	

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 22. Financial result and financial position by fund

\$ '000	General <sup>1</sup> 2019	Water 2019	Sewer 2019
<b>Income Statement by fund</b>			
<b>Income from continuing operations</b>			
Rates and annual charges	15,319	1,880	3,104
User charges and fees	5,124	2,756	59
Interest and investment revenue	921	335	265
Other revenues	2,462	15	–
Grants and contributions provided for operating purposes	11,294	150	–
Grants and contributions provided for capital purposes	4,046	5,740	456
<b>Other income</b>			
Share of interests in joint ventures and associates using the equity method	20	–	–
<b>Total income from continuing operations</b>	<b>39,186</b>	<b>10,876</b>	<b>3,884</b>
<b>Expenses from continuing operations</b>			
Employee benefits and on-costs	14,462	795	534
Borrowing costs	282	–	–
Materials and contracts	9,169	2,011	1,760
Depreciation and amortisation	7,360	972	1,270
Other expenses	4,021	398	191
Net losses from the disposal of assets	576	–	–
<b>Total expenses from continuing operations</b>	<b>35,870</b>	<b>4,176</b>	<b>3,755</b>
<b>Operating result from continuing operations</b>	<b>3,316</b>	<b>6,700</b>	<b>129</b>
<b>Net operating result for the year</b>	<b>3,316</b>	<b>6,700</b>	<b>129</b>
<b>Net operating result attributable to each council fund</b>	<b>3,316</b>	<b>6,700</b>	<b>129</b>
<b>Net operating result for the year before grants and contributions provided for capital purposes</b>	<b>(730)</b>	<b>960</b>	<b>(327)</b>

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds.

(1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 22. Financial result and financial position by fund (continued)

\$ '000	General <sup>1</sup> 2019	Water 2019	Sewer 2019
<b>Statement of Financial Position by fund</b>			
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	1,113	171	96
Investments	30,200	10,300	9,500
Receivables	8,250	3,615	630
Inventories	2,992	–	–
Other	362	–	–
<b>Total current assets</b>	<b>42,917</b>	<b>14,086</b>	<b>10,226</b>
<b>Non-current assets</b>			
Infrastructure, property, plant and equipment	416,791	39,196	36,646
Investments accounted for using the equity method	247	–	–
<b>Total non-current assets</b>	<b>417,038</b>	<b>39,196</b>	<b>36,646</b>
<b>TOTAL ASSETS</b>	<b>459,955</b>	<b>53,282</b>	<b>46,872</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	3,297	–	–
Income received in advance	549	–	–
Borrowings	763	–	–
Provisions	4,102	–	–
<b>Total current liabilities</b>	<b>8,711</b>	<b>–</b>	<b>–</b>
<b>Non-current liabilities</b>			
Payables	196	–	–
Borrowings	5,150	–	–
Provisions	8,745	–	–
<b>Total non-current liabilities</b>	<b>14,091</b>	<b>–</b>	<b>–</b>
<b>TOTAL LIABILITIES</b>	<b>22,802</b>	<b>–</b>	<b>–</b>
<b>Net assets</b>	<b>437,153</b>	<b>53,282</b>	<b>46,872</b>
<b>EQUITY</b>			
Accumulated surplus	191,107	31,993	13,375
Revaluation reserves	246,046	21,289	33,497
<b>Council equity interest</b>	<b>437,153</b>	<b>53,282</b>	<b>46,872</b>
<b>Total equity</b>	<b>437,153</b>	<b>53,282</b>	<b>46,872</b>

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds. Assets and liabilities shown in the water and sewer columns are restricted for use for these activities.

(1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 23(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2019	Indicator 2019	2018	Prior periods		Benchmark
				2017	2016	
<b>1. Operating performance ratio</b>						
Total continuing operating revenue excluding capital grants and contributions less operating expenses <sup>1,2</sup>	<b>459</b>	<b>1.05%</b>	12.02%	18.15%	10.40%	>0.00%
Total continuing operating revenue excluding capital grants and contributions	<b>43,684</b>					
<b>2. Own source operating revenue ratio</b>						
Total continuing operating revenue excluding all grants and contributions <sup>1</sup>	<b>32,066</b>	<b>59.46%</b>	71.70%	58.82%	57.52%	>60.00%
Total continuing operating revenue <sup>1</sup>	<b>53,926</b>					
<b>3. Unrestricted current ratio</b>						
Current assets less all external restrictions	<b>26,536</b>	<b>4.25x</b>	4.60x	5.16x	3.73x	>1.50x
Current liabilities less specific purpose liabilities	<b>6,239</b>					
<b>4. Debt service cover ratio</b>						
Operating result before capital excluding interest and depreciation/impairment/amortisation <sup>1</sup>	<b>10,343</b>	<b>8.95x</b>	11.82x	13.08x	6.65x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	<b>1,156</b>					
<b>5. Rates, annual charges, interest and extra charges outstanding percentage</b>						
Rates, annual and extra charges outstanding	<b>2,181</b>	<b>9.92%</b>	8.04%	7.64%	7.92%	<10.00%
Rates, annual and extra charges collectible	<b>21,984</b>					
<b>6. Cash expense cover ratio</b>						
Current year's cash and cash equivalents plus all term deposits	<b>51,380</b>	<b>16.16</b>	17.18	19.50	14.60	>3.00
Monthly payments from cash flow of operating and financing activities	<b>3,179</b>	<b>mths</b>	mths	mths	mths	mths

(1) Excludes fair value adjustments, reversal of revaluation decrements, net gain on sale of assets, and net loss of interests in joint ventures and associates.

(2) Excludes impairment/revaluation decrements, net loss on sale of assets, and net loss on share of interests in joint ventures and associates

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 23(b). Statement of performance measures – by fund

\$ '000	General Indicators <sup>3</sup>		Water Indicators		Sewer Indicators		Benchmark
	2019	2018	2019	2018	2019	2018	
<b>1. Operating performance ratio</b>							
Total continuing operating revenue excluding capital grants and contributions less operating expenses <sup>1,2</sup>	<b>(0.50)%</b>	8.62%	<b>18.69%</b>	37.26%	<b>(9.54)%</b>	16.39%	>0.00%
Total continuing operating revenue excluding capital grants and contributions <sup>1</sup>							
<b>2. Own source operating revenue ratio</b>							
Total continuing operating revenue excluding capital grants and contributions <sup>1</sup>	<b>60.54%</b>	67.84%	<b>45.55%</b>	84.14%	<b>87.54%</b>	96.77%	>60.00%
Total continuing operating revenue <sup>1</sup>							
<b>3. Unrestricted current ratio</b>							
Current assets less all external restrictions	<b>4.25x</b>	4.60x	∞	142.99x	∞	423.87x	>1.50x
Current liabilities less specific purpose liabilities							
<b>4. Debt service cover ratio</b>							
Operating result before capital excluding interest and depreciation/impairment/amortisation <sup>1</sup>	<b>6.46x</b>	8.54x	∞	∞	∞	400.80x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
<b>5. Rates, annual charges, interest and extra charges outstanding percentage</b>							
Rates, annual and extra charges outstanding	<b>9.11%</b>	6.11%	<b>15.91%</b>	25.56%	<b>10.79%</b>	8.03%	<10.00%
Rates, annual and extra charges collectible							
<b>6. Cash expense cover ratio</b>							
Current year's cash and cash equivalents plus all term deposits	<b>11.10 mths</b>	11.72 mths	<b>48.82 mths</b>	62.98 mths	<b>67.10 mths</b>	67.04 mths	>3.00 mths
Payments from cash flow of operating and financing activities							

(1) - (2) Refer to Notes at Note 22a above.

(3) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

END OF AUDITED FINANCIAL STATEMENTS

Notes to the Financial Statements  
for the year ended 30 June 2019

Note 23(c). Statement of performance measures – consolidated results (graphs)

1. Operating performance ratio



**Purpose of operating performance ratio**

This ratio measures Council's achievement of containing operating expenditure within operating revenue.

**Commentary on 2018/19 result**

2018/19 ratio 1.05%

Council's operating result this year has been largely impacted by a significant reduction in the value of works Council has been requested to undertake for the Roads and Maritime Service (RMS) on State Highways.

Benchmark: — > 0.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark  
Ratio is outside benchmark

2. Own source operating revenue ratio



**Purpose of own source operating revenue ratio**

This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.

**Commentary on 2018/19 result**

2018/19 ratio 59.46%

Council has been granted additional monies for capital works this year. This has impacted this ratio.

Benchmark: — > 60.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark  
Ratio is outside benchmark

3. Unrestricted current ratio



**Purpose of unrestricted current ratio**

To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.

**Commentary on 2018/19 result**

2018/19 ratio 4.25x

Council remains in a healthy financial position in terms of meeting its short term obligations.

Benchmark: — > 1.50x

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark  
Ratio is outside benchmark

Notes to the Financial Statements  
for the year ended 30 June 2019

Note 23(c). Statement of performance measures – consolidated results (graphs)

4. Debt service cover ratio



Purpose of debt service cover ratio

This ratio measures the availability of operating cash to service debt including interest, principal and lease payments

Commentary on 2018/19 result

2018/19 ratio 8.95x

Council has sufficient cash to service its debt.

Benchmark: — > 2.00x

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark

Ratio is outside benchmark

5. Rates, annual charges, interest and extra charges outstanding percentage



Purpose of rates, annual charges, interest and extra charges outstanding

To assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.

Commentary on 2018/19 result

2018/19 ratio 9.92%

After a number of years where Council has been able to maintain a relatively consistent percentage outstanding, the effect of the prolonged drought in NSW is now having an impact.

Benchmark: — < 10.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark

Ratio is outside benchmark

6. Cash expense cover ratio



Purpose of cash expense cover ratio

This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.

Commentary on 2018/19 result

2018/19 ratio 16.16 mths

Council's liquidity levels remain very good.

Benchmark: — > 3.00mths

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark

Ratio is outside benchmark

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 24. Council information and contact details

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**Principal place of business:**

46-48 Maitland Street  
Narrabri NSW 2390

**Contact details**

**Mailing Address:**

PO Box 261  
Narrabri NSW 2390

**Telephone:** 02 6799 6866

**Facsimile:** 02 6799 6888

**Opening hours:**

8:35am - 5:00pm  
Monday to Friday

**Internet:** [www.narrabri.nsw.gov.au](http://www.narrabri.nsw.gov.au)

**Email:** [council@narrabri.nsw.gov.au](mailto:council@narrabri.nsw.gov.au)

**Officers**

**General Manager**

Mr Stewart Todd

**Responsible Accounting Officer**

Mr Tim McClellan

**Public Officer**

Mr Lindsay Mason

**Auditors**

The Audit Office of New South Wales  
Level 19, Darling Park Tower 2  
201 Sussex Street  
Sydney NSW 2000

**Elected members**

**Mayor**

Cr Catherine Redding

**Councillors**

Cr Robert Kneale (Deputy Mayor)

Cr Maxine Booby

Cr Ron Campbell

Cr Ron Campey

Cr Lloyd Finlay

Cr Ann Loader

Cr Annie McMahon

Cr Cameron Staines

**Other information**

**ABN:** 95 717 801 656





## INDEPENDENT AUDITOR'S REPORT

### Report on the general purpose financial statements

#### Narrabri Shire Council

To the Councillors of Narrabri Shire Council

### Opinion

I have audited the accompanying financial statements of Narrabri Shire Council (the Council), which comprise the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2019, the Statement of Financial Position as at 30 June 2019, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by Councillors and Management.

In my opinion:

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial statements:
  - have been presented, in all material respects, in accordance with the requirements of this Division
  - are consistent with the Council's accounting records
  - present fairly, in all material respects, the financial position of the Council as at 30 June 2019, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

My opinion should be read in conjunction with the rest of this report.

### Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Other Information**

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the special purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the special purpose financial statements and Special Schedule - Permissible income for general rates.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## **The Councillors' Responsibilities for the Financial Statements**

The Councillors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the *Local Government Act 1993*, and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting except where the Council will be dissolved or amalgamated by an Act of Parliament, or otherwise cease operations.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 18 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Chris Harper  
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

31 January 2020  
SYDNEY



Cr Catherine Redding  
Mayor  
Narrabri Shire Council  
PO Box 261  
NARRABRI NSW 2390

Contact: Chris Harper  
Phone no: 02 9275 7374  
Our ref: D2001139/1767

31 January 2020

Dear Mayor Redding

**Report on the Conduct of the Audit  
for the year ended 30 June 2019  
Narrabri Shire Council**





I have audited the general purpose financial statements (GPFS) of Narrabri Shire Council (the Council) for the year ended 30 June 2019 as required by section 415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's GPFS.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2019 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the GPFS issued under section 417(2) of the Act.

## INCOME STATEMENT

### Operating result

	2019	2018	Variance
	\$m	\$m	%
Rates and annual charges revenue	20.3	19.8	 2.5
Grants and contributions revenue	21.7	15.1	 43.7
Operating result for the year	10.1	7.4	 36.5
Net operating result before capital grants and contributions	(0.1)	4.9	 102

Council's operating surplus of \$10.1 million (including the effect of depreciation and amortisation expense of \$9.6 million) was \$2.7 million higher than 2017–18. This was mainly due to a reduction in expenses in relation to borrowing costs, materials and contracts and depreciation during the year.

The net operating deficit before capital grants and contributions of \$97,000 was \$5.0 million lower than 2017–18. This is mainly due to the increase in capital grants received for bridges, roads and the Narrabri water augmentation received during the year.

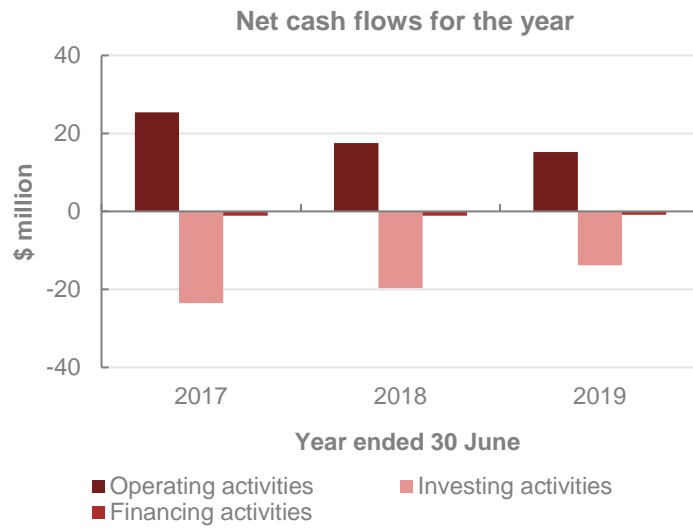
Rates and annual charges revenue of \$20.3 million increased by \$500,000 (2.5 per cent) in 2018–2019. This was mainly due to rate peg increases and domestic waste management charges during the year.

Grants and contributions revenue of \$21.7 million were \$6.6 million higher mainly due to grants in relation to bridges, roads and the Narrabri water augmentation received during the year.

## STATEMENT OF CASH FLOWS

Cash flows from operations decreased mainly due to a reduction in cash inflows from user charges and fees which is offset by an increase in grants and contributions received during the year.

Cash flows from investing activities represents expenditure on the purchase and renewal of assets.



## FINANCIAL POSITION

### Cash and investments

Cash and investments	2019	2018	Commentary
	\$m	\$m	
External restrictions	34.7	36.4	<ul style="list-style-type: none"> <li>Major external cash restrictions include water, sewer, unexpended grants and developer contributions for specific purposes at year end.</li> </ul>
Internal restrictions	16.6	20.4	
Unrestricted	0.1	0.1	<ul style="list-style-type: none"> <li>Council's internal restrictions mainly comprise restrictions for Financial Assistance Grants received in advance, employee leave entitlements at year end, plant and vehicle replacement, mining tonnage payments and building infrastructure.</li> </ul>
<b>Cash and investments</b>	<b>51.4</b>	<b>56.9</b>	

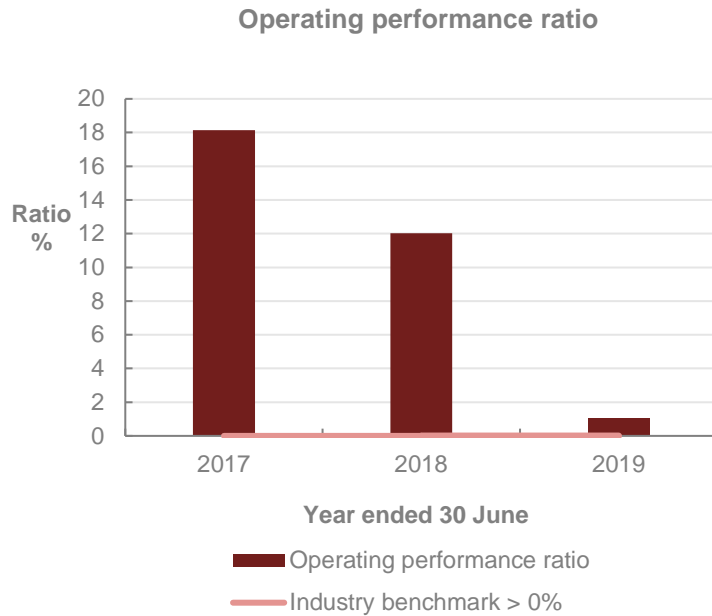
# PERFORMANCE

## Operating performance ratio

The operating performance ratio decreased mainly due to an increase in capital grants and a reduction in fees and charges for RMS related work this financial year.

The ratio remains above the benchmark set by the former Office of Local Government (OLG) of greater than zero per cent.

The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements).

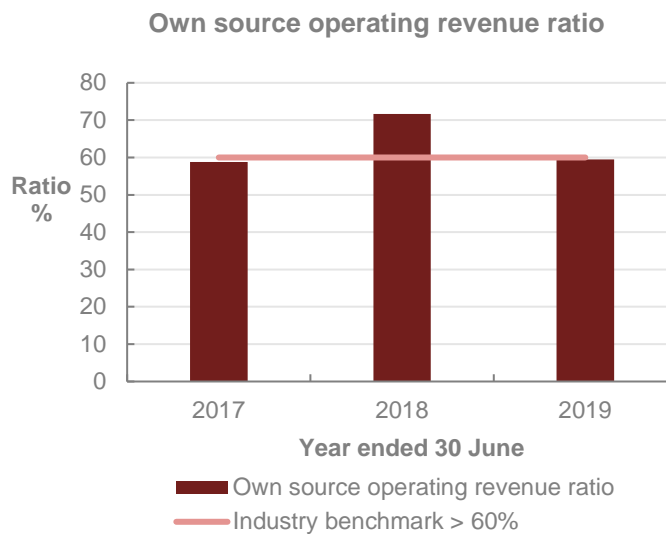


## Own source operating revenue ratio

The own source operating revenue ratio has decreased compared to 2017-18 mainly due to a higher proportion of grants and contributions during the year.

Council is close (59.46 per cent) to achieving the 60 per cent benchmark set by the former OLG.

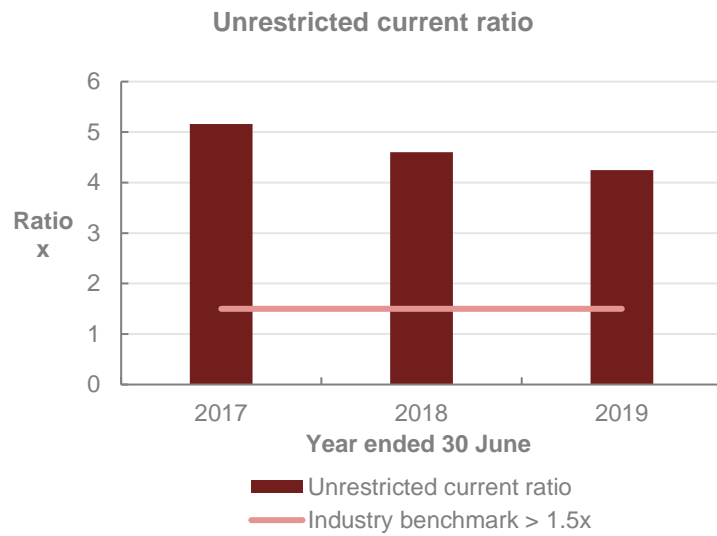
The 'own source operating revenue ratio' measures Council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions.



## Unrestricted current ratio

Council remains above the former OLG benchmark. The ratio has decreased from the prior year mainly due to the increase in externally restricted receivables at year end.

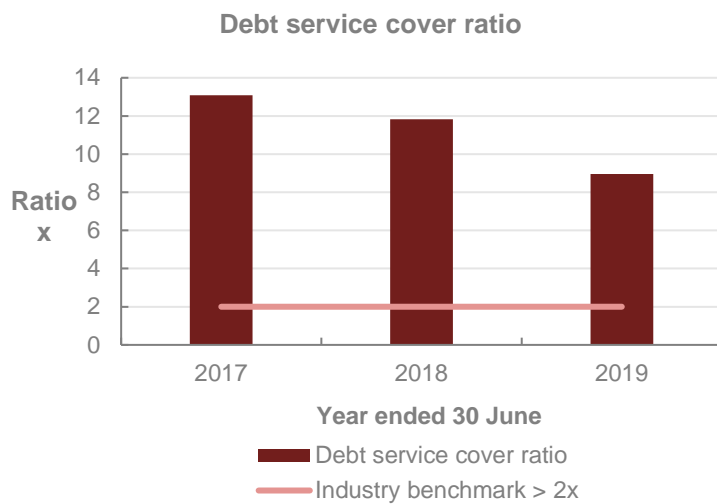
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by the former OLG is greater than 1.5 times.



## Debt service cover ratio

Council's debt service cover ratio remains above the former OLG benchmark and decreased mainly due to the increase in capital grants during the year.

The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by the former OLG is greater than two times.

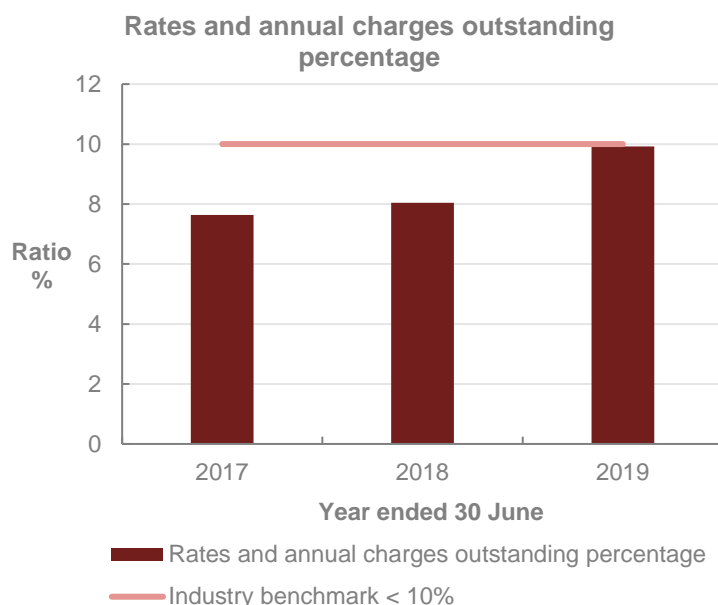




## Rates and annual charges outstanding percentage

Council's rates and annual charges outstanding ratio has remained within the former OLG benchmark. The percentage increased due to an increase in outstanding rates arising from the economic impact of drought conditions.

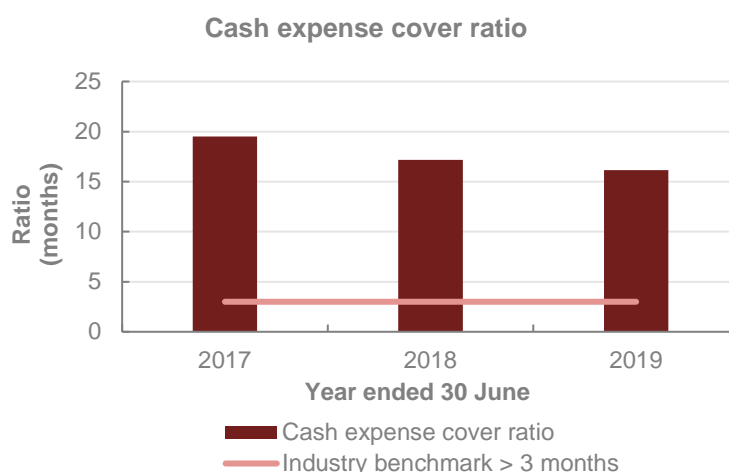
The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by the former OLG is less than 10 per cent for regional and rural councils.



## Cash expense cover ratio

The cash expense cover ratio has decreased compared to 2017-18 due to the reduction in cash and investments at year end, but remains well above the former OLG benchmark.

This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by the former OLG is greater than three months.



## Infrastructure, property, plant and equipment renewals

Council's Infrastructure, Property, Plant and Equipment (IPPE) renewal expenditure was \$20.1 million. This increased by \$7.3 million compared to 2017-18. Infrastructure renewal expenditure was \$10.5 million greater than the depreciation, amortisation and impairment for the year.

## OTHER MATTERS

### New accounting standards implemented

Application period	Overview
<b>AASB 9 'Financial Instruments' and revised AASB 7 'Financial Instruments: Disclosures'</b>	
For the year ended 30 June 2019	<p>AASB 9 replaces AASB 139 'Financial Instruments: Recognition and Measurement' and changes the way financial instruments are treated for financial reporting.</p> <p>Key changes include:</p> <ul style="list-style-type: none"> <li>a simplified model for classifying and measuring financial assets</li> </ul>

- a new method for calculating impairment
- a new type of hedge accounting that more closely aligns with risk management.

The revised AASB 7 includes new disclosures as a result of AASB 9.

Council's disclosure of the impact of adopting AASB 9 is disclosed in Notes 6 and 7.

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### **Legislative compliance**

My audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council's accounting records or financial statements. The Council's:

- accounting records were maintained in a manner and form to allow the GPFS to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.



Chris Harper  
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

cc: Mr Stewart Todd, General Manager  
Jim Betts, Secretary of the Department of Planning, Industry and Environment

# Narrabri Shire Council

## SPECIAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2019

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*A strong and vibrant regional growth centre providing a quality living environment for the entire Shire community*



# Special Purpose Financial Statements

for the year ended 30 June 2019

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## Background

- i. These Special Purpose Financial Statements have been prepared for the use by both Council and the Office of Local Government in fulfilling their requirements under National Competition Policy.
- ii. The principle of competitive neutrality is based on the concept of a 'level playing field' between persons/entities competing in a market place, particularly between private and public sector competitors.

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.

- iii. For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).

- iv. In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).

## Special Purpose Financial Statements

for the year ended 30 June 2019

### Statement by Councillors and Management made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

The attached Special Purpose Financial Statements have been prepared in accordance with:

- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government',
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,
- the NSW Office of Water Best-Practice Management of Water and Sewerage Guidelines.

To the best of our knowledge and belief, these statements:

- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.
- present overhead reallocation charges to the water and sewerage businesses as fair and reasonable.

We are not aware of any matter that would render these statements false or misleading in any way.

Signed in accordance with a resolution of Council made on 17 December 2019.



Cr Catherine Redding  
Mayor  
17 December 2019



Cr Cameron Staines  
Deputy Mayor  
17 December 2019



Mr Stewart Todd  
General Manager  
17 December 2019



Mr Tim McClellan  
Responsible Accounting Officer  
17 December 2019

## Income Statement – Water Supply Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
<b>Income from continuing operations</b>		
Access charges	1,880	1,798
User charges	2,713	2,851
Fees	43	49
Interest	335	438
Grants and contributions provided for non-capital purposes	150	–
Other income	15	1
<b>Total income from continuing operations</b>	<b>5,136</b>	<b>5,137</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	795	587
Materials and contracts	2,011	1,786
Depreciation, amortisation and impairment	972	849
Loss on sale of assets	–	16
Other expenses	398	1
<b>Total expenses from continuing operations</b>	<b>4,176</b>	<b>3,239</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>960</b>	<b>1,898</b>
Grants and contributions provided for capital purposes	5,740	968
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>6,700</b>	<b>2,866</b>
<b>Surplus (deficit) from all operations before tax</b>	<b>6,700</b>	<b>2,866</b>
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(264)	(522)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>6,436</b>	<b>2,344</b>
<b>Plus accumulated surplus</b>	<b>25,293</b>	<b>22,427</b>
<b>Plus adjustments for amounts unpaid:</b>		
– Corporate taxation equivalent	264	522
<b>Less:</b>		
<b>Closing accumulated surplus</b>	<b>31,993</b>	<b>25,293</b>
<b>Return on capital %</b>	<b>2.4%</b>	<b>5.8%</b>
<b>Subsidy from Council</b>	<b>–</b>	<b>–</b>
<b>Calculation of dividend payable:</b>		
Surplus (deficit) after tax	6,436	2,344
Less: capital grants and contributions (excluding developer contributions)	(5,740)	(968)
<b>Surplus for dividend calculation purposes</b>	<b>696</b>	<b>1,376</b>
<b>Potential dividend calculated from surplus</b>	<b>348</b>	<b>688</b>

## Income Statement – Sewerage Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
<b>Income from continuing operations</b>		
Access charges	3,104	2,971
User charges	20	69
Liquid trade waste charges	39	348
Fees	–	–
Interest	265	266
Grants and contributions provided for non-capital purposes	–	–
Other income	–	1
<b>Total income from continuing operations</b>	<b>3,428</b>	<b>3,655</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	534	327
Borrowing costs	–	5
Materials and contracts	1,760	1,214
Depreciation, amortisation and impairment	1,270	1,400
Other expenses	191	110
<b>Total expenses from continuing operations</b>	<b>3,755</b>	<b>3,056</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>(327)</b>	<b>599</b>
Grants and contributions provided for capital purposes	456	122
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>129</b>	<b>721</b>
<b>Surplus (deficit) from all operations before tax</b>	<b>129</b>	<b>721</b>
Less: corporate taxation equivalent (27.5%) [based on result before capital]	–	(165)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>129</b>	<b>556</b>
<b>Plus accumulated surplus</b>	<b>13,246</b>	<b>12,525</b>
<b>Plus adjustments for amounts unpaid:</b>		
– Corporate taxation equivalent	–	165
<b>Less:</b>		
<b>Closing accumulated surplus</b>	<b>13,375</b>	<b>13,246</b>
<b>Return on capital %</b>	<b>(0.9)%</b>	<b>1.7%</b>
<b>Subsidy from Council</b>	<b>811</b>	<b>338</b>
<b>Calculation of dividend payable:</b>		
Surplus (deficit) after tax	129	556
Less: capital grants and contributions (excluding developer contributions)	(456)	(122)
<b>Surplus for dividend calculation purposes</b>	<b>–</b>	<b>434</b>
<b>Potential dividend calculated from surplus</b>	<b>–</b>	<b>217</b>

## Statement of Financial Position – Water Supply Business Activity

as at 30 June 2019

\$ '000	2019	2018
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	171	143
Investments	10,300	12,400
Receivables	3,615	469
<b>Total current assets</b>	<b>14,086</b>	<b>13,012</b>
<b>Non-current assets</b>		
Infrastructure, property, plant and equipment	39,196	32,731
<b>Total non-current assets</b>	<b>39,196</b>	<b>32,731</b>
<b>TOTAL ASSETS</b>	<b>53,282</b>	<b>45,743</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	–	91
<b>Total current liabilities</b>	<b>–</b>	<b>91</b>
<b>TOTAL LIABILITIES</b>	<b>–</b>	<b>91</b>
<b>NET ASSETS</b>	<b>53,282</b>	<b>45,652</b>
<b>EQUITY</b>		
Accumulated surplus	31,993	25,293
Revaluation reserves	21,289	20,359
<b>TOTAL EQUITY</b>	<b>53,282</b>	<b>45,652</b>



## Statement of Financial Position – Sewerage Business Activity

as at 30 June 2019

\$ '000	2019	2018
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	96	109
Investments	9,500	9,400
Receivables	630	240
<b>Total current assets</b>	<u>10,226</u>	<u>9,749</u>
<b>Non-current assets</b>		
Infrastructure, property, plant and equipment	36,646	35,825
<b>Total non-current assets</b>	<u>36,646</u>	<u>35,825</u>
<b>TOTAL ASSETS</b>	<u>46,872</u>	<u>45,574</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	–	23
<b>Total current liabilities</b>	<u>–</u>	<u>23</u>
<b>TOTAL LIABILITIES</b>	<u>–</u>	<u>23</u>
<b>NET ASSETS</b>	<u>46,872</u>	<u>45,551</u>
<b>EQUITY</b>		
Accumulated surplus	13,375	13,246
Revaluation reserves	33,497	32,305
<b>TOTAL EQUITY</b>	<u>46,872</u>	<u>45,551</u>

## Narrabri Shire Council

# Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

## Note 1. Significant Accounting Policies

A statement summarising the supplemental accounting policies adopted in the preparation of the Special Purpose Financial Statements (SPFS) for National Competition Policy (NCP) reporting purposes follows.

These financial statements are SPFS prepared for use by Council and the Office of Local Government. For the purposes of these statements, the Council is a non-reporting not-for-profit entity.

The figures presented in these Special Purpose Financial Statements have been prepared in accordance with the recognition and measurement criteria of relevant Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Australian Accounting Interpretations.

The disclosures in these Special Purpose Financial Statements have been prepared in accordance with the Local Government Act 1993 (NSW), the *Local Government (General) Regulation 2005*, and the Local Government Code of Accounting Practice and Financial Reporting.

The statements are prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, current values of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

The Statement of Financial Position includes notional assets/liabilities receivable from/payable to Council's general fund. These balances reflect a notional intra-entity funding arrangement with the declared business activities.

### National Competition Policy

Council has adopted the principle of 'competitive neutrality' in its business activities as part of the National Competition Policy which is being applied throughout Australia at all levels of government.

The framework for its application is set out in the June 1996 NSW government policy statement titled 'Application of National Competition Policy to Local Government'.

The *Pricing and Costing for Council Businesses, A Guide to Competitive Neutrality* issued by the Office of Local Government in July 1997 has also been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide a standard for disclosure requirements.

These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies, return on investments (rate of return), and dividends paid.

### Declared business activities

In accordance with *Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

#### Category 1

(where gross operating turnover is over \$2 million)

##### a. Narrabri Shire Council Water Supplies

Supply operations servicing Baan Baa, Bellata, Boggabri, Gwabegar, Pilliga, Narrabri and Wee Waa.

##### b. Narrabri Shire Council Sewerage Service

Sewerage reticulation and treatment operations servicing Boggabri, Narrabri and Wee Waa.

#### Category 2

(where gross operating turnover is less than \$2 million)

Nil

### Monetary amounts

Amounts shown in the financial statements are in Australian dollars and rounded to the nearest one thousand dollars.

## Narrabri Shire Council

### Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

#### Note 1. Significant Accounting Policies (continued)

##### (i) Taxation equivalent charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations just like all other costs.

However, where Council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council-nominated business activities and are reflected in Special Purpose Financial Statements.

For the purposes of disclosing comparative information relevant to the private sector equivalent, the following taxation equivalents have been applied to all Council-nominated business activities (this does not include Council's non-business activities):

##### Notional rate applied (%)

Corporate income tax rate – 27.5%

Land tax – the first \$692,000 of combined land values attracts **0%**. For the combined land values in excess of \$692,001 up to \$4,231,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$4,231,000 a premium marginal rate of **2.0%** applies.

Payroll tax – **5.45%** on the value of taxable salaries and wages in excess of \$850,000.

In accordance with the Department of Industry (DoI) – Water guidelines, a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from water supply and sewerage business activities.

The payment of taxation equivalent charges, referred to in the DoI – Water guidelines as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the *Local Government Act, 1993*.

Achievement of substantial compliance to the DoI – Water guidelines is not a prerequisite for the payment of the tax equivalent charges, however the payment must not exceed \$3 per assessment.

##### Income tax

An income tax equivalent has been applied on the profits of the business activities.

Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested.

Accordingly, the return on capital invested is set at a pre-tax level - gain/(loss) from ordinary activities before capital amounts, as would be applied by a private sector competitor. That is, it should include a provision equivalent to the corporate income tax rate, currently 27.5%.

Income tax is only applied where a gain/ (loss) from ordinary activities before capital amounts has been achieved.

Since the taxation equivalent is notional – that is, it is payable to Council as the 'owner' of business operations - it represents an internal payment and has no effect on the operations of the Council. Accordingly, there is no need for disclosure of internal charges in the SPFS.

The rate applied of 27.5% is the equivalent company tax rate prevalent at reporting date. No adjustments have been made for variations that have occurred during the year.

##### Local government rates and charges

A calculation of the equivalent rates and charges payable on all category 1 businesses has been applied to all land assets owned or exclusively used by the business activity.

##### Loan and debt guarantee fees

The debt guarantee fee is designed to ensure that council business activities face 'true' commercial borrowing costs in line with private sector competitors.

## Notes to the Special Purpose Financial Statements for the year ended 30 June 2019

### Note 1. Significant Accounting Policies (continued)

In order to calculate a debt guarantee fee, Council has determined what the differential borrowing rate would have been between the commercial rate and Council's borrowing rate for its business activities.

#### (ii) Subsidies

Government policy requires that subsidies provided to customers, and the funding of those subsidies, must be explicitly disclosed.

Subsidies occur when Council provides services on a less-than-cost-recovery basis. This option is exercised on a range of services in order for Council to meet its community service obligations.

Accordingly, 'subsidies disclosed' (in relation to National Competition Policy) represents the difference between revenue generated from 'rate of return' pricing and revenue generated from prices set by Council in any given financial year.

The overall effect of subsidies is contained within the Income Statement of each reported business activity.

#### (iii) Return on investments (rate of return)

The NCP policy statement requires that councils with Category 1 businesses 'would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field'.

Such funds are subsequently available for meeting commitments or financing future investment strategies.

The actual rate of return achieved by each business activity is disclosed at the foot of each respective Income Statement.

The rate of return is calculated as follows:

#### **Operating result before capital income + interest expense**

#### **Written down value of I,PP&E as at 30 June**

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 1.32% at 30/6/19.

#### (iv) Dividends

Council is not required to pay dividends to either itself (as owner of a range of businesses) or to any external entities.

Local government water supply and sewerage businesses are permitted to pay an annual dividend from its water supply or sewerage business surplus.

Each dividend must be calculated and approved in accordance with the Department of Industry – Water guidelines and must not exceed:

- 50% of this surplus in any one year, or
- the number of water supply or sewerage assessments at 30 June 2019 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Department of Industry – Water guidelines a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the Department of Industry – Water.



**INDEPENDENT AUDITOR'S REPORT**  
**Report on the special purpose financial statements**  
**Narrabri Shire Council**

To the Councillors of Narrabri Shire Council

### **Opinion**

I have audited the accompanying special purpose financial statements (the financial statements) of Narrabri Shire Council's (the Council) declared business activities, which comprise the Income Statement of each declared business activity for the year ended 30 June 2019, the Statement of Financial Position of each declared business activity as at 30 June 2019, Note 1 Significant Accounting Policies for the business activities declared by Council, and the Statement by Councillors and Management.

The declared business activities of the Council are:

- Water Supply
- Sewerage.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council's declared business activities as at 30 June 2019, and its financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting – update number 27 (LG Code).

My opinion should be read in conjunction with the rest of this report.

### **Basis for Opinion**

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as the auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Emphasis of Matter - Basis of Accounting**

Without modifying my opinion, I draw attention to Note 1 to the financial statements which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

## **Other Information**

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and Special Schedule 'Permissible income for general rates'.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## **The Councillors' Responsibilities for the Financial Statements**

The Councillors are responsible for the preparation and fair presentation of the financial statements and for determining that the accounting policies, described in Note 1 to the financial statements, are appropriate to meet the requirements in the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

A handwritten signature in black ink, appearing to read 'C Harper', with a long, sweeping horizontal stroke extending to the right.

Chris Harper  
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

31 January 2020  
SYDNEY

# Narrabri Shire Council

SPECIAL SCHEDULES  
for the year ended 30 June 2019

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*A strong and vibrant regional growth centre providing a  
quality living environment for the entire Shire community*





## Special Schedules

for the year ended 30 June 2019

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## Permissible income for general rates

\$ '000		Calculation 2019/20	Calculation 2018/19
<b>Notional general income calculation <sup>1</sup></b>			
Last year notional general income yield	a	13,174	12,882
Plus or minus adjustments <sup>2</sup>	b	8	3
<b>Notional general income</b>	c = a + b	<b>13,182</b>	<b>12,885</b>
<b>Permissible income calculation</b>			
Or rate peg percentage	e	2.70%	2.30%
Or plus rate peg amount	i = e x (c + g)	356	296
<b>Sub-total</b>	k = (c + g + h + i + j)	<b>13,538</b>	<b>13,181</b>
Plus (or minus) last year's carry forward total	l	8	5
<b>Sub-total</b>	n = (l + m)	<b>8</b>	<b>5</b>
<b>Total permissible income</b>	o = k + n	<b>13,546</b>	<b>13,186</b>
Less notional general income yield	p	13,538	13,174
<b>Catch-up or (excess) result</b>	q = o - p	<b>8</b>	<b>12</b>
Less unused catch-up <sup>5</sup>	s	(4)	(4)
<b>Carry forward to next year <sup>6</sup></b>	t = q + r + s	<b>4</b>	<b>8</b>

**Notes**

- (1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include amounts that relate to prior years' rates income.
- (2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called 'supplementary valuations' as defined in the Valuation of Land Act 1916.
- (5) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.
- (6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require ministerial approval by order published in the NSW Government Gazette in accordance with section 512 of the Local Government Act 1993. The OLG will extract these amounts from Council's Permissible income for general rates Statement in the financial data return (FDR) to administer this process.



## INDEPENDENT AUDITOR'S REPORT

### Special Schedule - Permissible income for general rates

#### Narrabri Shire Council

To the Councillors of Narrabri Shire Council

### Opinion

I have audited the accompanying Special Schedule – Permissible income for general rates (the Schedule) of Narrabri Shire Council (the Council) for the year ending 30 June 2020.

In my opinion, the Schedule is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting – update number 27 (LG Code), and is in accordance with the books and records of the Council.

My opinion should be read in conjunction with the rest of this report.

### Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Schedule' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to the special purpose framework used to prepare the Schedule. The Schedule has been prepared for the purpose of fulfilling the Council's reporting obligations under the LG Code. As a result, the Schedule may not be suitable for another purpose.

## Other Information

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the Schedule and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements, special purpose financial statements and Special Schedule 'Report on Infrastructure Assets as at 30 June 2019'.

My opinion on the Schedule does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and the special purpose financial statements.

In connection with my audit of the Schedule, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Schedule or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## The Councillors' Responsibilities for the Schedule

The Councillors are responsible for the preparation of the Schedule in accordance with the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation of the Schedule that is free from material misstatement, whether due to fraud or error.

In preparing the Schedule, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

## Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

- obtain reasonable assurance whether the Schedule as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the Schedule.

A description of my responsibilities for the audit of the Schedule is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar8.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar8.pdf). The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited Schedule on any website where it may be presented
- about any other information which may have been hyperlinked to/from the Schedule.

A handwritten signature in black ink, appearing to read 'CHarper', with a long, sweeping horizontal stroke extending to the right.

Chris Harper  
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

31 January 2020  
SYDNEY

Report on Infrastructure Assets

as at 30 June 2019

Asset Class	Asset Category	Estimated cost		2018/19 Required maintenance	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard	to bring to the agreed level of service set by Council <sup>a</sup>					1	2	3	4	5
<b>Buildings</b>	Buildings	3,617	3,617	227	159	25,424	41,332	13.0%	55.0%	21.0%	11.0%	0.0%
	<b>Sub-total</b>	<b>3,617</b>	<b>3,617</b>	<b>227</b>	<b>159</b>	<b>25,424</b>	<b>41,332</b>	<b>13.0%</b>	<b>55.0%</b>	<b>21.0%</b>	<b>11.0%</b>	<b>0.0%</b>
<b>Other structures</b>	Other structures	488	488	642	223	19,705	24,399	56.0%	17.0%	26.0%	1.0%	0.0%
	<b>Sub-total</b>	<b>488</b>	<b>488</b>	<b>642</b>	<b>223</b>	<b>19,705</b>	<b>24,399</b>	<b>56.0%</b>	<b>17.0%</b>	<b>26.0%</b>	<b>1.0%</b>	<b>0.0%</b>
<b>Roads</b>	Sealed roads	34	1,787	1,145	2,107	122,571	134,639	87.0%	12.0%	1.0%	0.0%	0.0%
	Unsealed roads	369	11,738	1,782	2,528	37,393	40,997	23.0%	48.0%	28.0%	1.0%	0.0%
	Kerb & gutter	76	25,879	27	58	27,221	33,504	2.0%	21.0%	77.0%	0.0%	0.0%
	Bridges	4,993	5,383	27	20	26,504	37,958	51.0%	35.0%	1.0%	4.0%	9.0%
	Footpaths	443	3,231	62	15	4,927	7,859	1.0%	58.0%	36.0%	5.0%	0.0%
	Bulk earthworks	-	-	-	-	91,785	91,785	36.0%	64.0%	0.0%	0.0%	0.0%
	<b>Sub-total</b>	<b>5,915</b>	<b>48,018</b>	<b>3,043</b>	<b>4,728</b>	<b>310,401</b>	<b>346,742</b>	<b>51.8%</b>	<b>34.5%</b>	<b>12.1%</b>	<b>0.7%</b>	<b>0.9%</b>
<b>Water supply network</b>	Water supply network	17,058	17,058	497	1,215	27,755	66,003	18.0%	11.0%	44.0%	27.0%	0.0%
	<b>Sub-total</b>	<b>17,058</b>	<b>17,058</b>	<b>497</b>	<b>1,215</b>	<b>27,755</b>	<b>66,003</b>	<b>18.0%</b>	<b>11.0%</b>	<b>44.0%</b>	<b>27.0%</b>	<b>0.0%</b>
<b>Sewerage network</b>	Sewerage network	26,572	26,572	394	1,354	32,555	99,705	12.0%	9.0%	35.0%	44.0%	0.0%
	<b>Sub-total</b>	<b>26,572</b>	<b>26,572</b>	<b>394</b>	<b>1,354</b>	<b>32,555</b>	<b>99,705</b>	<b>12.0%</b>	<b>9.0%</b>	<b>35.0%</b>	<b>44.0%</b>	<b>0.0%</b>
<b>Stormwater drainage</b>	Stormwater drainage	629	629	122	19	4,842	9,678	1.0%	45.0%	32.0%	19.0%	3.0%
	<b>Sub-total</b>	<b>629</b>	<b>629</b>	<b>122</b>	<b>19</b>	<b>4,842</b>	<b>9,678</b>	<b>1.0%</b>	<b>45.0%</b>	<b>32.0%</b>	<b>19.0%</b>	<b>3.0%</b>
<b>Open space / recreational assets</b>	Swimming pools	944	944	170	67	7,348	10,732	42.0%	12.0%	36.0%	10.0%	0.0%
	Other	233	233	106	124	1,337	2,550	0.0%	34.0%	57.0%	9.0%	0.0%
	<b>Sub-total</b>	<b>1,177</b>	<b>1,177</b>	<b>276</b>	<b>191</b>	<b>8,685</b>	<b>13,282</b>	<b>33.9%</b>	<b>16.2%</b>	<b>40.0%</b>	<b>9.8%</b>	<b>0.1%</b>
<b>TOTAL - ALL ASSETS</b>		<b>55,456</b>	<b>97,559</b>	<b>5,201</b>	<b>7,889</b>	<b>429,367</b>	<b>601,141</b>	<b>37.8%</b>	<b>28.1%</b>	<b>21.5%</b>	<b>12.0%</b>	<b>0.6%</b>

(a) The estimated cost to bring to the agreed level of service is high as Council is yet to undertake consultation on satisfactory condition of its assets with the community.

Infrastructure asset condition assessment 'key'

- 1 **Excellent/very good** No work required (normal maintenance)
- 2 **Good** Only minor maintenance work required

Report on Infrastructure Assets - Values (continued)  
as at 30 June 2019

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3	<b>Satisfactory</b>	Maintenance work required
4	<b>Poor</b>	Renewal required
5	<b>Very poor</b>	Urgent renewal/upgrading required

## Report on Infrastructure Assets (continued)

as at 30 June 2019

\$ '000	Amounts 2019	Indicator 2019	2018	Prior periods		Benchmark
				2017	2016	
<b>Infrastructure asset performance indicators (consolidated) *</b>						
<b>Buildings and infrastructure renewals ratio <sup>1</sup></b>						
Asset renewals <sup>2</sup>	—					
Depreciation, amortisation and impairment	<b>8,308</b>	—	94.34%	136.91%	162.87%	>=100.00%
<b>Infrastructure backlog ratio <sup>1</sup></b>						
Estimated cost to bring assets to a satisfactory standard	<b>55,456</b>	<b>12.92%</b>	9.24%	10.18%	11.29%	<2.00%
Net carrying amount of infrastructure assets	<b>429,367</b>					
<b>Asset maintenance ratio</b>						
Actual asset maintenance	<b>7,889</b>					
Required asset maintenance	<b>5,201</b>	<b>151.68%</b>	99.97%	110.56%	103.50%	>100.00%
<b>Cost to bring assets to agreed service level</b>						
Estimated cost to bring assets to an agreed service level set by Council	<b>97,559</b>	<b>16.23%</b>	5.72%	6.26%	7.00%	
Gross replacement cost	<b>601,141</b>					

(\*) All asset performance indicators are calculated using classes identified in the previous table.

(1) Excludes Work In Progress (WIP)

(2) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.



Report on Infrastructure Assets (continued)  
as at 30 June 2019

\$ '000	General fund		Water fund		Sewer fund		Benchmark
	2019	2018	2019	2018	2019	2018	
<b>Infrastructure asset performance indicators (by fund)</b>							
<b>Buildings and infrastructure renewals ratio <sup>1</sup></b>							
Asset renewals <sup>2</sup>							
Depreciation, amortisation and impairment	—	105.74%	—	146.59%	—	6.65%	>=100.00%
<b>Infrastructure backlog ratio <sup>1</sup></b>							
Estimated cost to bring assets to a satisfactory standard							
Net carrying amount of infrastructure assets	<b>3.20%</b>	3.35%	<b>61.46%</b>	37.05%	<b>81.62%</b>	43.47%	<2.00%
<b>Asset maintenance ratio</b>							
Actual asset maintenance							
Required asset maintenance	<b>123.43%</b>	99.46%	<b>244.47%</b>	105.63%	<b>343.65%</b>	101.52%	>100.00%
<b>Cost to bring assets to agreed service level</b>							
Estimated cost to bring assets to an agreed service level set by Council							
Gross replacement cost	<b>12.39%</b>	2.36%	<b>25.84%</b>	16.13%	<b>26.65%</b>	14.75%	

(1) Excludes Work In Progress (WIP)

(2) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.