# SOUTHERN METROPOLITAN REGIONAL COUNCIL

## FINANCIAL REPORT

## FOR THE YEAR ENDED 30 JUNE 2018

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Principal place of Business:
9 Aldous Place
Booragoon  WA  6154

**SOUTHERN METROPOLITAN REGIONAL COUNCIL**

**FINANCIAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2018**

**LOCAL GOVERNMENT ACT 1995**
**LOCAL GOVERNMENT (FINANCIAL MANAGEMENT) REGULATIONS 1996**

**STATEMENT BY CHIEF EXECUTIVE OFFICER**

The attached financial report of the Southern Metropolitan Regional Council being the annual financial report and supporting notes and other information for the financial year ended 30 June 2018 are in my opinion properly drawn up to present fairly the financial position of the Southern Metropolitan Regional Council at 30 June 2018 and the results of the operations for the financial year then ended in accordance with the Australian Accounting Standards and comply with the provisions of the Local Government Act 1995 and regulations under that Act.

Signed as authorisation of issue on the 3rd day of August 2018

Tim Youé
Chief Executive Officer

## SOUTHERN METROPOLITAN REGIONAL COUNCIL

## STATEMENT OF COMPREHENSIVE INCOME

## BY NATURE OR TYPE

## FOR THE YEAR ENDED 30 JUNE 2018

| | Note | 2018 | 2018 Budget | 2017 |
|---|---|---|---|---|
| | | $ | $ | $ |
| **Revenue** | | | | |
| Operating Grants, subsidies and contributions | 21 | 1,842,588 | 1,825,738 | 2,188,507 |
| Fees and charges | 22 | 22,363,197 | 22,625,008 | 25,960,754 |
| Interest earnings | 2(a) | 220,529 | 129,000 | 279,328 |
| Other revenues | | 27,528 | 157,000 | 34,340 |
| | | 24,453,842 | 24,736,746 | 28,462,929 |
| **Expenses** | | | | |
| Employee costs | | (6,714,822) | (7,297,332) | (6,631,534) |
| Materials and contracts | 2(a) | (15,694,491) | (16,846,012) | (16,808,759) |
| Utility charges | | (1,480,294) | (1,347,908) | (1,422,011) |
| Depreciation on non-current assets | 2(a) | (4,944,664) | (4,065,288) | (3,955,179) |
| Interest expenses | 32 | (996,398) | (925,066) | (1,117,575) |
| Insurance expenses | | (1,262,123) | (1,266,928) | (1,248,712) |
| | | (31,092,792) | (31,748,534) | (31,183,770) |
| | | (6,638,950) | (7,011,788) | (2,720,841) |
| **Net result** | | **(6,638,950)** | **(7,011,788)** | **(2,720,841)** |
| **Other comprehensive income** | | | | |
| **Asset revaluation increments** | | | | |
| Land and Buildings | | 0 | 0 | 222,800 |
| Leasehold Improvements | | 0 | 0 | 903,170 |
| **Total other comprehensive income** | | **0** | **0** | **1,125,970** |
| **Total comprehensive income / (loss)** | | **(6,638,950)** | **(7,011,788)** | **(1,594,871)** |

This statement is to be read in conjunction with the accompanying notes.

## SOUTHERN METROPOLITAN REGIONAL COUNCIL

## STATEMENT OF COMPREHENSIVE INCOME

## BY PROGRAM

## FOR THE YEAR ENDED 30 JUNE 2018

| | Note | 2018 | 2018 Budget | 2017 |
|---|---|---|---|---|
| | | $ | $ | $ |
| **Revenue** | 2(a) | | | |
| Governance | | 343,371 | 343,371 | 337,465 |
| Community Amenities | | 24,110,471 | 24,393,375 | 28,125,464 |
| | | 24,453,842 | 24,736,746 | 28,462,929 |
| **Expenses excluding finance costs** | 2(a) | | | |
| Governance | | (377,371) | (490,465) | (295,816) |
| Community Amenities | | (29,719,023) | (30,333,003) | (29,770,379) |
| | | (30,096,394) | (30,823,468) | (30,066,195) |
| **Finance costs** | 32 | | | |
| Governance | | (68,769) | (79,920) | (79,920) |
| Community Amenities | | (927,629) | (845,146) | (1,037,655) |
| | | (996,398) | (925,066) | (1,117,575) |
| **Net result** | | **(6,638,950)** | **(7,011,788)** | **(2,720,841)** |
| **Other comprehensive income** | | | | |
| **Asset revaluation increments** | | | | |
| Community Amenities | 6(b) | 0 | 0 | 1,125,970 |
| **Total other comprehensive income** | | **0** | **0** | **1,125,970** |
| **Total comprehensive income / (loss)** | | **(6,638,950)** | **(7,011,788)** | **(1,594,871)** |

This statement is to be read in conjunction with the accompanying notes.

## SOUTHERN METROPOLITAN REGIONAL COUNCIL

## STATEMENT OF FINANCIAL POSITION

## AS AT 30 JUNE 2018

| | Note | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 3 | 10,336,874 | 11,573,051 |
| Trade and other receivables | 4 | 5,895,573 | 13,140,972 |
| Inventories | 5 | 838,371 | 739,169 |
| TOTAL CURRENT ASSETS | | 17,070,818 | 25,453,192 |
| **NON-CURRENT ASSETS** | | | |
| Other receivables | 4 | 14,475,234 | 11,215,994 |
| Property, plant and equipment | 6 | 32,348,695 | 36,332,938 |
| TOTAL NON-CURRENT ASSETS | | 46,823,929 | 47,548,932 |
| **TOTAL ASSETS** | | **63,894,747** | **73,002,124** |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 7 | 5,324,608 | 5,093,153 |
| Current portion of long-term borrowings | 8 | 3,807,403 | 10,106,603 |
| Provisions | 9 | 735,765 | 862,839 |
| TOTAL CURRENT LIABILITIES | | 9,867,776 | 16,062,595 |
| **NON-CURRENT LIABILITIES** | | | |
| Long-term borrowings | 8 | 14,475,234 | 11,215,994 |
| Provisions | 9 | 3,567,201 | 3,466,037 |
| TOTAL NON-CURRENT LIABILITIES | | 18,042,435 | 14,682,031 |
| **TOTAL LIABILITIES** | | **27,910,211** | **30,744,626** |
| **NET ASSETS** | | **35,984,536** | **42,257,498** |
| **EQUITY** | | | |
| Retained surplus | | 16,683,177 | 22,218,139 |
| Reserves- cash backed | 10 | 5,245,685 | 5,983,685 |
| Revaluation surplus | 11 | 14,055,674 | 14,055,674 |
| **TOTAL EQUITY** | | **35,984,536** | **42,257,498** |

This statement is to be read in conjunction with the accompanying notes.

## SOUTHERN METROPOLITAN REGIONAL COUNCIL

## STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2018

| | Note | RETAINED SURPLUS<br>$ | RESERVES CASH BACKED<br>$ | REVALUATION SURPLUS<br>$ | TOTAL EQUITY<br>$ |
|---|---|---|---|---|---|
| **Balance as at 1 July 2016** | | **25,586,999** | **6,250,923** | **12,929,704** | **44,767,626** |
| Comprehensive income | | | | | |
| Net result | | (2,720,841) | 0 | 0 | (2,720,841) |
| Changes on revaluation of non-current assets | | 0 | 0 | 1,125,970 | 1,125,970 |
| Total comprehensive income / (loss) | | **(2,720,841)** | **0** | **1,125,970** | **(1,594,871)** |
| Loans repaid from equity | | (915,257) | 0 | 0 | (915,257) |
| Transfer from / (to) reserves | 10 | 267,238 | (267,238) | 0 | 0 |
| **Balance as at 30 June 2017** | | **22,218,139** | **5,983,685** | **14,055,674** | **42,257,498** |
| Comprehensive income | | | | | |
| Net result | | (6,638,950) | 0 | 0 | (6,638,950) |
| Total comprehensive income / (loss) | | **(6,638,950)** | **0** | **0** | **(6,638,950)** |
| Past Participant's Contribution on Withdrawal | | 365,988 | 0 | 0 | 365,988 |
| Transfer from / (to) reserves | 10 | 738,000 | (738,000) | 0 | 0 |
| **Balance as at 30 June 2018** | | **16,683,177** | **5,245,685** | **14,055,674** | **35,984,536** |

This statement is to be read in conjunction with the accompanying notes.

## SOUTHERN METROPOLITAN REGIONAL COUNCIL

## STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2018

| | Note | 2018 | 2018 Budget | 2017 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | **$** | **$** | **$** |
| **Receipts** | | | | |
| Operating Grants, subsidies and contributions | | 1,989,017 | 1,825,738 | 1,789,763 |
| Fees and charges | | 23,172,429 | 23,148,297 | 26,479,422 |
| Interest earnings | | 211,382 | 129,000 | 270,181 |
| Goods and services tax | | 2,310,128 | 2,440,000 | 2,684,426 |
| Other revenues | | 27,528 | 157,000 | 34,340 |
| | | 27,710,484 | 27,700,035 | 31,258,132 |
| **Payments** | | | | |
| Employee costs | | (6,831,243) | (7,356,938) | (6,613,942) |
| Materials and contracts | | (15,857,223) | (16,738,917) | (16,314,072) |
| Utility charges | | (1,480,294) | (1,347,908) | (1,422,011) |
| Interest expenses | | (997,117) | (925,066) | (1,118,079) |
| Insurance expenses | | (1,262,123) | (1,266,928) | (1,248,712) |
| Goods and services tax | | (1,924,228) | (2,440,000) | (1,935,704) |
| | | (28,352,228) | (30,075,757) | (28,652,520) |
| **Net cash provided by operating activities** | 12(b) | **(641,744)** | **(2,375,722)** | **2,605,612** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Payments for purchase of | | | | |
| information technology equipment | 6(b) | (50,913) | (60,000) | (43,138) |
| Plant and equipment | 6(b) | (491,590) | (1,075,000) | (47,100) |
| Furniture and Equipment | 6(b) | (47,564) | (60,000) | 0 |
| Payments for construction of | | | | |
| RRRC leasehold improvements | 6(b) | 0 | (40,000) | (104,102) |
| Payments towards capital work In progress | 6(b) | (370,354) | 0 | 0 |
| Proceeds from sale of assets | 24 | 0 | 0 | 0 |
| **Net cash used in investing activities** | | **(960,421)** | **(1,235,000)** | **(194,340)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Repayment of loans | 32 | (3,039,960) | (3,036,059) | (3,657,306) |
| Contributions from project participants for loan repayments | | 3,039,960 | 3,036,059 | 2,742,049 |
| Past Participant's Contribution on Withdrawal | | 365,988 | 0 | 0 |
| **Net cash provided by (used in) financing activities** | | **365,988** | **0** | **(915,257)** |
| **Net increase / (decrease) in cash held** | | **(1,236,177)** | **(3,610,722)** | **1,496,015** |
| Cash and Cash Equivalents at Beginning of Year | 12(a) | 11,573,051 | 11,573,051 | 10,077,036 |
| **Cash and cash equivalents at end of year** | 12(a) | 10,336,874 | 7,962,329 | 11,573,051 |

This statement is to be read in conjunction with the accompanying notes.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Preparation

The financial report comprises general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (as they apply to local governments and not-for-profit entities), Australian Accounting Interpretations, other authoritative pronouncements of Australian Accounting Standards Board, the Local Government Act 1995 and accompanying regulations. Accounting policies which have been adopted in the preparation of this financial report are presented below and have been consistently applied unless stated otherwise.

Except for the cash flow information, the report has been prepared on the accrual basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and liabilities.

***Critical Accounting Estimates***

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances; the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

**The Local Government Reporting Entity**

All Funds through which the Council controls resources to carry on its functions have been included in the financial statements forming part of this financial report.

In the process of reporting on the local government as a single unit, all transactions and balances between those funds (for example, loans and transfers between funds) have been eliminated.

All monies held in the Trust Fund are excluded from the financial statements. A separate statement of those monies appears at Note 17 to these financial statements.

The financial report is presented in Australian Dollars.

### (b) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with 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 which are recoverable from, or payable to, the ATO are presented as operating cash flows.

### (c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash at bank, deposits available on demand with banks and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

Bank overdrafts are reported as short-term borrowings in current liabilities in the statement of financial position.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

## (d) Trade and Other Receivables

Trade and other receivables include amounts due from service charges and other amounts due from third parties for goods sold and services performed in the ordinary course of business.

Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that they will not be collectible.

## (e) Inventories

Inventories are measured at the lower of cost and net realisable value.

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.

## (f) Fixed Assets

Each class of fixed assets within either property, plant and equipment or infrastructure, is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

***Initial recognition and measurement between mandatory revaluation dates***

All assets are initially recognised at cost and subsequently revalued in accordance with the mandatory measurement framework.

In relation to this initial measurement, cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed by the Council includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

Individual assets acquired between initial recognition and the next revaluation of the asset class in accordance with the mandatory measurement framework, are recognised at cost and disclosed as being at fair value as management believes this approximates fair value. They are subject to subsequent revaluation at the next anniversary date in accordance with the mandatory measurement framework.

***Revaluation***

The fair value of fixed assets is determined at least every three years in accordance with the regulatory framework. At the end of each period the valuation is reviewed and where appropriate the fair value is updated to reflect current market conditions. This process is considered to be in accordance with Local Government (Financial Management) Regulation 17A (2) which requires property, plant and equipment to be shown at fair value.

Increases in the carrying amount arising on revaluation of assets are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same class of asset are recognised against revaluation surplus directly in equity. All other decreases are recognised in profit or loss.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**(f) Fixed Assets (Continued)**

***Depreciation***

The depreciable amount of all fixed assets including buildings but excluding freehold land, are depreciated on a straight-line basis over the individual asset's useful life from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful life of the improvements.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or

b) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

**Depreciation Rates**

Major depreciation periods used for each class of depreciable asset are:

| | |
|---|---|
| Computer Equipment | 3 to 5 years |
| Furniture and Equipment | 3 to 5 years |
| Plant and Equipment | 4 to 20 years |
| Leasehold Improvements | 10 to 50 years |
| Freehold Buildings | 40 years |

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income in the period in which they arise.

***Capitalisation Threshold***

Expenditure on items of furniture, computer and electronic equipment under $5,000, vehicles, mobile plant and equipment under $5,000 and fixed plant and equipment, building and infrastructure under $10,000 is not capitalised. Rather, it is recorded on an asset inventory listing.

**(g) Fair Value of Assets and Liabilities**

Fair Value is the price that the Council would receive to sell the asset or would have to pay to transfer a liability, in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

## (g) Fair Value of Assets and Liabilities (Continued)

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

***Fair Value Hierarchy***

AASB 13 requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurement into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

***Level 1***

Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

***Level 2***

Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

***Level 3***

Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

***Valuation techniques***

The Council selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Council are consistent with one or more of the following valuation approaches:

**Market approach**

Valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.

**Income approach**

Valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.

Valuation techniques that reflect the current replacement cost of the service capacity of an asset.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### (g) Fair Value of Assets and Liabilities (Continued)

**Cost approach**

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Council gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability and considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

### (h) Financial Instruments

***Initial Recognition and Measurement***

Financial assets and financial liabilities are recognised when the Council becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Council commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit of loss', in which case transaction costs are expensed to profit or loss immediately.

***Classification and Subsequent Measurement***

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or at cost.

Amortised cost is calculated as:

a) the amount in which the financial asset or financial liability is measured at initial recognition;
b) less principal repayments and any reduction for impairment; and
c) plus or minus the cumulative amortisation of the difference, (if any), between the amount initially recognised and the maturity amount calculated using the effective interest rate method;

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

*(i) Financial assets at fair value through profit and loss*

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss. Assets in this category are classified as current assets.

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

Loans and receivables are included in current assets where they are expected to mature within 12 months after the end of the reporting period.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

## (h) Financial Instruments (Continued)

***Classification and Subsequent Measurement*** **(continued)**

*(iii) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed maturities and fixed or determinable payments that the Council has the positive intention and ability to hold to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

Held-to-maturity investments are included in current assets, where they are expected to mature within 12 months after the end of the reporting period. All other investments are classified as non-current.

*(iv) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (i.e. gains or losses) recognised in other comprehensive income (except for impairment losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are included in current assets, where they are expected to be sold within 12 months after the end of the reporting period. All other available-for-sale financial assets are classified as non-current.

*(v) Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

***Impairment***

A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a “loss event”) having occurred, which will have an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(h) Financial Instruments (Continued)**

***Derecognition***

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the Council no longer has any significant continual involvement in the risks and benefits associated with the asset.

Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**(i) Impairment of Assets**

In accordance with Australian Accounting Standards the Council's cash generating non-specialised assets, other than inventories, are assessed at each reporting date to determine whether there is any indication they may be impaired.

Where such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount.

Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another standard (e.g. AASB 116) whereby any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other standard.

For non-cash generating specialised assets that are measure under the revaluation model, such as roads, drains, public buildings and the like, no annual assessment of impairment is required. Rather AASB 116.31 applies and revaluations need only be made with sufficient regulatory to ensure the carrying value does not differ materially from that which would be determined using fair value at the ends of the reporting period.

**(j) Trade and Other Payables**

Trade and other payables represent liabilities for goods and services provided to the Council prior to the end of the financial year that are unpaid and arise when the Council becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured, are recognised as a current liability and are normally paid within 30 days of recognition.

**(k) Employee Benefits**

***Short-Term Employee Benefits***

Provision is made for the Council's obligations for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Council's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(k) Employee Benefits (Continued)**

**Other Long-Term Employee Benefits**

The Council's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

Long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Council's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Council does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

**(l) Borrowing Costs**

Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset. Where this is the case, they are capitalised as part of the cost of the particular asset until such time as the asset is substantially ready for its intended use or sale.

**(m) Provisions**

Provisions are recognised when the Council has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Specifically, the Council has identified the need for a provision in relation to the decommissioning and restoration (make good) provisions of the lease for the land upon which its operations are based.

Provisions of this nature are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

The discount rate used to determine the present value is a pre-tax rate reflective of current market assessments of the time value of money and risks specific to the liability.

This estimated expenditure required to restore the land to its original condition has been capitalised in accordance with AASB 116. These costs are amortised over the shorter of the term of the lease or the remaining useful life of the assets.

Any increase in the provision due to the passage of time, is recognised in profit or loss as a finance (interest) cost.

**Recognition and Treatment:**

AASB 116 and Interpretation 1 establish how the provision is recognised and the treatment in relation to it.

**(n) Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not legal ownership, are transferred to the Council, are classified as finance leases.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(n) Leases (Continued)**

Finance leases are capitalised recording an asset and a liability at the lower of the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease term.

**(o) Grants, Donations and Other Contributions**

Grants, donations and other contributions are recognised as revenues when the local government obtains control over the assets comprising the contributions.

Where contributions recognised as revenues during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the nature of and amounts pertaining to those undischarged conditions are disclosed in Note 2(c). That note also discloses the amount of contributions recognised as revenues in a previous reporting period which were obtained in respect of the local government’s operations for the current reporting period.

**(p) Superannuation**

The Council contributes to a number of Superannuation Funds on behalf of employees. All funds to which the Council contributes are defined contribution plans.

**(q) Current and Non-Current Classification**

The asset or liability is classified as current if it is expected to be settled within the next 12 months, being the Council’s operational cycle. In the case of liabilities where the Council does not have the unconditional right to defer settlement beyond 12 months, such as vested long service leave, the liability is classified as current even if not expected to be settled within the next 12 months. Inventories held for trading are classified as current or non-current based on the Council's intentions to release for sale.

**(r) Rates**

The Council does not levy rates. Accordingly, the rating statement and information as required by the Local Government Act (Financial Management Regulations) has not been presented in these financial reports.

**(s) Participants Contribution**

The Participants contributions towards the Regional Resource Recovery Centre (RRRC) is treated as an equity contribution. The Participants Equity is also credited when loans are taken which are guaranteed by SMRC or RRRC participants. The corresponding liability of participants is shown as a receivable.

However, when loans are repaid by the Council without seeking funds from the project participants, the receivables and equity are reduced by the amount of loans repaid.

**(t) Rounding Off Figures**

All figures shown in this annual financial report are rounded to the nearest dollar.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### (u) Comparative Figures

Where required, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

When the Council applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements that has a material effect on the statement of financial position, an additional (third) statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

### (v) Budget Comparative Figures

Unless otherwise stated, the budget comparative figures shown in this annual financial report relate to the approved revised budget estimate for the relevant item of disclosure.

### (w) New Accounting Standards and Interpretations for Application in Future Periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Council.

Management's assessment of the new and amended pronouncements that are relevant to the Council, applicable to future reporting periods and which have not yet been adopted are set out as follows:

| | Title | Issued / Compiled | Applicable (1) | Impact |
|---|---|---|---|---|
| (i) | AASB 9 Financial Instruments (incorporating AASB 2014-7 and AASB 2014-8) | December 2014 | 1 January 2018 | Nil – The objective of this Standard is to improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. Given the nature of the financial assets of the Council, it is not anticipated the Standard will have any material effect. |
| (ii) | AASB 15 Revenue from Contracts with Customers | December 2014 | 1 January 2019 | This Standard establishes principles for entities to apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.<br><br>Considering the nature of the transactions of the Council, the effect of this Standard is not expected to be significant. |
| (iii) | AASB 16 Leases | February 2016 | 1 January 2019 | Under AASB 16 there is no longer a distinction between finance and operating leases. Lessees will now bring to account a right-to-use asset and lease liability into the statement of financial position for all leases. Effectively this means the vast majority of operating leases as defined by the current AASB 117 Leases which currently do not impact the statement of financial position will be required to be capitalised on the statement of financial position when AASB 16 is adopted.<br><br>Currently, operating lease payments are expensed as incurred. This will cease and will be replaced by both depreciation and interest charges. As the Council operates on a land which is under an operating lease, the impact is expected to be significant. |
| (iv) | AASB 1058 Income of Not-for-Profit Entities (incorporating AASB 2016-7 and AASB 2016-8) | December 2016 | 1 January 2019 | These standards are unlikely to have a significant impact on the income recognition of the Council. |

Note: (1) Applicable to reporting periods commencing on or after the given date.

### (x) Adoption of New and Revised Accounting Standards

During the current year, the Council adopted all of the new and revised Australian Accounting Standards and Interpretations which were compiled, became mandatory and which were applicable to its operations.

Whilst many reflected consequential changes associate with the amendment of existing standards, the only new standard with material application is as follows:

(i) AASB 2016-4 Amendments to Australian Accounting Standards - Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities.

(ii) AASB 2016-7 Amendments to Accounting Standards - Deferral of AASB 15 for Not-for-Profit Entities.

## 2 REVENUES AND EXPENSES

### (a) Result from Ordinary Activities

| | 2018 $ | 2017 $ |
|---|---|---|
| The Result from Ordinary Activities includes: | | |
| (i) Charging as Expenses: | | |
| **Auditors Remuneration** | | |
| - Audit of Financial Report | 18,181 | 13,224 |
| | 18,181 | 13,224 |
| **Amortisation** | | |
| - Leasehold Improvements | 1,604,315 | 1,932,244 |
| | 1,604,315 | 1,932,244 |
| **Depreciation** | | |
| Computer Equipment | 28,411 | 21,248 |
| Furniture and Equipment | 6,468 | 8,216 |
| Plant and Equipment | 3,273,730 | 1,961,731 |
| Freehold Buildings | 31,740 | 31,740 |
| | 3,340,349 | 2,022,935 |
| Total Amortisation and Depreciation | 4,944,664 | 3,955,179 |
| **Rental Charges -** Operating Leases | 1,024,307 | 1,002,102 |
| **Materials and Contracts** | | |
| Advertising and Promotion | 63,073 | 109,411 |
| Consultants Costs | 295,911 | 241,412 |
| Consumables and Process Costs | 134,193 | 215,626 |
| Contracted Services | 456,207 | 249,659 |
| Disposal Costs | 7,582,139 | 8,046,243 |
| Equipment Hire | 338,944 | 315,240 |
| Maintenance Expenses- Non-routine | 766,653 | 1,830,524 |
| Maintenance Expenses- Routine | 4,222,131 | 3,968,801 |
| Site Lease Rent | 684,639 | 684,848 |
| Site Maintenance | 542,804 | 399,180 |
| Other Costs | 607,797 | 747,815 |
| | 15,694,491 | 16,808,759 |

(ii) Crediting as Revenues:

| Interest Earnings | 2018 $ | 2018 Budget $ | 2017 $ |
|---|---|---|---|
| - Reserve Funds | 199,829 | 100,000 | 256,133 |
| - Other Funds | 20,700 | 29,000 | 23,195 |
| | 220,529 | 129,000 | 279,328 |

## 2 REVENUES AND EXPENSES (Continued)

### (b) Statement of Objective

The regional purposes for which the Regional Local Government is established are:
(a) to plan, coordinate and implement the removal, processing, treatment and disposal of waste for the benefit of the communities of the participants;
(b) to influence local, state and federal governments in the development of regional waste management policies and legislation.

The objectives of the Regional Local Government shall be:
(a) without loss being incurred by the Regional Local Government, to carry out the regional purposes so that services and facilities are provided to the consumer at a reasonable cost and with due regard for community needs;
(b) to reduce the quantity of waste disposed at landfill sites in accordance with targets set by the Regional Local Government.

The Council operations as disclosed in this report encompass the following service orientated programs:

**GOVERNANCE**
Administration and operation facilities and services to Members of Council, other costs that relate to tasks of assisting the member councils and the public on matters which do not concern specific council services. In accordance with legislative changes effective 1 July 1997, the General Administration costs have been allocated to the various programs of the Council to reflect the true cost of the services provided. Directly attributable administration costs have been recorded in the relevant program while indirect costs have been allocated on the basis of Administration staff timesheets.

**COMMUNITY AMENITIES**
To provide environmentally friendly waste management facilities to consumers at a competitive cost, mindful of community requirements, whilst aiming to greatly reduce the quantity of waste disposed at landfill sites. This includes the Regional Resource Recovery Centre at Canning Vale which is a Major Commercial Business Undertaking.

### (c) Conditions Over Grants / Contributions

| | 2018 $ | 2017 $ |
|---|---|---|
| Grants which were recognised as revenues in the previous reporting period, which were not expended at the close of the previous reporting period : | | |
| Metropolitan Youth Development Scholarship | 15,766 | 0 |
| | 15,766 | 0 |
| Add: New Grants which were recognised as revenues during the reporting period and which had not yet been fully expended in the manner specified by the contributor. | | |
| Metropolitan Youth Development Scholarship | 0 | 20,000 |
| Less: Grants which were recognised as revenues in the previous reporting period or received in the current reporting period and which were expended in the current reporting period in the manner specified by the contributor. | | |
| Metropolitan Youth Development Scholarship | 9,342 | 4,234 |
| Closing Balance of Unspent Grants | 6,424 | 15,766 |
| Comprises: | | |
| Metropolitan Youth Development Scholarship | 6,424 | 15,766 |
| | 6,424 | 15,766 |

## 3 CASH AND CASH EQUIVALENTS

| | 2018 $ | 2017 $ |
|---|---|---|
| Cash on Hand | 650 | 650 |
| Cash at Bank | 1,491,907 | 39,536 |
| Call Deposits | 1,500,000 | 630,000 |
| Short Term Deposits | 7,344,317 | 10,902,865 |
| | 10,336,874 | 11,573,051 |
| Unrestricted | 4,568,153 | 5,071,335 |
| Restricted | 5,768,721 | 6,501,716 |
| | 10,336,874 | 11,573,051 |
| The following restrictions have been imposed by regulations or other externally imposed requirements: | | |
| Unspent Grants | 6,424 | 15,766 |
| Retention and Bonds | 516,612 | 502,265 |
| RRRC Plant Reserve | 1,843,318 | 1,872,318 |
| RRRC Contingency & Development Reserve | 1,602,367 | 2,311,367 |
| Travel and Conference Reserve | 50,000 | 50,000 |
| Office Accommodation Reserve | 250,000 | 250,000 |
| Property Insurance Reserve | 500,000 | 500,000 |
| RRRC Restoration Reserve | 1,000,000 | 1,000,000 |
| | 5,768,721 | 6,501,716 |

## 4 TRADE AND OTHER RECEIVABLES

| | 2018 $ | 2017 $ |
|---|---|---|
| **Current** | | |
| Sundry Debtors | 1,849,784 | 2,659,016 |
| Accrued Income | 217,650 | 354,932 |
| Prepaid Expenses | 20,736 | 20,421 |
| Loan Debtors - Project Participants | 3,807,403 | 10,106,603 |
| | 5,895,573 | 13,140,972 |
| **Non-Current** | | |
| Loan Debtors - Project Participants | 14,475,234 | 11,215,994 |
| | 14,475,234 | 11,215,994 |

## 5 INVENTORIES

| | 2018 $ | 2017 $ |
|---|---|---|
| Stock on Hand - Fuel | 3,962 | 3,745 |
| Stock on Hand - RRRC Critical Spares | 754,680 | 596,504 |
| Stock on Hand - Finished Goods | 79,729 | 138,920 |
| | 838,371 | 739,169 |

## 6 (a) PROPERTY, PLANT AND EQUIPMENT

| | 2018 $ | 2017 $ |
|---|---|---|
| Freehold Land - Independent Valuation - July 2016 | 910,000 | 910,000 |
| Freehold Building - Independent Valuation - July 2016 | 1,380,000 | 1,380,000 |
| Less Accumulated Depreciation | (63,480) | (31,740) |
| Total Freehold Land and Buildings | 2,226,520 | 2,258,260 |
| RRRC Leasehold Improvements - Independent Valuation - July 2016 | 19,312,000 | 19,312,000 |
| Additions after valuation - Cost | 3,476,363 | 3,476,363 |
| Less Accumulated Amortisation | (3,536,559) | (1,932,244) |
| | 19,251,804 | 20,856,119 |
| Information Technology Equipment - Independent Valuation - June 2016 | 32,000 | 32,000 |
| Additions after valuation - Cost | 94,051 | 43,138 |
| Less Accumulated Depreciation | (49,659) | (21,248) |
| | 76,392 | 53,890 |
| Furniture and Equipment - Independent Valuation - June 2016 | 8,216 | 8,216 |
| Additions after valuation - Cost | 47,564 | 0 |
| Less Accumulated Depreciation | (14,684) | (8,216) |
| | 41,096 | 0 |
| Plant and Equipment - Independent Valuation - June 2016 | 15,079,300 | 15,079,300 |
| Additions after valuation - Cost | 538,690 | 47,100 |
| Less Accumulated Depreciation | (5,235,461) | (1,961,731) |
| | 10,382,529 | 13,164,669 |
| Capital Work In Progress - Cost | 370,354 | 0 |
| Total Property, Plant and Equipment | 32,348,695 | 36,332,938 |

## 6 PROPERTY, PLANT AND EQUIPMENT (Continued)

### (b) Movements in Carrying Amounts

Movement in the carrying amounts of each class of property, plant and equipment between the beginning and the end of the current financial year.

| | Balance at the Beginning of the Year $ | Additions $ | (Disposals) $ | Revaluation Increments/ (Decrements) $ | Impairment (Losses)/ Reversals $ | Depreciation (Expense) $ | Reclassification $ | Carrying Amount at the End of Year $ |
|---|---|---|---|---|---|---|---|---|
| Freehold land | 910,000 | 0 | 0 | 0 | 0 | 0 | 0 | 910,000 |
| **Total land** | **910,000** | **0** | **0** | **0** | **0** | **0** | **0** | **910,000** |
| Non-specialised buildings | 1,348,260 | 0 | 0 | 0 | 0 | (31,740) | 0 | 1,316,520 |
| Specialised buildings | 20,856,119 | 0 | 0 | 0 | 0 | (1,604,315) | 0 | 19,251,804 |
| **Total buildings** | **22,204,379** | **0** | **0** | **0** | **0** | **(1,636,055)** | **0** | **20,568,324** |
| **Total land and buildings** | **23,114,379** | **0** | **0** | **0** | **0** | **(1,636,055)** | **0** | **21,478,324** |
| Information Technology Equipment | 53,890 | 50,913 | 0 | 0 | 0 | (28,411) | 0 | 76,392 |
| Furniture and Equipment | 0 | 47,564 | 0 | 0 | 0 | (6,468) | 0 | 41,096 |
| Non-specialised Plant and Equipment | 921,232 | 442,600 | 0 | 0 | 0 | (252,564) | 0 | 1,111,268 |
| Specialised Plant and Equipment | 12,243,437 | 48,990 | 0 | 0 | 0 | (3,021,166) | 0 | 9,271,261 |
| Capital Work In Progress | 0 | 370,354 | 0 | 0 | 0 | 0 | 0 | 370,354 |
| **Total property, plant and equipment** | **36,332,938** | **960,421** | **0** | **0** | **0** | **(4,944,664)** | **0** | **32,348,695** |

## 6 PROPERTY, PLANT AND EQUIPMENT (Continued)

### (c) Fair Value Measurements

| Asset Class | Fair Value Hierarchy | Valuation Technique | Basis of valuation | Date of last Valuation | Inputs used |
|---|---|---|---|---|---|
| **Land and buildings** | | | | | |
| Freehold land | Level 2 | Market approach using market value of similar assets adjusted to condition and comparability | Independent Valuation | 1 July 2016 | Observable open market value of assets, condition, comparison and highest and best use. |
| Non-specialised buildings | Level 2 | Market approach using market value of similar assets adjusted to condition and comparability | Independent Valuation | 1 July 2016 | Observable open market value of assets, condition, comparison and highest and best use. |
| Specialised buildings | Level 3 | Cost approach using depreciated replacement cost | Independent Valuation | 1 July 2016 | Cost to reproduce or replace similar assets in new condition, depreciation accrued wear and tear, economic and functional obsolescence. |
| Information Technology Equipment | Level 2 | Market approach using market value of similar assets adjusted to condition and comparability | Independent Valuation | 30 June 2016 | Observable open market value of assets, condition and comparison. |
| Furniture and Equipment | Level 2 | Market approach using market value of similar assets adjusted to condition and comparability | Independent Valuation | 30 June 2016 | Observable open market value of assets, condition and comparison. |
| Non-specialised Plant and Equipment | Level 2 | Market approach using market value of similar assets adjusted to condition and comparability | Independent Valuation | 30 June 2016 | Observable open market value of assets, condition and comparison. |
| Specialised Plant and Equipment | Level 3 | Cost approach using depreciated replacement cost | Independent Valuation | 30 June 2016 | Cost to reproduce or replace similar assets in new condition, depreciation accrued wear and tear, economic and functional obsolescence. |

Level 3 inputs are based on assumptions with regards to future values and patterns of consumption utilising current information. If the basis of these assumptions were varied , they have the potential to result in a significantly higher or lower fair value measurement.

During the period there were no changes in the valuation techniques used by the local government to determine the fair value of property, plant and equipment using either level 2 or level 3 inputs.

## 7 TRADE AND OTHER PAYABLES

| | 2018 $ | 2017 $ |
|---|---|---|
| **Current** | | |
| Sundry Creditors | 3,884,828 | 4,092,722 |
| Accrued Expenses | 826,066 | 397,360 |
| Accrued Salaries and Wages | 95,565 | 98,550 |
| Accrued Loan Interest | 1,537 | 2,256 |
| Retention and Bonds | 516,612 | 502,265 |
| | 5,324,608 | 5,093,153 |

## 8 LONG TERM BORROWINGS

| | 2018 $ | 2017 $ |
|---|---|---|
| **Current** | | |
| Debentures | 3,807,403 | 10,106,603 |
| | 3,807,403 | 10,106,603 |
| **Non Current** | | |
| Debentures | 14,475,234 | 11,215,994 |
| | 14,475,234 | 11,215,994 |

Additional detail on Debentures is provided in Note 32 (a) and (b)

The Council has two lending facilities for the following projects:

**(a). The Regional Resource Recovery Centre Loan**

The RRRC Project Participants have guaranteed by way of security, to the Western Australian Treasury Corporation, a charge over its general funds for the share of any outstanding debenture borrowings provided for the RRRC Project.

Project Participants' limit of its share of the loan liability is as follows:

| | 2018 | 2017 | | |
|---|---|---|---|---|
| City of Cockburn (Past Participant) | 42.97% | 42.53% | 7,082,589 | 8,302,961 |
| Town of East Fremantle | 3.05% | 3.06% | 502,720 | 597,391 |
| City of Fremantle | 12.22% | 12.27% | 2,014,178 | 2,395,423 |
| City of Melville | 41.76% | 42.14% | 6,883,150 | 8,226,822 |
| | | | 16,482,637 | 19,522,597 |

**(b). Administration Building (9 Aldous Place, Booragoon) Loan**

The SMRC Participants have guaranteed by way of security, to the Western Australian Treasury Corporation, a charge over its general funds for the share of any outstanding debenture borrowings provided for the SMRC Administration building at 9 Aldous Place, Booragoon. WA 6154.

Participants' limit of its share of the loan liability is as follows:

| | 2018 | 2017 | | |
|---|---|---|---|---|
| City of Cockburn | 37.29% | 37.09% | 671,220 | 667,620 |
| Town of East Fremantle | 2.65% | 2.67% | 47,700 | 48,060 |
| City of Fremantle | 10.61% | 10.70% | 190,980 | 192,600 |
| Town of Kwinana | 13.22% | 12.80% | 237,960 | 230,400 |
| City of Melville | 36.23% | 36.74% | 652,140 | 661,320 |
| | | | 1,800,000 | 1,800,000 |

## 9 PROVISIONS

| (a). Composition of Provisions | Make Good Provision for Lease<br>$ | Provision for Annual Leave<br>$ | Provision for Long Service Leave<br>$ | Total<br>$ |
|---|---|---|---|---|
| **Opening balance as at 1 July 2016** | | | | |
| Current provisions | 0 | 351,782 | 479,539 | 831,321 |
| Non-current provisions | 0 | 0 | 162,455 | 162,455 |
| | 0 | 351,782 | 641,994 | 993,776 |
| Additional Provisions - *(9b) Make Good* | 3,349,269 | 330,237 | 68,587 | 3,748,093 |
| Amounts used | 0 | (364,555) | (48,438) | (412,993) |
| Increase in the discounted amount arising because of time and the effect of any change in the discounted rate | 0 | 0 | 0 | 0 |
| **Balance as at 30 June 2017** | 3,349,269 | 317,464 | 662,143 | 4,328,876 |
| **Comprises** | | | | |
| Current | 0 | 317,464 | 545,375 | 862,839 |
| Non-current | 3,349,269 | 0 | 116,768 | 3,466,037 |
| Additional Provisions | 0 | 252,705 | (13,708) | 238,997 |
| Amounts used | 0 | (287,054) | (65,379) | (352,433) |
| Increase in the discounted amount arising because of time and the effect of any change in the discounted rate | 87,526 | 0 | 0 | 87,526 |
| **Balance as at 30 June 2018** | 3,436,795 | 283,115 | 583,056 | 4,302,966 |
| **Comprises** | | | | |
| Current | 0 | 283,115 | 452,650 | 735,765 |
| Non-current | 3,436,795 | 0 | 130,406 | 3,567,201 |

### (b). Make Good Provision

At the end of the lease term, SMRC is required to restore the land upon which the RRRC is situated to its original condition. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements.

Whilst the liability did exist prior to the current year, given it is impracticable to determine the period specific effects of the error on comparative information presented, no restatement of comparative information of prior periods has been presented.

These estimated costs have been capitalised as part of the carrying value of leasehold improvements and are amortised over the shorter of the term of the lease or the remaining useful life of the assets.

## 10 RESERVES- CASH BACKED

In accordance with the Council resolutions in relation to each reserve account, the purpose for which the funds are set aside are as follows:

**RRRC Plant Reserve-** to be used to fund the purchase of plant and equipment for the Canning Vale RRRC Project as per the adopted budget - Ongoing

**RRRC Contingency & Development Reserve-** to be used to fund the capital expenditure requirements and/or loan borrowings for the Canning Vale RRRC Project and to be utilised as per the adopted budget- Ongoing

**Travel and Conference Reserve-** to be used to fund the requirements for staff and Councillors' travel and conference attendance- Ongoing

**Office Accommodation Reserve**- to be used for funding capital renewal expenditure and non-recurrent maintenance expenditure for the SMRC property located at 9 Aldous Place Booragoon- Ongoing

**Property Insurance Reserve**- to be used fund repair and replacement expenses resulting from an event causing damage or loss to RRRC assets up to the value of $1 million- Ongoing

**RRRC Restoration Reserve** - to be used to meet lease obligations resulting from an early termination of the Ground Lease or at the expiry of the Ground Lease - Ongoing

| | 2018<br>$ | 2018<br>Budget<br>$ | 2017<br>$ |
|---|---|---|---|
| **(a) RRRC Plant Reserve** | | | |
| Balance as at 1 July | 1,872,318 | 1,872,318 | 2,139,556 |
| Transfers to Reserve | 870,959 | 808,000 | 1,665,000 |
| Transfers from Reserve | (899,959) | (1,774,890) | (1,932,238) |
| Balance as at 30 June | 1,843,318 | 905,428 | 1,872,318 |
| **(b) RRRC Contingency & Development Reserve** | | | |
| Balance as at 1 July | 2,311,367 | 2,311,367 | 2,311,367 |
| Transfers to Reserve | 391,000 | 510,000 | 0 |
| Transfers from Reserve | (1,100,000) | (1,130,000) | 0 |
| Balance as at 30 June | 1,602,367 | 1,691,367 | 2,311,367 |
| **(c) Travel and Conference Reserve** | | | |
| Balance as at 1 July | 50,000 | 50,000 | 50,000 |
| Transfers to Reserve | 0 | 0 | 0 |
| Transfers from Reserve | 0 | 0 | 0 |
| Balance as at 30 June | 50,000 | 50,000 | 50,000 |
| **(d) Office Accommodation Reserve** | | | |
| Balance as at 1 July | 250,000 | 250,000 | 250,000 |
| Transfers to Reserve | 0 | 0 | 0 |
| Transfers from Reserve | 0 | 0 | 0 |
| Balance as at 30 June | 250,000 | 250,000 | 250,000 |
| **(e) Property Insurance Reserve** | | | |
| Balance as at 1 July | 500,000 | 500,000 | 500,000 |
| Transfers to Reserve | 0 | 0 | 0 |
| Transfers from Reserve | 0 | 0 | 0 |
| Balance as at 30 June | 500,000 | 500,000 | 500,000 |
| **(f) RRRC Restoration Reserve** | | | |
| Balance as at 1 July | 1,000,000 | 1,000,000 | 1,000,000 |
| Transfers to Reserve | 0 | 0 | 0 |
| Transfers from Reserve | 0 | 0 | 0 |
| Balance as at 30 June | 1,000,000 | 1,000,000 | 1,000,000 |
| **Total Reserves- Cash backed** | 5,245,685 | 4,396,795 | 5,983,685 |

All of the reserve accounts are supported by money held in financial institutions and match the amount shown as restricted cash in Note 3 to this financial report.

| | 2018<br>$ | 2018<br>Budget<br>$ | 2017<br>$ |
|---|---|---|---|
| **SUMMARY OF RESERVE TRANSFERS** | | | |
| **Transfers To Reserves- Cash Backed** | | | |
| RRRC Plant Reserve | 870,959 | 808,000 | 1,665,000 |
| RRRC Contingency & Development Reserve | 391,000 | 510,000 | 0 |
| | 1,261,959 | 1,318,000 | 1,665,000 |
| **SUMMARY OF RESERVE TRANSFERS** | | | |
| **Transfers From Reserves- Cash Backed** | | | |
| RRRC Plant Reserve | (899,959) | (1,774,890) | (1,932,238) |
| RRRC Contingency & Development Reserve | (1,100,000) | (1,130,000) | 0 |
| | (1,999,959) | (2,904,890) | (1,932,238) |
| Net Reserve Movement (Cash Backed) | (738,000) | (1,586,890) | (267,238) |

## 11 REVALUATION SURPLUS

| | 2018 $ | 2018 Budget $ | 2017 $ |
|---|---|---|---|

In accordance with the Council resolution, the Revaluation Surplus cannot be used except for adjustment to fixed assets on their revaluation, disposal or write-off.

| | 2018 $ | 2018 Budget $ | 2017 $ |
|---|---|---|---|
| **(a) Land and Buildings** | | | |
| Balance as at 1 July | 820,733 | 820,733 | 597,933 |
| Increments / (Decrements) | 0 | 0 | 222,800 |
| Balance as at 30 June | 820,733 | 820,733 | 820,733 |
| **(b) Leasehold Improvements** | | | |
| Balance as at 1 July | 12,341,979 | 12,341,979 | 11,438,809 |
| Increments / (Decrements) | 0 | 0 | 903,170 |
| Balance as at 30 June | 12,341,979 | 12,341,979 | 12,341,979 |
| **(c) Non-Specialised Plant and Equipment** | | | |
| Balance as at 1 July | 892,962 | 892,962 | 892,962 |
| Increments / (Decrements) | 0 | 0 | 0 |
| Balance as at 30 June | 892,962 | 892,962 | 892,962 |
| **Total Revaluation Surplus** | 14,055,674 | 14,055,674 | 14,055,674 |

## 12 NOTES TO THE CASH FLOW STATEMENT

### (a) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and investments, net of outstanding bank overdrafts. Cash at the end of the reporting period is reconciled to the related items in the Statement of Financial Position as follows:

| | 2018 $ | 2018 Budget $ | 2017 $ |
|---|---|---|---|
| Cash on Hand | 650 | 650 | 650 |
| Cash at Bank | 1,491,907 | 50,000 | 39,536 |
| Call Deposits | 1,500,000 | 360,000 | 630,000 |
| Short Term Deposits | 7,344,317 | 7,551,679 | 10,902,865 |
| | 10,336,874 | 7,962,329 | 11,573,051 |

### (b) Reconciliation of Net Cash Provided By Operating Activities to Change in Net Assets Resulting from Operations

| | 2018 $ | 2018 Budget $ | 2017 $ |
|---|---|---|---|
| Net result | (6,638,950) | (7,011,788) | (2,720,841) |
| Add / (Less): | | | |
| Depreciation | 3,340,349 | 2,104,214 | 2,022,935 |
| Amortisation | 1,604,315 | 1,961,074 | 1,932,244 |
| (Increase)/Decrease in Receivables | 809,232 | 556,000 | 518,668 |
| (Increase)/Decrease in Accrued Income | 137,282 | 157,316 | (407,891) |
| (Increase)/Decrease in Prepaid Expenses | (315) | 0 | (560) |
| (Increase)/Decrease in Inventories | (99,202) | 0 | (29,806) |
| Increase/(Decrease) in Creditors and Accruals | 318,981 | (68,762) | 1,305,032 |
| Increase/(Decrease) in Employee Provisions | (113,436) | (73,776) | (14,169) |
| **Net Cash from Operating Activities** | **(641,744)** | **(2,375,722)** | **2,605,612** |

## 12 NOTES TO THE CASH FLOW STATEMENT (Continued)

| | 2018 $ | 2017 $ |
|---|---|---|
| **(c) Credit Standby Arrangements** | | |
| Credit Card limit | 25,000 | 25,000 |
| Credit Card balance at reporting date | (4,800) | (6,600) |
| **Total Amount of Credit Unused** | 20,200 | 18,400 |
| | | |
| **(d) Loan Facilities** | | |
| Loan Facilities - Current | 3,807,403 | 10,106,603 |
| Loan Facilities - Non-Current | 14,475,234 | 11,215,994 |
| **Total Facilities in Use at reporting date** | 18,282,637 | 21,322,597 |
| | | |
| **Unused Loan Facilities at reporting date** | 0 | 0 |

## 13 CAPITAL AND LEASING COMMITMENTS

### (a) Capital Expenditure Commitments

Capital expenditure commitments contracted for as at the reporting date and which have not been recognised as liabilities in the Statement of Financial Position as follows:

| | 2018 $ | 2017 $ |
|---|---|---|
| Regional Resource Recovery Centre Contracts | 73,478 | 0 |
| | | |
| Payable: | | |
| - not later than one year | 73,478 | 0 |
| | 73,478 | 0 |

### (b) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the accounts.

| | 2018 $ | 2017 $ |
|---|---|---|
| Payable: | | |
| - not later than one year | 721,214 | 787,035 |
| - later than one year but not later than two years | 659,454 | 695,293 |
| - later than two years but not later than five years | 1,950,000 | 1,950,449 |
| - later than five years | 7,000,000 | 8,000,000 |
| | 10,330,668 | 11,432,777 |

## 14 CONTINGENT LIABILITIES

There were no claims or pending claims or any other contingent liabilities as at the reporting date (2017- Nil).

## 15 TOTAL ASSETS CLASSIFIED BY FUNCTION AND ACTIVITY

| | 2018 $ | 2017 $ |
|---|---|---|
| Community Amenities | 63,894,747 | 73,002,124 |
| | 63,894,747 | 73,002,124 |

## 16 NET CURRENT ASSETS

| Composition of net current assets | 2018 (30 June 2018 Carried Forward) $ | 2018 (1 July 2017 Brought Forward) $ | 2017 (30 June 2017 Carried Forward) $ |
|---|---|---|---|
| **Surplus/(Deficit) 1 July 17 brought forward** | | | |
| **Current Assets** | | | |
| Cash & Investments | 10,336,874 | 11,573,051 | 11,573,051 |
| Receivables | 1,849,784 | 2,659,015 | 2,659,015 |
| Accrued Income & Prepayments | 238,386 | 375,353 | 375,353 |
| Loan Debtors | 3,807,403 | 10,106,603 | 10,106,603 |
| Stock on Hand | 838,371 | 739,169 | 739,169 |
| | 17,070,818 | 25,453,191 | 25,453,191 |
| **Less Current Liabilities** | | | |
| Creditors | 3,884,828 | 4,092,722 | 4,092,722 |
| Accrued Expenses | 923,168 | 498,166 | 498,166 |
| Bonds & Retentions | 516,612 | 502,265 | 502,265 |
| Employee Provisions | 735,765 | 862,839 | 862,839 |
| Interest Bearing Liabilities (Loans) | 3,807,403 | 10,106,603 | 10,106,603 |
| | 9,867,776 | 16,062,595 | 16,062,595 |
| **Unadjusted Net Current Assets** | 7,203,042 | 9,390,596 | 9,390,596 |
| **Adjustments** | | | |
| Less: Restricted Cash - Reserves | (5,245,685) | (5,983,685) | (5,983,685) |
| Add: Decrease in Non-Current Provisions | (131,357) | (34,558) | (34,558) |
| **Adjusted Net Current Assets - Surplus/(Deficit)** | 1,826,000 | 3,372,353 | 3,372,353 |

**Difference**

There was no difference between the surplus/(deficit) 1 July 2017 brought forward position used in the 2018 audited financial report and the surplus/(deficit) carried forward position as disclosed in the 2017 audited financial report.

## 17 TRUST FUNDS

The Council does not have any trust funds on hand as at 30 June 2018 (2017- Nil).

## 18 BUDGET COMPARISON

### (a) Operating Income and Expenditure

| | | 2018 $ | 2018 $ Budget |
|---|---|---|---|
| Recycling Facility Surplus / (Deficit) | | (2,119,925) | (2,150,000) |
| Waste Composting Facility Surplus / (Deficit) | 1 | 463,058 | (202,000) |
| Green Waste Facility Surplus / (Deficit) | | 5,467 | (16,000) |
| RRRC Administration Surplus / (Deficit) | 2 | (75,425) | 60,000 |
| Depreciation on non-current assets | 3 | (4,944,664) | (4,065,288) |
| Others | 4 | 32,539 | (638,500) |
| Net Result | | (6,638,950) | (7,011,788) |

Comments - Reasons for variations from budgeted amounts:
1. Lower maintenance expenses
2. Impact of unwinding of make good provision for lease
3. Changes in remaining useful life of assets
4. Due to timing of expenses- Carry forwards to FY 18-19

### (b) Non Operating Income and Expenditure

The following is a comparison of non-operating income and expenditure not included in the operating statement:

| | | 2018 $ | 2018 $ Budget |
|---|---|---|---|
| **Non Operating Income** | | | |
| Loan Principal Contributions | | 3,039,960 | 3,036,059 |
| **Non Operating Expenditure** | | | |
| Principal repayment of loans | | 3,039,960 | 3,036,059 |
| Construction/purchase of assets | | | |
| Information Technology Equipment | | 50,913 | 60,000 |
| Furniture and Fittings | | 47,564 | 60,000 |
| Plant and Equipment | 1 | 491,590 | 1,075,000 |
| Leasehold Improvements | | 0 | 40,000 |
| Capital Work-in-progress | 1 | 370,354 | 0 |

Comments - Reasons for variations from budgeted amounts:
1. Due to timing of expenses- Carry forwards to FY 18-19

## 19 MAJOR TRADING UNDERTAKING

### REGIONAL RESOURCE RECOVERY CENTRE (RRRC), CANNING VALE

This project is undertaken on behalf of the SMRC's four participating councils and involves construction and operation of an administration and visitors centre, weighbridge, greenwaste processing and waste composting and recycling facility. Operating revenues is received from gate fees from participants / the private sector and sale of materials. Accounting for this undertaking is in accordance with the Local Government (Financial Management) Amendment Regulations 9 & 45.

| **STATEMENT OF COMPREHENSIVE INCOME** | **2018** | **2017** |
|---|---|---|
| **Revenues from Ordinary Activities** | **$** | **$** |
| Education & Marketing | 214,481 | 293,690 |
| RRRC Admin & Weighbridge | 347,374 | 209,298 |
| Recycling | 2,916,835 | 6,641,212 |
| Greenwaste | 886,016 | 1,177,780 |
| Waste Compost | 17,790,071 | 18,564,371 |
| Business Development | 402,899 | (446,150) |
| Waste Audit Service | 385,250 | 24,952 |
| Contributions for interest on loans | 840,764 | 959,396 |
| | 23,783,690 | 27,424,549 |
| **Less Expenses from Ordinary Activities** | | |
| Education & Marketing | (185,300) | (292,789) |
| RRRC Admin & Weighbridge | (807,469) | (446,035) |
| Recycling | (6,537,832) | (7,788,244) |
| Greenwaste | (940,803) | (1,030,307) |
| Waste Compost | (20,260,960) | (20,013,232) |
| Business Development | 0 | (51,225) |
| Waste Audit Service | (339,898) | (101,820) |
| Transition to FOGO | (63,716) | 0 |
| | (29,135,978) | (29,723,652) |
| **Less Borrowing Cost Expense** | | |
| RRRC Property | (840,103) | (959,038) |
| **Net Profit or (Loss)** | **(6,192,391)** | **(3,258,141)** |

| **STATEMENT OF FINANCIAL POSITION** | | |
|---|---|---|
| **Current Assets** | | |
| Cash and Cash Equivalents | 7,650,314 | 8,633,486 |
| Trade and Other Receivables | 5,875,844 | 13,049,400 |
| Inventories | 838,371 | 600,249 |
| Total Current Assets | 14,364,529 | 22,283,135 |
| **Non-Current Assets** | | |
| Trade and Other Receivables | 12,675,234 | 9,415,994 |
| Property, Plant and Equipment | 10,754,658 | 13,174,603 |
| Leasehold Improvements | 19,251,804 | 20,856,119 |
| Total Non-Current Assets | 42,681,696 | 43,446,716 |
| **Total Assets** | 57,046,225 | 65,729,851 |
| **Current Liabilities** | | |
| Trade and Other Payables | 5,179,626 | 4,984,849 |
| Borrowings - Current Portion | 3,807,403 | 10,106,603 |
| Provisions | 339,092 | 3,794,631 |
| Total Current Liabilities | 9,326,121 | 18,886,083 |
| **Non-Current Liabilities** | | |
| Borrowings - Non-current Portion | 12,675,234 | 9,415,994 |
| Provisions | 3,540,900 | 97,401 |
| Total Non-Current Liabilities | 16,216,134 | 9,513,395 |
| **Total Liabilities** | 25,542,255 | 28,399,478 |
| **Net Assets** | **31,503,970** | **37,330,373** |
| **Equity** | | |
| Opening Balance | 37,330,373 | 40,600,601 |
| Past Participant's Contribution on Withdrawal | 365,988 | 0 |
| Retained Surplus/(Deficit) for year | (6,192,391) | (3,258,141) |
| Fair value adjustment to Non-Current assets | 0 | 903,170 |
| Less: Loans repaid from Equity | 0 | (915,257) |
| **Total Equity** | **31,503,970** | **37,330,373** |

## 20 ECONOMIC DEPENDENCY

A significant portion of revenue is received from the members as contributions as disclosed in note 21 and also in form of RRRC Gate fees as indicated in the note 22.

## 21 GRANTS, SUBSIDES AND CONTRIBUTIONS

| | 2018 $ | 2017 $ |
|---|---|---|
| Grants, Subsidies and Contributions are included as in the Statement of Comprehensive Income | | |
| By Programme: | | |
| Governance | | |
| Annual Member's Contributions | 343,371 | 337,465 |
| Reimbursements | 0 | 0 |
| Community Amenities | | |
| Annual Member's Contributions | 505,364 | 517,565 |
| Member's Contributions towards interest | 840,764 | 959,396 |
| Grants | 2,000 | 8,000 |
| Reimbursements | 151,089 | 366,081 |
| | 1,842,588 | 2,188,507 |
| By Nature or Type: | | |
| Operating Grants, Subsidies and Contributions | 1,842,588 | 2,188,507 |
| | 1,842,588 | 2,188,507 |

## 22 FEES AND CHARGES

| | 2018 | 2017 |
|---|---|---|
| Community Amenities | | |
| RRRC Gate Fees from Members | 16,869,644 | 19,748,119 |
| RRRC Gate Fees from Non-Members | 2,348,452 | 2,435,939 |
| Sale of Products | 2,759,851 | 3,751,744 |
| Others | 385,250 | 24,952 |
| | 22,363,197 | 25,960,754 |

## 23 FINANCIAL RATIOS

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Current Ratio | 1.21 | 1.22 | 1.25 |
| Asset Sustainability Ratio | 0.19 | 0.05 | 0.06 |
| Debt Service Cover Ratio | (0.18) | 0.49 | (0.35) |
| Operating Surplus Ratio | (0.27) | (0.10) | (0.03) |
| Own Source Revenue Coverage Ratio | 0.79 | 0.91 | 0.96 |

The above ratios are calculated as follows:

| | |
|---|---|
| Current Ratio | $\dfrac{\text{Current assets minus restricted current assets}}{\text{Current liabilities minus liabilities associated with restricted assets}}$ |
| Asset Sustainability Ratio | $\dfrac{\text{Capital Renewal and Replacement Expenditure}}{\text{Depreciation Expense}}$ |
| Debt Service Cover Ratio | $\dfrac{\text{Annual Operating Surplus before interest and depreciation}}{\text{Principal and Interest}}$ |
| Operating Surplus Ratio | $\dfrac{\text{Operating Revenue minus Operating Expense}}{\text{Own Source Operating Revenue}}$ |
| Own Source Revenue Coverage Ratio | $\dfrac{\text{Own Source Operating Revenue}}{\text{Operating Expense}}$ |

Note: Information relating to Asset Consumption Ratio and Asset Renewal Funding Ratio can be found at Supplementary Ratio Information on Page 41 of this document.

The Debt Service Cover Ratio for the year 2016 disclosed above is distorted by item of significant expense totalling $8,150,418 relating to the revaluation decrements of specialised plant & equipment and information technology equipment in accordance with Financial Management Regulations 17A (refer to Note 6(b) for further details). This amount has been included in the calculations above. If the revaluation decrements are considered to be "one-off" and non-cash in nature and, if these are ignored, the Debt Service Cover Ratio would have been 1.32 instead of (0.35) as shown in 2016.

## 24 DISPOSALS OF ASSETS - 2017/18 FINANCIAL YEAR

There are no disposal of fixed assets by the Council during the year (2017 - Nil).

## 25 RATING INFORMATION

Being a Regional Council, no rates were raised during the year ended 30 June 2018 and in the year ended 30 June 2017.

## 26 MEMBERS WITHDRAWAL FROM THE SMRC

### (a) City of Canning's withdrawal from the SMRC

Pursuant to a resolution of the City of Canning on 19 February 2009, the City of Canning, as a Participant under the Establishment Agreement and Project Agreements, gave notice of its intention to withdraw from the SMRC effective from 30 June 2010. In line with the Agreements the City of Canning withdrew from SMRC with effect from that date.

A settlement agreement in September 2012 was agreed between the remaining Participants and the City of Canning to allow the City of Canning to separate its share of the RRRC outstanding loans resulting in a separate loan agreement with the Western Australian Treasury Corporation.

The loan liability was reduced by terminating loans amounting to $43,440,979, which included the share of the City of Canning and replacing loans that do not have a share of the City of Canning's liability amounting to $31,286,786.

RRRC Project Agreement states that the assets acquired from borrowings are to be valued only when the borrowings are fully repaid. The appropriate share of City of Canning in these assets is valued at current book values. The share of City of Canning in these assets is still shown as a part of Equity as the City of Canning is not currently entitled for the amount as per the RRRC Project Agreement.

### (b) City of Rockingham 's withdrawal from the SMRC

Pursuant to a resolution of the City of Rockingham on 27 April 2011, the City of Rockingham, as a Participant under the Establishment Agreement and Office Accommodation Project Agreement, gave a notice of its intention to withdraw from the SMRC effective from 30 June 2012. In line with the Agreements, the City of Rockingham withdrew from SMRC on 30 June 2012.

### (c ) City of Cockburn's withdrawal from the Regional Resource Recovery Centre (RRRC) Project

Pursuant to a resolution of the City of Cockburn on 9 June 2016, the City of Cockburn as a participant under the RRRC Project Agreement, has given notice of its intention to withdraw from the RRRC Project effective from 30 June 2017. In accordance with the RRRC Project Agreement, the SMRC prepared an amended business plan of the RRRC Project having regard to the effect of the withdrawal. The amended business plan was adopted by the SMRC on 19 April 2018.

The City of Cockburn’s proportional loan liability at note 8 (a) for the RRRC Project will continue to be paid by the City of Cockburn.

### (d) City of Cockburn's withdrawal from the SMRC Establishment Agreement & the Office Accommodation Project

Pursuant to a resolution of the City of Cockburn on 10 May 2018, the City of Cockburn has given notice of its intention to withdraw from the SMRC Establishment Agreement and the Office Accommodation Project Agreement effective from 30 June 2019. In accordance with the Office Accommodation Project Agreement, the SMRC is to prepare an amended business plan of the Project having regard to the effect of the withdrawal on the remaining participants. This will be completed In August 2018.

## 27 RRRC ISSUES

### (a) FOGO Transition and Decommissioning Provision

In accordance with the RRRC Project Amended Business Plan 2018, Participants’ have agreed to implement a third bin collection service consisting of a ‘Food Organics Green Organics’ (FOGO) bin commencing from July 2019. The decision to transition the Waste Composting Facility into a FOGO pre-sort transfer station and decommission plant has yet to be determined, however, the Amended Business Plan includes financial costings and revenue should this transition proceed.

### (b) RRRC Licence

In April 2016, the Department of Environment Regulation amended our operating licence for the Regional Resource Recovery Centre by extending the expiry date till 30 March 2033. SMRC is complying with all the conditions and believes that the licence will be renewed when it is due for renewal.

## 28 PRIOR PERIOD ADJUSTMENT

As detailed in the Make Good Provision at Note 9(b), at the end of the lease term SMRC is required to restore the land upon which the RRRC is situated to its original condition. Whilst this liability has existed since the commencement of the lease, it was only estimated during the year ended 30 June 2017. Given the nature of the liability and difficulty in estimating the relevant cost at the commencement of the lease term, it is considered impracticable to determine the period specific effects of the errors on comparative information presented prior to the estimate being obtained. Consequently, the assets and liabilities were only restated effective for the year ended 30 June 2017 (the comparative year).

These estimated costs have been capitalised as part of the carrying value of leasehold improvements and are amortised over the shorter of the term of the lease or the remaining useful life of the assets.

Effect on balances:

| | Disclosure in Original Financial Report for year ended 30 June 2017 | Amount of Adjustment | Adjusted Balance in Current Financial Report for the year ended 30 June 2017 |
|---|---|---|---|
| | $ | $ | $ |
| Leasehold Asset | 0 | 3,349,269 | 3,349,269 |
| Provision for Make Good | 0 | (3,349,269) | (3,349,269) |
| | 0 | 0 | 0 |

## 29 EVENTS SUBSEQUENT TO THE REPORTING DATE

There have been no significant transactions or events of a material and unusual nature that have arisen since the end of the reporting date, likely to affect the operations, the results of operations or state of affairs of the Council.

## 30 CHANGES IN ACCOUNTING ESTIMATES

The Council has reassessed the useful life of some assets in line with the requirement of para 51 of AASB 116, considering the expected technological transition. The impact of this change on the depreciation expense, comprehensive income, value of the Property, plant and equipment, and the retained surplus of the current and future financial years is as under:

| FY | Impact on | | | |
|---|---|---|---|---|
| | Depreciation Expense | Comprehensive Income | Property, plant and equipment | Retained Surplus |
| 2018 | 672,914 | (672,914) | (672,914) | (672,914) |
| 2019 | 672,914 | (672,914) | (1,345,828) | (1,345,828) |
| 2020 | (769,530) | 769,530 | (576,298) | (576,298) |
| 2021 | (769,530) | 769,530 | 193,232 | 193,232 |
| 2022 | (769,530) | 769,530 | 962,762 | 962,762 |
| 2023 | (769,530) | 769,530 | 1,732,291 | 1,732,291 |
| 2024 | (1,214,279) | 1,214,279 | 2,946,571 | 2,946,571 |
| 2025 | (1,214,237) | 1,214,237 | 4,160,808 | 4,160,808 |
| 2026 | (1,214,237) | 1,214,237 | 5,375,045 | 5,375,045 |
| 2027 | 1,335,003 | (1,335,003) | 4,040,042 | 4,040,042 |
| 2028 | 1,346,681 | (1,346,681) | 2,693,362 | 2,693,362 |
| 2029 | 1,346,681 | (1,346,681) | 1,346,681 | 1,346,681 |
| 2030 | 1,346,681 | (1,346,681) | 0 | 0 |

## 31 RELATED PARTY TRANSACTIONS

| ELECTED MEMBERS REMUNERATION | 2018 $ | 2018 Budget $ | 2017 $ |
|---|---|---|---|
| The following fees, expenses and allowances were paid to the Council members, the Chairman and Deputy Chairman. | | | |
| Meeting Fees | 56,650 | 58,350 | 56,650 |
| Chairman Allowance | 19,570 | 20,000 | 19,570 |
| Deputy Chairman Allowance | 4,965 | 5,197 | 4,965 |
| Other Allowances | 17,500 | 18,565 | 17,500 |
| Other reimbursements | 1,145 | 1,888 | 1,145 |
| | 99,830 | 104,000 | 99,830 |

**KEY MANAGEMENT PERSONNEL (KMP) COMPENSATION DISCLOSURE**

| The total of remuneration paid to KMP of the Council during the year are as follows: | 2018 $ | 2017 $ |
|---|---|---|
| Short-term employee benefits | 793,031 | 766,792 |
| Post-employment benefits | 111,713 | 131,140 |
| Other long-term benefits | (26,411) | 11,085 |
| | 878,333 | 909,017 |

**Short-term employee benefits**
These amounts include all salary, paid leave, fringe benefits and cash bonuses awarded to KMP except for details in respect to fees and benefits paid to elected members which may be found at Note

**Post-employment benefits**
These amounts are the current-year's estimated cost of providing for the Council's superannuation contributions made during the year.

**Other long-term benefits**
These amounts represent long service benefits accruing during the year.

**<u>Related Parties</u>**

**The Council's main related parties are as follows:**

*i. Key management personnel*

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any elected member, are considered key management personnel.

*ii. Entities subject to significant influence by the Council*

An entity that has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement.

*iii. Joint venture entities accounted for under the equity method*

The SMRC is a joint venture arrangement between five local governments (member Councils) formed under the Local Government Act 1995 and an Establishment Agreement. Member Councils pay contributions towards services it receives from the SMRC and contributes towards loan repayments for the assets purchased for these services.

## 31 RELATED PARTY TRANSACTIONS (Continued)

**Transactions with related parties**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

| The following transactions occurred with related parties: | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Associated entities/individuals:** | | |
| | | |
| **Joint venture entities:** | | |
| Member Council Contributions and Gate Fees Received | 18,559,143 | 21,562,545 |
| Member Council Contributions for Loan Repayments Received | 3,039,960 | 2,742,049 |
| Member Council Contribution on Withdrawal Notice | 365,988 | 0 |
| Member Council Contribution on Withdrawal - Amended Business Plan | 150,532 | 0 |
| Paid to Member Councils | 2,517 | 77,210 |
| | | |
| **Amounts outstanding from related parties:** | | |
| Trade and other receivables | 1,074,294 | 2,043,842 |
| | | |
| **Amounts payable to related parties:** | 0 | 0 |

SOUTHERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

## 32 INFORMATION ON BORROWINGS

### (a) Loan Repayments

| Particulars | Principal 1-Jul-17 | New / Rollover Loans | Interest Repayments | | Principal Repayments | | Principal 30 Jun 18 |
|---|---|---|---|---|---|---|---|
| | | | Budget | Actual | Budget | Actual | |
| **Community Amenities** | | | | | | | |
| **RRRC** | | | | | | | |
| LOAN NO 3-28 | 227,060 | 0 | 7,002 | 7,007 | 227,060 | 227,060 | 0 |
| LOAN NO 3-33 | 440,749 | 0 | 25,648 | 26,128 | 101,079 | 101,079 | 339,670 |
| LOAN NO 3-66 | 1,470,081 | 0 | 97,083 | 97,728 | 1,470,081 | 1,470,081 | 0 |
| LOAN NO 3-67 | 583,314 | 0 | 36,902 | 37,117 | 83,383 | 83,383 | 499,931 |
| LOAN NO 3-68 | 571,064 | 0 | 19,122 | 19,261 | 571,064 | 571,064 | 0 |
| LOAN NO 3-73 | 592,299 | 0 | 30,284 | 30,286 | 87,531 | 87,531 | 504,768 |
| LOAN NO 3-74 | 2,258,106 | 0 | 115,457 | 115,465 | 333,708 | 333,708 | 1,924,398 |
| LOAN NO 3-76 | 678,231 | 0 | 30,092 | 30,074 | 102,096 | 102,096 | 576,135 |
| LOAN NO 3-80 | 1,018,591 | 0 | 44,726 | 44,703 | 169,086 | 169,086 | 849,505 |
| LOAN NO 3-81 | 1,795,392 | 0 | 78,835 | 78,794 | 298,035 | 298,035 | 1,497,357 |
| LOAN NO 3-83 | 762,844 | 0 | 33,773 | 33,699 | 114,891 | 114,891 | 647,953 |
| LOAN NO 3-85 | 1,138,636 | 0 | 54,638 | 54,487 | 169,677 | 169,677 | 968,959 |
| LOAN NO 3-87 | 882,436 | 0 | 36,801 | 36,654 | 133,801 | 133,801 | 748,635 |
| LOAN NO 3-89 | 1,514,775 | 0 | 55,259 | 54,951 | 232,961 | 232,961 | 1,281,814 |
| LOAN NO 3-90 | 1,162,909 | 0 | 42,423 | 42,433 | 178,847 | 178,847 | 984,062 |
| LOAN NO 3-94 | 586,680 | 0 | 7,981 | 7,994 | 586,680 | 586,680 | 0 |
| LOAN NO 3-95 | 1,406,505 | 0 | 19,134 | 19,166 | 1,406,505 | 1,406,505 | 0 |
| LOAN NO 3-96 | 465,732 | 0 | 14,033 | 13,904 | 72,867 | 72,923 | 392,809 |
| LOAN NO 3-97 | 1,967,193 | 0 | 55,804 | 49,610 | 1,967,193 | 1,967,193 | 0 |
| LOAN NO 3-98 (3-28, 68, 94) | 0 | 1,272,948 | 19,896 | 20,467 | 108,648 | 108,516 | 1,164,432 |
| LOAN NO 3-99 (3-95) | 0 | 1,295,836 | 31,413 | 20,835 | 110,601 | 110,467 | 1,185,369 |
| LOAN NO 3-100 (3-66) | 0 | 1,261,539 | 0 | 0 | 0 | 0 | 1,261,539 |
| LOAN NO 3-100 (3-97) | 0 | 1,655,301 | 0 | 0 | 0 | 0 | 1,655,301 |
| **Office Accommodation** | | | | | | | 0 |
| LOAN NO 2-5 | 1,800,000 | 0 | 40,012 | 40,046 | 1,800,000 | 1,800,000 | 0 |
| LOAN NO 2-6 (2-5) | | 1,800,000 | 28,748 | 28,781 | 0 | 0 | 1,800,000 |
| | 21,322,597 | 7,285,624 | 925,066 | 909,590 | 10,325,794 | 10,325,584 | 18,282,637 |
| Less: Accrued Interest | | | 0 | (718) | | | |
| Net Interest | | | 925,066 | 908,872 | | | |
| Less: Rollover of Loans | | (7,285,624) | | | (7,289,735) | (7,285,624) | |
| Net Borrowings / Repayments | | 0 | | | 3,036,059 | 3,039,960 | |

SOUTHERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

**32 INFORMATION ON BORROWINGS (Continued)**

**(b) New / Rollover of Borrowings**

| Particulars/Purpose | Amount Borrowed | | Institution | Loan Type | Term (Years) | Total Interest & Charges | Interest Rate | Amount Used | | Balance Unspent |
|---|---|---|---|---|---|---|---|---|---|---|
| | Budget | Actual | | | | | | Budget | Actual | |
| **Community Amenities** | $ | $ | | | | | | $ | $ | $ |
| **RRRC Project** | | | | | | | | | | |
| Loan No. 3.98 (Rollover) | 1,272,949 | 1,272,948 | WATC | Debenture | 5.50 | 120,412 | 2.64% | 1,272,949 | 1,272,948 | 0 |
| Loan No. 3.99 (Rollover) | 1,295,836 | 1,295,836 | WATC | Debenture | 5.50 | 122,577 | 2.64% | 1,295,836 | 1,295,836 | 0 |
| Loan No. 3.100 (Rollover) | 1,261,539 | 1,261,539 | WATC | Debenture | 5.00 | 113,437 | 2.66% | 1,261,539 | 1,261,539 | 0 |
| Loan No. 3.101 (Rollover) | 1,655,411 | 1,655,301 | WATC | Debenture | 5.00 | 148,844 | 2.66% | 1,655,411 | 1,655,301 | 0 |
| Loan No. 2.6 (Rollover) | 1,800,000 | 1,800,000 | WATC | Debenture | 3.00 | 200,352 | 2.55% | 1,800,000 | 1,800,000 | 0 |
| | 7,285,735 | 7,285,624 | | | | 705,622 | | 7,285,735 | 7,285,624 | 0 |

**(c) Unspent Loans**

An amount of $ Nil (2017- Nil) remained unspent out of the amount borrowed on the reporting date and is shown as a part of restricted cash.

**(d) Overdraft**

Council does not have an overdraft facility with its bankers.

## 33 FINANCIAL RISK MANAGEMENT

Council's activities expose it to a variety of financial risks including price risk, credit risk, liquidity risk and interest rate risk. The Council's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Council.

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 the finance area under policies approved by the Council.

The Council held the following financial instruments at balance date:

| | Carrying Value | | Fair Value | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $ | $ | $ | $ |
| **Financial Assets** | | | | |
| Cash and cash equivalents | 10,336,874 | 11,573,051 | 10,336,874 | 11,573,051 |
| Receivables | 20,370,807 | 24,356,966 | 20,238,067 | 24,358,485 |
| | 30,707,681 | 35,930,017 | 30,574,941 | 35,931,536 |
| **Financial Liabilities** | | | | |
| Payables | 5,324,608 | 5,093,153 | 5,324,608 | 5,093,153 |
| Borrowings | 18,282,637 | 21,322,597 | 18,149,897 | 21,324,116 |
| | 23,607,245 | 26,415,750 | 23,474,505 | 26,417,269 |

Fair value is determined as follows:

- Cash and Cash Equivalents, Receivables, Payables – estimated to the carrying value which approximates net market value.

- Borrowings – estimated future cash flows discounted by the current market interest rates applicable to assets and liabilities with similar risk profiles.

### (a) Cash and Cash Equivalents

Council's objective is to maximise its return on cash portfolio whilst maintaining an adequate level of liquidity and preserving capital. Council has an investment policy and the policy is subject to review by Council. An Investment Report is provided to Council on a monthly basis setting out the make-up and performance of the portfolio.

Cash is subject to interest rate risk – the risk that movements in interest rates could affect returns. Another risk associated with cash is credit risk – the risk that a contracting entity will not complete its obligations under a financial instrument resulting in a financial loss to Council.

Council manages these risks by investing its funds with recognised Australian Banks.

## 33 FINANCIAL RISK MANAGEMENT (Continued)

### (a) Cash and Cash Equivalents (Continued)

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Impact of a 1% **(*)** movement in interest rates on cash and cash equivalents | | |
| - Equity | 104,818 | 119,109 |
| - Income Statement | 104,818 | 119,109 |

**Notes:**

**(*)** Sensitivity percentages based on management's expectation of future possible market movements. Recent market volatility has seen large market movements for certain types of investments.

### (b) Receivables

Council's major receivables comprise gate fees, sale of materials and charges. The major risk associated with these receivables is credit risk – the risk that the debts may not be repaid. Council manages this risk by monitoring outstanding debt and employing debt recovery policies.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance. The Council has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the financial loss from defaults.

The Council makes suitable provision for doubtful receivables as required.

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

The profile of the Council's credit risk at balance date was:

| | 2018 | 2017 |
|---|---|---|
| Percentage of Receivables | | |
| - Current | 95.29% | 94.34% |
| - Overdue | 4.71% | 5.66% |

## 33 FINANCIAL RISK MANAGEMENT (continued)

### ( c) Payables and Borrowings

Payables and borrowings are both subject to liquidity risk – that is 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.

The contractual undiscounted cash flows of Council's Payables and Borrowings are set out in the Liquidity Sensitivity Table below:

| | Due within 1 year $ | Due between 1 & 5 years $ | Due after 5 years $ | Total contractual cash flows $ | Carrying values $ |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Payables | 5,324,608 | 0 | 0 | 5,324,608 | 5,324,608 |
| Borrowings | 4,520,784 | 15,760,749 | 0 | 20,281,533 | 18,282,637 |
| | 9,845,392 | 15,760,749 | 0 | 25,606,141 | 23,607,245 |
| **2017** | | | | | |
| Payables | 5,093,153 | 0 | 0 | 5,093,153 | 5,093,153 |
| Borrowings | 10,932,827 | 10,940,270 | 2,153,780 | 24,026,877 | 21,322,597 |
| | 16,025,980 | 10,940,270 | 2,153,780 | 29,120,030 | 26,415,750 |

## 33 FINANCIAL RISK MANAGEMENT (continued)

### (d) Payables and Borrowings (continued)

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs. Council manages this risk by borrowing long term and fixing the interest rate to the situation considered the most advantageous at the time of negotiation.

The following tables set out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

| | <1 year<br>$ | >1<2 years<br>$ | >2<3 years<br>$ | >3<4 years<br>$ | >4<5 years<br>$ | >5 years<br>$ | Total<br>$ | Weighted Average Effective Interest Rate<br>% |
|---|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | | |
| **Borrowings** | | | | | | | | |
| **Fixed Rate** | | | | | | | | |
| Debentures | 839,601 | 1,800,000 | 0 | 0 | 15,643,036 | 0 | 18,282,637 | 4.22% |
| Weighted Average Effective Interest Rate | 6.55% | 3.25% | | | 4.20% | | | |
| **2017** | | | | | | | | |
| **Borrowings** | | | | | | | | |
| **Fixed Rate** | | | | | | | | |
| Debentures | 8,028,583 | 1,024,063 | 0 | 0 | 0 | 12,269,951 | 21,322,597 | 4.60% |
| Weighted Average Effective Interest Rate | 4.28% | 6.54% | | | | 4.64% | | |

**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF SOUTHERN METROPOLITAN REGIONAL COUNCIL**

## Report on the Financial Report

## Opinion

We have audited the financial report of Southern Metropolitan Regional Council (Council), which comprises the statement of financial position as at 30 June 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the declaration by the Chief Executive Officer.

In our opinion, the financial report of Southern Metropolitan Regional Council is in accordance with the underlying records of the Council, including:

a) giving a true and fair view of the Council's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

b) complying with Australian Accounting Standards (including Australian Accounting Interpretations), the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).

## Basis for Opinion

We have conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report.

We are independent of the Regional Council in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our ethical requirements in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Emphasis of Matter – Supplementary Ratio Information

Without modifying our opinion, we draw attention to page 43 of the financial report "Supplementary Ratio Information", which describes certain ratio information relating to the financial report. Management's calculation of these ratios includes assumptions about future capital expenditure and hence falls outside our audit scope. We do not therefore express an opinion on these ratios.

However, we have reviewed the calculations as presented and in our opinion these are based on verifiable information and appear reasonable.



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## Other Information

Council is responsible for the other information. The other information comprises the information in the Regional Council's annual report for the year ended 30 June 2018 but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Council's Responsibility for the Financial Report

Council is responsible for the preparation of the financial report which gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations), the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) and for such internal control as the Council determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

## Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain and understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Councillors.

- Conclude on the appropriateness of Council's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Regional Council to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Council with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**Reporting on Other Legal and Regulatory Requirements**

We did not, during the course of our audit, become aware of any instances where the Council did not comply with the statutory requirements of the Local Government Act (1995) (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).

In accordance with the Local Government (audit) Regulations 1996, we also report that:

a) Apart from the operating surplus ratio, debt service cover ratio and asset sustainability ratio there are no material matters that in our opinion indicate significant adverse trends in the financial position or the financial management practices of the Regional Council.

b) The Council substantially complied with Part 6 of the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).

c) All information and explanations required were obtained by us.

d) All audit procedures were satisfactorily completed in conducting our audit.

BUTLER SETTINERI (AUDIT) PTY LTD

MARIUS VAN DER MERWE
Director

Perth
Date: 6 August 2018

**SUPPLEMENTARY RATIO INFORMATION**

The following information relates to those ratios which only require attestation that they have been checked and are supported by verifiable information.

| | **2018** | **2017** | **2016** |
|---|---|---|---|
| Asset Consumption Ratio | 0.76 | 0.89 | 0.80 |
| Asset Renewal Funding Ratio | 1.00 | 1.00 | 1.00 |

The above ratios are calculated as follows:

Asset Consumption Ratio $\frac{\text{Depreciated Replacement Cost of Assets}}{\text{Current Replacement Cost of Depreciated Assets}}$

Asset Renewal Funding Ratio $\frac{\text{NPV of Planned Capital Renewals over 10 years}}{\text{NPV of Required Capital Expenditure over 10 years}}$