



Shire of
Narrogin

**MINUTES
AUDIT ADVISORY COMMITTEE MEETING**

14 July 2021

Commencing at 5:00 pm
Council Chambers
Shire of Narrogin
89 Earl Street
Narrogin WA 6312

The Chief Executive Officer recommends the endorsement of these minutes at the next Audit Advisory Committee Meeting.

Signed: 

Date **16 July 2021**

These minutes were confirmed at the Audit Advisory Committee Meeting held on _____

Signed: 

(Presiding Person at the meeting at which minutes were confirmed)

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Please note that meetings may be recorded for minute taking purposes.

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AUDIT COMMITTEE MEETING 14 JULY 2021

1. OFFICIAL OPENING/ANNOUNCEMENT OF VISITORS

The Presiding Member, President Ballard, declared the meeting open at 5:05 pm.

2. RECORD OF ATTENDANCE/APOLOGIES/APPROVED LEAVE OF ABSENCE

Committee Members (Voting)

Mr L Ballard – Shire President (Presiding Member)

Cr M Fisher

Cr G Broad

Cr C Bartron

Cr J Early

Cr B Seale

Staff

Mr D Stewart – Chief Executive Officer

Mr F Ludovico – Executive Manager Corporate & Community Services

Mr A Mulenga – Manager Corporate Services

Visitors

Mr Kien Neoh – Office of the Auditor General (Director – Financial Audit) – joined via telephone at 5.25pm and left the meeting at 5.55pm.

Apologies

Cr T Wiese – Deputy Shire President

Cr S Lushey

Cr G Ballard

3. DECLARATION OF INTEREST BY ELECTED MEMBERS AND COUNCIL EMPLOYEES IN MATTERS INCLUDED IN THE MEETING AGENDA

Nil

4. **CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS**

OFFICER'S RECOMMENDATION AND COMMITTEE RESOLUTION

Moved: Cr Fisher Seconded: Cr Broad

That the minutes of the Audit Committee Meeting held [24 February 2021](#) be confirmed as an accurate record of the proceedings.

CARRIED 6/0

5. **ANNOUNCEMENTS BY THE PERSON PRESIDING WITHOUT DISCUSSION**

Nil

6. MATTERS WHICH REQUIRE DECISIONS

6.1 ADOPTION OF 2019/20 ANNUAL FINANCIAL REPORT

File Reference	12.2.1, 4.2.6
Disclosure of Interest	Neither the Author nor Authorising Officer have any Impartiality, Financial or Proximity Interests that requires disclosure.
Applicant	Shire of Narrogin
Previous Item Numbers	Nil
Date	30 June 2021
Author	Frank Ludovico – Executive Manager Corporate and Community Services
Authorising Officer	Dale Stewart – Chief Executive Officer
Attachments	<ol style="list-style-type: none">1. Letter from the Office of the Auditor General.2. Shire of Narrogin 2019/20 Annual Financial Report3. Independent Audit Report.4. Management Letter – CONFIDENTIAL – Supplied under separate cover.

Summary

The Office of the Auditor General (OAG) conducted the Annual Financial Audit for 2019/20 commencing December 2020 and due to COVID-19, and other reasons, not concluding until May 2021.

This item discusses the outcomes of that audit.

Note: A representative from the OAG Mr Kien Neoh (Director – Financial Audit) will be participating in this item via teleconference.

Background

The Office of Auditor General conducted the Annual Audit with an onsite audit, between 1-13 December 2020, undertaking follow-up work until May 2021. The final report was received on 14 June 2021.

Consultation

- Dale Stewart – Chief Executive Officer
- Alex Mulenga – Manager Corporate Services
- Mr Kien Neoh Director – Director Financial Audit OAG

Statutory Environment

Section 6.4 Local Government Act 1995 Financial report

Section 5.54 Local Government Act 1995 Acceptance of Annual Reports

Regulation 36 Local Government (Financial Management) Regulations 1996 - Annual financial report, content of (Act s.6.4(2))

Policy Implications

There are no policy implications on this matter.

Financial Implications

The financial implications are detailed in the report under comment about ratios.

Strategic Implications

Shire of Narrogin Strategic Community Plan 2017-2027		
Objective	4.	Civic Leadership Objective (Continually enhance the Shire's organisational capacity to service the needs of a growing community)
Outcome:	4.1	An efficient and effective organisation
Strategy:	4.1.1	Continually improve operational efficiencies and provide effective services
Strategy:	4.1.2	Continue to enhance communication and transparency

Comment/Conclusion

Audit Opinion

The OAG concludes the results of the audit was generally satisfactory but there were some deficiencies in internal controls.

The Independent Audit Report express a qualified opinion on the Annual Financial Report (AFR) for the Shire of Narrogin for 2019/20. However, the AFR, is based on proper accounts and records and fairly represents the results of the operations for the Shire of Narrogin for the year ended 30 June 2020.

A qualification was included relating to the fact, the municipal bank reconciliation at 30 June 2020, included an unreconciled balance of \$5,425.

The period from March until December 2020 was a very hectic period for the Administration. New Payroll, Creditors and Rates Finance Officers had just been recruited and in September both the Manager Corporate Service and Senior Finance Officer left the organisation. Additionally, COVID-19 put a strain on resources.

Consultants were used to in an attempt clear the unreconciled balance. Whilst a number of issues were resolved, this immaterial amount could not be cleared.

It is considered the amounts reflect unrecorded payments (ie bank charges) or duplicate income in the ledgers that were erroneously ticked in the bank reconciliation process. The unreconciled amount has not altered from 1 July 2020. Work has continued to locate the amount but this has been unsuccessful. The amount has now been expensed however may need to be raised as a write off element to satisfy auditor's preferences.

In order to deal with this matter, new procedures have been introduced and bank reconciliation software purchased. Bank reconciliations are now completed on a daily basis.

Ratios

The Auditor also highlights the Shire's Operating Surplus Ratio was below the Department of Local Government, Sport and Cultural Industries' standard for the past three financial years (indeed for probably the past 30 or more years).

The Operating Surplus Ratio measures the local government's ability to cover its operational costs and have revenues available for capital funding or other purposes. To meet the standard, the ratio must be between 0.0 and 0.15. The Shire's ratio for the last 3 years has been (0.01), (0.19) and (0.18), 2018 to 2020 respectively.

The ratio excludes income from grants but includes depreciation expenses and highlights that most rural local governments require government grant support to provide services to their residents.

The Operating Surplus Ratio requires Council to ensure that its own revenue sources grow at the same or a greater rate than its operating expenses, including depreciation. It is well known that most country local governments struggle to fully fund asset depreciation via its own revenue sources and there is a reliance on grant funding such as Regional Road Group and Roads to Recovery to assist with asset renewal expenditure.

To correct this situation, own source revenue (eg Rates and Fees & Charges) needs to increase, or operating expenditures decrease. Both these measures may be difficult in the current economic circumstances.

The current ratio benchmarks adopted by the Department is a "one size fits all" approach. It is understood that a majority of rural local governments have not had an Operating Surplus Ratio that met the standards set by the Department, and there has been an indication by the Auditor General that this benchmark may need review.

Management Letter

The Management Letter (attached) identifies several matters and the Administration's response to those matters. Four of the matters are considered significant. These are detailed below:

1. Changes to bank details in supplier master file.

"Deficiencies were noted in the management of supplier master file bank detail changes made during the COVID-19 period."

Management comment: Process for changes to bank details have been reviewed. The manager/supervisor authorising the creditors' payment now initials or signs on the amendments after checking against written requests from the relevant suppliers.

2. Monthly bank reconciliation

"The Municipal Bank Account had, unreconciled items totaling \$5,425, and \$84,326 worth of reconciling expenditure items that were incorrectly entered against the cash ledger, of which approximately \$48k superannuation payments were only paid in January 2021."

See comments above.

"The Trust Bank Account had: Unreconciled items totaling \$280."

Trust Bank has been reconciled.

3. Late payment of superannuation

"We have identified that the Shire's employee superannuation expense for June 2020 of \$48k was only paid in January 2021, four months late of the requirement."

Management comment: The June 2020 Superannuation contribution was to be paid by quarterly deadline of 28 July 2020. The deadline was missed due to senior finance staff resignations around this time. However, remedial action has since been taken since this occurrence, as super is now paid fortnightly through the WA Super Clearing House.

4. Stocktake of non-current assets not undertaken.

"We noted that there is still no periodic asset count process in place and no stocktake was undertaken in 2019-20."

Management comment: COVID-19 caused significant disruption to workflows due to staff absences. Land and Buildings will be reviewed during the Australian Accounting Standards Board 16 Leases and Fair Value uptake by 30 June 2021.

Stocktake of Portable plant and Portable & Attractive Assets register was completed by 31 March 2021. Please note Council policy 3.10 Portable and Attractive Assets indicates a "stocktake" of these assets will occur on a regular basis but at least every three years but no more than five years when fair value revaluations occur.

A physical stocktake of all other assets will occur by 30 June 2022 and the Asset Management Policy reviewed to incorporate an appropriate stocktake process and regime by 31 December 2021.

Since the above comments was made to the OAG, Council Policy 3.10 Portable and Attractive Assets has been amended to clarify the asset class of the stocktake and the frequency. Policy 12.11 Asset Management has also been reviewed.

The Annual Financial Report and Audit Report will now be incorporated into the Annual Report, which must be accepted by the local government within 2 months after the Auditor's report become available (ie 14 August 2021). This document will be included in the Agenda for the Council Meeting of 28 July 2021.

Voting Requirements

Simple Majority

See over for Recommendation.

OFFICERS' RECOMMENDATION AND COMMITTEE RESOLUTION

Moved: Cr Seale

Seconded: Cr Early

That, with respect to the 2019/20 Annual Financial Report, the Audit Committee recommend to Council:

1. The acceptance of the Annual Financial Report and Independent Audit Report for 2019/20; and
2. Note the Administration's response regarding:
 - a. The Operating Surplus Ratio; and
 - b. The other matters referenced in the Management Letter.
3. Note the implementation schedule of items discussed in the Management Letter.

CARRIED 6/0

7. ELECTED MEMBERS' MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

Nil

8. GENERAL BUSINESS APPROVED BY THE PERSON PRESIDING OR BY DECISION OF THE MEETING

Nil

9. CLOSURE OF MEETING

There being no further business to discuss, the Presiding Member declared the meeting closed at 6:13 pm.

ATTACHMENT 1

Our Ref: 7950

7th Floor, Albert Facey House
469 Wellington Street, Perth

Mr Dale Stewart
Chief Executive Officer
Shire of Narrogin
PO Box 1455
NARROGIN WA 6312

Mail to: Perth BC
PO Box 8489
PERTH WA 6849

Tel: 08 6557 7500
Fax: 08 6557 7600
Email: info@audit.wa.gov.au

Dear Mr Stewart

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2020

The Office has completed the audit of the annual financial report for your Shire. In accordance with section 7.12AD (2) of the *Local Government Act 1995*, we enclose the Auditor General's auditor's report; together with the audited annual financial report.

We have also forwarded the reports to the President and the Minister for Local Government, as required by the Act. You are required to publish the annual report, including the auditor's report and the audited financial report, on your Shire's official website within 14 days after the annual report has been accepted by your Council.

Matters of regulatory non-compliance and adverse trends in the financial position are reported on page 2 of the auditor's report.

Management Control Issues

While the result of the audit was generally satisfactory, I would like to draw your attention to the attached listing of deficiencies in internal control and other matters that were identified during the audit. These matters have been discussed with management and their comments have been included in the attachment.

Please note that the purpose of our audit was to express an opinion on the financial report. The audit included consideration of internal control relevant to the preparation of the financial report in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

An audit is not designed to identify all internal control deficiencies that may require management attention. The matters being reported are limited to those deficiencies that have been identified during the audit that are of sufficient importance to warrant being reported. It is possible that other irregularities and deficiencies may have occurred and not been identified as a result of our audit.

This letter has been provided for the purposes of the Shire and the Minister for Local Government and may not be suitable for other purposes.

I would like to take this opportunity to thank you, the management and the staff of the Shire for their cooperation with the audit team during our audit.

Feel free to contact me on 6557 7683 if you would like to discuss these matters further.

Yours faithfully



KIÊN NEOH
DIRECTOR
FINANCIAL AUDIT
14 June 2021

Attach

ATTACHMENT 2

SHIRE OF NARROGIN
FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

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COMMUNITY VISION

"A leading regional economic driver and a socially interactive and inclusive community"

Principal place of business:
89 Earl Street
Narrogin
WA 6390

**SHIRE OF NARROGIN
FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020**

*Local Government Act 1995
Local Government (Financial Management) Regulations 1996*

STATEMENT BY CHIEF EXECUTIVE OFFICER

The attached financial report of the Shire of Narrogin for the financial year ended 30 June 2020 is based on proper accounts and records to present fairly the financial position of the Shire of Narrogin at 30 June 2020 and the results of the operations for the financial year then ended in accordance with the Local Government Act 1995 and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

Signed on the 24 day of May 2021



Chief Executive Officer

Dale Stewart

Name of Chief Executive Officer



SHIRE OF NARROGIN
STATEMENT OF COMPREHENSIVE INCOME
BY NATURE OR TYPE
FOR THE YEAR ENDED 30 JUNE 2020

	NOTE	2020 Actual \$	2020 Budget \$	2019 Actual \$
Revenue				
Rates	23(a)	4,938,388	4,943,620	4,838,905
Operating grants, subsidies and contributions	2(a)	4,011,546	2,809,466	4,013,897
Fees and charges	2(a)	1,787,386	1,646,486	1,706,542
Interest earnings	2(a)	175,066	177,100	250,026
Other revenue	2(a)	345,556	204,578	1,467,106
		<u>11,257,942</u>	<u>9,781,250</u>	<u>12,276,476</u>
Expenses				
Employee costs		(5,408,819)	(5,281,439)	(5,468,209)
Materials and contracts		(2,873,798)	(3,121,662)	(3,093,318)
Utility charges		(604,712)	(687,072)	(690,899)
Depreciation on non-current assets	11(b)	(2,920,996)	(3,450,264)	(3,631,766)
Interest expenses	2(b)	(49,139)	(39,440)	(41,325)
Insurance expenses		(250,979)	(267,776)	(260,371)
Other expenditure	2(b)	(387,401)	(642,125)	(208,086)
		<u>(12,495,844)</u>	<u>(13,489,778)</u>	<u>(13,393,974)</u>
		<u>(1,237,902)</u>	<u>(3,708,528)</u>	<u>(1,117,498)</u>
Non-operating grants, subsidies and contributions	2(a)	1,232,923	851,426	809,023
Profit on asset disposals	11(a)	10,152	35,472	14,394
(Loss) on asset disposals	11(a)	(58,680)	(132,477)	(159,646)
Fair value adjustments to financial assets at fair value through profit or loss		1,729	0	0
		<u>1,186,124</u>	<u>754,421</u>	<u>663,771</u>
Net result for the period		(51,778)	(2,954,107)	(453,727)
Other comprehensive income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes in asset revaluation surplus	13	(105,103)	0	(55,384)
Total other comprehensive income for the period		(105,103)	0	(55,384)
Total comprehensive income for the period		(156,881)	(2,954,107)	(509,111)

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



SHIRE OF NARROGIN
STATEMENT OF COMPREHENSIVE INCOME
BY PROGRAM
FOR THE YEAR ENDED 30 JUNE 2020

	NOTE	2020 Actual \$	2020 Budget \$	2019 Actual \$
Revenue	2(a)			
Governance		1,202	1,850	3,581
General purpose funding		7,449,404	6,298,461	7,472,292
Law, order, public safety		118,023	79,900	266,478
Health		21,149	23,500	53,404
Education and welfare		1,702,814	1,370,538	1,462,390
Housing		8,240	8,240	8,668
Community amenities		1,076,744	1,073,914	1,080,228
Recreation and culture		63,928	138,571	194,321
Transport		255,107	393,646	1,275,677
Economic services		274,039	283,619	275,187
Other property and services		287,292	109,011	184,250
		<u>11,257,942</u>	<u>9,781,250</u>	<u>12,276,476</u>
Expenses	2(b)			
Governance		(538,271)	(716,201)	(574,450)
General purpose funding		(224,900)	(255,567)	(274,816)
Law, order, public safety		(740,441)	(766,873)	(526,304)
Health		(305,648)	(280,251)	(256,031)
Education and welfare		(1,824,283)	(1,555,453)	(1,505,595)
Housing		(31,742)	(34,441)	(32,068)
Community amenities		(1,450,229)	(1,568,717)	(1,404,043)
Recreation and culture		(2,797,909)	(3,460,169)	(3,131,606)
Transport		(3,566,114)	(4,003,206)	(4,609,520)
Economic services		(899,359)	(796,803)	(823,228)
Other property and services		(67,809)	(12,657)	(214,988)
		<u>(12,446,705)</u>	<u>(13,450,338)</u>	<u>(13,352,649)</u>
Finance Costs	2(b)			
Governance		(12,563)	(8,519)	(12,396)
Law, order, public safety		(364)	0	0
Recreation and culture		(19,512)	(15,356)	(22,203)
Transport		0	0	(90)
Economic services		(16,700)	(15,565)	(6,636)
		<u>(49,139)</u>	<u>(39,440)</u>	<u>(41,325)</u>
		<u>(1,237,902)</u>	<u>(3,708,528)</u>	<u>(1,117,498)</u>
Non-operating grants, subsidies and contributions	2(a)	1,232,923	851,426	809,023
Profit on disposal of assets	11(a)	10,152	35,472	14,394
(Loss) on disposal of assets	11(a)	(58,680)	(132,477)	(159,646)
Fair value adjustments to financial assets at fair value through profit or loss		1,729	0	0
		<u>1,186,124</u>	<u>754,421</u>	<u>663,771</u>
Net result for the period		<u>(51,778)</u>	<u>(2,954,107)</u>	<u>(453,727)</u>
Other comprehensive income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes in asset revaluation surplus	13	(105,103)	0	(55,384)
Total other comprehensive income for the period		<u>(105,103)</u>	<u>0</u>	<u>(55,384)</u>
Total comprehensive income for the period		<u>(156,881)</u>	<u>(2,954,107)</u>	<u>(509,111)</u>

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

SHIRE OF NARROGIN
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	NOTE	2020	2019
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	3	7,202,711	7,906,681
Trade and other receivables	6	673,999	1,080,942
Inventories	7	19,735	7,310
Other assets	8	30,688	4,241
TOTAL CURRENT ASSETS		7,927,133	8,999,174
NON-CURRENT ASSETS			
Trade and other receivables	6	187,203	186,915
Other financial assets	5(a)	106,832	105,103
Property, plant and equipment	9	58,387,584	57,798,156
Infrastructure	10	114,312,047	113,800,220
Right of use assets	12(a)	24,076	0
TOTAL NON-CURRENT ASSETS		173,017,742	171,890,394
TOTAL ASSETS		180,944,875	180,889,568
CURRENT LIABILITIES			
Trade and other payables	14	934,881	611,006
Lease liabilities	15(a)	10,644	0
Borrowings	16(a)	173,653	166,658
Employee related provisions	17	711,328	549,544
TOTAL CURRENT LIABILITIES		1,830,506	1,327,208
NON-CURRENT LIABILITIES			
Lease liabilities	15(a)	13,562	0
Borrowings	16(a)	801,359	975,569
Employee related provisions	17	179,378	288,947
TOTAL NON-CURRENT LIABILITIES		994,299	1,264,516
TOTAL LIABILITIES		2,824,805	2,591,724
NET ASSETS		178,120,070	178,297,844
EQUITY			
Retained surplus		50,442,171	50,369,084
Reserves - cash backed	4	4,083,821	4,229,579
Revaluation surplus	13	123,594,078	123,699,181
TOTAL EQUITY		178,120,070	178,297,844

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



**SHIRE OF NARROGIN
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020**

	NOTE	RETAINED SURPLUS	RESERVES CASH BACKED	REVALUATION SURPLUS	TOTAL EQUITY
		\$	\$	\$	\$
Balance as at 1 July 2018		51,097,591	3,954,799	123,754,565	178,806,955
Comprehensive income					
Net result for the period		(453,727)	0	0	(453,727)
Other comprehensive income	13	0	0	(55,384)	(55,384)
Total comprehensive income		(453,727)	0	(55,384)	(509,111)
Transfers from reserves	4	1,234,368	(1,234,368)	0	0
Transfers to reserves	4	(1,509,148)	1,509,148	0	0
Balance as at 30 June 2019		50,369,084	4,229,579	123,699,181	178,297,844
Change in accounting policy	28(b)	(125,996)	0	0	(125,996)
Correction of prior year error	5	105,103	0	0	105,103
Restated total equity at 1 July 2019		50,348,191	4,229,579	123,699,181	178,276,951
Comprehensive income					
Net result for the period		(51,778)	0	0	(51,778)
Other comprehensive income	13	0	0	(105,103)	(105,103)
Total comprehensive income		(51,778)	0	(105,103)	(156,881)
Transfers from reserves	4	2,674,563	(2,674,563)	0	0
Transfers to reserves	4	(2,528,805)	2,528,805	0	0
Balance as at 30 June 2020		50,442,171	4,083,821	123,594,078	178,120,070

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

**SHIRE OF NARROGIN
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020**

	NOTE	2020 Actual \$	2020 Budget \$	2019 Actual \$
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts				
Rates		4,902,789	4,993,620	4,744,950
Operating grants, subsidies and contributions		4,494,320	3,209,466	4,485,096
Fees and charges		1,787,386	1,646,486	1,706,542
Interest received		175,066	177,100	250,026
Goods and services tax received		709,432	164,883	658,672
Other revenue		345,556	204,578	1,467,106
		12,414,549	10,396,133	13,312,392
Payments				
Employee costs		(5,281,976)	(5,281,439)	(5,252,205)
Materials and contracts		(2,819,535)	(3,094,662)	(3,015,540)
Utility charges		(604,712)	(687,072)	(690,899)
Interest expenses		(49,139)	(39,440)	(41,325)
Insurance paid		(250,979)	(267,776)	(260,371)
Goods and services tax paid		(719,836)	(164,883)	(670,057)
Other expenditure		(387,401)	(642,125)	(208,086)
		(10,113,578)	(10,177,397)	(10,138,483)
Net cash provided by (used in) operating activities	18	2,300,971	218,736	3,173,909
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for purchase of property, plant & equipment	9(a)	(2,104,843)	(2,629,468)	(1,942,848)
Payments for construction of infrastructure	10(a)	(2,367,947)	(2,910,277)	(1,934,464)
Non-operating grants, subsidies and contributions	2(a)	1,232,923	851,426	809,023
Proceeds from sale of property, plant & equipment	11(a)	410,007	667,897	604,761
Net cash provided by (used in) investment activities		(2,829,860)	(4,020,422)	(2,463,528)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of borrowings	16(b)	(167,215)	(166,659)	(129,777)
Payments for principal portion of lease liabilities	15(b)	(7,866)	0	0
Proceeds from new borrowings	16(b)	0	0	350,000
Net cash provided by (used in) financing activities		(175,081)	(166,659)	220,223
Net increase (decrease) in cash held		(703,970)	(3,968,345)	930,604
Cash at beginning of year		7,906,681	7,893,081	6,976,077
Cash and cash equivalents at the end of the year	18	7,202,711	3,924,736	7,906,681

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

**SHIRE OF NARROGIN
RATE SETTING STATEMENT
FOR THE YEAR ENDED 30 JUNE 2020**

	NOTE	2020 Actual \$	2020 Budget \$	2019 Actual \$
OPERATING ACTIVITIES				
Net current assets at start of financial year - surplus/(deficit)	24 (b)	3,817,912	4,001,534	3,760,640
		3,817,912	4,001,534	3,760,640
Revenue from operating activities (excluding rates)				
Governance		1,202	1,850	3,581
General purpose funding		2,521,863	1,363,465	2,677,951
Law, order, public safety		118,023	79,900	266,478
Health		21,149	23,500	53,404
Education and welfare		1,702,814	1,370,538	1,464,072
Housing		8,240	8,240	8,668
Community amenities		1,080,903	1,092,366	1,082,425
Recreation and culture		63,928	138,571	194,321
Transport		261,100	408,915	1,285,192
Economic services		274,039	283,619	275,187
Other property and services		287,292	110,762	185,250
		6,340,553	4,881,726	7,496,529
Expenditure from operating activities				
Governance		(550,834)	(724,720)	(586,846)
General purpose funding		(224,900)	(255,567)	(274,816)
Law, order, public safety		(740,805)	(766,873)	(531,446)
Health		(305,648)	(280,251)	(256,031)
Education and welfare		(1,831,072)	(1,573,105)	(1,530,966)
Housing		(31,742)	(34,441)	(32,068)
Community amenities		(1,468,568)	(1,574,917)	(1,406,963)
Recreation and culture		(2,817,421)	(3,475,525)	(3,220,874)
Transport		(3,591,520)	(4,086,406)	(4,653,351)
Economic services		(916,059)	(812,368)	(829,864)
Other property and services		(75,955)	(38,082)	(230,395)
		(12,554,524)	(13,622,255)	(13,553,620)
Non-cash amounts excluded from operating activities	24(a)	2,883,658	3,547,269	3,964,103
Amount attributable to operating activities		487,599	(1,191,726)	1,667,652
INVESTING ACTIVITIES				
Non-operating grants, subsidies and contributions	2(a)	1,232,923	851,426	809,023
Proceeds from disposal of assets	11(a)	410,007	667,897	604,761
Purchase of property, plant and equipment	9(a)	(2,104,843)	(2,629,468)	(1,942,848)
Purchase and construction of infrastructure	10(a)	(2,367,947)	(2,910,277)	(1,934,464)
Amount attributable to investing activities		(2,829,860)	(4,020,422)	(2,463,528)
FINANCING ACTIVITIES				
Repayment of borrowings	16(b)	(167,215)	(166,659)	(129,777)
Proceeds from borrowings	16(c)	0	0	350,000
Payments for principal portion of lease liabilities	15(b)	(7,866)	0	0
Transfers to reserves (restricted assets)	4	(2,528,805)	(969,913)	(1,509,148)
Transfers from reserves (restricted assets)	4	2,674,563	1,413,724	1,234,368
Amount attributable to financing activities		(29,323)	277,152	(54,557)
Surplus/(deficit) before imposition of general rates		(2,371,584)	(4,934,996)	(850,433)
Total amount raised from general rates	23(a)	4,929,270	4,934,996	4,794,341
Surplus/(deficit) after imposition of general rates	24(b)	2,557,686	0	3,943,908

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

SHIRE OF NARROGIN
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FOR THE YEAR ENDED 30 JUNE 2020

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1. 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) and Interpretations of the Australian Accounting Standards Board, and the *Local Government Act 1995* and accompanying regulations.

AMENDMENTS TO LOCAL GOVERNMENT (FINANCIAL MANAGEMENT) REGULATIONS 1996

The *Local Government (Financial Management) Regulations 1996* take precedence over Australian Accounting Standards. Prior to 1 July 2019, *Financial Management Regulation 16* arbitrarily prohibited a local government from recognising as assets Crown land that is a public thoroughfare, i.e. land under roads, and land not owned by but under the control or management of the local government, unless it is a golf course, showground, racecourse or recreational facility of State or regional significance. Consequently, some assets pertaining to vested land, including land under roads acquired on or after 1 July 2008, were not recognised in previous financial reports of the Shire. This was not in accordance with the requirements of AASB 1051 *Land Under Roads* paragraph 15 and AASB 116 *Property, Plant and Equipment* paragraph 7.

From 1 July 2019, the Shire has applied AASB 16 Leases which requires leases to be included by lessees in the statement of financial position. Also, the *Local Government (Financial Management) Regulations 1996* have been amended to specify that vested land is a right-of-use asset to be measured at cost. All right-of-use assets (other than vested improvements) under zero cost concessionary leases are measured at zero cost (i.e. not included in the statement of financial position) rather than at fair value. The exception is vested improvements on concessionary land leases such as roads, buildings or other infrastructure which continue to be reported at fair value, as opposed to the vested land which is measured at zero cost. The measurement of vested improvements at fair value is a departure from AASB 16 which would have required the Shire to measure any vested improvements at zero cost.

The Shire has accounted for the removal of the vested land values associated with vested land previously recognised by removing the land value and associated revaluation reserve as at 1 July 2019. The comparative year amounts have been retained as AASB 16 does not require comparatives to be restated in the year of transition.

Therefore the departure from AASB 1051 and AASB 16 in respect of the comparatives for the year ended 30 June 2019 remains.

Accounting policies which have been adopted in the preparation of this financial report have been consistently applied unless stated otherwise. Except for cash flow and rate setting 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.

NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE YEARS

On 1 July 2020 the following new accounting standards are to be adopted:

- AASB 1059 *Service Concession Arrangements: Grantors*
- AASB 2018-7 *Amendments to Australian Accounting Standards - Materiality*

AASB 1059 *Service Concession Arrangements: Grantors* is not expected to impact the financial report.

Specific impacts of AASB 2018-7 *Amendments to Australian Accounting Standards - Materiality*, have not been identified.

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 the 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 Shire 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 29 to these financial statements.

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

2. REVENUE AND EXPENSES

REVENUE RECOGNITION POLICY

Recognition of revenue is dependant on the source of revenue and the associated terms and conditions associated with each source of revenue and recognised as follows:

Revenue Category	Nature of goods and services	When obligations typically satisfied	Payment terms	Returns/Refunds/Warranties	Determination of transaction price	Allocating transaction price	Measuring obligations for returns	Timing of revenue recognition
Rates	General Rates	Over time	Payment dates adopted by Council during the year	None	Adopted by council annually	When taxable event occurs	Not applicable	When rates are levied for the rating period
Grant contracts with customers	Community events, minor facilities, research, design, planning evaluation and services	Over time	Fixed terms transfer of funds based on agreed milestones and reporting	Contract obligation if project not complete	Set by mutual agreement with the customer	Based on the progress of works to match performance obligations	Returns limited to repayment of transaction price of terms breached	Output method based on project milestones and/or completion date matched to performance obligations as inputs are shared
Grants, subsidies or contributions for the construction of non-financial assets	Construction or acquisition of recognisable non-financial assets to be controlled by the local government	Over time	Fixed terms transfer of funds based on agreed milestones and reporting	Contract obligation if project not complete	Set by mutual agreement with the funding body	Based on the progress of works to match performance obligations	Returns limited to repayment of transaction price of terms breached	Output method based on project milestones and/or completion date matched to performance obligations as inputs are shared
Grants with no contract commitments	General appropriations and contributions with no reciprocal commitment	No obligations	Not applicable	Not applicable	Cash received	On receipt of funds	Not applicable	When assets are controlled
Licences/ Registrations/ Approvals	Building, planning, development and animal management, having the same nature as a licence regardless of naming.	Single point in time	Full payment prior to issue	None	Set by State legislation or limited by legislation to the cost of provision	Based on timing of issue of the associated rights	No refunds	On payment and issue of the licence, registration or approval
Pool Inspections	Compliance safety check	Single point in time	Equal proportion based on an equal annually fee	None	Set by State legislation	Apportioned equally across the inspection cycle	No refunds	After inspection complete based on a 4 year cycle
Other inspections	Regulatory Food, Health and Safety	Single point in time	Full payment prior to inspection	None	Set by State legislation or limited by legislation to the cost of provision	Applied fully on timing of inspection	Not applicable	Revenue recognised after inspection event occurs
Waste management collections	Kerbside collection service	Over time	Payment on an annual basis in advance	None	Adopted by council annually	When taxable event occurs	Not applicable	Output method based on regular weekly and fortnightly period as proportionate to collection service
Waste management entry fees	Waste treatment, recycling and disposal service at disposal sites	Single point in time	Payment in advance at gate or on normal trading terms if credit provided	None	Adopted by council annually	Based on timing of entry to facility	Not applicable	On entry to facility
Property hire and entry	Use of halls and facilities	Single point in time	In full in advance	Refund if event cancelled within 7 days	Adopted by council annually	Based on timing of entry to facility	Returns limited to repayment of transaction price	On entry or at conclusion of hire
Memberships	Gym and pool membership	Over time	Payment in full in advance	Refund for unused portion on application	Adopted by council annually	Apportioned equally across the access period	Returns limited to repayment of transaction price	Output method Over 12 months matched to access right
Fees and charges for other goods and services	Cemetery services, library fees, reinstatements and private works	Single point in time	Payment in full in advance	None	Adopted by council annually	Applied fully based on timing of provision	Not applicable	Output method based on provision of service or completion of works
Commissions	Commissions on licencing and ticket sales	Over time	Payment in full on sale	None	Set by mutual agreement with the customer	On receipt of funds	Not applicable	When claim is agreed
Reimbursements	Insurance claims	Single point in time	Payment in arrears for claimable event	None	Set by mutual agreement with the customer	When claim is agreed	Not applicable	When claim is agreed
Fines and penalties	No goods or services but fines or penalties for delayed payments	Single point in time	Payment dates adopted by Council during the year	None	Set by State legislation or limited by legislation to the cost of provision	When taxable event occurs	Not applicable	Revenue recognised after default event occurs

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

2. REVENUE AND EXPENSES

(a) Grant revenue

Grants, subsidies and contributions are included as both operating and non-operating revenues in the Statement of Comprehensive Income:

	2020 Actual \$	2020 Budget \$	2019 Actual \$
Operating grants, subsidies and contributions			
Governance	734	250	0
General purpose funding	2,249,853	1,139,641	2,283,260
Law, order, public safety	83,846	51,500	222,768
Education and welfare	1,515,119	1,209,926	1,288,563
Community amenities	0	3,000	0
Recreation and culture	15,337	58,154	50,504
Transport	146,657	292,395	138,802
Economic services	0	17,100	0
Other property and services	0	37,500	30,000
	4,011,546	2,809,466	4,013,897
Non-operating grants, subsidies and contributions			
Education and welfare	0	0	18,000
Recreation and culture	181,746	20,000	3,000
Transport	1,051,177	831,426	788,023
	1,232,923	851,426	809,023
	5,244,469	3,660,892	4,822,920
Total grants, subsidies and contributions			
Fees and charges			
Governance	40	1,600	2,157
General purpose funding	37,193	39,100	45,964
Law, order, public safety	32,279	23,400	36,622
Health	21,149	23,500	29,938
Education and welfare	182,750	156,612	163,868
Housing	8,240	8,240	8,568
Community amenities	1,071,530	1,070,914	1,080,228
Recreation and culture	14,736	17,100	23,061
Transport	1,057	0	350
Economic services	255,295	266,020	257,808
Other property and services	163,117	40,000	57,978
	1,787,386	1,646,486	1,706,542

SIGNIFICANT ACCOUNTING POLICIES

Grants, subsidies and contributions

Operating grants, subsidies and contributions are grants, subsidies or contributions that are not non-operating in nature.

Non-operating grants, subsidies and contributions are amounts received for the acquisition or construction of recognisable non-financial assets to be controlled by the local government.

Fees and Charges

Revenue (other than service charges) from the use of facilities and charges made for local government services, sewerage rates, rentals, hire charges, fee for service, photocopying charges, licences, sale of goods or information, fines, penalties and administration fees.

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

2. REVENUE AND EXPENSES (Continued)

(a) Revenue (Continued)

Contracts with customers and transfers for recognisable non-financial assets

Revenue from contracts with customers and transfers to enable the acquisition or construction of recognisable non-financial assets to be controlled by the Shire was recognised during the year for the following nature or types of goods or services:

	2020 Actual \$	2020 Budget \$	2019 Actual \$
Operating grants, subsidies and contributions	191,159	336,151	451,703
Fees and charges	1,725,495	1,583,347	1,641,489
Other revenue	183,792	0	453,331
Non-operating grants, subsidies and contributions	1,232,923	851,426	809,023
	<u>3,333,369</u>	<u>2,770,924</u>	<u>3,355,546</u>

Revenue from contracts with customers and transfers to enable the acquisition or construction of recognisable non-financial assets to be controlled by the Shire is comprised of:

Other revenue from contracts with customers recognised during the year	2,100,446	1,919,498	2,546,523
Transfers intended for acquiring or constructing recognisable non-financial assets from performance obligations satisfied during the year	1,232,923	851,426	809,023
	<u>3,333,369</u>	<u>2,770,924</u>	<u>3,355,546</u>

Information about receivables, contract assets and contract liabilities from contracts with customers along with financial assets and associated liabilities arising from transfers to enable the acquisition or construction of recognisable non financial assets is:

Trade and other receivables from contracts with customers	154,383		0
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Impairment of assets associated with contracts with customers are detailed at note 2 (b) under 'Other expenditure'.

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

2. REVENUE AND EXPENSES (Continued)

(a) Revenue (Continued)

Revenue from statutory requirements

Revenue from statutory requirements was recognised during the year for the following nature or types of goods or services:

General rates
 Statutory permits and licences
 Fines

	2020 Actual \$	2020 Budget \$	2019 Actual \$
General rates	4,929,270	4,934,996	4,794,341
Statutory permits and licences	51,278	56,539	52,346
Fines	10,613	6,600	12,707
	<u>4,991,161</u>	<u>4,998,135</u>	<u>4,859,394</u>
Assets and services acquired below fair value			
Contributed assets (Library stock from state government)	177,695	0	0
	<u>177,695</u>	<u>0</u>	<u>0</u>
Significant revenue			
Reimbursement Income - Operating (WANDRRA Funding)	0	0	1,013,775
	<u>0</u>	<u>0</u>	<u>1,013,775</u>
Other revenue			
Reimbursements and recoveries	161,764	204,578	0
Other	183,792	0	453,331
	<u>345,556</u>	<u>204,578</u>	<u>1,467,106</u>
Interest earnings			
Interest on reserve funds	72,249	70,000	90,699
Rates instalment and penalty interest (refer Note 23(b))	72,837	53,000	66,256
Other interest earnings	29,980	54,100	93,071
	<u>175,066</u>	<u>177,100</u>	<u>250,026</u>

SIGNIFICANT ACCOUNTING POLICIES

Interest earnings

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest earnings (continued)

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

SHIRE OF NARROGIN
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30 JUNE 2020

2. REVENUE AND EXPENSES (Continued)

(b) Expenses	Note	2020 Actual \$	2020 Budget \$	2019 Actual \$
Significant expense				
Road Maintenance due to flood damage - WANDRRA		0	0	900,540
		0	0	900,540
Auditors remuneration				
- Audit of the Annual Financial Report		45,000	49,875	38,760
- Other services		1,200	0	1,000
		46,200	49,875	39,760
Interest expenses (finance costs)				
Borrowings	16(b)	48,775	39,440	41,325
Lease liabilities	15(b)	364	0	0
		49,139	39,440	41,325
Other expenditure				
Impairment loss on trade and other receivables from contracts with customers		27,544	0	38,020
Members fees		132,802	149,600	131,773
Donations, Subsidies & Assistance to Community Groups		39,535	170,050	20,926
Statutory Fees and Taxes		12,641	20,200	16,359
Sundry expenses		174,879	302,275	1,008
		387,401	642,125	208,086

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

3. CASH AND CASH EQUIVALENTS

	NOTE	2020 \$	2019 \$
Cash at bank and on hand		7,202,711	7,906,681
Total cash and cash equivalents		7,202,711	7,906,681

Restrictions

The following classes of assets have restrictions imposed by regulations or other externally imposed requirements which limit or direct the purpose for which the resources may be used:

- Cash and cash equivalents

4,100,027	4,594,086
4,100,027	4,594,086

The restricted assets are a result of the following specific purposes to which the assets may be used:

- Reserves - cash backed
- Bonds and deposits held
- Unspent loans
- Total restricted assets**

4

16(c)

4,083,821	4,229,579
16,206	18,602
0	345,905
4,100,027	4,594,086

SIGNIFICANT ACCOUNTING POLICIES

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 with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are reported as short term borrowings in current liabilities in the statement of financial position.

Restricted assets

Restricted asset balances are not available for general use by the local government due to externally imposed restrictions. Externally imposed restrictions are specified in an agreement, contract or legislation. This applies to reserves, unspent grants, subsidies and contributions and unspent loans that have not been fully expended in the manner specified by the contributor, legislation or loan agreement.

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

4. RESERVES - CASH BACKED

	2020 Actual Opening Balance	2020 Actual Transfer to	2020 Actual Transfer (from)	2020 Actual Closing Balance	2020 Budget Opening Balance	2020 Budget Transfer to	2020 Budget Transfer (from)	2020 Budget Closing Balance	2019 Actual Opening Balance	2019 Actual Transfer to	2019 Actual Transfer (from)	2019 Actual Closing Balance
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
(a) Employee Entitlement Reserve	334,863	25,720	0	360,583	334,862	25,687	0	360,549	387,576	8,891	(61,604)	334,863
(b) Building Reserve	873,681	31,607	(435,140)	470,148	873,682	31,522	(550,000)	355,204	686,182	187,499	0	873,681
(c) Refuse Site Reserve	435,109	84,432	(40,752)	478,789	435,109	84,389	(46,000)	473,498	376,474	58,635	0	435,109
(d) Community Assisted Transport (CAT) Reserve	6,655	4,187	(10,048)	794	4,395	6,075	(12,000)	(1,530)	4,298	2,357	0	6,655
(e) Narrogin Regional Recreation Centre Reserve	73,927	205,509	0	279,436	73,927	81,255	0	155,182	214,761	144,925	(285,759)	73,927
(f) Plant, Vehicle & Equipment Reserve	454,959	442,771	(502,423)	395,307	454,959	432,726	(557,300)	330,385	333,984	516,164	(395,189)	454,959
(g) Economic Development Reserve	174,049	52,973	0	227,022	174,049	52,956	(18,000)	209,005	152,014	22,035	0	174,049
(h) IT & Office Equipment Reserve	72,563	6,239	0	78,802	72,563	6,232	0	78,795	66,049	6,514	0	72,563
(i) Tourism & Area Promotion Reserve	77,202	1,319	0	78,521	77,202	1,311	0	78,513	75,469	1,733	0	77,202
(j) Unspent Grants & Contribution Reserve	203,773	3,481	(20,660)	186,594	48,265	820	(49,067)	18	44,816	203,956	(44,999)	203,773
(k) HACC Reserve	584,487	100,796	(161,697)	523,586	557,576	9,469	(98,240)	468,805	784,352	44,896	(244,761)	584,487
(l) CHCP Reserve	122,909	455,512	(356,187)	222,234	152,862	2,596	(83,117)	72,341	241,070	5,533	(123,694)	122,909
(m) CHSP Reserve	347,664	1,091,298	(1,147,656)	291,306	426,026	212,463	0	638,489	160,970	265,056	(78,362)	347,664
(n) Road construction reserve	329,405	5,598	0	335,003	329,405	5,594	0	334,999	301,328	28,077	0	329,405
(o) Asset Valuation reserve	31,309	535	0	31,844	31,309	0	0	31,309	30,610	699	0	31,309
(p) Landcare Reserve	97,024	1,657	0	98,681	97,024	1,648	0	98,672	94,846	2,178	0	97,024
(q) Narrogin Airport Reserve	10,000	15,171	0	25,171	10,000	15,170	0	25,170	0	10,000	0	10,000
	4,229,579	2,528,805	(2,674,563)	4,083,821	4,153,215	969,913	(1,413,724)	3,709,404	3,954,799	1,509,148	(1,234,368)	4,229,579

All reserves are supported by cash and cash equivalents and are restricted within equity as Reserves - cash backed.

In accordance with Council resolutions or adopted budget in relation to each reserve account, the purpose for which the reserves are set aside and their anticipated date of use are as follows:

Name of Reserve	Anticipated date of use	Purpose of the reserve
(a) Employee Entitlement Reserve	Ongoing	To fund current and past employee's leave entitlements and redundancy payouts.
(b) Building Reserve	Ongoing	To support the acquisition, upgrade or enhancements of buildings within the district.
(c) Refuse Site Reserve	Ongoing	To fund infrastructure development and rehabilitation costs associates with the Shire's tip site as well the purchase and development a regional waste facility.
(d) Community Assisted Transport (CAT) Reserve	Ongoing	To fund the replacement/change over of the CATS vehicle.
(e) Narrogin Regional Recreation Centre Reserve	Ongoing	To fund YMCA additional maintenance works as well as acquisitions, upgrades and enhancement of the building, major plant & equipment items.
(f) Plant, Vehicle & Equipment Reserve	Ongoing	To support the purchase/replacement of motor vehicles, and heavy plant and equipment.
(g) Economic Development Reserve	Ongoing	To fund economic development projects that will benefit the district.
(h) IT & Office Equipment Reserve	Ongoing	To fund the purchase and upgrade of computer equipment, software and office equipment.
(i) Tourism & Area Promotion Reserve	Ongoing	For the purpose of tourism & district promotion activities, significant events and festivals which includes banner poles, entry statements and outdoor digital screens.
(j) Unspent Grants & Contribution Reserve	Ongoing	To store unspent grants and contributions. Funds can only be expended on items that have been approved by the relevant grant agreement/funding body.
(k) HACC Reserve	Ongoing	To store unspent H.A.C.C grant funds that can fund the purchase of assets, payout of Homecare employee entitlements and other projects that have been approved by the Funding Body.
(l) CHCP Reserve	Ongoing	To store unspent C.H.C.P grant funds that can fund the purchase of assets, payout of Homecare employee entitlements and other projects that have been approved by the Funding Body.
(m) CHSP Reserve	Ongoing	To store unspent C.H.S.P grant funds that can fund the purchase of assets, payout of Homecare employee entitlements and other projects that have been approved by the Funding Body.
(n) Road construction reserve	Ongoing	To be used on road construction projects.
(o) Asset Valuation reserve	Ongoing	To fund asset valuations.
(p) Landcare Reserve	Ongoing	To fund future natural resource management activities aligned with the principles established in the former NLDC letter dated 6/6/17 (ICR1712270).
(q) Narrogin Airport Reserve	Ongoing	For the purpose of supporting and funding infrastructure development, maintenance, acquisition, upgrade or enhancements and grant funding to the Narrogin Airport.

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

5. OTHER FINANCIAL ASSETS

(a) Non-current assets

Financial assets at fair values through other comprehensive income
 Financial assets at fair value through profit and loss

	2020 \$	2019 \$
	0	105,103 *
	106,832	0 *
	106,832	105,103
Financial assets at fair values through other comprehensive income		
Units in Local Government House Trust	0	105,103 *
	0	105,103
Financial assets at fair value through profit and loss		
Units in Local Government House Trust	106,832	0 *
	106,832	0

Financial assets at fair values through other comprehensive income
 Units in Local Government House Trust

Financial assets at fair value through profit and loss
 Units in Local Government House Trust

* - Units in the Local Government House Trust had previously been reported as financial assets at fair value through other comprehensive income. This prior year reporting has been corrected through the Shire's retained surplus as a retrospective adjustment through a restated opening retained surplus, taking up the past increments in fair value via a reclassification from the revaluation reserve. The impact on the Shire's opening retained surplus due to this correction as at 1 July 2019 was \$105,103.

SIGNIFICANT ACCOUNTING POLICIES

Other financial assets at amortised cost

The Shire classifies financial assets at amortised cost if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cashflows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

Financial assets at fair value through profit and loss

The Shire classifies the following financial assets at fair value through profit and loss:

- debt investments which do not qualify for measurement at either amortised cost or fair value through other comprehensive income.
- equity investments which the Shire has not elected to recognise fair value gains and losses through other comprehensive income.

Impairment and risk

Information regarding impairment and exposure to risk can be found at Note 25.

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

6. TRADE AND OTHER RECEIVABLES

Current

Rates receivable	
Sundry receivables	
GST receivable	
Allowance for impairment of receivables	

Non-current

Pensioner's rates and ESL deferred	
------------------------------------	--

	2020	2019
	\$	\$
	464,808	399,381
	154,383	647,633
	82,352	71,948
	(27,544)	(38,020)
	673,999	1,080,942
	187,203	186,915
	187,203	186,915

SIGNIFICANT ACCOUNTING POLICIES

Trade and other receivables

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

Trade receivables are recognised at original invoice amount less any allowances for uncollectible amounts (i.e. impairment). The carrying amount of net trade receivables is equivalent to fair value as it is due for settlement within 30 days.

Impairment and risk exposure

Information about the impairment of trade receivables and their exposure to credit risk and interest rate risk can be found in Note 25.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification and subsequent measurement

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.

Trade receivables are held with the objective to collect the contractual cashflows and therefore measures them subsequently at amortised cost using the effective interest rate method.

Due to the short term nature of current receivables, their carrying amount is considered to be the same as their fair value. Non-current receivables are indexed to inflation, any difference between the face value and fair value is considered immaterial.

**SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020**

7. INVENTORIES

Current

Fuel and materials

	2020 \$	2019 \$
	19,735	7,310
	19,735	7,310
	7,310	184,553
	(184,772)	(223,663)
	0	(177,273)
	197,197	223,693
	19,735	7,310

The following movements in inventories occurred during the year:

Carrying amount at beginning of period

Inventories expensed during the year

* Previously recorded as L&B and Land for Resale - duplication.

Additions to inventory

Carrying amount at end of period

Note: * In 2018 this asset was recorded both as L&B and Land for Resale - this entry is to reverse that duplication.

SIGNIFICANT ACCOUNTING POLICIES

General

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.

**SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020**

8. OTHER ASSETS

Other assets - current

Accrued income

	2020	2019
	\$	\$
	30,688	4,241
	<u>30,688</u>	<u>4,241</u>

SIGNIFICANT ACCOUNTING POLICIES

Other current assets

Other non-financial assets include prepayments which represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

SHIRE OF NARROGIN
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30 JUNE 2020

9. PROPERTY, PLANT AND EQUIPMENT

(a) 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.

	Land - freehold land	Total land	Buildings - non- specialised	Buildings - specialised	Total buildings	Total land and buildings	Furniture and equipment	Plant and equipment	Artwork	Library Stock Transferred From State Govt.	Total property, plant and equipment
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2018	10,472,998	10,472,998	1,861,630	40,576,606	42,438,236	52,911,234	247,903	4,642,200	0	0	57,801,337
Additions	0	0	461,673	331,614	793,287	793,287	65,308	1,084,253	0	0	1,942,848
(Disposals)	0	0	0	0	0	0	0	(750,013)	0	0	(750,013)
Revaluation increments / (decrements) transferred to revaluation surplus	0	0	0	0	0	0	(2,306)	(331,223)	350,315	0	16,786
Depreciation (expense)	0	0	(130,497)	(615,121)	(745,618)	(745,618)	(55,155)	(412,029)	0	0	(1,212,802)
Transfers	0	0	41,480	0	41,480	41,480	140,200	(181,680)	0	0	0
Carrying amount at 30 June 2019	10,472,998	10,472,998	2,234,286	40,293,099	42,527,385	53,000,383	395,950	4,051,508	350,315	0	57,798,156
Comprises:											
Gross carrying amount at 30 June 2019	10,472,998	10,472,998	2,454,786	42,135,037	44,589,823	55,062,821	395,950	4,051,508	350,315	0	59,860,594
Accumulated depreciation at 30 June 2019	0	0	(220,500)	(1,841,938)	(2,062,438)	(2,062,438)	0	0	0	0	(2,062,438)
Carrying amount at 30 June 2019	10,472,998	10,472,998	2,234,286	40,293,099	42,527,385	53,000,383	395,950	4,051,508	350,315	0	57,798,156
Additions	0	0	659,333	318,420	977,753	977,753	2,314	947,081	0	177,695	2,104,843
(Disposals)	0	0	0	0	0	0	0	(458,535)	0	0	(458,535)
Depreciation (expense)	0	0	(141,971)	(617,626)	(759,597)	(759,597)	(28,819)	(308,047)	0	0	(1,096,463)
Transfers	0	0	0	41,897	41,897	41,897	(2,314)	0	0	0	39,583
Carrying amount at 30 June 2020	10,472,998	10,472,998	2,751,648	40,035,790	42,787,438	53,260,436	367,131	4,232,007	350,315	177,695	58,387,584
Comprises:											
Gross carrying amount at 30 June 2020	10,472,998	10,472,998	3,114,119	42,495,354	45,609,473	56,082,471	395,950	4,521,852	350,315	177,695	61,528,283
Accumulated depreciation at 30 June 2020	0	0	(362,471)	(2,459,564)	(2,822,035)	(2,822,035)	(28,819)	(289,845)	0	0	(3,140,699)
Carrying amount at 30 June 2020	10,472,998	10,472,998	2,751,648	40,035,790	42,787,438	53,260,436	367,131	4,232,007	350,315	177,695	58,387,584

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

9. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Fair Value Measurements

Asset Class	Fair Value Hierarchy	Valuation Technique	Basis of Valuation	Date of Last Valuation	Inputs Used
Land and buildings					
Land - freehold land	2	Market approach using recent observable market data for similar assets.	Independent Valuer	June 2016	Price per hectare.
Buildings - non-specialised	2	Market approach using recent observable market data for similar properties.	Independent Valuer	June 2016	Price per square metre / market borrowing rate, adjusted for restrictions in use.
Buildings - specialised	3	Cost approach and depreciated replacement cost.	Independent Valuer	June 2016	Construction costs and current condition (level 2), residual values and remaining useful life assessments (level 3) inputs.
Furniture and equipment	3	Cost approach and depreciated replacement cost.	Independent Valuer	June 2019	Purchase costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs
Plant and equipment					
- Independent valuation 2019	2	Market value using recent observable market data for similar plant and equipment	Independent Valuer	June 2019	Market price based on make, size, year of manufacture and condition.
- Independent valuation 2019	3	Cost approach and depreciated replacement cost.	Independent Valuer	June 2019	Purchase costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs
Artwork	2	Market value using recent observable market data for items	Independent Valuer	June 2018	Price per item.
Library Stock Transferred From State Govt.	3	Cost approach and depreciated replacement cost.	Management Valuation	June 2020	Purchase costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs

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.

Following a change to *Local Government (Financial Management) Regulation 17A*, plant and equipment type assets (being plant and equipment and furniture and equipment) are to be measured under the cost model, rather than at fair value. This change is effective from 1 July 2019 and represents a change in accounting policy.

Revaluations carried out previously were not reversed as it was deemed fair value approximates cost at the date of change.

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

10. INFRASTRUCTURE

(a) Movements in Carrying Amounts

Movement in the carrying amounts of each class of infrastructure between the beginning and the end of the current financial year.

	Infrastructure - roads	Infrastructure - footpaths	Infrastructure - drainage	Infrastructure - parks and ovals	Infrastructure - bridges	Infrastructure - other	Total Infrastructure
	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2018	97,289,534	2,864,891	6,975,087	4,748,800	2,070,500	335,908	114,284,720
Additions	1,478,216	52,300	2,194	13,203	0	388,551	1,934,464
Depreciation (expense)	(1,547,937)	(71,622)	(139,502)	(537,578)	(99,921)	(22,404)	(2,418,964)
Carrying amount at 30 June 2019	97,219,813	2,845,569	6,837,779	4,224,425	1,970,579	702,055	113,800,220
Comprises:							
Gross carrying amount at 30 June 2019	98,767,750	2,917,191	6,977,281	4,762,003	2,070,500	724,459	116,219,184
Accumulated depreciation at 30 June 2019	(1,547,937)	(71,622)	(139,502)	(537,578)	(99,921)	(22,404)	(2,418,964)
Carrying amount at 30 June 2019	97,219,813	2,845,569	6,837,779	4,224,425	1,970,579	702,055	113,800,220
Additions	1,978,578	60,884	16,640	0	18,920	292,925	2,367,947
Depreciation (expense)	(1,126,702)	(71,622)	(139,545)	(351,418)	(99,921)	(27,329)	(1,816,537)
Transfers	0	0	0	24,908	0	(64,491)	(39,583)
Carrying amount at 30 June 2020	98,071,689	2,834,831	6,714,874	3,897,915	1,889,578	903,160	114,312,047
Comprises:							
Gross carrying amount at 30 June 2020	100,746,328	2,978,075	6,993,921	4,786,911	2,089,420	952,893	118,547,548
Accumulated depreciation at 30 June 2020	(2,674,639)	(143,244)	(279,047)	(888,996)	(199,842)	(49,733)	(4,235,501)
Carrying amount at 30 June 2020	98,071,689	2,834,831	6,714,874	3,897,915	1,889,578	903,160	114,312,047

SHIRE OF NARROGIN
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30 JUNE 2020

10. INFRASTRUCTURE (Continued)

(b) Fair Value Measurements

Asset Class	Fair Value Hierarchy	Valuation Technique	Basis of Valuation	Date of Last Valuation	Inputs Used
Infrastructure - roads	3	Cost approach using depreciated replacement cost.	Independent Valuer	June 2018	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - footpaths	3	Cost approach using depreciated replacement cost.	Independent Valuer	June 2018	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - drainage	3	Cost approach using depreciated replacement cost.	Independent Valuer	June 2018	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - parks and ovals	3	Cost approach using depreciated replacement cost.	Independent Valuer	June 2018	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - bridges	3	Cost approach using depreciated replacement cost.	Independent Valuer	June 2018	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - other	3	Cost approach using depreciated replacement cost.	Independent Valuer	June 2018	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs

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 to determine the fair value of infrastructure using level 3 inputs.

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

11. FIXED ASSETS

SIGNIFICANT ACCOUNTING POLICIES

Fixed assets

Each class of fixed assets within either 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

Assets for which the fair value as at the date of acquisition is under \$5,000 are not recognised as an asset in accordance with *Financial Management Regulation 17A (5)*. These assets are expensed immediately

Where multiple individual low value assets are purchased together as part of a larger asset or collectively forming a larger asset exceeding the threshold, the individual assets are recognised as one asset and capitalised.

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 zero cost or otherwise significantly less than fair value, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed by the Shire 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 that are land, buildings, infrastructure and investment properties 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 cost 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 land, buildings, infrastructure and investment properties is determined at least every five years in accordance with the regulatory framework. This includes buildings and infrastructure items which were pre-existing improvements (i.e. vested improvements) on vested land acquired by the Shire.

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 land, buildings; infrastructure, investment properties and vested improvements 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.

AUSTRALIAN ACCOUNTING STANDARDS - INCONSISTENCY

Land under control prior to 1 July 2019

In accordance with the then *Local Government (Financial Management) Regulation 16(a)(ii)* the Shire was previously required to include as an asset (by 30 June 2013), vested Crown Land operated by the local government as a golf course, showground, racecourse or other sporting or recreational facility of State or regional significance.

Upon initial recognition, these assets were recorded at cost in accordance with AASB 116. They were then classified as Land and revalued along with other land.

Land under roads prior to 1 July 2019

In Western Australia, most land under roads is Crown Land, the responsibility for managing which, is vested in the local government.

Effective as at 1 July 2008, Council elected not to recognise any value for land under roads acquired on or before 30 June 2008. This accords with the treatment available in *Australian Accounting Standard AASB 1051 Land Under Roads* and the then *Local Government (Financial Management) Regulation 16(a)(i)* which arbitrarily prohibited local governments from recognising such land as an asset. This regulation has now been deleted.

In respect of land under roads acquired on or after 1 July 2008, as detailed above, the then *Local Government (Financial Management) Regulation 16(a)(i)* prohibited local governments from recognising such land as an asset.

Whilst such treatment is inconsistent with the requirements of *AASB 1051, Local Government (Financial Management) Regulation 4(2)* provides, in the event of such an inconsistency, the *Local Government (Financial Management) Regulations 1996* prevail. Consequently, any land under roads acquired on or after 1 July 2008 was not included as an asset of the Shire.

Land under roads from 1 July 2019

As a result of amendments to the *Local Government (Financial Management) Regulations 1996*, effective from 1 July 2019, vested land, including land under roads, are treated as right-of-use assets measured at zero cost. Therefore, the previous inconsistency with AASB 1051 in respect of non-recognition of land under roads acquired on or after 1 July 2008 has been removed, even though measurement at zero cost means that land under roads is still not included in the statement of financial position.

The Shire has accounted for the removal of the vested land values associated with vested land previously recognised by removing the land value and associated revaluation reserve as at 1 July 2019. The comparatives have not been restated.

Vested improvements from 1 July 2019

The measurement of vested improvements at fair value in accordance with *Local Government (Financial Management) Regulation 17A(2)(iv)* is a departure from AASB 16 which would have required the Shire to measure the vested improvements as part of the related right-of-use assets at zero cost.

Refer to Note 12 that details the significant accounting policies applying to leases (including right of use assets).

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

11. FIXED ASSETS

(a) Disposals of Assets

	2020 Actual Net Book Value	2020 Actual Sale Proceeds	2020 Actual Profit	2020 Actual Loss	2020 Budget Net Book Value	2020 Budget Sale Proceeds	2020 Budget Profit	2020 Budget Loss	2019 Actual Net Book Value	2019 Actual Sale Proceeds	2019 Actual Profit	2019 Actual Loss
Plant and equipment	458,535	410,007	10,152	(58,680)	764,902	667,897	35,472	(132,477)	750,013	604,761	14,394	(159,646)
	458,535	410,007	10,152	(58,680)	764,902	667,897	35,472	(132,477)	750,013	604,761	14,394	(159,646)

The following assets were disposed of during the year.

	2020 Actual Net Book Value	2020 Actual Sale Proceeds	2020 Actual Profit	2020 Actual Loss
Plant and Equipment				
Education and welfare				
Nissan Xtrail	22,244	15,455	0	(6,789)
Community amenities				
Holden Acadia	35,994	40,153	4,159	0
Holden LTZ Trailblazer	51,558	35,193	0	(16,365)
Holden Trax	11,497	9,523	0	(1,974)
Transport				
Holden Colorado 4x4	34,118	35,151	1,033	0
Holden Trailblazer LTZ	34,688	39,648	4,960	0
Holden Acadia	41,916	36,043	0	(5,873)
JCB 4CX PC Backhoe Loader	52,732	52,250	0	(482)
2013 eCombi Broons Roller	23,300	10,909	0	(12,391)
CAT CW34NN Rubber Tyred Roller	82,250	77,500	0	(4,750)
Mitsubishi Triton Single Cab Ute	11,001	9,091	0	(1,910)
Other property and services				
Mitsubishi Pajero Exceed	40,137	36,364	0	(3,773)
Mitsubishi ASX	17,100	12,727	0	(4,373)
	458,535	410,007	10,152	(58,680)

**SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020**

11. FIXED ASSETS

(b) Depreciation

	2020 Actual	2020 Budget	2019 Actual
	\$	\$	\$
Buildings - non-specialised	141,971	731,343	130,497
Buildings - specialised	617,626	0	615,121
Furniture and equipment	28,819	54,492	55,155
Plant and equipment	308,047	412,358	412,029
Infrastructure - roads	1,126,702	1,529,337	1,547,937
Infrastructure - footpaths	71,622	70,761	71,622
Infrastructure - drainage	139,545	0	139,502
Infrastructure - parks and ovals	351,418	531,118	537,578
Infrastructure - bridges	99,921	98,720	99,921
Infrastructure - other	27,329	22,135	22,404
Right of use assets - plant and equipment	7,996	0	0
	2,920,996	3,450,264	3,631,766

Revision of useful lives of assets

During the year, the Shire reviewed the useful lives of fixed assets. The estimated useful life for the Road Pavement asset for unsealed roads was increased from 12 years to 50 years. The revision had the effect of reducing the annual depreciation charge for this asset from \$561,000 to \$140,000.

SIGNIFICANT ACCOUNTING POLICIES

Depreciation

The depreciable amount of all fixed assets including buildings but excluding freehold land and vested 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.

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.

Depreciation rates

Typical estimated useful lives for the different asset classes for the current and prior years are included in the table below:

Asset Class	Useful life
Buildings	5 to 100 years
Furniture and equipment	4 to 10 years
Plant and equipment	5 to 15 years
Sealed roads and streets formation	not depreciated
pavement seal	50 years
- bituminous seals	20 years
- asphalt surfaces	25 years
Gravel roads formation	not depreciated
pavement	50 years
Formed roads (unsealed) formation	not depreciated
pavement	50 years
Footpaths - slab	50 years
Sewerage piping	40 years
Water supply piping and drainage systems	50 to 75 years
Bridges	15 to 25 years
Other Infrastructure	10 to 50 years
Right of use (plant and equipment)	Based on the remaining lease
Library books	5 years

Depreciation on revaluation

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.

SHIRE OF NARROGIN
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12. LEASES

(a) Right of Use Assets

Movement in the carrying amounts of each class of right of use asset between the beginning and the end of the current financial year.

	<u>Right of use assets - plant and equipment</u>	<u>Right of use assets Total</u>
	\$	
Carrying amount at 30 June 2019	0	0
Additions	32,072	32,072
Depreciation (expense)	(7,996)	(7,996)
Carrying amount at 30 June 2020	<u>24,076</u>	<u>24,076</u>
(b) Cash outflow from leases		
Interest expense on lease liabilities	364	364
Lease principal expense	7,866	7,866
Total cash outflow from leases	<u>8,230</u>	<u>8,230</u>
(c) Other expenses and income relating to leases		
Short-term lease payments recognised as expense	14,124	14,124
Low-value asset lease payments recognised as expense	7,880	7,880
	<u>22,004</u>	<u>22,004</u>

The Shire has 1 lease relating to plant and equipment. The lease term for this lease is 3 years.

The measurement of lease liabilities does not include any future cash outflows associated with leases not yet commenced to which the Shire is committed.

SIGNIFICANT ACCOUNTING POLICIES

Leases

At inception of a contract, the Shire assesses if the contract contains or is a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date, a right-of-use asset is recognised at cost and lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Shire uses its incremental borrowing rate.

All contracts that are classified as short-term leases (i.e. a lease with a remaining term of 12 months or less) and leases of low value assets are recognised as an operating expense on a straight-line basis over the term of the lease.

Leases for right-of-use assets are secured over the asset being leased.

Right-of-use assets - valuation

Right-of-use assets are measured at cost. This means that all right-of-use assets (other than vested improvements) under zero cost concessionary leases are measured at zero cost (i.e. not included in the statement of financial position). The exception is vested improvements on concessionary land leases such as roads, buildings or other infrastructure which are reported at fair value.

Refer to Note 11 for details on the significant accounting policies applying to vested improvements.

Right-of-use assets - depreciation

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the shortest. Where a lease transfers ownership of the underlying asset, or the cost of the right-of-use asset reflects that the Shire anticipates to exercise a purchase option, the specific asset is amortised over the useful life of the underlying asset.

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

13. REVALUATION SURPLUS

	2020 Opening Balance \$	2020 Revaluation Increment \$	2020 Revaluation (Decrement) \$	Total Movement on Revaluation \$	2020 Closing Balance \$	2019 Opening Balance \$	2019 Revaluation Increment \$	2019 Revaluation (Decrement) \$	Total Movement on Revaluation \$	2019 Closing Balance \$
Revaluation surplus - Land and buildings	43,787,223	0	0	0	43,787,223	43,964,496	0	(177,273)	(177,273)	43,787,223
Revaluation surplus - Furniture and equipment	24,329	0	0	0	24,329	26,635	0	(2,306)	(2,306)	24,329
Revaluation surplus - Plant and equipment	762,474	0	0	0	762,474	1,093,697	0	(331,223)	(331,223)	762,474
Revaluation surplus - Artwork	350,315	0	0	0	350,315	0	350,315	0	350,315	350,315
Revaluation surplus - Infrastructure - roads	66,216,935	0	0	0	66,216,935	66,216,935	0	0	0	66,216,935
Revaluation surplus - Infrastructure - footpaths	1,825,795	0	0	0	1,825,795	1,825,795	0	0	0	1,825,795
Revaluation surplus - Infrastructure - drainage	6,380,837	0	0	0	6,380,837	6,380,837	0	0	0	6,380,837
Revaluation surplus - Infrastructure - parks and ovals	2,108,515	0	0	0	2,108,515	2,108,515	0	0	0	2,108,515
Revaluation surplus - Infrastructure - bridges	67,155	0	0	0	67,155	67,155	0	0	0	67,155
Revaluation surplus - Infrastructure - other	2,070,500	0	0	0	2,070,500	2,070,500	0	0	0	2,070,500
Revaluation surplus - Investment LG House *	105,103	0	(105,103)	(105,103)	0	0	105,103	0	105,103	105,103
	123,699,181	0	(105,103)	(105,103)	123,594,078	123,754,565	455,418	(510,802)	(55,384)	123,699,181

* Refer to Note 5 for further details.

Movements on revaluation of property, plant and equipment (including infrastructure) are not able to be reliably attributed to a program as the assets were revalued by class as provided for by AASB 116 Aus 40.1.

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

14. TRADE AND OTHER PAYABLES

Current

Sundry creditors
 Prepaid rates
 Accrued salaries and wages
 ATO liabilities
 Bonds and deposits held
 Other creditors
 Accrued expenses
 Accrued interest on loans

	2020	2019
	\$	\$
Sundry creditors	426,355	265,704
Prepaid rates	156,112	0
Accrued salaries and wages	107,715	67,608
ATO liabilities	154,662	120,141
Bonds and deposits held	16,206	18,602
Other creditors	32,949	(121)
Accrued expenses	35,284	131,507
Accrued interest on loans	5,598	7,565
	934,881	611,006

SIGNIFICANT ACCOUNTING POLICIES

Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Shire prior to the end of the financial year that are unpaid and arise when the Shire 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

Prepaid rates

Prepaid rates are, until the taxable event has occurred (start of the next financial year), refundable at the request of the ratepayer. Rates received in advance are initially recognised as a financial liability. When the taxable event occurs, the financial liability is extinguished and the Shire recognises revenue for the prepaid rates that have not been refunded.

**SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020**

15. LEASE LIABILITIES

(a) Lease Liabilities

	2020	2019
Current	\$ 10,644	\$ 0
Non-current	13,662	0
	<u>24,206</u>	<u>0</u>

(b) Movements in Carrying Amounts

Purpose	Lease Number	Institution	Lease Interest Rate	Lease Term	Actual	30 June 2020	30 June 2020	30 June 2020	30 June 2020	Budget	30 June 2020	30 June 2020	30 June 2020	30 June 2020	Actual	30 June 2019	30 June 2019	30 June 2019	30 June 2019
					Lease Principal 1 July 2019	Actual New Leases	Actual Lease Principal Repayments	Actual Lease Principal Outstanding	Actual Lease Interest Repayments	Lease Principal 1 July 2019	Budget New Leases	Budget Lease Principal Repayments	Budget Lease Principal Outstanding	Budget Lease Interest Repayments	Lease Principal 1 July 2018	Actual New Loans	Actual Lease Principal Repayments	Actual Lease Principal Outstanding	Actual Lease Interest Repayments
Law, order, public safety	1	Easifleet	1.70%	36 months	0	32,072	7,866	24,206	364	0	0	0	0	0	0	0	0	0	0
Holden Colorado					0	32,072	7,866	24,206	364	0	0	0	0	0	0	0	0	0	0

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

16. INFORMATION ON BORROWINGS

(a) Borrowings

	2020	2019
	\$	\$
Current	173,653	166,658
Non-current	801,359	975,569
	975,012	1,142,227

(b) Repayments - Borrowings

Particulars	Loan Number	Institution	Interest Rate	Actual	30 June 2020	30 June 2020	30 June 2020	30 June 2020	Budget	30 June 2020	30 June 2020	30 June 2020	30 June 2020	Actual	30 June 2019	30 June 2019	30 June 2019	30 June 2019
				Principal 1 July 2019	Actual New Loans	Actual Principal repayments	Actual Interest repayments	Actual Principal outstanding	Principal 1 July 2019	Budget New Loans	Budget Principal repayments	Budget Interest repayments	Budget Principal outstanding	Principal 1 July 2018	Actual New Loans	Actual Principal repayments	Actual Interest repayments	Actual Principal outstanding
				\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Governance																		
Corporate Software & Server Upgrad	125	WATC *	3.33%	0	0	0	0	0	0	0	0	0	0	0	0	0	109	0
Administration Building Extension	128	WATC *	2.69%	327,386	0	43,105	12,563	284,280	327,386	0	43,105	8,519	284,281	369,354	0	41,968	12,287	327,386
Recreation and culture																		
Narrogin Regional Leisure Centre	121B	WATC *	5.51%	219,202	0	51,483	13,292	167,719	219,202	0	51,483	10,791	167,719	267,883	0	48,681	15,419	219,202
Town Hall Renovations	126	WATC *	3.86%	125,591	0	29,621	6,220	95,970	125,591	0	29,621	4,565	95,970	154,100	0	28,509	6,784	125,591
Transport																		
Shire Depot	51	WATC *	7.19%	0	0	0	0	0	0	0	0	0	0	0	0	0	90	0
Economic services																		
Industrial Land	127	WATC *	4.48%	120,048	0	11,100	6,551	108,948	120,048	0	11,100	5,255	108,948	130,667	0	10,619	6,636	120,048
Accommodation Units	129	WATC *	2.03%	350,000	0	31,905	10,149	318,095	350,000	0	31,350	10,310	318,650	0	350,000	0	0	350,000
				1,142,227	0	167,215	48,775	975,012	1,142,227	0	166,659	39,440	975,568	922,004	350,000	129,777	41,325	1,142,227

* WA Treasury Corporation

All loan repayments were financed by general purpose revenue.

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

16. INFORMATION ON BORROWINGS (Continued)

(c) Unspent Borrowings

Particulars	Date Borrowed	Unspent Balance 1 July 2019	Borrowed	Expended	Unspent
			During Year	During Year	Balance 30 June 2020
		\$	\$	\$	\$
Accommodation Units	WATC* 28/05/2019	345,905	0	(345,905)	0
* WA Treasury Corporation		345,905	0	(345,905)	0

(d) Undrawn Borrowing Facilities
Credit Standby Arrangements

	2020	2019
	\$	\$
Bank overdraft limit	400,000	400,000
Credit card limit	22,500	15,000
Credit card balance at balance date	(403)	(1,539)
Total amount of credit unused	422,097	413,461
Loan facilities		
Loan facilities - current	173,653	166,658
Loan facilities - non-current	801,359	975,569
Lease liabilities - current	10,644	0
Lease liabilities - non-current	13,562	0
Total facilities in use at balance date	999,218	1,142,227
Unused loan facilities at balance date	0	345,905

SIGNIFICANT ACCOUNTING POLICIES

Financial liabilities

Financial liabilities are recognised at fair value when the Shire becomes a party to the contractual provisions to the instrument.

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

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.

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.

Risk

Information regarding exposure to risk can be found at Note 25.

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

17. EMPLOYEE RELATED PROVISIONS

(a) Employee Related Provisions

	Provision for Annual Leave \$	Provision for Long Service Leave \$	Total \$
Opening balance at 1 July 2019			
Current provisions	381,421	168,123	549,544
Non-current provisions	0	288,947	288,947
	381,421	457,070	838,491
Additional provision	389,499	26,047	415,546
Amounts used	(324,126)	(44,471)	(368,597)
Increase/(decrease) in the discounted amount arising because of time and the effect of any change in the discounted rate	0	5,266	5,266
Balance at 30 June 2020	446,794	443,912	890,706
Comprises			
Current	446,794	264,534	711,328
Non-current	0	179,378	179,378
	446,794	443,912	890,706

Amounts are expected to be settled on the following basis:

	2020 \$	2019 \$
Less than 12 months after the reporting date	445,023	254,078
More than 12 months from reporting date	426,148	573,640
Expected reimbursements from other WA local governments	19,535	10,773
	890,706	838,491

Timing of the payment of current leave liabilities is difficult to determine as it is dependent on future decisions of employees. Expected settlement timings are based on information obtained from employees and historical leave trends and assumes no events will occur to impact on these historical trends.

SIGNIFICANT ACCOUNTING POLICIES

Employee benefits

Short-term employee benefits

Provision is made for the Shire'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 Shire'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.

Other long-term employee benefits

The Shire'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.

Other long-term employee benefits (Continued)

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 Shire's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Shire 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.

Provisions

Provisions are recognised when the Shire 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.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

18. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes cash and cash equivalents, 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:

	2020 Actual	2020 Budget	2019 Actual
	\$	\$	\$
Cash and cash equivalents	7,202,711	3,924,736	7,906,681
Reconciliation of Net Cash Provided By Operating Activities to Net Result			
Net result	(51,778)	(2,954,107)	(453,727)
Non-cash flows in Net result:			
Adjustments to fair value of financial assets at fair value through profit and loss	(1,729)	0	0
Depreciation on non-current assets	2,920,996	3,450,264	3,631,766
(Profit)/loss on sale of asset	48,528	97,005	145,252
Changes in assets and liabilities:			
(Increase)/decrease in receivables	406,655	450,000	365,859
(Increase)/decrease in other assets	(26,447)	0	0
(Increase)/decrease in inventories	(12,425)	2,000	(30)
Increase/(decrease) in payables	197,879	25,000	74,183
Increase/(decrease) in provisions	52,215	0	219,629
Non-operating grants, subsidies and contributions	(1,232,923)	(851,426)	(809,023)
Net cash from operating activities	<u>2,300,971</u>	<u>218,736</u>	<u>3,173,909</u>

SHIRE OF NARROGIN
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30 JUNE 2020

19. TOTAL ASSETS CLASSIFIED BY FUNCTION AND ACTIVITY

	2020	2019
	\$	\$
Governance	10,900	11,175
General purpose funding	652,011	586,296
Law, order, public safety	488,468	518,900
Education and welfare	3,505,135	3,494,838
Housing	727,136	1,135,969
Community amenities	1,403,221	1,207,973
Recreation and culture	39,446,980	39,616,518
Transport	117,122,932	116,489,328
Economic services	5,177,639	5,102,815
Other property and services	8,584,269	8,268,792
Unallocated	3,826,184	4,456,964
	<u>180,944,875</u>	<u>180,889,568</u>

20. CONTINGENT ASSETS AND LIABILITIES

The Department of Water and Environmental Regulation (DWER) issued Category 61, 62 and 64 licenses for the Shire of Narrogin Waste Management Facility for a term of 20 years from 30 June 2011 to 29 June 2031.

Independent experts, engaged by the Shire, determined that the site is anticipated to have an operating life of at least 68 years.

A Landfill Closure Management Plan is required to be prepared as part of the license conditions. A preliminary Landfill Closure Management Plan has been prepared by the Shire but is subject to the assessment by DWER.

The Shire is not aware of any contingent assets as at 30 June 2020.

**SHIRE OF NARROGIN
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30 JUNE 2020**

21. CAPITAL COMMITMENTS

(a) Capital Expenditure Commitments

Contracted for:

- capital expenditure projects

2020	2019
\$	\$
56,862	136,799
56,862	136,799

Payable:

- not later than one year

56,862	136,799
--------	---------

The capital expenditure projects outstanding at the end of the current reporting period and previous represent outstanding orders issued for capital projects prior to 30.06.2020 and 30.06.2019, respectively.

22. RELATED PARTY TRANSACTIONS

Elected Members Remuneration

The following fees, expenses and allowances were paid to council members and/or the President.

	2020 Actual	2020 Budget	2019 Actual
	\$	\$	\$
Meeting fees	86,492	88,000	88,000
President's allowance	23,500	24,000	23,500
Deputy President's allowance	5,875	6,000	5,875
Travelling expenses	0	1,000	139
Telecommunications allowance	5,511	5,600	5,600
	121,378	124,600	123,114

Key Management Personnel (KMP) Compensation Disclosure

The total of remuneration paid and payable to KMP of the Shire during the year are as follows:

	2020 Actual	2019 Actual
	\$	\$
Short-term employee benefits	944,735	922,628
Post-employment benefits	123,789	120,798
Other long-term benefits	103,401	96,673
	1,171,925	1,140,099

Short-term employee benefits

These amounts include all salary, 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 above.

Post-employment benefits

These amounts are the current-year's estimated cost of providing for the Shire's superannuation contributions made during the year.

Other long-term benefits

These amounts represent long service benefits accruing during the year.

22. RELATED PARTY TRANSACTIONS (Continued)

Transactions with related parties

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

No outstanding balances or provisions for doubtful debts or guaranties exist in relation to related parties at year end.

The following transactions occurred with related parties:	2020 Actual \$	2019 Actual \$
Sale of goods and services	5,008	5,476
Purchase of goods and services *	14,569	10,136

* Purchases to the value of \$14,569 were made to the following during the current financial year:

Narrogin Revheads	With the related party being a member of the Council
Highbury Tennis Club	With the related party being a member of the Council
Food with Flair	This organisation is operated by a family member closely associated with a member of the Council
Regional Communication Solutions Pty Ltd	This organisation is operated by a member of the Council
G & RJ Ballard	This organisation is operated by a member of the Council

Related Parties

The Shire'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. Other Related Parties

The associate person of KMP was employed by the Shire under normal employment terms and conditions.

iii. Entities subject to significant influence by the Shire

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.

SHIRE OF NARROGIN
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30 JUNE 2020

23. RATING INFORMATION

(a) Rates

RATE TYPE	Rate in \$	Number of Properties	2019/20 Actual Rateable Value \$	2019/20 Actual Rate Revenue \$	2019/20 Actual Interim Rates \$	2019/20 Actual Back Rates \$	2019/20 Actual Total Revenue \$	2019/20 Budget Rate Revenue \$	2019/20 Budget Interim Rate \$	2019/20 Budget Back Rate \$	2019/20 Budget Total Revenue \$	2018/19 Actual Total Revenue \$
Differential general rate / general rate												
Gross rental valuations												
Urban	0.113035	1,656	27,419,349	3,099,346	22,183	3,317	3,124,846	3,096,476	0	0	3,096,476	3,082,039
Rural	0.070754	75	1,344,814	95,151	136	99	95,386	94,415	0	0	94,415	90,023
Unimproved valuations												
General UV	0.006162	285	168,859,000	1,040,509	(25,939)	(10,564)	1,004,006	1,039,073	0	0	1,039,073	1,004,800
Sub-Total		2,016	197,623,163	4,235,006	(3,620)	(7,148)	4,224,238	4,229,964	0	0	4,229,964	4,176,862
Minimum payment												
Minimum \$												
Gross rental valuations												
Urban	1,105	484	3,578,615	534,820	0	0	534,820	534,820	0	0	534,820	479,769
Rural	799	16	95,642	12,784	0	0	12,784	12,784	0	0	12,784	5,456
Rural - Highbury	713	9	60,647	6,417	0	0	6,417	6,417	0	0	6,417	13,374
Unimproved valuations												
General UV	799	189	16,908,800	151,011	0	0	151,011	151,011	0	0	151,011	118,880
Sub-Total		698	20,643,704	705,032	0	0	705,032	705,032	0	0	705,032	617,479
Total amount raised from general rate		2,714	218,266,867	4,940,038	(3,620)	(7,148)	4,929,270	4,934,996	0	0	4,934,996	4,794,341
Ex-gratia rates							4,929,270				4,934,996	4,794,341
Movement in excess rates							9,118				8,624	9,300
Totals							0				0	35,264
							4,938,388				4,943,620	4,838,905

SIGNIFICANT ACCOUNTING POLICIES

Rates

Control over assets acquired from rates is obtained at the commencement of the rating period.

Prepaid rates are, until the taxable event has occurred (start of the next financial year), refundable at the request of the ratepayer. Rates received in advance are initially recognised as a financial liability. When the taxable event occurs, the financial liability is extinguished and the Shire recognises revenue for the prepaid rates that have not been refunded.

SHIRE OF NARROGIN
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30 JUNE 2020

23. RATING INFORMATION (Continued)

(b) Interest Charges & Instalments

Instalment Options	Date Due	Instalment Plan Admin Charge \$	Instalment Plan Interest Rate %	Unpaid Rates Interest Rate %
Option One				
Single full payment	5/09/2019			11.00%
Option Two				
First instalment	5/09/2019			11.00%
Second instalment	7/11/2019	17	5.50%	11.00%
Third instalment	9/01/2020	17	5.50%	11.00%
Fourth instalment	12/03/2020	17	5.50%	11.00%

	2020 Actual \$	2020 Budget \$	2019 Actual \$
Interest on unpaid rates	55,066	35,000	48,231
Interest on instalment plan	17,771	18,000	18,025
Charges on instalment plan	30,377	35,000	41,287
	103,214	88,000	107,543

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

24. RATE SETTING STATEMENT INFORMATION

		2019/20 Budget	2019/20	2018/19		
	2019/20 (30 June 2020 Carried Forward)	(30 June 2020 Carried Forward)	(1 July 2019 Brought Forward)	(30 June 2019 Carried Forward)		
Note	\$	\$	\$	\$		
(a) Non-cash amounts excluded from operating activities						
The following non-cash revenue or expenditure has been excluded from amounts attributable to operating activities within the Rate Setting Statement in accordance with <i>Financial Management Regulation 32</i> .						
Adjustments to operating activities						
	Less: Profit on asset disposals	11(a)	(10,152)	(35,472)	(14,394)	(14,394)
	Less: Movement in liabilities associated with restricted cash		25,720	0	(52,713)	(52,713)
	Less: Fair value adjustments to financial assets at fair value through profit and loss		(1,729)		0	0
	Movement in pensioner deferred rates (non-current)		(288)	0	(26,597)	(26,597)
	Movement in employee benefit provisions (non-current)		(109,569)	0	266,395	266,395
	Add: Loss on disposal of assets	11(a)	58,680	132,477	159,646	159,646
	Add: Depreciation on non-current assets	11(b)	2,920,996	3,450,264	3,631,766	3,631,766
	Non cash amounts excluded from operating activities		2,883,658	3,547,269	3,964,103	3,964,103
(b) Surplus/(deficit) after imposition of general rates						
The following current assets and liabilities have been excluded from the net current assets used in the Rate Setting Statement in accordance with <i>Financial Management Regulation 32</i> to agree to the surplus/(deficit) after imposition of general rates.						
Adjustments to net current assets						
	Less: Reserves - cash backed	4	(4,083,821)	(3,709,404)	(4,229,579)	(4,229,579)
	Less: Current assets not expected to be received at end of year - Land held for resale		0	(177,273)	0	0
	Add: Current liabilities not expected to be cleared at end of year - Current portion of borrowings	16(a)	173,653	(1)	166,658	166,658
	- Current portion of lease liabilities		10,644	0	0	0
	- Employee benefit provisions		360,583	334,862	334,863	334,863
	Total adjustments to net current assets		(3,538,941)	(3,551,816)	(3,728,058)	(3,728,058)
Net current assets used in the Rate Setting Statement						
	Total current assets		7,927,133	4,668,805	8,999,174	8,999,174
	Less: Total current liabilities		(1,830,506)	(1,116,989)	(1,453,204)	(1,327,208)
	Less: Total adjustments to net current assets		(3,538,941)	(3,551,816)	(3,728,058)	(3,728,058)
	Net current assets used in the Rate Setting Statement		2,557,686	0	3,817,912	3,943,908
(c) Adjustments to current assets and liabilities at 1 July 2019 on application of new accounting standards						
	Total current liabilities at 30 June 2019					(1,327,208)
	- Rates paid in advance	27(b)				(125,996)
	Total current liabilities at 1 July 2019					(1,453,204)

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

25. FINANCIAL RISK MANAGEMENT

This note explains the Shire's exposure to financial risks and how these risks could affect the Shire's future financial performance.

Risk	Exposure arising from	Measurement	Management
Market risk - interest rate	Long term borrowings at variable rates	Sensitivity analysis	Utilise fixed interest rate borrowings
Credit risk	Cash and cash equivalents, trade receivables, financial assets and debt investments	Aging analysis Credit analysis	Diversification of bank deposits, credit limits. Investment policy
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

The Shire 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 finance area identifies, evaluates and manages financial risks in close co-operation with the operating divisions. Council have approved the overall risk management policy and provide policies on specific areas such as investment policy.

(a) Interest rate risk

Cash and cash equivalents

The Shire's main interest rate risk arises from cash and cash equivalents with variable interest rates, which exposes the Shire to cash flow interest rate risk. Short term overdraft facilities also have variable interest rates however these are repaid within 12 months, reducing the risk level to minimal.

Excess cash and cash equivalents are invested in fixed interest rate term deposits which do not expose the Shire to cash flow interest rate risk. Cash and cash equivalents required for working capital are held in variable interest rate accounts and non-interest bearing accounts. Carrying amounts of cash and cash equivalents at the 30 June and the weighted average interest rate across all cash and cash equivalents and term deposits held disclosed as financial assets at amortised cost are reflected in the table below.

	Weighted Average Interest Rate	Carrying Amounts	Fixed Interest Rate	Variable Interest Rate	Non Interest Bearing
	%	\$	\$	\$	\$
2020					
Cash and cash equivalents	0.25%	7,202,711	0	7,199,971	2,740
2019					
Cash and cash equivalents	1.25%	7,906,681	0	7,903,941	2,740

Sensitivity

Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates.

	2020	2019
	\$	\$
Impact of a 1% movement in interest rates on profit and loss and equity*	72,000	79,039

* Holding all other variables constant

Borrowings

Borrowings are subject to interest rate risk - the risk that movements in interest rates could adversely affect funding costs. The Shire 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 Shire does not consider there to be any interest rate risk in relation to borrowings. Details of interest rates applicable to each borrowing may be found at Note 16(b).

SHIRE OF NARROGIN
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25. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

Trade and Other Receivables

The Shire's major receivables comprise rates annual charges and user fees and charges. The major risk associated with these receivables is credit risk – the risk that the debts may not be repaid. The Shire manages this risk by monitoring outstanding debt and employing debt recovery policies. It also encourages ratepayers to pay rates by the due date through incentives.

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

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

The Shire applies the AASB 9 simplified approach to measuring expected credit losses using a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, rates receivable are separated from other trade receivables due to the difference in payment terms and security for rates receivable.

The expected loss rates are based on the payment profiles of rates and fees and charges over a period of 36 months before 1 July 2019 or 1 July 2020 respectively and the corresponding historical losses experienced within this period. Historical credit loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors such as the ability of ratepayers and residents to settle the receivables. Housing prices and unemployment rates have been identified as the most relevant factor in repayment rates, and accordingly adjustments are made to the expected credit loss rate based on these factors. There are no material receivables that have been subject to a re-negotiation of repayment terms.

	Current	More than 1 year past due	More than 2 years past due	More than 3 years past due	Total
30 June 2020					
Rates receivable					
Expected credit loss	0.00%	0.00%	0.00%	0.00%	
Gross carrying amount	14,087	260,063	116,530	261,331	652,011
Loss allowance	0	0	0	0	0
30 June 2019					
Rates receivable					
Expected credit loss	0.00%	0.00%	0.00%	0.00%	
Gross carrying amount	5,930	149,540	89,129	215,701	460,300
Loss allowance	0	0	0	0	0
	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
30 June 2020					
Sundry receivables					
Expected credit loss	4.18%	14.48%	22.98%	50.67%	
Gross carrying amount	98,915	3,806	11,983	39,679	154,383
Loss allowance	4,132	551	2,754	20,107	27,544
30 June 2019					
Sundry receivables					
Expected credit loss	4.18%	14.48%	22.98%	52.12%	
Gross carrying amount	603,831	10,306	23	21,648	635,808
Loss allowance	25,240	1,492	5	11,283	38,020

25. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk

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. The Shire manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer. Payment terms can be extended and overdraft facilities drawn upon if required and disclosed in Note 16(d).

The contractual undiscounted cash flows of the Shire's payables and borrowings are set out in the liquidity table below. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Due within 1 year	Due between 1 & 5 years	Due after 5 years	Total contractual cash flows	Carrying values
	\$	\$	\$	\$	\$
2020					
Payables	934,881	0	0	934,881	934,881
Borrowings	203,340	610,096	256,085	1,069,521	975,012
Lease liabilities	10,973	13,716	0	24,689	24,206
	<u>1,149,194</u>	<u>623,812</u>	<u>256,085</u>	<u>2,029,091</u>	<u>1,934,099</u>
2019					
Payables	611,006	0	0	611,006	611,006
Borrowings	203,288	711,815	362,895	1,277,998	1,142,227
	<u>814,294</u>	<u>711,815</u>	<u>362,895</u>	<u>1,889,004</u>	<u>1,753,233</u>

26. EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

There were no events occurring after balance date that have a significant effect on the financial statements.

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

27. INITIAL APPLICATION OF AUSTRALIAN ACCOUNTING STANDARDS

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

(a) AASB 15: Revenue from Contracts with Customers

The Shire adopted AASB 15 Revenue from Contracts with Customers (issued December 2014) on 1 July 2019 resulting in changes in accounting policies. In accordance with the transition provisions AASB 15, the Shire adopted the new rules retrospectively with the cumulative effect of initially applying these rules recognised on 1 July 2019. The changes in the accounting standards had no material impact on the balance sheet of the Shire.

(b) AASB 1058: Income For Not-For-Profit Entities

The Shire adopted AASB 1058 Income for Not-for-Profit Entities (issued December 2016) on 1 July 2019 which will result in changes in accounting policies. In accordance with the transition provisions AASB 1058, the Shire adopted the new rules retrospectively with the cumulative effect of initially applying AASB 1058 recognised at 1 July 2019. Comparative information for prior reporting periods was not restated in accordance with AASB 1058 transition requirements.

In applying AASB 1058 retrospectively with the cumulative effect of initially applying the Standard on 1 July 2019 changes occurred to the following financial statement line items by application of AASB 1058 as compared to AASB 118: Revenue and AASB 1004: Contributions before the change:

Note	AASB 118 and AASB 1004 carrying amount	Reclassification	AASB 1058 carrying amount
	30 June 2019		01 July 2019
	\$	\$	\$
Trade and other payables			
Rates paid in advance	14	(125,996)	(125,996)
Adjustment to retained surplus from adoption of AASB 1058	28(b)	(125,996)	

Prepaid rates are, until the taxable event for the rates has occurred, refundable at the request of the ratepayer. Therefore the rates received in advance gave rise to a financial liability that is within the scope of AASB 9. On 1 July 2019 the prepaid rates were recognised as a financial asset and a related amount recognised as a financial liability and no income recognised by the Shire. When the taxable event occurred, the financial liability was extinguished and the Shire recognised income for the prepaid rates that have not been refunded.

Assets that were acquired for consideration, that were significantly less than fair value principally to enable the Shire to further its objectives, may have been measured on initial recognition under other Australian Accounting Standards at a cost that was significantly less than fair value. Such assets are not required to be remeasured at fair value.

Volunteer Services in relation to Volunteer Bush Fire Services were not recognised as the fair value of the services cannot be reliably estimated.

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

27. INITIAL APPLICATION OF AUSTRALIAN ACCOUNTING STANDARDS (Continued)

The table below provides details of the amount by which each financial statement line item is affected in the current reporting period by the application of this Standard as compared to AASB 118 and 1004 and related Interpretations that were in effect before the change.

		2020 \$		2020 \$
	Note	As reported under AASB 15 and AASB 1058	Adjustment due to application of AASB 15 and AASB 1058	Compared to AASB 118 and AASB 1004
Statement of Comprehensive Income				
Revenue				
Rates	23(a)	4,938,388	156,112	5,094,500
Operating grants, subsidies and contributions	2(a)	4,011,546	0	4,011,546
Fees and charges	2(a)	1,787,386	0	1,787,386
Non-operating grants, subsidies and contributions	2(a)	1,232,923	0	1,232,923
Net result		(51,778)	156,112	104,334
Statement of Financial Position				
Trade and other payables	14	934,881	(156,112)	778,769
Net assets		178,120,070	156,112	178,276,182
Statement of Changes in Equity				
Net result		(51,778)	156,112	104,334
Retained surplus		50,442,171	156,112	50,598,283

Refer to Note 2(a) for new revenue recognition accounting policies as a result of the application of AASB 15 and AASB 1058.

(c) AASB 16: Leases

The Shire adopted AASB 16 retrospectively from 1 July 2019 which resulted in changes in accounting policies. The Shire had no leases in place which required recognition on application of AASB 16.

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

28. CHANGE IN ACCOUNTING POLICIES

(a) Change in Accounting Policies due to regulation changes

Effective 6 November 2020, *Local Government (Financial Management) Regulation 16* was deleted and *Local Government (Financial Management) Regulation 17A* was amended with retrospective application. The changes were effective for financial years ending on or after 30 June 2020 so are required to be applied retrospectively with cumulative effect applied initially on 1 July 2019.

In accordance with the changes, the Shire was required to remove the values attributable to certain crown land assets (includes golf courses, showground, racecourses or any other sporting or recreational facilities of State, or regional significance) previously required to be recognised, as well as the associated revaluation surplus at 1 July 2019. No such assets were identified for adjustment as at 1 July 2019. Further assessment is required to determine if the shire holds any other crown land assets which may require reclassification as a concessionary lease right-of-use assets at zero cost in accordance with AASB 16. For further details relating to these changes, refer to Note 11.

Also, following changes to *Local Government (Financial Management) Regulation 17A*, plant and equipment type assets (being plant and equipment and furniture and equipment) are to be measured under the cost model, rather than at fair value. This change is effective from 1 July 2019 and represents a change in accounting policy. Revaluations carried out previously or during the year were not reversed as it was deemed fair value approximates cost at the date of the change.

(b) Changes in equity due to change in accounting policies

The impact on the Shire's opening retained surplus due to the adoption of AASB 15 and AASB 1058 as at 1 July 2019 was as follows:

	Note	Adjustments	2019
Retained surplus - 30 June 2019			\$ 50,369,084
Adjustment to retained surplus from adoption of AASB 1058	27(b)	(125,996)	(125,996)
Retained surplus - 1 July 2019			50,243,088

**SHIRE OF NARROGIN
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FOR THE YEAR ENDED 30 JUNE 2020**

29. TRUST FUNDS

Funds held at balance date which are required to be held in trust and which are not included in the financial statements are as follows:

	<u>1 July 2019</u>	<u>Amounts Received</u>	<u>Amounts Paid</u>	<u>30 June 2020</u>
	\$	\$	\$	\$
Public Open Space	73,325	0	0	73,325
	<u>73,325</u>	<u>0</u>	<u>0</u>	<u>73,325</u>

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
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30. OTHER SIGNIFICANT ACCOUNTING POLICIES

a) 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.

b) 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 Shire's operational cycle. In the case of liabilities where the Shire 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 Shire's intentions to release for sale.

c) Rounding off figures

All figures shown in this annual financial report, other than a rate in the dollar, are rounded to the nearest dollar. Amounts are presented in Australian Dollars.

d) Comparative figures

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

When the Shire 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.

e) Budget comparative figures

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

f) Superannuation

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

g) Fair value of assets and liabilities

Fair value is the price that the Shire 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.

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.

h) 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 Shire 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 Shire 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.

Cost approach

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

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 Shire 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 are 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.

i) Impairment of assets

In accordance with Australian Accounting Standards the Shire'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 measured 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.

**SHIRE OF NARROGIN
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31. ACTIVITIES/PROGRAMS

Shire operations as disclosed in these financial statements encompass the following service orientated activities/programs.

PROGRAM NAME AND OBJECTIVES	ACTIVITIES
<p>GOVERNANCE To provide a decision making process for the effective allocation for scarce resources.</p>	Includes the activities of members of council and administration support available to the council for provision of governance of the district. Other costs relate to the task of assisting elected members and electors on matters which do not concern specific Shire services.
<p>GENERAL PURPOSE FUNDING To collect revenue to allow for the provisions of infrastructure and services</p>	Rates, general purpose government grants and interest revenue.
<p>LAW, ORDER, PUBLIC SAFETY To provide services to help ensure a safer community</p>	Supervision and enforcement of various local laws, fire prevention, animal control and other aspects of public safety including emergency services.
<p>HEALTH To provide an operational framework for environmental and community health.</p>	Inspect food outlets and their control, noise control and waste disposal compliance.
<p>EDUCATION AND WELFARE To provide services to the disadvantaged, the elderly, children and youth.</p>	Preschool and other education, children and youth services, elderly and disadvantaged, senior citizens services.
<p>HOUSING To provide housing to senior employees.</p>	Provision of staff housing.
<p>COMMUNITY AMENITIES To provide services required by the community.</p>	Rubbish collection services, operation of refuse disposal site, litter control, construction and maintenance of urban storm water drains, protection of the environment and administration of town planning scheme, cemetery and public conveniences.
<p>RECREATION AND CULTURE To provide recreational and cultural services to the community.</p>	Maintain public halls, civic centres, aquatic centre, recreational centre and various sporting facilities, Provisions and maintenance of parks, gardens and playgrounds. Operations of Library, museum and other cultural facilities.
<p>TRANSPORT To provide safe, effective and efficient transport services to the community.</p>	Construct and maintenance of roads, streets, footpaths, depots parking facilities. Purchase of plant and equipment.
<p>ECONOMIC SERVICES To promote the Shire and its economic wellbeing.</p>	Tourism and area promotion including the maintenance and operation of a caravan park. Provision of rural services including weed control, and standpipes. Building Control.
<p>OTHER PROPERTY AND SERVICES To monitor and control the Town's overheads operation accounts and town planning scheme.</p>	Private works operation, plant repair and operation costs, administration overheads, community development overheads and gross salary and wages.

SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
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32. FINANCIAL RATIOS

	2020 Actual	2019 Actual	2018 Actual
Current ratio	2.63	4.52	5.15
Asset consumption ratio	0.96	0.98	0.99
Asset renewal funding ratio	0.65	0.65	0.69
Asset sustainability ratio	0.89	0.77	1.21
Debt service cover ratio	7.79	14.09	9.93
Operating surplus ratio	(0.18)	(0.19)	(0.01)
Own source revenue coverage ratio	0.56	0.50	0.54

The above ratios are calculated as follows:

Current ratio	$\frac{\text{current assets minus restricted assets}}{\text{current liabilities minus liabilities associated with restricted assets}}$
Asset consumption ratio	$\frac{\text{depreciated replacement costs of depreciable assets}}{\text{current replacement cost of depreciable assets}}$
Asset renewal funding ratio	$\frac{\text{NPV of planned capital renewal over 10 years}}{\text{NPV of required capital expenditure over 10 years}}$
Asset sustainability ratio	$\frac{\text{capital renewal and replacement expenditure}}{\text{depreciation}}$
Debt service cover ratio	$\frac{\text{annual operating surplus before interest and depreciation}}{\text{principal and interest}}$
Operating surplus ratio	$\frac{\text{operating revenue minus operating expenses}}{\text{own source operating revenue}}$
Own source revenue coverage ratio	$\frac{\text{own source operating revenue}}{\text{operating expense}}$

INDEPENDENT AUDITOR'S REPORT**SHIRE OF NARROGIN****REPORT ON THE AUDIT OF THE FINANCIAL REPORT****Qualified Opinion**

I have audited the annual financial report of the Shire of Narrogin which comprises the Statement of Financial Position as at 30 June 2020, and the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity, Statement of Cash Flows and Rate Setting Statement for the year then ended, as well as notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by the Chief Executive Officer (CEO).

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the annual financial report of the Shire of Narrogin:

- (i) is based on proper accounts and records; and
- (ii) fairly represents, in all material respects, the results of the operations of the Shire for the year ended 30 June 2020 and its financial position at the end of that period in accordance with the *Local Government Act 1995* (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

Basis for Qualified Opinion

The Shire's municipal account bank reconciliations included unreconciled balances throughout the financial year, including an unreconciled balance of \$5,425 at year end 30 June 2020. As of the date of my report, management has continued to investigate but were not able to satisfactorily explain this unreconciled balance. The nature of the matter is considered to be qualitatively material, but not considered to be pervasive throughout the financial statements based on the audit evidence obtained to date and current information provided by management.

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of the Shire in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the annual financial report. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – Basis of Accounting

I draw attention to Note 1 and 11 to the annual financial report, which describe the basis of accounting. The annual financial report has been prepared for the purpose of fulfilling the Shire's annual financial reporting responsibilities under the Act, including the Local Government (Financial Management) Regulations 1996 (Regulations). My opinion is not modified in respect of these matters:

- (i) Regulation 17A requires a local government to measure vested improvements at fair value and the associated vested land at zero cost. This is a departure from AASB 16 Leases which would have required the entity to measure the vested improvements also at zero cost.
- (ii) In respect of the comparatives for the previous year ended 30 June 2019, Regulation 16 did not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report.

Responsibilities of the Chief Executive Officer and Council for the Financial Report

The CEO of the Shire is responsible for the preparation and fair presentation of the annual financial report in accordance with the requirements of the Act, the Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards. The CEO is also responsible for such internal control as the CEO determines is necessary to enable the preparation of the annual financial report that is free from material misstatement, whether due to fraud or error. In preparing the annual financial report, the CEO is responsible for assessing the Shire's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the State Government has made decisions affecting the continued existence of the Shire.

The Council is responsible for overseeing the Shire's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Report

The objectives of my audit are to obtain reasonable assurance about whether the annual 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 annual financial report. 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.

A further description of my responsibilities for the audit of the annual financial report is located on the Auditing and Assurance Standards Board website at https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of my auditor's report.

Report on Other Legal and Regulatory Requirements

In accordance with the Local Government (Audit) Regulations 1996 I report that:

- (i) In my opinion, the following material matter indicates a significant adverse trend in the financial position of the Shire:
 - a. The Operating Surplus Ratio as reported in Note 32 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries' standard for the part three financial years.
- (ii) Except for the matter described in the Basis for Qualified Opinion section of my report, all required information and explanations were obtained by me.
- (iii) Except for the matter described in the Basis for Qualified Opinion section of my report, all audit procedures were satisfactorily completed.
- (iv) The following material matters indicating non-compliance with Part 6 of the *Local Government Act 1995*, the Local Government (Financial Management) Regulations 1996 or applicable financial controls of any other written law were identified during the course of my audit:
 - a. The Shire's municipal account bank reconciliations included unreconciled balances throughout the financial year ended 30 June 2020. As of the date of my report, management has continued to investigate but were not able to satisfactorily explain the unreconciled balances.
 - b. The Shire was non-compliant with the *Superannuation Guarantee (Administration) Act 1992*, as its employee superannuation expense for June 2020 due to be paid by 30 Sept 2020 was only paid in January 2021,
- (v) In my opinion, the Asset Consumption Ratio and the Asset Renewal Funding Ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the annual financial report of the Shire for the year ended 30 June 2020 included on the Shire's website. The Shire's management is responsible for the integrity of the Shire's website. This audit does not provide assurance on the integrity of the Shire's website. The auditor's report refers only to the annual financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this annual financial report. If users of the annual financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited annual financial report to confirm the information contained in this website version of the annual financial report.



CAROLINE SPENCER
AUDITOR GENERAL
Auditor General for Western Australia
Perth, Western Australia
14 June 2021