



SHIRE OF DENMARK AUDIT ADVISORY COMMITTEE

HELD IN THE COUNCIL CHAMBERS,
953 SOUTH COAST HIGHWAY, DENMARK,
TUESDAY, 17 DECEMBER 2019.

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Council Committee Meeting

17 December 2019

DISCLAIMER

These minutes and resolutions are subject to confirmation by the Committee and therefore prior to relying on them, one should refer to the subsequent meeting of the Committee with respect to their accuracy.

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1. DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS

11.30am – Due to it being the first meeting since the 2019 Local Government Elections, the Acting Chief Executive Officer assumed the Chair and called for nominations for the position of Presiding Officer for the ensuing two (2) years.

2. ELECTION OF PRESIDING PERSON

The Acting Chief Executive Officer called for nominations for the position of Presiding Person.

Cr Jones nominated Cr Bowley who accepted the nomination. There were no further nominations. The Acting CEO declared Cr Bowley elected unopposed.

Cr Bowley thanked members for their support and acknowledged the traditional owners of the land, the Bibbulmun and Minang people.

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

MEMBERS:

Cr Geoff Bowley (Presiding Person)
 Cr Ceinwen Gearon (Shire President)
 Cr Mark Allen (Deputy Shire President) (from 12.08pm)
 Cr Kingsley Gibson
 Cr Steve Jones

STAFF:

Mr David Schober (Acting Chief Executive Officer)
 Mr Cary Green (Director Corporate and Community Services)
 Mr David King (Director Assets & Sustainable Development)
 Mr Lee Sounness (Manager Corporate Services)
 Mrs Teiga Murray (Corporate Planning Officer)

APOLOGIES:

Cr Ian Osborne

ON LEAVE OF ABSENCE:

Nil

ABSENT:

Nil

VISITORS:

Ms Efthalia Samaras (Office of Auditor General) – via teleconference

DECLARATIONS OF INTEREST:

Nil

4. ANNOUNCEMENTS BY THE PERSON PRESIDING

Nil

5. CONFIRMATION OF MINUTES

5.1 AUDIT COMMITTEE MEETING 12 MARCH 2019

COMMITTEE RESOLUTION & OFFICER RECOMMENDATION	ITEM 5.1
MOVED: CR GIBSON	SECONDED: CR GEARON

That the minutes of the Shire of Denmark Audit Advisory Committee meeting held on 12 March 2019, be confirmed as a true and correct record of the proceedings.

CARRIED UNANIMOUSLY: 4/0

6. PUBLIC QUESTION TIME

Public Question Time shall be held in accordance with section 5.24 of the Local Government Act 1995 and Regulations 5, 6 and 7 of the Local Government (Administration) Regulations 1996.

Public question time enables members of the public to address the Committee or ask questions of Committee. The procedure for public question time can be found on the wall near the entrance to the Council Chambers or can be downloaded from the Shire's website at <http://www.denmark.wa.gov.au/council-meetings>.

Questions from the public are invited and welcomed at this point of the Agenda.

Questions from the Public

6.1 Mr Ross Thornton

Mr Thornton queried the accounting treatment of Restricted Creditors and in particular, contributions to roadworks and developer contributions. Mr Thornton noted that he was scheduled to meet with the Director Assets & Sustainable Development the next day and he hoped that information could be made available to him.

Mr Thornton asked whether the Shire had received Ministerial approval to transfer some funds from the Public Open Space (POS) Contributions Trust Account to the McLean Park Redevelopment.

The Director Corporate and Community Services said that the Minister had approved the transfer which had been done.

Mr Thornton said that he believed the Audit Committee should look carefully at the adverse findings that were identified in the Audit Report.

7. OFFICER REPORTS

7.1 CONDUCT OF MEETING WITH AUDITOR – 2018/2019 ANNUAL FINANCIAL REPORT AND AUDITORS REPORT

File Ref:	FIN.31
Applicant / Proponent:	Shire of Denmark
Subject Land / Locality:	Nil
Disclosure of Officer Interest:	Nil
Date:	3 December 2019
Author:	Lee Sounness, Manager Corporate Services
Authorising Officer:	David Schober, Chief Executive Officer Acting
Attachments:	Nil

Summary:

To resolve how the meeting between the Audit Committee and Council's Auditor will be conducted.

Background:

Nil

Consultation:

The Annual Financial Report has been the subject of close examination by the Office of the Auditor General and the appointed auditor Russell Harrison of Lincolns Beyond Numbers.

Statutory Obligations:

Local Government Act 1995 Section 7.12A (2)

Policy Implications:

There are no policy implications

Budget / Financial Implications:

Nil

Strategic & Corporate Plan Implications:

The report and officer recommendation are consistent with Council's adopted Strategic Community Plan Aspirations and Objectives and the Corporate Business Plan Actions and Projects in the following specific ways:

Denmark 2027

L5.4 To be fiscally responsible

Sustainability Implications:➤ **Governance:**

There are no known significant governance considerations relating to the report or officer recommendation.

➤ **Environmental:**

There are no known significant environmental considerations relating to the report or officer recommendation.

➤ **Economic:**

There are no known significant economic considerations relating to the report or officer recommendation.

➤ **Social:**

There are no known significant social considerations relating to the report or officer recommendation.

➤ **Risk:**

Risk	Risk Likelihood (based on history and with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That the Audit Advisory Committee do not agree to meet with the Auditor	Rare (1)	Minor (2)	Low (1-4)	Failure to meet Statutory, Regulatory or Compliance Requirements	Accept Officer Recommendation

Comment/Conclusion:

The Office of the Auditor General have produced an Independent Auditor's Report and an Index of Audit Findings for the 2018/2019 financial year.

An important function of the meeting is to discuss with the Auditor, the conduct of the audit, the audit findings, and the state of the Shire's financial affairs generally.

Legislation specifies that a local government is required to meet with its auditor at least once in every year. The Department of Local Government and Regional Developments Local Government Operational Guidelines – Number 09, Part 16 states:

"It is acknowledged that the requirement to meet at least once per year may incur a significant financial burden for the more remote local governments. In such circumstances the meeting can be conducted by telephone or video conference. The Council or Audit Committee should resolve how the meeting with the Auditor will be conducted and for the record of the meeting to show that the Auditor was involved and the matters discussed."

The Office of the Audit General Council's Auditor has advised that they will be available from 11.30am to liaise with members of the Audit Committee via teleconference

Voting Requirements:

Simple Majority

COMMITTEE RESOLUTION & OFFICER RECOMMENDATION	ITEM 7.1
MOVED: CR GIBSON	SECONDED: CR JONES
That the Shire of Denmark Audit Committee resolves to conduct a meeting with the Office of the Auditor General via telephone conference.	
CARRIED UNANIMOUSLY: 4/0	

11.40am – Ms Efthalia Samaras from the Office of Auditor General joined the meeting via teleconference

7.2 SHIRE OF DENMARK 2018/19 ANNUAL FINANCIAL STATEMENT AND AUDIT REPORT

File Ref:	FIN.31
Applicant / Proponent:	Shire of Denmark
Subject Land / Locality:	Nil
Disclosure of Officer Interest:	Nil
Date:	3 December 2019
Author:	Lee Sounness, Manager Corporate Services
Authorising Officer:	David Schober, Acting Chief Executive Officer
Attachments:	6.2a – 2018/2019 Annual Financial Report 6.2b – Independent Auditor's Report 6.2c – Management Letter

Summary:

The 2018/2019 Annual Financial Statement, Auditors Report and Management Letter has been received from the Office of the Auditor General's (OAG) Director of Financial Audit, Efthalia Samara and the appointed Auditor, Mr Russell Harrison from Lincolns beyond Numbers and is provided to Committee Members with the Agenda documents.

Consultation:

Nil

Statutory Obligations:

Local Government Act 1995 - Part 7.
Local Government (Financial Management) Regulations 1996.
Local Government (Audit) Regulations 1996 – Regulation 16.

Policy Implications:

The Audit Advisory Committee have delegated authority under Delegation D040231. Policy P040232 – Municipal Budget Policies relates to annual financial budgets.

Budget / Financial Implications:

The indicative fee of the Audit conducted by OAG is \$32,000 (ex GST) and the preparation, collation and printing of statements was undertaken in-house by Council Officers. Both of these costs have been covered in the 2019/20 Budget.

Strategic & Corporate Plan Implications:

The report and officer recommendation are consistent with Council's adopted Strategic Community Plan Aspirations and Objectives and the Corporate Business Plan Actions and Projects in the following specific ways:

Denmark 2027

L5.4 To be fiscally responsible.

Sustainability Implications:➤ **Governance:**

There are no known significant governance considerations relating to the report or officer recommendation.

➤ **Environmental:**

There are no known significant environmental implications relating to the report or officer recommendation.

➤ **Economic:**

There are no known significant economic implications relating to the report or officer recommendation.

➤ **Social:**

There are no known significant social considerations relating to the report or officer recommendation.

➤ **Risk:**

Risk	Risk Likelihood (based on history and with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That the Committee not consider and make recommendation on the 2018/19 Financial Statements and Audit Report	Rare (1)	Minor (2)	Low (1-4)	Failure to meet Statutory, Regulatory or Compliance Requirements	Accept Officer Recommendation

Comment/Conclusion:

The 2018/2019 Annual Financial Report, Independent Auditor's Report and Management Letter are to be subject of an Audit Committee meeting where the Committee will consider any action that may be required.

The objectives of the audit are to obtain reasonable assurances that the financial report is free from material misstatement and to provide an opinion to that effect. The nature of the audit is influenced by factors such as the use of professional judgement, selective testing, inherent limitations in internal controls and persuasive rather than conclusive evidence.

Shire Officers are not members of this committee and are present to answer any questions from members.

INDEPENDENT AUDITORS REPORTOpinion

In the opinion of the Office of the Auditor General, the annual financial report of the Shire of Denmark:

- i. is based on proper accounts and records; and
- ii. fairly represents, in all material aspects, the results of the operations of the Shire for the year ended 30 June 2019 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.

The following is an extract from the management letter and summarises the findings identified during the final audit;

Findings Identified During the Final Audit

1. General Journal Review

Finding:

As reported in the previous year, supporting documentation for accounting journals was not maintained at all times and there was no evidence of an independent review/approval of journals prior to then being posted.

Management Comment:

An accounting procedure (OP040270) has been implemented since October 2018 to establish a procedure to ensure proper accountability and control over journal entries posted within the accounting software system.

An amendment to the procedure has been made subsequent to the interim audit findings stated above to ensure a person more senior than the preparer is authorising all general journals entries processed in the system and is reviewing the correctness after being processed.

2. Review of Monthly Reconciliations

Finding:

There was no evidence that the following monthly reconciliations were reviewed by an independent senior officer:

Account	Period
Reserve Fund	July 2018 to March 2019
Debtors	October 2018 and February 2019
Creditors	October 2018
Rates	October 2018

Management Comment:

Unsigned month end reconciliations noted above have been reviewed and signed by the responsible officer.

A reconciliation checklist has been implemented for Finance to ensure all applicable reconciliations are submitted, reviewed and signed off by an independent senior officer on the appropriate timeline (Monthly), to ensure they are not missed in the future.

3. Supplier Master File

Finding:

We reviewed key master file practices and controls. We note that control processes exist, however additional controls surrounding the policies, creation and amendment and management of supplier master files could be implemented.

Management Comment:

A review of key master file practices and controls will be conducted and actions implemented based on OAG recommendations from their focus audit into Local Government Management of Supplier Master Files.

4. Pensioner Rate and ESL Rebate Receivables

Finding:

We were unable to obtain adequate supporting documentation for the following receivables balances:

- Pensioner rate rebate - \$27,426
- ESL rebate - \$1,284.

Management Comment:

These rejected claims date back several years relating to numerous rebate claims submitted.

The amount shown as outstanding on the items highlighted above is a combination of factors as follows:

- a) Timing – claims for rebates are lodged in a regular and timely fashion (generally monthly) throughout the year as a matter of procedure defined within the responsibilities of the Rates Officer role. The system for this process is that one of the debtor control accounts for this process only updates at the point of receipt of payment of the claim (normally a time delay of a few days). This means that a rebate claim lodged for June for the end of financial year is not paid until early July which reduces the amounts quoted as outstanding above quite considerably.
- b) Rejected Claims – Sometimes a claim may be partly rejected for payment by the Office of State Revenue. Current processes ensure any rejected claims are followed up immediately, however, there are some older claims that remain unresolved that date back several years.

Proposed Action:

Administration will review supporting documentation to assess the feasibility of recovering the outstanding amounts. Reconciliation processes have been introduced to ensure any outstanding amounts are reconciled back to the control account on a monthly basis.

Voting Requirements:

Simple majority.

COMMITTEE & OFFICER RECOMMENDATION	ITEM 7.2
MOVED: CR GIBSON	SECONDED: CR JONES
The Shire of Denmark Audit Advisory Committee recommends that Council adopt the 2018/2019 Annual Financial Statements including Auditors Report, noting the recommendations therein and endorsing the actions proposed to be taken by the Chief Executive Officer.	
CARRIED UNANIMOUSLY: 4/0	

Members asked questions about the Audit which were answered by Ms Samaras. When there were no further questions, the Presiding Person, Cr Bowley, thanked Ms Samaras for attending the meeting.

12.01pm – Ms Efthalia Samaras (Office of Auditor General) left the meeting.

8. GENERAL BUSINESS**8.1 Administrative Process & Timing**

Cr Jones noted members had received the Agenda and Audit Report last Wednesday and that the Committee was required to make a recommendation for Council's endorsement at the Ordinary Council Meeting later today. Cr Jones said that he would prefer to see the meetings held further apart to allow members more time to peruse the documentation and not have to reach a consensus under pressure.

Cr Bowley said that he shared Cr Jones' concerns.

The Director Corporate and Community Services acknowledged the Councillors' comments and advised that the time constraints had been due to the requirement for the Council to receive the Audited Financials and adopt the Annual Report by the 31 December 2019. Mr Green acknowledged that this year timeframes had been tight and that Officers would strive for a better process and timeframes next year.

12.08pm – Cr Allen entered the meeting.

9. NEXT MEETING

The next meeting of the Shire of Denmark Audit Committee is to be held as required.

10. CLOSURE OF MEETING

12.10pm – There being no further business to discuss the Presiding Person, Cr Bowley, declared the meeting closed.

These minutes were confirmed at the meeting of the _____

Signed: _____

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

SHIRE OF DENMARK

PERIOD OF AUDIT: 1 JULY 2018 – 30 JUNE 2019

FINDINGS IDENTIFIED DURING THE COURSE OF THE AUDIT

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. General Journals	✓		
2. Review of monthly reconciliations		✓	
3. Supplier Master File		✓	
4. Pensioner rate and ESL rebate receivables			✓

KEY TO RATINGS

The Ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly.
- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
- Minor** - Those findings that are not of primary concern but still warrant action being taken.

SHIRE OF DENMARK

PERIOD OF AUDIT: 1 JULY 2018 – 30 JUNE 2019

FINDINGS IDENTIFIED DURING THE COURSE OF THE AUDIT

1. General Journals

Finding

As reported in the previous year, supporting documentation for accounting journal entries was not maintained at all times and there was no evidence of an independent review/approval of journals prior to them being posted.

**Rating: Significant
Implication**

Accounting journals can represent significant adjustments to previously approved accounting transactions and should therefore be appropriately reviewed and approved. If journals are not independently reviewed there is an increased risk that unauthorised journals can be processed, and funds could be misappropriated.

Recommendation

To help maintain the integrity of the accounting information supporting documentation should be maintained for all journals. In addition, a person more senior than the preparer should authorise all journal entries to be processed in the system and review the correctness of posting after being processed. The authoriser/reviewer should sign and date on the journals as evidence of approval and review.

Management Comment

Agree with recommendation provided.

An accounting procedure (OP040270) has been implemented since October 2018 to establish a procedure to ensure proper accountability and control over journal entries posted within the accounting software system.

An amendment to the procedure has been made subsequent to the interim audit findings stated above to ensure a person more senior than the preparer is authorising all general journals entries processed in the system and is reviewing the correctness after being processed.

Responsible Person: Lee Sounness – Manager Corporate Services

Completion Date: 28 June 2019

SHIRE OF DENMARK

PERIOD OF AUDIT: 1 JULY 2018 – 30 JUNE 2019

FINDINGS IDENTIFIED DURING THE COURSE OF THE AUDIT

2. Review of monthly reconciliations

Finding

There was no evidence that the following monthly reconciliations were reviewed by an independent senior officer:

Account	Period
Reserve Fund	July 2018 to March 2019
Debtors	October 2018 and February 2019
Creditors	October 2018
Rates	October 2018

Rating: Moderate**Implication**

Lack of review by an independent senior officer may lead to erroneous or unusual reconciling items not being detected and investigated in a timely manner.

Recommendation

We recommend all monthly reconciliations are signed by an independent senior officer and evidence of the review is maintained.

Management Comment

Agree with recommendation provided.

Unsigned month end reconciliations noted above have been reviewed and signed by the responsible officer.

A reconciliation checklist has been implemented for Finance to ensure all applicable reconciliations are submitted, reviewed and signed off by an independent senior officer on the appropriate timeline (Monthly), to ensure they are not missed in the future.

Responsible Person: Lee Sounness – Manager Corporate Services

Completion Date: 28 June 2019

SHIRE OF DENMARK

PERIOD OF AUDIT: 1 JULY 2018 – 30 JUNE 2019

FINDINGS IDENTIFIED DURING THE COURSE OF THE AUDIT

3. Supplier Master File

Finding

We reviewed key master file practices and controls. We note that control processes exist, however additional controls surrounding the policies, creation and amendment and management of supplier master files could be implemented.

Rating: Moderate

Implication

- Existence of invalid, incomplete and obsolete supplier records, and the likelihood of undetected fraud or errors.
- Lack of appropriate disclosure and effective management of actual, potential or perceived conflicts of interest may undermine a fair and impartial procurement process, resulting in value for money not being achieved. Even if not involved in procurement or payment authorisation, it is important that entities' conflicts management policies are complied with.

Recommendation

Implementation of additional controls as follows:

- Guidance policies and procedures for employees to manage supplier master files. Policies and procedures are regularly reviewed and updated.
- Implementation of employee conflict of interest policies and procedures which would include employee declarations and procedures where conflict of interest exist.
- Formally recorded policies and procedures covering formal and periodic review of master files.

Management Comment

Recommendations to the findings on Supplier Master Files are yet to be reviewed and implemented

Responsible Person: Lee Sounness – Manager Corporate Services
Completion Date: 28 June 2019

SHIRE OF DENMARK

PERIOD OF AUDIT: 1 JULY 2018 – 30 JUNE 2019

FINDINGS IDENTIFIED DURING THE COURSE OF THE AUDIT

4. Pensioner rate and ESL rebate receivables

Finding

We were unable to obtain adequate supporting documentation for the following receivables balances:

- Pensioner rate rebate - \$27,426
- ESL rebate - \$1,284.

Rating: Minor**Implication**

The Shire is unable to substantiate and confirm their right to claim the rebate as these receivable amounts are not regularly reviewed.

Recommendation

Receivables rebates should be reviewed on a regular basis to ensure they can be substantiated. Any amounts not substantiated or considered recoverable should be written off.

Management Comment

These rejected claims date back several years relating to numerous rebate claims submitted. The amount shown as outstanding on the items highlighted above is a combination of factors as follows:

- (i) Timing – claims for rebates are lodged in a regular and timely fashion (generally monthly) throughout the year as a matter of procedure defined within the responsibilities of the Rates Officer role. The system for this process is that one of the debtor control accounts for this process only updates at the point of receipt of payment of the claim (normally a time delay of a few days). This means that a rebate claim lodged for June for the end of financial year is not paid until early July which reduces the amounts quoted as outstanding above quite considerably.
- (ii) Rejected Claims – Sometimes a claim may be partly rejected for payment by the Office of State Revenue. Current processes ensure any rejected claims are followed up immediately, however, there are some older claims that remain unresolved that date back several years.

Proposed Action –

Administration will review supporting documentation to assess the feasibility of recovering the outstanding amounts. Reconciliation processes have been introduced to ensure any outstanding amounts are reconciled back to the control account on a monthly basis.

Responsible Person: Lee Sounness – Manager Corporate Services



Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Councillors of the Shire of Denmark

Report on the Audit of the Financial Report

Opinion

I have audited the annual financial report of the Shire of Denmark which comprises the Statement of Financial Position as at 30 June 2019, 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, and notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by the Chief Executive Officer.

In my opinion the annual financial report of the Shire of Denmark:

- (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 2019 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 Opinion

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 to the annual financial report, which describes 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. Regulation 16 of the Local Government (Financial Management) Regulations 1996 (Regulations), does not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report. My opinion is not modified in respect of this matter.

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

The Chief Executive Officer (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 a 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 annual 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.

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

- Identify and assess the risks of material misstatement of the annual financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Shire's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the CEO.
- Conclude on the appropriateness of the CEO's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Shire's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the annual financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report, as we cannot predict future events or conditions that may have an impact.
- Evaluate the overall presentation, structure and content of the annual financial report, including the disclosures, and whether the annual financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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 has been below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard for the past 3 years.
The financial ratios are reported in Note 30 of the annual financial report.
- (ii) 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 has not reported the Asset Renewal Funding Ratio for 2018 and 2017 in the annual financial report as required by section 50(1)(c) of the Local Government (Financial Management) Regulations 1996, as planned capital renewals and required capital expenditure were not estimated in a long term financial plan and asset management plan respectively in the previous years;
 - b. The Shire has not reported the Asset Consumption Ratio for 2017 in the annual financial report as required by section 50(1)(c) of the Local Government (Financial Management) Regulations 1996, as current replacement cost of depreciable assets was not estimated in 2017;
 - c. Accounting journal entries were posted by one employee, without being reviewed by a senior staff member independent of preparation. Accounting journals can represent significant adjustments to previously approved accounting transactions, and should therefore be appropriately reviewed and approved.
- (iii) All required information and explanations were obtained by me.
- (iv) All audit procedures were satisfactorily completed.
- (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.

Other Matter

The financial ratios for 2017 in Note 30 of the annual financial report were audited by another auditor when performing their audit of the Shire for the year ending 30 June 2017. The auditor expressed an unmodified opinion on the annual financial report for that year.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the annual financial report of the Shire of Denmark for the year ended 30 June 2019 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.


SANDRA LABUSCHAGNE
DEPUTY AUDITOR GENERAL
Delegate of the Auditor General for Western Australia
Perth, Western Australia
05 December 2019

SHIRE OF DENMARK
FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

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Principal place of business:
953 South Coast Highway, Denmark WA

**SHIRE OF DENMARK
FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019**

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

STATEMENT BY CHIEF EXECUTIVE OFFICER

The attached financial report of the Shire of Denmark for the financial year ended 30 June 2019 is based on proper accounts and records to present fairly the financial position of the Shire of Denmark at 30 June 2019 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 2nd day of December 2019



David Schober - Acting Chief Executive Officer



SHIRE OF DENMARK
STATEMENT OF COMPREHENSIVE INCOME
BY NATURE OR TYPE
FOR THE YEAR ENDED 30TH JUNE 2019

	NOTE	2019 Actual \$	2019 Budget \$	2018 Actual \$
Revenue				
Rates	21(a)	6,443,951	6,419,313	6,189,423
Operating grants, subsidies and contributions	2	2,488,653	1,417,123	1,834,909
Fees and charges	2	2,984,580	3,056,873	2,987,838
Interest earnings	2(a)	303,742	277,420	319,206
Other revenue	2(a)	375,450	277,945	342,122
		<u>12,596,376</u>	<u>11,448,674</u>	<u>11,673,498</u>
Expenses				
Employee costs		(6,017,644)	(5,991,979)	(6,073,140)
Materials and contracts		(2,779,873)	(2,260,720)	(2,256,362)
Utility charges		(254,211)	(268,688)	(260,851)
Depreciation on non-current assets	10(b)	(4,351,003)	(4,442,692)	(4,457,634)
Interest expenses	2(a)	(138,869)	(141,032)	(154,529)
Insurance expenses		(398,117)	(409,908)	(240,398)
Other expenditure		(792,172)	(910,637)	(918,665)
		<u>(14,731,889)</u>	<u>(14,425,656)</u>	<u>(14,361,579)</u>
		<u>(2,135,513)</u>	<u>(2,976,982)</u>	<u>(2,688,081)</u>
Refund - Non-operating grant		(4,310,344)	0	0
Non-operating grants, subsidies and contributions	2	4,457,299	3,665,350	1,915,176
Profit on asset disposals	10(a)	400	3,600	0
(Loss) on asset disposals	10(a)	(91,334)	(90,300)	0
Net Result		<u>(2,079,492)</u>	<u>601,668</u>	<u>(772,905)</u>
Other Comprehensive Income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes on revaluation of non-current assets	11	6,151	0	(206,944,552)
Total Other Comprehensive Income		<u>6,151</u>	<u>0</u>	<u>(206,944,552)</u>
Total Comprehensive Income		<u>(2,073,341)</u>	<u>601,668</u>	<u>(207,717,457)</u>

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



SHIRE OF DENMARK
STATEMENT OF COMPREHENSIVE INCOME
BY PROGRAM
FOR THE YEAR ENDED 30TH JUNE 2019

	NOTE	2019 Actual \$	2019 Budget \$	2018 Actual \$
Revenue				
	2(a)			
Governance		86,038	87,160	18,412
General purpose funding		7,822,808	7,229,303	7,501,747
Law, order, public safety		646,642	450,668	471,408
Health		26,012	39,000	43,029
Education and welfare		61,035	63,642	42,309
Housing		3,140	4,147	6,012
Community amenities		1,566,526	1,564,510	1,490,914
Recreation and culture		422,611	449,676	399,295
Transport		569,564	282,884	323,867
Economic services		1,171,066	1,128,684	1,126,434
Other property and services		220,934	149,000	250,071
		<u>12,596,376</u>	<u>11,448,674</u>	<u>11,673,498</u>
Expenses				
	2(a)			
Governance		(743,938)	(747,957)	(713,644)
General purpose funding		(596,647)	(576,019)	(459,018)
Law, order, public safety		(1,814,496)	(1,844,953)	(1,677,161)
Health		(225,612)	(223,893)	(291,888)
Education and welfare		(245,520)	(277,855)	(241,661)
Housing		(90,031)	(58,246)	(23,511)
Community amenities		(2,465,337)	(2,674,544)	(2,408,205)
Recreation and culture		(2,940,348)	(2,794,663)	(2,619,375)
Transport		(4,212,753)	(3,847,440)	(4,382,691)
Economic services		(1,067,876)	(1,120,667)	(1,056,276)
Other property and services		(190,462)	(118,387)	(333,620)
		<u>(14,593,020)</u>	<u>(14,284,624)</u>	<u>(14,207,050)</u>
Finance Costs				
	2(a)			
Governance		(1,020)	(1,151)	(1,632)
Housing		(35,493)	(36,743)	(39,567)
Community amenities		(6,201)	(6,437)	(8,337)
Recreation and culture		(61,936)	(62,410)	(67,074)
Transport		(3,274)	(3,272)	(3,648)
Economic services		(30,945)	(31,019)	(34,271)
		<u>(138,869)</u>	<u>(141,032)</u>	<u>(154,529)</u>
		<u>(2,135,513)</u>	<u>(2,976,982)</u>	<u>(2,688,081)</u>
Refund - Non-operating grant		(4,310,344)	0	0
Non-operating grants, subsidies & contributions	2	4,457,299	3,665,350	1,915,176
Profit on disposal of assets	10(a)	400	3,600	0
(Loss) on disposal of assets	10(a)	(91,334)	(90,300)	0
		<u>56,021</u>	<u>3,578,650</u>	<u>1,915,176</u>
Net result		<u>(2,079,492)</u>	<u>601,668</u>	<u>(772,905)</u>
Other comprehensive income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes on revaluation of non-current assets	11	6,151	0	(206,944,552)
Total other comprehensive income		<u>6,151</u>	<u>0</u>	<u>(206,944,552)</u>
Total comprehensive income		<u>(2,073,341)</u>	<u>601,668</u>	<u>(207,717,457)</u>

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



SHIRE OF DENMARK
STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2019

	NOTE	2019	2018
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	3	8,384,751	12,165,665
Trade and other receivables	6	1,293,796	770,068
Inventories	7	62,995	62,990
TOTAL CURRENT ASSETS		9,741,542	12,998,723
NON-CURRENT ASSETS			
Other receivables	6	568,557	629,268
Investments	4	52,651	46,500
Property, plant and equipment	8	33,630,287	32,341,035
Infrastructure	9	59,902,490	57,991,148
TOTAL NON-CURRENT ASSETS		94,153,985	91,007,951
TOTAL ASSETS		103,895,527	104,006,674
CURRENT LIABILITIES			
Trade and other payables	12	4,170,549	2,004,683
Current portion of long term borrowings	13(a)	298,573	284,185
Provisions	14	1,124,174	1,072,341
TOTAL CURRENT LIABILITIES		5,593,296	3,361,209
NON-CURRENT LIABILITIES			
Long term borrowings	13(a)	2,111,432	2,410,005
Provisions	14	103,881	75,203
TOTAL NON-CURRENT LIABILITIES		2,215,313	2,485,208
TOTAL LIABILITIES		7,808,609	5,846,417
NET ASSETS		96,086,918	98,160,259
EQUITY			
Retained surplus		26,272,980	22,890,850
Reserves - cash backed	5	4,504,542	9,966,164
Revaluation surplus	11	65,309,396	65,303,245
TOTAL EQUITY		96,086,918	98,160,259

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



**SHIRE OF DENMARK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2019**

		RESERVES			
	NOTE	RETAINED SURPLUS	CASH BACKED	REVALUATION SURPLUS	TOTAL EQUITY
		\$	\$	\$	\$
Balance as at 1 July 2017		22,984,160	10,645,759	272,247,797	305,877,716
Comprehensive income					
Net result		(772,905)	0	0	(772,905)
Other comprehensive income	11	0	0	(206,944,552)	(206,944,552)
Total comprehensive income		(772,905)	0	(206,944,552)	(207,717,457)
Transfers from/(to) reserves		679,595	(679,595)	0	0
Balance as at 30 June 2018		22,890,850	9,966,164	65,303,245	98,160,259
Comprehensive income					
Net result		(2,079,492)	0	0	(2,079,492)
Other comprehensive income	11	0	0	6,151	6,151
Total comprehensive income		(2,079,492)	0	6,151	(2,073,341)
Transfers from/(to) reserves		5,461,622	(5,461,622)	0	0
Balance as at 30 June 2019		26,272,980	4,504,542	65,309,396	96,086,918

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

SHIRE OF DENMARK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2019

	NOTE	2019 Actual	2019 Budget	2018 Actual
		\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts				
Rates		6,544,655	6,419,313	6,058,082
Operating grants, subsidies and contributions		2,206,770	1,417,123	1,996,106
Fees and charges		2,984,580	3,080,475	2,987,838
Interest earnings		303,742	277,420	319,206
Goods and services tax		0	0	0
Other revenue		375,450	277,945	342,122
		12,415,197	11,472,276	11,703,354
Payments				
Employee costs		(5,967,692)	(5,991,979)	(6,044,897)
Materials and contracts		(572,673)	(2,145,067)	(1,430,001)
Utility charges		(254,211)	(268,688)	(260,851)
Interest expenses		(149,649)	(141,032)	(147,792)
Insurance expenses		(398,117)	(409,908)	(240,398)
Goods and services tax		(332,521)	0	(96,870)
Other expenditure		(792,172)	(910,637)	(918,665)
		(8,467,035)	(9,867,311)	(9,139,474)
Net cash provided by (used in) operating activities	15	3,948,162	1,604,965	2,563,880
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for purchase of property, plant & equipment		(3,485,266)	(2,758,445)	(663,449)
Payments for construction of infrastructure		(4,331,052)	(4,362,103)	(3,783,671)
Non-operating grants, subsidies and contributions		4,457,299	3,665,350	1,915,176
Proceeds from sale of fixed assets		173,786	191,500	0
Refund Non-Operating Grant		(4,310,344)	0	0
Net cash provided by (used in) investment activities		(7,495,577)	(3,263,698)	(2,531,944)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of long term borrowings		(284,185)	(284,185)	(270,579)
Proceeds from self supporting loans		50,683	50,683	50,584
Proceeds from new long term borrowings		0	0	0
Net cash provided by (used in) financing activities		(233,502)	(233,502)	(219,995)
Net increase (decrease) in cash held		(3,780,914)	(1,892,234)	(188,067)
Cash at beginning of year		12,165,665	12,164,730	12,353,732
Cash and cash equivalents at the end of the year	15	8,384,751	10,272,496	12,165,665

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

**SHIRE OF DENMARK
RATE SETTING STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2019**

	NOTE	2019 Actual	2019 Budget	2018 Actual
		\$	\$	\$
OPERATING ACTIVITIES				
Net current assets at start of financial year - surplus/(deficit)		812,808	956,141	834,612
		812,808	956,141	834,612
Revenue from operating activities (excluding rates)				
Governance		86,038	89,160	18,412
General purpose funding		1,378,857	809,990	1,312,324
Law, order, public safety		647,042	452,268	471,408
Health		26,012	39,000	43,029
Education and welfare		61,035	63,642	42,309
Housing		3,140	4,147	6,012
Community amenities		1,566,526	1,564,510	1,490,914
Recreation and culture		422,611	449,676	399,295
Transport		569,564	282,884	323,867
Economic services		1,171,066	1,128,684	1,126,434
Other property and services		220,934	149,000	250,071
		6,152,825	5,032,961	5,484,075
Expenditure from operating activities				
Governance		(756,806)	(749,108)	(715,276)
General purpose funding		(596,647)	(576,019)	(459,018)
Law, order, public safety		(1,814,496)	(1,844,953)	(1,677,161)
Health		(225,612)	(223,893)	(291,888)
Education and welfare		(245,520)	(277,855)	(241,661)
Housing		(125,524)	(94,989)	(63,078)
Community amenities		(2,471,538)	(2,680,981)	(2,416,542)
Recreation and culture		(3,004,536)	(2,865,773)	(2,686,449)
Transport		(4,293,261)	(3,932,312)	(4,386,339)
Economic services		(1,098,821)	(1,151,686)	(1,090,547)
Other property and services		(190,462)	(118,387)	(333,620)
		(14,823,223)	(14,515,956)	(14,361,579)
Operating activities excluded				
(Profit) on disposal of assets	10(a)	(400)	(3,600)	0
Loss on disposal of assets	10(a)	91,334	90,300	0
Loss on revaluation of fixed assets	9(b)	0	0	0
Movement in deferred pensioner rates (non-current)		6,798	0	(5,014)
Movement in employee benefit provisions		80,515	34,752	(18,728)
Movement in Restricted Cash		(201,417)	0	140,284
Movement in accrued income		0	16,344	0
Depreciation and amortisation on assets	10(b)	4,351,003	4,442,692	4,457,634
Amount attributable to operating activities		(3,529,757)	(3,946,366)	(3,468,716)
INVESTING ACTIVITIES				
Refund Non-Operating Grant		(4,310,344)	0	0
Non-operating grants, subsidies and contributions		4,457,299	3,665,350	1,915,176
Proceeds from disposal of assets	10(a)	173,786	191,500	0
Purchase of property, plant and equipment	8(b)	(3,485,266)	(2,758,445)	(663,449)
Purchase and construction of infrastructure	9(b)	(4,331,052)	(4,362,103)	(3,783,671)
Amount attributable to investing activities		(7,495,577)	(3,263,698)	(2,531,944)
FINANCING ACTIVITIES				
Repayment of long term borrowings	13(a)	(284,185)	(284,185)	(270,579)
Proceeds from new long term borrowings	13(b)	0	0	0
Proceeds from self supporting loans	13(a)	50,683	50,683	50,584
Transfers to reserves (restricted assets)	5	(959,721)	(948,691)	(1,029,712)
Transfers from reserves (restricted assets)	5	6,421,342	1,808,500	1,709,307
Transfer back Grants Unspent		182,931	164,445	164,445
Amount attributable to financing activities		5,411,050	790,752	624,045
Surplus(deficiency) before general rates		(5,614,284)	(6,419,313)	(5,376,615)
Total amount raised from general rates	21	6,443,951	6,419,313	6,189,423
Net current assets at June 30 c/fwd - surplus/(deficit)	22	829,667	0	812,808

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

**SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019**

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 Australian Accounting Standards Board, and the Local Government Act 1995 and accompanying regulations.

The Local Government (Financial Management) Regulations 1996 takes precedence over Australian Accounting Standards. Regulation 16 prohibits a local government from recognising as assets Crown Land that is a public thoroughfare, such as 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 any other sporting or recreational facility of State or regional significance. Consequently, some assets, including land under roads acquired on or after 1 July 2008, have not been recognised in this financial report. This is not in accordance with the requirements of AASB 1051 Land Under Roads paragraph 15 and AASB 116 Property, Plant and Equipment paragraph 7.

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.

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.

CRITICAL ACCOUNTING ESTIMATES (Continued)

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 24 to these financial statements.

SHIRE OF DENMARK
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30TH JUNE 2019

2. REVENUE AND EXPENSES

(a) Revenue	2019 Actual	2019 Budget	2018 Actual
	\$	\$	\$
Other revenue			
Reimbursements and recoveries	191,203	176,000	185,064
Other	184,247	101,945	157,058
	<u>375,450</u>	<u>277,945</u>	<u>342,122</u>
Fees and Charges			
Governance	26,647	31,700	29,911
Law, order, public safety	34,867	33,150	39,327
Health	26,011	39,000	39,997
Education and welfare	12,013	11,642	10,500
Community amenities	1,477,702	1,501,010	1,414,405
Recreation and culture	299,869	319,221	322,211
Transport	8,501	29,000	29,357
Economic services	1,088,494	1,084,685	1,076,515
Other property and services	10,476	7,465	25,615
	<u>2,984,580</u>	<u>3,056,873</u>	<u>2,987,838</u>

There were no changes during the year to the amount of the fees or charges detailed in the original budget.

SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

2. REVENUE AND EXPENSES (Continued)

(a) Revenue (Continued)

Grants, Subsidies and Contributions Revenue

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

	2019	2019	2018
	Actual	Budget	Actual
	\$	\$	\$
Operating grants, subsidies and contributions			
Governance	36,638	23,450	29,000
General purpose funding	1,087,434	585,655	1,044,155
Law, order, public safety	605,437	405,018	399,355
Education and welfare	49,022	52,000	29,131
Community amenities	26,773	28,000	16,284
Recreation and culture	76,179	103,500	34,391
Transport	381,121	66,000	71,857
Economic services	81,138	42,000	42,000
Other property and services	144,911	111,500	168,736
	2,488,653	1,417,123	1,834,909
Non-operating grants, subsidies and contributions			
Law, order, public safety	951,826	285,135	502,115
Community amenities	23,219	30,200	0
Recreation and culture	367,570	520,015	164,445
Transport	3,114,684	2,830,000	1,248,616
	4,457,299	3,665,350	1,915,176
Total grants, subsidies and contributions	6,945,952	5,082,473	3,750,085

SIGNIFICANT ACCOUNTING POLICIES

Grants, Donations and Other Contributions

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

Where contributions recognised as revenues during the reporting period were obtained on the condition that they be expended in a particular manner or used over

Grants, Donations and Other Contributions (Continued)

a particular period, and those conditions were undischarged as at the reporting date, the nature of and amounts pertaining to those undischarged conditions are disclosed in Note 20. That note also discloses the amount of contributions recognised as revenues in a previous reporting period which were obtained in respect of the local government's operations for the current period.

SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

2. REVENUE AND EXPENSES (Continued)

(a) Revenue (Continued)

	2019	2019	2018
	Actual	Budget	Actual
	\$	\$	\$
Interest earnings			
- Loans receivable - clubs/institutions	21,034	22,201	24,675
- Reserve funds	186,974	175,945	185,463
- Other funds	42,276	29,274	41,995
Other interest revenue (refer note 21(e))	53,458	50,000	67,073
	303,742	277,420	319,206

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

(b) Expenses

Auditors remuneration

	2019	2018
	\$	\$
- Audit of the Annual Financial Report	33,500	22,584
- Other Services	2,900	4,352
	36,400	26,936

Interest expenses (finance costs)

Long term borrowings (refer Note 13(a))	138,869	154,529
	138,869	154,529

Rental charges

- Operating leases	79,785	30,304
	79,785	30,304

SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

3. CASH AND CASH EQUIVALENTS

	NOTE	2019	2018
		\$	\$
Unrestricted		3,201,709	1,269,903
Restricted		5,183,042	10,895,762
		8,384,751	12,165,665

The following restrictions have been imposed by regulations or other externally imposed requirements:

Employee Entitlements Reserve	5	438,523	427,677
Plant Reserve	5	578,065	600,991
Parry Inlet Reserve	5	245,495	171,155
Cemetery Reserve	5	2,071	2,020
Lime Quarry Rehabilitation Reserve	5	327,085	270,232
Land and Buildings Reserve	5	329,406	889,111
Waste Services Reserve	5	600,189	574,129
Kwoorabup Community Park Reserve	5	77,243	75,333
Aquatic Facility Development Reserve	5	99,617	97,153
Lionsville Reserve	5	314,965	364,097
Peaceful Bay Water Supply Reserve	5	94,324	67,609
Rivermouth Caravan Park Reserve	5	84,266	72,429
Peaceful Bay Caravan Park Reserve	5	47,132	36,214
Recreation Centre Equipment Reserve	5	64,142	50,155
Denmark East Development Reserve	5	1,202,020	6,267,859
Unspent grants	20	182,931	164,445
Restricted Creditors	20	449,224	714,866
Income Received in Advance		46,343	50,287
		5,183,042	10,895,762

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 cash equivalents (Continued)

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.

SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

4. INVESTMENTS

	<u>2019</u>	<u>2018</u>
	\$	\$
Financial Assets at Fair Value through Other Comprehensive Income		
- LG House Trust	46,400	131,226
- Denamrk Co-op	100	100
Financial Assets at Fair Value through Other Comprehensive Income		
Revaluation to income statement	6,151	<u>(84,826)</u>
At the end of the year	<u>52,651</u>	<u>46,500</u>

SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

SIGNIFICANT ACCOUNTING POLICIES

Classification and subsequent measurement

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

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

(ii) Held-to-maturity investments

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

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

(iii) Available-for-sale financial assets

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

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

Impairment

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment (Continued)

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

Initial recognition and measurement

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

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

Classification and subsequent measurement

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

Amortised cost is calculated as:

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

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

Derecognition

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

SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

5. RESERVES - CASH BACKED

	2019 Actual Opening Balance	2019 Actual Transfer to	2019 Actual Transfer (from)	2019 Actual Closing Balance	2019 Budget Opening Balance	2019 Budget Transfer to	2019 Budget Transfer (from)	2019 Budget Closing Balance	2018 Actual Opening Balance	2018 Actual Transfer to	2018 Actual Transfer (from)	2018 Actual Closing Balance
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Employee Entitlements Reserve	427,677	10,846	0	438,523	427,677	9,837	0	437,514	417,589	10,088	0	427,677
Plant Reserve	600,991	465,241	(488,167)	578,065	600,991	463,823	(466,500)	598,314	586,814	14,176	0	600,990
Parry Inlet Reserve	171,155	74,340	0	245,495	171,155	73,937	(44,000)	201,092	98,282	150,374	(77,502)	171,154
Cemetery Reserve	2,020	51	0	2,071	2,020	46	0	2,066	1,972	48	0	2,020
Lime Quarry Rehabilitation Reserve	270,232	56,853	0	327,085	270,232	56,215	0	326,447	166,217	104,016	0	270,233
Land and Buildings Reserve	889,111	110,295	(670,000)	329,406	889,111	108,197	(600,000)	397,308	379,933	509,178	0	889,111
Waste Services Reserve	574,129	64,560	(38,500)	600,189	574,129	63,205	(30,000)	607,334	531,293	42,835	0	574,128
Kwoorabup Community Park Reserve	75,333	1,910	0	77,243	75,333	1,733	0	77,066	73,556	1,777	0	75,333
Aquatic Facility Development Reserve	97,153	2,464	0	99,617	97,153	2,235	0	99,388	94,862	2,292	0	97,154
Lionsville Reserve	364,097	9,234	(58,366)	314,965	364,097	8,374	(58,000)	314,471	412,625	9,968	(58,497)	364,096
Peaceful Bay Water Supply Reserve	67,609	26,715	0	94,324	67,609	26,555	0	94,164	50,148	17,462	0	67,610
Rivermouth Caravan Park Reserve	72,429	11,837	0	84,266	72,429	11,666	0	84,095	51,192	21,237	0	72,429
Peaceful Bay Caravan Park Reserve	36,214	10,918	0	47,132	36,214	10,833	0	47,047	25,596	10,618	0	36,214
Recreation Centre Equipment Reserve	50,155	21,272	(7,285)	64,142	50,155	21,154	(10,000)	61,309	40,664	20,982	(11,491)	50,155
Denmark East Development Reserve	6,267,859	93,185	(5,159,024)	1,202,020	6,267,858	90,884	(600,000)	5,758,742	7,715,015	114,661	(1,561,817)	6,267,859
	9,966,164	959,721	(6,421,342)	4,504,542	9,966,164	948,691	(1,808,500)	9,106,355	10,645,758	1,029,712	(1,709,307)	9,966,164

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

In accordance with council resolutions 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
Employee Entitlements Reserve	Ongoing	- to be used to fund employee leave entitlements as required.
Plant Reserve	Ongoing	- to be used to fund major plant purchase requirements.
Parry Inlet Reserve	Ongoing	- to develop and maintain the Parry facility including Parryville Hall upgrades and maintenance and adjoining recreation reserves.
Cemetery Reserve	Ongoing	- to develop and maintain the Cemetery.
Lime Quarry Rehabilitation Reserve	Ongoing	- to maintain or rehabilitate the Lime Quarry.
Land and Buildings Reserve	Ongoing	- to be used for the purchase or construction of Land and Buildings.
Waste Services Reserve	Ongoing	- to be used for the purpose of providing for the proper performance of all or any of the waste services provided by Council.
Kwoorabup Community Park Reserve	Ongoing	- to be used for the development of the Community Park.
Aquatic Facility Development Reserve	Ongoing	- to be used for the development of aquatic facilities.
Lionsville Reserve	Ongoing	- to be used for the repayment of the Lionsville loan fund.
Peaceful Bay Water Supply Reserve	Ongoing	- to be used for future requirements as per asset plan.
Rivermouth Caravan Park Reserve	Ongoing	- to be used for future requirements with respect to site and end of lease conditions including adjoining recreation reserves.
Peaceful Bay Caravan Park Reserve	Ongoing	- to be used for future requirements with respect to site and end of lease conditions including adjoining recreation reserves.
Recreation Centre Equipment Reserve	Ongoing	- to be used for the renewal/upgrade of equipment located at the Denmark Recreation Facility.
Denmark East Development Reserve	2020	- to be used for the Denmark East Development Project.

SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

6. TRADE AND OTHER RECEIVABLES

	2019	2018
	\$	\$
Current		
Rates outstanding	369,681	463,587
Sundry debtors	143,862	86,848
GST receivable	493,412	160,891
Loans receivable - clubs/institutions	53,853	50,623
Accrued Income	232,988	8,119
	1,293,796	770,068
Non-current		
Rates outstanding - pensioners	38,745	45,543
Loans receivable - clubs/institutions	529,812	583,725
	568,557	629,268

Information with respect to the impairment or otherwise of the totals of rates outstanding and sundry debtors is as follows:

Rates outstanding

Includes:

Not past due and not impaired	369,681	463,587
- up to one month	0	0
- 1 to 3 months	6,523	5,782
- 3 months to one year	323,686	407,179
- 1 to 5 years	39,472	50,626
- more than 5 years	0	0

Sundry debtors

Includes:

Not past due and not impaired		
- up to one month	120,149	45,351
- 1 to 3 months	6,961	16,373
- 3 months to one year	16,752	25,124
- 1 to 5 years	0	0
- more than 5 years	0	0

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 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 23.

Previous accounting policy: Impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectable were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment.

SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

6. TRADE AND OTHER RECEIVABLES (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 measure 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.

7. INVENTORIES

Current

Inventories - Fuel & Materials

2019	2018
\$	\$
62,995	62,990
<u>62,995</u>	<u>62,990</u>

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 DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

8 (a). PROPERTY, PLANT AND EQUIPMENT

	2019	2018
	\$	\$
Land and buildings		
Land - freehold land at:		
- Independent valuation 2017 - level 2	3,244,309	3,244,309
	<u>3,244,309</u>	<u>3,244,309</u>
Land - vested in and under the control of Council at:		
- Independent valuation 2017 - level 3	1,470,320	1,470,320
	<u>1,470,320</u>	<u>1,470,320</u>
Total land	<u>4,714,629</u>	<u>4,714,629</u>
Buildings - non-specialised at:		
- Independent valuation 2017 - level 2	22,684,956	22,684,956
- Additions after Valuation - Cost	1,926,287	96,562
Buildings - non-specialised - Less: accumulated depreciation	(1,382,542)	(782,302)
	<u>23,228,701</u>	<u>21,999,216</u>
Total buildings	<u>23,228,701</u>	<u>21,999,216</u>
Total land and buildings	<u>27,943,330</u>	<u>26,713,845</u>
Furniture and equipment at:		
- Management valuation 2016 - level 3	140,116	140,116
- Additions after Valuation - Cost	143,758	116,062
Furniture and equipment - Less: accumulated depreciation	(183,136)	(121,042)
	<u>100,738</u>	<u>135,136</u>
Plant and equipment at:		
- Management valuation 2016 - level 2	5,326,375	5,591,096
- Additions after Valuation - Cost	3,794,552	2,166,707
Plant and equipment - Less: accumulated depreciation	(3,534,708)	(2,265,749)
	<u>5,586,219</u>	<u>5,492,054</u>
Total property, plant and equipment	<u>33,630,287</u>	<u>32,341,035</u>

SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Movements in Carrying Amounts

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

	Land - freehold land	Land - vested in and under the control of Council	Total land	Buildings - non- specialised	Buildings - specialised	Total buildings	Total land and buildings	Furniture and equipment	Plant and equipment	Total property, plant and equipment
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2017	3,244,309	1,470,320	4,714,629	22,526,788	0	22,526,788	27,241,417	144,432	6,195,460	33,581,309
Additions	0	0	0	96,562	0	96,562	96,562	49,078	517,809	663,449
Depreciation (expense)	0	0	0	(624,134)	0	(624,134)	(624,134)	(58,374)	(1,221,215)	(1,903,723)
Carrying amount at 30 June 2018	3,244,309	1,470,320	4,714,629	21,999,216	0	21,999,216	26,713,845	135,136	5,492,054	32,341,035
Additions	0	0	0	1,829,725	0	1,829,725	1,829,725	27,696	1,627,845	3,485,266
(Disposals)	0	0	0	0	0	0	0	0	(264,721)	(264,721)
(Write off assets under \$5k threshold-Disposals)	0	0	0	0	0	0	0	0	0	0
Depreciation (expense)	0	0	0	(600,240)	0	(600,240)	(600,240)	(62,094)	(1,268,959)	(1,931,293)
Carrying amount at 30 June 2019	3,244,309	1,470,320	4,714,629	23,228,701	0	23,228,701	27,943,330	100,738	5,586,219	33,630,287

SHIRE OF DENMARK
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30TH JUNE 2019

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

(c) Fair Value Measurements

Asset Class	Fair Value Hierarchy	Valuation Technique	Basis of Valuation	Date of Last Valuation	Inputs Used
Land and buildings					
Land - freehold land	2	Market approach using recent observable market data for similar properties	Management Valuation	June 2017	Using market value
Land - vested in and under the control of Council	3	Cost approach	Management Valuation	June 2017	Using market value
Buildings - non-specialised	2	Market	Hemsley Paterson Valuers	June 2017	Using market value and current condition, residual values and remaining useful life assessments
Buildings - specialised	3	Cost	Hemsley Paterson Valuers	June 2017	Using construction costs and current condition, residual values and remaining useful life assessments
Furniture and equipment	3	Cost approach using depreciated replacement cost	Cost Approach	June 2016	Price per item
Plant and equipment					
- Independent valuation 2016	2	Market approach using recent observable data for similar items or cost approach using depreciated replacement cost	Howson Management Pty Ltd	June 2016	Price per item

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.

**SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019**

9 (a). INFRASTRUCTURE

	2019	2018
	\$	\$
Infrastructure - Roads & Paths		
- Independent valuation 2018 - level 3	90,018,369	90,018,369
- Additions after Valuation - Cost	3,849,426	0
Infrastructure - Roads & Paths - Less: accumulated depreciation	<u>(44,977,577)</u>	<u>(42,914,301)</u>
	48,890,218	47,104,068
Infrastructure - Parks & Reserves		
- Independent valuation 2018 - level 3	4,516,354	4,516,354
- Additions after Valuation - Cost	31,618	0
Infrastructure - Parks & Reserves - Less: accumulated depreciation	<u>(1,856,603)</u>	<u>(1,660,703)</u>
	2,691,369	2,855,651
Infrastructure - Airstrip		
- Independent valuation 2018 - level 3	912,145	912,145
- Additions after Valuation - Cost	0	0
Infrastructure - Airstrip - Less: accumulated depreciation	<u>(163,361)</u>	<u>(145,209)</u>
	748,784	766,936
Infrastructure - Bridges		
- Independent valuation 2018 - level 3	11,336,159	11,336,159
- Additions after Valuation - Cost	450,008	0
Infrastructure - Bridges - Less: accumulated depreciation	<u>(4,214,048)</u>	<u>(4,071,666)</u>
	7,572,119	7,264,493
Total infrastructure	<u>59,902,490</u>	<u>57,991,148</u>

SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

9. INFRASTRUCTURE (Continued)

(b) 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 -				
	Infrastructure - Roads & Paths	Parks & Reserves	Infrastructure - Airstrip	Infrastructure - Bridges	Total Infrastructure
	\$	\$	\$	\$	\$
Balance at 1 July 2017	244,887,351	9,659,443	868,875	8,205,446	263,621,115
Additions	3,191,454	60,320	0	531,897	3,783,671
Revaluation increments/ (decrements) transferred to revaluation surplus	(198,777,262)	(6,668,212)	(83,788)	(1,330,466)	(206,859,728)
Depreciation (expense)	(2,197,475)	(195,900)	(18,151)	(142,384)	(2,553,910)
Carrying amount at 30 June 2018	47,104,068	2,855,651	766,936	7,264,493	57,991,148
Additions	3,849,426	31,618	0	450,008	4,331,052
Depreciation (expense)	(2,063,276)	(195,900)	(18,152)	(142,382)	(2,419,710)
Carrying amount at 30 June 2019	48,890,218	2,691,369	748,784	7,572,119	59,902,490

SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

9. INFRASTRUCTURE (Continued)

(c) Fair Value Measurements

Asset Class	Fair Value Hierarchy	Valuation Technique	Basis of Valuation	Date of Last Valuation	Inputs Used
Infrastructure - Roads & Paths	3	Cost approach using depreciated replacement cost	Independent Valuation	June 2018	Construction costs and current condition, residual values and remaining useful life assessments
Infrastructure - Parks & Reserves	3	Cost approach using depreciated replacement cost	Independent Valuation	June 2018	Construction costs and current condition, residual values and remaining useful life assessments
Infrastructure - Airstrip	3	Cost approach using depreciated replacement cost	Independent Valuation	June 2018	Construction costs and current condition, residual values and remaining useful life assessments
Infrastructure - Bridges	3	Cost approach using depreciated replacement cost	Independent Valuation	June 2018	Construction costs and current condition, residual values and remaining useful life assessments

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.

10. FIXED ASSETS

SIGNIFICANT ACCOUNTING POLICIES

Fixed assets

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

Initial recognition and measurement between mandatory revaluation dates

All assets are initially recognised at cost where the fair value of the asset at date of acquisition is equal to or above \$5,000. All assets are subsequently revalued in accordance with the mandatory measurement framework.

In relation to this initial measurement, cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed by the 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 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 fixed assets is determined at least every three years and no more than five years in accordance with the regulatory framework. At the end of each period the valuation is reviewed and where appropriate the fair value is updated to reflect current market conditions. This process is considered to be in accordance with Local Government (Financial Management) Regulation 17A (2) which requires property, plant and equipment to be shown at fair value.

Revaluation (Continued)

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.

Land under control

In accordance with *Local Government (Financial Management) Regulation 16(a)(ii)*, the Shire was required to include as an asset (by 30 June 2013), 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 in accordance with the other policies detailed in this Note.

Land under roads

In Western Australia, all 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 fact Local Government (Financial Management) Regulation 16(a)(i) prohibits 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 Regulations) prevail.

Consequently, any land under roads acquired on or after 1 July 2008 is not included as an asset of the Shire.

SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

10. FIXED ASSETS (Continued)

(a) Disposals of Assets

The following assets were disposed of during the year.

	Actual Net Book Value	Actual Sale Proceeds	Actual Profit	Actual Loss	Budget Net Book Value	Budget Sale Proceeds	Budget Profit	Budget Loss
	\$	\$	\$	\$	\$	\$	\$	\$
Plant and Equipment								
Governance								
Hyundai IX35 Wagon - DE 87	15,120	9,545	0	(5,575)	13,500	14,000	500	0
Hyundai IX35 Wagon - DE 09	13,229	10,454	0	(2,775)	13,600	15,000	1,400	0
Mazda 3 Sedan - DE 7005	9,180	5,682	0	(3,498)	8,400	8,500	100	0
Law, order, public safety								
Holden Colorado Utility - DE 025	19,600	20,000	400	0	20,400	22,000	1,600	0
Recreation and culture								
John Deere Mower - DE 2444	0	0			10,700	2,000	0	(8,700)
Transport								
Ford Ranger Utility - DE 192	10,380	4,091	0	(6,289)	10,400	5,000	0	(5,400)
Isuzu Patching Truck - DE 10864	38,576	10,429	0	(28,147)	43,100	12,000	0	(31,100)
Mazda BT50 Utility - DE 11498	24,570	16,364	0	(8,206)	22,100	18,000	0	(4,100)
UD Nissan Truck - DE 337	57,440	53,627	0	(3,813)	64,000	30,000	0	(34,000)
JCB Backhoe Loader - DE 6319	34,400	8,631	0	(25,769)	32,000	25,000	0	(7,000)
CAT Backhoe Loader - DE 10613	39,241	34,232	0	(5,009)	40,000	40,000	0	0
Stiga Mower	2,983	732	0	(2,251)	0	0		
	264,721	173,786	400	(91,334)	278,200	191,500	3,600	(90,300)

(b) Depreciation

	2019	2018
	\$	\$
Buildings - non-specialised	600,240	624,134
Furniture and equipment	62,094	58,374
Plant and equipment	1,268,959	1,221,215
Infrastructure - Roads & Paths	2,063,276	2,197,475
Infrastructure - Parks & Reserves	195,900	195,900
Infrastructure - Airstrip	18,152	18,151
Infrastructure - Bridges	142,382	142,384
	4,351,003	4,457,634

10. FIXED ASSETS (Continued)

(b) Depreciation (Continued)

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.

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

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

Depreciation rates

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	30 to 50 years
Furniture and Equipment	4 to 10 years
Plant and Equipment	5 to 15 years
Sealed Roads and Streets	
- clearing and earthworks	not depreciated
- construction/roadbase	50 years
Original Surfacing and Major Re-surfacing	
- bituminous seals	20 years
- asphalt surfaces	25 years
Gravel Roads	
- formation	not depreciated
- pavement	50 years
- gravel sheet	12 years
Formed Roads (unsealed)	
- formation	not depreciated
- pavement	50 years
Footpaths - Slab	40 years
Sewerage Piping	100 years
Water Supply Piping & Drainage	75 years
Bridges	75 years

Depreciation (Continued)

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.

11. REVALUATION SURPLUS

	2019	2019	2019	2019	2019	2018	2018	2018	2018	2018
	Opening	Revaluation	Revaluation	Total	Closing	Opening	Revaluation	Revaluation	Total	Closing
	Balance	Increment	(Decrement)	Movement on	Balance	Balance	Increment	(Decrement)	Movement on	Balance
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revaluation Surplus - Land & Buildings	12,301,926	0	0	0	12,301,926	12,301,926	0	0	0	12,301,926
Revaluation surplus -Plant and equipment	2,572,847	0	0	0	2,572,847	2,572,847	0	0	0	2,572,847
Revaluation Surplus - Infrastructure	0	0	0	0	0	203,367,236	0	(203,367,236)	(203,367,236)	0
Revaluation Surplus - Other Infrastructure	50,386,711	0	0	0	50,386,711	53,879,201	0	(3,492,490)	(3,492,490)	50,386,711
Revaluation Surplus - Investments	41,761	6,151	0	6,151	47,912	126,587	0	(84,826)	(84,826)	41,761
	65,303,245	6,151	0	6,151	65,309,396	272,247,797	0	(206,944,552)	(206,944,552)	65,303,245

Movements on revaluation of fixed assets 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 DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019**

12. TRADE AND OTHER PAYABLES

Current

	2019	2018
	\$	\$
Bonds and Deposits	449,224	717,919
Sundry creditors	3,491,749	500,108
Accrued interest on long term borrowings	13,990	24,770
Accrued salaries and wages	103,944	135,238
ATO liabilities	735	0
Accrued Expenses	64,563	576,360
Income in Advance	46,344	50,288
	4,170,549	2,004,683

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

Trade and other payables (Continued)

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.

13. INFORMATION ON BORROWINGS

(a) Repayments - Borrowings

Particulars	Principal	New Loans	Principal Repayments		Principal 30 June 2019		Interest Repayments		Interest Rate	Lender
	1 July 2018		Actual	Budget	Actual	Budget	Actual	Budget		
	\$	\$	\$	\$	\$	\$	\$	\$		
Governance										
153 Photovoltaic System	27,401		13,425	13,425	13,976	13,976	1,020	1,151	4.06%	WATC
Housing										
142 Lionsville	437,460		26,013	26,013	411,447	411,447	32,353	32,596	6.88%	WATC
Community amenities										
156 Rubbish Truck	158,752		50,991	50,991	107,761	107,761	6,202	6,437	3.70%	WATC
Recreation and culture										
144 Recreation Centre Expansion	18,731		9,091	9,091	9,640	9,640	1,125	1,121	5.96%	WATC
145 Tennis Club	15,858		7,696	7,696	8,162	8,162	953	950	5.96%	WATC
147 Football Clubrooms	166,652		9,610	9,610	157,042	157,042	11,590	11,585	6.37%	WATC
159 Riverside Club Stage 1	463,612		18,873	18,873	444,739	444,739	17,208	17,435	3.11%	WATC
158 Purchase Lot 228 Res. 18587	402,222		45,687	45,687	356,535	356,535	13,165	13,265	2.70%	WATC
Transport										
143 Airport	48,408		5,705	5,705	42,703	42,703	3,274	3,272	6.26%	WATC
Economic services										
131 Visitors Centre	130,319		29,339	29,339	100,980	100,980	9,380	9,454	6.91%	WATC
152 Purchase Reserve 27101	325,128		17,074	17,074	308,054	308,054	21,565	21,565	6.04%	WATC
	2,194,543	0	233,502	233,502	1,961,039	1,961,039	117,835	118,831		

Particulars	Principal	New Loans	Principal Repayments		Principal 30 June 2019		Interest Repayments		Interest Rate	Lender
	1 July 2018		Actual	Budget	Actual	Budget	Actual	Budget		
	\$	\$	\$	\$	\$	\$	\$	\$		
Self Supporting Loans										
Housing										
123 Lionsville Self Supporting	55,293	0	26,552	26,552	28,741	28,741	3,140	4,147	7.98%	WATC
Recreation and culture										
129 Scouts Self Supporting	19,893	0	3,157	3,157	16,736	16,736	1,158	1,240	5.84%	WATC
148 F/ball Clubrooms S/Sopport	7,492	0	3,636	3,636	3,856	3,856	450	448	5.96%	WATC
157 Riverside Club S/Support	416,969	0	17,336	17,336	399,633	399,633	16,286	16,366	3.27%	WATC
	499,647	0	50,683	50,683	448,966	448,966	21,034	22,201		
	2,694,190	0	284,185	284,185	2,410,005	2,410,005	138,869	141,032		

Self supporting loans are financed by payments from third parties.
All other loan repayments were financed by general purpose revenue.

Borrowings

	2019	2018
	\$	\$
Current	298,573	284,185
Non-current	2,111,432	2,410,005
	2,410,005	2,694,190

13. INFORMATION ON BORROWINGS (Continued)

(b) New Borrowings - 2017/18

Particulars/Purpose	Amount Borrowed		Institution	Loan Type	Term Years	Total Interest & Charges	Interest Rate	Amount (Used)		Balance Unspent
	Actual	Budget						Actual	Budget	
	\$	\$				\$	%	\$	\$	\$

There were no new borrowings during 2018/2019

(b) Unspent Borrowings

Particulars	Date Borrowed	Unspent Balance 1 July 18	Borrowed During Year	Expended During Year	Unspent Balance 30 June 19
		\$	\$	\$	\$

There were no unspent borrowings during 2018/2019

(b) Undrawn Borrowing Facilities

Credit Standby Arrangements

	2019	2018
	\$	\$
Bank overdraft limit	0	0
Bank overdraft at balance date	0	0
Credit card limit	30,000	30,000
Credit card balance at balance date	(1,366)	(5,925)
Total amount of credit unused	28,634	24,075

Loan facilities

Loan facilities - current	298,573	284,185
Loan facilities - non-current	2,111,432	2,410,005
Total facilities in use at balance date	2,410,005	2,694,190

Unused loan facilities at balance date

NIL NIL

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 23.

**SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019**

14. PROVISIONS

	Provision for Annual Leave & RDO's	Provision for Long Service Leave	Total
	\$	\$	\$
Opening balance at 1 July 2018			
Current provisions	664,816	407,525	1,072,341
Non-current provisions	0	75,203	75,203
	<u>664,816</u>	<u>482,728</u>	<u>1,147,544</u>
Adjustment in provision	75,342	5,169	80,511
Balance at 30 June 2019	<u>740,158</u>	<u>487,897</u>	<u>1,228,055</u>
Comprises			
Current	740,158	384,016	1,124,174
Non-current	0	103,881	103,881
	<u>740,158</u>	<u>487,897</u>	<u>1,228,055</u>

Assessments indicate that actual settlement of the Annual Leave liabilities is expected to occur as follows:

	2019	2018
	\$	\$
Within 12 months of reporting date	486,597	433,179
More than 12 months after reporting date	253,561	64,735
Total	<u>740,158</u>	<u>497,914</u>

Assessments indicate that actual settlement of the Long Service Leave liabilities is expected to occur as follows:

	2019	2018
	\$	\$
Within 12 months of reporting date	93,874	59,423
More than 12 months after reporting date	394,023	590,207
Total	<u>487,897</u>	<u>649,630</u>

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

Other long-term employee benefits (Continued)

rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The 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 DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

15. 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:

	2019 Actual	2019 Budget	2018 Actual
	\$	\$	\$
Cash and cash equivalents	8,384,751	10,272,496	12,165,665

**Reconciliation of Net Cash Provided By
Operating Activities to Net Result**

Net result	(2,079,492)	601,668	(772,905)
Non-cash flows in Net result:			
Depreciation	4,351,003	4,442,692	4,457,634
(Profit)/loss on sale of asset	90,934	86,700	0
Changes in assets and liabilities:			
(Increase)/decrease in receivables	(513,700)	23,602	(67,014)
(Increase)/decrease in inventories	(5)	15,272	104,786
Increase/(decrease) in payables	2,165,866	100,381	775,283
Increase/(decrease) in provisions	80,511	0	(18,728)
Refund Non-Operating Grant	4,310,344	0	0
Grants contributions for the development of assets	(4,457,299)	(3,665,350)	(1,915,176)
Net cash from operating activities	3,948,162	1,604,965	2,563,880

**SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019**

16. TOTAL ASSETS CLASSIFIED BY FUNCTION AND ACTIVITY

	2019	2018
	\$	\$
Governance	4,906,377	5,080,819
General purpose funding	408,426	509,130
Law, order, public safety	4,329,514	3,959,015
Health	0	0
Education and welfare	265,736	274,996
Housing	28,741	55,293
Community amenities	2,447,946	2,470,316
Recreation and culture	21,117,893	19,962,959
Transport	58,688,854	61,403,356
Economic services	2,373,852	2,367,498
Other property and services	3,004,193	3,487,072
Unallocated	6,323,995	4,436,220
	103,895,527	104,006,674

17. CONTINGENT LIABILITIES AND EVENTS OCCURRING AFTER THE END OF THE REPORTING DATE

The Shire of Denmark has no current contingent liability claims.

The Statement of Comprehensive Income and Statement of Financial Position have been prepared on the basis of conditions existing at reporting date. There is no additional evidence of events or conditions occurring after balance date that may have an impact on the financial statements.

**SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019**

18. LEASING COMMITMENTS

(a) Operating Lease Commitments

Non-cancellable operating leases contracted for but

Payable:

	2019	2018
	\$	\$
- not later than one year	109,846	30,304
- later than one year but not later than five years	167,967	26,008
- later than five years	9,670	0
	<u>287,483</u>	<u>56,312</u>

(b) Capital Commitments

	234,138	0
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The Shire has a capital commitment in relation to the construction of a new fire shed at Ocean Beach. This has been budgeted for completion during the 2019/2020 financial year.

SIGNIFICANT ACCOUNTING POLICIES

Leases

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

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

Leases (Continued)

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

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

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

**SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019**

19. RELATED PARTY TRANSACTIONS

Elected Members Remuneration

	2019	2019	2018
	Actual	Budget	Actual
	\$	\$	\$
The following fees, expenses and allowances were paid to council members and/or the President.			
Meeting Fees	90,900	90,900	89,938
President's allowance	11,110	11,110	10,902
Deputy President's allowance	2,778	2,778	2,756
Travelling expenses	5,445	8,000	15,205
Telecommunications allowance	21,676	21,816	21,585
	<u>131,909</u>	<u>134,604</u>	<u>140,386</u>

Key Management Personnel (KMP) Compensation Disclosure

	2019	2018
	\$	\$
The total of remuneration paid to KMP of the Shire during the year are as follows:		
Short-term employee benefits	669,004	716,934
Post-employment benefits	53,499	67,427
Other long-term benefits	9,034	13,918
Termination benefits	113,767	147,397
	<u>845,304</u>	<u>945,676</u>

Short-term employee benefits

These amounts include all salary, paid leave, fringe benefits and cash bonuses awarded to KMP except for details in respect to fees and benefits paid to elected members which may be found 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.

Termination benefits

These amounts represent termination benefits paid to KMP (Note: may or may not be applicable in any given year).

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.

	2019	2018
	\$	\$
The following transactions occurred with related parties:		
Sale of goods and services	103,677	474,261
Purchase of goods and services	65,680	88,938

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 DENMARK
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30TH JUNE 2019

20. CONDITIONS OVER GRANTS/CONTRIBUTIONS

Grant/Contribution	Opening	Received	Expended	Closing	Received	Expended	Closing
	Balance ⁽¹⁾ 1/07/17	2017/18	2017/18	Balance ⁽¹⁾ 30/06/18	2018/19	2018/19	Balance 30/06/19
	\$	\$	\$	\$	\$	\$	\$
General purpose funding							
Pensioner Deferred Rates Grant	0	838	(838)	0	1,001	(1,001)	0
Grants Commission	0	1,043,318	(1,043,318)	0	1,086,433	(1,086,433)	0
Law, order, public safety							
Thank a Volunteer Grant	0	0	0	0	650	(650)	0
ESL Grants	0	698,955	(698,955)	0	1,126,540	(1,126,540)	0
Bushfire Risk Management	0	124,356	(124,356)	0	346,487	(173,556)	172,931
Education and welfare							
Disability Services Commission Grant	0	0	0	0	1,000	(1,000)	0
Youth Festival Grant	0	0	0	0	3,217	(3,217)	0
Aged Services Grant	0	0	0	0	4,545	(4,545)	0
Dementia Friendly Communities Grant	0	0	0	0	10,000	0	10,000
Community amenities							
Sustainable Projects - Works	0	15,000	(15,000)	0	26,160	(26,160)	0
Safer Communities Grant	0	0	0	0	23,219	(23,219)	0

SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

20 CONDITIONS OVER GRANTS/CONTRIBUTIONS (Continued)

Grant/Contribution	Opening	Received	Expended	Closing	Received	Expended	Closing
	Balance ⁽¹⁾ 1/07/17	2017/18	2017/18	Balance ⁽¹⁾ 30/06/18	2018/19	2018/19	Balance 30/06/19
	\$	\$	\$	\$	\$	\$	\$
Recreation and culture							
Regional Club Development Officer	0	0	0	0	10,000	(10,000)	0
Recreation Plan	13,927	0	(13,927)	0	0	0	0
Library - Be Connected Program	0	0	0	0	2,000	(2,000)	0
Sport 4 All - Kidsport Program	0	8,000	(8,000)	0	5,939	(5,939)	0
McLean Oval Upgrade Grant	0	0	0	0	320,015	(320,015)	0
Plane Street Precinct Upgrade	0	164,445	0	164,445	47,555	(212,000)	0
Youth Support Service - Recreation	0	29,130	(29,130)	0	30,260	(30,260)	0
Recreation Centre Project	0	2,000	(2,000)	0	0	0	0
Transport							
Main Roads Grants (incl. WANDRRA)	0	589,045	(589,045)	0	2,102,724	(2,102,724)	0
Roadwise	0	273	(273)	0	364	(364)	0
Roads to Recovery	455,256	724,618	(1,179,874)	0	302,361	(302,361)	0
Commodity Routes Supplementary Road Grant	0	0	0	0	370,000	(370,000)	0
Bridge Improvements	0	0	0	0	450,150	(450,150)	0
Total	469,183	3,399,978	(3,704,716)	164,445	6,270,620	(6,252,134)	182,931

SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

20 CONDITIONS OVER GRANTS/CONTRIBUTIONS (Continued)

Restricted Creditors	Opening	Received	Expended	Closing	Received	Expended	Closing
	Balance ⁽¹⁾ 1/07/17	2017/18	2017/18	Balance ⁽¹⁾ 30/06/18	2018/19	2018/19	Balance 30/06/19
	\$	\$	\$	\$	\$	\$	\$
Fire Break Conditions Bonds	4,770	0	0	4,770	0	(4,770)	0
Developer Contributions	244,661	56,194	(12,471)	288,384	0	(20,379)	268,005
Tree Planting Bonds	39,057	916	(28,531)	11,442	0	(3,600)	7,842
Civic Centre Bonds	5,714	2,271	(1,817)	6,168	227	(2,008)	4,387
Recreation Centre Bonds	1,320	540	(540)	1,320	0	0	1,320
Bus Hire Bonds	3,580	5,400	(5,200)	3,780	5,000	(4,600)	4,180
Relocated Dwelling Deposits	30,000	5,000	(5,000)	30,000	0	(20,000)	10,000
Contributions in lieu of Parking	20,565	0	0	20,565	0	(20,565)	0
Contributions to Roadworks	249,229	3,280	(8,291)	244,218	9,970	(208,726)	45,462
Retention on Works	193,170	91,727	(193,638)	91,259	12,619	(11,670)	92,208
Riverbend House Bond	860	0	0	860	0	0	860
Extractive Industry Bonds	12,100	0	0	12,100	2,860	0	14,960
Outstanding Roadworks	3,053	0	0	3,053	11,261	(14,314)	0
Total	808,079	165,328	(255,488)	717,919	41,937	(310,632)	449,224

Notes:

(1) - Grants/contributions recognised as revenue in a previous reporting period which were not expended at the close of the previous reporting period.

(2) - New grants/contributions which were recognised as revenues during the reporting period and which had not yet been fully expended in the manner specified by the contributor.

(3) - Grants/contributions which had been recognised as revenues in a previous reporting period or received in the current reporting period and which were expended in the current reporting period in the manner specified by the contributor.

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21. RATING INFORMATION

(a) Rates

RATE TYPE

Differential general rate / general rate

Gross rental valuations

	Rate in \$	Number of Properties	Value \$	Rate Revenue \$	Interim Rates \$	Back Rates \$	Total Revenue \$	Budget Rate Revenue \$	Budget Interim Rate \$	Budget Back Rate \$	Budget Total Revenue \$
1 Residential Developed	10.1014	1,238	16,692,720	1,686,198	17,512	7,126	1,710,836	1,686,198	0	0	1,686,198
2 Business/Commercial Developed	10.8405	138	4,935,359	535,018	0	0	535,018	535,018	0	0	535,018
3 Lifestyle Developed	10.1336	476	6,972,680	706,583	0	0	706,583	706,583	0	0	706,583
4 Rural Developed	10.8727	143	2,215,796	240,917	0	0	240,917	240,917	0	0	240,917
5 Holiday Use Developed	11.3012	107	1,535,144	173,490	0	0	173,490	173,490	0	0	173,490
6 Residential Vacant	20.1386	129	1,079,270	217,350	0	0	217,350	217,350	0	0	217,350
7 Business/Commercial Vacant	14.2898	22	365,920	52,289	0	0	52,289	52,289	0	0	52,289
8 Rural Vacant	15.3182	6	110,310	16,897	0	0	16,897	16,897	0	0	16,897
9 Lifestyle Vacant	19.0674	212	1,743,200	332,383	0	0	332,383	332,383	0	0	332,383
Unimproved valuations											
10 UV Base	0.5088	498	232,851,000	1,184,746	0	0	1,184,746	1,184,746	0	0	1,184,746
11 UV Additional Use 1	0.5597	31	12,832,999	71,826	0	0	71,826	71,826	0	0	71,826
12 UV Additional Use 2	0.6106	10	4,727,000	28,863	0	0	28,863	28,863	0	0	28,863
13 UV Additional Use 3	0.6615	8	3,439,000	22,749	0	0	22,749	22,749	0	0	22,749
14 UV Additional Use 4	0.7123	3	1,503,000	10,706	0	0	10,706	10,706	0	0	10,706
Sub-Total		3,021	291,003,398	5,280,015	17,512	7,126	5,304,653	5,280,015	0	0	5,280,015

Minimum

\$

Minimum payment

Gross rental valuations

1 Residential Developed	1055.00	583	4,800,898	615,065	0	0	615,065	615,065	0	0	615,065
2 Business/Commercial Developed	1173.00	124	781,673	145,452	0	0	145,452	145,452	0	0	145,452
3 Lifestyle Developed	1082.00	54	473,082	58,428	0	0	58,428	58,428	0	0	58,428
4 Rural Developed	1082.00	32	275,364	34,624	0	0	34,624	34,624	0	0	34,624
5 Holiday Use Developed	1162.00	7	59,280	8,134	0	0	8,134	8,134	0	0	8,134
6 Residential Vacant	959.00	115	362,280	110,285	0	0	110,285	110,285	0	0	110,285
7 Business/Commercial Vacant	1066.00	6	17,050	6,396	0	0	6,396	6,396	0	0	6,396
8 Rural Vacant	1066.00	1	6,900	1,066	0	0	1,066	1,066	0	0	1,066
9 Lifestyle Vacant	981.00	12	59,580	11,772	0	0	11,772	11,772	0	0	11,772
Unimproved valuations											
UV Base	1291.00	98	18,229,742	126,518	0	0	126,518	126,518	0	0	126,518
UV Additional Use 1	1420.00	13	735,100	18,460	0	0	18,460	18,460	0	0	18,460
UV Additional Use 2	1549.00	2	459,000	3,098	0	0	3,098	3,098	0	0	3,098
UV Additional Use 3	1678.00	0	0	0	0	0	0	0	0	0	0
UV Additional Use 4	1807.00	0	0	0	0	0	0	0	0	0	0
Sub-Total		1,047	26,259,949	1,139,298	0	0	1,139,298	1,139,298	0	0	1,139,298

	4,068	317,263,347	6,419,313	17,512	7,126	6,443,951	6,419,313	0	0	6,419,313
Discounts/concessions (refer note 21(d))						(49,099)				(50,197)
Total amount raised from general rate						6,394,852				6,369,116
Specified Area Rate (refer note 21(b))						0				0
Totals						6,394,852				6,369,116

SIGNIFICANT ACCOUNTING POLICIES

Rates

Control over assets acquired from rates is obtained at the commencement of the rating period or, where earlier, upon receipt of the rates.

**SHIRE OF DENMARK
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21. RATING INFORMATION (Continued)

(b) Specified Area Rate

No specified area rate charge is applied to properties within the Shire of Denmark.

(c) Service Charges

No specified service charges are applied to properties within the Shire of Denmark.

(d) Discounts, Incentives, Concessions, & Write-offs

The Shire of Denmark does not offer any discount or early payment incentives for rates paid prior to due date.

Where a small balance remains on a property assessment due to circumstances such as a delay in receipt of mail payments or monies from property settlements and additional daily interest has accumulated, amounts outstanding of \$5.00 and under have been waived, as it is not considered cost effective or equitable to recover. Estimated loss of revenue from this waiver is \$500.00.

The Shire of Denmark also administers the Rates and Charges (Rebates and Deferments) Act 1992 which enables State Government Rebates to be provided with respect to Annual Rate and Emergency Levy charges. Ratepayers who are the holders of a State Seniors Card, Pensioners Concession card or Commonwealth Senior Health card may be eligible for a rebate of up to 50%, dependant upon individual circumstances. Eligible ratepayers need to apply to register with the Shire to receive any rebate.

In accordance with Section 6.47 of the Local Government Act 1995, and Regulation 26 (1) (c) of the Local Government (Financial Management) Regulations 1996 and Council Policy P030101 the Council resolved to waive the local government rate charge for each of the following land parcels for the 2018/2019 financial year.

	Actual 2019 \$	Budget 2019 \$
Denmark Boating & Angling Club		
A5585 – Lease of Part Lots 304 and 307 Parry Road, Parryville - Boating and angling shed and land at Parry Beach	1,420	1,420
Denmark Boating & Angling Club, & Denmark Sea Rescue Group		
A5587 – 891B (Lease of Part Lot 556) Ocean Beach Road, Ocean Beach - Sea rescue, boating and angling hall and sheds	1,420	1,420
Denmark Clay Target Club		
A3565 – Lease of Whole Lot 7399, Sunny Glen Road, Hay - Clay target shooting range	1,420	1,420
Denmark Cottage Crafts Inc.		
A5584 – Lease of Part Lot 41 Mitchell Street, Denmark - Craft hall and Denmark Family Centre Church building	1,173	1,173
Denmark Country Club Inc.		
A3088 – 925 (Lease of Whole Lots 154, 155, 156, 157, 158, 159, 1072, and 1073) South Coast Highway, Hay - Golf Course, Tennis Courts and facilities	3,686	3,687
Denmark Environment Centre Incorporated		
A2622 – 1/35 (Strata Lot 1) Strickland Street, Denmark	1,173	1,173
A3747 – 4/35 (Strata Lot 4) Strickland Street, Denmark - Shop and administration centre	2,678	2,678

SHIRE OF DENMARK
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21 RATING INFORMATION (Continued)

(d) Discounts, Incentives, Concessions, & Write-offs (Continued)

	Actual 2019 \$	Budget 2019 \$
Denmark Machinery Restoration Group Inc.		
A5599 – 2 (Lease of Part Lot 952) Inlet Drive, Denmark	1,173	1,173
- Shed and displays		
Denmark Occasional Day Care Centre Inc. and Denmark Playgroup		
A3179 – 81 (Lease of Whole Lot 500) South Coast Highway, Denmark	1,173	1,173
- Day care and playgroup building		
Denmark Pistol Club		
A3167 – 223 (Lease of Whole Lot 7441) Churchill Road, Scotsdale	1,420	1,420
- Pistol shooting range		
Denmark Equestrian Club Inc.		
A3189 – 73 (Lease of Whole Lot 1004) Beveridge Road, Denmark	1,173	1,173
- Horse racing track and facilities		
Denmark Riverside Club		
A5601 – Lease of Part Lot 1002 Bambrey Road, Denmark	1,173	1,173
A3069 – 3 (Lease of Whole Lot 1110) Morgan Road, Denmark	2,277	2,277
- Bowling green, canoeing, kayaking and dragon boating launching site and facilities		
Denmark Surf Lifesaving Club		
A5588 – 891A (Lease of Part Lot 556) Ocean Beach Road, Ocean Beach	1,420	1,420
- Clubrooms and facilities		
Denmark Tourism Incorporated		
A3186 – 73 (Lease of Lot 501) South Coast Hwy, Denmark	6,233	6,234
- Denmark Visitor Centre		
Green Skills Inc.		
A5590 – 46 (Lease of Part Lot 326) McIntosh Road, Hay	1,420	1,420
- Recycling Centre and Tip Shop		
Kentdale Community Hall Committee Inc.		
A5593 – 518 (Lease of Part Lot 300) Parker Road, Kentdale	1,420	1,420
- Kentdale Hall		
Lions Club of Denmark Inc.		
A5600 – 2 (Lease of Part Lot 952) Inlet Drive, Denmark	1,173	1,173
- Clubroom		
Nornalup Residents and Ratepayers Association		
A5591 – 3 (Lease of Part Lot 2368) Riverside Drive, Nornalup	1,173	1,173
- Nornalup Community Hall		
Parry's Beach Voluntary Management Group Inc.		
A5592 – 2830 (Lease of Part Lot 5393) South Coast Highway, William Bay	1,420	1,420
- Parryville Hall		
Peaceful Bay Progress Association Inc.		
A5615 – 30 (Lease of Whole Site 300) First Avenue, Peaceful Bay	1,173	1,173
A5616 – 3 (Lease of Whole Site 302) West Avenue, Peaceful Bay	1,173	1,173
- Peaceful Bay Community Hall and Les Carpenter Fire Station		
Peaceful Bay Returned Services League (RSL) Sub Branch		
A5596 – 28 (Lease of Whole Site 400) First Avenue, Peaceful Bay	1,173	1,173
- Clubroom		
Peaceful Bay Sea Rescue Group Inc.		
A5595 – Lease of Whole Lots 401 and 402 Old Peaceful Bay Road, Peaceful Bay	1,173	1,173
- Sea rescue facilities		

SHIRE OF DENMARK
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FOR THE YEAR ENDED 30TH JUNE 2019

21 RATING INFORMATION (Continued)

(d) Discounts, Incentives, Concessions, & Write-offs (Continued)

	Actual 2019 \$	Budget 2019 \$
Scout Association of Australia		
A5597 – 53 (Lease of Part Lot 1087) Brazier Street, Denmark - Scout Hall and facilities	1,173	1,173
The Returned & Services League of Australia WA Branch Inc		
A3097 – 54 (Lease of Whole Lot 40) Strickland Street, Denmark - RSL Hall	1,173	1,173
Tingledale Hall Committee Inc.		
A5594 – 976 (Lease of Part Lot 2381) Valley of the Giants Road, Tingledale - Tingledale Hall and Community Centre	1,420	1,420
Denmark Historical Society Inc.		
A3256 – 16 (Lease of Lot 1021) Mitchell Street Denmark	1,258	1,173
Trustees: Richard John Marshall and (Est. of the Late) Richard William Mumford and Eric Rose		
A3041 – 891 (Lot 583) Scotsdale Road, Scotsdale Scotsdale Hall and tennis courts	1,420	1,420
Denmark Community Resource Centre Inc.		
A5729 - Part Lot 228, 2 Strickland Street Denmark	1,173	1,173
Denmark Over 50's Association		
A5730 - Part Lot 228, 2 Strickland Street Denmark Morgan Richards Community Centre	1,173	1,173
Denmark Arts Council Inc.		
A5731 - Part Lot 228 and Part Lot 1093, 2 Strickland Street Denmark Morgan Richards Community Centre	0	1,173
Total	<u>49,099</u>	<u>50,197</u>

(e) Interest Charges & Instalments

Instalment Options	Date Due	Instalment Plan	Instalment Plan	Unpaid Rates
		Admin Charge	Interest Rate	Interest Rate
		\$	%	%
Option One				
Single full payment	17-Sep-18			11.00%
Option Two				
First instalment	17-Sep-18			11.00%
Second instalment	19-Nov-18	12	5.50%	11.00%
Option Three				
First instalment	17-Sep-18			11.00%
Second instalment	19-Nov-18	4	5.50%	11.00%
Third instalment	21-Jan-19	4	5.50%	11.00%
Fourth instalment	25-Mar-19	4	5.50%	11.00%
			2019	
			2019	Budget
			\$	\$
Interest on unpaid rates & debtors			53,458	50,000
Interest on instalment plan			19,278	21,536
Charges on instalment plan			23,688	24,000
			<u>96,424</u>	<u>95,536</u>

SHIRE OF DENMARK
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

22. NET CURRENT ASSETS

Composition of net current assets for the purposes of the Rate Setting Statement

	2019 (30 June 2019 Carried Forward)	2019 (1 July 2018 Brought Forward)	2018 (30 June 2018 Carried Forward)
	\$	\$	\$
Surplus/(Deficit) 1 July brought forward	829,667	812,808	812,808
CURRENT ASSETS			
Cash and cash equivalents			
Unrestricted	3,201,709	1,269,903	1,269,903
Restricted	5,183,042	10,895,762	10,895,762
Receivables			
Rates outstanding	369,681	463,587	463,587
Sundry debtors	143,862	86,848	86,848
GST receivable	493,412	160,891	160,891
Loans receivable - clubs/institutions	53,853	50,623	50,623
Accrued Income	232,988	8,119	8,119
Inventories			
Inventories	62,995	62,990	62,990
LESS: CURRENT LIABILITIES			
Trade and other payables			
Sundry creditors	(3,491,749)	(503,161)	(503,161)
Accrued interest on long term borrowings	(13,990)	(24,770)	(24,770)
Accrued salaries and wages	(103,944)	(135,238)	(135,238)
ATO liabilities	(735)	0	0
Accrued Expenses	(64,563)	(576,360)	(576,360)
Income in Advance	(46,344)	(50,288)	(50,288)
Bonds & Deposits	(449,224)	(714,866)	(714,866)
Current portion of long term borrowings	(298,573)	(284,185)	(284,185)
Provisions			
Provision for annual leave	(384,016)	(574,427)	(574,427)
Provision for long service leave	(740,158)	(497,914)	(497,914)
Unadjusted net current assets	4,148,246	9,637,514	9,637,514
Adjustments			
Less: Reserves - restricted cash	(4,504,542)	(9,966,164)	(9,966,164)
Less: Loans receivable - clubs/institutions	(53,853)	(50,623)	(50,623)
Less: Restricted Grants	(182,931)	(164,445)	(164,445)
Less: Provision for Annual Leave	384,016	574,427	574,427
Less: Provision for Long Service Leave	740,158	497,914	497,914
Add: Current portion of long term borrowings	298,573	284,185	284,185
Adjusted net current assets - surplus/(deficit)	829,667	812,808	812,808

Difference

There was no difference between the surplus/(deficit) 1 July 2018 brought forward position used in the 2019 audited financial report and the surplus/(deficit) carried forward position as disclosed in the 2018 audited financial report.

23. 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 has approved the overall risk management policy and provides 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
	%	\$	\$	\$	\$
2019					
Cash and cash equivalents	1.54%	8,384,751	6,864,496	1,514,275	5,980
2018					
Cash and cash equivalents	2.81%	12,165,665	10,725,794	1,435,941	3,930

	Carrying Value		Fair Value	
	2019	2018	2019	2018
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	8,384,751	12,165,665	8,384,751	12,165,665
Receivables	1,862,353	1,399,336	1,862,353	1,399,336
	10,247,104	13,565,001	10,247,104	13,565,001
Financial liabilities				
Payables	4,170,549	2,004,683	4,170,549	2,004,683
Borrowings	2,410,005	2,694,190	2,007,090	2,236,647
	6,580,554	4,698,873	6,177,639	4,241,330

Fair value is determined as follows:

Cash and cash equivalents, receivables, payables - estimated to the carrying value which approximates net market value.

Borrowings, held to maturity investments, estimated future cash flows discounted by the current market interest rates applicable to assets and liabilities with similar risk profiles.

23. FINANCIAL RISK MANAGEMENT (Continued)

(a) Cash and Cash Equivalents (continued)

Financial assets at fair value through profit and loss
 Available-for-sale financial assets
 Held-to-maturity investments

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

The major risk associated with investments is price risk - the risk that the capital value of investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments of their issuers or factors affecting similar instruments traded in a market.

Cash is subject to interest rate risk - the risk that movements in interest rates could affect returns.

Another risk associated with cash is credit risk – the risk that a contracting entity will not complete its obligations under a financial instrument resulting in a financial loss to the Shire.

The Shire manages these risks by diversifying its portfolio and only investing in investments authorised by Local Government (Financial Management) Regulation 19C.

	2019	2018
Impact of a 1% ⁽¹⁾ movement in interest rates on cash		
- Statement of Comprehensive Income	83,848	121,657

Notes:
⁽¹⁾ Sensitivity percentages based on management's expectation of future possible interest rate movements.

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 cost 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 13(a).

23. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk

Trade 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 2018 or 1 July 2019 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.

The loss allowance as at 30 June 2019 and 1 July 2018 (on adoption of AASB 9) was determined as follows for rates receivable. No expected credit loss was forecast on 1 July 2018 or 30 June 2019 for rates receivable as penalty interest applies to unpaid rates and properties associated with unpaid rates may be disposed of to recover unpaid rates.

	Current	More than 1 year past due	More than 2 years past due	More than 3 years past due	Total
30 June 2019					
Rates receivable	209,012	78,704	81,965	-	369,681
Expected credit loss	0%	0%	0%	0%	0%
Gross carrying amount	209,012	78,704	81,965	-	369,681
Loss allowance	-	-	-	-	-
1 July 2018					
Rates receivable	269,182	88,234	106,171	-	463,587
Expected credit loss	0%	0%	0%	0%	0%
Gross carrying amount	269,182	88,234	106,171	-	463,587
Loss allowance	-	-	-	-	-

The loss allowance as at 30 June 2019 and 1 July 2018 (on adoption of AASB 9) was determined as follows for sundry receivables.

	Current	More than 1 year past due	More than 2 years past due	More than 3 years past due	Total
30 June 2019					
Sundry receivables	142,967	895	-	-	143,862
Expected credit loss	0%	0%	0%	0%	0%
Gross carrying amount	142,967	895	-	-	143,862
Loss allowance	-	-	-	-	-
1 July 2018					
Sundry receivables	86,848	-	-	-	86,848
Expected credit loss	0%	0%	0%	0%	0%
Gross carrying amount	86,848	-	-	-	86,848
Loss allowance	-	-	-	-	-

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

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

	2019	2018
	%	%
Percentage of rates and annual charges		
- Current	0.00%	0.00%
- Overdue	100.00%	100.00%
Percentage of other receivables		
- Current	83.51%	54.67%
- Overdue	16.49%	45.33%

23. FINANCIAL RISK MANAGEMENT (Continued)

(c) Payables and borrowings

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

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

	Due within 1 year	Due between 1 & 5 years	Due after 5 years	Total contractual cash flows	Carrying values
	\$	\$	\$	\$	\$
2019					
Payables	4,170,549	0	0	4,170,549	4,170,549
Borrowings	408,496	1,115,263	1,591,993	3,115,752	2,410,005
	4,579,045	1,115,263	1,591,993	7,286,301	6,580,554
2018					
Payables	2,004,683	0	0	2,004,683	2,004,683
Borrowings	408,497	1,279,728	1,836,024	3,524,249	2,694,190
	2,413,180	1,279,728	1,836,024	5,528,932	4,698,873

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

Year ended 30 June 2019	<1 year	>1<2 years	>2<3 years	>3<4 years	>4<5 years	>5 years	Total	Weighted Average Effective Interest Rate
	\$	\$	\$	\$	\$	\$	\$	%
Borrowings								
Fixed rate								
Long term borrowings	64,376	107,761	100,980	0	16,736	2,120,152	2,410,005	4.66%
Weighted average Effective interest rate	6.49%	3.70%	6.91%	0.00%	5.94%	4.55%		
Year ended 30 June 2018								
Borrowings								
Fixed rate								
Long term borrowings	0	124,777	158,750	0	130,319	2,280,344	2,694,190	4.69%
Weighted average Effective interest rate	0.00%	6.48%	3.70%	0.00%	6.91%	4.54%		

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24. TRUST FUNDS

Funds held at balance date over which the Shire has no control and which are not included in the financial statements are as follows:

	1 July 2018	Amounts Received	Amounts Paid	30 June 2019
	\$	\$	\$	\$
DPI Licensing	0	1,333,558	(1,333,557)	1
BCITF Training Fund	12,962	27,261	(28,141)	12,082
Building Levy	7,777	30,223	(30,015)	7,985
Bushfire Command Vehicle	1,814	0	0	1,814
Contrib. in Lieu of Open Space	183,347	4,332	(25,763)	161,916
Denmark Parks & Trails	850	0	0	850
	<u>206,750</u>	<u>1,395,374</u>	<u>(1,417,476)</u>	<u>184,648</u>

25 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.

Whilst many reflected consequential changes associated with the amendment of existing standards, the only new standard with material application is AASB 9 Financial Instruments.

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement for annual reporting periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Shire applied AASB 9 prospectively, with an initial application date of 1 July 2018. The adoption of AASB 9 has resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with AASB 9.7.2.15, the Shire has not restated the comparative information which continues to be reported under AASB 139. Differences arising from adoption have been recognised directly in accumulated surplus/(deficit).

Under AASB 9, financial assets are subsequently measured at amortised cost, fair value through other comprehensive income (fair value through OCI) or fair value through profit or loss (fair value through P/L). The classification is based on two criteria: the Shire's business model for managing the assets; and whether the assets' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Shire's business model was made as of the date of initial application, 1 July 2018. The assessment of whether contractual cash flows on financial assets are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of AASB 9 did not have a significant impact on the Shire. The following are the changes in the classification of the Shire's financial assets:

- Trade receivables and Loans and advances (i.e. Other debtors) classified as Loans and receivables as at 30 June 2018 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as Financial Assets at amortised cost beginning 1 July 2018.

26 CHANGE IN ACCOUNTING POLICY

Paragraph 17A (5) of the Local Government (Financial Management) Regulations 1996 came into operation on 1 July 2018. The regulation stated an asset is to be excluded from the assets of a local government if the fair value of the asset at the date of acquisition by the local government is under \$5,000.

As the amount of the total values of assets purchased prior to 1 July 2018 for less than \$5,000 was immaterial the Shire has written off those assets in the 2018/2019 financial year.

27 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS FOR APPLICATION IN FUTURE YEARS

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

This note explains management's assessment of the new and amended pronouncements that are relevant to the Shire, the impact of the adoption of AASB 15 Revenue from Contracts with Customers, AASB 16 Leases and AASB 1058 Income for Not-for-Profit Entities. These standards are applicable to future reporting periods and have not yet been adopted.

(a) Revenue from Contracts with Customers

The Shire will adopt 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 will adopt the new rules retrospectively with the cumulative effect of initially applying these rules recognised on 1 July 2019.

(b) Leases

The Shire adopted AASB 16 retrospectively from 1 July 2019 which resulted in changes in accounting policies. In accordance with the transition provisions of AASB 16, the Shire has applied this Standard to its leases retrospectively, with the cumulative effect of initially applying AASB16 recognised on 1 July 2019. In applying the AASB 16 under the specific transition provisions chosen, the Shire will not restate comparatives for prior reporting periods.

On adoption of AASB 16, the Shire will recognise lease liabilities in relation to leases which had previously been classified as an 'operating lease' applying AASB 117. These lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on 1 July 2019.

On adoption of AASB 16, the Shire will recognise a right-of-use asset in relation to a lease which had previously been classified as an 'operating lease' applying AASB 117. This right-of-use asset is to be measured as if AASB 16 had been applied since its commencement date by the carrying amount but discounted using the lessee's incremental borrowing rate as on 1 July 2019.

On adoption of AASB 16 Leases (issued February 2016), for leases which had previously been classified as an 'operating lease' when applying AASB 117, the Shire is not required to make any adjustments on transition for leases for which the underlying asset is of low value. 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).

In applying AASB 16 for the first time, the Shire will use the following practical expedient permitted by the standard.
- The exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Based on the current number of operating leases held by the Shire, the impact is not expected to be significant.

(c) Income For Not-For-Profit Entities

The Shire will adopt 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 will adopt the new rules retrospectively with the cumulative effect of initially applying AASB 1058 recognised at 1 July 2019. Comparative information for prior reporting periods shall not be restated in accordance with AASB 1058 transition requirements.

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 give rise to a financial liability that is within the scope of AASB 9. On 1 July 2019 the prepaid rates will be 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 occurs the financial liability will be extinguished and the Shire will recognise 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.

28. 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.

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29. ACTIVITIES/PROGRAMS

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

PROGRAM NAME	ACTIVITIES
GOVERNANCE	Members of Council, general administration expenses including staff, office equipment maintenance and insurances.
GENERAL PURPOSE FUNDING	Rates, general purpose government grants, interest on invested funds and other financial matters.
LAW, ORDER, PUBLIC SAFETY	Supervision of various local laws, fire prevention including Community Fire Manager and Bushfire Brigades, animal control (Rangers) and State Emergency Services operations.
HEALTH	Water and food quality monitoring, effluent disposal and public health compliance control on business premises catering for the large tourism trade and domestic residences.
EDUCATION AND WELFARE	Assistance to early childhood education, provision of educational scholarships, youth services, aged and disability programs.
HOUSING	Lionsville aged accommodation self supporting loans.
COMMUNITY AMENITIES	Refuse collection services (including recycling), operation of landfill and recycling centres, administration of the Town Planning Scheme, provision of facilities including the cemetery and public conveniences, effluent disposal (septic tanks) and environmental programs.
RECREATION AND CULTURE	Provision, maintenance and operation of Halls, Civic Centre, Library, Recreation Centre, swimming areas & beaches and various parks and recreation reserves. TV re-broadcasting tower maintenance.
TRANSPORT	Construction and maintenance of roads including drainage, footpaths, parking facilities, regulatory signs, street cleaning and lighting. Maintenance of Works Depot and road plant purchases.
ECONOMIC SERVICES	The regulation and provision of tourism facilities including the Denmark Tourism Association and Parry Beach camping grounds, area promotion, building control, sale yard facilities, noxious weed control, pest control and operation of the lime sand quarry.
OTHER PROPERTY AND SERVICES	Public Works Overheads (Engineering and supervision staff, leave entitlements and insurances). Plant costs (repair wages, parts, fuel, insurances and licenses, stock and materials and salaries and wages allocations).

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30. FINANCIAL RATIOS

	2019	2018	2017
Current ratio	0.98	0.93	1.05
Asset consumption ratio (1)	0.62	0.97	N/A
Asset renewal funding ratio (2)	0.93	N/A	N/A
Asset sustainability ratio	1.34	0.98	0.40
Debt service cover ratio	5.35	4.53	4.93
Operating surplus ratio	(0.22)	(0.28)	(0.39)
Own source revenue coverage ratio	0.67	0.67	0.60

(1) The Asset Consumption Ratio has been left blank in 2017 as the current replacement cost of depreciable assets was not available in that year.

(2) The Asset Renewal Funding Ratio was unable to be calculated for the 2017 and 2018 financial years as the Long Term Financial Plan was not in place to enable this ratio to be calculated.

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	$\frac{\text{capital renewal and replacement expenditure}}{\text{depreciation expenses}}$
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	$\frac{\text{own source operating revenue}}{\text{operating expenses}}$