



AUDIT COMMITTEE

AGENDA

to be held on
Thursday, 21 November 2019
At **6:30pm**, at the
EMRC Administration Office
1st Floor, 226 Great Eastern Highway
BELMONT WA 6104

Meeting Room: Training Room 1

*** Please note that a meal will be provided ***

**EASTERN METROPOLITAN REGIONAL COUNCIL
AUDIT COMMITTEE MEETING**

NOTICE OF MEETING

Dear Audit Committee Members

I wish to advise that a meeting of the Audit Committee will be held at the EMRC Administration Office, 1st Floor, 226 Great Eastern Highway, Belmont WA 6104 on **Thursday, 21 November 2019** commencing at **6:30pm**.



MARCUS GEISLER
Chief Executive Officer

15 November 2019

Please note

If any member/officer has a **query regarding a report item** or requires additional information in relation to a report item, please **contact the responsible Director** (SOURCE OF REPORT) prior to the meeting.

Audit Committee Members

Cr Kathryn Hamilton	Town of Bassendean
Cr Lorna Clarke	City of Bayswater
Cr Janet Powell	City of Belmont
Cr Lesley Boyd	City of Kalamunda
Cr Doug Jeans	Shire of Mundaring
Cr Mel Congerton	City of Swan

Audit Committee Deputies

Cr Jai Wilson	Town of Bassendean
Cr Giorgia Johnson	City of Bayswater
Cr Steve Wolff	City of Belmont
Cr Dylan O'Connor	City of Kalamunda
Cr John Daw	Shire of Mundaring
Cr Charlie Zannino	City of Swan

AUDIT COMMITTEE

AGENDA

21 November 2019

(REF: D2019//15139)

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- 1 DECLARATION OF OPENING AND ANNOUNCEMENT OF VISITORS**

- 2 ATTENDANCE, APOLOGIES AND LEAVE OF ABSENCE (PREVIOUSLY APPROVED)**

- 3 DISCLOSURE OF INTERESTS**

- 4 ANNOUNCEMENTS BY THE CHAIRMAN OR PRESIDING MEMBER WITHOUT DISCUSSION**



5 ELECTION OF A CHAIRMAN AND DEPUTY CHAIRMAN OF THE AUDIT COMMITTEE (AC)

5.1 ELECTION OF A CHAIRMAN OF THE AUDIT COMMITTEE (AC)

REFERENCE: D2019/16645

PURPOSE OF REPORT

The purpose of this report is to provide for an election to be conducted for the Office of Chairman of the Audit Committee (AC).

KEY POINTS AND RECOMMENDATION(S)

- It is a statutory requirement that the Committee elect a Chairman at the first meeting of the Audit Committee after an ordinary Council elections day.

Recommendation(s)

That the members of the Audit Committee elect a Chairman.

SOURCE OF REPORT

Director Corporate Services

BACKGROUND

At the Special Meeting of Council held on Monday 4 November 2019, the EMRC Chairman and Deputy Chairman were elected and members to the EMRC Committees were appointed.

AC MEMBERS 2019 - 2021

The following members were appointed to the AC at the Special Meeting of Council held on 4 November 2019:

Cr Kathryn Hamilton	Town of Bassendean
Cr Lorna Clarke	City of Bayswater
Cr Janet Powell	City of Belmont
Cr Lesley Boyd	City of Kalamunda
Cr Doug Jeans	Shire of Mundaring
Cr Mel Congerton	City of Swan

In accordance with section 5.12(1) of the *Local Government Act 1995*, (the Act) the members of a committee are to elect a presiding member from amongst themselves in accordance with Schedule 2.3, Division 1.

It is a requirement of Schedule 2.3 of the Act that the election is conducted by the Chief Executive Officer (CEO) and the nominations for the Office are to be given to the CEO in writing before the meeting or during the meeting before the close of nominations. Furthermore, if a member is nominated by another member the CEO is not to accept the nomination unless the nominee has advised the CEO, orally or in writing, that he or she is willing to be nominated for the Office. Members are to vote on the matter by secret ballot.

The procedure outlined in Schedule 2.3 of the Act will be followed if there is an equality of votes.



Item 5.1 continued

REPORT

The CEO will preside at the meeting until the Office of Chairman of the AC is filled.

The following material accompanies the agenda for this meeting as a means of assisting members of the Committee to nominate themselves or another member for the Office of Chairman of the AC:

1. AC Terms of Reference;
2. A blank nomination form for the Office of Chairman of the AC, nominate oneself;
3. A blank nomination form for the Office of Chairman of the AC, nominate another; and
4. A blank ballot paper for Election of Chairman of the AC.

Ballot papers will be made available prior to voting.

The completed nomination forms are to be given to the CEO before the meeting or when the CEO calls for them when dealing with this item at the meeting.

STRATEGIC/POLICY IMPLICATIONS

Council Policy 2.1 Committees of Council provides for the establishment of the Audit Committee.

Key Result Area 3 – Good Governance

- 3.3 To provide responsible and accountable governance and management of the EMRC

FINANCIAL IMPLICATIONS

Nil

SUSTAINABILITY IMPLICATIONS

Nil

MEMBER COUNCIL IMPLICATIONS

Member Council	Implication Details
Town of Bassendean	} Nil
City of Bayswater	
City of Belmont	
City of Kalamunda	
Shire of Mundaring	
City of Swan	

ATTACHMENT(S)

1. AC Terms of Reference (D2019/16656)
2. A blank nomination form for the Office of Chairman of the AC, nominate oneself (Ref: D2019/16651)
3. A blank nomination form for the Office of Chairman of the AC, nominate another (Ref: D2019/16651)
4. Ballot Paper – Election of AC Chairman (Ref: D2019/16648)



Item 5.1 continued

VOTING REQUIREMENT

Secret Ballot

RECOMMENDATION(S)

That the members of the Audit Committee elect a Chairman.

TERMS OF REFERENCE

AUDIT COMMITTEE

1 OBJECTIVES OF COMMITTEE

The Audit Committee (AC) is a formally appointed committee of Council and is responsible to that body. It has been established to assist Council with:

- (a) The effective conduct of its responsibilities for financial reporting, management of risk and maintaining a reliable system of controls.
- (b) The co-ordination of relevant activities of management, compliance, internal audit, external audit and to facilitate achieving overall organisational objectives in an efficient and effective manner.
- (c) The facilitation of:
 - The enhancement of the credibility and objectivity of internal and external financial reporting;
 - Effective management of financial and other risks and the protection of Council assets;
 - Compliance with laws and regulations as well as use of best practice guidelines;
 - The provision of an effective means of communication between the external auditor, internal audit, management and the Council;
 - The allocation of the EMRC's finances and resources.

2 RESPONSIBILITIES

The duties of the Audit Committee include the following:

- 2.1 To review the scope of the internal audit plan and programme and the effectiveness of the function. This review should consider whether, over a period of years the internal audit plan systematically addresses:
 - (a) Internal controls over revenue, expenditure, assets and liability processes
 - (b) The efficiency, effectiveness and economy of significant EMRC programmes; and
 - (c) Compliance with regulations, policies, best practice guidelines, instructions and contractual arrangements.
- 2.2 Critically analyse and follow up any internal or external audit report that raises significant issues relating to risk management, internal control, financial reporting and other accountability or governance issues, and any other matters relevant under the Committee's terms of reference. Review management's response to, and actions taken as a result of the issues raised.
- 2.3 Monitor the risk exposure of Council by determining if management has appropriate risk management processes and adequate management information systems.

- 2.4 Monitor ethical standards and related party transactions by determining whether the systems of control are adequate.
- 2.5 Review Council's draft annual financial report, focusing on:
- (a) Accounting policies and practices;
 - (b) Changes to accounting policies and practices;
 - (c) The process used in making significant accounting estimates;
 - (d) Significant adjustments to the financial report (if any) arising from the audit process;
 - (e) Compliance with accounting standards and other reporting requirements; and
 - (f) Significant variances from prior years.
- 2.6 Recommend adoption of the annual financial report to Council. Review any significant changes that may arise subsequent to any such recommendation but before the financial report is signed.
- 2.7 Discuss with the external auditor the scope of the audit and the planning of the audit.
- 2.8 Discuss with the external auditor issues arising from the audit, including any management letter issued by the auditor and the resolution of such matters. Identify and refer specific projects or investigations deemed necessary through the Chief Executive Officer, the internal auditor and the Council if appropriate.
- 2.9 Address issues brought to the attention of the Committee, including responding to requests from Council for advice that are within the parameters of the Committee's terms of reference.

3 MEMBERSHIP:

- 3.1 The Audit Committee will comprise of:
- (a) Six Councillors, one from each member Council; and
 - (b) Six Deputy Councillors, one from each member Council.
- 3.2 Members and Deputies will be appointed for a period of two years following each ordinary Council election.
- 3.3 The Chief Executive Officer and the Director Corporate Services will attend all meetings except when the Committee chooses to meet in camera.
- 3.4 An Internal Auditor (whether a member of staff or contractor) will attend meetings where internal audit reports are being considered by the committee

4 MEETINGS

- 4.1 The Audit Committee will meet as required at the discretion of the chairperson of the committee and at least three times per year to coincide with:
- (a) Approval of strategic and annual plans;
 - (b) The Compliance Audit Return;
 - (c) Approval of the annual budget; and
 - (d) The auditor's report on the annual financial report.
- 4.2 Additional meetings will be convened at the discretion of the Chairperson.

5 OPERATING PROCEDURES

- 5.1 All meetings of the AC are to be conducted in accordance with the *Local Government Act 1995*, associated Regulations and the *EMRC Standing Orders Local Law 2013*.
- 5.2 A quorum for a meeting of the Committee shall be at least four of the number of offices (whether vacant or not) of members of the Committee.
- 5.3 Voting
- (a) All decisions of the Committee shall be made on the basis of a simple majority decision of the members present or, if another kind of majority has been prescribed by regulations for the particular kind of decision, by that kind of majority;
 - (b) If the decision results in a tied vote, the person presiding is to cast a second vote;
 - (c) Persons other than Committee members are not entitled to cast a vote; and
 - (d) All other aspects related to voting procedure shall be consistent with relevant sections of the *EMRC Standing Orders Local Law 2013*.
- 5.4 Other EMRC staff or member Council staff may attend meetings, at the discretion of the Chief Executive Officer and/or the Committee Chairperson, to provide advice and information when required.
- 5.5 Representatives of the External Auditor will be invited to attend meetings at the discretion of the Committee but MUST attend meetings considering the draft annual financial report and results of the external audit.

6 REPORTING

- 6.1 The Committee shall after every meeting forward the minutes of that meeting to the next Ordinary Meeting of Council, including a report explaining any specific recommendations and key outcomes

7 DELEGATED POWER

- 7.1 The Committee does not have authority to implement actions in areas over which management has responsibility and does not have any delegated financial responsibility.

Related Documentation:

Policy 1.2 Meetings
Policy 2.1 Committees of Council
Policy 3.1 Annual Financial Reporting
Policy 7.1 Risk Management Policy

EMRC Standing Orders Local Law 2013

EMRC Code of Conduct

Administration:

Adopted / Reviewed by Council: 23 September 2010
18 September 2014
06 December 2018

Next Review: Following the Ordinary Elections in 2021

Responsible Directorate Corporate Services



Nomination for Chairman of the Audit Committee

To the Chief Executive Officer

I hereby nominate myself, _____ for the position of Chairman of the Eastern Metropolitan Regional Council Audit Committee for the term of Office commencing on the date of the election and continuing until the next ordinary elections day and/or other circumstances occur in accordance with section 5.11 of the *Local Government Act 1995*.

Signed: _____

Date: _____



Nomination for Chairman of the Audit Committee

To the Chief Executive Officer

I hereby nominate _____ for the position of Chairman of the Eastern Metropolitan Regional Council Audit Committee for the term of Office commencing on the date of the election and continuing until the next ordinary elections day and/or other circumstances occur in accordance with section 5.11 of the *Local Government Act 1995*.

Signed: _____

Date: _____

*I _____ hereby certify that I accept the above nomination to the position of Chairman of the Eastern Metropolitan Regional Council Audit Committee .

Signed: _____

Date: _____

*This certificate is to be completed when a Representative is nominated by another Representative.



**Eastern Metropolitan Regional Council
Audit Committee
Thursday 21 November 2019**

**BALLOT PAPER FOR THE
ELECTION OF THE AUDIT COMMITTEE CHAIRMAN**

HOW TO VOTE

Place a tick in the box next to the candidate you want to elect.

Do not make any other marks on the ballot paper.

Firstname Lastname

Firstname Lastname

Firstname Lastname



5.2 ELECTION OF A DEPUTY CHAIRMAN OF THE AUDIT COMMITTEE (AC)

REFERENCE: D2019/16646

PURPOSE OF REPORT

The purpose of this report is to provide for an election to be conducted for the Office of Deputy Chairman of the Audit Committee (AC).

KEY POINTS AND RECOMMENDATION(S)

- In accordance with section 5.12(2) of the *Local Government Act 1995*, the members of a committee may elect a deputy presiding member from amongst themselves.

Recommendation(s)

That the members of the Audit Committee elect a Deputy Chairman.

SOURCE OF REPORT

Director Corporate Services

BACKGROUND

At the Special Meeting of Council held on Monday 4 November 2019, the EMRC Chairman and Deputy Chairman were elected and members to the EMRC Committees were appointed.

AC MEMBERS 2019 - 2021

The following members were appointed to the AC at the Special Meeting of Council held on 4 November 2019:

Cr Kathryn Hamilton	Town of Bassendean
Cr Lorna Clarke	City of Bayswater
Cr Janet Powell	City of Belmont
Cr Lesley Boyd	City of Kalamunda
Cr Doug Jeans	Shire of Mundaring
Cr Mel Congerton	City of Swan

In accordance with section 5.12(2) of the *Local Government Act 1995*, (the Act) the members of a committee may elect a deputy presiding member from amongst themselves.

It is a requirement of Schedule 2.3 of the Act that the election of the Deputy Chairman is conducted by the Chairman and the nominations for the Office are to be given to the Chief Executive Officer (CEO) in writing before the meeting or the Chairman during the meeting before the close of nominations. Furthermore, if a member is nominated by another member, the Chairman is not to accept the nomination unless the nominee has advised the Chairman, orally or in writing, that he or she is willing to be nominated for the Office. Members are to vote on the matter by secret ballot.

The procedure outlined in Schedule 2.3 of the Act will be followed if there is an equality of votes.



Item 5.2 continued

REPORT

The following material accompanies the agenda for this meeting as a means of assisting members of the Committee to nominate themselves or another member for the office of Deputy Chairman of the AC:

1. A blank nomination form for the Office of Deputy Chairman of the AC, nominate oneself;
2. A blank nomination form for the Office of Deputy Chairman of the AC, nominate another; and
3. A blank ballot paper for Election of Deputy Chairman of the AC.

Ballot papers will be made available prior to voting.

The completed nomination forms are to be given to the CEO before the meeting or when called for by the Chairman when dealing with this item at the meeting.

STRATEGIC/POLICY IMPLICATIONS

Council Policy 2.1 Committees of Council provides for the establishment of the Audit Committee.

Key Result Area 3 – Good Governance

- 3.3 To provide responsible and accountable Governance and Management of the EMRC

FINANCIAL IMPLICATIONS

Nil

SUSTAINABILITY IMPLICATIONS

Nil

MEMBER COUNCIL IMPLICATIONS

Member Council	Implication Details
Town of Bassendean	} Nil
City of Bayswater	
City of Belmont	
City of Kalamunda	
Shire of Mundaring	
City of Swan	

ATTACHMENT(S)

1. A blank nomination form for the Office of Deputy Chairman of the AC, nominate oneself (Ref: D2019/16649)
2. A blank nomination form for the Office of Deputy Chairman of the AC, nominate another (Ref: D2019/16649)
3. Ballot Paper – Election of AC Deputy Chairman (Ref: D2019/16647)



Item 5.2 continued

VOTING REQUIREMENT

Secret Ballot

RECOMMENDATION(S)

That the members of the Audit Committee elect a Deputy Chairman.



Nomination for Deputy Chairman of the Audit Committee

To the Chief Executive Officer

I hereby nominate myself, _____ for the position of Deputy Chairman of the Eastern Metropolitan Regional Council Audit Committee for the term of Office commencing on the date of the election and continuing until the next ordinary elections day and/or other circumstances occur in accordance with section 5.11 of the *Local Government Act 1995*.

Signed: _____

Date: _____



Nomination for Deputy Chairman of the Audit Committee

To the Chief Executive Officer

I hereby nominate _____ for the position of Deputy Chairman of the Eastern Metropolitan Regional Council Audit Committee for the term of Office commencing on the date of the election and continuing until the next ordinary elections day and/or other circumstances occur in accordance with section 5.11 of the *Local Government Act 1995*.

Signed: _____

Date: _____

*I _____ hereby certify that I accept the above nomination to the position of Deputy Chairman of the Eastern Metropolitan Regional Council Audit Committee.

Signed: _____

Date: _____

*This certificate is to be completed when a Representative is nominated by another Representative.



**Eastern Metropolitan Regional Council
Audit Committee
Thursday 21 November 2019**

**BALLOT PAPER FOR THE
ELECTION OF THE AUDIT COMMITTEE
DEPUTY CHAIRMAN**

HOW TO VOTE

Place a tick in the box next to the candidate you want to elect.

Do not make any other marks on the ballot paper.

First Name, Last name

First Name, Last name

First Name, Last name



6 PETITIONS, DEPUTATIONS AND PRESENTATIONS

Nil

7 CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS

7.1 MINUTES OF AUDIT COMMITTEE MEETING HELD ON 6 JUNE 2019

That the Minutes of the Audit Committee meeting held on 6 June 2019 which have been distributed, be confirmed.

AC RESOLUTION(S)

MOVED CR

SECONDED CR

8 QUESTIONS BY MEMBERS OF WHICH DUE NOTICE HAS BEEN GIVEN

9 QUESTIONS BY MEMBERS WITHOUT NOTICE

10 ANNOUNCEMENT OF CONFIDENTIAL MATTERS FOR WHICH MEETINGS MAY BE CLOSED TO THE PUBLIC

Nil

11 BUSINESS NOT DEALT WITH FROM A PREVIOUS MEETING

Nil



12 REPORTS OF EMPLOYEES

12.1 ANNUAL FINANCIAL REPORT AND AUDIT REPORT FOR YEAR ENDED 30 JUNE 2019

REFERENCE: D2019/13787

PURPOSE OF REPORT

The purpose of this report is to review and adopt Council's Annual Financial Report for the year ended 30 June 2019.

KEY ISSUES AND RECOMMENDATION(S)

- The Terms of Reference of the Audit Committee includes a list of duties and responsibilities, among which is a requirement for the Committee to:
 - Review Council's draft annual financial report; and
 - Recommend adoption of the Annual Financial Report to Council.
- The Office of the Auditor General (OAG), via contractors Butler Settineri, has completed the audit of the 2018/2019 Financial Report, which is attached for Council adoption.

Recommendation(s)

That:

1. Council adopts the audited Annual Financial Report for the year ended 30 June 2019 and the Independent Auditor's Report on that Annual Financial Report forming attachment 1 of this report.
2. Council notes the contents of the Audit Completion Report to the Audit Committee for the year ended 30 June 2019 forming attachment 2 of this report.
3. In accordance with Regulation 51(2) of the *Local Government (Financial Management) Regulations 1996*, a copy of the 2018/2019 Annual Financial Report be submitted to the Departmental CEO, Department of Local Government, Sport and Cultural Industries, within 30 days of the receipt by the EMRC's CEO of the auditor's report on that financial report.

SOURCE OF REPORT

Director Corporate Services

BACKGROUND

It is a requirement under s6.4 of the *Local Government Act 1995* that a Local Government is to prepare an annual financial report and submit it to its auditor by 30 September following each financial year.



Item 12.1 continued

The Terms of Reference of the Audit Committee includes a list of duties and responsibilities, among which (clauses 2.5 (a) (v) and (vi) are requirements for the Committee to:

- (i) Review Council's draft annual financial report, focusing on:
 - Accounting policies and practices;
 - Changes to accounting policies and practices;
 - The process used in making significant accounting estimates;
 - Significant adjustments to the financial report (if any) arising from the audit process;
 - Compliance with accounting standards and other reporting requirements; and
 - Significant variances from prior years.
- (ii) Recommend adoption of the annual financial report to Council.

On 7 April 2016 Circular No 3-2016 was received titled “*Auditing of Local Government by the Auditor General - Renewal of Audit Contracts*”, which outlined the intension to amend the *Local Government Act 1995* to allow for the Auditor General and the OAG to take responsibility for the local government financial audits from 1 July 2017.

The *Local Government Amendment (Auditing) Act 2017* (No 5 of 2017) - An Act to amend the *Local Government Act 1995* and provide for the auditing of local governments by the Auditor General and for related purposes was assented to on 1 September 2017.

The Interim Audit for the 2018/2019 financial year was undertaken during April/May 2019 by Butler Settineri as contactors to the OAG. As there were no issues reported following the Interim Audit, an Interim Audit Report was not required to be issued.

The Annual Audit for the 2018/2019 financial year commenced during August 2019 by Butler Settineri as contactors to the OAG and was not completed until early November 2019.

REPORT

In accordance with *The Local Government Amendment (Auditing) Act 2017*, the Office of the Auditor General (OAG) has completed the audit of the Eastern Metropolitan Regional Council Annual Financial Report for the year ended 30 June 2019, which is attached for Council adoption (refer attachment 1).

The following comments are provided on key elements of the financial results for 2018/2019:

Statement of Comprehensive Income (pg 6 - 7 of 70)

Total Revenue of \$42,510,894 for the period ending 30 June 2019 is \$3,159,230 above the 2017/2018 actual revenue and \$2,238,279 below budget for 2018/2019.

Total Expenses of \$34,255,040 is \$6,158,768 above the 2017/2018 actual expenses and \$3,480,152 below budget for 2018/2019.

A loss of \$10,131 was realised from the Disposal of Assets for the period ending 30 June 2019 and is less than the 2017/2018 actual loss on disposals of \$11,500 and below the budgeted profit for 2018/2019 of \$70,297.

There were no revaluations undertaken during 2018/2019. The revaluation cycle for the EMRC's classes of assets is outlined in Note 1(c) (page 13 of 70) in attachment 1.

Total Comprehensive Income of \$8,245,723 for the period ending 30 June 2019 is \$2,656,520 below the 2017/2018 result and \$1,161,445 above the 2018/2019 budget.



Item 12.1 continued

Statement of Financial Position/Statement of Changes in Equity (pg 8 - 9 of 70)

Current assets as at 30 June 2019 have increased by \$6,818,204 to \$107,716,368 from \$100,898,164 as at 30 June 2018. This is primarily due to the increase in the level of cash and cash equivalents/other financial assets (term deposit investments).

The overall impact on cash and cash equivalents and other financial assets at the close of the financial year is an increase of \$6,818,563 to \$103,998,764 as at 30 June 2019 compared to the level of cash and cash equivalents/other financial assets from the previous year.

Current liabilities as at 30 June 2019 have increased by \$2,029,706 to \$7,175,888 compared to \$5,146,182 as at 30 June 2018.

The balance in the Reserves has increased by \$4,979,098 to \$91,958,292 over the past 12 months.

Overall equity has increased during the 2018/2019 financial year by \$8,245,723 to \$195,513,602.

Cash Flow Statement (pg 10 of 70)

The overall impact on the cash position at the end of the 2018/2019 financial year is a decrease of \$6,181,437 to \$35,998,764 from the previous corresponding period (2017/2018) of \$42,180,201.

It should be noted however that other financial assets (term deposit investments) increased by \$13,000,000 to \$68,000,000 from the 2017/2018 total of \$55,000,000.

Net Cash provided by Operating Activities of \$15,653,452 in the 2018/2019 financial year reflects an increase of \$4,418,521 from the cash generated in 2017/2018 of \$11,234,931.

The cash flows utilised in investing activities for 2018/2019 reflects capital expenditure totalling \$8,965,979 compared to capital expenditure totalling \$5,181,705 during 2017/2018.

Significant items of capital expenditure during the year included:

- Construct and Commission Resource Recovery Park - Site Infrastructure - \$2,396,628;
- Purchase / Replace Plant - Red Hill Landfill Facility - \$1,534,206;
- Leachate Project - Red Hill Landfill Facility - \$967,582;
- Construct Class III Cell - Stage 14 - Red Hill Landfill Facility - \$891,364;
- Purchase Resource Recovery Park - WWtE Plant and Equipment - \$508,447;
- Construct Class III Cell - Stage 15B - Red Hill Landfill Facility - \$504,535;
- Construct and Commission Resource Recovery Park – WWtE Building - \$423,548;
- Purchase/Replace Vehicles - Red Hill Landfill Facility and Ascot Place - \$274,198;
- Purchase / Replace Plant - Hazelmere - \$266,605;
- Construct and Commission Resource Recovery Park - Weighbridge - \$250,719;
- Purchase / Replace Minor Plant and Equipment - Red Hill Landfill Facility - \$217,136;
- Resource Recovery Park - WWtE Utilities/Infrastructure - \$171,110; and
- Purchase Plant for Leachate Project - Red Hill Landfill Facility - \$113,900.

Significant capital items that were budgeted but not purchased, constructed below budget or construction not completed during the year included:

- Purchase / Replace Plant - Hazelmere - \$1,741,276;
- Purchase / Replace Plant - Red Hill Landfill Facility - \$1,726,500;
- Purchase RRP - WWtE, Plant and Equipment - \$1,390,613;



Item 12.1 continued

- Construct Class III Cell - Stage 15B - Red Hill Landfill Facility - \$973,617;
- Liquid Waste Project - Red Hill Landfill Facility - \$850,000;
- Construct Class III Cell - Farm Stage 3 - Red Hill Landfill Facility - \$750,000;
- Construct and Commission RRP - Site Infrastructure - \$539,917;
- Construct Class III Leachate Pond - Red Hill Landfill Facility - \$530,000;
- Construct Storage Bunkers for Wood Fines (QA process) - Hazelmere - \$500,000;
- Purchase RRP - C&I Building, Plant and Equipment - \$500,000;
- Construct Class IV Cell Stage 2 - Red Hill Landfill Facility - \$450,000;
- Capital Improvement - Ascot Place Administration Building - \$195,000;
- Construct Water Storage Dam - Red Hill Landfill Facility - \$150,000;
- Construct Drainage Diversion & Infrastructures - Red Hill Landfill Facility - \$150,000;
- Purchase/Replace Minor Plant and Equipment - Red Hill Landfill Facility - \$125,660; and
- Purchase/Replace Security System - Red Hill Landfill Facility - \$103,000.

This was offset by an increase in the following Capital Expenditure budget provisions following a review of the capital expenditure program:

- Construct Class III Cell - Stage 14 - Red Hill Landfill Facility - \$1,120,000 (reallocation from Stage 15B and Farm Stage 3);
- Leachate Project - Red Hill Landfill Facility - \$497,000 (\$497,000 reallocated from Class III Leachate Pond); and
- Construct RRP - WWtE, Building - \$150,000 (reallocated from WWtE, Plant and Equipment).

This item was previously reported at the half year budget review and was adopted by Council at the 21 March 2019 Ordinary Meeting of Council (Ref: D2019/04150).

Funding for the majority of the capital items budgeted but not purchased in 2018/2019 has been carried forward into the 2019/2020 financial year.

Footnote:

RRP = Resource Recovery Park.

WWtE = Wood Waste to Energy.

Reserves (pg 41 - 44 of 70)

At the end of the 2018/2019 financial year the amount held in Reserves (page 43 of 70, Note 17) increased by \$4,979,098 to a balance of \$91,958,292. This compares favourably to the 2018/2019 budget of \$87,471,675 by \$4,486,617.

The Auditor representing Butler Settineri and a representative of the OAG will be in attendance at the Audit Committee meeting, in accordance with clause 5.5 of the Audit Committee Terms of Reference, when the Committee is reviewing the Annual Financial Report.



Item 12.1 continued

STRATEGIC/POLICY IMPLICATIONS

Key Result Area 3 - Good Governance

- 3.3 To provide responsible and accountable governance and management of the EMRC
- 3.4 To continue to improve financial and asset management practices

FINANCIAL IMPLICATIONS

As outlined within the report and attachments.

SUSTAINABILITY IMPLICATIONS

Nil

MEMBER COUNCIL IMPLICATIONS

Member Council	Implication Details
Town of Bassendean	} Proportional share in the total equity of the EMRC.
City of Bayswater	
City of Belmont	
City of Kalamunda	
Shire of Mundaring	
City of Swan	

ATTACHMENT(S)

1. Annual Financial Report for the Year Ended 30 June 2019 (Ref: D2019/16837)
2. Audit Completion Report to the Audit Committee for the Year Ended 30 June 2019 (Ref: D2019/16847)

VOTING REQUIREMENT

Simple Majority



Item 12.1 continued

RECOMMENDATION(S)

That:

1. Council adopts the audited Annual Financial Report for the year ended 30 June 2019 and the Independent Auditor's Report on that Annual Financial Report forming attachment 1 of this report.
2. Council notes the contents of the Audit Completion Report to the Audit Committee for the year ended 30 June 2019 forming attachment 2 of this report.
3. In accordance with Regulation 51(2) of the *Local Government (Financial Management) Regulations 1996*, a copy of the 2018/2019 Annual Financial Report be submitted to the Departmental CEO, Department of Local Government, Sport and Cultural Industries, within 30 days of the receipt by the EMRC's CEO of the auditor's report on that financial report.

AC RECOMMENDATION(S)

MOVED CR

SECONDED CR

**ANNUAL
FINANCIAL
REPORT**

**For the Year Ended
30 June 2019**

EASTERN METROPOLITAN REGIONAL COUNCIL

2018/2019 ANNUAL FINANCIAL REPORT

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STATEMENT BY CHIEF EXECUTIVE OFFICER



**For the Year Ended
30 June 2019**

EASTERN METROPOLITAN REGIONAL COUNCIL
FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

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

STATEMENT BY CHIEF EXECUTIVE OFFICER

The attached financial report of the Eastern Metropolitan Regional Council for the financial year ended 30 June 2019 is based on proper accounts and records to present fairly the financial position of the Eastern Metropolitan Regional Council 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 xxth day of November 2019

MARCUS J. GEISLER
Chief Executive Officer

FINANCIAL REPORT



**For the Year Ended
30 June 2019**

EASTERN METROPOLITAN REGIONAL COUNCIL
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

BY PROGRAM	NOTE	ACTUAL 2018/2019 \$	BUDGET 2018/2019 \$	Restated ACTUAL 2017/2018 \$
REVENUE				
Governance		58,080	179,532	28,559
General Purpose Funding		2,733,167	2,771,599	2,420,067
Community Amenities		38,650,193	40,809,527	35,794,282
Other Property and Services		1,069,454	988,515	1,108,756
TOTAL REVENUE		42,510,894	44,749,173	39,351,664
EXPENSES				
Governance		1,067,969	1,046,798	725,167
Community Amenities		30,370,473	33,091,686	24,087,427
Other Property and Services		2,816,598	3,596,708	3,283,678
TOTAL EXPENSES		34,255,040	37,735,192	28,096,272
INCREASE / (DECREASE)		8,255,854	7,013,981	11,255,392
DISPOSAL OF ASSETS				
Profit on Sale		0	70,297	0
Loss on Sale		(10,131)	0	(11,500)
PROFIT / (LOSS) ON DISPOSALS	22	(10,131)	70,297	(11,500)
FAIR VALUE ADJUSTMENTS TO FINANCIAL ASSETS				
General Purpose Funding		0	0	0
GAIN / (LOSS)		0	0	0
NET RESULT		8,245,723	7,084,278	11,243,892
OTHER COMPREHENSIVE INCOME				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes in Revaluation of Non-Current Assets		0	0	(341,649)
TOTAL OTHER COMPREHENSIVE INCOME		0	0	(341,649)
TOTAL COMPREHENSIVE INCOME		8,245,723	7,084,278	10,902,243

This statement is to be read in accordance with the attached
notes to the financial report.

EASTERN METROPOLITAN REGIONAL COUNCIL
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

BY NATURE AND TYPE	NOTE	Restated		
		ACTUAL 2018/2019 \$	BUDGET 2018/2019 \$	ACTUAL 2017/2018 \$
REVENUE				
Fees and Charges	4	36,429,818	37,064,195	28,081,630
Grants, Subsidies and Contributions	5	1,522,191	1,647,218	1,783,424
Interest Earnings	2	2,719,271	2,771,599	2,416,358
Other Revenue	2	1,839,614	3,266,161	7,070,252
TOTAL REVENUE		42,510,894	44,749,173	39,351,664
EXPENSES				
Employee Costs		7,783,709	9,374,442	7,804,689
Materials and Contracts		4,601,752	8,907,604	4,705,008
Utility Expenses		338,184	345,118	357,516
Insurance Expenses		282,699	309,700	257,229
Other Expenditure	2	16,716,319	13,731,475	11,168,174
Depreciation Expenses on Non-Current Assets	2	4,532,377	5,066,853	3,803,656
TOTAL EXPENSES		34,255,040	37,735,192	28,096,272
INCREASE / (DECREASE)		8,255,854	7,013,981	11,255,392
DISPOSAL OF ASSETS				
Profit on Sale		0	70,297	0
Loss on Sale		(10,131)	0	(11,500)
PROFIT / (LOSS) ON DISPOSALS	22	(10,131)	70,297	(11,500)
FAIR VALUE ADJUSTMENTS TO FINANCIAL ASSETS				
Gain/(Loss)		0	0	0
GAIN / (LOSS)		0	0	0
NET RESULT		8,245,723	7,084,278	11,243,892
OTHER COMPREHENSIVE INCOME				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes in Revaluation of Non-Current Assets		0	0	(341,649)
TOTAL OTHER COMPREHENSIVE INCOME		0	0	(341,649)
TOTAL COMPREHENSIVE INCOME		8,245,723	7,084,278	10,902,243

This statement is to be read in accordance with the attached
notes to the financial report

EASTERN METROPOLITAN REGIONAL COUNCIL

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	NOTE	ACTUAL 2018/2019 \$	Restated	
			ACTUAL 2017/2018 \$	ACTUAL 2016/2017 \$
CURRENT ASSETS				
Cash and Cash Equivalents	10	35,998,764	42,180,201	41,599,929
Other Financial Assets	11	68,000,000	55,000,000	49,200,000
Trade and Other Receivables	6	3,620,310	3,666,740	3,633,350
Inventories	7	54,739	29,845	28,834
Other Assets	8	42,555	21,378	115,198
TOTAL CURRENT ASSETS	21	107,716,368	100,898,164	94,577,311
NON CURRENT ASSETS				
Property, Plant and Equipment	12	74,731,756	73,216,966	75,108,057
Infrastructure	13	24,734,783	21,957,193	19,393,424
TOTAL NON CURRENT ASSETS	21	99,466,539	95,174,159	94,501,481
TOTAL ASSETS	21	207,182,907	196,072,323	189,078,792
CURRENT LIABILITIES				
Trade and Other Payables	15	5,546,564	3,604,991	3,846,227
Provisions	16	1,629,324	1,541,191	1,438,690
TOTAL CURRENT LIABILITIES		7,175,888	5,146,182	5,284,917
NON CURRENT LIABILITIES				
Provisions	16	4,493,417	3,658,262	7,428,239
TOTAL NON CURRENT LIABILITIES		4,493,417	3,658,262	7,428,239
TOTAL LIABILITIES		11,669,305	8,804,444	12,713,156
NET ASSETS		195,513,602	187,267,879	176,365,636
EQUITY				
Retained Surplus		62,308,230	58,987,953	69,026,759
Reserves	17	91,958,292	86,979,194	65,431,736
Revaluation Surplus	14	41,247,080	41,300,732	41,907,141
TOTAL EQUITY		195,513,602	187,267,879	176,365,636

This statement is to be read in accordance with the attached
notes to the financial report

EASTERN METROPOLITAN REGIONAL COUNCIL

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

	NOTE	RETAINED SURPLUS \$	RESERVES \$	REVALUATION SURPLUS \$	TOTAL EQUITY \$
Balance as at 1 July 2017		67,395,109	65,431,736	42,182,927	175,009,772
Prior Period Adjustments:	32				
- Change in Accounting Policy		(385,189)	0	(275,786)	(660,975)
- Correction of Error		2,016,839	0	0	2,016,839
Restated Balance as at 1 July 2017		69,026,759	65,431,736	41,907,141	176,365,636
Net Result		11,243,892	0	0	11,243,892
Total Other Comprehensive Income		0	0	(341,649)	(341,649)
Revaluation Surplus Reversal	14	264,760	0	(264,760)	0
Transfer (from) / to Reserves		(21,547,458)	21,547,458	0	0
Restated Balance as at 30 June 2018		58,987,953	86,979,194	41,300,732	187,267,879
Net Result		8,245,723	0	0	8,245,723
Total Other Comprehensive Income		0	0	0	0
Revaluation Surplus Reversal	14	53,652	0	(53,652)	0
Transfer (from) / to Reserves		(4,979,098)	4,979,098	0	0
Balance as at 30 June 2019		62,308,230	91,958,292	41,247,080	195,513,602

This statement is to be read in accordance with the attached
notes to the financial report

EASTERN METROPOLITAN REGIONAL COUNCIL

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	NOTE	ACTUAL 2018/2019 \$	BUDGET 2018/2019 \$	ACTUAL 2017/2018 \$
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts				
Fees and Charges		39,110,610	37,064,196	31,517,167
Grants, Subsidies and Contributions		1,522,191	1,647,218	1,783,424
Interest Earnings		3,060,946	2,771,599	2,230,656
Other Revenue		1,839,614	4,051,855	2,834,606
Total Receipts		45,533,361	45,534,868	38,365,853
Payments				
Employee Costs		(7,699,816)	(9,345,098)	(7,729,687)
Materials and Contracts		(4,184,610)	(8,907,604)	(6,020,161)
Utility Expenses		(338,184)	(345,118)	(357,516)
Insurance Expenses		(282,699)	(309,700)	(257,229)
Other Expenditure		(14,861,886)	(14,314,797)	(10,649,704)
Goods and Services Tax paid		(2,512,714)	0	(2,116,625)
Total Payments		(29,879,909)	(33,222,317)	(27,130,922)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18(ii)	15,653,452	12,312,551	11,234,931
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of property, plant and equipment		131,091	274,418	327,046
Payments for purchase of property, plant and equipment		(8,965,979)	(19,951,902)	(5,181,705)
NET CASH USED IN INVESTING ACTIVITIES		(8,834,888)	(19,677,484)	(4,854,659)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net Movement to Other Financial Assets		(13,000,000)	(5,800,000)	(5,800,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES		(13,000,000)	(5,800,000)	(5,800,000)
SUMMARY OF CASH FLOWS				
Cash and cash equivalents at the beginning of the year		42,180,201	44,088,104	41,599,928
Net Increase/(Decrease) in Cash Held		(6,181,436)	(7,364,933)	580,273
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	18(i)	35,998,764	36,723,171	42,180,201

This statement is to be read in accordance with the attached
notes to the financial report

**NOTES TO AND FORMING PART OF THE
FINANCIAL REPORT**



**For the Year Ended
30 June 2018**

EASTERN METROPOLITAN REGIONAL COUNCIL

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

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (as they apply to local governments and not-for-profit entities), Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, the *Local Government Act 1995* and accompanying regulations.

Except for cash flow information, the report has also 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.

The Local Government Reporting Entity

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

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

The significant accounting policies which have been adopted in the preparation of this financial report are presented below and have been consistently applied unless stated otherwise:

(a) Trust Funds

Any monies held in the Trust Fund, which Council may hold in a custodian role, are excluded from the Financial Statements.

The EMRC currently does not hold any trust fund monies for the year ended 30 June 2019.

(b) Cash and Cash Equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts, where applicable, are included as short-term borrowings in current liabilities on the Statement of Financial Position.

The EMRC does not have any bank overdrafts for the year ended 30 June 2019.

EASTERN METROPOLITAN REGIONAL COUNCIL

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) 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.

Mandatory Requirements to Revalue Non-Current Assets

In accordance with *Local Government (Financial Management) Regulations 1996 r.17A(4)*, the Council is required to revalue an asset, whenever the Council is of the opinion that the fair value of the asset is likely to be materially different from its carrying amount and, in any event, within a period of at least 3 years but no more than 5 years after the day on which the asset was last valued or revalued. At the end of each period the valuation is reviewed and where appropriate the fair value is updated to reflect current market conditions.

The EMRC has elected to undertake the asset revaluations on its assets on a 4 year rotational cycle commencing 2018/2019 (Year 1) as follows, or in the year when the Council is of the opinion that the fair value of the asset is likely to be materially different from its carrying amount:

- Year 1 - *No revaluations to be undertaken;*
- Year 2 - Plant and Equipment, and Furniture and Fittings;
- Year 3 - Land and Buildings and Infrastructure; and
- Year 4 - Artworks.

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 detailed above.

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

Individual assets acquired between initial recognition and the next revaluation of the asset class in accordance with the mandatory measurement framework detailed above, are carried at cost less accumulated depreciation as management believed this approximates fair value. They will be subject to subsequent revaluation at the next anniversary date in accordance with the mandatory measurement framework detailed above.

Revaluation

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 asset are recognised against revaluation surplus directly in equity. All other decreases are recognised in profit or loss.

EASTERN METROPOLITAN REGIONAL COUNCIL

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Fixed Assets (continued)

Depreciation

The depreciable amount of all fixed assets including buildings but excluding freehold land, artworks and work in progress which are not depreciated, 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) Restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount; or
- b) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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

• Buildings	0.20 - 32.00% (based on components)
• Structures	
General	0.56 - 18.10%
Class III and IV Waste Cells	% of actual usage
• Plant	3.67 - 57.66%
• Furniture and fittings	5.97 - 33.33%
• Equipment	5.33 - 52.59%

The asset 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.

When revalued assets are disposed of, amounts included in the revaluation surplus relating to that asset are transferred to retained surplus.

Capitalisation Threshold

Expenditure on items of equipment under \$5,000 are not capitalised. Rather, they are recorded on an asset inventory listing.

Land Under Control

In accordance with *Local Government (Financial Management) Regulations 1996, Reg.16(a)*, the Council is required to include as an asset (by 30 June 2013), Crown Land operated by the local government such as a golf course, showground, racecourse or other sporting or recreational facility of State or regional significance.

The Council does not have any Crown land which comes under this Regulation.

EASTERN METROPOLITAN REGIONAL COUNCIL

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Fixed Assets (continued)

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 from 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) Regulations 1996, Reg.16 (a)(i)* prohibits local governments from recognising such land as an asset.

In respect of land under roads acquired on or after 1 July 2008, as detailed above, *Local Government (Financial Management) Regulations 1996, Reg.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) Regulations 1996, Reg.4(2)* provides, in the event of such an inconsistency, the *Local Government (Financial Management) Regulations 1996* prevail.

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

(d) Fair Value of Assets and Liabilities

When performing a revaluation, the Council uses a combination of both independent and management valuations using the following as a guide:

Fair value is the price that Council would receive to sell the asset or would have to pay to transfer the 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. 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.

Where possible, market information is extracted from either the principal market for the asset (i.e. the market with the greatest volume and level of activity for the asset) 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.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Fair Value of Assets and Liabilities

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

Valuation Techniques

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

Market Approach

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

Income Approach

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

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Fair Value of Assets and Liabilities

Cost Approach

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

Each valuation technique requires inputs which reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Council gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability 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.

As detailed above, the mandatory measurement framework imposed by *the Local Government (Financial Management) Regulations 1996* requires, as a minimum, all assets carried at a revalued amount to be revalued in accordance with the regulatory framework.

(e) Intangible Assets

Easements

Regulation 16 of the *Local Government (Financial Management) Regulations 1996* requires easements to be recognised as assets. The EMRC does not have any easements.

(f) Rates

The EMRC does not levy rates. Accordingly rating information as required under the *Local Government (Financial Management) Regulations 1996* has not been presented in this financial report.

(g) Grants, Donations and Other Contributions

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

Where contributions recognised as revenues during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the nature of and amounts pertaining to those undischarged conditions are disclosed in Note 9. 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 operation for the current reporting period.

EASTERN METROPOLITAN REGIONAL COUNCIL

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Trade and Other Payables

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

(i) Impairment

In accordance with Australian Accounting Standards, the Council's 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 estimate of the recoverable amount of the asset is made in accordance with *AASB 136 Impairment of Assets* and appropriate adjustments are made.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another standard (e.g. *AASB 116 Property, Plant and Equipment*) whereby an impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other standard.

(j) Revenue Recognition

Waste Services

Revenue from waste services is recognised when the waste is received.

Generation of Gas Services

Revenue from the generation of gas services is recognised on an accrual basis. Proceeds from the sale of Renewable Energy Certificates are only recognised when the certificates are sold.

Interest Income

Interest income is recognised on an accrual basis.

Sale of Goods and Disposal of Assets

Revenue from the sale of goods and disposal of other assets is recognised when the Council has passed control of the goods or other assets to the buyer.

Rendering of Services

Revenue from the provision of services is recognised on an accrual basis.

Royalties

Royalty revenue is recognised on an accrual basis.

EASTERN METROPOLITAN REGIONAL COUNCIL

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Inventories

General

Inventories are valued 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.

Land Held for Resale

Land purchased for development and/or resale is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition, development and interest incurred on the financing of that land during its development. Interest and holding charges incurred after development is complete are recognised as expenses.

(l) Goods and Services Tax

In accordance with recommended practice, revenues, expenses and assets capitalised are stated net of any GST recoverable. Receivables and payables in the Statement of Financial Position are stated inclusive of applicable GST. 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 included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(m) Provisions

Provisions are recognised when: The Council has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

(n) Provision for Site Rehabilitation

A provision for the future costs associated with closing and restoring the landfill is recognised as liabilities within the financial accounts. The nature of work planned by Council includes cell capping, landform reconstruction, dismantling of site operating facilities and implementation of a revegetation plan to suit the final land use. The provision is based on the future value of the estimated current costs, determined on a discounted basis.

Increments in the provision are calculated annually based on the change in the net present value of the future cash outflows of costs for site rehabilitation (unwinding of the discount rate).

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Provision for Site Rehabilitation (continued)

As per the independent engineers report from June 2015, the current value for the rehabilitation of the site has been calculated to be \$6,647,080 and has been deemed sufficient for post closure management purposes. This value will be reviewed on a five yearly cycle.

The costs are measured using the best estimate of the amounts required and is reassessed internally on an annual basis with an independent review being undertaken on a five yearly cycle.

(o) Provision for Environmental Monitoring

A provision for the future costs associated with closing and restoring the landfill is recognised as liabilities within the financial accounts. The nature of work planned by Council includes monitoring of groundwater, surface water, leachate and landfill gas generation. The provision is based on the future value of the estimated current costs, determined on a discounted basis.

Increments in the provision are calculated annually based on the change in the net present value of the future cash outflows of costs for environmental monitoring (unwinding of the discount rate).

As per the independent engineers report from June 2015, the current value for the environmental monitoring of the site has been calculated to be 3,716,900 and has been deemed sufficient for post closure management purposes. This value will be reviewed on a five yearly cycle.

The costs are measured using the best estimate of the amounts required and is reassessed internally on an annual basis with an independent review being undertaken on a five yearly cycle.

(p) 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.

(q) Critical Accounting Estimates

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

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

EASTERN METROPOLITAN REGIONAL COUNCIL

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Trade and Other Receivables

Trade and other receivables include amounts due from member Councils and non-members for unpaid fees and charges and other amounts due from third parties for goods sold and services performed in the ordinary course of business.

Trade receivables are recognised at original invoice amount less any allowances for uncollectable amounts (i.e. impairments).

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

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

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

(s) Employee Entitlements

The provisions for employee benefits relate to amounts expected to be paid for long service leave, annual leave, wages and salaries and are calculated as follows:

(i) Short-term Employee Benefits

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

(ii) Other long-term Employee Benefits

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. The Council's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Council does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions. The Council's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

EASTERN METROPOLITAN REGIONAL COUNCIL

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Employee Entitlements (continued)

(iii) Superannuation Fund

The Council contributes to the WA Local Government Superannuation Plan (LGSP) and other choice funds for qualifying employees as per statutory requirements (9.50% for 2018/2019). It also contributes to the LGSP and other choice funds for full scheme members (5% for 2018/2019). Contributions to defined contribution plans are recognised as an expense as they become payable.

(t) Rounding Off Amounts

All amounts shown in this annual financial report are rounded to the nearest dollar. As a result of rounding, some minor reconciliation discrepancies may be present in the disclosures to the financial report.

(u) Comparative Figures

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

(v) 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.

(w) Leases

Leases of property, plant and equipment, where substantially all the risks and benefits incidental to the ownership of the asset, but not legal ownership, are transferred to the Council, are classified as finance leases. Finance leases are capitalised recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual value. Leased assets are amortised over their estimated useful lives. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

The EMRC does not currently have any leases.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Other Financial Assets

(i) Other Financial Assets at Amortised Cost

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

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

(ii) Financial Assets at Fair Value through Profit and Loss

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

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

(iii) Impairment and Risk

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

(y) Current and Non-Current Classification

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be settled. The asset or liability is classified as current if it is expected to be settled within the next 12 months, being the Council's operational cycle. In the case of liabilities where the Council does not have the unconditional right to defer settlement beyond 12 months, such as vested long service leave, the liability is classified as current even if not expected to be settled within the next 12 months.

Inventories held for trading are classified as current even if not expected to be realised in the next 12 months except for land held for sale where it is held as non-current based on the Council's intentions to release for sale.

(z) Landfill Cells

There are three general components of cell construction:

- Cell excavation and development costs;
- Cell liner costs; and
- Cell capping costs.

All cell excavation and development costs and cell liner costs are capitalised and depreciated over the useful life of the cell based on the volumetric usage of the landfill cell air space during the year.

Cell capping costs are expensed as they occur as part of ongoing site rehabilitation.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Title and topic	Issued/ Compiled	Applicable (1)	Impact
(i) AASB 15 Revenue from Contracts with Customers.	December 2014	1 January 2019	<p>This Standard establishes principles for entities to apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.</p> <p>The effect of this Standard will depend upon the nature of future transactions the Council has with those third parties it has dealings with. In accordance with the transition provisions, the Council will adopt the new rules retrospectively with the cumulative effect of initially applying these rules recognised on 1 July 2019.</p> <p>It may or may not be significant with unspent grants and contributions being the only transactions that will have any material effect.</p> <p>The Council is in the process of assessing the impact of this standard.</p>

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

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2019

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) New Accounting Standards and Interpretations for Application in Future Periods (Continued)

Title and topic	Issued/ Compiled	Applicable (1)	Impact
(ii) AASB 16 Leases.	February 2016	1 January 2019	<p>Under AASB 16 there is no longer a distinction between finance and operating leases. Lessees will now bring to account a right-to-use asset and lease liability onto their statement of financial position for all leases. Effectively this means the vast majority of operating leases as defined by the current AASB 117 Leases which currently do not impact the statement of financial position will be required to be capitalised on the statement of financial position once AASB 16 is adopted.</p> <p>Currently, operating lease payments are expensed as incurred. This will cease and will be replaced by both depreciation and interest charges.</p> <p>As currently the Council does not hold any leases this will not have any impact on the Council's financial statements.</p>
(iii) AASB 1058 Income of Not-for-Profit Entities.	December 2016	1 January 2019	<p>This standard is likely to have a significant impact on the income recognition for NFP's. Key areas for consideration are:</p> <ul style="list-style-type: none"> - Assets received below fair value; - Transfers received to acquire or construct non-financial assets; - Grants received; - Prepaid rates; - Leases entered into at below market rates; and - Volunteer services. <p>Whilst it is not possible to quantify the financial impact (or if it is material) of these key areas until the details of future transactions are known, they will all have application to the Council's operations.</p> <p>The Council is in the process of assessing the impact of this standard</p>

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

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(bb) Adoption of New and Revised Accounting Standards

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

- AASB 9 Financial Instruments (incorporating AASB 2014-7 and AASB 2014-8).

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* for annual reporting periods 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 Council 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. In accordance with AASB 9.7.2.15, the Council has not restated the comparative information which continues to be reported under AASB 139.

Given the nature of the financial assets of the Council, there were no financial instruments impacted as a result of the implementation of AASB 9.

The assessment of the Council'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 Council. The following are the changes in the classification of the Council's financial assets:

- Trade receivables and loans (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.

The Council did not designate any financial assets as at fair value through profit and loss.

Impairment:

The adoption of AASB 9 has fundamentally changed the Council's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Council to recognise an allowance for ECL's for all financial assets not held at fair value through profit and loss. Upon adoption of AASB 9, the Council did not recognise any additional impairment on the Council's Trade receivables.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

2. REVENUE AND EXPENSES	ACTUAL	BUDGET	ACTUAL	Restated
	2018/2019	2018/2019	2017/2018	2017/2018
	\$		\$	\$
Net Result				
The Net Result includes:				
(i) Crediting as Revenue:				
Interest Earnings				
Interest on funds held in Reserves	2,598,761	2,371,599	1,741,894	
Interest on Municipal Cash and Investments	120,510	400,000	674,464	
	2,719,271	2,771,599	2,416,358	
Other Revenue				
Sale of Products	1,520,386		2,006,994	
Gas Royalty Income	49,788		577,277	
Carbon Tax (Refer Note 16)	0		4,235,645	
Miscellaneous Income	269,440		250,336	
	1,839,614		7,070,252	
(ii) Charging as an Expense:				
Auditors Remuneration				
Audit of the Financial Report	31,000		29,320	
Audit and assurance of grant acquittals	600		600	
	31,600		29,920	
Depreciation and Amortisation Expense				
Buildings	109,659		109,791	109,747
Plant	1,674,774		2,054,270	2,010,257
Equipment	116,595		196,257	136,153
Furniture and Fittings	6,521		9,415	5,960
Structures - Landfill Cells	2,253,467		1,230,792	1,230,792
- Other	371,361		271,408	310,747
	4,532,377		3,871,933	3,803,656
Other Expenditure				
State Landfill levy	13,725,227		9,426,579	9,426,579
Other Expenses	2,991,092		1,480,654	1,741,595
	16,716,319		10,907,233	11,168,174

EASTERN METROPOLITAN REGIONAL COUNCIL

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

3. COMPONENT FUNCTIONS/ACTIVITIES

The activities relating to the Eastern Metropolitan Regional Council's components reported on in the Statement of Comprehensive Income are as follows:

EMRC MISSION STATEMENT

The Eastern Metropolitan Regional Council, by partnering with member Councils (and other stakeholders), facilitates strategies and actions for the benefit and sustainability of Perth's Eastern Region.

Governance

Objective:

To provide responsible and accountable governance and management of the EMRC.

Activities:

Includes the activities of members of council and the administration and operation of facilities and services to members of Council together with other administrative governance costs.

General Purpose Funding

Objective:

To provide responsible and accountable financial management practices.

Activities:

Includes the activities relating to the management of the EMRC's investment portfolio, records interest revenue as well as other general purpose revenue.

Community Amenities

Objective:

To provide sustainable waste disposal, resource recovery and recycling operations and solutions in partnership with member Councils.

Activities:

Includes waste disposal, resource recovery and recycling operations undertaken at the Red Hill Waste Disposal Facility, the Hazelmere Resource Recovery Facility, Coppin and Mathieson Road transfer stations.

Other Property and Services

Objective:

To facilitate the sustainable economic development of the region together with the provision of responsible and accountable management of the EMRC.

Activities:

Includes activities and projects of the EMRC's Regional Services directorate, the operations of the Ascot Place activity and records the activities associated with public works overheads, plant operation, materials, salaries and wages.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

4. FEES AND CHARGES SUMMARY BY PROGRAM	ACTUAL 2018/2019 \$	BUDGET 2018/2019 \$	ACTUAL 2017/2018 \$
Community Amenities	36,429,818	37,058,195	28,078,480
Other Property and Services	0	6,000	3,150
Total Statutory Fees and Charges	<u>36,429,818</u>	<u>37,064,195</u>	<u>28,081,630</u>

5. GRANT, SUBSIDY AND CONTRIBUTION REVENUE BY PROGRAM	ACTUAL 2018/2019 \$	BUDGET 2018/2019 \$	ACTUAL 2017/2018 \$
Governance	33,558	28,668	26,196
Community Amenities	589,198	801,035	807,208
Other Property and Services	899,435	817,515	950,020
Total Grant, Subsidy and Contribution Revenue	<u>1,522,191</u>	<u>1,647,218</u>	<u>1,783,424</u>

6. TRADE AND OTHER RECEIVABLES	ACTUAL 2018/2019 \$	ACTUAL 2017/2018 \$
Current	\$	\$
Sundry Debtors	2,734,375	2,032,014
Loan Receivable ¹	1,005,965	414,884
Other Debtors	14,486	27,588
GST Receivable	4,839	0
Accrued Interest Earnings	899,001	1,240,676
Allowance for Impairment of Receivables ²	(1,038,356)	(48,422)
	<u>3,620,310</u>	<u>3,666,740</u>

¹ Loan Receivable is covered under a loan agreement on commercial terms with Anergy Australia Pty Ltd. The balance of this loan as at 30 June 2019 of \$1,005,965 has been treated as a doubtful debt.

² Reconciliation of changes in the Allowance for Impairment of Receivables

	ACTUAL 2018/2019 \$	ACTUAL 2017/2018 \$
Balance at start of period	48,422	55,732
Doubtful debts expense	1,006,057	0
Amounts written off during the period	(6,494)	0
Impairment losses reversed during the period	(9,629)	(7,310)
Balance at end of period	<u>1,038,356</u>	<u>48,422</u>

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

7. INVENTORIES

	ACTUAL 2018/2019	ACTUAL 2017/2018
Current	\$	\$
Distillate	48,691	25,314
Oils	6,048	4,531
	<u>54,739</u>	<u>29,845</u>

8. OTHER ASSETS

	ACTUAL 2018/2019	ACTUAL 2017/2018
Current	\$	\$
Prepayment - Contract Expenses	0	2,387
Prepayment - General	33,067	8,767
Prepayment - Miscellaneous	9,488	10,224
	<u>42,555</u>	<u>21,378</u>

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2019

9. CONTROL OVER GRANTS/CONTRIBUTIONS

Conditions Over Grants/Contributions

Grant/Contribution	Function/Activity	Opening Balance ⁽¹⁾ 1 July 2017 \$	Received ⁽²⁾ 2017/18 \$	Expended ⁽³⁾ 2017/18 \$	Closing Balance 30 June 2018 \$
Lighthouse Project	Governance	2,800	0	(2,800)	0
Metropolitan Local Government Youth Development Scholarship	Governance	10,000	0	(10,000)	0
20M Trees Program	Other Property and Services	7,690	5,300	(12,990)	0
Coordination of Community Led Projects	Other Property and Services	52,500	105,000	(105,000)	52,500
Healthy Wildlife Project	Other Property and Services	8,828	38,006	(46,834)	0
Water Quality Monitoring in the Lower Helena Sub Catchment	Other Property and Services	684	0	(684)	0
Community Capability Project	Other Property and Services	45,403	100,000	(79,874)	65,529
Keep Australia Beautiful Community Litter Program	Other Property and Services	1,740	0	0	1,740
Avon Descent	Other Property and Services	0	155,000	(155,000)	0
Enhancing Biodiversity SALP Project	Other Property and Services	0	3,039	(130)	2,909
Farm Dams Project	Other Property and Services	0	50,000	(42,001)	7,999
Lotterywest Bush Skills for Youth	Other Property and Services	0	3,155	(3,155)	0
		129,645	459,500	(458,468)	130,677

Conditions Over Grants/Contributions

Grant/Contribution	Function/Activity	Opening Balance ⁽¹⁾ 1 July 2018 \$	Received ⁽²⁾ 2018/19 \$	Expended ⁽³⁾ 2018/19 \$	Closing Balance 30 June 2019 \$
Avon Descent	Other Property and Services	0	145,400	(145,400)	0
Keep Australia Beautiful Community Litter Program	Other Property and Services	1,740	0	0	1,740
Enhancing Biodiversity SALP Project	Other Property and Services	2,909	0	(2,909)	0
SALP 20 Year Celebration	Other Property and Services	0	800	(800)	0
Coordination of Community Led Projects	Other Property and Services	52,500	105,000	(105,000)	52,500
Community Capability Project	Other Property and Services	65,529	59,000	(81,858)	42,671
Farm Dams Project	Other Property and Services	7,999	42,926	(50,061)	864
Perth's Autumn Festival	Other Property and Services	0	12,000	(12,000)	0
Greenwaste Waste Stream Audits	Community Amenities	0	25,000	(25,000)	0
		130,677	390,126	(423,028)	97,775

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.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

10. CASH AND CASH EQUIVALENTS

	Note	ACTUAL 2018/2019 \$	ACTUAL 2017/2018 \$
Cash and Cash Equivalents - Unrestricted	25	4,885,437	5,046,861
Cash and Cash Equivalents - Restricted	25	31,113,327	37,133,340
Total Cash and Cash Equivalents		<u>35,998,764</u>	<u>42,180,201</u>
Financial assets at amortised cost - term deposits	11	68,000,000	55,000,000
		<u>103,998,764</u>	<u>97,180,201</u>

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

Plant and Equipment		1,937,863	3,383,664
Site Rehabilitation Red Hill - Post Closure		2,709,862	2,482,057
Future Development		20,180,980	16,089,599
Environmental Monitoring Red Hill		1,098,527	975,126
Environmental Insurance Red Hill		37,510	11,844
Risk Management		15,192	14,738
Class IV Cells Red Hill		602,871	589,575
Regional Development		312,587	328,109
Secondary Waste Processing		57,994,036	56,190,599
Class III Cells		6,031,536	5,929,276
Building Refurbishment (Ascot Place)		76,706	74,410
Long Service Leave		960,622	910,197
	17	<u>91,958,292</u>	<u>86,979,194</u>
Add movement in accrued interest		189,362	273,998
Add unspent grants	9	97,775	130,677
		<u>92,245,429</u>	<u>87,383,869</u>

11. OTHER FINANCIAL ASSETS

Current Assets

Financial assets at amortised cost - term deposits			
- Unrestricted	25	6,867,898	4,749,471
- Restricted	25	61,132,102	50,250,529
Total Financial assets at amortised cost		<u>68,000,000</u>	<u>55,000,000</u>

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

Movements in Carrying Amounts

Movements in the carrying amount of each class of property, plant and equipment between the beginning and the end of the current financial year are reflected as follows:

Note	Land \$	Buildings \$	Total Land & Buildings \$	Plant \$	Equipment \$	Furniture & Fittings \$	Artworks \$	Work in Progress \$	Total \$
Balance at 1 July 2017	50,570,000	7,485,440	58,055,440	12,083,390	669,838	16,142	145,040	4,620,754	75,590,604
<u>Prior Period Adjustment:</u>									
32									
- Change in Accounting Policy	0	(9,701)	(9,701)	(242,548)	(153,202)	(13,256)	(63,840)	0	(482,547)
Restated balance as at 1 July 2017	50,570,000	7,475,739	58,045,739	11,840,842	516,636	2,886	81,200	4,620,754	75,108,057
Additions	0	17,015	17,015	335,796	79,432	0	0	321,729	753,972
WIP - Transfers in/(out)	0	790	790	0	0	0	0	(790)	0
(Disposals)	0	0	0	(345,753)	(39,793)	0	(2,485)	0	(388,031)
Reclassification	0	0	0	0	(60,868)	60,868	0	0	0
Revaluation - increments/(decrements)	0	0	0	0	0	0	5,085	0	5,085
Depreciation expense	0	(109,747)	(109,747)	(2,010,257)	(136,153)	(5,960)	0	0	(2,262,117)
Restated balance as at 30 June 2018	50,570,000	7,383,797	57,953,797	9,820,628	359,254	57,794	83,800	4,941,693	73,216,966
Comprises:									
Gross Carrying Amount at 30 June 2018	50,570,000	7,493,544	58,063,544	13,894,893	595,986	69,985	83,800	4,941,693	77,649,901
Accumulated depreciation at 30 June 2018	0	(109,747)	(109,747)	(4,074,265)	(236,732)	(12,191)	0	0	(4,432,935)
Carrying amount at 30 June 2018	50,570,000	7,383,797	57,953,797	9,820,628	359,254	57,794	83,800	4,941,693	73,216,966
Additions	0	7,909	7,909	2,449,627	67,545	8,129	0	1,005,502	3,538,712
(Disposals)	0	0	0	(116,373)	0	0	0	0	(116,373)
Depreciation expense	0	(109,659)	(109,659)	(1,674,774)	(116,595)	(6,521)	0	0	(1,907,549)
Carrying amount at 30 June 2019	50,570,000	7,282,047	57,852,047	10,479,108	310,204	59,402	83,800	5,947,195	74,731,756
Comprises:									
Gross Carrying Amount at 30 June 2019	50,570,000	7,501,453	58,071,453	16,228,147	663,531	78,114	83,800	5,947,195	81,072,240
Accumulated depreciation at 30 June 2019	0	(219,406)	(219,406)	(5,749,039)	(353,327)	(18,712)	0	0	(6,340,484)
Carrying amount at 30 June 2019	50,570,000	7,282,047	57,852,047	10,479,108	310,204	59,402	83,800	5,947,195	74,731,756

EASTERN METROPOLITAN REGIONAL COUNCIL

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

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

Furniture and Fittings, Plant and Equipment:

Both furniture and fittings and plant and equipment were revalued in 2016 as part of the mandatory requirements embodied in *Local Government (Financial Management) Regulations 1996, Reg. 17A*.

Whilst the additions since that time are shown at cost, given they were acquired at arms length and any accumulated depreciation reflects the usage of service potential, it is considered the recorded written down value approximates fair value. Thus the value is considered in accordance with *Local Government (Financial Management) Regulations 1996, Reg. 17A (2)* which requires these assets to be shown at fair value.

They will next be revalued during the year ended 30 June 2020 in accordance with the mandatory asset measurement framework detailed in Note 1(c).

Land and Buildings:

Both land and buildings were revalued in 2017 as part of the mandatory requirements embodied in *Local Government (Financial Management) Regulations 1996, Reg. 17A*.

Whilst the additions since that time are shown at cost, given they were acquired at arms length and any accumulated depreciation reflects the usage of service potential, it is considered the recorded written down value approximates fair value. Thus the value is considered in accordance with *Local Government (Financial Management) Regulations 1996, Reg. 17A (2)* which requires these assets to be shown at fair value.

They will next be revalued during the year ended 30 June 2021 in accordance with the mandatory asset measurement framework detailed in Note 1(c).

Artworks:

The EMRC's artworks were revalued at 30 June 2018 as part of the mandatory requirements embodied in *Local Government (Financial Management) Regulations 1996, Reg. 17A*.

They will next be revalued during the year ended 30 June 2022 in accordance with the mandatory asset measurement framework detailed in Note 1(c).

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

13. INFRASTRUCTURE (Continued)

Movements in Carrying Amounts

Movements in the carrying amount of infrastructure between the beginning and the end of the current financial year are reflected as follows:

	Note	Landfill Cells \$	Other Structures \$	Post Closure Asset \$	Work in Progress \$	Total \$
Balance at 1 July 2017		7,907,302	7,014,800	0	2,784,319	17,706,421
<u>Prior Period Adjustment:</u>	32					
- Change in Accounting Policy		0	(178,428)	0	0	(178,428)
- Correction of Error		0	0	1,865,431	0	1,865,431
Restated balance at 1 July 2017		7,907,302	6,836,372	1,865,431	2,784,319	19,393,424
Additions		0	199,113	0	4,228,621	4,427,734
WIP - Transfers in/(out)		0	1,030	0	(1,030)	0
(Disposals)		0	(1,247)	0	0	(1,247)
Revaluation - increments/(decrements)		0	(321,179)	0	0	(321,179)
Depreciation expense		(1,230,792)	(271,408)	(39,339)	0	(1,541,539)
Restated balance at 30 June 2018		6,676,510	6,442,681	1,826,092	7,011,910	21,957,193
Comprises:						
Gross Carrying Amount at 30 June 2018		6,676,510	6,442,681	1,865,431	7,011,910	21,996,532
Accumulated depreciation at 30 June 2018		0	0	(39,339)	0	(39,339)
Carrying amount at 30 June 2018		6,676,510	6,442,681	1,826,092	7,011,910	21,957,193
Additions		657,347	902,317	0	3,867,602	5,427,266
WIP - Transfers in/(out)		0	3,415,377	0	(3,415,377)	0
(Disposals)		0	(24,848)	0	0	(24,848)
Depreciation expense		(2,253,467)	(318,529)	(52,832)	0	(2,624,828)
Carrying amount at 30 June 2019		5,080,391	10,416,997	1,773,260	7,464,135	24,734,783
Comprises:						
Gross Carrying Amount at 30 June 2019		7,333,858	10,735,526	1,865,431	7,464,135	27,398,950
Accumulated depreciation at 30 June 2019		(2,253,467)	(318,529)	(92,171)	0	(2,664,167)
Carrying amount at 30 June 2019		5,080,391	10,416,997	1,773,260	7,464,135	24,734,783

EASTERN METROPOLITAN REGIONAL COUNCIL

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

13. INFRASTRUCTURE (Continued)

Infrastructure:

The EMRC's infrastructure assets were revalued at 30 June 2018 as part of the mandatory requirements embodied in *Local Government (Financial Management) Regulations 1996, Reg. 17A*.

Whilst the additions since that time are shown at cost, given they were acquired at arms length and any accumulated depreciation reflects the usage of service potential, it is considered the recorded written down value approximates fair value. Thus the value is considered in accordance with *Local Government (Financial Management) Regulations 1996, Reg. 17A (2)* which requires these assets to be shown at fair value.

They will next be revalued during the year ended 30 June 2021 in accordance with the mandatory asset measurement framework detailed in Note 1(c).

They will next be revalued during the year ended 30 June 2021 in accordance with the mandatory asset measurement framework detailed in Note 1(c).

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
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14. REVALUATION SURPLUS	ACTUAL 2018/2019 \$	Restated	
		ACTUAL 2017/2018 \$	ACTUAL 2016/2017 \$
Revaluation surpluses have arisen as a result of the revaluation of the following classes of non-current assets:			
Plant and Equipment			
Opening balance	4,264,966	4,529,712	5,834,206
Prior Period Adjustment - Change in Accounting Policy	0	0	(219,356)
Revaluation Increment/(decrement)	0	0	0
Revaluation writeback on disposals	(25,756)	(264,746)	(1,085,138)
Closing Balance	4,239,210	4,264,966	4,529,712
Land			
Opening balance	31,540,696	31,540,696	29,475,608
Revaluation Increment/(decrement)	0	0	2,065,088
Closing Balance	31,540,696	31,540,696	31,540,696
Buildings			
Opening balance	1,699,769	1,699,769	1,205,328
Prior Period Adjustment - Change in Accounting Policy	0	0	(11,245)
Revaluation Increment/(decrement)	0	0	537,547
Revaluation writeback on disposals	0	0	(31,861)
Closing Balance	1,699,769	1,699,769	1,699,769
Artworks			
Opening balance	14,164	11,564	25,807
Prior Period Adjustment - Change in Accounting Policy	0	(2,485)	(14,243)
Revaluation Increment/(decrement)	0	5,085	0
Revaluation writeback on disposals	0	0	0
Closing Balance	14,164	14,164	11,564
Infrastructure - Other Structures			
Opening balance	3,781,137	4,125,400	4,186,426
Prior Period Adjustment - Change in Accounting Policy	0	(23,026)	(30,942)
Revaluation Increment/(decrement)	0	(321,223)	0
Revaluation writeback on disposals	(27,896)	(14)	(30,084)
Closing Balance	3,753,241	3,781,137	4,125,400
Total Revaluation Surplus	41,247,080	41,300,732	41,907,141
Revaluation Surplus Summary			
Opening balance	41,300,732	41,907,141	40,727,375
Prior Period Adjustment - Change in Accounting Policy (Note 32)	0	(25,511)	(275,786)
Revaluation Increment/(decrement)	0	(316,138)	2,602,635
Revaluation writeback on disposals	(53,652)	(264,760)	(1,147,083)
Total Revaluation Surplus	41,247,080	41,300,732	41,907,141

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

15. TRADE AND OTHER PAYABLES

	ACTUAL 2018/2019 \$	ACTUAL 2017/2018 \$
Current		
Payroll Accruals	83,850	74,777
GST Liability	0	63,055
Sundry Creditors	5,462,714	3,467,159
	5,546,564	3,604,991

16. PROVISIONS

	ACTUAL 2018/2019 \$	Restated ACTUAL 2017/2018 \$	ACTUAL 2016/2017 \$
Current Employee Benefits Related Provisions			
Employees Annual Leave	729,196	635,506	646,193
Employees Long Service Leave	688,230	706,392	604,636
Employment On-Costs	211,898	199,293	187,861
	1,629,324	1,541,191	1,438,690
Non-current Employee Benefits Related Provisions			
Employees Long Service Leave	91,057	104,482	128,421
Employment On-Costs	11,713	11,600	15,287
	102,770	116,082	143,708
Total Employee Benefits Provisions	1,732,094	1,657,273	1,582,398
Non-current Other Provisions			
Red Hill Landfill Site Post Closure Rehabilitation	2,859,912	2,312,726	1,994,248
Red Hill Landfill Environmental Monitoring	1,530,736	1,229,454	1,054,638
Carbon Pricing Tax	0	0	4,235,645
Total Other Provisions	4,390,647	3,542,180	7,284,531
Total Provisions	6,122,741	5,199,453	8,866,929
Analysis of total provisions:			
Current	1,629,324	1,541,191	1,438,690
Non-current	4,493,417	3,658,262	7,428,239
	6,122,741	5,199,453	8,866,929

	Note	Provision for Annual Leave \$	Provision for Long Service Leave \$	Provision for Employment On-Costs \$	Provision for Site Rehabilitation \$	Provision for Environmental Monitoring \$	Provision for Carbon Pricing \$	Total \$
Opening balance as at 1 July 2017		646,193	733,057	203,148	2,314,792	885,502	4,235,645	9,018,337
Prior Period Adjustment	32							
- Correction of Error		0	0	0	(320,544)	169,136	0	(151,408)
Restated Balance as at 1 July 2017		646,193	733,057	203,148	1,994,248	1,054,638	4,235,645	8,866,929
Additional provisions made		526,068	133,970	11,432	318,478	174,816	0	1,164,764
Amounts used		(536,755)	(56,153)	(3,687)	0	0	0	(596,595)
Unused amount reversed		0	0	0	0	0	(4,235,645)	(4,235,645)
Restated Balance as at 1 July 2018		635,506	810,874	210,893	2,312,726	1,229,454	0	5,199,453
Additional provisions made		543,432	191,765	12,605	547,186	301,282	0	1,596,270
Amounts used		(449,742)	(223,352)	113	0	0	0	(672,981)
Balance as 30 June 2019		729,196	779,287	223,611	2,859,912	1,530,736	0	6,122,741

EASTERN METROPOLITAN REGIONAL COUNCIL

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

16. PROVISIONS (Continued)

Annual Leave Liabilities

Classified as current as there is no unconditional right to defer settlement for at least 12 months after the end of the reporting period. Assessments indicate that actual settlement of the liabilities is expected to occur as follows:

	2018/2019	2017/2018
	\$	\$
Within 12 months of the end of the reporting period	573,815	498,688
More than 12 months after the end of the reporting period	155,381	136,818
	<u>729,196</u>	<u>635,506</u>

The provision for annual leave is calculated at the present value of expected payments to be made in relation to services provided by employees up to the reporting date.

Long Service Leave Liabilities

Unconditional long service leave provisions are classified as current liabilities as the EMRC does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Pre-conditional and conditional long service leave provisions are classified as non-current liabilities because the EMRC has an unconditional right to defer settlement of the liability until the employee has completed the requisite years of service.

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

	2018/2019	2017/2018
	\$	\$
Within 12 months of the end of the reporting period	230,767	101,177
More than 12 months after the end of the reporting period	548,520	709,697
	<u>779,287</u>	<u>810,874</u>

The provision for long service leave is calculated at the present value as the EMRC does not expect to wholly settle the amounts within 12 months. The present value is measured taking into account the present value of expected future payments to be made in relation to services provided by employees up to the reporting date. These payments are estimated using the remuneration rate expected to apply at the time of settlement, and discounted using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

EASTERN METROPOLITAN REGIONAL COUNCIL

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

16. PROVISIONS (Continued)

Employment On-Cost Provision

The settlement of annual leave and long service leave liabilities give rise to the payment of employment on-costs including workers' compensation insurance. The provision is the present value of expected future payments.

Employment on-costs, including workers' compensation insurance, are not employee benefits and are recognised separately as liabilities and expenses when the employment to which they relate has occurred. Employment on-costs are included as part of 'Employee Costs' in the Statement of Comprehensive Income. The related liability is included in 'Employment On-Costs' provision.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

17. RESERVES	ACTUAL 2018/2019 \$	BUDGET 2018/2019 \$	ACTUAL 2017/2018 \$
(a) Plant and Equipment Reserve			
Opening balance	3,383,664	3,312,798	1,372,015
Transfer from retained surplus	1,806,797	3,884,207	2,134,690
Transfer to retained surplus	(3,356,987)	(6,861,076)	(157,381)
Interest	104,389	47,177	34,340
Closing Balance	1,937,863	383,106	3,383,664
(b) Site Rehabilitation Reserve - Post Closure			
Opening balance	2,482,057	2,491,398	2,314,792
Transfer from retained surplus	151,231	125,190	109,329
Transfer to retained surplus	0	0	0
Interest	76,574	66,954	57,936
Closing Balance	2,709,862	2,683,542	2,482,057
(c) Future Development Reserve			
Opening balance	16,089,599	16,138,460	6,238,460
Transfer from retained surplus	3,595,000	3,595,000	9,695,000
Transfer to retained surplus	0	0	0
Interest	496,381	594,382	156,139
Closing Balance	20,180,980	20,327,842	16,089,599
(d) Environmental Monitoring Reserve			
Opening balance	975,126	977,377	885,502
Transfer from retained surplus	93,317	77,183	67,461
Transfer to retained surplus	0	0	0
Interest	30,084	26,650	22,163
Closing Balance	1,098,527	1,081,210	975,126
(e) Environmental Insurance Reserve			
Opening balance	11,844	11,906	13,506
Transfer from retained surplus	45,000	45,000	40,000
Transfer to retained surplus	(19,700)	(44,100)	(42,000)
Interest	366	323	338
Closing Balance	37,510	13,129	11,844

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

17. RESERVES (Continued)	ACTUAL 2018/2019 \$	BUDGET 2018/2019 \$	ACTUAL 2017/2018 \$
(f) Risk Management Reserve			
Opening balance	14,738	14,778	14,377
Transfer from retained surplus	0	0	0
Transfer to retained surplus	0	0	0
Interest	454	388	361
Closing Balance	15,192	15,166	14,738
(g) Class IV Reserve			
Opening balance	589,575	593,464	563,778
Transfer from retained surplus	45,107	68,245	11,686
Transfer to retained surplus	(50,000)	(500,000)	0
Interest	18,189	9,583	14,111
Closing Balance	602,871	171,292	589,575
(h) Regional Development Reserve			
Opening balance	328,109	329,222	195,233
Transfer from retained surplus	250,000	660,000	580,000
Transfer to retained surplus	(275,645)	(598,252)	(452,010)
Interest	10,123	9,372	4,886
Closing Balance	312,587	400,342	328,109
(i) Secondary Waste Reserve			
Opening balance	56,190,599	56,498,092	48,550,081
Transfer from retained surplus	4,872,031	5,189,295	6,425,381
Transfer to retained surplus	(4,802,132)	(8,497,623)	0
Interest	1,733,538	1,429,157	1,215,137
Closing Balance	57,994,036	54,618,921	56,190,599
(j) Class III Reserve			
Opening balance	5,929,276	5,963,540	4,344,485
Transfer from retained surplus	1,576,941	2,873,756	1,676,259
Transfer to retained surplus	(1,657,605)	(2,261,222)	(200,204)
Interest	182,924	161,367	108,736
Closing Balance	6,031,536	6,737,441	5,929,276

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

17. RESERVES (Continued)	ACTUAL 2018/2019 \$	BUDGET 2018/2019 \$	ACTUAL 2017/2018 \$
(k) Building Refurbishment Reserve			
Opening balance	74,410	74,594	72,593
Transfer from retained surplus	0	0	0
Transfer to retained surplus	0	0	0
Interest	2,296	1,961	1,817
Closing Balance	76,706	76,555	74,410
(l) Long Service Leave Reserve			
Opening balance	910,197	916,500	866,914
Transfer from retained surplus	22,344	22,344	21,586
Transfer to retained surplus	0	0	0
Interest	28,081	24,285	21,697
Closing Balance	960,622	963,129	910,197
TOTAL RESERVES			
Opening balance	86,979,194	87,322,129	65,431,736
Transfer from retained surplus	12,457,769	16,540,220	20,761,392
Transfer to retained surplus	(10,162,069)	(18,762,273)	(851,595)
Interest	2,683,398	2,371,599	1,637,661
CLOSING BALANCE	91,958,292	87,471,675	86,979,194

All of the reserve accounts are supported by money and investments held in financial institutions and match the amount shown as restricted cash in Note 10 to this financial report.

EASTERN METROPOLITAN REGIONAL COUNCIL

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

17. RESERVES (Continued)

The purpose for which the Reserve funds are set aside are as follows and will be utilised in accordance with annual budgeted expenditure: -

Plant and Equipment Reserve (Ongoing Reserve)

This reserve was established to finance the replacement of major items of plant and equipment.

Site Rehabilitation Reserve - Post Closure (Ongoing Reserve)

This reserve was established to finance the rehabilitation of the Red Hill waste disposal site at time of decommissioning.

Future Development Reserve (Ongoing Reserve)

This reserve was established to finance future developments being undertaken by the EMRC. The reserve is also utilised to provide funds for projects that the EMRC is investigating and undertaking for the purpose of the long term future direction in the area of waste management for the benefit of the region

Class IV Reserve (Ongoing Reserve)

This reserve was established to finance the capping of the existing Class IV cells and the construction of future Class IV cells and associated works at the Red Hill waste disposal site.

Class III Reserve (Ongoing Reserve)

This reserve was established to finance the capping of the existing Class III cells and the construction of future Class III cells and associated works at the Red Hill waste disposal site.

Environmental Monitoring Reserve (Ongoing Reserve)

This reserve was established to provide funds for environmental monitoring after decommissioning of the Red Hill Waste disposal site.

Environmental Insurance Reserve (Ongoing Reserve)

This reserve was established to provide funds to enable the EMRC to immediately respond to the need for repairs to, or rectification of damage to the environment surrounding the Red Hill waste disposal site as a result of any incident not covered by the EMRC's existing insurance policies.

Risk Management Reserve (Ongoing Reserve)

This reserve was established to receive surpluses from the Risk Management Service and to fund future requirements of the service in subsequent financial years.

Secondary Waste Reserve (Anticipated date of Use - 2018/2019 to 2019/2020 financial years)

This reserve was established to accumulate and to make provision for Secondary Waste Treatment Technology in the future.

Regional Development Reserve (Ongoing Reserve)

This reserve was established to accumulate and provide funds to enable the EMRC to fund Regional Development activities.

Building Refurbishment Reserve (Ongoing Reserve)

This reserve was established to accumulate and provide funds for the refurbishment of the Ascot Place administration building.

Long Service Leave Reserve (Ongoing Reserve)

This reserve was established to accumulate and provide funds to enable the EMRC to fund staff long service leave.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2019

18. NOTES TO THE STATEMENT OF CASH FLOWS

(i) Reconciliation of Cash

For the purpose of the Statement of Cash Flows, the EMRC considers cash and cash equivalents to include cash on hand, cash at bank and term deposits. Cash at the end of the reporting period as shown in the Statement of Cash Flow is as follows:

	ACTUAL 2018/2019 \$	BUDGET 2018/2019 \$	ACTUAL 2017/2018 \$
Cash and Cash Equivalents - Unrestricted	4,885,437	4,081,732	5,046,861
Cash and Cash Equivalents - Restricted	31,113,327	32,641,439	37,133,340
Total Cash and Cash Equivalents	35,998,764	36,723,171	42,180,201

(ii) Reconciliation of net cash provided by operating activities to Net Result

Net Result	8,245,723	7,084,278	11,243,892
<u>Non-Cash Flows in Net Result</u>			
Depreciation	4,532,377	5,066,853	3,803,656
Doubtful debts	1,006,057	0	0
(Profit)/Loss on sale of assets	10,131	(70,297)	11,500
Small Assets write off	0	0	24,977
<u>Changes in Assets and Liabilities</u>			
Increase/(Decrease) in provisions - Other	848,469	202,373	493,492
Increase/(Decrease) in provisions - Employee	74,821	29,344	74,875
Increase/(Decrease) in Sundry Creditors	1,999,789	0	(177,276)
Increase/(Decrease) in GST	(67,894)	0	(63,960)
Increase/(Decrease) in Other Revenue (Carbon Tax)	0	0	(4,235,645)
(Increase)/Decrease in accrued interest earnings	341,675	0	(185,701)
(Increase)/Decrease in Receivables	(1,291,624)	0	152,311
(Increase)/Decrease in Inventory	(24,894)	0	(1,011)
(Increase)/Decrease in Prepayments	(21,178)	0	93,821
Net cash from operating activities	15,653,452	12,312,551	11,234,931

(iii) Undrawn Borrowing Facilities

Credit Standby Arrangements

There were no bank overdraft facilities in place for the EMRC at balance date.

Credit Card Limits	43,000		43,000
Credit Utilised at Balance Date	(15,018)		(11,269)
Total amount of credit unutilised	27,982		31,731

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

19. EMPLOYEE ENTITLEMENTS

The aggregate employee entitlements liability recognised and included in the financial report is as follows:

Provision for Employee Entitlements (Refer to Note 16)	ACTUAL 2018/2019 \$	ACTUAL 2017/2018 \$
- Current	1,629,324	1,541,191
- Non-current	102,770	116,082
Total Employee Entitlements	<u>1,732,094</u>	<u>1,657,273</u>
	ACTUAL FTE's 2018/2019	ACTUAL FTE's 2017/2018
Total number of (FTE) employees at end of financial year	<u>78</u>	<u>80</u>

20. COUNCILLORS FEES AND ALLOWANCES

ACTUAL 2018/2019 \$	BUDGET 2018/2019 \$	ACTUAL 2017/2018 \$
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The following fees, expenses and allowances were paid to council members and the Chairman:

Councillors' meeting fees	115,005	116,730	115,005
Chairman's meeting fees	15,682	15,917	15,682
Deputy Councillors' meeting fees	3,068	12,580	1,888
Chairman's Local Government fee	19,864	20,162	19,864
Deputy Chairman's Local Government fee	4,966	5,040	4,966
	<u>158,585</u>	<u>170,429</u>	<u>157,405</u>

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

21. ASSETS CLASSIFIED BY TYPE AND LOCAL GOVERNMENT PROGRAM	ACTUAL 2018/2019 \$	Restated	
		ACTUAL 2017/2018 \$	ACTUAL 2016/2017 \$
CURRENT ASSETS			
General Purpose Funding	17,506,578	17,028,635	30,347,825
Governance	1,241,881	1,273,344	1,123,650
Community Amenities	88,655,323	82,268,076	62,910,604
Economic Services	312,586	328,109	195,232
TOTAL CURRENT ASSETS	107,716,368	100,898,164	94,577,311
NON-CURRENT ASSETS			
Land			
Governance	5,450,000	5,450,000	5,450,000
Community Amenities	45,120,000	45,120,000	45,120,000
Buildings			
Governance	3,866,664	3,933,332	4,000,000
Community Amenities	3,415,383	3,450,465	3,475,739
Structures			
Governance	9,471	9,513	29,705
Community Amenities	17,261,177	14,935,770	16,579,400
Plant			
Governance	138,662	95,989	299,913
Community Amenities	10,340,446	9,724,639	11,540,928
Equipment			
Governance	164,326	184,749	275,512
Community Amenities	145,878	174,505	241,124
Furniture and Fittings			
Governance	143,202	141,594	84,086
Work In Progress			
Unclassified	13,411,330	11,953,603	7,405,074
TOTAL NON CURRENT ASSETS	99,466,539	95,174,159	94,501,481
TOTAL ASSETS	207,182,907	196,072,323	189,078,792

22. DISPOSAL OF ASSETS	ACTUAL 2018/2019			BUDGET 2018/2019			ACTUAL 2017/2018		
	Net Book Value \$	Sale Price \$	Gain (Loss) \$	Net Book Value \$	Sale Price \$	Gain (Loss) \$	Net Book Value \$	Sale Price \$	Gain (Loss) \$
Plant	116,373	131,091	14,718	204,121	274,418	70,297	334,523	327,046	(7,477)
Structues	24,849	0	(24,849)	0	0	0	1,247	0	(1,247)
Equipment	0	0	0	0	0	0	2,776	0	(2,776)
Total Assets Disposed	141,222	131,091	(10,131)	204,121	274,418	70,297	338,546	327,046	(11,500)

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
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23. INFORMATION ON BORROWINGS

(a) Borrowings

The EMRC does not have any loans or borrowings.

(b) New Borrowings

There were no new borrowings during the 2018/2019 financial year.

(c) Unspent Loans

There were no unspent loans during the 2018/2019 financial year.

24. INTEREST IN THE EMRC

The following table shows the total interest in the EMRC as at year end:

Member Council	2018/2019		Restated	
	%	\$	2017/2018	\$
Town of Bassendean	4.29	8,386,081	4.27	8,003,458
City of Bayswater	18.60	36,355,492	18.86	35,310,585
City of Belmont	11.31	22,117,430	11.35	21,261,371
City of Kalamunda	16.06	31,407,709	16.30	30,517,040
Shire of Mundaring	10.67	20,854,109	10.69	20,012,757
City of Swan	39.07	76,392,781	38.53	72,162,668
Total Equity	100.00	195,513,602	100.00	187,267,879

The EMRC participating Member Councils' interest distributions have been calculated in accordance with clause 9.4 of the Eastern Metropolitan Regional Council Establishment Agreement.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

25. FINANCIAL RISK MANAGEMENT

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

Council engages in transactions expressed in foreign currencies with respect to equipment purchases or for legal representation on a minor scale only and therefore not subject to foreign currency risk.

Financial risk management is carried out by the finance area under policies approved by the Council.

The Council held the following financial instruments at balance date:

	Carrying Value		Fair Value	
	2018/2019	2017/2018	2018/2019	2017/2018
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents	35,998,764	42,180,201	35,998,764	42,180,201
Financial assets at amortised costs:				
- Term deposits	68,000,000	55,000,000	68,000,000	55,000,000
- Receivables *	3,615,471	3,666,740	3,615,471	3,666,740
	<u><u>107,614,235</u></u>	<u><u>100,846,941</u></u>	<u><u>107,614,235</u></u>	<u><u>100,846,941</u></u>
Financial Liabilities				
Financial liabilities at amortised cost:				
- Payables *	5,546,564	3,541,936	5,546,564	3,541,936
	<u><u>5,546,564</u></u>	<u><u>3,541,936</u></u>	<u><u>5,546,564</u></u>	<u><u>3,541,936</u></u>

Fair value is determined as follows:

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

Financial Assets at Fair Value through profit and loss - based on market valuations and verified by independent financial advisors.

* The amount of receivables/payables excludes the GST recoverable from/payable to the ATO (statutory receivable/payable)

EASTERN METROPOLITAN REGIONAL COUNCIL
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25. FINANCIAL RISK MANAGEMENT (Continued)

(a) Cash and Cash Equivalents

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital. The finance area manages the cash and investments portfolio with the assistance of independent advisers. Council has an investment policy and the policy is subject to review by Council.

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 and investments are also subject to interest rate risk - the risk that movements in interest rates could affect returns.

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

Council seeks advice from an independent adviser before placing any cash and investments.

	2018/2019	2017/2018
	\$	\$
Impact of a 10% movement in price of investments:		
- Equity	0	0
- Statement of Comprehensive Income	0	0
Impact of a 1% movement in interest rates on cash and investments:		
- Equity	14,953	16,768
- Statement of Comprehensive Income	14,953	16,768

(b) Receivables

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

Council makes suitable provision for impairment of receivables as required and carries out credit checks on all debtors.

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

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

25. FINANCIAL RISK MANAGEMENT (Continued)

(c) Ageing Analysis of Receivables

Carrying Amount	Not Past due and not Impaired	Past due but not Impaired					Impaired Receivables	
		Up to 1 month	1 - 3 Months	3 Months to 1 Year	1 - 5 Years	More than 5 Years		
\$	\$	\$	\$	\$	\$	\$	\$	
2018/2019								
Receivables *	2,609,506	2,250,872	306,808	19,436	0	0	0	32,391
Loan receivable	1,005,965	0	0	0	0	0	0	1,005,965
	3,615,471	2,250,872	306,808	19,436	0	0	0	1,038,356
2017/2018								
Receivables *	3,251,856	3,118,823	79,667	4,944	0	0	0	48,422
Loan receivable	414,884	414,884	0	0	0	0	0	0
	3,666,740	3,533,707	79,667	4,944	0	0	0	48,422

* The amount of receivables excludes the GST recoverable from the ATO (statutory receivable)

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25. FINANCIAL RISK MANAGEMENT (Continued)

(d) Payables

Payables and borrowings are both subject to liquidity risk - that is the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due. Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer.

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

	Due within 1 year \$	Due between 1 & 5 years \$	Due after 5 years \$	Total contractual cash flows \$	Carrying values \$
<u>2018/2019</u>					
Payables *	5,546,564	0	0	5,546,564	5,546,564
	<u>5,546,564</u>	<u>0</u>	<u>0</u>	<u>5,546,564</u>	<u>5,546,564</u>
<u>2017/2018</u>					
Payables *	3,541,936	0	0	3,541,936	3,541,936
	<u>3,541,936</u>	<u>0</u>	<u>0</u>	<u>3,541,936</u>	<u>3,541,936</u>

* The amount of payables excludes the GST payable to the ATO (statutory payable)

(e) Borrowings

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

Council does not have any borrowings or loans.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2019

25. FINANCIAL RISK MANAGEMENT (Continued)

(f) Liquidity Risk and Interest Rate Exposure

The following table details the EMRC's interest rate exposure and the contractual maturity analysis of financial assets and financial liabilities. The interest rate exposure section analyses the carrying amounts of each item.

Interest Rate Exposure and Maturity Analysis of Financial Assets and Financial Liabilities

	Interest Rate Exposure					Maturity Dates				
	Weighted Average Effective Interest Rate	Carrying Amount	Fixed Interest Rate	Variable Interest Rate	Non-Interest Bearing	Nominal Amount	Up to 1 month	1 - 3 Months	3 Months to 1 Year	More than 1 Year
	%	\$	\$	\$	\$	\$	\$	\$	\$	\$
2018/2019										
Financial Assets										
Cash and cash equivalents	2.05%	4,885,437	3,484,428	1,397,559	3,450	4,885,437	2,562,472	2,322,965	0	0
Restricted cash and cash equivalents	2.70%	31,113,327	31,015,552	97,775	0	31,113,327	10,436,292	20,677,035	0	0
Financial Assets at amortised cost										
Term Deposits - Unrestricted	2.70%	6,867,898	6,867,898	0	0	6,867,898	0	0	6,867,898	0
Term Deposits - Restricted	2.70%	61,132,102	61,132,102	0	0	61,132,102	0	0	61,132,102	0
Receivables *	-	2,609,506	0	0	2,609,506	2,609,506	2,609,506	0	0	0
Loan receivable	8.00%	1,005,965	1,005,965	0	0	1,005,965	0	0	1,005,965	0
		107,614,235	103,505,945	1,495,334	2,612,956	107,614,235	15,608,270	23,000,000	69,005,965	0
Financial Liabilities										
Payables *	-	5,546,564	0	0	5,546,564	5,546,564	5,546,564	0	0	0
		5,546,564	0	0	5,546,564	5,546,564	5,546,564	0	0	0
2017/2018										
Financial Assets										
Cash and cash equivalents	1.99%	5,046,861	3,497,337	1,546,074	3,450	5,046,861	2,413,064	2,633,797	0	0
Restricted cash and cash equivalents	2.64%	37,133,340	37,002,663	130,677	0	37,133,340	9,267,137	27,866,203	0	0
Financial Assets at amortised cost										
Term Deposits - Unrestricted	2.64%	4,749,471	4,749,471	0	0	4,749,471	0	0	4,749,471	0
Term Deposits - Restricted	2.64%	50,250,529	50,250,529	0	0	50,250,529	0	0	50,250,529	0
Receivables *	-	3,251,856	0	0	3,251,856	3,251,856	3,251,856	0	0	0
Loan receivable	8.00%	414,884	414,884	0	0	414,884	0	0	414,884	0
		100,846,941	95,914,884	1,676,751	3,255,306	100,846,941	14,932,057	30,500,000	55,414,884	0
Financial Liabilities										
Payables *	-	3,541,936	0	0	3,541,936	3,541,936	3,541,936	0	0	0
		3,541,936	0	0	3,541,936	3,541,936	3,541,936	0	0	0

* The amount of receivables/payables excludes the GST recoverable/payable from/to the ATO (statutory receivable/payable)

EASTERN METROPOLITAN REGIONAL COUNCIL
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26. COMMITMENTS FOR CAPITAL EXPENDITURE	ACTUAL 2018/2019 \$	ACTUAL 2017/2018 \$
Commitments for the acquisition of assets contracted for at the reporting date but not recognised as liabilities:		
- Payable not longer than one year	4,158,188	2,381,392
Total Capital Commitments	4,158,188	2,381,392

27. CONTINGENT LIABILITIES

Contingent liabilities at balance date, not otherwise provided for in the financial statements, relate to an action by Lehman Brothers in the United States Bankruptcy Court.

On 9 May 2007 EMRC invested \$450,000 into Federation notes.

On 30 Oct 2008, in common with hundreds of other investors in the Federation notes, this investment of \$450,000 was fully repaid to the EMRC.

Subsequently Lehman Brothers Special Financing Inc. commenced an action in the United States Bankruptcy Court, Southern District of New York, No. 10 - 803547 applying for an order for all investors to repay the amounts paid.

It is the opinion of the attorney representing the EMRC in this action that the claim will not be decided until post 2021.

28. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after the reporting period required to be included in the 2018/2019 Annual Financial Report.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

29. FINANCIAL RATIOS	ACTUAL 2018/2019	Restated	
		ACTUAL 2017/2018	ACTUAL 2016/2017
<i>Liquidity Ratio</i>			
Current Ratio ⁽¹⁾	2.40	3.07	6.19
$\frac{\text{Current Assets less Restricted Current Assets}}{\text{Current Liabilities less Liabilities Associated with Restricted Assets}}$			
<i>Debt Ratio</i>			
Debt Service Cover Ratio ⁽²⁾	Not Applicable	Not Applicable	Not Applicable
$\frac{\text{Operating Surplus before Interest and Depreciation Expenses}}{\text{Principal and Interest Repayments}}$			
<i>Coverage Ratio</i>			
Own Source Revenue Coverage Ratio ⁽³⁾	1.20	1.34	1.21
$\frac{\text{Own Source Operating Revenue}}{\text{Operating Expense}}$			
<i>Financial Performance Ratio</i>			
Operating Surplus Ratio ⁽⁴⁾	0.20	0.30	0.24
$\frac{\text{Operating Revenue less Operating Expense}}{\text{Own Source Operating Revenue}}$			
<i>Asset Management Ratio</i>			
Asset Sustainability Ratio ⁽⁵⁾	1.02	0.10	0.68
$\frac{\text{Capital Renewal and Replacement Expenditure}}{\text{Depreciation Expense}}$			
Asset Consumption Ratio ⁽⁶⁾	0.81	0.85	0.80
$\frac{\text{Depreciated Replacement Cost of Depreciable Assets}}{\text{Current Replacement Cost of Depreciable Assets}}$			
Asset Renewal Funding Ratio ⁽⁷⁾	1.00	1.00	1.00
$\frac{\text{NPV of planned Capital renewals over 10 years}}{\text{NPV of required Capital expenditure over 10 years}}$			

Notes

- (1) This is a modified commercial ratio designed to focus on the liquidity position of the Council that has arisen from past year's transactions.
- (2) This ratio is the measurement of Council's ability to repay its debt including lease payments.
- (3) This ratio is the measurement of Council's ability to cover its costs through its own revenue efforts.
- (4) This ratio is a measure of Council's ability to cover its operational costs and have revenues available for capital funding or other purposes.
- (5) This ratio indicates whether Council is replacing or renewing existing non-financial assets at the same rate that its overall asset stock is wearing out.
- (6) This ratio measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost.
- (7) This ratio is a measure of the ability of Council to fund its projected asset renewal / replacements in the future.

EASTERN METROPOLITAN REGIONAL COUNCIL

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

30. FAIR VALUE MEASUREMENT

The EMRC measures the following assets at fair value on a recurring basis after initial recognition:

- Financial Assets at fair value through profit or loss
- Land and buildings
- Plant
- Equipment
- Furniture and Fittings
- Artworks
- Infrastructure

The following table provides the fair values of the EMRC's assets measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy [refer to Note 1(d)]:

Recurring Fair Value Measurements

		30 June 2019			
	Note	Level 1	Level 2	Level 3	Total
		\$	\$	\$	\$
Financial Assets	10	0	0	0	0
<hr/>					
Total financial assets recognised at fair value on a recurring basis		0	0	0	0
<hr/>					
Non-Financial Assets					
Land	12	0	50,570,000	0	50,570,000
Buildings	12	0	3,866,664	3,415,383	7,282,047
Plant	12	0	5,074,119	5,404,989	10,479,108
Equipment	12	0	310,204	0	310,204
Furniture and Fittings	12	0	59,402	0	59,402
Artworks	12	0	83,800	0	83,800
Infrastructure	13	0	0	17,270,648	17,270,648
<hr/>					
Total non-financial assets recognised at fair value on a recurring basis		0	59,964,189	26,091,020	86,055,209
<hr/>					

EASTERN METROPOLITAN REGIONAL COUNCIL

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

30. FAIR VALUE MEASUREMENT (Continued)

		30 June 2018 Restated			
	Note	Level 1	Level 2	Level 3	Total
		\$	\$	\$	\$
Financial Assets	10	0	0	0	0
<hr/>					
Total financial assets recognised at fair value on a recurring basis		0	0	0	0
<hr/>					
Non-Financial Assets					
Land	12	0	50,570,000	0	50,570,000
Buildings	12	0	3,923,675	3,460,122	7,383,797
Plant	12	0	4,182,184	5,638,444	9,820,628
Equipment	12	0	359,254	0	359,254
Furniture and Fittings	12	0	57,794	0	57,794
Artworks	12	0	83,800	0	83,800
Infrastructure	13	0	0	14,945,283	14,945,283
<hr/>					
Total non-financial assets recognised at fair value on a recurring basis		0	59,176,707	24,043,849	83,220,556
<hr/> <hr/>					

(a) Transfers Policy

The policy of the EMRC is to recognise transfers into and transfers out of the fair value hierarchy levels as at the end of the reporting period.

There were no transfers between level 2 and 3 during the current and previous year.

(b) Highest and Best Use

There were no assets valued where it was assumed that the highest and best use was other than their current use.

EASTERN METROPOLITAN REGIONAL COUNCIL

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

30. FAIR VALUE MEASUREMENT (Continued)

(c) Valuation techniques and Inputs used to derive fair values

The following table summarises valuation inputs and techniques used to determine the Fair value for each asset class.

Asset	Level of Valuation Input	Fair Value at 30 June 2019 \$	Valuation Technique(s)	Inputs Used
Non-Financial Assets				
Land	2	32,880,000	Market approach	Price per square metre.
	2	17,690,000	Cost Approach	Price per square metre.
Buildings	3	3,415,383	Cost Approach	Estimates of residual value, useful life, pattern of consumption and asset condition and relationship to the assessed level of remaining service potential of the depreciable amount.
	2	3,866,664	Market and income approach	Rental yields and price per square metre.
Plant	2	5,074,119	Market approach	Make, size, year of manufacture and condition.
	3	5,404,989	Cost approach	Estimates of residual value, useful life, pattern of consumption and asset condition and relationship to the assessed level of remaining service potential of the depreciable amount.
Equipment	2	310,204	Market approach	Make, size, year of manufacture and condition.
Furniture and Fittings	2	59,402	Market approach	Make, size, year of manufacture and condition.
Artworks	2	83,800	Market approach	Estimated value expected to be realised.
Infrastructure	3	17,270,648	Cost approach	Estimates of residual value, useful life, pattern of consumption and asset condition and relationship to the assessed level of remaining service potential of the depreciable amount.
TOTAL		86,055,209		

EASTERN METROPOLITAN REGIONAL COUNCIL

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

30. FAIR VALUE MEASUREMENT (Continued)

(c) Valuation techniques and Inputs used to derive fair values (Continued)

Recurring fair value measurements

Land

Where there is directly comparable market evidence Level 2 valuation inputs were used to value land held in freehold title (investment and non-investment) as well as land used for special purposes which is restricted in use under current zoning rules. Sales prices of comparable land sites in close proximity are adjusted for differences in key attributes such as property size. The most significant inputs into this valuation approach are price per square metre.

Level 2 valuation inputs were used to value land held in freehold title (investment and noninvestment) as well as land used for special purposes which is restricted in use under current zoning rules. Sales prices of comparable land sites in close proximity are adjusted for differences in key attributes such as property size. The most significant inputs into this valuation approach are price per square metre.

The land purchased in December 2012, Lot 8, 9 & 10 land parcels at Red Hill Waste Management Facility, was a strategically planned and prolonged acquisition over a period of several years. It was a closed negotiation and was not open to market participants. Market research and analysis was undertaken by the Valuers who have acknowledged that the cost of this land area equates to a land rate per hectare greater than analysis of nearby market evidence. The difference is a premium rate which Council paid to obtain the asset. AASB13 requires Fair Value of this land to be calibrated to the transactional cost. The Valuers have therefore adopted the Fair Value of this land at the purchase price as it provides calibration with actual price required for purchasing a land fill site.

Buildings

Level 2 valuation inputs

These were used to determine the fair value of a range of properties. This included the bulk of residential and commercial properties. The residential properties fair value has been derived from sales prices of comparable properties after adjusting for differences in key attributes such as property size. The most significant inputs into this valuation approach are price per square metre.

Commercial buildings have been generally derived using a combination of sales direct comparison approach and capitalisation of income approach. Fair value has been derived from sales prices of comparable properties after adjusting for differences in key attributes such as property size. The most significant inputs into this valuation approach are rental yields and price per square metre.

Level 3 valuation inputs

The level of evidence used to support the critical assumptions of some commercial buildings was considered to be highly variable due to high levels of variability in the market for rental yields and future demand. As such the level of valuation input for these properties was considered level 3

EASTERN METROPOLITAN REGIONAL COUNCIL

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

30. FAIR VALUE MEASUREMENT (Continued)

(c) Valuation techniques and Inputs used to derive fair values (Continued)

Recurring fair value measurements

Artworks

Valuation inputs and techniques used to determine the fair value for all Art work Assets have been based on Level 2 inputs - Market Based.

It has been determined that there is an active market for the Art Work Assets and hence the 'market approach' has been adopted.

Level 2 valuation inputs

Market (Direct Comparison) - This has been applied and fair value assessed on the basis of the estimated amount which the interest in each item of Art Work valued might reasonably be expected to realise on the date of valuation in an exchange between market participants given highest and best use or highest and best alternative use. This was determined by comparison to recent sales of Art work with similar characteristics. This was then adjusted to reflect conditions and comparability. As this was based on observable evidence they have been classified as Level 2.

Infrastructure

Road, Equipment and Civil Assets

All road, equipment and civil assets were valued using the cost approach.

The approach estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on square metres or similar capacity could be supported from market evidence (level 2) other inputs (such as estimates of residual value, useful life, pattern of consumption and asset condition) required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were classified as having been valued using level 3 valuation inputs.

The consumption rating scales were based initially on the past experience of the valuation firm and industry guides and were then updated to take into account the experience and understanding of Eastern Metropolitan Regional Council's own engineers, asset management and finance staff. The results of the valuation were further evaluated by confirmation against Eastern Metropolitan Regional Council's own understanding of the assets and the level of remaining service potential.

Plant

Plant assets have generally been derived from comparable sales and relevant industry market price reference guides and have been classified as being valued at level 2. The most significant inputs into this valuation approach are the make, size, year of manufacture and condition.

Some items of plant and contents however are unique in design or there was insufficient observable market evidence to support the valuation. As a result these assets have been valued using the cost approach. The approach estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and determining the Fair Value for each component based on the Remaining Useful Life (RUL) in proportion to the Useful Life after adjusting for any Residual Value.

Equipment, Furniture and Fittings

The Council acquires its furniture and equipment at arm's length from approved suppliers. These acquisitions are recorded at cost and any accumulated depreciation reflects the usage of service potential. It is considered that the recorded written down values approximate the fair value of furniture and fittings.

EASTERN METROPOLITAN REGIONAL COUNCIL

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

30. FAIR VALUE MEASUREMENT (Continued)

(d) Valuation processes

The EMRC engages external, independent and qualified valuers to determine the fair value of the Council's land, buildings, plant, equipment, infrastructure, artworks and furniture and fittings on a regular basis in line with Regulation 17A(4) of the *Local Government (Financial Management) Regulations 1996*.

There were no revaluations undertaken for any class of assets during the 2018/2019 financial year.

EASTERN METROPOLITAN REGIONAL COUNCIL

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

31. RELATED PARTY TRANSACTIONS

Key Management Personal (KMP) Compensation Disclosure

The total remuneration for KMP of the Council during the year are as follows:

	2018/2019	2017/2018
	\$	\$
Short-term employee benefits	701,934	607,911
Post-employment benefits	88,569	96,146
Other long term benefits	48,635	71,741
Termination benefits	0	0
	<u>839,138</u>	<u>775,798</u>

Short-term employee benefits

These amounts include all salary, fringe benefits and cash bonuses awarded to KMP except for details in respect of fees and benefits paid to elected members which may be found at Note 20.

Post-employment benefits

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

Other long-term benefits

These amounts represent annual leave and 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).

Related Parties

The Council's main related parties are as follows:

i Key management personnel

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

ii Entities subject to significant influence by the Council

Any 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.

EASTERN METROPOLITAN REGIONAL COUNCIL

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

31. RELATED PARTY TRANSACTIONS (Continued)

Related Parties (Continued)

Transactions with related parties

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

The following transactions occurred with related parties:

	2018/2019	2017/2018
	\$	\$
<i>Member Councils:</i>		
Sale of goods and services	27,782,087	25,372,410
Purchase of goods and services	0	0
<i>Amounts outstanding from related parties:</i>		
Trade and other receivables	1,945,340	1,419,667

EASTERN METROPOLITAN REGIONAL COUNCIL

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

32. PRIOR PERIOD ADJUSTMENTS

Change in Accounting Policy

Paragraph 17A(5) was inserted into the *Local Government (Financial Management) Regulations 1996* and was gazetted on 26 June 2018. It became effective from the day after the gazettal date.

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.

The adoption of the regulation constitutes a change in accounting policy.

The Council previously included assets with a fair value of under \$5,000 at the time of acquisition within the assets of the Council.

During the year assets with a fair value at the date of acquisition of under \$5,000 and purchased prior to 30 June 2018 have been excluded from the assets of the Council along with those assets acquired during the year ended 30 June 2019 with a fair value of under \$5,000 which were previously capitalised.

The Council has retrospectively adjusted prior year balances by restating each of the financial statement line items for the periods as outlined in the table below.

Correction of Error

In 2015 an independent review was undertaken of the post closure costs to landfill cells/sites to assess the adequacy of the provision. This was subject to a report submitted to Council on 18 June 2015, where it was reported that the current funds in the post closure provisions were below the costs identified in the independent review. It was also reported that further reviews to assess the sufficiency of the post closure costs would be undertaken on a periodic basis of approximately every five (5) years or sooner subject to material changes in operational circumstances.

The process of calculating the provisions was amended in order to accumulate funds and provide for the value calculated that would be required at the end of the life of the site, utilising an escalation future value, amortised over the useful life (based on the number of available free tonnage airspace remaining against the tonnage utilised each year).

The provisions relating to Landfill Sites are accounted for under the following accounting standards:

- AASB 116 - Property, Plant and Equipment;
- AASB 136 - Impairment of Assets: and
- AASB 137 - Provisions, Contingent Liabilities and Contingent Assets.

A recalculation of the Site Rehabilitation and the Environmental Monitoring post closure provisions has subsequently been undertaken in order to comply with the appropriate accounting standards and to determine the net present value of the future cash outflows of costs, determined on a discounted basis as at 30 June 2015.

The provisions were corrected and a corresponding post closure asset was created to be amortised over the remaining life of the site.

Increments in the provisions are calculated annually based on the change in the net present value.

The error has been corrected by restating each of the financial statement line items for the periods as outlined in the table below.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

32. PRIOR PERIOD ADJUSTMENTS (Continued)

Statement of Financial Position (Extract)	Previously Reported 30 June 2018 \$	Change in Accounting Policy Increase/ (Decrease) \$	Correction of Error Increase/ (Decrease) \$	30 June 2018 (Restated) \$	Previously Reported 30 June 2017 \$	Change in Accounting Policy Increase/ (Decrease) \$	Correction of Error Increase/ (Decrease) \$	30 June 2017 (Restated) \$
Total Current Assets	100,898,164	0	0	100,898,164	94,577,311	0	0	94,577,311
Non-Current Assets								
Property, plant and equipment	73,642,629	(425,663)	0	73,216,966	75,590,604	(482,547)	0	75,108,057
Infrastructure	20,309,485	(178,428)	1,826,136	21,957,193	17,706,421	(178,428)	1,865,431	19,393,424
Total Non-Current Assets	93,952,114	(604,091)	1,826,136	95,174,159	93,297,025	(660,975)	1,865,431	94,501,481
Total Assets	194,850,278	(604,091)	1,826,136	196,072,323	187,874,336	(660,975)	1,865,431	189,078,792
Total Current Liabilities	5,146,182	0	0	5,146,182	5,284,917	0	0	5,284,917
Non-Current Liabilities								
Non-Current Provisions	3,573,905	0	84,357	3,658,262	7,579,647	0	(151,408)	7,428,239
Total Non-Current Liabilities	3,573,905	0	84,357	3,658,262	7,579,647	0	(151,408)	7,428,239
Total Liabilities	8,720,087	0	84,357	8,804,444	12,864,564	0	(151,408)	12,713,156
NET ASSETS	186,130,191	(604,091)	1,741,779	187,267,879	175,009,772	(660,975)	2,016,839	176,365,636
Equity								
Retained Surplus	57,548,968	(302,794)	1,741,779	58,987,953	67,395,109	(385,189)	2,016,839	69,026,759
Reserves	86,979,194	0	0	86,979,194	65,431,736	0	0	65,431,736
Revaluation Surplus	41,602,029	(301,297)	0	41,300,732	42,182,927	(275,786)	0	41,907,141
TOTAL EQUITY	186,130,191	(604,091)	1,741,779	187,267,879	175,009,772	(660,975)	2,016,839	176,365,636

EASTERN METROPOLITAN REGIONAL COUNCIL

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

32. PRIOR PERIOD ADJUSTMENTS (Continued)

Statement of Comprehensive Income (Extract)	30 June 2018 \$	Change in Accounting Policy Increase/ (Decrease) \$	Correction of Error Increase/ (Decrease) \$	30 June 2018 (Restated) \$
Total Revenue	39,351,664	0	0	39,351,664
Expenses				
Employee Costs	7,804,689	0	0	7,804,689
Materials and Contracts	4,705,008	0	0	4,705,008
Utility Expenses	357,516	0	0	357,516
Insurance Expenses	257,229	0	0	257,229
Other Expenditure	10,907,233	25,221	235,720	11,168,174
Depreciation Expenses on Non-Current Assets	3,871,933	(107,616)	39,339	3,803,656
Total Expenses	27,903,608	(82,395)	275,059	28,096,272
Sub Total Revenue less Expenses	11,448,056	82,395	(275,059)	11,255,392
Profit / (Loss) on Disposal of Assets	(11,500)	0	0	(11,500)
Net Result	11,436,556	82,395	(275,059)	11,243,892
Other Comprehensive Income				
Changes in Revaluation of Non-Current Assets	(316,138)	(25,511)	0	(341,649)
Total Other Comprehensive Income	(316,138)	(25,511)	0	(341,649)
TOTAL COMPREHENSIVE INCOME	11,120,418	56,884	(275,059)	10,902,243

33. NET CURRENT ASSET POSITION

The net current asset position balance carried forward from the previous financial year after adjustment for Restricted Assets for the purpose of the 2018/2019 budget was \$9,005,091.

The actual net current asset position balance shown in the audited financial report as at 30 June 2018 and after adjustment for Restricted Assets was \$8,498,789.

INDEPENDENT AUDITOR'S REPORT



**For the Year Ended
30 June 2019**

INDEPENDENT AUDITOR'S REPORT

To the Councillors of the Eastern Metropolitan Regional Council

Report on the Audit of the Financial Report

Opinion

I have audited the annual financial report of the Eastern Metropolitan Regional Council 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 and Statement of Cash Flows 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 Eastern Metropolitan Regional Council:

- (i) is based on proper accounts and records; and
- (ii) fairly represents, in all material respects, the results of the operations of the Council 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 Council 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 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 financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the Council's 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 Council 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 financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the CEO is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the State government has made decisions affecting the continued existence of the Council.

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

Auditor's Responsibility for the Audit of the Financial Report

The objectives of my audit are to obtain reasonable assurance about whether the 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 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 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 Council'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 Council'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 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 financial report, including the disclosures, and whether the 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) All required information and explanations were obtained by me.
- (ii) All audit procedures were satisfactorily completed.

- (iii) 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 29 of the financial report were audited by another auditor when performing their audit of the Council for the year ending 30 June 2017. The auditor expressed an unmodified opinion on the 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 Eastern Metropolitan Regional Council for the year ended 30 June 2019 included on the Council's website. The Council's management is responsible for the integrity of the Council's website. This audit does not provide assurance on the integrity of the Council's website. The auditor's report refers only to the financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this financial report. If users of the 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 financial report to confirm the information contained in this website version of the financial report.

SANDRA LABUSCHAGNE
DEPUTY AUDITOR GENERAL
FOR WESTERN AUSTRALIA
Delegate of the Auditor General for Western Australia
Perth, Western Australia
November 2019



Office of the Auditor General
Serving the Public Interest

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Real People. Better Business

Annual Audit Completion Report

EASTERN METROPOLITAN
REGIONAL COUNCIL

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Introduction



From our Partner

We have set out in this report the significant matters arising from our audit of the Eastern Metropolitan Regional Council for the year ended 30 June 2019.

We would like to take this opportunity to thank the management team for their assistance during the audit process. If you have any queries on the report, please feel free to contact Robert Hall or myself.



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EXECUTIVE SUMMARY

- Butler Settineri (Audit) Pty Ltd were appointed as the contract auditor by the Office of the Auditor General for the years ended 30 June 2019 and 30 June 2020;
- Butler Settineri (Audit) Pty Ltd have completed the external statutory audit for the year ended 30 June 2019 as contract auditor on behalf of the Office of the Auditor General;
- No sign of any unresolved issues;
- We intend to recommend to the Auditor General to issue an unqualified audit opinion;
- No outstanding matters apart from the sign off of the financial report and management representation letter.

INDEPENDENCE

We are independent of the Council in accordance with the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants.

Threats to independence include the following:



SELF INTEREST THREATS



SELF REVIEW THREATS



ADVOCACY THREATS



FAMILIARITY THREATS



INTIMIDATION THREATS

What we do to remain independent:

- All team members sign an independence declaration at the commencement of the audit;
- Monitor our individual independence throughout the audit;
- All team members sign off an independence declaration at the completion of the audit.

Audit Outcomes



During the planning phase of the audit, we identified the following issues and key areas of audit risk.

AUDIT OUTCOMES

Details of Risk / Issue	Audit Approach
Audit findings reported in the previous audit	We followed up on last year's audit issues during the audit. All issues were resolved except for one issue relating to excessive leave balance.
Changes to accounting standards: <ul style="list-style-type: none"> AASB 9 Financial Instruments 	We reviewed management's assessment of the impact of this accounting standard on the financial statements. No significant impact of the standard for the Council.
Changes to <i>Local Government (Financial Management) Regulations</i> that have been signalled by the Department of Local Government, Sport and Cultural Industries (DLGSCI): <ul style="list-style-type: none"> Introduction of a \$5,000 asset capitalisation threshold – if mandated, local governments would need to expense existing assets below \$5,000. Associated with this, DLGSCI proposes that those assets below \$5,000 that are portable and attractive be included in a separate register. Replacement of specific valuation dates for classes of assets with a requirement for assets to be at fair value and revalued every 3 to 5 years. 	We assessed management's implementation of the changes to regulations and the effect on the financial report. The adjustment to assets to comply with the new regulation has been made retrospectively. A new accounting policy specifying the frequency for the revaluation of assets has been adopted.
We have identified the following areas that we consider require additional focus during our 2018-19 local government audits: <ul style="list-style-type: none"> Related party disclosures Revenue recognition Revaluation of Plant & Equipment Unauthorised expenditure Unrecorded liabilities and expenses Fictitious employees Valuation and estimation on rehabilitation of landfill cells and site usage 	We reviewed the related audit evidence as part of our audit testing and confirmed that appropriate disclosures have been made in the financial statements.
The following annual financial report items are derived from accounting estimates and hence will receive specific audit attention: <ul style="list-style-type: none"> Provision for annual and long service leave Fair value of assets and Infrastructure Impairment of assets Provision for Site Rehabilitation 	We reviewed the methodology and underlying data that management used when determining critical accounting estimates. We confirmed the reasonableness of the assumptions and corroborating representations.
Important changes in management or the control environment	There were no changes in management or the control environment impacting the audit risk.

AUDIT MISSTATEMENTS

- There were no uncorrected misstatements

AUDIT FINDINGS

Per the Interim Management Letter:

1. No issues to report

Per the Final Management Letter:

1. A number of employees with annual leave balances in excess of 304 hours (40 days) at year end (11 out of 87 employees)

NON COMPLIANCE WITH LAWS & REGULATIONS AND FRAUD

Laws and Regulations applicable to the Local Government include the following:

- ▣ Local Government Act 1995;
- ▣ Local Government (Financial Management Regulations 1996);
- ▣ Local Government (Audit) Regulations 1996
- ▣ Australian Tax Office (GST/FBT/PAYG Compliance);
- ▣ Compliance with conditions of program funding arrangements.

During the audit process we noted:

- ▣ No issues found in relation to the above Laws and Regulations.
- ▣ No findings or indications of suspected fraud.

CHANGES IN ACCOUNTING & AUDIT STANDARDS

Accounting Issues for 2019

- AASB 9 implemented

Minimal impact of adopting AASB 9

Accounting Issues for 2020

- Take time to consider and read AASB 15: Revenue from Contracts with Customers and AASB 1058;
- Revenue to be recognized when performance obligations have been complied with;
- Take time to consider and read AASB 16: Leases;
- Understand your existing leases practices and policies, including reviewing existing agreements with landlords;
- Apply the requirements of AASB 16 to your existing agreements and understand the impact of any changes

MATTERS THAT AFFECTED THE AUDIT



New AASB 9 Financial Instruments Standard

Policy updated and implemented



Site Rehabilitation and Monitoring Provision

Clarified the acceptable accounting for the site rehabilitation and monitoring provision resulting in a prior year adjustment.



Compliance with new Regulations

\$5,000 asset capitalisation threshold implemented at 1 July 2018 with retrospective application

THANK YOU

We would like to take this opportunity to once again thank the management team for their assistance during the audit process, in particular we would like to thank Jer Liew, David Ameduri, Le Truong and the finance team for their support.





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13 REPORTS OF STRATEGIC RISK STEERING GROUP

13.1 Minutes of the Strategic Risk Steering Group Meeting Held On 10 September 2019

The Minutes of the Strategic Risk Steering Group meeting held 10 September 2019 accompany and form part of this agenda.

RECOMMENDATION(S)

That Council notes the Minutes of the Strategic Risk Steering Group meeting held 10 September 2019.

AC RESOLUTION(S)

MOVED CR

SECONDED CR

STRATEGIC RISK STEERING GROUP MINUTES

Tuesday, 10 September 2019 – 11:00AM

1. ATTENDANCES

Marcus Geisler	Chief Executive Officer
Hua Jer Liew	Director Corporate Services
Stephen Fitzpatrick	Director Waste Services
Wendy Harris	Director Regional Services
David Ameduri	Manager Financial Services
Izabella Krzysko	Manager Procurement and Governance
Annie Hughes-d'Aeth	PA Director Corporate Services (Minutes)

The Director Corporate Services welcomed the Chief Executive Officer to his first Strategic Risk Steering Group and also welcomed the Manager Procurement and Governance to the group, as risk management is one of her key responsibilities.

Following a recommendation by Internal Auditors to the Audit Committee at its 7 Sep 2017 meeting that despite an overall excellent rating, an inherent weakness of risk management at the EMRC is Council and the Audit Committee's role in monitoring the effectiveness of EMRC's risk management function.

The recommendations are acknowledged as improvement opportunities to enhance the existing risk management processes.

- Strategic Risk Management Plans will be tabled with the Audit Committee for noting and review as required; and
- The Minutes of the SRSR meetings will be tabled with the Audit Committee for their noting and review.

2. APOLOGIES

Nil

3. CONFIRMATION OF MINUTES OF THE PREVIOUS MEETING

The minutes of the Strategic Risk Steering Group meeting held on the 7 May 2019 were confirmed.

4. STRATEGIC RISK EXPOSURES

4.1 Projects/Contracts

RRF Project (HZI) – Director Waste Services

HZI are in discussions with the EMRC to finalise the Financiers Side Deed. The deadline for financial close is 31 December 2019.

EMRC has received a draft Memorandum of Understanding (MOU) for a power purchase agreement. A meeting is required with member Councils to progress this agreement.

The CEO noted that in the Waste Supply Agreement, 100% of the participants' residual waste needs to go to the Resource Recovery Facility (RRF) otherwise there could be a financial penalty. It is important that member Councils have an auditable trail of where the residual waste is disposed.

Anergy – Director Waste Services

A confidential report is being submitted to the 19 September 2019 Council meeting on the project, its completion and financial status.

The EMRC is having weekly scheduled meetings with Anergy to monitor the progress of the plant construction.

FOGO – Chief Executive Officer

The EMRC is developing a FOGO strategy that will be tabled at the September 2019 Council meeting and will be going to tender for a permanent processing facility.

The City of Bayswater and the Town of Bassendean will utilise the interim facility from July 2020, while the permanent facility is scheduled for operations commencing in mid-2022.

The permanent facility will accept approximately 100,000 tonnes per annum. Another 45,000 tonnes per annum will need to be found. Fogo available in the metro area is 300,000 tonnes per annum. Interim facility will be commissioned before March 2020 and ready to be utilised 1 July 2020.

The EMRC will manage education, coordinating and developing material for all six (6) member Councils.

Caddy and bin procurement will be centralised through EMRC with funding from the secondary waste reserve.

Container Deposit Scheme (CDS) – Chief Executive Officer

The EMRC submitted an Expression of Interest (EOI) to become a regional refund point and to become the multiple refund operators for the region. Discussions are taking place with member Councils, other Local Governments and scheme coordinator WA Return Recycle Renew Limited (WARRRL) to help communicate the initiative.

4.2 Market Place – Director Waste Services

Instant Waste has returned to the EMRC for a month.

The EMRC has been pursuing new commercial opportunities.

4.3 Reputation/ Image – Director Corporate Services

Media Coverage: Year on year over the 8 months of the calendar year, there has been an increase in positive media coverage with 13 in 2019 compared to 3 in 2018.

Social Media: Since the introduction of Facebook in July 2019, there has been a steady increase in followers, and positive views. The social media experience is continually refined and improved to maximise effective communication and transparency while managing any downside risk associated with a fast paced, open and evolving platform.

Stakeholder Perception Survey: Since the last update, we have continued with the presentation to member Councils to improve the awareness of EMRC's role and contribution for the benefit of the respective member Council and the Region. One upcoming presentation has been organised.

Following the local government elections, in an effort to continue and improve awareness with Councillors who may not be elected to the EMRC Council, a separate site tour and briefing may be organised.

4.4 Environmental

New Legislations

Nil.

Waste Levy

The Minister for Environment; Disability Services; Electoral Affairs also announced on 6 March 2019 that there would be no increase to the State's waste levy next financial year.

Licence applications

The Director Waste Services provided an update on the current licence applications including:

- Interim FOGO processing facility;
- Amendments to the Ministerial Conditions for Lots 8, 9 and 10; and
- Works approval for the Stage 15 cell constructions.

There is no change to the groundwater plume and this will be continually monitored.

Hazelmere

Works approval is in progress for the Waste Transfer Station at the Hazelmere Resource Recovery Park.

4.5 Political

WA Waste Avoidance Strategy and Resource Recovery Strategy 2030 (WARR) was released in February 2019.

4.6 Liability

Doubtful Debt Raised for 2018/2019

The Manager Financial Services provided the following update:

As at 30 June 2019 a doubtful debt of \$1,005,964.79 was raised in the EMRC's accounts for the amounts (principal and interest) owed under the EMRC/Anergy Loan agreement.

The reason for this was due to the liquidity concerns being encountered by Anergy. It was recommended by the auditors, to make a provision for the doubtful debt due to the uncertainty of the ability of Anergy to meet the loan conditions regarding the repayment of the loan and payment of the accrued interest.

5 RISK MANAGEMENT SYSTEM

5.1 Audit Process

Internal Audit

The presentation of the 4th year internal audit reports in June 2019 to Council via the Audit Committee represents the final year of the Strategic Internal Audit Plan.

A new Strategic Internal Audit Plan is being developed with a view to present that to the March round of meetings for adoption.

The Plan was originally on a four year cycle but in its next evolution, it will be migrated to a three year plan to coincide with the changes to Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*. The regulation requires the Chief Executive Officer to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every three financial years) and report to the local government the results of those reviews.

External Audit

The 2018/2019 Annual audit is currently underway with the Annual Financial Report for the period ended 30 June 2019. The Audit process is expected to be finalised for tabling at the 10 October 2019 Audit Committee meeting. Following that, due to the Local Government Elections, the report will be tabled at the next ordinary meeting of Council being held on 5 December 2019.

Major highlights of the audit during 2018/2019 include the write off of assets under the purchase value of \$5,000 and the adjustment to the accounting treatment and calculation of the Post Closure Site Rehabilitation and Post Closure Environmental Monitoring provisions.

Post Meeting Note

Following discussions with the Office of Auditor General due to the complexity of the application of accounting standards to the presentation of the accounts for three financial years as a result of the post close site rehabilitation and environmental costs as well as the auditors' workflow, the annual financial report will now be postponed to the next Audit Committee meeting being 21 November 2019.

5.2 Key Changes To System / Framework

Nil.

5.3 Regulatory Environment

Asset Sustainability Ratio (ASR)

In 2017/2018 the Office of the Auditor General (OAG) noted an adverse trend in the Annual Financial Report relating to the Asset Sustainability Ratio (ASR) due to the ratio being below the acceptable threshold measure of 0.90 for 3 consecutive years.

We are pleased to advise that the ASR for the 2018/2019 financial year has been calculated at 1.02 which is within the acceptable limit.

5.4 Business Continuity Planning

The Business Continuity Planning is a continuous process and ensures the most current point of reference and guidance to ensure business continuity.

Since the last meeting, the Business Continuity Planning document has been circulated to Managers for their review and feedback. The document is now a live document - continuously updated for changes such as responsible personnel details due to staff turnover. The document will be distributed again later in the year for another full annual review to ensure it remains current and appropriate, especially prior to the Christmas closure.

5.5 Insurance Program

2018/2019 Insurance Programme

The insurance renewals for 2019/2020 have been completed.

Overall, premiums of \$452,483 (exc. GST) for 2019/2020 are lower than the 2018/2019 premiums of \$460,482 (exc. GST).

The variance relates to the change of insurable assets, a reduction in the workers compensation rate from 2.22% to 2.10% and slight rate increases in some of the insurance classifications.

5.6 Risk Management Culture

Directors are requested to reinforce with Managers regarding their responsibility for good risk management practices and adherence to OSH principles.

Additionally staff are to be reminded of their obligations to the Recordkeeping Plan and the management of records.

5.7 System Performance

The Manager Procurement and Governance advised that workers compensation claims had reduced during the months of July/August compared to the previous corresponding period despite a slight increase in reported incidents.

Directors are requested to continue to reinforce with the various responsible officer(s) to utilise the Risk Management module to ensure risks are identified and appropriate risk treatment plans are in place.



6 CONSIDERATION OF REPORTS

Nil

7 OTHER BUSINESS (IF REQUIRED)

The Director Waste Services advised that should the EMRC take on the WWTE plant operations, staff and recruitment training would be required.

Concern was raised over the increase of birdlife and their control at the RHWMF. The Director Regional Services advised that the Natural Resource Management (NRM) Coordinator was consulting with the respective bird groups.

8 DATE AND TIME OF NEXT MEETING

To be advised.

9 CLOSE OF MEETING

Meeting closed 12:00pm.



14 REPORTS OF DELEGATES

15 NEW BUSINESS OF AN URGENT NATURE APPROVED BY THE CHAIRMAN OR PRESIDING MEMBER OR BY DECISION OF MEETING

16 CONFIDENTIAL MATTERS FOR WHICH THE MEETING MAY BE CLOSED TO THE PUBLIC

Nil

17 FUTURE MEETINGS OF THE AUDIT COMMITTEE

Meetings of the Audit Committee are covered under the Audit Committee Terms of Reference as follows.

“4 Meetings

4.1 *The Audit Committee will meet as required at the discretion of the chairperson of the committee and at least three times per year to coincide with:*

- a. *Approval of strategic and annual plans;*
- b. *Approval of the annual budget; and*
- c. *The auditor’s report on the annual financial report.”*

Future Meetings 2020

Thursday	6 February	(if required)	at	EMRC Administration Office
Thursday	5 March		at	EMRC Administration Office
Thursday	2 April	(if required)	at	EMRC Administration Office
Thursday	7 May	(if required)	at	EMRC Administration Office
Thursday	4 June		at	EMRC Administration Office
Thursday	9 July	(if required)	at	EMRC Administration Office
Thursday	6 August	(if required)	at	EMRC Administration Office
Thursday	3 September	(if required)	at	EMRC Administration Office
Thursday	8 October	(if required)	at	EMRC Administration Office
Thursday	19 November	(if required)	at	EMRC Administration Office

18 DECLARATION OF CLOSURE OF MEETING