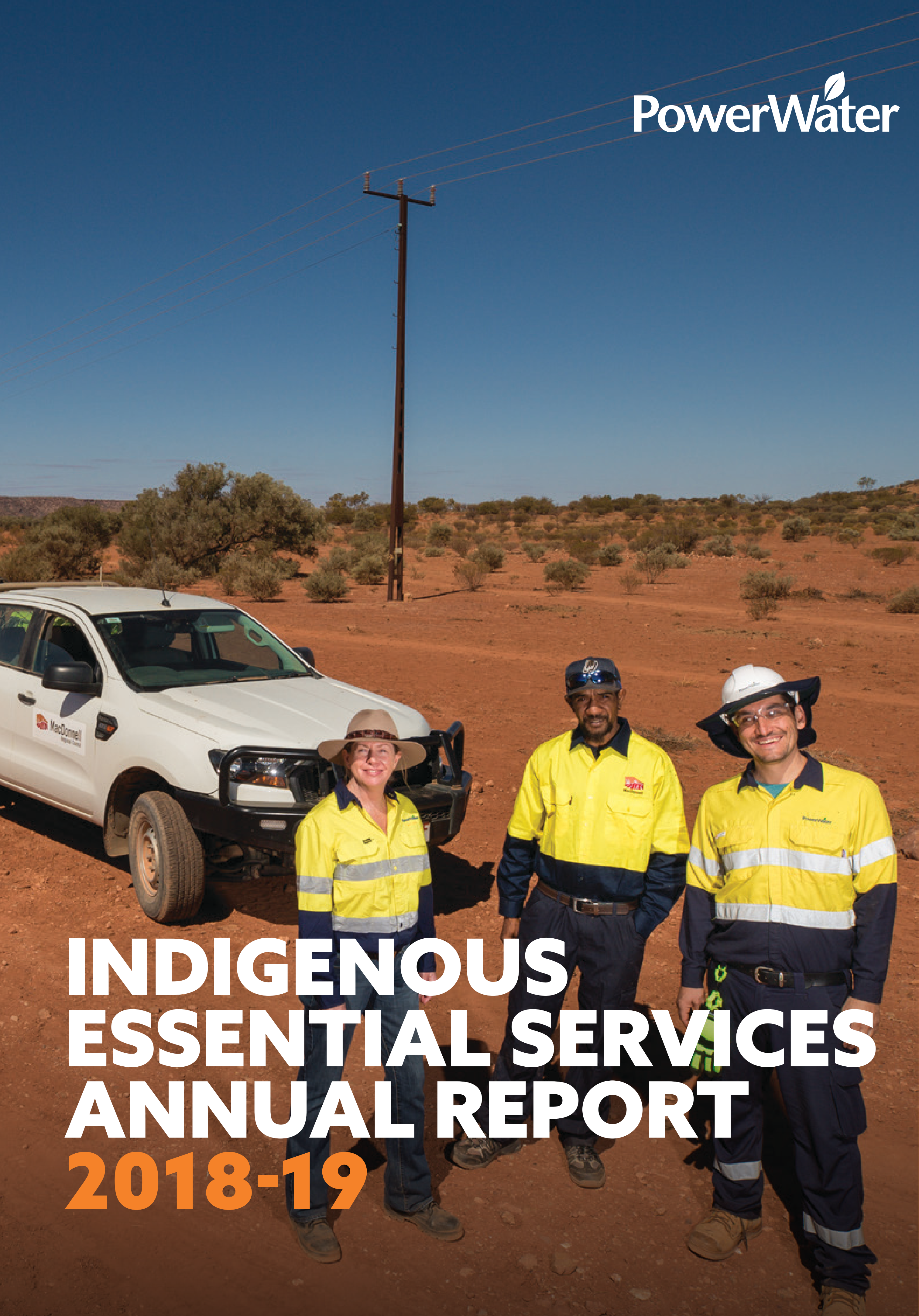
PowerWater



INDIGENOUS ESSENTIAL SERVICES ANNUAL REPORT 2018-19

THIS REPORT

The purpose of this Annual Report is to provide a record of operations and achievements for the 2018-19 financial year for Indigenous Essential Services Pty Ltd, a not-for-profit subsidiary company of Power and Water Corporation.

ABOUT US

Indigenous Essential Services Pty Ltd (IES) provides electricity, water and wastewater services to 72 remote communities and 79 outstations.

Each centre is geographically isolated and dispersed across tropical and arid environments, requiring services that are resilient to the extremes of the harsh Northern Territory climate. Rapid development in these regions requires a commitment to working with communities toward sustainable electricity and water use to meet future needs and aspirations. Power and Water contracts and trains Essential Services Operators through local councils, Indigenous enterprises and private contractors to run facilities day-to-day.

Ninety per cent of potable water is groundwater from some 227 production bores through 181 water storage tanks and 650km of reticulation. A multi-barrier approach is taken to providing drinking water consistent with Australian Drinking Water Guidelines. Chlorination and ultraviolet systems are used as appropriate.

Infrastructure includes electrical submersible water pumps, highly efficient diesel and low emission gas and renewable power stations. Remote power stations are controlled by automated systems, with local site monitoring and servicing.

Fifty-six remote towns and communities have full waterborne sewage disposal systems with waste stabilisation ponds. The remainder have individual on site systems maintained by the community.

CHAIR'S MESSAGE

This has been another rewarding year for Power and Water's not-for-profit Indigenous Essential Service (IES) subsidiary, as it continues to deliver end-to-end water and electricity services across one of the most geographically dispersed and operationally challenging areas in Australia.

Having integrated the delivery of remote services into the broader Power and Water business has laid the path for enhanced service delivery, better asset management and planning and greater customer support across our 72 remote communities and 79 outstations.

As we move forward and embed these changes, I am looking forward to having in place 24/7 fault monitoring of our assets across all our operating areas, better logistical management and coordination with our service delivery in the major and minor centres and faster turnaround times for repairs and maintenance that will ultimately lead to an uplift in our customer experience.

We have also been working with the Government through the Department of Local Government, Housing and Community Development (DLGHCD) as the agency not only responsible for the funding of the IES program, but also for the delivery of the Government's $1.1 billion Remote Housing Program.

Together with the DLGHCD we have been working on identifying and prioritising major headworks to support the housing program while being sure to maintain a focus on the day-to-day service delivery needs of our customers to ensure better targeted investment in service delivery.

I'd like to thank my fellow Board members, many of whom are new to the IES subsidiary, for their valuable contributions and dedication to our customers in these remote locations across the Northern Territory and to continually looking at ways that we as a Board can continue to add value to our staff in the field, to make their job easier, more fulfilling and rewarding and most importantly, to be safe.

John Langoulant AO
Chair

PowerWater

CHIEF EXECUTIVE'S REPORT

The recent reforms to the way Power and Water supports its service delivery aims in our remote communities and outstations is a fundamental change to the way we as a business are supporting all of our customers across the Northern Territory, from the largest population centres to the smallest and most isolated communities and outstations.

These structural changes are about providing the necessary support to all staff, our contractors and our Essential Service Operators (ESO) out in the field so they can do their job and service our customers, even better.

In anticipation of these changes, we have completed a review of our ESO competency framework by working with our contract holders and using assessment tools to better understand where our focus on training and development should be to support remote services delivery and better support our people on the ground.

So while these changes will lay the foundations for future success, we must also take time to reflect on the success we already have. And 2018-19 has been a great year for success across our 72 remote communities and 79 outstations.

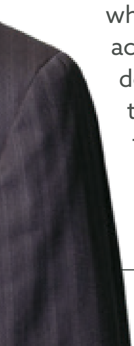
This year we completed our Solar Energy Transformation Program (SETuP) which saw 10MW of solar PV installed across 25 communities, in order to deliver a 15% reduction in diesel use, that's 94 million litres of diesel, over the 25 year life of the program.

Water scarcity is also another big issue facing many remote towns and communities and this year we installed smart water meters in another six communities allowing us to work with customers to reduce leaks in these water stressed communities.

We have also established a team that is dedicated to completing engineering reviews of vacant lots in remote communities as a part of the Northern Territory Government's Remote Housing Program and I am pleased to note that the team has already progressed to the construction of services to these lots ahead of 2019-20 housing delivery program.

So with these achievements already 'under our belt', and with many more to come, I would like to thank the dedicated staff that work tirelessly every day for customers in our remote IES communities and outstations.

Michael Thomson
Chief Executive



WHERE WE OPERATE

DARWIN (TOP END)

- Water, wastewater and electricity supply services to 24 remote communities which represents a population of around 21,000;
- Diesel-solar hybrid generation plants at ten remote communities (Galiwinku, Gapuwiyak, Gunbalanya, Maningrida, Milingimbi, Milyakburra, Minjilang, Ramingining, Warruwi and Wurrumiyanga) with a total installed capacity of 5,507kW.

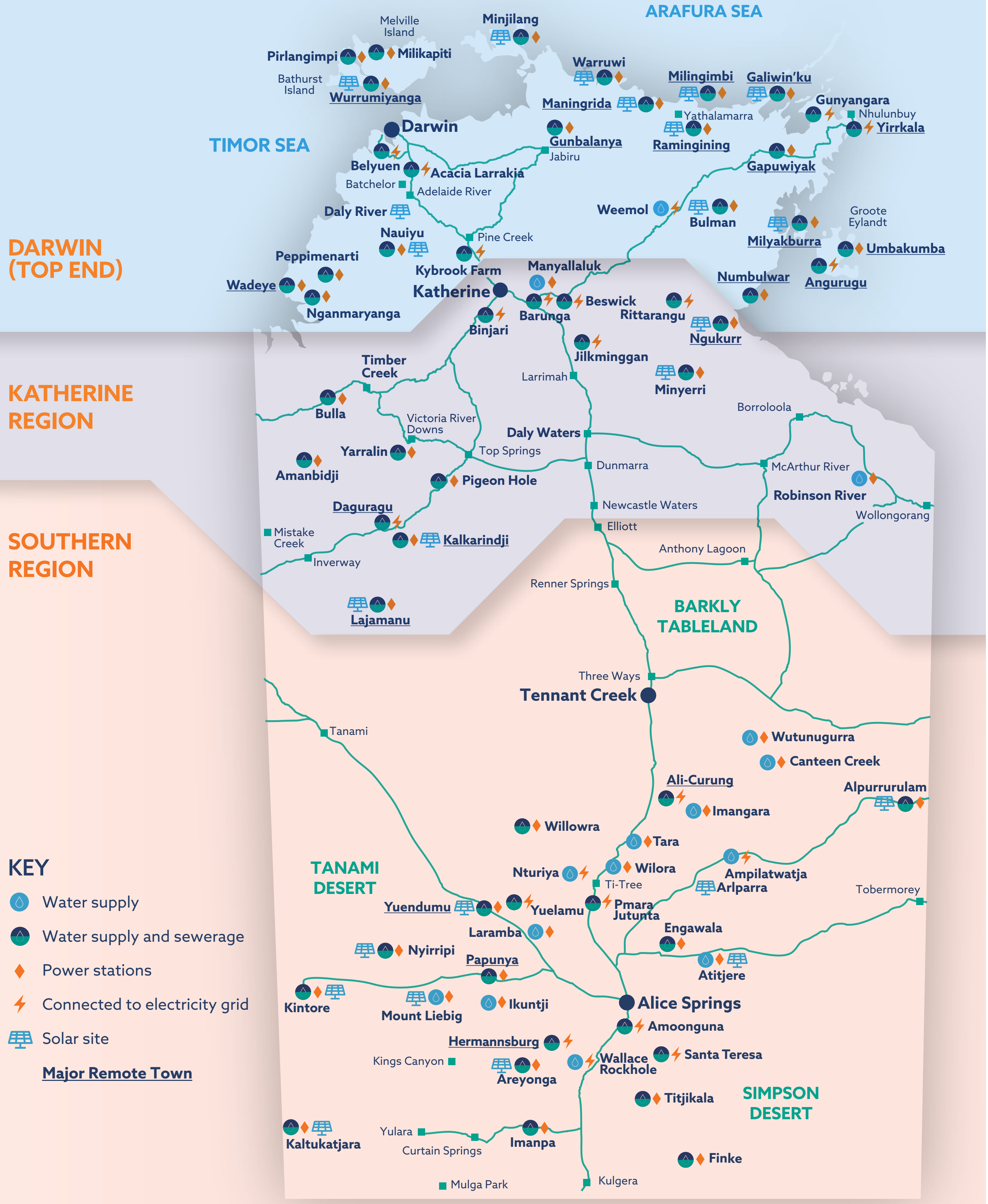
KATHERINE REGION

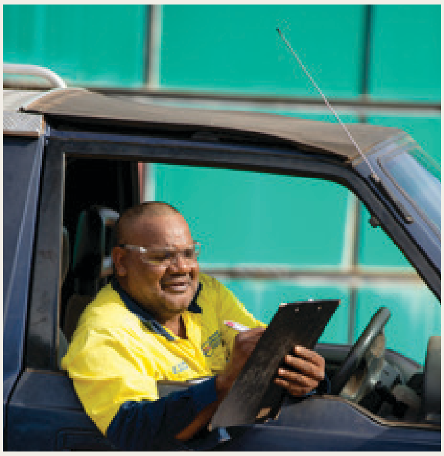
- Water, wastewater and electricity supply services to 19 remote communities which represents a population of over 7,000;
- Diesel-solar hybrid generation plants at four remote communities (Bulman, Lajamanu, Minyerri and Ngukurr) with a total installed capacity of 1,197kW.

SOUTHERN REGION

- Water, wastewater and electricity supply services to 23 remote communities representing a population of around 7,500 in the Alice Springs region and a further six remote communities with a population of around 1,600 in the Barkly region.
- Diesel-solar hybrid generation plants at nine remote communities (Areyonga, Atitjere, Finke, Kaltukatjara, Kintore, Mount Liebig, Nyirripi, Titjikala and Yuendumu), with a total installed capacity of 1,927kW, and at the Utopia outstations of the Arlparra remote community, with an installed capacity of 454kW.

REMOTE COMMUNITIES' POWER, WATER SUPPLY AND SEWERAGE SERVICES





It is important for us to empower our people, including our Essential Services Operator (ESO) contractors

Enhancing support for our remote communities

Power and Water recognises the important role it has in supporting remote communities and is committed to maintaining its focus on remote service delivery. The new Operating Model is designed to uplift remote service delivery within the funding envelope available.

Power and Water remains committed to servicing remote communities and supporting the Government $1.1 billion Remote Housing Program and understands the criticality of that program to the Government.

The changes to the regions and remote business are the same as what is happening to all other operational areas. Namely, all five operational areas are being broken apart and the individual parts (the functions) are being restructured in a similar way.

The on-the-ground delivery of services by our ESOs and technical coordinators in remote communities won't change. The new Operating Model is actually designed to improve support for these ESOs by creating a single entry point into the business and triaging to the right area of the business to efficiently provide support.

These changes are about making all of Power and Water responsible for remote service delivery, not quarantining those responsibilities to one business unit.

What we will deliver through these changes is better asset management and 24/7 fault monitoring and response through enhanced metering and SCADA capabilities, which over time will lead to less breakdowns and asset failures and therefore a better customer experience and more capacity for reinvestment in infrastructure.

Over time we will have better supply chain management, including contract management, which will mean faster capital planning and delivery times and quicker access to parts and maintenance support which will facilitate better, faster development in remote communities, thereby being able to better support growth in these local communities.

We will have better planning and coordination of delivery of work in the field, by ensuring there is one, coordinated picture of where our crews are and what they are working on. This will reduce travel time, response time delays and should lead to lower costs. It will enable us to use our skills base more effectively across all locations, including regional and remote communities.

We will also move to a coordinated metering solution which will deliver consistent metering technology across Power and Water, therefore lower operating costs by not having to maintain two back-office support systems and less holding costs having to maintain stocks of different meters that serve the same function.

ESO Safety Culture continuing to mature

It is important for us to empower our people, including our Essential Services Operator (ESO) contractors, to build a proactive safety culture to ensure everyone gets home safely, every day.

Over the past 12 months, several continuous safety improvement opportunities have been identified to further develop a mature safety culture among our contractors and ESOs.

These changes have been well-received by ESO contractors, who have praised Power and Water for supporting them and helping them understand their safety responsibilities.

Power and Water has updated its ESO Operator Manual and developed learning tools to empower ESOs to carry out their work with confidence, as well as provided additional training for a restricted electrical licence so they can replace meters.

In the last 18 months, we've also been working to educate our contract holders who oversee our ESOs to embed a more stringent safety component in their tenders.

We have also carried out ICAMs (Incident Cause Analysis Method) into some incidents and from these, improved our relief notification process. Additionally, we receive safety reports from the contractors where hazards or areas for improvement can be raised and this information is fed back to us where we can address on-site hazards.

External Service Agreements for ESOs

The new contracts focus on the required training and competency around drinking water and the required upskilling of staff in compliance surrounding safety legislation including safety management plans for the contract holders.

The new contracts include the training and assessment required to obtain a restricted electrical licence allowing for the safe removal and installation of fuses and electricity metering in a remote community which has previously been being carried out by fully licenced electricians under the repairs and maintenance budget.

The 72 remote communities under these contracts have a range of providers including sole traders that live and work in the communities, pastoralists, local businesses, Aboriginal business enterprises and regional councils..

- 17 remote communities have ESOs from Aboriginal Business Enterprises
- Yapa-Kurlangu Ngurra Aboriginal Corporation
- Pirlangimpi Gudanu Indigenous Services
- Power Projects (NT) Pty Ltd (11 remote communities and four minor centres)
- Owairtilla Aboriginal Corporation
- 26 of the remote communities have ESOs with local councils which focuses on the local employment opportunities in the remote communities.
- Barkly Regional Council
- Central Desert Regional Council
- MacDonnell Regional Council
- Roper Gulf Regional Council
- West Arnhem Regional Council

Essential Services Operator (ESO) training a top priority

ESOs are employed by the regional councils and private contractors, and operate on Power and Water assets for approximately 90% of the time.

Power and Water provides ongoing support for their training and development by advocating, advising and consulting nationally on suitable qualifications and mandatory training requirements and delivering induction and Power and Water specific training.

Power and Water has reviewed the process for training ESOs, including Aboriginal ESOs. Power and Water recognises that it requires input from all three parties; Power and Water, the ESO contract holders and the ESOs, to develop and maintain a competent ESO.

Power and Water has developed a Competency Assurance framework and program which outlines the roles and responsibilities of each party to develop and maintain ESO competencies and skills.

As part of all new ESO contracts, contractors are required to submit a competency assurance plan, against which their performance will be measured, during the term of the contract. This plan includes how the contractor will recruit and support Aboriginal workers.

Power and Water will induct all contract holders, who will then ensure all their ESOs are fully inducted. In the first instance it is the contractor who delivers additional training to the ESOs, or up-skilling as required. In the event the contractor is unable to correctly train the ESOs, Power and Water will arrange the necessary training.

Drinking water quality management in remote communities

Water supplies in a number of remote Aboriginal communities have been improved by shifting source supply from surface water to groundwater

Power and Water collaborates with a wide range of stakeholders to coordinate drinking water quality management activities, which are critical to the provision of safe drinking water to all customers.

Power and Water has a Drinking Water Quality Management System to ensure that the management of water supply disinfection systems accords with industry best practice and Australian Drinking Water Guidelines (ADWG).

In accordance with the ADWG the highest priority for action must always be the management of risks from microbial (pathogenic) contaminants.

The Department of Health is the regulator for drinking water quality across the Northern Territory.

Power and Water and the Department of Health maintain a Memorandum of Understanding (MoU) for managing drinking water quality utilising a catchment to consumer, multiple barrier approach including protection, disinfection, treatment, operational controls and monitoring in accordance with the Australian Drinking Water Guidelines (ADWG).

Power and Water is engaged by the Northern Territory Government via an Indigenous Essential Services (IES) Agreement to provide agreed levels of service to nominated Aboriginal communities. The Agreement requires parties to comply with the ADWG health and aesthetic related parameters, or as otherwise agreed by the Regulator.

Power and Water implements the ADWG through its Drinking Water Quality Management System. Primarily the focus is on acute risks from microbial (pathogenic) contaminants that could result in illness or potential fatalities. A wide range of other contaminants that could impact human health or cause aesthetic concerns (e.g. taste and odour issues) are also considered.

Power and Water undertakes water quality sampling in accordance with its Drinking Water Quality Monitoring Program, which is reviewed, updated and endorsed each year by the Chief Health Officer.

Results of water quality sampling are reported regularly to the Department of Health and via the Annual Water Quality Report available on the Power and Water website.

Water quality risks in remote communities are assessed and addressed using a risk and evidenced based approach. Some recent examples of improvement projects include:

- Water supplies in a number of remote Aboriginal communities have recently been improved by shifting source supply from surface water to groundwater.
- Advanced Water Treatment plants have been operating in three communities (Ali Curung, Kintore and Yuelamu) to address health-related parameters, such as elevated fluoride, nitrate and uranium, noting that these plants have high ongoing operating costs.

PROJECTS

Laramba rising mains replacement

Before investing $6 million in its water supply, Laramba was a water constrained community with severe leakage problems along the length of its aging concrete/asbestos water supply pipeline from its bore, which was affecting both water supply availability in the community, and water pressure.

In 2018-19 Power and Water finalised its $4.5 million investment, replacing approximately 22 kilometres of rising main from the borefield and 2 kilometres of 100 mm pvc rising main from the storage tanks back to the community with 150 mm polyethylene main, providing the ability to double the water supply pressure to the Laramba Community.

While undertaking this work a further $1.5 million was invested to upgrade the existing diesel bores to electric to ensure the provision of a local power supply to deliver the increased flow now capable of being supplied through the new rising main.

This work increased the water transmission capacity capable of satisfying peak demand and providing increased security of supply to the Laramba community and Napperby Station.

Upgrading the water supply will also support the Northern Territory Government's Remote Housing Program and in doing so, has provided opportunities for remote economic development and Aboriginal employment.

Ali Curung sewer upgrade

$5.3 million has been spent in Ali Curung, to protect public health and prevent the spread of disease through the effective removal of wastewater from living areas with a new sewerage reticulation system installed.

This project saw the replacement of 5.5 kilometres of asbestos cement sewers and associated maintenance holes across the community and the installation of two new pumping stations and 2.5 kilometres of new sewerage rising main. In doing so, 82 septic tanks and connection of those lots to sewerage were decommissioned.

Removing septic tank systems reduces environmental health risks to the communities and broader public health risks from sewerage overflows. It also aids in future community development and reduces overall sewerage system operations and maintenance costs.

This year's rollout has enabled reductions in demand of approximately 10 per cent in the highest priority water stressed communities

Completion of the Solar Energy Transformation Program (SETuP)

After starting in 2014, just five years later Power and Water has completed the Solar Energy Transformation Program (SETuP) which saw the construction of over 10MW of solar PV systems integrated with traditional diesel plants to create more energy efficient and environmentally friendly hybrid generation systems across 25 remote communities.

This is the largest rollout of solar in the country and it has changed Power and Water's remote community energy supply portfolio and made solar energy an established part of future power station design.

The $59 million program, jointly funded by the Northern Territory Government and the Australian Government through the Australian Renewable Energy Agency (ARENA), is already reducing community reliance on diesel for electricity generation.

The program goal is a 15% reduction in diesel use for targeted communities over the life of the program, adding up to 94 million litres of diesel savings over a 25-year period.

Other benefits of the program include improved air quality, reduced number of heavy vehicles travelling in and out of a community and lower greenhouse gas emissions.

The program has been received positively and community leaders have been actively engaged to contribute to its successful delivery. The program also contributes to the Northern Territory Government's target of 50 per cent renewable energy by 2030.

The program also included a unique project at Nauiyu (Daly River) that combined a 1MW solar array with a 2MWh battery, allowing for 100% of solar energy use during the day with diesel engines operating at night.

Smart water metering – water stimulus project

Power and Water partnered with the Department of Local Government, Housing and Community Development this year on a $2 million project to install digital water meters and upgrade service connections in six priority water-stressed remote communities across the Territory – Ngukurr, Minyerri, Amanbidji, Engawala, Imanpa and Kintore. These six new communities bring the total number of communities with smart meters to 14.

The installations have been targeted at the highest priority water-stressed communities in the Territory, enabling remote meter reading and prompt identification of customer leaks. Smart meters allow for easy tracking of water use in real time with high continuous flows now reported directly to customers to help them reduce water bills, identify leaks, minimise excessive usage, and highlight individual customers for targeted water efficiency engagement.

This year's rollout has enabled reductions in overall demand of approximately 10% in the highest priority water-stressed communities.

FINANCIAL STATEMENTS + EXPLANATORY STATEMENTS

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Indigenous Essential Services Pty Limited

Directors' report
for the year ended 30 June 2019

The Directors present their report together with the financial report of the Indigenous Essential Services Pty Ltd (Company) for the year ended 30 June 2019 and the auditor's report thereon. In order to comply with the provisions of the *Corporations Act 2001,* the Directors report as follows:

Information about the Directors

The Directors of the Company at any time during or since the end of the financial year were as follows:

Mr John Langoulant	Director since 26 June 2018 Appointed Chairman 31 August 2018
Ms Rowena McNally	Director since 26 June 2018
Ms Gaye McMath	Director since 1 September 2018
Mr Ken Clarke	Director since 1 December 2013 Appointed Chairman 28 July 2015 Resigned 31 August 2018
Ms Djuna Pollard	Director since 16 July 2015 Resigned 20 August 2018

Company Secretary

Ms Lucia Ku	Appointed 30 November 2017

Company particulars

The Company is an Australian proprietary company, incorporated and operating in Australia.

Principal Registered Office and Principal Place of Business:	Level 2 Mitchell Centre 55 Mitchell Street Darwin NT 0800

The Company was formed on 26 June 2003 and commenced operations on 1 July 2003.

Controlling entity

The Company's controlling entity is Power and Water Corporation, a government owned corporation pursuant to the *Government Owned Corporations Act 2001.* Power and Water Corporation provides all of the Company's services, including management and accounting services.

Principal activities

The Company's principal activities in the ordinary course of the financial year as a not-for-profit entity were the provision of electricity, water and sewerage services to 72 remote communities and 66 outstations.

The Company's services are provided by Power and Water Corporation staff under a purchaser / provider type agreement with the Department of Housing and Community Development.

Review of operations

During the year the Company reported a deficit of $6.6 million compared to a deficit of $9.3 million for the prior year. This decrease in the reported deficit is primarily attributable to the reduced depreciation charge of $45.2 million compared to the prior year of $59.5 million as a result of the review of the useful lives for assets located on leased land undertaken during the year.

Assets located on leased land
From 2011, the NT Government commenced placing select government infrastructure at various aboriginal communities under lease agreement. The Company previously recognised only a 12-year life on some of these long life assets, reflecting their finance lease contract period of 12 years. Management was informed in the current period that the intent and practice of Government is to extend these short-term leases to 40 years upon survey of the land and Cabinet has approved the terms of these agreements. As such, Management has revised the relevant assets' useful life to align to the lower of their economic life or the finance lease contract term of 40 years. This change in estimated life has resulted in an increase in the value of property, plant and equipment in the current period of $54.7 million.

Review of asset remaining useful life adjustment and subsequent adjustment
During the year, independent valuers were engaged to value the Company's infrastructure network in order to establish the current replacement cost of infrastructure assets. As part of this assessment, the valuers undertook a full review of the standard useful lives for each asset category as well as estimating revised remaining useful lives for some assets. The impact of adjusting the asset lives resulted in an increase in the value of property, plant and equipment in the current year of $6.0 million.

Revenue recognised in 2018-19 of $142.0 million was consistent with the amount recognised in the prior year of $141.8 million. Included in the current year was $99.2 million in grant funding (2018: $98.9 million).

Distillate consumption in 2018-19 increased by $5.5 million compared to the prior primarily due to the average fuel price in the current increasing compared to the prior year.

Other expenses in 2018-19 were $13.3 million compared to $8.3 million in the prior year. The increase of $5.0 million was primarily due to a loss on disposal of assets increasing by $0.8 million to $3.6 million, professional fees increasing by $1.6 million to $1.7 million, contract labour increasing by $0.58 million to $0.64 million and meter reading costs increasing by $0.5 million to $1.2 million.

The Company has early adopted the new revenue standard, AASB 15 Revenue from Contracts with Customers and AASB 1058 Income for Not-For-Profit Entities from 1 July 2018. The adoption of both standards has not had a significant impact on the Company's revenue recognition or these financial statements.

Change in state of affairs

There were no significant changes in the state of affairs of the Company during the financial year.

Subsequent events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature, in the opinion of the Directors of the Company, to significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Future developments

At the date of this report, there are no developments in the operations of the Company that, in the opinion of the Directors, are likely to significantly impact the Company during the 2018-19 financial year.

Environmental regulation

The Company's operations are subject to various environmental regulations under both Commonwealth and Northern Territory legislation. The Company regularly monitors compliance with environmental regulations. The Directors are not aware of any significant breaches during the period covered by this report.

Dividends

As a not-for-profit entity the Company did not declare or pay any dividends during the financial year (2018: nil).

Indigenous Essential Services Pty Limited

Directors' report
for the year ended 30 June 2019

Going concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities, the realisation of assets and the settlement of liabilities in the ordinary course of business. The Company is economically dependent on the Northern Territory Government to fund its future expenditure and the continued support from its parent entity, Power and Water Corporation. Refer to Note 2(b) for further details.

Independence declaration under Section 307C of the *Corporations Act 2001*

The Auditor-General for the Northern Territory's declaration of independence is set out on page 6 of the financial report.

Indemnification and insurance of Directors and Officers

Indemnification

The Northern Territory Government has indemnified the Directors of the Company's controlling entity Power and Water Corporation as well as the Directors of Power and Water Corporation's wholly controlled entity, being the Company, for all liabilities that may arise from their position, except where the liability is incurred or arises out of actual dishonesty on the part of the Director. The indemnity covers the full amount of any such liabilities, including costs and expenses.

Insurance premiums

The following insurance policies were purchased by Power and Water Corporation to cover its Directors and Officers, and those of its subsidiaries. In accordance with normal commercial practices, under the terms of the insurance contracts, the nature of the liabilities insured against and the amount of premiums are confidential.

- *Group Personal Accident Insurance*
- *Professional Indemnity Insurance*
- *Directors' and Officers' Liability*

This report is made in accordance with a resolution of Directors pursuant to s.298(2) of the *Corporations Act 2001*.

John Langoulant
Chairman

Dated at Darwin this 15th day of October 2019

Auditor-General

Auditor's Independence Declaration to the Directors of Indigenous Essential Services Pty Limited

As auditor for the audit of the financial statements of Indigenous Essential Services Pty Limited for the financial year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

Julie Crisp
Auditor-General for the Northern Territory

Darwin, Northern Territory

14 October 2019

Level 12 Northern Territory House 22 Mitchell Street Darwin 0800 Tel: 08 8999 7155

Auditor-General

Independent Auditor's Report to the Board of Directors of Indigenous Essential Services Pty Limited

Page 1 of 3

Opinion

I have audited the financial report of Indigenous Essential Services Pty Limited (the Company), which comprises the statement of financial position as at 30 June 2019, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

In my opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- complying with Australian Accounting Standards and the Corporations Regulations 2001.

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 Company in accordance with auditor independence requirements of the *Corporations Act 2001* and the 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 in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

I confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of the Company, would be in the same terms if given to the Directors as at the time of this auditor's report.

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

Other Information

The Directors are responsible for the other information. The other information obtained at the date of this auditor's report comprises the Directors' Report included in the Company's financial report for the year ended 30 June 2019, but does not include the financial report and my auditor's report thereon.

My opinion on the financial report does not cover the other information and I do not and will not express any form of assurance conclusion thereon.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Level 12 Northern Territory House 22 Mitchell Street Darwin 0800 Tel: 08 8999 7155

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Company'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 Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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 the Australian Auditing Standards, I exercise professional judgement 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 Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- conclude on the appropriateness of the Directors' 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 Company'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 however future events or conditions may cause the Company to cease to continue as a going concern.

Level 12 Northern Territory House 22 Mitchell Street Darwin 0800 Tel: 08 8999 7155

Auditor-General

- 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 those charged with governance 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.

Julie Crisp
Auditor-General for the Northern Territory

Darwin, Northern Territory

15 October 2019

Level 12 Northern Territory House 22 Mitchell Street Darwin 0800 Tel: 08 8999 7155

Indigenous Essential Services Pty Limited

Directors' declaration
for the year ended 30 June 2019

The Directors declare that:

(a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001* , including:

(i) giving a true and fair view of the financial position of the Company as at 30 June 2019 and its performance for the year then ended; and

(ii) complying with Australian Accounting Standards.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the *Corporations Act 2001*.

On behalf of the Directors

John Langoulant
Chairman

Dated at Darwin this 15th day of October 2019

Indigenous Essential Services Pty Limited

**Statement of profit or loss and other comprehensive income
for the year ended 30 June 2019**

	Note	2019 $	2018 $
Revenue from contracts with customers	5 (a)	42,411,961	-
Revenue from sale of electricity		-	32,150,340
Revenue from sale of water		-	5,302,203
Revenue from rendering of services		-	3,079,432
Government grants	5 (b)	99,173,903	-
Government grant - recurrent		-	49,347,265
Government grant - capital		-	49,520,628
Interest revenue	5 (c)	458,360	558,536
Other income		-	1,802,790
Total revenue and income		142,044,224	141,761,194
Raw materials and consumables used	6 (a)	6,430,250	6,357,240
Electricity		6,975,175	6,770,829
Distillate consumption		24,158,007	18,665,372
Direct personnel costs	6 (b)	16,949,935	18,484,672
Repairs and maintenance		17,313,158	15,714,452
Corporate allocation costs	6 (c)	5,568,300	6,153,996
Agents - community contract fees		11,700,401	10,414,123
Other expenses	6 (d)	13,286,884	8,292,112
Depreciation and amortisation expenses	10	45,242,194	59,478,890
Finance costs	6 (e)	970,771	772,472
Total expenses		148,595,075	151,104,158
Deficit for the year		**(6,550,851)**	**(9,342,964)**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Net surplus on revaluation of assets	17	6,032,900	-
Other comprehensive deficit for the year		6,032,900	-
Total comprehensive deficit for the year		**(517,951)**	**(9,342,964)**

The Statement of profit or loss and other comprehensive income is to be read in conjunction with the Notes to the financial statements.

Indigenous Essential Services Pty Limited

Statement of financial position
as at 30 June 2019

	Note	2019 $	2018 $
ASSETS			
Current assets			
Cash and cash equivalents	7 (a)	83,540,675	44,850,850
Trade and other receivables	8	226,949	269,802
Inventories	9	6,210,703	6,379,217
Intangible assets		77,868	57,918
Other assets		235,699	249,929
Total current assets		90,291,894	51,807,716
Non-current assets			
Property, plant and equipment	10	745,198,321	730,818,568
Total non-current assets		745,198,321	730,818,568
Total assets		835,490,215	782,626,284
LIABILITIES			
Current liabilities			
Trade and other payables	11	27,372,380	23,291,999
Unearned revenue	12	72,177,640	42,559,579
Finance lease liabilities	13	1,070,032	1,045,152
Total current liabilities		100,620,052	66,896,730
Non-current liabilities			
Finance lease liabilities	13	13,643,474	7,984,914
Borrowings	14	25,000,000	11,000,000
Total non-current liabilities		38,643,474	18,984,914
Total liabilities		139,263,526	85,881,644
Net assets		696,226,689	696,744,640
EQUITY			
Contributed equity	15	10	10
Retained earnings	16	212,273,121	215,235,068
Asset revaluation reserve	17	483,953,558	481,509,562
Total equity		696,226,689	696,744,640

The Statement of financial position is to be read in conjunction with the Notes to the financial statements.

Indigenous Essential Services Pty Limited

Statement of changes in equity
as at 30 June 2019

	Asset revaluation reserve $	Retained earnings $	Contributed equity $	Total $
30 June 2018				
Balance at 1 July 2017	484,627,454	221,460,140	10	706,087,604
Deficit for the year	-	(9,342,964)	-	(9,342,964)
Assets retired	(3,117,892)	3,117,892	-	-
Balance at 30 June 2018	**481,509,562**	**215,235,068**	**10**	**696,744,640**
30 June 2019				
Balance at 1 July 2018	481,509,562	215,235,068	10	696,744,640
Deficit for the year	-	(6,550,851)	-	(6,550,851)
Asset revaluation	6,032,900	-	-	6,032,900
Assets retired	(3,588,904)	3,588,904	-	-
Balance at 30 June 2019	**483,953,558**	**212,273,121**	**10**	**696,226,689**

The Statement of changes in equity is to be read in conjunction with the Notes to the financial statements.

Indigenous Essential Services Pty Limited

Statement of cash flows
for the year ended 30 June 2019

	Note	2019 $	2018 $
Cash flows from operating activities			
Receipts from customers		42,368,728	51,101,604
Receipt of government grants - operational		51,571,330	58,353,685
Payments to suppliers		(91,191,503)	(99,277,640)
Interest received	5 (c)	458,960	545,535
Interest paid		(949,935)	(771,600)
Net cash provided by operating activities	7 (b)	2,257,580	9,951,584
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		43,450	86,853
Receipt from government grants - capital	12	75,543,846	40,731,655
Purchase of property, plant and equipment		(52,156,477)	(53,607,489)
Net cash generated by/(used in) investing activities		23,430,819	(12,788,981)
Cash flows used in financing activities			
Proceeds from loan advance from parent entity		-	-
Proceeds from loan from parent entity	14 (a)	14,000,000	-
Repayment of finance leases	14 (a)	(998,574)	(995,796)
Repayment of loan advance from parent entity		-	(966,651)
Net cash generated by/(used in) financing activities		13,001,426	(1,962,447)
Net (decrease)/increase in cash and cash equivalents		38,689,825	(4,799,844)
Cash and cash equivalents at beginning of year		44,850,850	49,650,694
Cash and cash equivalents at end of year	7 (a)	83,540,675	44,850,850

The Statement of cash flows is to be read in conjunction with the Notes to the financial statements.

Indigenous Essential Services Pty Limited

**Notes to the financial statements
for the year ended 30 June 2019**

1 General information

Indigenous Essential Services Pty Ltd (the Company) is a not-for-profit proprietary company operating and domiciled in Australia.

2 Significant accounting policies

The significant accounting policies which have been adopted in the preparation of this report are:

(a) Statement of compliance

These financial statements are general purpose financial statements, which have been prepared in accordance with Australian Accounting Standards and Interpretations, the *Corporations Act 2001* and comply with any other requirements of the law.

The Company is a not-for-profit entity for the purpose of financial reporting.

The financial statements were authorised for issue by the Directors on 15 October 2019.

(b) Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain classes of property, plant and equipment and financial instruments, that are measured at revalued amounts or fair value at the end of each reporting date as explained in the accounting policies below.

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted.

The fair value of the infrastructure assets was determined using the current replacement cost approach. This reflects the cost to a market participant that would be required to replace the current service capacity of an asset. It represents the current cost of the asset less depreciation and any adjustments that allow a lower cost solution for achieving the current service standard. The fair value of non-specialised plant and equipment was determined using historical cost as these are minor asset items such as office equipment with short lives (3-5 years.)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

(i) Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

(ii) Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

(iii) Level 3 inputs are unobservable inputs for the asset or liability.

Going concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The Company has achieved a net deficit for the year ended 30 June 2019 of $6.6 million compared to a net deficit of $9.3 million for the year ended 30 June 2018. The Company's net working capital at 30 June 2019 and 2018 were deficits of $10.3 million and $15.1 million respectively. Current liabilities, excluding unearned revenue, contract and finance lease liabilities at 30 June 2019 and 2018 include $27.4 million and $23.3 million of trade and other payables respectively.

2 Significant accounting policies (Cont'd)

Assets are fundamental to the essential services provided by the Company and as such the Company's performance is significantly impacted by its capital delivery program and the associated depreciation on assets. Accordingly, the Company is economically dependent on the Northern Territory Government to fund its future capital expenditure as well as a significant portion of its operating expenses. The Company's cash balance as at 30 June 2019 increased by $38.7 million to $83.5 million due primarily to the receipt of a loan from the Company's parent entity Power and Water Corporation of $14.0 million and capital grants received exceeding payments for property, plant and equipment by $23.7 million.

To ensure that the Company is able to pay its debts as and when they fall due, a letter of financial support dated 28 October 2015 was received from the parent entity, Power and Water Corporation, which guarantees support should the Company not be able to pay its debts as and when they fall due and is valid for the period from 28 October 2015 to such time as the Company ceases to be a wholly owned subsidiary of Power and Water Corporation.

Accordingly, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis.

(c) Revenue recognition

The Company recognises revenue from three major sources being the provision of electricity, water and sewerage services to 72 remote communities and 66 outstations. The Company also receives operational recurrent grant funding from the Northern Territory Government to supplement the revenue that the Company generates through the sales of electricity, water and sewerage services to remote communities.

In addition to the major sources of revenue discussed above, the Company also recognises revenue from a number of other minor sources including capital contributions received from customers towards the construction or acquisition of new or upgrades to existing infrastructure assets owned by the Company.

Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when it transfers control of a product or service to a customer.

Sale of water, electricity and sewerage services

The Company sells water and sewerage services either as an individual service offering or as a bundled package to a large number of customers. Each contract entered into may consist of one, two or three separate performance obligations because the promises to transfer water, sewerage services and/or electricity are distinct and separately identifiable goods and services that are not dependent on each other for complete satisfaction of the Company's performance obligations under the contract.

Each contract entered with a customer is a variable contract because the volume of water and/or electricity to be transferred to the customer over the duration of the contract is not specified; however for the provision of sewerage services the transaction price is fixed based on the number of installed sanitary fittings. The transaction price for water, sewerage services and electricity is subject to an annual price adjustment or escalation as determined by the regulators.

Revenue from the sale of water and electricity is recognised over time as the Company transfers the electricity and water to the customer who simultaneously receives and consumes the benefits provided by the Company. The amount of revenue recognised is determined using an input method to measure progress towards complete satisfaction of each of the performance obligations. A receivable is recognised (in the form of an unbilled revenue estimate) as the Company transfers the water and/or electricity to the customer. Customers are generally billed on a quarterly basis with consideration payable when invoiced, except customers who have pre-paid meters installed. These customers access electricity through the purchase of tokens, which are sold by contractors.

Indigenous Essential Services Pty Limited

Notes to the financial statements
for the year ended 30 June 2019

2 Significant accounting policies (Cont'd)

Revenue from the provision of sewerage services is recognised over time based on the stage of completion of the contract, being the total number of days that have lapsed at the end of the reporting period. Customers are billed quarterly in advance based on the number of sanitary fittings and recognised as a contract liability until the service is rendered. Consideration is payable when invoiced.

Operational grant funding (Recurrent grants)

The Company receives operational grant funding from the Northern Territory Government to supplement the revenue generated through sales of electricity, water and sewerage services to the remote communities. The amount of funding provided is essentially the shortfall of the total costs incurred (excluding depreciation, finance lease costs and generation costs incurred from purchasing energy from Territory Generation) less any revenue received from the sale of water supply, electricity and sewerage services.

The contract is a variable contract because the volume of water and/or electricity to be transferred to the beneficiaries of the contract is unknown at the date of the initial contract; however for sewerage services the transaction price is fixed based on the number of installed sanitary fittings. The transaction price for water, sewerage services and electricity is subject to an annual price adjustment or escalation as determined by the regulators and agreed by the Company and the customer.

Consideration is received in advance by the customer and is recognised as a contract liability with revenue recognised over time as the Company satisfies its performance obligations and transfers the electricity, water and sewerage services to the beneficiaries of the contract who simultaneously received and use/consume the benefits of the goods and services provided.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

(d) Interest revenue

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is recognised as it accrues.

2 Significant accounting policies (Cont'd)

(e) Government grants - capital

The Company receives capital grant funding from both the Northern Territory and Commonwealth Governments. The Company receives consideration (usually in the form of cash) to construct or acquire non-financial assets (usually infrastructure assets) for its own use for the principle purpose of furthering the Company's objectives. The contract does not establish rights and obligations for the transfer of the underlying asset to the transferor or other parties (i.e. beneficiaries).

Capital grant accounting only applies when the non-financial asset to be constructed or acquired by the entity is permitted to be recognised by another Standard. This means that for capital grants relating to a recognisable asset, a liability would need to be recognised and income would be subsequently recognised either at a point in time (commonly for acquisition grants) or over time (commonly for construction grants).

The Company has adopted a single method of measuring progress, i.e. input based method for each obligation satisfied over time which it has applied to all similar obligations and in similar circumstances. At the end of each reporting period, the Company remeasures its progress towards complete satisfaction of each obligation that is satisfied over time, and recognises income over time on that basis.

(f) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of the GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority (through Power and Water Corporation) is included as a current asset or liability in the statement of financial position. From 1 July 2003, the Company has been grouped with Power and Water Corporation for GST purposes. Power and Water Corporation is the representative member and lodges the business activity statement on behalf of the Group.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority (through Power and Water Corporation) are classified as operating cash flows.

(f) Borrowing costs

All borrowing costs are recognised as an expense in the period in which they are incurred.

(g) Income tax

The Company is exempt from income tax as it was removed from the National Tax Equivalents Regime due to it being a not-for-profit entity effective from 1 July 2003.

Additionally, the Company is not subject to taxation as it is a not-for-profit entity and therefore exempt under section 24 of the *Income Tax Assessment Act 1936* .

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with financial institutions.

(i) Financial instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Indigenous Essential Services Pty Limited

Notes to the financial statements
for the year ended 30 June 2019

2 Significant accounting policies (Cont'd)

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

(i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
(ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

(i) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
(ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

For the years ended 30 June 2018 and 2019, the Company did not have any financial assets at FVTPL or FVTOCI.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected useful life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

2 Significant accounting policies (Cont'd)

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "Interest revenue" line item (note 5(c)).

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost, lease receivables, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company recognises lifetime expected credit losses (ECL) for trade receivables, contract assets and lease receivables. The ECL on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtor, general economic conditions and an assessment of both current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company’s debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company’s core operations.

Indigenous Essential Services Pty Limited

Notes to the financial statements
for the year ended 30 June 2019

2 Significant accounting policies (Cont'd)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

(i) An actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
(ii) Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
(iii) Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;
(iv) An actual or expected significant deterioration in the operating results of the debtor;
(v) Significant increases in credit risk on other financial instruments of the same debtor;
(vi) An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor’s ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) The financial instrument has a low risk of default,
(ii) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
(iii) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a financial asset to have low credit risk when the asset has external credit rating of ‘investment grade’ in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of ‘performing’. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

(i) When there is a breach of financial covenants by the debtor; or
(ii) Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

2 Significant accounting policies (Cont'd)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default or past due event (see (ii) above);
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses are consistent with the cash flows used in measuring the lease receivable in accordance with AASB 117 Leases.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses are consistent with the cash flows used in measuring the lease receivable in accordance with AASB 117 Leases.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Indigenous Essential Services Pty Limited

Notes to the financial statements
for the year ended 30 June 2019

2 Significant accounting policies (Cont'd)

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, are measured in accordance with the specific accounting policies set out below.

(i) Financial liabilities measured subsequently to amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

(ii) Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2 Significant accounting policies (Cont'd)

When the Company exchanges with the existing lender one debt instrument into another one with substantially different terms, such an exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value. Costs are assigned to inventory based on the weighted-average purchase cost of bringing each item to its present location and condition. Net realisable value represents the amounts expected to be realised from the use of the inventory.

(k) Infrastructure, plant and equipment

Freehold land, buildings, plant and infrastructure assets held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Freehold land, buildings, plant and infrastructure are originally stated at cost less accumulated depreciation (apart from freehold land as this is not depreciated) and any accumulated impairment losses. Such cost includes, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the entity. Ongoing costs of repairs and maintenance are expensed as incurred.

Any revaluation increase arising on the revaluation of such land, buildings, plant and infrastructure assets is recognised in other comprehensive income and accumulated within equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land, buildings, plant and infrastructure assets is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Non-specialised assets such as minor items of office equipment with short useful lives are measured at depreciated historical cost.

Where an asset is acquired at no cost or for nominal value, the cost is recorded at fair value as at the date of acquisition.

Subsequent to initial recognition, infrastructure and plant and equipment assets are held at fair value and are revalued in accordance with AASB 116 Property, Plant and Equipment and AASB 13 Fair Value Measurement.

Indigenous Essential Services Pty Limited

Notes to the financial statements
for the year ended 30 June 2019

2 Significant accounting policies (Cont'd)

Infrastructure, plant and equipment is measured at the highest and best use by market participants that is physically possible, legally permissible and financially feasible. The highest and best use must be available at a period that is not remote and takes into account the characteristics of the asset being measured, including any socio-political restrictions imposed by government. In most cases, after taking into account these considerations, the highest and best use is the existing use. In limited circumstances, the highest and best use may be a feasible alternative use, where there are no restrictions on use or where there is a feasible higher restricted alternative use.

Fair value of infrastructure, plant and equipment is based on the cost approach (i.e. current replacement cost), reflecting the amount that would be required currently to replace the service capacity of an asset, adjusted for obsolescence. The replacement cost is the minimum that it would cost, in the normal course of business, to replace the existing asset with a technologically modern equivalent new asset with the same economic benefits, allowing for any differences in the quantity and quality of output and in operating costs.

Non-specialised assets with short useful lives (such as minor office equipment) are measured at depreciated historical cost, as a surrogate for fair value. Work in progress is measured at cost.

Each class of infrastructure, plant and equipment held at fair value is to be subject to revaluation at least every five years or with sufficient regularity to ensure that the carrying amount of each asset does not differ materially from its fair value at reporting date.

Revaluation increments are credited directly to the revaluation surplus, except that, to the extent that an increment reverses a revaluation decrement for that class of asset previously recognised as a loss in the operating result, the increment is recognised as a gain.

Revaluation decrements are recognised immediately as losses, except that they are debited directly to the revaluation surplus to the extent that a credit exists in the revaluation surplus in respect of the same class of asset.

Depreciation has been calculated based on the estimated useful lives used for each class of asset as follows:

Infrastructure, plant and equipment	2019	2018
Infrastructure	8 to 60 years	8 to 60 years
Plant and equipment	3 to 35 years	3 to 35 years

Depreciation and amortisation of assets related to finance leases have been calculated based on the estimated useful lives used for each class of asset (being the shorter of the lease term and their useful lives) as follows:

Infrastructure, plant and equipment situated on finance leased land	2019	2018
Infrastructure	8 to 40 years	8 to 40 years
Plant and equipment	1 to 40 years	1 to 40 years

Depreciation on revalued infrastructure, plant and equipment assets is recognised in profit or loss. On the subsequent disposal, sale or retirement of a revalued infrastructure, plant and equipment asset, the attributable revaluation surplus remaining in the asset revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and capital works in progress) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

2 Significant accounting policies (Cont'd)

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets, and are separately depreciated.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are recognised in the profit or loss.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from the continued use of the asset. Any gain or loss arising on derecognition of the asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(l) Intangible assets

Intangible assets acquired separately

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Renewable Energy Certificates

The solar setup project is being undertaken by the Company as an initiative for cheaper electricity in remote communities and savings in distillate. The Renewable Energy Certificate Scheme operates under Federal Government legislation which requires energy retailers to source a target proportion of their electricity purchases from renewable sources. The Company has finalised Phase one of the solar setup project and is generating Green Certificates and will be able to sell the Green Certificates generated to electricity retailers. Green Certificates held are of the nature of intangible assets and are disclosed in the statement of financial position as current assets.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no further future economic benefits are expected from the continued use of the asset or its disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

The amortisation of useful lives used for each class of intangibles are as follows:

	2019	2018
Intangible assets	2 to 4 years	2 to 4 years

(m) Impairment of tangible and intangible assets

At the end of each reporting period the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent basis can be identified.

Indigenous Essential Services Pty Limited

**Notes to the financial statements
for the year ended 30 June 2019**

2 Significant accounting policies (Cont'd)

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(n) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

<u>The Company as lessee</u>

Finance leases are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of financial position as a finance lease obligation. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability and recognised as a reduction of rental expense on a straight line basis.

3 Application of new and revised Accounting Standards

(a) Amendments to Accounting Standards and new Interpretations that are mandatorily effective for the current year

Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these financial statements.

The Company has early adopted AASB 15 Revenue from Contracts with Customers and AASB 1058 Income for Not-For-Profit Entities with a date of initial application of 1 July 2018. The Company has also applied AASB 9 for the first time. As a result the Company has changed its accounting policy for revenue recognition as detailed below.

AASB 15 Revenue from contracts with customers

AASB 15 supersedes AASB 118 revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

AASB 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company has early adopted AASB 15 using the cumulative-effect method of adoption with the date of initial application of 1 July 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard to all contracts as at 1 July 2018.

The cumulative effect of initially applying AASB 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under AASB 111, AASB 118 and related interpretations.

The effect of adopting AASB 15 as at 1 July 2018 has not had a significant impact on the Company’s revenue recognition from the sale of electricity, water and sewerage services.

Set out below, are the amounts by which each financial statement line item is affected as at and for the year ended 30 June 2019 as a result of the adoption of AASB 15. The adoption of AASB 15 did not have a material impact on OCI or the Company's operating, investing and financing cash flows. The first column shows amounts prepared under AASB 15 and the second column shows what the amounts would have been had AASB 15 not been adopted:

Statement of profit or loss for the year ended 30 June 2019

	Reference	AASB 15	Previous AASB	Increase / (decrease)
Revenue from contracts with customers	(a), (b), (c)	42,411,961	-	42,411,961
Revenue from sale of electricity	(a)	-	32,045,853	(32,045,853)
Revenue from sale of water	(a)	-	5,546,350	(5,546,350)
Revenue from rendering of services	(b)	-	3,070,194	(3,070,194)
Other income	(c)	-	1,749,564	(1,749,564)
Total		42,411,961	42,411,961	-
Deficit for the year		(6,550,851)	(6,550,851)	-

Indigenous Essential Services Pty Limited

**Notes to the financial statements
for the year ended 30 June 2019**

3 Application of new and revised Accounting Standards (Cont'd)

The nature of the adjustments as at 1 July 2018 and the reasons for the significant changes in the statement of profit or loss for the year ended 30 June 2019 are described below:

(a) Sale of electricity and water

The Company has concluded that the adoption of AASB 15 has not had a significant impact on the accounting and revenue recognition from the sale of electricity and water. However, Revenue from sale of electricity ($32.0 million) and Revenue from sale of water ($5.5 million) have been reclassified as Revenue from contracts with customers for the year ended 30 June 2019.

(b) Sale from the provision of sewerage services

The Company has concluded that the adoption of AASB 15 has not had a significant impact on the accounting and revenue recognition from the provision of sewerage services. However, Revenue from rendering of services ($3.1 million) has been reclassified to Revenue from contracts with customers for the year ended 30 June 2019.

(c) Capital contributions from customers (included in other income on the face of the financial statements)

Before the adoption of AASB 15, all capital contributions received from customers (both government and non-government) towards the acquisition or construction of new or upgrades to existing assets were recognised as unearned revenue upon receipt and transferred to revenue as the asset is constructed.

With the adoption of AASB 15 (and AASB 1058), capital contributions received that are primarily for the purpose of fulfilling the Company's own objectives are accounted for under AASB 1058, otherwise they are accounted for under AASB 15.

Under AASB 15, the amount and timing of revenue recognition from capital contributions will be dependent on whether the Company has any further promises for related goods or services to fulfil under the contract with the customer.

For those contracts that include further promises of goods or services to be supplied such as an ongoing supply of electricity, water or sewerage services that relate to the capital contribution, then the promises are bundled together to form one single performance obligation satisfied over time as the Company transfers control of the bundled goods or services to the customer who simultaneously receives and consumes the benefits from those bundled goods or services.

For those contracts for capital contributions that do not include any further promises of goods or services to be transferred, revenue is recognised at a point in time when construction of the asset is completed and is ready for use.

The Company has concluded that the adoption of AASB 15 on these contracts has not had a significant impact on the accounting and revenue recognition from capital contributions on the initial date of application and no adjustments are required to retained earnings as at 1 July 2018.

As at 30 June 2019 amounts that relate to contract liabilities of $0.63 million continue to be recognised in Unearned revenue (current) however are grouped and classified as "Contract liabilities arising from contracts with customers".

AASB 1058 – Income for not-for-profit entities

AASB 1058 and AASB 2016-8 will defer income recognition in some circumstances for not-for-profit entities, particularly where there is a performance obligation or any other liability. In addition, certain components in an arrangement, such as donations, may be separated from other types of income and recognised immediately.

3 Application of new and revised Accounting Standards (Cont'd)

The Standard also expands the circumstances in which not-for-profit entities are required to recognise income for goods and services received for consideration that is significantly less than the fair value of the asset principally to enable the entity to further its objectives (discounted goods and services).

Consequently AASB 1004 Contributions is also amended, with its scope effectively limited to address issues specific to government entities and contributions by owners in a public sector entity context.

Re-current operational grant revenue

Re-current operational grant funding is provided for the purpose of providing essential services such electricity, water and sewerage services to the nominated towns and communities specified in the funding agreement and is initially recognised as a liability upon receipt. Under the previous accounting standard, revenue was currently recognised as the Company provided electricity, water and sewerage services to the nominated towns and communities provided that the revenue could be measured reliably, the recovery of the consideration was probable and there was no continuing management involvement with the electricity, water or sewerage services supplied to the beneficiaries.

The Company has concluded that the application of AASB 1058 has not resulted in any significant changes to the amount or timing of revenue recognition as at the date of initial application or as at and for the year ended 30 June 2019., i.e. revenue continues to be recognised over time as the Company satisfies its performance obligations and continues to be measured based on the costs of providing those essential services to the beneficiaries.

Capital grant revenue

The company receives capital grant funding where the primary condition attached to the funding is for the company to purchase, construct or otherwise acquire non-current assets. Prior to AASB 1058, the Company recognised capital grants received initially as a liability upon receipt and recognised revenue at the point in time that the company either purchased or otherwise acquired a non-current asset or over time as the non-current asset was being constructed with the amount of revenue recognised equal to the related costs incurred in constructing the non-current asset.

The Company has concluded that the application of AASB 1058 has not resulted in any significant impact on the amount or timing of revenue recognition as at the date of initial application or as at and for the year ended 30 June 2019.

AASB 9 Financial Instruments

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

The Corporation applied AASB 9 prospectively, with an initial application date of 1 July 2018. The Company has not restated the comparative information, which continues to be reported under AASB 139. The Company has concluded that the adoption of AASB 9 has not had a significant impact on the Company's financial statements at the date of initial application as at 1 July 2018 or as at and for the year ended 30 June 2019.

Indigenous Essential Services Pty Limited

Notes to the financial statements
for the year ended 30 June 2019

3 Application of new and revised Accounting Standards (Cont'd)

At the date of authorisation of the financial statements, the Standards and Interpretations that were issued but not yet effective are listed below. The Company does not intend to adopt any of theses pronouncements before their effective dates.

Standard or Interpretation	*Effective annual reporting periods beginning on or after*	*Expected to be initially applied in the financial year ending*
AASB 16 Leases	1 January 2019	30 June 2020
Amendments to AASB 9 'Financial Instruments' - Prepayment Features with Negative Compensation	1 January 2019	30 June 2020
Amendments to AASB 128 - Long-term Interests in Associates and Joint Ventures	1 January 2019	30 June 2020
Annual Improvements to AASB Standards 2015-2017 Cycle - Amendments to AASB 3 Business Combinations, AASB 11 Joint Arrangements, AASB 112 Income Taxes and AASB 123 Borrowing Costs	1 January 2019	30 June 2020
Amendments to AASB 119 Employee Benefits - Plan Amendment, Curtailment or Settlement	1 January 2019	30 June 2020
AASB Interpretation 23 - Uncertainty over Income Tax Treatments	1 January 2019	30 June 2020
AASB 10 Consolidated Financial Statements and AASB 128 (amendments) - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely	
AASB 17 Insurance Contracts	1 January 2021	30 June 2021

AASB 16 Leases

General impact of application of AASB 16 Leases

AASB 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. AASB 16 will supersede the current lease guidance including AASB 117 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of AASB 16 Leases for the Company will be 1 July 2019.

The Company has chosen the cumulative-effect method for application of AASB 16 in accordance with AASB 16:C5(a). Consequently, the comparative financial statements will not be restated.

In contracts to lessee accounting, AASB 16 substantially carries forward the lessor accounting requirements in AASB 117.

3 Application of new and revised Accounting Standards (Cont'd)

Impact of the new definition of a lease

The Company will make use of the practical expedient available on transition to AASB 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with AASB 117 and Interpretation 4 will continue to apply to those leases entered into or modified before 1 July 2019.

The change in definition of a lease mainly relates to the concept of control. AASB 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Company will apply the definition of a lease and related guidance set out in AASB 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of AASB 16, the Company has carried out an implementation project. The project has shown that the new definition in AASB 16 will not change significantly the scope of contracts that meet the definition of a lease for the AASB 16.

Impact on Lessee Accounting

Operating leases

AASB 16 will change how the Company accounts for leases previously classified as operating leases under AASB 117, which were off-balance sheet.

On initial application of AASB 16, for all leases (except as noted below), the Company will:

(a) Recognise right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;

(b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;

(c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Under AASB 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Company will opt to recognise a lease expense on a straight-line basis as permitted by AASB 16.

As at 30 June 2019, the Company has non-cancellable operating lease commitments of $0.65 million, see Note 19.

A preliminary assessment indicates that all of these arrangements relate to short-term leases and leases of low-value assets, and hence no impact is expected on the financial statements of the Company.

Finance leases

The main difference between AASB 16 and AASB 117 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. AASB 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by AASB 117. On initial application the Company will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Indigenous Essential Services Pty Limited

Notes to the financial statements
for the year ended 30 June 2019

3 Application of new and revised Accounting Standards (Cont'd)

Based on an analysis of the Company's finance leases as at 30 June 2019 on the basis of the facts and circumstances that exist at that date, the preliminary assessment indicates that this will have no impact on the financial statements of the Company.

Determining whether an arrangement not in the legal form of a lease contains a lease

The Company undertook a detailed review of its arrangements that are not in the legal form of a lease to identify those that may contain a lease under AASB 16, for which it concluded that there were no non-cancellable arrangements that meets the definition of a lease under AASB 16.

4 Critical accounting judgements and key sources of estimation uncertainty

In relation to the Company's existing finance leases no significant impact is expected as an asset and related finance lease liability are already recognised for these lease arrangements in the financial statements.

In the application of the Company's accounting policies, the Directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Refer below for a discussion of critical accounting judgments and key sources of estimation uncertainty.

(a) Critical judgements in applying accounting policies

There were no critical judgements that the directors of the Company have made in the process of applying the Company's accounting policies that have a significant effect on the amounts recognised in the financial statements.

(b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Useful lives of infrastructure, plant and equipment

As described in Note 2 (k), the Company reviews the estimated useful lives of infrastructure, plant and equipment at the end of each reporting period and estimated useful lives are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

During 2018-19, an extensive exercise to review the useful lives of infrastructure, plant and equipment occurred. The financial effect of any changes, if any, to the useful lives of infrastructure, plant and equipment has been reflected in the financial statements for the current year.

4 Critical accounting judgements and key sources of estimation uncertainty (Cont'd)

Fair value measurements and valuation processes

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

• Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

• Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); or

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Unbilled revenue

As per accounting standard AASB 15 'Revenue from Contracts with Customers', revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Therefore the company estimates the amount of electricity and water consumed at reporting date but that is yet to be billed.

Indigenous Essential Services Pty Limited

Notes to the financial statements
for the year ended 30 June 2019

		June 2019 $	June 2018 $
5	**Revenue**		
5 (a)	**Revenue from contracts with customers**		
	Revenue from contracts with customers	42,411,961	-
		42,411,961	**-**

(a) Disaggregation of revenue from contracts with customers

The entity derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

	Electricity $	Water $	Sewerage $	Other revenue $	Total $
Revenue from external customers	32,045,853	5,546,350	3,070,194	1,749,564	42,411,961
Timing of revenue recognition					
- Over time	32,045,853	5,546,350	3,070,194	-	40,662,397
- At a point in time	-	-	-	1,749,564	1,749,564
	32,045,853	5,546,350	3,070,194	1,749,564	42,411,961

5 (a) Revenue from contracts with customers (Cont'd)

	June 2019 $	1 July 2018 $
Receivables*	180,199	222,452
Contract liabilities (current)	72,177,640	42,559,579

** Receivables related to contracts with customers under AASB 15 which are included in 'Trade and other receivables'*

The receivables primarily relate to the Company's rights to consideration for work completed but not billed at the reporting date on electricity and water contracts.

The contract liabilities relate primarily to the advance consideration received from customers for:

(i) Waste removal (sewerage) contracts for which revenue is recognised over time as the Company satisfies its performance obligations

(ii) Capital contributions for the purpose of constructing infrastructure assets that will be owned by the Company for which the revenue will be recognised at a point in time on completion of the construction of the infrastructure asset and connected to the network system

(iii) Capital contributions (recoverable works) for the purpose of constructing infrastructure assets that will be owned by the customer, which revenue is recognised over time as the asset is being constructed (as the asset is constructed on the customers premises).

Significant changes in the contract assets and the contract liabilities balances during the period as follows:

	Contract assets $	Contract liabilities $
Revenue recognised that was included in the contract liability balance at the beginning of the period	-	25,115
Increases due to cash received, excluding amounts recognised as revenue during the period	-	540,378

** The Company recognised the cumulative effect of initially applying AASB 15 as an adjustment to opening balance at 1 July 2018*

Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date:

	June 2019 $	1 July 2018 $
Capital contributions	631,112	99,164

For sales of electricity, water and sewerage services, the Company is unable to disclose information relating to unsatisfied (or partially unsatisfied) performance obligations as at the reporting date because all contracts are for an indefinite period and/or the volume of goods and/or services to be provided were unknown at the initial date of the contract and as at the end of the reporting period.

The Company applies the practical expedient in paragraph 121 of AASB 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Indigenous Essential Services Pty Limited

**Notes to the financial statements
for the year ended 30 June 2019**

		2019 $	2018 $
5 (b)	**Government grants and other contributions**		
	Capital grant	42,405,317	-
	Recurrent grant	55,894,276	-
	Other capital contributions	874,310	-
		99,173,903	-
5 (c)	**Interest revenue**		
	Interest earned on bank deposits	458,360	558,536
		458,360	558,536
6	**Expenses**		
6 (a)	**Raw materials and consumables used**		
	Gas purchased from parent entity	2,456,390	2,374,787
	Network charges from parent entity	1,413,511	1,473,939
	Generation costs for Minor Centres	418,081	506,740
	Other materials and consumables	2,142,268	2,001,774
		6,430,250	6,357,240
6 (b)	**Direct personnel costs**		
		16,949,935	18,484,672

The direct personnel costs relate to staff who are employed by the Company's parent entity, Power and Water Corporation. These costs are recharged to the Company.

		2019 $	2018 $
6 (c)	**Corporate allocation costs**		
		5,568,300	6,153,996

Corporate allocation costs represent costs incurred by the Company's parent entity on the Company's behalf which would have otherwise not been incurred by the Company's parent entity and which are oncharged to the Company as approved by the Boards of both the parent entity and the Company.

		2019 $	2018 $
6 (d)	**Other expenses**		
	External service level arrangements	2,376,422	1,779,632
	Net loss on disposal of property, plant and equipment	3,589,113	2,736,817
	Freight	1,134,509	1,144,103
	Motor vehicle expenses	994,912	986,032
	IT and communication	1,458,077	1,427,769
	Travel and accommodation	756,395	715,376
	Bad and doubtful debts expense	-	(703,692)
	Other	2,977,456	206,075
		13,286,884	8,292,112
6 (e)	**Finance costs**		
	Interest on loans from parent entity	656,763	500,936
	Interest on finance leases	314,008	271,536
		970,771	772,472

	2019 $	2018 $
7 Cash and cash equivalents		
(a) Reconciliation of cash		
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash assets	83,540,675	44,850,850

The weighted average interest rate on cash assets for 2019 is 1.5% (2018: 1.5%)

(b) Reconciliation of the deficit for the year to net cash flows from operations

	2019 $	2018 $
Deficit for the year	(6,550,851)	(9,342,964)
Adjustments for:		
Depreciation and amortisation expenses	45,242,194	59,478,890
Net loss on disposal of property, plant and equipment	3,589,113	2,736,817
Government grant - capital	(42,405,317)	(49,520,628)
Changes in assets and liabilities		
Decrease/(increase) in Inventories	168,514	(1,353,389)
Decrease in trade and other receivables	42,853	201,425
(Increase)/decrease in other assets	14,230	(11,440)
(Increase)/decrease in intangible assets	(19,950)	(57,918)
Increase/(decrease) in trade and other payables	4,080,382	325,317
(Decrease)/increase in unearned revenue	(1,903,588)	7,495,474
Net cash (used in)/provided by operating activities	2,257,580	9,951,584

8 Trade and other receivables

	2019 $	2018 $
Current		
Receivables	125,034	146,231
Less: provision for doubtful debts	-	-
	125,034	146,231
Accrued revenue other	55,165	76,221
Interest receivable	46,750	47,350
	226,949	269,802

Receivables at 30 June 2019 are non-interest bearing. The Company measures the loss allowance for receivables at an amount equal to lifetime estimated credit losses (ECL). The ECL on receivables are estimates using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Indigenous Essential Services Pty Limited

**Notes to the financial statements
for the year ended 30 June 2019**

	2019 $	2018 $

8 Trade and other receivables (Cont'd)

The Company has undertaken a review of all receivables at year end and concluded that a loss allowance will not be recognised because amounts that are 90 days and over represent less than 2% of the total balance outstanding at year end.

9 Inventories

	2019 $	2018 $
Distillate stocks	6,210,703	6,379,217
	6,210,703	6,379,217

The cost of distillate recognised as an expense during the current year in respect of continuing operations was $24,158,007 (2018: $18,665,372). The cost of inventories recognised as an expense by the Company is $nil (2018: $nil) in respect of write-downs of inventory to net realisable value.

10 Property, plant and equipment

	2019 $	2018 $
Carrying amounts of:		
Infrastructure at fair value	663,657,016	656,679,212
Plant and Equipment at fair value	1,446,683	1,795,089
	665,103,699	658,474,301
Finance Leased Land at cost	15,763,670	10,033,718
Intangible Assets at cost	161,173	1,616
Capital Work in Progress at cost	64,169,779	62,308,933
	745,198,321	730,818,568

10 Property, plant and equipment (Cont'd)

	Infrastructure at fair value $	Plant and Equipment at fair value $	Finance Leased Land at cost $	Intangible Assets at cost $	Capital Work in Progress at cost $	Total Property, Plant and Equipment $
June 2019						
Fair value	1,429,554,771	2,479,459	21,266,292	980,452	64,169,779	1,518,450,753
Accumulated depreciation	(765,897,755)	(1,032,776)	(5,502,622)	(819,279)	-	(773,252,432)
Written down value	663,657,016	1,446,683	15,763,670	161,173	64,169,779	745,198,321
June 2018						
Fair value	1,704,589,071	2,663,184	14,584,278	88,282	62,308,933	1,784,233,748
Accumulated depreciation	(1,047,909,859)	(868,095)	(4,550,560)	(86,666)	-	(1,053,415,180)
Written down value	656,679,212	1,795,089	10,033,718	1,616	62,308,933	730,818,568

Movement	Infrastructure at fair value $	Plant and Equipment at fair value $	Finance Leased Land at cost $	Intangible Assets at cost $	Work in Progress at cost $	Total Property, Plant and Equipment $
June 2019						
Opening balance	656,679,212	1,795,089	10,033,718	1,616	62,308,933	730,818,568
Additions	-	-	6,682,014	-	50,539,596	57,221,610
Disposals	(3,632,563)	-	-	-	-	(3,632,563)
Depreciation	(43,392,839)	(164,681)	(952,062)	(732,612)	-	(45,242,194)
Transfer from WIP	48,670,204	8,546	-	-	(48,678,750)	-
Adjustments	(699,898)	(192,271)	-	892,169	-	-
Revaluation	6,032,900	-	-	-	-	6,032,900
Closing balance	663,657,016	1,446,683	15,763,670	161,173	64,169,779	745,198,321
June 2018						
Opening balance	679,938,487	2,034,770	9,392,911	1,929	46,616,230	737,984,327
Additions	-	-	1,529,313	-	53,606,952	55,136,265
Disposals	(2,823,017)	-	-	-	-	(2,823,017)
Depreciation	(58,349,070)	(241,001)	(888,506)	(313)	-	(59,478,890)
Transfer from WIP	37,708,263	205,986	-	-	(37,914,249)	-
Adjustments	204,549	(204,666)	-	-	-	(117)
Closing balance	656,679,212	1,795,089	10,033,718	1,616	62,308,933	730,818,568

Indigenous Essential Services Pty Limited

Notes to the Financial Statements
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10 Property, plant and equipment (Cont'd)

Fair value measurement of the Company's property, plant and equipment (excluding capital works in progress and financed leased assets)

The following valuation techniques are used:

Asset class		Valuation policy
Infrastructure systems	Water and sewerage	Current replacement cost approach
	Electricity generation	Current replacement cost approach
	Electricity distribution and transmission	Current replacement cost approach
Plant and equipment*	Non-specialised plant and equipment	Historical cost

*Note: Non-specialised assets such as minor items of office equipment are held at historic cost.

The fair value of the infrastructure assets was determined using the current replacement cost approach. This reflects the cost to a market participant that would be required to replace the current service capacity of an asset. It represents the current cost of the asset less depreciation and any adjustments that allow a lower cost solution for achieving the current service standard.

The fair value of non-specialised plant and equipment was determined using historical cost as these are minor asset items such as office equipment with short lives (3-5 years.)

There has been no change to the valuation technique during the year.

As at 30 June 2019

The Company's assets are stated at the revalued amount, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Independent valuers, GHD who have valuation experience for similar utility assets in Australia, were engaged to undertake a valuation of the Company's assets. The asset valuation was based on establishing a modern equivalent asset building block taking into account adjustment factors, service capability and in-service age of the assets as at the nominated date for the valuation of 30 June 2019. Assets installed this financial year or assets under construction at 30 June 2019 were not included in the valuation. The valuation has resulted in the Company's assets being written up by $6.0 million which was recognised in full as an increase in the asset revaluation reserve.

Ownership of many Aboriginal land sites, particularly in remote areas, still remain with Traditional Owners. Accordingly, the NT Government (NTG) determined in 2011 that all NTG infrastructure (including existing and new infrastructure) located on Aboriginal land will be secured by long-term land tenure and that the lease periods will be 40 years which represents the use and economic life of infrastructure assets. Over 400 leases have been signed since 2011 most with a 40-year life. However, where land survey documents were not available at the time leases were signed, a 12-year life was applied, with a period extension clause enabling the lessee, to extend to a 40-year term upon survey and subdivision of the relevant land. In all cases, the extension clause has been optioned as soon as survey documents are obtained. At the commencement of these leases being signed, the Company took the decision that infrastructure assets on leased land would have a depreciation life ending in line with the 40-year lease life. This would also be the case for 12-year leases as it was known these would be extended. As Cabinet has now approved the lease template and the default date is now a 40-year lease term upon survey of the land, a change of estimate has been applied to the fixed assets on leased land to reflect the lives of the affected assets to be the lesser of their assessed economic life as per fair value or 40 years.

10 Property, plant and equipment (Cont'd)

As at 30 June 2018

The Company's assets are stated at the revalued amount, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. As in prior years, independent valuers GHD were engaged to undertake a desktop review of the factors that formed a material part of the asset valuation calculations for the financial year ending 30 June 2018. Following this review, GHD's opinion was that none of these factors had materially changed and therefore there is no impact to the value of the asset base as at 30 June 2018. The significant factors include the transportation factor, foreign exchange rates, CPI Index, Reserve Bank cash rates and the construction cost factor.

There have been no changes to the valuation techniques during the year.

Details of the Company's infrastructure and plant and equipment and information about their fair value hierarchy as at the end of the reporting are as follows:

	Level 3	Fair value as at 30 June 2019
	$	$
Plant and equipment (including infrastructure assets)	665,103,699	665,103,699
Financed leased assets	15,763,670	15,763,670
	680,867,369	680,867,369

	Level 3	Fair value as at 30 June 2018
	$	$
Plant and equipment (including infrastructure assets)	658,474,301	658,474,301
Financed leased assets	10,033,718	10,033,718
	668,508,019	668,508,019

There were no transfers of assets between levels during the year.

Impairment losses recognised in the year

There were no impairment losses recognised in respect of the Company's assets as at 30 June 2019 or 30 June 2018.

Indigenous Essential Services Pty Limited

Notes to the financial statements
for the year ended 30 June 2019

		2019 $	2018 $
11	**Trade and other payables**		
	Payable to controlling entity	11,806,296	7,230,357
	Trade payables	6,933,807	11,678,647
	Other payables and accruals	8,632,277	4,382,995
		27,372,380	23,291,999

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is less than 30 days. For most suppliers no interest is charged on the trade payables for the first days from the date of the invoice. Thereafter, interest may be charged on the outstanding balances at the Northern Territory Government bank rate. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

12 Unearned revenue

		2019 $	2018 $
Government grants - capital	(1)	65,219,745	33,698,096
Government grants - recurrent	(1)	-	8,029,602
Other - capital contributions	(2)	2,641,324	831,881
Contract liabilities arising from contracts with customers:			
Recurrent grant funding	(3)	3,685,459	-
Capital contributions - no ongoing performance obligations	(4)	346,600	-
Capital contributions - ongoing performance obligations	(5)	284,512	-
		72,177,640	42,559,579
Represented by:			
Current		72,177,640	42,559,579
Non-current		-	-
		72,177,640	42,559,579

(1) The portion of unearned revenue arises as a result of grant funding received from the Northern Territory and Commonwealth Governments to assist the Company in meeting its operational and capital requirements. Revenue is released to the Statement of profit or loss and other comprehensive income as the related operational or capital expenditure is incurred.

(2) The Company receives capital contributions from customers where the consideration to acquire the capital contributions is significantly less than fair value principally to enable it to further its objectives. Revenue is recognised over time as asset to which the capital contribution was provided is constructed.

(3) The Company receives operational grant funding (Government grants - recurrent) from the Northern Territory Government to supplement the shortfall in revenue that the Company generates through sales of electricity, water and sewerage services to remote communities across the Northern Territory. The Company receives operational grant funding is received in advance which is recognised as a contract liability. Revenue is recognised over time as the Company fulfils its performance obligations under the contract by transferring the electricity, water and/or sewerage services to the beneficiaries of grant funding who simultaneously receives and uses/consumes those goods and/or services.

12 Unearned revenue (Cont'd)

(4) Capital contributions with no ongoing performance obligations are contributions provided by customers towards the construction of new or upgrades to existing infrastructure assets for the purpose of enabling them to be connected to the network system. The Company retains control and ownership of these assets. Capital contributions are billed and paid for upfront prior to any work commencing and are recognised as a contract liability until construction of the asset is completed and the customer is connected to the network system, at which time the capital contribution is transferred from contract liabilities to revenue.

(5) Capital contributions with ongoing performance obligations are provided by customers to be used towards the construction of new or upgrades to existing infrastructure assets for the purpose of receiving ongoing goods and/or services under the contract with the customer. A contract liability is recognised upon receipt of the capital contributions. Revenue is recognised over the life of the contract with the customer once the asset is constructed and the Company commences transferring electricity, water and/or sewerage services to the customer who simultaneously receives and uses/consumes the benefits.

Reconciliation of capital grants	**2019 $**
Opening balance as at 1 July 2018	33,698,096
Capital grants received	69,577,279
Transferred from recurrent grant funding	5,966,567
Less: Capital Grant income recognised during the year	(42,405,317)
Less: capitalised as assets during the year	(1,616,880)
Closing balance as at 30 June 2019	65,219,745

Reconciliation of unearned revenue arising from contracts with customers - assets to be acquired or constructed and controlled by the Company

	AASB 15		
	Capital contributions - developers	**Capital contributions - network users**	**Total**
Opening balance as at 1 July 2018	74,049	25,115	99,164
Capital contributions received	297,666	259,397	557,063
Less: capital contributions transferred to revenue	(25,115)	-	(25,115)
Closing balance as at 30 June 2019	346,600	284,512	631,112

Indigenous Essential Services Pty Limited

Notes to the financial statements
for the year ended 30 June 2019

13 Finance lease liabilities

Leasing arrangements

The Company leases land for its existing infrastructure assets on Aboriginal land in a number of communities throughout the Northern Territory. The Company holds 125 leases for land, with lease terms that vary between 12 and 40 years with most lease agreements providing the Company with lease extension options for 40 years.

The present value discount factor used for the minimum lease payments was 4.72% at the inception of the leases in 2013. Leases added in 2019 have been calculated using a present value discount factor of 3% (2018: 3.2%).

Finance lease liabilities

	2019 $	2018 $	2019 $	2018 $
	Minimum lease payments		**Present value of the minimum lease payments**	
Not later than one year	1,323,191	1,258,655	1,070,032	1,045,152
1 to 5 years	4,494,014	4,776,614	3,279,961	3,558,388
Later than 5 years	24,510,812	9,482,058	10,363,513	4,426,527
	30,328,017	15,517,327	14,713,506	9,030,066
Less: future finance charges	(15,614,511)	(6,487,261)	-	-
	14,713,506	9,030,066	14,713,506	9,030,066
Represented by:				
Current			1,070,032	1,045,152
Non-current			13,643,474	7,984,914
			14,713,506	9,030,066

Fair value

The fair value of the finance lease liabilities is approximately equal to their carrying amount.

14 Borrowings

	2019 $	2018 $
Non-current		
Loan from parent entity - unsecured	25,000,000	11,000,000
	25,000,000	11,000,000

On the 18 March 2019, the Company received a loan for $14.0 million from its parent entity, Power and Water Corporation, taking the total loans received since the 2017-18 year to $25.0 million ($7.5 million received on 29 March 2017 and $3.5 million on 29 June 2017). The purpose for each of the three loans was to provide capital assistance towards the Arena Solar Project where the Company is building a solar farm which will enable it to reduce its cost of electricity production in the communities it services.

The loans provided are interest only fixed term loans for five years ending 29 March 2022, 29 June 2022 and 17 March 2024. Interest is charged on the outstanding balances at 4.55% for the two loans provided in 2016-17 and 3.88% on the loan provided during 2018-19.

The amount recorded in current liabilities represents the portion of the Company's borrowings that is due and payable within one year. The non-current liabilities represent the portion of the Company's borrowings not due and payable within the next 12 months.

14 Borrowings (Cont'd)

(a) *Reconciliation of liabilities arising from financing activities*

The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Company's statement of cash flows as cash flows from financing activities.

Movement	Finance lease liabilities*	Borrowings	Total financing activities
Opening balance - 1 July 2018	9,030,066	11,000,000	20,030,066
Financing cash flows	(998,574)	14,000,000	13,001,426
Non-cash changes			
New finance leases	6,682,014	-	6,682,014
Closing balance - 30 June 2019	14,713,506	25,000,000	39,713,506

**Finance lease liabilities are included in Note 13*

Financing cash flows make up the net amount of proceeds from borrowings and repayments of borrowings and finance leases in the statement of cash flows.

Other changes relate to CPI adjustments in prior years after a review was undertaken.

15 Contributed equity

	2019 $	2018 $
Issued and paid-up share capital		
10 ordinary shares of $1 fully paid (2018: 10)	10	10
	10	10

Changes to the then Corporations law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

16 Retained earnings

Retained earnings at beginning of year	215,235,068	221,460,140
Effect of adoption of new accounting standard		
Assets retired transferred from asset revaluation reserve	3,588,904	3,117,892
Net surplus/(deficit) for the year	(6,550,851)	(9,342,964)
Retained earnings at end of the year	212,273,121	215,235,068

17 Asset revaluation reserve

Balance at beginning of year	481,509,562	484,627,454
Asset revaluation	6,032,900	-
Assets retired transferred to retained earnings	(3,588,904)	(3,117,892)
Balance at end of year	483,953,558	481,509,562

The asset revaluation reserve arises on the revaluation of property, plant and equipment (assets). When revalued assets are sold, the portion of the asset revaluation reserve that relates to those assets is transferred directly to retained earnings.

Indigenous Essential Services Pty Limited

Notes to the financial statements
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18 Commitments

	2019 $	2018 $
Capital expenditure commitments		
Contracted but not provided for and payable: within one year	9,257,173	21,665,244
	9,257,173	21,665,244

Phase one of the solar set up project has been finalised with phase two being commenced late in the previous year. The work for phase two has been committed to be continued over the next 12 months with $9.3 million anticipated to be due and payable within the next 12 months.

Operational expenditure commitments		
Contracted but not provided for and payable: within one year	5,406,013	4,442,442
	5,406,013	4,442,442

19 Operating Lease Arrangements

	2019 $	2018 $
The Company as lessee		
Payments recognised as an expense		
Minimum lease payments:		
- Motor vehicles	647,264	643,858
- Land	4,382	3,115
- Office equipment	22	127
	651,668	647,100

20 Financial instruments

(a) Financial risk management objectives and policies

The Company has various financial instruments such as trade receivables and trade payables. It is, and has been, the Company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Company's financial instruments are liquidity risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

The Company's overall strategy remains unchanged from 30 June 2018.

The main risks arising from the Company's financial instruments are:

Market risk	The risk that changes in the market will adversely impact the operations and returns of the Company.
Credit risk	The risk of financial loss if a counterparty to a transaction does not fulfil its financial obligations.
Liquidity risk	The risk of insufficient funds to fulfil the cash flow obligations on a timely basis.
Commodity price risk	The risk that contract prices will move as a result of adverse movements in the market.
Interest rate risk	The risk that financing costs will increase and impact prices to customers and returns to the shareholder.
Capital risk management	The risk of the group structuring its balance sheet inefficiently resulting in suboptimal returns to shareholders.

(b) Market risk

The Company provides electricity, water and sewerage services to remote Aboriginal communities in the Northern Territory.

The Company receives grant funding from the Northern Territory Government to construct and maintain assets required to provide electricity, water and sewerage services to remote Aboriginal communities in the Northern Territory.

A purchaser / provider agreement between the Company and the Northern Territory Government for the provision of water supply, sewerage and electrical services to remote Aboriginal communities in the Northern Territory has been established for a period of two years from 18 March 2019 to 18 March 2021 with the possibility to extend it by one more year by agreement in writing between both parties.

The following table sets out the source of the Company's income:

Source of Income	2019		2018	
	$	%	%	%
Grant funding	99,173,903	70%	98,867,893	70%
Revenue from contracts with customers	42,411,961	30%	-	0%
Electricity	-	0%	32,150,340	23%
Water	-	0%	5,302,203	4%
Services rendered	-	0%	3,079,432	2%
Interest	458,360	0%	558,536	0%
Other	-	0%	1,802,790	1%
Total revenue	**142,044,224**	**100%**	**141,761,194**	**100%**

Indigenous Essential Services Pty Limited

Notes to the financial statements
for the year ended 30 June 2019

20 Financial instruments (Cont'd)

(c) Credit risk management

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The credit risk on receivables of the Company that has been recognised in the Statement of financial position is the carrying amount net of any provision for doubtful debts.

The Company performs works on behalf of Northern Territory Government agencies and private companies on a recoverable works basis. Funding for general recoverable works is obtained upfront thereby reducing credit risk associated with these transactions.

(d) Liquidity risk management

The Company's objective is to provide continued and reliable services to remote Aboriginal communities in the Northern Territory within the grant funding and sales revenue it receives. Each year the Company limits expenditure to the level of grant funding and sales revenue it receives for that year.

(e) Commodity price risk

The Company is exposed to changes in the price of distillate which is used to power electricity generators. Each year grant funding received from the Northern Territory Government is based on an operational budget that includes an estimated cost of distillate consumption. In the event the distillate price varies upwards and the Company does not have sufficient grant funds to continue operating, the Company can apply to the Northern Territory Government for additional grant funds.

(f) Interest rate risk

Interest revenue is incurred solely on the cash balance held by the Company throughout the year. Interest expenses are incurred by the Company in relation to a loan for a related party and finance lease liabilities.

(g) Fair values

Except for the loan from the Company's parent entity, the net fair values of financial assets and liabilities approximate carrying values.

(h) Capital risk management

The Company's objectives when managing capital are to safeguard the principal business activities as a not-for-profit entity to provide electricity, water and sewerage services to remote Aboriginal communities in the Northern Territory.

The capital structure of the Company consists of primarily revalued non-current assets and equity attributable to the equity holder of the Company, comprising contributed capital and retained earnings as disclosed in Notes 15 and 16 respectively.

Operating cash flows are used to maintain and expand the Company's assets.

The Company is not subject to any externally imposed capital requirements.

The Company's overall strategy remains unchanged from prior years.

21 Related party transactions

The immediate parent and controlling entity of the Company is Power and Water Corporation, a government owned corporation pursuant to the *Government Owned Corporations Act 2001.* Power and Water Corporation is wholly owned by the Northern Territory Government.

Trading transactions

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances at year end refer to Note 8 and Note 11):

		Revenue from related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
		$	$	$	$
Related party					
Power and Water	2019	-	28,867,179	-	36,829,884
Corporation	2018	-	30,798,178	-	17,920,226
Northern Territory	2019	98,779,269	5,099,929	108,099	73,672,500
Government*	2018	100,997,530	5,433,604	47,350	43,412,443

* Excludes Power and Water Corporation

The Company purchases gas, electricity, water and sewerage services from Power and Water Corporation's infrastructure for remote Aboriginal communities that are able to be connected to this infrastructure rather than requiring stand alone infrastructure.

The Company receives operational and capital grants from the Northern Territory Government enabling it to provide electricity, water and sewerage services to remote Aboriginal communities. Capital grants are recognised as revenue when the project is completed and the asset capitalised; in the current year Phase One of the Solar Set-up project was capitalised with the associated capital grant recognised as revenue. The Company also receives recoverable works funds for specific projects undertaken on behalf of the Northern Territory Government and unrelated third parties.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

Loans from related parties

The Company's parent entity, Power and Water Corporation has provided one interest-only fixed loan for $14.0 million in 2018-19 and two interest-only loans totalling $11.0 million in 2016-17 to the Company at annual interest rates of 3.88% in 2018-19 and 4.55% in 2016-17. Refer to Note 14 for further details.

Compensation of Directors

The names of each person holding the position of Director within the Company during the financial year are listed in the Directors' report.

Indigenous Essential Services Pty Limited

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21 Related party transactions (Cont'd)

Directors do not receive any compensation for their directorship. No Director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving Directors' interest subsisting at year-end.

Compensation of key management personnel

The Company did not have any employees as at or during the years ended 30 June 2019 or 2018.

Other related party transactions

In addition, the Company purchased labour in the amount of $16.9 million (2018: $18.4 million) and accounting, computing, human resources, secretarial services and utility services for its operations from Power and Water Corporation for which a management fee of $5.6 million (2018: $6.2 million) was charged and paid.

22 Economic dependency

During the year the Company received grants from the Northern Territory and Commonwealth Government. The future operation of the Company is dependent upon continued government funding. The Company's revenue is derived from the following two main sources:

	2019 %	2018 %
Revenue derived from government funding	70%	70%
Revenue from provision of utility services	30%	30%
	100%	100%

23 Auditor's Remuneration

	2019 $	2018 $
Audit of the financial statements	60,000	58,200
	60,000	58,200

The auditor of the Company is the Auditor-General for the Northern Territory.

24 Events after the reporting period

In the interval between the end of the financial year and the date of this report, there have been no transactions or events of a material or unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Power and Water Corporation

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