10 April 2018

Theodore Water Pty Ltd: Proposed Accounting Policies

1. Statement of significant accounting policies

The Directors' are of the opinion that the Company is not publicly accountable nor a reporting entity. The financial report is drawn up as a special purpose financial report for distribution to the Customers and for the purpose of fulfilling the requirements of the *Corporations Act 2001*.

The special purpose financial statements have been prepared in accordance with the requirements of the Corporations Act 2001 and the recognition, measurement and classification aspects of all applicable Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB).

The special purpose financial statements include only the disclosure requirements of the following:

AASB 101 Presentation of Financial Statements

AASB 107 Statement of Cash Flows

AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors

AASB 1048 Interpretation and application of Standards

AASB 1054 Australian Additional Disclosures

The financial statements do not comply with the International Financial Reporting Standards adopted by the International Accounting Standards Board (IASB).

The Financial statements have been prepared on the historical cost basis, unless stated otherwise in the notes.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the Pro Forma Historical Balance Sheet and intended to be applied post the transfer and for subsequent periods. The accounting policies have been consistently applied, unless otherwise stated.

1.1. Significant accounting policies

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products and equipment includes direct materials, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Costs are assigned on the basis of weighted average costs.

Property, plant and equipment

Recognition and measurement

Property, Plant and equipment are measured at cost less accumulated depreciation and any impairment losses.

Subsequent expenditure is capitalised only if it increases the service potential or useful life of the existing asset.

Maintenance expenditure that merely restores original service potential (arising from ordinary wear and tear) is expensed.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of profit or loss and other comprehensive income.

Depreciation

Plant and equipment is depreciated on a straight line basis over the asset's useful life commencing from the time the asset is held ready for use. Useful life to the company is determined after considering a number of factors such as manufacturers specifications, engineering life, climatic conditions, geographic conditions, contractual life and information provided as part of the transition engineering due diligence process. Depreciation is recognised in profit or loss.

Where assets have separately identifiable components that are subject to regular replacement, these components are assigned useful lives distinct from the asset to which they relate and are depreciated accordingly.

The depreciation rates used for each class of depreciable assets are:

Class of Asset	**Depreciation Rate**
Land	Land is not depreciated
Buildings and Land Improvements	1.67% to 20%
Plant and Equipment	8% to 33.33%
Infrastructure	0.5% to 10%

The assets' depreciation methods, residual values and useful lives are reassessed, at each reporting period date.

Leases

Leases where substantially all the risks and rewards incidental to the ownership of the asset are transferred to the Company are classified as finance leases.

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

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

Lease payments for operating leases, where substantially all the risks and rewards remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as an integral part of the total lease expense, over the life of the lease term.

Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. Examples of such benefits include wages and salaries, annual and other leave entitlements due but unpaid and non-monetary benefits.

Other long-term employee benefits

The Company's net obligation in respect of long-term benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is measured at the present value of the expected future payments to be made to employees. The expected future payments incorporate anticipated future wage and salary levels, experience of employee departures and periods of service, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that have maturity dates that approximate the timing of the estimated future cash outflows.

Any re-measurements are recognised in profit or loss in the periods in which the changes occur.

The Company presents employee benefit obligations as current liabilities in the statement of financial position if the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period, irrespective of when the actual settlement is expected to take place.

Post-employment benefits plans

The Company provides statutory superannuation which is charged as an expense in the Statement of Profit or Loss and Other Comprehensive Income when incurred.

Superannuation contributions

The Company pays statutory superannuation contributions into independent entities on behalf of its employees. The Company has no legal or constructive obligations to pay superannuation contributions in addition to its statutory contributions, which are recognised as an expense in the period that relevant employee services are received.

Provisions

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

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

A provision for an onerous contract is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with the contract.

The provision for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

While the Scheme has recorded an opening balance sheet item in respect of sick leave obligations assumed in respect of transferring employees, unless a present obligation exists in respect of new obligations created no further balances will be recorded.

Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

In the statement of cash flows, cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

Revenue

Revenue from the rendering of a service is recognised in proportion to the stage of completion of the transaction at reporting date. The stage of completion is assessed with reference to the delivery of services to the customer.

Interest income is recognised using the effective interest method.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Equity, retained earnings, reserves and dividend payment

Share capital represents the fair value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits, where the accounting standard criteria is met.

Retained earnings include all current and prior period retained profits and losses.

Transfer balances and Establishment reserve

On the establishment of the Company and as a result of the Transfer Deed between the Company and the Department, assets and liabilities were transferred to the company for nil consideration and treated as a contribution by owners and accounted for as an adjustment to equity in accordance with Accounting Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities.*

The carrying values of the assets and liabilities transferred to the Company were based on the existing SunWater carrying values.

Trade and other receivables

Trade receivables which comprise amounts due from sales of goods and services provided are recognised and carried at original invoice amount less any directly attributable transactions costs.

Subsequent to initial recognition, Trade receivables are measured at amortised cost using the effective interest rate method.

Evidence of impairment for Trade receivables is considered periodically. An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cashflows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss. When considered that there are no realistic prospects of recovery the asset is written off.

Trade payables and accruals

Trade payables are recognised upon receipt of the goods or services ordered and are measured at the nominal amount i.e. agreed purchase/contract price, gross of applicable trade and other discounts less any directly attributable transaction costs.