



# City of Lake Macquarie **Financial Statements** for the year ending 30 June 2016



## **FINANCIAL STATEMENTS**

### **For the year ended 30 June 2016**

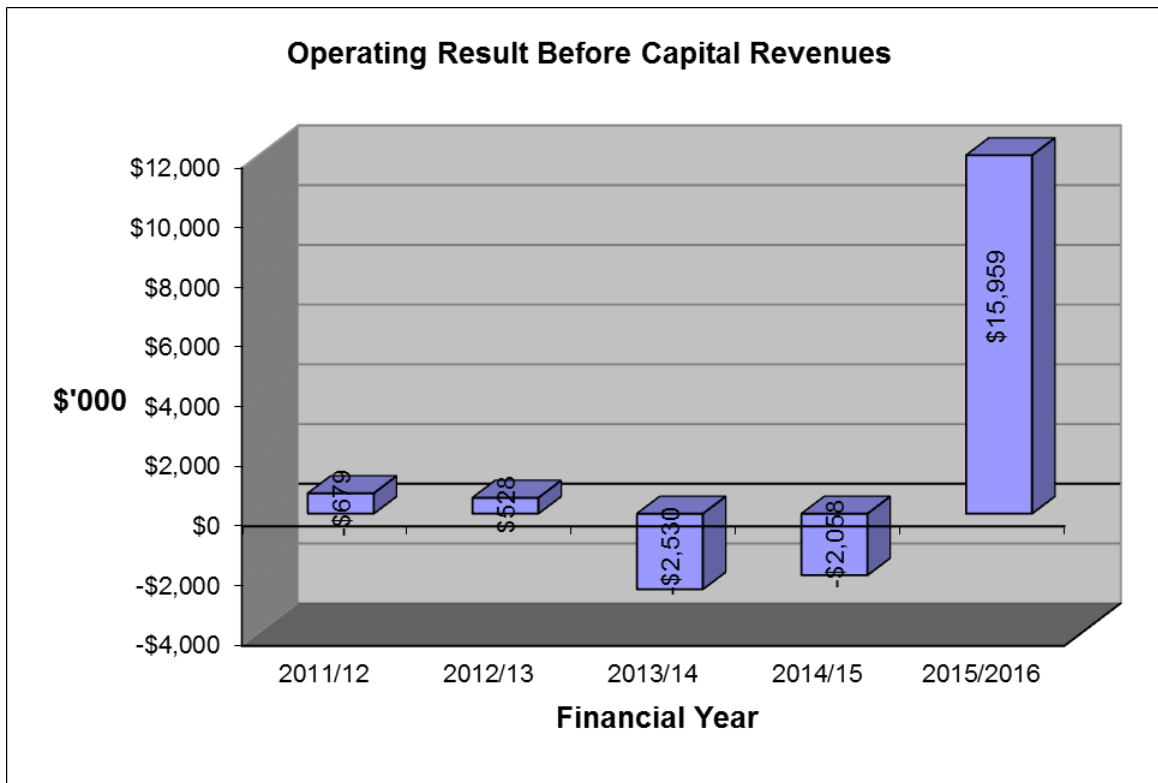
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## 2015/2016 FINANCIAL HIGHLIGHTS

### Financial Snapshot

	<b>2015/16</b>	<b>2014/15</b>
Operating Result Before Capital Revenues	\$15.959m	(\$2.058)m
Operating Result After Capital Revenues	\$92.798m	\$49.486m
Total Equity	\$2.503bn	\$2.417bn
Total Cash and Investments	\$227.598m	\$207.679m
Loan Borrowings Outstanding	\$83.800m	\$85.056m
Operating Performance Ratio	4.18%	0.59%
Own Source Operating Revenue Ratio	63.31%	67.30%
Unrestricted Current Ratio	2.67	1.99
Debt Service Cover Ratio	7.44	5.96
Debt Service Ratio	4.08%	4.2%
Rates and Annual Charges Outstanding Percentage	3.87%	3.64%
Cash Expense Cover Ratio (months)	10.00	10.56



Council has reported an Operating Surplus before Capital Revenue of \$15.959m. The surplus reflects the fact that Council has been able to contain its operating costs within its operating revenue base.

The trend of Council's operating result before capital revenues over the past five years is shown in the graph above.

Note: These notes do not form part of the General Purpose or Special Purpose Financial Reports and have not been audited.

## **Financial Snapshot (continued)**

The Operating Result before Capital Revenues has increased by \$18.0m from the 2014/15 financial year.

This improved result has been brought about by a number of factors including a significant gain on the sale of investment property. Other contributing factors were strong revenues from rates and annual charges, an increase in the fair value adjustment for investment properties and reduced materials and contracts operating expense.

## **Operating Result v Available Funds**

Council's operating result does not take into consideration those revenues that are restricted. Council is required by both external bodies and internal policies to ensure that some particular sources of revenue are restricted for specific purposes. Therefore, although some operations of Council could contribute to a positive operating result, the cash associated with these sources of revenue is restricted and is not available for general use by Council. Some examples of where there is an impact on the income statement but where Council is restricted in the use of the funds are:

- Capital dedications of land and infrastructure assets – these are shown as capital revenues in the financial statements but are offset by capital expenditure in the statement of financial position.
- Section 94 contributions and investment income earned on these contributions are shown as revenues in the income statement but are restricted for specific purposes and are not available for general use by Council.
- Grants and contributions received, (operating and capital revenues) – most grants and contributions are received for specific purposes and are required to be transferred to a specific restricted asset until the funds are used. Council is required to recognise the grants as revenue when they are received and not when they are used. The impact that this can have on the operating result is that the revenue may be disclosed for a particular project within one financial year but the expenditure may be incurred and disclosed in a subsequent financial year. This has the effect of distorting the Operating Result, as there is no application of the 'matching principle'.
- Holiday park operations income generated on Crown land is required to be transferred to a restricted asset and only to be used for the operational and capital costs associated with Crown land.
- Domestic waste revenues – any surplus or deficit from the domestic waste activity is required to be transferred to a restricted asset. These funds may then only be used to fund domestic waste activities in future years.

All of the above factors can contribute to an operating surplus within these operations but in reality, the cash is not available for the general operations of Council.

## **Significant Impacts on the Financial Statements**

The Operating Result before Capital Revenues increased by \$18.0m from the 2014/15 financial year and the Operating Result including Capital Revenues increased by \$43.3m. The movements in these results were due to a number of factors as outlined below.

- Capital grants and contributions increased by \$25.3m in 2015/2016. This was mainly due to increases of \$11m relating to funding for the Lake Macquarie Transport Interchange, \$15m relating to land and infrastructure dedications, and \$4.2m in Section 94 contributions received. These increases were offset by a reduction in capital contributions from RMS of \$8.8m (this reduction was due mainly to there being significant capital contributions in the 2014/2015 financial year for Lake Macquarie Transport Interchange).
- Disposals of assets for 2015/2016 resulted in a net gain of \$6.4m compared with a loss on disposal in the prior year of \$3.8m. This was mainly due to gain on sale of land at Bennetts Green during the 2015/2016 financial year.
- Materials and Contracts decreased by \$9.5m mainly due to the high level of this expense for the prior year which was attributable to the clean up work relating to the April 2015 natural disaster event and to the International Children's Games held in December 2014. This decrease was also a result of the reduced level of Civilake external works.
- Rates and Annual Charges increased by \$8.9m due primarily to the special rate variation.
- Operating Grants and Contributions decreased by \$4.7m, mainly due to the high level of special purpose operating grants received in the prior year. The financial assistance grant was also \$382k higher in the 2014/2015 financial year.
- Other Revenues decreased by \$2.8m, which was mainly attributable to a decrease in Civilake external works income of \$3.2m, offset by an increase in the adjustment for fair value of investment properties of \$412k.
- User charges and fees increased by \$1.6m mainly due to an increase in development and subdivision fees \$480k, reflective of the increased development activity across the city. There was also an increase in swimming pool income \$473k as a result of re-opening of pools that were closed for part of the prior year and an increase in caravan park income \$310k as a result of increased fees and occupancy.

## **Performance Indicators**

### ***Unrestricted Current Ratio***

Council's unrestricted current ratio increased from 1.99 in 2014/2015 to 2.67 in

Note: These notes do not form part of the General Purpose or Special Purpose Financial Reports and have not been audited.

2015/2016, mainly due to the increase in current receivables of \$1.9m, and a decrease in current payables at 30 June 2016 of \$3.5m. The benchmark as provided by the Office of Local Government is greater than 1.5. The Group average for the councils in our group was 2.77 for the 2014/2015 financial year.

### ***Rates Outstanding Ratio***

Council's rates outstanding ratio has changed slightly from 3.64% in 2014/2015 to 3.87% in 2015/2016. Guidelines provided by the Office of Local Government show that the Office's accepted benchmark for outstanding rates are less than 5% for urban and coastal councils and less than 10% for rural councils. The Group average for the councils in our group was 4.95% for the 2014/2015 financial year.

### ***Operating Performance Ratio***

Council's operating performance ratio increased from 0.59% in 2014/2015 to 4.18% in 2015/2016. The benchmark as provided by the Office of Local Government is greater than 0%. The Group average for the councils in our group was 2.59% for the 2014/2015 financial year.

### ***Own Source Operating Revenue Ratio***

Council's own source operating revenue ratio changed slightly from 67.30% in 2014/2015, to 63.31% in 2015/2016. The benchmark as provided by the Office of Local Government is greater than 60%. The Group average for the councils in our group was 72.59% for the 2014/2015 financial year.

### ***Debt Service Cover Ratio***

Council's debt service cover ratio increased from 5.96% in 2014/2015 to 7.44% in 2015/2016. The benchmark as provided by the Office of Local Government is greater than 2. The Group average for the councils in our group was 5.32% for the 2014/2015 financial year.

### ***Debt Service Ratio***

Council's debt service ratio decreased from 4.2% in 2014/2015 to 4.08% in 2015/2016. The benchmark as provided by the Office of Local Government is greater than 0% and less than 20%. The Group average for the councils in our group was 6.36% for the 2014/2015 financial year.

### ***Cash Expense Cover Ratio***

Council's cash expense cover ratio changed slightly from 10.56 months in 2014/2015 to 10.00 months in 2015/2016. The benchmark as provided by the Office of Local Government is greater than 3 months. The Group average for the councils in our group was 12.56 months for the 2014/2015 financial year.

## **Future Financial Impacts**

There are a number of issues that are anticipated in the future that could have an impact on the future financial results. These are:

- Fair value – The Division of Local Government previously advised councils that all assets should be valued at fair value and that the revaluation process should be implemented on a staged basis commencing in the 2006/2007 financial year. The revaluation of assets has been a significant change to the accounting for all assets and Council is now required to revalue each class of asset every 5 years (as a minimum). This will continue to impact on Council's annual depreciation expense and total asset values.
- Development of a Community Strategic Plan and Long Term Financial Plan – The Community Strategic Plan 2013-2023 represents the partnership between Council and the people of Lake Macquarie. It presents the main priorities of the community and sets out the long-term strategies developed to respond to these priorities. In support of this plan, Council has adopted a long-term financial plan, which represents a financial blueprint for the Council, and the community that ensures the cost-effective delivery of works and services, and the appropriate maintenance and renewal of our significant asset base, within the framework of present and future financial sustainability. Council has commenced consultation with the community for Lifestyle 2050, Council's future guiding strategy and blueprint for the city.
- Infrastructure gap – This is the gap between the amount required to be spent on infrastructure to maintain it at a satisfactory standard and the amount actually spent on infrastructure. Like most councils, Council continues to be challenged in efforts to address the infrastructure gap, with a large asset base and constrained resources. Council continues to strive for 90% cash funding of its annual depreciation expense in order to fund the replacement of assets when required. Through Council's strategic approach to asset management, appropriate levels of renewal funding have been provided, supplemented by the Special Rate Variation. This has led to a progressive reduction in the infrastructure gap over the past three years, with further reduction expected.
- In relation to the comments above regarding the long term community plan and infrastructure gap, Council applied for and was granted a 7 year Special Rate Variation (SRV) in the 2011/2012 year, resulting in a cumulative increase of 57.48% over the 7 years. The SRV will assist Council in delivering financial sustainability, overcoming Council's projected operating deficits in future years, ensuring levels of service are maintained to the community and will enable Council to manage its substantial and ageing asset base and remove the current infrastructure backlog over a manageable timeframe. While there will always be a level of uncertainty over future events that can have a financial impact, the SRV has provided the foundations for financial sustainability that Council will continue to build on through strong financial management and continuous improvement to ensure the community receives a high level of efficient and effective service.
- Lake Macquarie City Council has been involved in the process of local government reform in NSW. The State government has declared our Council as being Fit for the Future and Council will remain a stand alone local government organisation. Council is currently implementing its Fit for the Future Improvement Plan which was adopted by Council on 22 June 2015 and includes many strategies to ensure Council's continued strong performance and financial sustainability.

# LAKE MACQUARIE CITY COUNCIL

## General Purpose Financial Statements for the year ended 30 June 2016

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These financial statements are general purpose financial statements of Lake Macquarie City Council and its controlled entities and are presented in the Australian currency.

Lake Macquarie City Council is constituted under the Local Government Act (1993) and has its principal place of business at:

Lake Macquarie City Council  
126-138 Main Road  
Speers Point NSW 2284

The financial statements are authorised for issue by the Council on 5 October 2016. Council has the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our reporting is timely, complete, and available at minimum cost. All press releases, financial statements and other information are readily available on our website: [www.lakemac.com.au](http://www.lakemac.com.au).



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**LAKE MACQUARIE CITY COUNCIL**

**General Purpose Financial Statements  
for the year ended 30 June 2016**

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**Statement by Councillors and Management made pursuant to  
Section 413(2)(c) of the Local Government Act 1993 (NSW) (as amended)**

The attached General Purpose Financial Statements have been prepared in accordance with:


- The Local Government Act 1993 (NSW) (as amended) and the Regulations made thereunder.
- The Australian Accounting Standards and professional pronouncements.
- The Local Government Code of Accounting Practice and Financial Reporting.


To the best of our knowledge and belief, these Statements:


- present fairly the Council's operating result and financial position for the year, and
- accord with Council's accounting and other records.


We are not aware of any matter that would render this Report false or misleading in any way.

Signed in accordance with a resolution of Council made on 26 September 2016.

  
\_\_\_\_\_  
Cr Kay Fraser  
Mayor

  
\_\_\_\_\_  
Cr Jason Pauling  
Councillor

  
\_\_\_\_\_  
Brian Bell  
General Manager

  
\_\_\_\_\_  
Joanne Roberts  
Responsible Accounting Officer

# LAKE MACQUARIE CITY COUNCIL

## Income Statement for the year ended 30 June 2016

Original Budget (1) 2016 \$'000		Notes	Actual 2016 \$'000	Actual 2015 \$'000
<b>INCOME FROM CONTINUING OPERATIONS</b>				
<i>Revenue:</i>				
140,195	Rates and annual charges	3a	<b>142,633</b>	133,774
15,135	User charges and fees	3b	<b>17,362</b>	15,747
4,886	Interest and investment revenue	3c	<b>7,679</b>	7,271
12,183	Other revenues	3d	<b>12,751</b>	15,528
26,330	Grants and contributions provided for operating purposes	3e,f	<b>27,247</b>	31,994
36,795	Grants and contributions provided for capital purposes	3e,f	<b>76,839</b>	51,544
<i>Other Income:</i>				
8,496	Net gain from the disposal of assets	5	<b>6,470</b>	-
-	Net share of interests in joint ventures and associates using the equity method	19	<b>24</b>	123
<u>244,020</u>	<b>Total Income from Continuing Operations</b>		<b>291,005</b>	255,981
<b>EXPENSES FROM CONTINUING OPERATIONS</b>				
84,471	Employee benefits and on-costs	4a	<b>82,003</b>	81,231
6,643	Borrowing costs	4b	<b>6,257</b>	5,820
45,924	Materials and contracts	4c	<b>39,107</b>	48,571
46,996	Depreciation and amortisation	4d	<b>47,845</b>	44,384
-	Impairment	4d	-	-
23,367	Other expenses	4e	<b>22,995</b>	22,689
-	Net loss from the disposal of assets	5	-	3,800
<u>207,401</u>	<b>Total Expenses from Continuing Operations</b>		<b>198,207</b>	206,495
<u>36,619</u>	<b>Operating Result from Continuing Operations</b>		<b>92,798</b>	49,486
<u>-</u>	<b>Operating Result from Discontinued Operations</b>		-	-
<u>36,619</u>	<b>NET OPERATING RESULT FOR THE YEAR</b>		<b>92,798</b>	49,486
Attributable to:				
36,619	- Council		<b>92,798</b>	49,486
<u>-</u>	- Non-controlling interests		-	-
<u>(176)</u>	<b>Net Operating Result for the Year Before Grants and Contributions Provided for Capital Purposes</b>		<b>15,959</b>	(2,058)

*Notes:*

1. Original budget as approved by Council - refer to Note 16.

The above Income Statement should be read in conjunction with the accompanying notes.

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**LAKE MACQUARIE CITY COUNCIL****Statement of Comprehensive Income  
for the year ended 30 June 2016**

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		<b>Actual 2016 \$'000</b>	<b>Actual 2015 \$'000</b>
<b>Net Operating Result for the Year - from Income Statement</b>		<b>92,798</b>	49,486
<b>Other Comprehensive Income</b>			
<b><i>Amounts which will not be reclassified subsequently to operating result</i></b>			
Gain (loss) on revaluation of infrastructure, property, plant and equipment	20b	<b>18,699</b>	251,734
Net share gain (loss) on revaluation reserve of jointly controlled entity	20b	<b>(12)</b>	19
Adjustment to correct prior period errors	20d	<b>(25,791)</b>	338
<b><i>Amounts which will be reclassified subsequently to operating result when specific conditions are met</i></b>			
Gain (loss) on revaluation of available-for-sale investments	20b	-	-
Realised available-for-sale investment gains recognised in revenue	20b	-	-
<b>Total Other Comprehensive Income for the Year</b>		<b>(7,104)</b>	252,091
<b>Total Comprehensive Income for the Year</b>		<b>85,694</b>	<b>301,577</b>
<b>Attributable to:</b>			
- Council		<b>85,694</b>	301,577
- Non-controlling interests		-	-

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

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**LAKE MACQUARIE CITY COUNCIL****Statement of Financial Position  
as at 30 June 2016**

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		Actual 2016 \$'000	Actual 2015 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	6a	13,310	43,782
Investments	6b	128,998	91,250
Receivables	7	13,762	11,905
Inventories	8	2,590	1,856
Other	8	601	364
Non-current assets classified as held for sale	22	-	12,395
<b>Total Current Assets</b>		<u>159,261</u>	<u>161,552</u>
<b>Non-Current Assets</b>			
Investments	6b	85,290	72,647
Receivables	7	1,096	784
Inventories	8	3,546	1,826
Infrastructure, property, plant and equipment	9	2,395,490	2,326,792
Investments accounted for using equity method	19	421	409
Investment property	14	38,205	36,956
Intangible assets	23	725	209
Other	8	1,270	1,516
<b>Total Non-Current Assets</b>		<u>2,526,043</u>	<u>2,441,139</u>
<b>Total Assets</b>		<u>2,685,304</u>	<u>2,602,691</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	10	17,979	21,524
Borrowings	10	2,332	3,121
Provisions	10	62,913	62,115
<b>Total Current Liabilities</b>		<u>83,224</u>	<u>86,760</u>
<b>Non-Current Liabilities</b>			
Payables	10	-	-
Borrowings	10	81,468	81,935
Provisions	10	17,831	16,909
<b>Total Non-Current Liabilities</b>		<u>99,299</u>	<u>98,844</u>
<b>Total Liabilities</b>		<u>182,523</u>	<u>185,604</u>
<b>Net Assets</b>		<u>2,502,781</u>	<u>2,417,087</u>
<b>EQUITY</b>			
Retained earnings	20	1,233,351	1,166,344
Revaluation reserves	20	1,269,430	1,250,743
Council equity interest		<u>2,502,781</u>	<u>2,417,087</u>
Non-controlling interest		-	-
<b>Total Equity</b>		<u>2,502,781</u>	<u>2,417,087</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

**LAKE MACQUARIE CITY COUNCIL**

**Statement of Changes in Equity  
for the year ended 30 June 2016**

	Notes ref	Actual 2016 \$'000						Actual 2015 \$'000					
		Retained Earnings	Asset Revaluation Reserve	Other Reserves	Council Equity Interest	Non- Controlling Interest	Total Equity	Retained Earnings	Asset Revaluation Reserve	Other Reserves	Council Equity Interest	Non- Controlling Interest	Total Equity
<b>Opening Balance</b>	20	<b>1,166,344</b>	<b>1,250,743</b>	-	<b>2,417,087</b>	-	<b>2,417,087</b>	1,116,520	998,990	-	2,115,510	-	2,115,510
Correction of errors		-	-	-	-	-	-	-	-	-	-	-	-
Changes in accounting policies		-	-	-	-	-	-	-	-	-	-	-	-
<b>Restated Opening Balance</b>	20	<b>1,166,344</b>	<b>1,250,743</b>	-	<b>2,417,087</b>	-	<b>2,417,087</b>	1,116,520	998,990	-	2,115,510	-	2,115,510
Net operating result for the year	20	<b>92,798</b>	-	-	<b>92,798</b>	-	<b>92,798</b>	49,486	-	-	49,486	-	49,486
Other comprehensive income	20	<b>(25,791)</b>	<b>18,687</b>	-	<b>(7,104)</b>	-	<b>(7,104)</b>	338	251,753	-	252,091	-	252,091
<b>Total Comprehensive Income</b>	20	<b>67,007</b>	<b>18,687</b>	-	<b>85,694</b>	-	<b>85,694</b>	49,824	251,753	-	301,577	-	301,577
<b>Closing Balance</b>	20	<b>1,233,351</b>	<b>1,269,430</b>	-	<b>2,502,781</b>	-	<b>2,502,781</b>	1,166,344	1,250,743	-	2,417,087	-	2,417,087

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# LAKE MACQUARIE CITY COUNCIL

## Statement of Cash Flows for the year ended 30 June 2016

Budget 2016 \$'000		Notes	Actual 2016 \$'000	Actual 2015 \$'000
<b>Cash Flows from Operating Activities</b>				
<i>Receipts:</i>				
140,195	Rates and annual charges		<b>142,423</b>	133,660
15,135	User charges and fees		<b>19,937</b>	19,353
4,886	Investment revenue and interest		<b>7,024</b>	7,467
63,125	Grants and contributions		<b>70,237</b>	67,630
-	Deposits and retentions received		<b>978</b>	3,258
11,758	Other		<b>17,386</b>	18,831
<i>Payments:</i>				
(82,708)	Employee benefits and on-costs		<b>(81,515)</b>	(79,351)
(44,868)	Materials and contracts		<b>(43,210)</b>	(48,024)
(6,643)	Borrowing costs		<b>(5,310)</b>	(4,798)
-	Deposits and retentions refunded		<b>(2,480)</b>	(1,060)
(23,350)	Other		<b>(32,698)</b>	(28,823)
77,530	<b>Net Cash Provided (or Used) in Operating Activities</b>	11(b)	<b>92,772</b>	88,145
<b>Cash Flows from Investing Activities</b>				
<i>Receipts:</i>				
-	Sale of investments		<b>210,103</b>	101,075
20,891	Sale of investment properties		<b>20,891</b>	3,250
1,770	Sale of real estate assets		<b>814</b>	215
1,589	Sale of infrastructure, property, plant and equipment		<b>4,475</b>	2,474
<i>Payments:</i>				
-	Purchase of investments		<b>(260,050)</b>	(129,200)
(114,009)	Purchase of infrastructure, property, plant and equipment		<b>(98,221)</b>	(73,621)
(89,759)	<b>Net Cash Provided by (or Used in) Investing Activities</b>		<b>(121,988)</b>	(95,807)
<b>Cash Flows from Financing Activities</b>				
<i>Receipts:</i>				
26,145	Borrowings and advances		<b>1,868</b>	15,000
<i>Payments:</i>				
(3,430)	Borrowings and advances		<b>(3,124)</b>	(3,823)
22,715	<b>Net Cash Provided by (or Used in) Financing Activities</b>		<b>(1,256)</b>	11,177
10,486	<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>(30,472)</b>	3,515
154,288	<b>Cash and Cash Equivalents at Beginning of Reporting Period</b>	11(a)	<b>43,782</b>	40,267
164,774	<b>Cash and Cash Equivalents at End of Reporting Period</b>	11(a)	<b>13,310</b>	43,782

*Notes:*

(1) The budget as approved by Council combines cash and investments together however in the actuals above investments are excluded.

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements  
for the year ended 30 June 2016**

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**Notes to the Financial Statements****30 June 2016****(continued)**

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**Note 1 Summary of Significant Accounting Policies**

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**(a) Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the Local Government Act (1993) and Regulation, and the Local Government Code of Accounting Practice and Financial Reporting. Lake Macquarie City Council is a not for-profit entity for the purpose of preparing the financial statements.

*(i) New and amended standards adopted by Council*

There have been no new accounting standards adopted in the 2015/2016 financial statements which have had any material impact on reported financial position, performance or cash flows.

*(ii) Early adoption of standards*

*AASB 2015-7 Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities*

This Standard applies to annual reporting periods beginning on or after 1 July 2016. Early application is permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 July 2016. This amendment has reduced the fair value disclosures for Level 3 assets.

*(iii) Historical Cost Convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities and certain classes of property, plant and equipment and investment property.

*(iv) Significant accounting estimates and judgements*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Council's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

*Critical accounting estimates and assumptions*

Lake Macquarie City Council makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.



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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements

30 June 2016

(continued)

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#### Note 1 Summary of Significant Accounting Policies (continued)

- (i) Estimated fair values of infrastructure, property, plant and equipment
- (ii) Estimated fair values of investment properties
- (iii) Estimated provision for asset remediation (tips, quarries and sanitary depots)
- (iv) Estimated provision for self-insurance claims

##### *Significant judgements in applying the entity's accounting policies*

- (i) Impairment of receivables: Council has made a significant judgement about the impairment of a number of its receivables in Note 7.
- (ii) Interests in other entities: Council has used significant judgement about the relationship that it has with external entities to establish treatment and disclosure of these relationships in Note 19.

#### **(b) Revenue recognition**

Council recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Council and specific criteria have been met for each of the Council's activities as described below. Council bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is measured on major income categories as follows:

##### *Rates, annual charges, grants and contributions*

Rates, annual charges, grants and contributions (including developer contributions) are recognised as revenues when Council obtains control over the assets comprising these receipts. Developer contributions may only be expended for the purposes for which the contributions were required but Council may apply contributions according to the priorities established in work schedules. Control over assets acquired from rates and annual charges is obtained at the commencement of the rating year as it is an enforceable debt linked to the rateable property or, where earlier, upon receipt of the rates. Control over granted assets is normally obtained upon their receipt (or acquittal) or upon earlier notification that a grant has been secured, and is valued at their fair value at the date of transfer. Revenue is recognised when Council obtains control of the contribution or the right to receive the contribution, it is probable that the economic benefits comprising the contribution will flow to Council and the amount of the contribution can be measured reliably. Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner or used over a particular period and those conditions were undischarged at balance date, the unused grant or contribution is disclosed in Note 3(g). The note also discloses the amount of unused grant or contribution from prior years that was expended on Council's operations during the current year.

A liability is recognised in respect of revenue that is reciprocal in nature to the extent that the requisite service has not been provided at balance date.

##### *User charges and fees*

User charges and fees (including parking fees and fines) are recognised as revenue when the service has been provided, the payment is received, or when a penalty has been applied, whichever first occurs.

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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements 30 June 2016 (continued)

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#### Note 1 Summary of Significant Accounting Policies (continued)

*Sale of plant, property, infrastructure and equipment*

The profit or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer.

*Interest*

Interest income is recognised using the effective interest rate at the date that interest is earned.

*Rent*

Rental income is accounted for on a straight-line basis over the lease term.

*Other Income*

Other income is recorded when the payment is due, the value of the payment is notified, or the payment is received, whichever first occurs.

#### **(c) Principles of consolidation**

*(i) The Consolidated Fund*

In accordance with the provisions of Section 409(1) of the LGA 1993, all money and property received by Council is held in Council's Consolidated Fund unless it is required to be held in Council's Trust Fund. The consolidated fund and other entities through which Council controls resources to carry on its functions have been included in the financial statements forming part of this report.

The Consolidated Fund consists of General Purpose Operations only.

*(ii) The Trust Fund*

In accordance with the provisions of Section 411 of the Local Government Act 1993 (as amended), a separate and distinct Trust Fund is maintained to account for all money and property received by Council in trust which must be applied only for the purposes of or in accordance with the trusts relating to those monies. Trust monies and property subject to Council's control have been included in these reports.

Trust monies and property held by Council but not subject to control of Council, have been excluded from these reports. A separate statement of monies held in these Trust Funds is available for inspection at the Council office by any person free of charge.

*(iii) Interests in other entities*

*Joint Arrangements*

AASB 11 Joint Arrangements defines a joint arrangement as an arrangement of which two or more parties have joint control and classifies these arrangements as either joint ventures or joint operations. Details of Council's joint arrangements are contained in Note 19.

**Notes to the Financial Statements**  
**30 June 2016**  
**(continued)**

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**Note 1 Summary of Significant Accounting Policies (continued)**

*Joint Ventures*

Joint ventures are those joint arrangements, which provide Council with rights to the net assets of the arrangement. Interests in joint ventures are accounted for using the equity method in accordance with AASB 128 Associates and Joint Ventures. Under this method, the investment is initially recognised as cost and the carrying amount is increased or decreased to recognise the Council's share of the profit or loss and other comprehensive income of the investee after the date of acquisition.

If the Council's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Council discontinues recognising its share of further losses.

Council's share in the joint ventures gains or losses arising from transactions between itself and its joint venture are eliminated.

Adjustments are made to the joint ventures accounting policies where they are different from those of Council for the purpose of the consolidated financial statements.

Council's interests in joint ventures are contained in Note 19.

**(d) Leases**

Leases of property, plant and equipment where Council, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Council is not committed to any finance lease arrangements.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Council as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases where Council is a lessor is recognised in income on a straight-line basis over the lease term.

**(e) Acquisition of assets**

The purchase method of accounting is used to account for all acquisitions of assets. Cost is measured as the fair value of the assets given, plus costs directly attributable to the acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is Council's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Council has no deferred settlements.

**Notes to the Financial Statements****30 June 2016****(continued)**

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**Note 1 Summary of Significant Accounting Policies (continued)****(f) Impairment of assets**

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an asset is not held principally for cash generating purposes and would be replaced if Council was deprived of it, depreciated replacement cost is used as value in use. Otherwise, value in use is estimated by using a discounted cash flow model.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**(g) Cash and cash equivalents**

For Statement of Cash Flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Council has a bank overdraft facility but this was not required during this financial year.

**(h) Receivables**

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that Council will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within other expenses. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

**Notes to the Financial Statements**

**30 June 2016**

**(continued)**

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**Note 1 Summary of Significant Accounting Policies (continued)**

**(i) Inventories**

*(i) Raw materials and stores, work in progress and finished goods*

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

*(ii) Land held for resale/capitalisation of borrowing costs*

Land held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed borrowing costs and other holding charges are expensed as incurred.

Borrowing costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

*(iii) Inventory held for distribution*

Inventory held for distribution is held at cost, adjusted where applicable for any loss of service potential.

**(j) Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value, contractual rights under insurance contracts, which are specifically exempt from this requirement, and plant and motor vehicles which are turned over on a regular basis – these are retained in property, plant and equipment.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale and are presented separately from the other assets in the statement of financial position.

**Notes to the Financial Statements****30 June 2016****(continued)**

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**Note 1 Summary of Significant Accounting Policies (continued)****(k) Investments and other financial assets***Classification*

Council classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Council Management determines the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluates this designation at each reporting date.

For the year ended 30 June 2016, all Council's investments were classified as held to maturity.

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Council's management has the positive intention and ability to hold to maturity. If Council was to sell other than an insignificant amount of held to maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held to maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in other receivables (note 8) and receivables (note 7) in the statement of financial position.

*Recognition and derecognition*

Regular purchases and sales of financial assets are recognised on trade-date – the date on which Council commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and Council has transferred substantially all the risks and rewards of ownership.

*Subsequent measurement*

Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method.

*Impairment*

Council assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements

30 June 2016

(continued)

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#### Note 1 Summary of Significant Accounting Policies (continued)

*(i) Assets carried at amortised cost*

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the entity may measure impairment on the basis of an instrument's fair value using observable market price.

*Investment policy*

Council has an approved Investment Policy complying with Section 625 of the Local Government Act and S212 of the LG (General) Regulations 2005. Investments are placed and managed in accordance with that policy and having particular regard to authorised investments prescribed under the Ministerial Local Government Investment Order. Council maintains an Investment Policy that complies with the Act and ensures that it or its representatives exercise care, diligence and skill that a prudent person would exercise in investing Council funds. Council amended its Policy following revisions to the Ministerial Local Government Investment Order arising from the Cole Inquiry recommendations. Certain investments Council holds are no longer prescribed, for example managed funds, however they have been retained under grandfathering provisions of the Order. These will be disposed of when most financially advantageous to Council.

**(l) Fair value estimation - financial instruments**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Council uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to Council for similar financial instruments.

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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements 30 June 2016 (continued)

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#### Note 1 Summary of Significant Accounting Policies (continued)

##### (m) Infrastructure, property, plant and equipment (IPPE)

Council's assets have been progressively revalued to fair value in accordance with a staged implementation advised by the Office of Local Government. At balance date, the following classes of IPPE were stated at their fair value:

- Operational Land (Internal valuation by Council's qualified valuers)
- Buildings – Specialised/Non Specialised (External and internal valuations)
- Plant and Equipment (as approximated by depreciated historical cost)
- Road Assets – Roads, Bridges and Footpaths (Internal valuation)
- Drainage Assets (Internal valuation)
- Bulk Earthworks (Internal valuation)
- Community Land (Internal valuation)
- Land Improvements (Internal valuation)
- Other Structures (Internal valuation)
- Other Assets (Internal valuation, except for artworks which are valued based on insurance values)

Council assesses, at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, Council determines the asset's fair value and revalues the asset to that amount. Full revaluations are undertaken for all assets on a 5-year cycle.

Increases in the carrying amounts arising on revaluation are credited to the asset revaluation reserve. To the extent that the increase reverses a decrease previously recognised in profit or loss relating to that asset class, the increase is first recognised in profit or loss. Decreases that reverse previous increases of assets in the same class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the class; all other decreases are charged to the Income Statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.



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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements

30 June 2016

(continued)

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#### Note 1 Summary of Significant Accounting Policies (continued)

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Earthmoving plant	5 – 15 years	Wharves and Jetties	50 – 70 years
Tractors/mowing plant	3 – 8 years	Sealed road structure	23 – 101 years
Garbage trucks	6 years	Unsealed road structure	64 years
Other heavy vehicles	6 – 15 years	Kerb & gutter	102 years
Light vehicles	3 – 4 years	Footpaving & cycleways	15 – 57 years
Other engineering plant & equipment	2 – 25 years	Road furniture & structures	40 – 68 years
Office equipment	3 – 10 years	Bridges	108 years
Furniture & fittings	3 – 20 years	Drainage assets	52 - 98 years
Land improvements	3 – 100 years	Heritage assets	100 years
Buildings	15 – 100 years	Digital library collection	3 years
Other infrastructure	15 – 100 years	Library books	6 years
Other open space / recreational assets	3 – 100 years	Council Online solution	10 years
Other structures	3 – 100 years	Remediation asset	10 years
Swimming Pools	10 – 50 years		

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Land, other than land under roads, is classified as either operational or community in accordance with Part 2 of Chapter 6 of the Local Government Act (1993). This classification is made in Note 9(a).

#### (n) Investment property

Investment property, principally comprising commercial centres, retail buildings and land, is held for long-term rental yields and/or capital appreciation and is not occupied by Council. Investment property is carried at fair value, which is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, Council uses alternative valuation methods such as recent prices in less active markets or discounted cash flow projections. The fair values are re-assessed annually by Council's registered valuer and changes in fair values are recorded in the income statement as part of other income or other expenses as appropriate.

Investment property includes properties that are under construction for future use as investment properties. These are also carried at fair value unless the fair value cannot yet be reliably determined. Where that is the case, the property will be accounted for at cost until either the fair value becomes reliably determinable or construction is complete.

**Notes to the Financial Statements****30 June 2016****(continued)**

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**Note 1 Summary of Significant Accounting Policies (continued)****(o) Payables**

These amounts represent liabilities for goods and services provided to Council prior to the end of financial year which are unpaid. The amounts are unsecured and are ordinarily paid within 30 days.

**(p) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance cost.

Borrowings are classified as current liabilities unless Council has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**(q) Borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

**(r) Provisions**

Provisions are recognised when Council has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a small number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

**Notes to the Financial Statements**

**30 June 2016**

**(continued)**

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**Note 1 Summary of Significant Accounting Policies (continued)**

**(s) Employee benefits**

*(i) Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and vesting sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-vesting sick leave are recognised when the leave is taken and measured at the rates paid or payable. The liability for annual leave and vesting sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

*(ii) Other long-term employee benefit obligations*

The liability for long service leave, annual leave and sick leave which is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

*(iii) Retirement benefit obligations*

All employees of Council are entitled to benefits on retirement, disability or death. Council contributes to various defined benefit plans and defined contribution plans on behalf of its employees.

A liability or asset in respect of defined benefit superannuation plans would ordinarily be recognised in the statement of financial position, and measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and period of service. However, when this information is not reliably available, Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable.

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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements

30 June 2016

(continued)

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#### Note 1 Summary of Significant Accounting Policies (continued)

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named The Local Government Superannuation Scheme – Pool B (the Scheme) which is a defined benefit plan that has been deemed to be a “multi-employer fund” for the purposes of AASB 119 *Employee Benefits*. Sufficient information is not available to account for the Scheme as a defined benefit plan in accordance with AASB 119, because the assets to the Scheme are pooled together for all councils.

The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2016 was \$2,744,164. The last valuation of the Fund was performed by Mr Richard Boyfield, representative of Mercer Consulting (Australia) Pty Ltd, AFS licence no. 411770, on 24<sup>th</sup> February 2016 relating to the period ending 30 June 2015.

The Scheme has previously advised member councils that, as result of the global financial crisis, it has a significant deficiency of assets over liabilities. The position is monitored annually and the Actuary has estimated that, as at 30 June 2016 a deficit still exists. Effective from 1 July 2009, employers are required to contribute additional contributions to assist in extinguishing this deficit. The amount of additional contributions included in the total employer contribution advised above is \$1,233,302. Council's expected additional contributions to the plan for the next annual reporting period is \$1,208,000.

The share of the deficit that is broadly attributable to Council is estimated to be in the order of \$2,266,587 as at 30 June 2016. However, the Trustee is considering extending the additional contribution period in order to build up a satisfactory surplus to allow the fund to transition to a less risky investment portfolio.

Council's share of that deficiency cannot be accurately calculated as the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils. For this reason, no liability for the deficiency has been recognised in Council's accounts. Council has however, disclosed a contingent liability in Note 18 to reflect the possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

Contributions to defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### (t) Rounding of amounts

Unless otherwise indicated, amounts in the financial statements have been rounded off to the nearest thousand dollars.

#### (u) Land under roads

Council has elected not to recognise land under roads acquired before 1 July 2008 in accordance with AASB 1051. Any land under roads that was recognised before 1 July 2008 was derecognised at 1 July 2010 against the opening balance of retained earnings. Land under roads acquired after 1 July 2008 is recognised in accordance with AASB 116 – Property, Plant and Equipment.

**Notes to the Financial Statements****30 June 2016****(continued)**

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**Note 1 Summary of Significant Accounting Policies (continued)**

Land under roads is land under roadways and road reserves including land under footpaths, nature strips and median strips. Council values land under roads acquired after 1 July 2008 based on the valuation of road segments at the average unit value of properties adjoining the relevant road segment, with the average unit values being derived from Valuer General valuations.

**(v) Self insurance**

Council has decided to self-insure for workers compensation. A provision for self-insurance has been made to recognise outstanding claims, the amount of which is detailed in Note 10. Council also maintains a bank guarantee to meet expected future claims and the details of this guarantee is detailed in Note 18.

**(w) Intangible assets***IT development and software*

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service, direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line basis over periods generally between one to ten years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where Council has an intention and ability to use the asset.

**(x) Crown reserves**

Crown reserves under Council's care and control are recognised as assets of Council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated.

Improvements on Crown reserves are also recorded as assets, while maintenance costs incurred by Council and revenues relating to the reserves are recognised with Council's Income Statement.

Representations from both State and Local Government are being sought to develop a consistent accounting treatment for Crown Reserves across both tiers of government.

**(y) Rural Fire Service assets**

Under section 119 of the Rural Fire Services Act 1997, "*all fire fighting equipment purchased or constructed wholly or from money to the credit of the Fund is to be vested in the council of the area for or on behalf of which the fire fighting equipment has been purchased or constructed*". Until discussions on this matter have concluded and the legislation changed, Council will account for these assets consistent with previous years.

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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements 30 June 2016 (continued)

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#### Note 1 Summary of Significant Accounting Policies (continued)

##### (z) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

##### (aa) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods. Lake Macquarie City Council's assessment of the impact of these new standards and interpretations is set out below.

###### *(i) AASB 9 Financial Instruments, and associated amending standards.*

The new standard contains significant revisions to the classification and measurement of financial assets, reducing the number of categories and simplifying the measurement choices, including the removal of impairment testing of assets measured at fair value. The amortised cost model is available for debt assets meeting both business model and cash flow characteristics tests. All investments in equity instruments using AASB 9 are to be measured at fair value.

The new standard amends measurement rules for financial liabilities that the entity elects to measure at fair value through profit and loss. Changes in fair value attributable to changes in the entity's own credit risk are presented in other comprehensive income.

Impairment of assets is now based on expected losses in AASB 9 which requires entities to measure:

- The 12 month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) of full lifetime
- Expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

The effective date is annual reporting periods beginning on or after 1 January 2018.

The impacts on the reported financial position and performance have not yet been determined.

###### *(ii) AASB 2014 – 10 Sale or contribution of Assets between an Investor and its Associate or Joint Venture*

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## LAKE MACQUARIE CITY COUNCIL

### General Purpose Financial Statements for the year ended 30 June 2016 (continued)

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#### Note 1 Summary of Significant Accounting Policies (continued)

The amendments address an acknowledged inconsistency between the requirements in AASB 10 and those in AASB 128 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The effective date is annual reporting periods beginning on or after 1 January 2016.

There is no known impact on Council's financial position.

#### *(iii) AASB 15 – Revenue from contracts with customers and associated amending standards*

AASB 15 introduces a five step process for revenue recognition with the core principle of the new Standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

Accounting policy changes will arise in timing of revenue recognition, treatment of contracts costs and contracts which contain a financing element.

AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The effective date is annual reporting periods beginning on or after 1 January 2017.

The changes in revenue recognition requirements in AASB 15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures. The impact of AASB 15 has not yet been quantified.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2016 (continued)

### Note 2(a) Functions or Activities

Function	Income, expenses and assets have been directly attributed to the following functions. Details of those functions are provided in Note 2(b).												
	Income from Continuing Operations			Expenses from Continuing Operations			Operating Result from Continuing Operations			Grants Included in Income from Continuing Operations		Total Assets Held (Current and Non-Current)	
	Original Budget 2016 \$'000	Actual 2016 \$'000	Actual 2015 \$'000	Original Budget 2016 \$'000	Actual 2016 \$'000	Actual 2015 \$'000	Original Budget 2016 \$'000	Actual 2016 \$'000	Actual 2015 \$'000	Actual 2016 \$'000	Actual 2015 \$'000	Actual 2016 \$'000	Actual 2015 \$'000
Governance	4	4	2	4,026	4,424	4,373	(4,022)	(4,420)	(4,371)	-	-	-	-
Administration	5,372	8,110	16,781	8,167	3,996	8,428	(2,795)	4,114	8,353	-	-	94,010	91,118
Caring for the environment	34,865	35,568	34,552	55,002	48,608	46,157	(20,137)	(13,040)	(11,606)	2,901	3,325	36,923	35,787
Caring for our community	6,260	7,394	6,942	18,339	21,421	25,985	(12,079)	(14,027)	(19,043)	3,129	3,081	45,522	44,122
Urban and economic development	11,889	26,183	21,803	18,837	18,423	19,586	(6,948)	7,760	2,217	7	4	120,477	116,771
Transport, roads and drainage	24,079	53,985	24,233	49,651	50,830	44,746	(25,572)	3,155	(20,514)	16,449	3,393	1,533,595	1,486,413
Sport, recreation and culture	2,920	3,304	5,809	41,548	41,289	43,177	(38,628)	(37,985)	(37,368)	398	3,482	732,892	710,345
CiviLake	4,835	4,779	7,945	4,109	4,486	6,937	726	293	1,008	-	-	12,352	11,971
Property management	17,994	15,852	9,223	7,722	4,730	7,106	10,272	11,122	2,117	-	-	109,533	106,164
<b>Total Functions</b>	108,218	155,179	127,290	207,401	198,207	206,495	(99,183)	(43,028)	(79,205)	22,884	13,285	2,685,304	2,602,691
Shares of gains or losses in joint ventures and associates using the equity method	-	24	123	-	-	-	-	24	123	-	-	-	-
General purpose income*	135,802	135,802	128,568	-	-	-	135,802	135,802	128,568	18,035	18,402	-	-
<b>Net Operating Result for the Year <sup>(1)</sup></b>	244,020	291,005	255,981	207,401	198,207	206,495	36,619	92,798	49,486	40,919	31,687	2,685,304	2,602,691

The costs associated with support services have been distributed by a formal Activity Based Costing methodology where such costs could be reliably measured.

\* Includes: Rates and annual charges (incl. ex-gratia), non-capital general purpose grants and interest on investments.

(1) As reported in the Income Statement



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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements

30 June 2016

(continued)

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#### Note 2(b) Components of Functions or Activities

Details of the functions or activities reported on in Note 2(a) are as follows:

##### **Governance**

Democratic Government - Costs relating to Council's role as a component of democratic government, including elections, members' fees and expenses, subscriptions to local authority associations, meetings of Council and policy making committees, area representation and public disclosure and compliance, together with related administration costs.

##### **Administration**

Corporate Services – Administrative services, advertising, purchasing, stores, printing and stationery, insurance, risk management, communications, records management, administration building cleaning and maintenance, treasury functions, rates, cash collections, debt collection, personnel and industrial relations, payroll, staff training and development, occupational health and safety, workers compensation, legal services, information technology, public relations, grants and sponsorship, mechanical services, plant replacement program and additional plant items, Council's works depot operations/services.

##### **Caring for the Environment**

Waste Services – Waste planning and education, domestic waste collection, servicing of parks and commercial property bins, provision of bins in parks and commercial centres, bulk waste collection service, Awaba waste management facility.

Other Environmental Services – Noxious weed control, overgrown land control, environmental preservation, environmental health, tree and bushland preservation and management, natural habitat management, Lake Macquarie LEP open space acquisition program, quarries rehabilitation, recycling service, acquisitions for public purposes.

##### **Caring for our Community**

Public Health and Emergency Services – Control of dogs and straying stock, ranger activities, enforcement of provisions of the Companion Animals Act, food and other shop licenses and health control, bush fire protection services, state emergency service.

Human Services and Community Development – Planning, development, management and co-ordination of human services, community development, children's services, aboriginal services, aged and disabled services, family day care service, community halls, multi-purpose centres, youth and neighbourhood centres, co-ordination of maintenance and improvements to those buildings, social planning.

##### **Urban and Economic Development**

Economic and Employment Development – Economic development, tourism including marketing, planning and promotion.

Land Use Planning – Planning and environment services management, development assessment, building assessment, subdivision assessment, developer contributions, building control, fire safety, roads strategic planning, land use (zoning) reviews and associated environmental studies, planning policy and research, cemeteries.

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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements 30 June 2016 (continued)

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#### Note 2(b) Components of Functions or Activities (continued)

##### Transport, Roads and Drainage

Roads – Infrastructure planning, land acquisitions for roads construction, customer and technical services, project management, construction of new roads, sealing gravel roads, kerb and gutter construction, resurfacing program, roads reconstruction and rehabilitation works, main roads improvement program, city wide routine maintenance (includes roads/channel/drainage and ancillary roads maintenance, maintenance of bridges, carparks and roundabouts), maintenance of main roads.

Drainage – Infrastructure planning, construct/improve urban drainage, minor drainage improvements, land acquisition for drainage, customer and technical services, project management.

Traffic and Transportation – Street lighting/charges, street signs, road line marking, traffic facilities, cycleways construction/improvements, footpath improvements.

##### Sport, Recreation and Culture

Sport and Recreation – Beach and surf life saving services, Council's swimming centres, asset management and policy development, sport and recreation facilities, capital works projects and maintenance, parks capital works projects, city parks maintenance, construction/maintenance of lakeside baths, jetties and boat ramps, foreshore improvement works, community liaison, city beautification, landscape architecture, beaches cleaning and maintenance, public privies improvement and maintenance, and Hunter Region Sports Centre.

Library and Cultural Services – Library administration, children's and extension services, acquisition services, information services, regional branch libraries, art gallery, cultural activities, festivals and public events.

##### CiviLake

CiviLake – CiviLake construction, external contractual works, quarry rehabilitation and establishment, CiviLake maintenance.

##### Property Management

Property Management – Management of residential, industrial and commercial properties held in Council's ownership, leases to community groups, bowling clubs etc. administration and management of outdoor dining agreements, development of Council owned industrial, retail / commercial and residential land, sale of scattered lots, acquisition and disposal of investment properties and reclassification of Council owned land.

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements  
30 June 2016  
(continued)**

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**Note 3 Income from Continuing Operations**

<b>(a) Rates and Annual Charges</b>	<b>Actual 2016 (\$'000)</b>	<b>Actual 2015 (\$'000)</b>
<b>Ordinary Rates</b>		
Residential	92,845	86,835
Farmland	89	89
Mining	791	826
Business	16,028	14,907
<b>Total Ordinary Rates</b>	<b>109,753</b>	<b>102,657</b>
<b>Special Rates</b>		
- No special rates were made by Council in the current or prior financial years		
<b>Annual Charges (pursuant to s.496, s.496A, s.496B, s.501 and s.611)</b>		
Domestic waste management services	30,265	28,620
Waste management services (not domestic)	1,701	1,602
Domestic waste - sanitary/sullage services	860	846
Section 611 charges	54	49
<b>Total Annual Charges</b>	<b>32,880</b>	<b>31,117</b>
<b>Total Rates and Annual Charges</b>	<b>142,633</b>	<b>133,774</b>

Council has used 2013 valuations provided by the NSW Valuer General in calculating its rates.

**Additional Information:**

(1) Compulsory Pensioner Rebates under Section 575 of the Local Government Act (LGA) 1993 issued this financial year totalled \$4,453k and of this \$2,460k was reimbursed by the State Government in the form of a rebate. These rebates are not included in the actual Rates and Annual Charges above.

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements  
30 June 2016  
(continued)**

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**Note 3 Income from Continuing Operations (continued)**

	Actual 2016 (\$'000)	Actual 2015 (\$'000)
<b>(b) User Charges and Fees</b>		
<i><b>User Charges</b></i>		
Domestic waste management services	116	108
Waste management services (not domestic)	51	45
Sullage	285	321
<b>Total User Charges</b>	<b>452</b>	<b>474</b>
<i><b>Fees</b></i>		
Building assessment and compliance	1,493	1,436
Development assessment	2,033	1,862
Subdivision assessment	936	628
Animal enforcement	188	162
Health inspection	440	419
Private works	9	14
Tipping	2,140	1,889
Section 149 certificates	528	535
Section 603 certificates	364	338
Caravan parks	5,485	5,175
Swimming centres	1,488	1,016
Community facilities	1,400	1,358
Other	406	441
<b>Total Fees</b>	<b>16,910</b>	<b>15,273</b>
<b>Total User Charges and Fees</b>	<b>17,362</b>	<b>15,747</b>

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements****30 June 2016****(continued)**

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**Note 3 Income from Continuing Operations (continued)**

	Actual 2016 (\$'000)	Actual 2015 (\$'000)
<b>(c) Interest and Investment Revenue (Losses)</b>		
Interest and dividends		
- Overdue rates and charges	295	260
- Cash and investments	4,861	4,545
- Interest on section 94 contributions	2,078	2,047
Amortisation of discounts and premiums	445	419
<b>Total Interest and Investment Revenue (Losses)</b>	<b>7,679</b>	<b>7,271</b>
<b>(d) Other Revenues</b>		
Fair value increments - investment properties	826	413
Fines - parking, animal and littering	730	748
Legal fees recovery	221	300
Sale of publications	16	17
Canteen sales	293	239
Sale of merchandise	44	39
Sundry sales and services	339	210
Commissions received	32	30
Insurance claims	327	451
External works	5,291	8,449
Rental income		
- Investment property	2,614	2,668
- Other property	1,606	1,525
Other	412	439
<b>Total Other Revenue</b>	<b>12,751</b>	<b>15,528</b>

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2016 (continued)

### Note 3 Income from Continuing Operations (continued)

	OPERATING		CAPITAL	
	Actual 2016 (\$'000)	Actual 2015 (\$'000)	Actual 2016 (\$'000)	Actual 2015 (\$'000)
<b>(e) Grants</b>				
<b>General Purpose (Untied)</b>				
Financial assistance				
- Equalisation component	12,950	13,288	-	-
- Local roads component	2,625	2,654	-	-
Pensioners' rates subsidies (General)	1,844	1,858	-	-
<b>Special Purpose</b>				
Pensioners' rates subsidies (DWM)	616	602	-	-
Heritage	7	4	-	-
Bush fire services	842	962	624	300
Library and arts	608	595	-	216
Environmental	724	1,376	120	67
Community facilities and services	3,129	3,056	-	21
Waterways	-	387	672	130
Recreation	-	3,075	83	75
Transport (3x3, Flood Works, Roads to Recovery)	1,217	877	14,857	2,144
<b>Total Grants</b>	<b>24,562</b>	<b>28,734</b>	<b>16,356</b>	<b>2,953</b>
<b>Comprising:</b>				
- Commonwealth funding	20,805	21,118	14,675	1,252
- State funding	3,502	7,327	1,673	1,701
- Other funding	255	289	8	-
	<b>24,562</b>	<b>28,734</b>	<b>16,356</b>	<b>2,953</b>

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2016 (continued)

### Note 3 Income from Continuing Operations (continued)

	OPERATING		CAPITAL	
	Actual 2016 (\$'000)	Actual 2015 (\$'000)	Actual 2016 (\$'000)	Actual 2015 (\$'000)
<b>(f) Contributions</b>				
Developer contributions:				
- Section 94 administration	327	247	-	-
- Section 94 drainage	-	-	113	157
- Section 94 open space	-	-	13,558	10,621
- Section 94 community facilities	-	-	3,359	2,565
- Section 94 traffic facilities	-	-	2,122	1,814
- Dedications of land in lieu of cash contributions	-	-	30	175
- Planning agreements	-	-	143	286
RMS contributions	301	51	3,369	12,191
Drainage	-	-	350	-
Roads	259	380	572	71
Environmental	373	364	5	83
Community facilities	60	198	-	7
Kerb and gutter	-	-	592	(10)
Administration	927	876	34	-
Economic development	23	34	-	-
Dedications	-	-	36,102	20,543
Bush fire services	176	260	-	-
Recreation and cultural	7	110	120	19
Other	232	740	14	69
<b>Total Contributions</b>	<b>2,685</b>	<b>3,260</b>	<b>60,483</b>	<b>48,591</b>
<b>Total Grants and Contributions</b>	<b>27,247</b>	<b>31,994</b>	<b>76,839</b>	<b>51,544</b>

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements  
30 June 2016  
(continued)**

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**Note 3 Income from Continuing Operations (continued)**

	<b>Actual 2016 (\$'000)</b>	<b>Actual 2015 (\$'000)</b>
<b>(g) Restrictions Relating to Grants and Contributions</b>		
Certain grants and contributions are obtained by Council on the condition they be spent in a specified manner		
Grants and contributions recognised in the current period which have not been spent	<b>25,170</b>	24,279
Less:		
Grants and contributions recognised in previous reporting periods which have been spent in the current reporting period	<b>31,565</b>	9,128
Net increase/(decrease) in restricted grants and contributions	<b><u>(6,395)</u></b>	<u>15,151</u>



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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements  
30 June 2016  
(continued)**

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**Note 4 Expenses from Continuing Operations**

	<b>Actual 2016 (\$'000)</b>	<b>Actual 2015 (\$'000)</b>
<b>(a) Employee Benefits and On-costs</b>		
Salaries and wages	<b>66,529</b>	63,830
Travelling	<b>390</b>	385
Employee leave entitlements	<b>12,960</b>	14,119
Superannuation	<b>9,571</b>	8,931
Workers' compensation insurance	<b>2,632</b>	1,892
FBT	<b>429</b>	442
Training costs (excluding salaries)	<b>826</b>	712
Other contractual payments	<b>710</b>	729
Other employee costs	<b>-</b>	101
Less: Capitalised costs	<u><b>(12,044)</b></u>	<u>(9,910)</u>
<b>Total Employee Costs Expensed</b>	<u><b>82,003</b></u>	<u>81,231</u>
Number of Full Time Equivalent employees as at 30 June 2016 <sup>1</sup>	<b>961</b>	932
<b>(b) Borrowings Costs</b>		
Interest on loans	<b>5,313</b>	4,808
Amortisation of discounts and premiums: - Remediation (Quarries and tips)	<b>944</b>	1,012
Less: Capitalised costs	<b>-</b>	-
<b>Total Borrowing Costs Expensed</b>	<u><b>6,257</b></u>	<u>5,820</u>

1 Full time equivalent (FTE) employees includes all active full-time and part-time, ongoing and non-ongoing employees engaged for a specified term or task paid through payroll as at 30 June 2016.

FTE excludes overtime, non-ongoing staff engaged for duties that are irregular or intermittent (casuals), workers paid through a third party (contractors), and employees on unpaid leave

The calculation of the number of FTE employees is as follows:

Total number of full-time equivalent employees + (total part-time hours/standard full-time hours for a week)

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements  
30 June 2016  
(continued)**

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**Note 4 Expenses from Continuing Operations (continued)**

	Actual 2016 (\$'000)	Actual 2015 (\$'000)
<b>(c) Materials and Contracts</b>		
Raw materials and consumables	<b>20,560</b>	29,246
Contractor costs		
- Kerbside recycling	<b>2,569</b>	2,542
- Greenwaste collection and processing	<b>3,473</b>	3,806
- Council Online system	<b>1,949</b>	2,042
- Effluent removal	<b>1,114</b>	1,110
- Caravan park managers	<b>880</b>	823
- Cleaning	<b>477</b>	480
- Other	<b>746</b>	610
Consultancy costs		
- Development assessment	<b>4</b>	19
- Asset management planning	<b>125</b>	3
- Re-zoning assessment	<b>-</b>	1
- Environmental	<b>352</b>	725
- Design services	<b>11</b>	137
- Other consultants	<b>532</b>	676
Remuneration of auditors <sup>(1)</sup>	<b>76</b>	72
Other audit services	<b>2</b>	-
Legal fees		
- Planning and development	<b>286</b>	841
- Other	<b>359</b>	252
Operating leases		
- Buildings	<b>32</b>	31
- Computers	<b>612</b>	650
- Other	<b>117</b>	124
Other		
- Family day care	<b>2,604</b>	2,218
- Caravan park rental commission	<b>274</b>	251
- RSPCA payments	<b>172</b>	194
- Vehicle registrations	<b>370</b>	350
- Water charges	<b>1,350</b>	1,283
- Other	<b>61</b>	85
<b>Total Materials and Contracts</b>	<b>39,107</b>	48,571

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements  
30 June 2016  
(continued)**

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**Note 4 Expenses from Continuing Operations (continued)**

	<b>Actual 2016 (\$'000)</b>	<b>Actual 2015 (\$'000)</b>
<b>(c) Materials and Contracts (continued)</b>		
(1) During the year the following fees were paid or payable for services provided by the Council's auditor - Pitcher Partners:		
<i>(i) Audit and other assurance services</i>		
Audit and review of financial statements	<b>69</b>	69
Other assurance services:		
- Audit of regulatory returns	<b>2</b>	3
- Other	<b>5</b>	-
Total remuneration for audit and other assurance services	<b>76</b>	72
<i>(ii) Taxation services</i>		
Taxation advisory services	-	-
Total remuneration for taxation services	-	-
<b>Total remuneration of Pitcher Partners</b>	<b>76</b>	72

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements****30 June 2016****(continued)**

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**Note 4 Expenses from Continuing Operations (continued)**

	Depn/Amor Actual 2016 (\$'000)	Depn/Amor Actual 2015 (\$'000)	Imp Actual 2016 (\$'000)	Imp Actual 2015 (\$'000)
<b>(d) Depreciation, Amortisation and Impairment</b>				
Intangible assets	142	262	-	-
Plant and equipment	5,654	5,872	-	-
Office equipment	1,091	964	-	-
Furniture and fittings	493	522	-	-
Land improvements (depreciable)	2,130	2,004	-	-
Buildings	3,600	3,593	-	-
Other structures	2,047	2,049	-	-
Swimming pools	206	164	-	-
Other open space / Recreational assets	1,454	1,420	-	-
Infrastructure				
- Roads, bridges, footpaths, other road assets	24,459	21,891	-	-
- Storm water drainage	5,113	4,135	-	-
- Other infrastructure	519	506	-	-
Other assets				
- Library books	424	440	-	-
Tip asset	1,370	1,370	-	-
Less: Capitalised costs / Impairment reversals / Impairments offset against asset revaluation reserve	(857)	(808)	-	-
<b>Total Depreciation and Total Impairment</b>	<b>47,845</b>	<b>44,384</b>	-	-

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements****30 June 2016****(continued)**

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**Note 4 Expenses from Continuing Operations (continued)**

	Actual 2016 (\$'000)	Actual 2015 (\$'000)
<b>(e) Other Expenses</b>		
Other expenses for the year including the following:		
Bad and doubtful debts	5	33
Mayoral fee	86	86
Councillors' fees	290	288
Councillors' (incl Mayor) expenses	115	122
Insurance	2,838	3,061
Street lighting	3,296	3,018
Electricity and heating	1,234	1,341
Telephone and communications	1,057	852
Contributions to state government - BFB and State Fire Brigades	3,152	2,961
Contributions to state government - EPA	6,906	6,583
Emergency services levy	343	292
Donations <sup>(1)</sup>	723	698
Advertising	582	847
Bank charges	404	423
Valuation fees	480	466
Subscriptions, memberships and publications	533	549
Other	951	1,069
<b>Total Other Expenses from Continuing Operations</b>	<b>22,995</b>	<b>22,689</b>

(1) In addition to the donations shown above, Council provided an amount in the sum of \$2,655k to community organisations by way of lease rental concessions.

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements****30 June 2016****(continued)**

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**Note 5 Gain or Loss from the Disposal of Assets**

	<b>Actual</b>	<b>Actual</b>
	<b>2016</b>	<b>2015</b>
	<b>(\$'000)</b>	<b>(\$'000)</b>
<b>Gain (or Loss) on Disposal of Property</b>		
Proceeds from disposal	2,841	732
Less: Carrying amount of assets sold	<u>(3,550)</u>	<u>(3,183)</u>
<b>Gain (or Loss) on Disposal</b>	<u><u>(709)</u></u>	<u><u>(2,451)</u></u>
<b>Gain (or Loss) on Disposal of Infrastructure, Plant and Equipment</b>		
Proceeds from disposal	1,636	1,742
Less: Carrying amount of assets sold	<u>(3,195)</u>	<u>(3,434)</u>
<b>Gain (or Loss) on Disposal</b>	<u><u>(1,559)</u></u>	<u><u>(1,692)</u></u>
<b>Gain (or Loss) on Disposal of Real Estate Assets Held for Sale</b>		
Proceeds from sales	814	215
Less: Cost of sales	<u>(126)</u>	<u>(6)</u>
<b>Gain (or Loss) on Disposal</b>	<u><u>688</u></u>	<u><u>209</u></u>
<b>Gain (or Loss) on Disposal of Investment Property</b>		
Proceeds from disposal	20,891	3,250
Less: Carrying value of investment property	<u>(12,841)</u>	<u>(3,116)</u>
<b>Gain (or Loss) on Disposal</b>	<u><u>8,050</u></u>	<u><u>134</u></u>
<b>Net Gain (or Loss) from Disposal of Assets</b>	<u><u>6,470</u></u>	<u><u>(3,800)</u></u>

The gain on disposal of \$6,470k included a gain on disposal from two parcels of land totalling \$8,050k, offset by a net loss on disposal of \$1,580k which related to assets written off before the end of their useful lives mainly due to being demolished in conjunction with refurbishment works for buildings, other structures and drainage at various locations around the City.

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements

30 June 2016

(continued)

### Note 6(a) Cash and Cash Equivalents

	Actual 2016 \$'000	Actual 2015 \$'000
Cash at bank and on hand	13,310	12,583
Short term deposits	-	31,199
	<u>13,310</u>	<u>43,782</u>

### Note 6(b) Investments

The following financial assets are held as investments:

	Actual 2016		Actual 2015	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
Held to maturity investments	128,998	85,290	91,250	72,647
<b>Total</b>	<u>128,998</u>	<u>85,290</u>	<u>91,250</u>	<u>72,647</u>

#### Held to Maturity Investments

At beginning of year	91,250	72,647	79,249	56,103
Amortisation of discounts and premiums	-	445	1	418
Additions	218,800	41,250	92,000	37,200
Disposals	(210,050)	(54)	(101,000)	(74)
Transfer to current	28,998	(28,998)	21,000	(21,000)
<b>At End of Year</b>	<u>128,998</u>	<u>85,290</u>	<u>91,250</u>	<u>72,647</u>

#### Comprising of:

- Term Deposits	113,000	14,000	89,250	13,000
- Floating Rate Notes	11,005	61,453	2,000	45,216
- Mortgage Backed Securities	-	2,692	-	2,746
- Corporate Bonds	4,993	-	-	4,987
- Zero Coupon Bonds	-	7,145	-	6,698
	<u>128,998</u>	<u>85,290</u>	<u>91,250</u>	<u>72,647</u>

Refer to Note 24 Fair Value Measurement for information regarding the fair value of Investments held.

Cash and cash equivalents are not measured at fair value.

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2016 (continued)

### Note 6(c) Restricted Cash, Cash Equivalents and Investments

	Actual 2016		Actual 2015	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
<b>Total Cash, Cash Equivalents and Investments</b>	<b>142,308</b>	<b>85,290</b>	<b>135,032</b>	<b>72,647</b>
External restrictions	30,837	85,290	56,931	72,647
Internal restrictions	111,471	-	78,101	-
	<b>142,308</b>	<b>85,290</b>	<b>135,032</b>	<b>72,647</b>
	<b>Opening Balance \$'000</b>	<b>Transfers to Restrictions \$'000</b>	<b>Transfers from Restrictions \$'000</b>	<b>Closing Balance \$'000</b>
<b>External Restrictions</b>				
<i>Included in liabilities</i>				
RMS advances (A)	4,542	5,270	9,811	1
	<b>4,542</b>	<b>5,270</b>	<b>9,811</b>	<b>1</b>
<b>Other</b>				
Developer contributions (B)	83,728	21,788	27,537	77,979
Specific purpose unexpended grants (C)	4,635	25,346	24,447	5,534
Domestic waste management (D)	15,887	36,514	36,634	15,767
DWM site rehabilitation (D)	6,177	896	-	7,073
DWM land infrastructure (D)	3,891	521	678	3,734
Caravan parks reserve	1,611	4,590	3,742	2,459
Crown reserve	301	181	349	133
Carbon pollution reduction scheme	3,850	-	3,850	-
Waste and sustainability improvement	35	427	391	71
Contribution to other works	4,780	2,457	4,044	3,193
Sundry income	141	43	1	183
	<b>125,036</b>	<b>92,763</b>	<b>101,673</b>	<b>116,126</b>
<b>Total External Restrictions</b>	<b>129,578</b>	<b>98,033</b>	<b>111,484</b>	<b>116,127</b>
<b>Internal Restrictions</b>				
Employee leave entitlements	999	1	-	1,000
Replacement of assets	31,262	45,299	47,682	28,879
Open space acquisition	2,795	998	80	3,713
Property and investment	9,963	13,583	6,332	17,214
Unexpended loan funds	7,235	21,148	16,558	11,825
External works surplus	1,138	446	612	972
Quarry rehabilitation	856	-	317	539
Matching funds Sec 94	1,075	6,508	204	7,379
Grant matching funds	966	132	17	1,081
Cemeteries improvement	1,013	268	247	1,034
General fund carried forward works	5,132	4,536	3,998	5,670
Community land	1,711	15,299	119	16,891
IT replacement	2,692	948	575	3,065
Employee resources	122	231	137	216
Charlestown open space endowment fund	3,979	227	92	4,114
Cardiff town park endowment fund	2,403	58	-	2,461
Insurance proceeds	592	273	136	729
Bulk materials recycling	646	-	274	372
Roads and drainage	827	7	822	12
Community Facilities	759	696	1	1,454
Wangi Point Lakeside Holiday Park	546	896	868	574
Elections	693	232	41	884
Sustainability environmental levy	441	-	178	263
Water and energy reduction strategies	256	1,051	177	1,130
	<b>78,101</b>	<b>112,837</b>	<b>79,467</b>	<b>111,471</b>
<b>Total Internal Restrictions</b>	<b>78,101</b>	<b>112,837</b>	<b>79,467</b>	<b>111,471</b>
<b>Total Restrictions</b>	<b>207,679</b>	<b>210,870</b>	<b>190,951</b>	<b>227,598</b>



**Notes to the Financial Statements  
30 June 2016  
(continued)**

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**Note 6(c) Restricted Cash, Cash Equivalents and Investments (continued)**

- A. Advances by the Roads and Maritime Services for works on the State's classified roads network.
- B. Development contributions which are not yet expended for the provisions of services and amenities in accordance with contributions plans (also includes those not under contribution plans).  
In the 2015/2016 financial year, Council 's General Fund borrowed \$19,282k from unspent developer contributions as part of Council's Fit For The Future Improvement Plan that was adopted by Council on 22 June 2015. This loan is included in the "Transfers from Restrictions" amount of \$27,537k.  
See Special Schedule 2(b) for details of this loan.
- C. Grants which are not yet expended for the purposes for which they were obtained, (see Note 1).
- D. Domestic Waste Management (DWM) funds, which are externally restricted assets, must be applied for the purposes for which they were raised.

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2016 (continued)

### Note 7 Receivables

Purpose	Actual 2016		Actual 2015	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
Rates and annual charges	4,659	576	4,097	506
Interest and extra charges	241	295	210	256
User charges and fees	339	225	249	166
Accrued interest on investments	1,822	-	1,682	-
Government grants and subsidies	1,380	-	740	-
RMS	422	-	606	-
External works	2,115	-	1,842	-
Contribution to works	1,337	-	698	-
Community loan	-	-	-	117
GST	952	-	1,231	-
Fines	42	-	101	-
Insurance proceeds	4	-	32	-
Other	451	385	428	225
<b>Total</b>	<b>13,764</b>	<b>1,481</b>	<b>11,916</b>	<b>1,270</b>
Less: Provision for impairment				
- Rates and annual charges	-	12	-	12
- Other receivables	2	373	11	474
	<b>13,762</b>	<b>1,096</b>	<b>11,905</b>	<b>784</b>

### Restricted Receivables

Externally Restricted Receivables	Actual 2016		Actual 2015	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
Domestic waste management	1,138	-	993	-
<b>Total Externally Restricted Receivables</b>	<b>1,138</b>	<b>-</b>	<b>993</b>	<b>-</b>
<b>Unrestricted Receivables</b>	<b>12,624</b>	<b>1,096</b>	<b>10,911</b>	<b>784</b>
<b>Total Receivables</b>	<b>13,762</b>	<b>1,096</b>	<b>11,904</b>	<b>784</b>

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2016 (continued)

### Note 8 Inventories and Other Assets

	Actual 2016		Actual 2015	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
<b>(a) Inventories</b>				
<b>At cost:</b>				
Real estate (refer (i) below)	1,933	3,546	1,270	1,826
Stores and materials	643	-	578	-
Trading stock - pools	14	-	8	-
<b>Total Inventories</b>	<b>2,590</b>	<b>3,546</b>	<b>1,856</b>	<b>1,826</b>
<b>(i) Real Estate Development</b>				
Residential	480	1,331	740	107
Industrial/Commercial	63	1,765	530	1,719
Other Properties	1,390	450	-	-
<b>Total Real Estate Held for Sale</b>	<b>1,933</b>	<b>3,546</b>	<b>1,270</b>	<b>1,826</b>
<b>Represented by:</b>				
Acquisition costs	1,887	2,276	1,161	510
Development costs	46	1,270	109	1,316
	1,933	3,546	1,270	1,826
Less: Provision for under recovery	-	-	-	-
<b>Total Real Estate Held for Sale</b>	<b>1,933</b>	<b>3,546</b>	<b>1,270</b>	<b>1,826</b>
<b>(ii) Inventories not expected to be realised within the next 12 months</b>				
	-	-	-	-
<b>(b) Other Assets</b>				
Prepayments	601	1,270	364	1,516
<b>Total Other Assets</b>	<b>601</b>	<b>1,270</b>	<b>364</b>	<b>1,516</b>

Refer to Note 24 Fair Value Measurement for information regarding the fair value of Other Assets held.

### Externally Restricted Inventories and Other Assets

	Actual 2016		Actual 2015	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
<b>DWM</b>				
Stores and materials	83	-	75	-
<b>Total DWM</b>	<b>83</b>	<b>-</b>	<b>75</b>	<b>-</b>
<b>Total Externally Restricted Inventories and Other Assets</b>	<b>83</b>	<b>-</b>	<b>75</b>	<b>-</b>
<b>Unrestricted Inventories and Other Assets</b>	<b>3,108</b>	<b>4,816</b>	<b>2,145</b>	<b>3,342</b>
<b>Total Inventories and Other Assets</b>	<b>3,191</b>	<b>4,816</b>	<b>2,220</b>	<b>3,342</b>

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2016 (continued)

### Note 9(a) Infrastructure, Property, Plant and Equipment

BY ASSET TYPE <sup>(1)</sup>	At 30 June 2015				Movements during year						At 30 June 2016			
	Cost \$'000	Fair Value \$'000	Accum Depn and Impairment \$'000	Carrying Value \$'000	Renewals <sup>(2)</sup> \$'000	New Assets \$'000	Carrying Value of Disposals \$'000	Depn and Impairment \$'000	Transfers /Adjustments \$'000	Reval Increments/ Decrements \$'000	Cost \$'000	Fair Value \$'000	Accum Depn and Impairment \$'000	Carrying Value \$'000
Capital WIP	29,401	-	-	29,401	7,899	25,470					62,770	-	-	62,770
Plant and equipment	-	56,197	(27,253)	28,944	6,736	1,037	1,595	(5,655)	178	-	-	58,956	(29,311)	29,645
Office equipment	-	6,463	(4,518)	1,945	591	570	8	(1,091)	-	-	-	7,146	(5,139)	2,007
Furniture and fittings	-	8,859	(5,815)	3,044	304	137	9	(493)	35	-	-	9,357	(6,339)	3,018
Land														
- Operational land	-	130,904	-	130,904	29	6,104	1,459	-	(1,301)	(3,809)	-	130,468	-	130,468
- Community land	-	186,997	-	186,997	135	957	5	-	(22,063)	-	-	166,021	-	166,021
Land under roads - Post 1 July 2008	-	57,741	-	57,741	-	17,304	-	-	-	-	-	75,045	-	75,045
Depreciable land improvements	-	92,605	(33,213)	59,392	1,517	1,207	-	(2,130)	(3,552)	15,697	-	112,256	(40,125)	72,131
Infrastructure:														
- Buildings *	-	231,779	(43,102)	188,677	4,972	2,852	2,085	(3,600)	482	-	-	237,655	(46,357)	191,298
- Other structures *	-	35,135	(15,194)	19,941	852	553	82	(2,047)	(3,663)	5,906	-	40,565	(19,105)	21,460
- Roads *	-	963,869	(321,463)	642,404	16,781	10,346	-	(15,572)	0	-	-	990,995	(337,036)	653,959
- Bridges *	-	63,886	(20,563)	43,323	59	-	-	(590)	(169)	-	-	63,671	(21,048)	42,623
- Footpaths *	-	56,634	(18,354)	38,280	1,915	3,617	78	(1,043)	3	(1,131)	-	60,813	(19,250)	41,563
- Other road assets *	-	570,381	(199,563)	370,818	1,977	5,806	3	(7,254)	1,535	(1,028)	-	578,522	(206,671)	371,851
- Bulk earthworks (non-depreciable) *	-	187,249	-	187,249	1,826	3,213	-	-	-	-	-	192,288	-	192,288
- Storm water drainage *	-	451,480	(163,790)	287,690	1,245	4,531	699	(5,113)	(24)	-	-	456,120	(168,490)	287,630
- Swimming pools *	-	8,005	(1,902)	6,103	247	-	133	(206)	(27)	373	-	8,361	(2,004)	6,357
- Other open space/recreational assets *	-	33,426	(16,329)	17,097	746	410	220	(1,454)	575	1,059	-	35,422	(17,209)	18,213
- Other infrastructure *	-	19,743	(9,112)	10,631	863	177	234	(519)	(289)	1,241	-	24,844	(12,974)	11,870
Other assets														
- Library books	-	6,873	(5,505)	1,368	493	-	135	(424)	-	176	-	7,298	(5,820)	1,478
- Remediation asset	20,965	-	(7,672)	13,293	-	-	-	(1,370)	-	-	20,965	-	(9,042)	11,923
- Artworks	-	1,550	-	1,550	-	107	-	-	-	215	-	1,872	-	1,872
<b>TOTALS <sup>(3)</sup></b>	<b>50,366</b>	<b>3,169,776</b>	<b>(893,350)</b>	<b>2,326,792</b>	<b>49,187</b>	<b>84,398</b>	<b>6,745</b>	<b>(48,561)</b>	<b>(28,280)</b>	<b>18,699</b>	<b>83,735</b>	<b>3,257,675</b>	<b>(945,920)</b>	<b>2,395,490</b>

1. Excludes investment properties and non-current assets held for sale.

2. Renewals are defined as replacements of existing assets as opposed to the acquisition of new assets.

3. Total renewals and new assets include capital WIP acquisitions for the year less transfers from WIP through the capitalisation process.

\* Asset classes to be included in Special Schedule 7 - Infrastructure Asset Report

Refer to Note 24 Fair Value Measurement for information regarding the fair value of Infrastructure, Property, Plant and Equipment.

**LAKE MACQUARIE CITY COUNCIL**

**Notes to the Financial Statements  
30 June 2016  
(continued)**

**Note 9(b) Restricted Infrastructure, Property, Plant and Equipment**

	Actual 2016 \$'000				Actual 2015 \$'000			
	Cost \$'000	Fair Value \$'000	Accum Depn and Impairment \$'000	Carrying Amount \$'000	Cost \$'000	Fair Value \$'000	Accum Depn and Impairment \$'000	Carrying Amount \$'000
<b>Domestic Waste Management</b>								
Plant and equipment	-	6,854	(4,051)	2,803	-	8,952	(5,173)	3,779
Buildings	-	1,008	(198)	810	-	1,284	(239)	1,045
Land								
- Operational land	-	970	-	970	-	1,082	-	1,082
- Community land	-	-	-	-	-	261	-	261
Depreciable land improvements	-	2,586	(683)	1,903	-	2,432	(586)	1,846
Remediation asset	7,458	-	(3,027)	4,431	7,458	-	(3,027)	4,431
<b>Total DWM</b>	<b>7,458</b>	<b>11,418</b>	<b>(7,959)</b>	<b>10,917</b>	<b>7,458</b>	<b>14,011</b>	<b>(9,025)</b>	<b>12,444</b>
<b>TOTAL RESTRICTIONS</b>	<b>7,458</b>	<b>11,418</b>	<b>(7,959)</b>	<b>10,917</b>	<b>7,458</b>	<b>14,011</b>	<b>(9,025)</b>	<b>12,444</b>

Refer to Note 24 Fair Value Measurement for information regarding the fair value of Infrastructure, Property, Plant and Equipment.

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements

30 June 2016

(continued)

### Note 10(a) Payables, Borrowings and Provisions

	Actual 2016		Actual 2015	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
<b>Payables</b>				
Goods and services	13,778	-	15,958	-
Accrued expenses	69	-	66	-
Payments received in advance	68	-	18	-
Deposits and retentions	2,006	-	3,452	-
Biodiversity credits	-	-	-	-
Other payables	2,058	-	2,030	-
<b>Total Payables</b>	<b>17,979</b>	<b>-</b>	<b>21,524</b>	<b>-</b>
<b>Current payables not expected to be settled within the next 12 months</b>	<b>1,125</b>		<b>831</b>	
<b>Borrowings</b>				
Loans:				
- Secured <sup>(1)</sup>	2,332	81,468	3,121	81,935
<b>Total Borrowings</b>	<b>2,332</b>	<b>81,468</b>	<b>3,121</b>	<b>81,935</b>
<b>Provisions</b> <sup>(2)</sup>				
Annual leave	8,206	-	7,352	-
Sick leave	8,929	-	10,051	-
Long service leave	18,785	1,228	18,332	1,262
Time in lieu	1,255	-	1,207	-
Self insurance - Workers compensation <sup>(3)</sup>	1,384	3,475	1,459	2,823
Asset remediation (Note 21)	24,354	13,128	23,714	12,824
<b>Total Provisions</b>	<b>62,913</b>	<b>17,831</b>	<b>62,115</b>	<b>16,909</b>
<b>Current provisions not expected to be settled within the next 12 months</b>	<b>50,191</b>		<b>49,807</b>	
<b>Liabilities Relating to Restricted Assets</b>				
Domestic waste management	9,927	24,373	9,290	20,426
Total restricted liabilities	9,927	24,373	9,290	20,426
Liabilities related to unrestricted assets	73,297	74,926	77,470	78,418
<b>Total</b>	<b>83,224</b>	<b>99,299</b>	<b>86,760</b>	<b>98,844</b>

Notes:

(1) Loans are secured over the rating income of Council.

(2) Vested ELEs are all carried as current provisions.

(3) Recoveries of \$341k have been factored into the total net position of \$4,859k.

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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements

30 June 2016

(continued)

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#### Note 10(b) Description of and Movements in Provisions

The movement in each class of provision (excluding those relating to employee benefits) is presented in the table below.

<b>Class of Provision</b>	<b>Opening Balance \$'000</b>	<b>Increases in Provision \$'000</b>	<b>Payments \$'000</b>	<b>Re- Measurement \$'000</b>	<b>Closing Balance \$'000</b>
Self insurance <sup>(i)</sup>	4,282	577	-	-	4,859
Asset remediation <sup>(ii)</sup>	36,538	944	-	-	37,482
<b>Total</b>	<b>40,820</b>	<b>1,521</b>	<b>-</b>	<b>-</b>	<b>42,341</b>

(i) The provision for Self Insurance represents future estimated payments required to settle outstanding workers compensation claims as a result of Council's decision to self insure for workers compensation. It includes amounts for claims incurred but not reported, future developments on reported claims and re-opening of closed claims.

The calculation of the provision involves estimates and assumptions including the following:

- The calculation assumes that the adopted actuarial model is the correct predictor of claims experience.
- It is assumed that the nature and extent of past claims are reasonable predictors of future claims behaviour. Past data, apparent trends and claims experience in general can change however and place uncertainty over the provision.
- It is assumed that the employment structure of Council remains stable in future years.
- Monetary amounts in past workers compensation claims were indexed to bring them to "standardised" values as at 30 June 2016, i.e. effects of past inflation are stripped away from actual money values.
- Workers compensation claims payments projected into the future by the adopted actuarial model will be in "standardised" values as at 30 June 2016.
- The future accrual of claims liabilities is based on an assumed risk premium rate applied to future wages exposure.
- General economic factors may be subject to change such as expected bond yields.

(ii) The provision for Asset Remediation represents the present value of the future estimated costs Council will incur in the close down and restoration of sites requiring remediation as a result of past and/or current activity.

The calculation of the provision involves estimates and assumptions concerning future estimated costs, discount rates and timing of remediation requirements. Refer Note 21 Reinstatement, Rehabilitation and Restoration Liabilities for further information.

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**LAKE MACQUARIE CITY COUNCIL**

**Notes to the Financial Statements**

**30 June 2016**

**(continued)**

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**Note 11 Reconciliation of Operating Result to Net Cash Movement from Operating Activities**

	Actual 2016 \$'000	Actual 2015 \$'000
<b>(a) Reconciliation of Cash Assets</b>		
Total cash and cash equivalents	6a <u>13,310</u>	43,782
<b>Balance as per statement of cash flows</b>	<u>13,310</u>	<u>43,782</u>
<b>(b) Reconciliation of Net Operating Result to Cash Provided from Operating Activities</b>		
	Actual 2016 \$'000	Actual 2015 \$'000
Net operating result from Income Statement	92,798	49,486
<b>Add:</b>		
Depreciation, amortisation and impairment	48,702	45,194
Increase in provision for doubtful debts	-	21
Increase in provision for leave entitlements	199	2,183
Increase in other provisions	1,521	1,013
Decrease in receivables	-	1,509
Decrease in inventories	-	37
Decrease in other assets	9	1,487
Increase in payables	-	5,431
Increase in accrued interest payable	3	9
Loss on disposal of assets	-	3,800
Amortisation of discounts and premiums recognised	<u>(445)</u>	<u>(419)</u>
	<u>49,989</u>	60,265
<b>Less:</b>		
Decrease in provision for doubtful debts	109	-
Increase in receivables	2,060	-
Decrease in payables	3,548	-
Increase in inventories	71	-
Non cash contributions and dedications	36,907	21,070
Fair value adjustments to investment properties	826	413
Gain on sale of assets	6,470	-
Share of profit/loss in jointly controlled entity	<u>24</u>	<u>123</u>
	<u>50,015</u>	21,606
<b>Net Cash Provided from (or Used in) Operating Activities from Statement of Cash Flows</b>	<u>92,772</u>	88,145



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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements****30 June 2016****(continued)**

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**Note 11 Reconciliation of Operating Result to Net Cash Movement from Operating Activities (continued)**

	Actual 2016 \$'000	Actual 2015 \$'000
Notes		
<b>(c) Non-Cash Financing and Investing Activities</b>		
Bushfire grants	776	352
Dedications	36,132	20,718
	<u>36,908</u>	<u>21,070</u>

**(d) Financing Arrangements**

Unrestricted access was available at reporting date to the following:

- Bank overdraft facility	700	700
- Corporate purchase cards	1,000	1,000
	<u>1,700</u>	<u>1,700</u>

*Notes:*

(1) The Bank overdraft facility may be drawn at any time and may be terminated by the bank without notice.

(2) Interest rates on overdrafts are variable.

**(e) Bank Guarantees**

Council had the following bank guarantees in place at reporting date:

- Self insurance licence	4,262	4,654
	<u>4,262</u>	<u>4,654</u>

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# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements

30 June 2016

(continued)

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### Note 12 Commitments

	Actual 2016 \$'000	Actual 2015 \$'000
<b>(a) Capital Commitments (Exclusive of GST)</b>		
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
- Sporting and recreational facilities	486	1,311
- Acquisition - plant	1,567	1,352
- Land acquisition	45	3,680
- Community facilities	132	201
- Information technology	-	203
- Infrastructure	11,448	26,472
- Signage	-	10
- Environmental	264	367
- Buildings	908	502
<b>Total</b>	<b>14,850</b>	<b>34,098</b>

#### Description of commitments

- Sporting and Recreational Facilities commitments include improvements at surf lifesaving clubs, swimming pools and sporting ovals and new recreational facilities including skate park at Cameron Park.
- Acquisition - Plant commitments include trucks, mowers, trailers and light commercial vehicles under the plant replacement program.
- Land Acquisition commitments include acquisitions relating to various small parcels of land within the city.
- Community Facilities commitments include improvements at libraries, art gallery and neighbourhood centres.
- Infrastructure commitments include the Lake Macquarie Transport Interchange project.
- Environmental commitments include irrigation system upgrade projects at various locations in the city.
- Buildings commitments include the air conditioning replacement at the Council Administration Building and the refurbishment of amenities at Swansea Gardens Lakeside Holiday Park.

#### **(b) Non-Cancellable Operating Lease Commitments**

Commitments under non-cancellable operating leases at the reporting date but not recognised in the financial statements are payable as follows:

Not later than one year	674	510
Later than one year and not later than 5 years	1,608	966
Later than 5 years	168	138
<b>Total</b>	<b>2,450</b>	<b>1,614</b>

#### Description of leases

Non-cancellable operating leases include the following amounts:

- Office equipment including desktop computers and multi-function copying devices (\$1,759k): 3 to 5 year lease terms with extensions of leases available on an individual item basis.
- Property lease - Library (\$487): 8 year lease term with an option for a further 3 x 5 years.
- Property lease - Sporting oval (\$83k): 10 year lease term with an option for a further 1 x 10 years.
- Property lease - Community Facility (\$121k): 5 year lease term with an option for a further 4 x 5 years.

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2016 (continued)

### Note 13 Statement of Performance Measures

	Amounts \$'000	Current Year Indicators	2015	2014
<b>1. Operating Performance</b>				
Total continuing operating revenue <sup>(1)</sup> excluding capital grants and contributions less operating expenses <sup>(2)</sup>	\$ 8,639	4.18%	0.59%	1.63%
Total continuing operating revenue <sup>(1)</sup> excluding capital grants and contributions	\$ 206,846			
<b>2. Own Source Operating Revenue</b>				
Total continuing operating revenue <sup>(1)</sup> less all grants and contributions	\$ 179,599	63.31%	67.30%	70.21%
Total continuing operating revenue <sup>(1)</sup> inclusive of capital grants and contributions	\$ 283,685			
<b>3. Unrestricted Current Ratio</b>				
Current assets less all external restrictions <sup>(3)</sup>	\$ 127,203	2.67 x	1.99 x	2.06 x
Current liabilities less specific purpose liabilities <sup>(4),(5),(6)</sup>	\$ 47,719			
<b>4. Debt Service Cover Ratio</b>				
Operating results <sup>(1),(2)</sup> before capital excluding interest and depreciation/impairment/amortisation (EBITDA)	\$ 62,741	7.44 x	5.96 x	6.28 x
Principal repayments (from the Statement of Cash Flows) plus borrowing interest costs (from the Income Statement)	\$ 8,437			
<b>5. Rates and Annual Charges Outstanding Percentage</b>				
Rates and annual charges outstanding	\$ 5,758	3.87%	3.64%	3.41%
Rates and annual charges collectible	\$ 148,687			
<b>6. Cash Expense Cover Ratio</b>				
Current year cash and cash equivalents and term deposits	\$ 140,310	10.00	10.56	10.07
Payments from Statement of Cash Flows of operating and financing activities <sup>*12</sup>	\$ 168,338	months	months	months

*Notes:*

- (1) Excludes net share of interests in joint ventures and associates, net gain on disposal of assets and fair value adjustment on investment properties.
- (2) Excludes net loss from the disposal of assets.
- (3) Refer to Notes 6-8 inclusive.
- (4) Refer to Note 10(a).
- (5) \$24.1m employee leave provisions not expected to be settled within 12 months deducted.
- (6) \$1.1m payables not expected to be settled within 12 months deducted.

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements****30 June 2016****(continued)**

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**Note 14 Investment Properties**

	<b>Actual 2016 \$'000</b>	<b>Actual 2015 \$'000</b>
<b>At Fair Value</b>		
Opening balance at 1 July 2015	36,956	38,423
Acquisitions	-	1,609
Capitalised subsequent expenditure	423	202
Disposals	-	(3,116)
Classified as held for sale or disposals (refer note 22)	-	(575)
Net gain (loss) from fair value adjustment	826	413
<b>Closing Balance at 30 June 2016</b>	<b>38,205</b>	<b>36,956</b>

**(a) Amounts Recognised in Profit and Loss for Investment Property**

Rental income	2,614	2,668
Net gain (loss) from fair value adjustment	826	413
Direct operating expenses from property that generated rental income	(695)	(664)
	<b>2,745</b>	<b>2,417</b>

**(b) Leasing Arrangements**

The investment properties are leased to tenants under long term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:

- Within one year	1,955	1,772
- Later than one year but not later than 5 years	4,635	3,855
- Later than 5 years	7	247
	<b>6,597</b>	<b>5,874</b>

Refer to Note 24 Fair Value Measurement for information regarding the fair value of Investment Properties held.

**Notes to the Financial Statements  
30 June 2016  
(continued)**

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**Note 15 Financial Risk Management****Risk Management**

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

Council does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by the Finance & Administration Department under policies approved by Council.

Council held the following financial instruments at balance date:

	<b>Carrying Value</b>		<b>Fair Value</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial Assets</b>				
Cash and cash equivalents	<b>13,310</b>	43,782	<b>13,310</b>	43,782
Receivables	<b>14,858</b>	12,689	<b>14,858</b>	12,689
Held to maturity investments	<b>214,288</b>	163,897	<b>214,288</b>	163,897
<b>Total</b>	<b><u>242,456</u></b>	<u>220,368</u>	<b><u>242,456</u></b>	<u>220,368</u>
<b>Financial Liabilities</b>				
Payables	<b>17,979</b>	21,524	<b>17,979</b>	21,524
Borrowings	<b>83,800</b>	85,056	<b>83,800</b>	85,056
<b>Total</b>	<b><u>101,779</u></b>	<u>106,580</u>	<b><u>101,779</u></b>	<u>106,580</u>

Refer to Note 24 Fair Value Measurement for information regarding fair value.

Cash and cash equivalents are not measured at fair value.

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# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements

30 June 2016

(continued)

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### Note 15 Financial Risk Management (continued)

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital. The Finance Department manages the cash and investments portfolio with the assistance of independent advisors. Council has an investment policy which complies with the Local Government Act and Minister's Order. The policy is regularly reviewed by Council and an investment report is provided to Council monthly setting out the make-up and performance of the portfolio.

The risks associated with investments held are:

- Price risk - the risk that the capital value of investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments or their issuers or factors affecting similar instruments traded in a market.
- Interest rate risk - the risk that movements in interest rates could affect returns.
- Credit risk - the risk that a contracting entity will not complete its obligations under a financial instrument resulting in a financial loss to Council.

Council manages these risks by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees. Council also seeks advice from its independent advisors before placing any cash and investments.

#### (a) Market risk - price risk and interest rate risk

The impact on the result for the year and equity of reasonably possible movements in the price of investments held and interest rates is shown below. The reasonably possible movements were determined based on historical movements and economic conditions in place at the reporting date.

	30-Jun-16 \$'000	30-Jun-15 \$'000
Impact of movement <sup>(1)</sup> in price of investments:		
- Equity	NIL	NIL
- Income statement	NIL	NIL
Impact of a 1% <sup>(2)</sup> movement in interest rates on cash and investments:		
- Equity	2,276 <sup>(3)</sup>	2,077 <sup>(3)</sup>
- Income statement	2,276 <sup>(3)</sup>	2,077 <sup>(3)</sup>

Notes:

(1) All Council's investments are held to maturity and as such any movement in price of investments will have no impact on equity and the income statement.

(2) Sensitivity percentages based on management's expectation of future possible market movements. Interest rate movements are calculated on cash, cash equivalents and held to maturity investments.

(3) Maximum impact.

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# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements

30 June 2016

(continued)

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### Note 15 Financial Risk Management (continued)

#### (b) Credit risk

Council's major receivables comprise rates, annual charges and user charges and fees. Council manages the credit risk associated with these receivables by monitoring outstanding debts and employing stringent debt recovery policies. Council also encourages ratepayers to pay rates by the due date through incentives.

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

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions. The level of outstanding receivables is reported to Management monthly and benchmarks are set and monitored for acceptable collection performance.

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

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

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

	30-Jun-16	30-Jun-15
<b>Percentage of Rates and Annual Charges:</b>		
- Current	0%	0%
- Overdue	100%	100%
<b>Analysis of Overdue Debts:</b>		
	<b>\$'000</b>	<b>\$'000</b>
- Less than 1 year	3,850	3,470
- 1 to 2 years	641	488
- 2 to 5 years	493	331
- Greater than 5 years	251	184
<b>Percentage of Other Receivables:</b>		
- Current	86%	78%
- Overdue	14%	22%
<b>Analysis of Overdue Debts:</b>		
	<b>\$'000</b>	<b>\$'000</b>
- 0 to 30 days overdue	440	377
- 30 to 60 days overdue	66	38
- 60 to 90 days overdue	116	56
- 90+ days overdue	716	482

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements

30 June 2016

(continued)

### Note 15 Financial Risk Management (continued)

#### (c) Liquidity risk

Payables and borrowings are both subject to liquidity risk - that is, the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due. Council manages this risk by monitoring its cash flow requirements and liquidity levels, and by maintaining an adequate cash buffer. Payment terms can be extended and overdraft facilities drawn upon in extenuating circumstances.

The contractual undiscounted cash flows of Council's payables and borrowings are set out in the maturity table below:

2016	Due within 1	Due between	Due after 5	Total	Carrying values
	year	1 and 5 years	years	Contractual	
	\$'000	\$'000	\$'000	Cash flows	\$'000
Payables	16,854	1,125	-	17,979	17,979
Borrowings	7,604	30,244	111,920	149,768	83,800
	<b>24,458</b>	<b>31,369</b>	<b>111,920</b>	<b>167,747</b>	<b>101,779</b>

2015	Due within 1	Due between	Due after 5	Total	Carrying values
	year	1 and 5 years	years	Contractual	
	\$'000	\$'000	\$'000	Cash flows	\$'000
Payables	20,693	831	-	21,524	21,524
Borrowings	8,518	29,763	116,901	155,182	85,056
	<b>29,211</b>	<b>30,594</b>	<b>116,901</b>	<b>176,706</b>	<b>106,580</b>

Borrowings are also subject to interest rate risk - the risk that movements in interest rates could adversely affect funding costs. Council manages this risk by borrowing long term. The Finance Department regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

The following interest rates were applicable to Council's borrowings at balance date:

	30-Jun-16		30-Jun-15	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	\$'000	%	\$'000
Overdraft	-	-	-	-
Bank Loans - Fixed	6.42%	74,206	6.47%	75,044
- Variable	4.67%	9,594	4.81%	10,012
		<b>83,800</b>		<b>85,056</b>

Note: The interest rate risk applicable to variable rate bank loans is not considered significant.



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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements

30 June 2016

(continued)

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#### Note 16 Material Budget Variations

Council's original budget was adopted by Council on 22 June 2015. The original projections on which the budget was based have been affected by a number of factors. These include State and Federal Government decisions including new grant programs, changing economic activity, the weather, and by decisions made by Council. Material variations of more than 10% are explained below:

**1. User Charges and Fees**

User charges and fees exceeded the original budget by \$2,227k (14.71%). This was mainly due to higher than budgeted income relating to development application and sub-division fees (\$954k) indicative of the increased development activity across the city, and higher than budgeted tipping fees (\$813k).

**2. Interest and Investment Revenue**

Interest and investment revenue exceeded the original budget by \$2,793k (57.16%). This was mainly due to Council having higher than budgeted reserves available for investment and the impact of slightly higher than budgeted interest rates.

**3. Grants and Contributions Provided for Capital Purposes**

Grants and contributions for capital purposes exceeded the original budget by \$40,044k (108.83%). The major items that contributed to the variation were:

- Higher than budgeted dedications of infrastructure from new subdivisions \$11,615k
- Recognition of land under roads in relation to the above infrastructure dedications \$17,304k;
- Higher than budgeted Section 94 contributions received \$13,020k.

The above increases have been offset by less than budgeted income for dedications of land (\$1,849k) and less than budgeted capital contributions and grants across a number of areas of Council.

**4. Net Gain from the Disposal of Assets**

Net gain from the disposal of assets was lower than original budget by \$2,026k (23.85%). This was due to higher than expected cost of disposal of two land assets and also there being no budget allocation made in original budget for the loss on disposal of property, plant & equipment as it could not be reliably estimated.

**5. Materials and Contracts**

Materials and contracts was lower than original budget by \$6,817k (14.84%). The major items that contributed to the variation were:

- Lower than budgeted costs associated with external waste disposal \$3,532k;
- Reduction in costs for green waste contract \$2,298k
- Lower than budgeted expenditure in the areas of waste planning \$1,842k, fuel costs \$998k and information technology expenditure \$961k

The impact of the above items was offset by higher than budgeted costs for labour hire \$1,074k and family day care activity \$679k.

**LAKE MACQUARIE CITY COUNCIL**

**Notes to the Financial Statements  
30 June 2016  
(continued)**

**Note 17 Statement of Developer Contributions**

**(a) SUMMARY OF DEVELOPER CONTRIBUTIONS**

PURPOSE	Opening Balance \$ '000	Contributions received during the year		Interest and investment income earned during year \$ '000	Expended during year \$ '000	Transfer between plans \$ '000	Internal borrowings between plans during the year \$ '000	Held as restricted assets \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Drainage	1,355	113	-	33	1	-	-	1,500	-
Traffic Facilities	8,427	1,652	-	190	2,162	-	-	8,107	-
Parking	4,812	-	-	111	82	-	-	4,841	-
Open Space	54,318	13,556	30	1,361	4,995	-	-	64,270	-
Community Facilities	12,746	3,359	-	328	630	-	-	15,803	-
Other	106	318	-	2	319	-	-	107	-
<b>Total S94 under plans</b>	<b>81,764</b>	<b>18,998</b>	<b>30</b>	<b>2,025</b>	<b>8,189</b>	<b>-</b>	<b>-</b>	<b>94,628</b>	<b>-</b>
Total S94 not under plans	700	470	-	22	-	-	-	1,192	-
Planning Agreements	1,264	154	-	31	8	-	-	1,441	-
<b>Total Contributions</b>	<b>83,728</b>	<b>19,622</b>	<b>30</b>	<b>2,078</b>	<b>8,197</b>	<b>-</b>	<b>-</b>	<b>97,261</b>	<b>-</b>
Council borrowing <sup>(1)</sup>								(19,282)	19,282
<b>Developer Contributions Reserve balance after Council General Fund borrowing</b>								<b>77,979</b>	

**(b) CONTRIBUTION PLAN NO. 1 CITY WIDE PLAN > 25/6/93**

PURPOSE	Opening balance \$ '000	Contributions received during the year		Interest and investment income earned during year \$ '000	Expended during year \$ '000	Transfer between plans \$ '000	Internal borrowings during the year \$ '000	Held as restricted assets \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Drainage	339	-	-	8	1	-	-	346	-
Traffic Facilities	61	-	-	-	1	(60)	-	-	-
Open Space	17,465	55	30	1	30	(17,465)	-	56	-
Community Facilities	2,116	36	-	-	-	(2,116)	-	36	-
Other	-	4	-	-	4	-	-	-	-
<b>Total</b>	<b>19,981</b>	<b>95</b>	<b>30</b>	<b>9</b>	<b>36</b>	<b>(19,641)</b>	<b>-</b>	<b>438</b>	<b>-</b>

**LAKE MACQUARIE CITY COUNCIL**

**Notes to the Financial Statements  
30 June 2016  
(continued)**

**Note 17 Statement of Developer Contributions (continued)**

**(c) CONTRIBUTION PLAN CITY WIDE PLAN 2004**

PURPOSE	Opening balance \$ '000	Contributions received during the year		Interest and investment income earned during year \$ '000	Expended during year \$ '000	Transfer between plans \$ '000	Internal borrowings during the year \$ '000	Held as restricted assets \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Drainage	581	80	-	15	-	-	-	676	-
Traffic Facilities	399	63	-	9	12	(26)	-	433	-
Open Space	20,704	1,317	-	289	-	(8,907)	-	13,403	-
Community Facilities	5,016	285	-	39	-	(3,472)	-	1,868	-
Other	-	126	-	-	126	-	-	-	-
<b>Total</b>	<b>26,700</b>	<b>1,871</b>	<b>-</b>	<b>352</b>	<b>138</b>	<b>(12,405)</b>	<b>-</b>	<b>16,380</b>	<b>-</b>

**(d) CONTRIBUTION PLAN NO. 2 NORTHLAKES URBAN RELEASE AREA**

PURPOSE	Opening balance \$ '000	Contributions received during the year		Interest and investment income earned during year \$ '000	Expended during year \$ '000	Transfer between plans \$ '000	Internal borrowings during the year \$ '000	Held as restricted assets \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Drainage	434	33	-	10	-	-	-	477	-
Traffic Facilities	7,016	717	-	146	2,149	-	-	5,730	-
Open Space	7,965	1,755	-	185	1,765	-	-	8,140	-
Community Facilities	3,103	368	-	76	-	-	-	3,547	-
Other	105	44	-	2	45	-	-	106	-
<b>Total</b>	<b>18,623</b>	<b>2,917</b>	<b>-</b>	<b>419</b>	<b>3,959</b>	<b>-</b>	<b>-</b>	<b>18,000</b>	<b>-</b>

**LAKE MACQUARIE CITY COUNCIL**

**Notes to the Financial Statements  
30 June 2016  
(continued)**

**Note 17 Statement of Developer Contributions (continued)**

**(e) CONTRIBUTION PLAN NO. 3 GARDEN SUBURBS**

PURPOSE	Opening balance \$ '000	Contributions received during the year		Interest and investment income earned during year \$ '000	Expended during year \$ '000	Transfer between plans \$ '000	Internal borrowings during the year \$ '000	Held as restricted assets \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Drainage	1	-	-	-	-	-	-	1	-
Traffic Facilities	227	-	-	-	-	(227)	-	-	-
<b>Total</b>	<b>228</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(227)</b>	<b>-</b>	<b>1</b>	<b>-</b>

**(f) CONTRIBUTION PLAN NO. 4 COMMERCIAL AREAS CARPARKING**

PURPOSE	Opening balance \$ '000	Contributions received during the year		Interest and investment income earned during year \$ '000	Expended during year \$ '000	Transfer between plans \$ '000	Internal borrowings during the year \$ '000	Held as restricted assets \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Parking	4,812	-	-	23	-	(3,808)	-	1,027	-
<b>Total</b>	<b>4,812</b>	<b>-</b>	<b>-</b>	<b>23</b>	<b>-</b>	<b>(3,808)</b>	<b>-</b>	<b>1,027</b>	<b>-</b>

**LAKE MACQUARIE CITY COUNCIL**

**Notes to the Financial Statements  
30 June 2016  
(continued)**

**Note 17 Statement of Developer Contributions (continued)**

**(g) CONTRIBUTION PLAN NO. 5 NORTH WALLARAH PENINSULAR**

PURPOSE	Opening balance \$ '000	Contributions received during the year		Interest and investment income earned during year \$ '000	Expended during year \$ '000	Transfer between plans \$ '000	Internal borrow ings during the year \$ '000	Held as restricted assets \$ '000	Cumulative balance of internal borrow ings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Traffic Facilities	207	-	-	5	-	-	-	212	-
Open Space	1,439	-	-	34	-	-	-	1,473	-
Community Facilities	488	-	-	11	(1)	-	-	500	-
<b>Total</b>	<b>2,134</b>	<b>-</b>	<b>-</b>	<b>50</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>2,185</b>	<b>-</b>

**(h) CONTRIBUTION PLAN NO. 6 HILLSBOROUGH ROAD**

PURPOSE	Opening balance \$ '000	Contributions received during the year		Interest and investment income earned during year \$ '000	Expended during year \$ '000	Transfer between plans \$ '000	Internal borrow ings during the year \$ '000	Held as restricted assets \$ '000	Cumulative balance of internal borrow ings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Traffic Facilities	17	-	-	1	-	-	-	18	-
<b>Total</b>	<b>17</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18</b>	<b>-</b>

**LAKE MACQUARIE CITY COUNCIL**

**Notes to the Financial Statements  
30 June 2016  
(continued)**

**Note 17 Statement of Developer Contributions (continued)**

**(i) CONTRIBUTION PLAN NO. 7 MORISSET CONTRIBUTIONS CATCHMENT**

PURPOSE	Opening balance \$ '000	Contributions received during the year		Interest and investment income earned during year \$ '000	Expended during year \$ '000	Transfer between plans \$ '000	Internal borrowings during the year \$ '000	Held as restricted assets \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Traffic Facilities	500	812	-	21	-	-	-	1,333	-
Parking	-	-	-	2	-	73	-	75	-
Open Space	6,745	4,276	-	190	1,450	-	-	9,761	-
Community Facilities	2,023	1,293	-	56	631	-	-	2,741	-
Other	1	137	-	-	137	-	-	1	-
<b>Total</b>	<b>9,269</b>	<b>6,518</b>	<b>-</b>	<b>269</b>	<b>2,218</b>	<b>73</b>	<b>-</b>	<b>13,911</b>	<b>-</b>

**(j) CONTRIBUTION PLAN NO. 8 GLENDALE CATCHMENT**

PURPOSE	Opening balance \$ '000	Contributions received during the year		Interest and investment income earned during year \$ '000	Expended during year \$ '000	Transfer between plans \$ '000	Internal borrowings during the year \$ '000	Held as restricted assets \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Traffic Facilities	-	-	-	7	-	287	-	294	-
Parking	-	-	-	12	-	508	-	520	-
Open Space	-	4,206	-	364	-	13,584	-	18,154	-
Community Facilities	-	940	-	81	-	3,030	-	4,051	-
<b>Total</b>	<b>-</b>	<b>5,146</b>	<b>-</b>	<b>464</b>	<b>-</b>	<b>17,409</b>	<b>-</b>	<b>23,019</b>	<b>-</b>

**(k) CONTRIBUTION PLAN NO. 9 CHARLESTOWN CATCHMENT**

PURPOSE	Opening balance \$ '000	Contributions received during the year		Interest and investment income earned during year \$ '000	Expended during year \$ '000	Transfer between plans \$ '000	Internal borrowings during the year \$ '000	Held as restricted assets \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Traffic Facilities	-	60	-	1	-	26	-	87	-
Parking	-	-	-	74	82	3,227	-	3,219	-
Open Space	-	1,947	-	298	1,750	12,788	-	13,283	-
Community Facilities	-	437	-	65	-	2,557	-	3,059	-
Other	-	7	-	-	7	-	-	-	-
<b>Total</b>	<b>-</b>	<b>2,451</b>	<b>-</b>	<b>438</b>	<b>1,839</b>	<b>18,598</b>	<b>-</b>	<b>19,648</b>	<b>-</b>

**LAKE MACQUARIE CITY COUNCIL**

**Notes to the Financial Statements  
30 June 2016  
(continued)**

**Note 17 Statement of Developer Contributions (continued)**

**(l) CONTRIBUTIONS NOT UNDER PLANS**

PURPOSE	Opening balance \$ '000	Contributions received during the year		Interest and investment income earned during year \$ '000	Expended during year \$ '000	Transfer between plans \$ '000	Internal borrowings during the year \$ '000	Held as restricted assets \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Drainage	152	-	-	4	-	-	-	156	-
Roads	48	470	-	7	-	-	-	525	-
Parking	495	-	-	11	-	-	-	506	-
Community Facilities	5	-	-	-	-	-	-	5	-
<b>Total</b>	<b>700</b>	<b>470</b>	<b>-</b>	<b>22</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,192</b>	<b>-</b>

**(m) PLANNING AGREEMENTS**

PURPOSE	Opening balance \$ '000	Contributions received during the year		Interest and investment income earned during year \$ '000	Expended during year \$ '000	Transfer between plans \$ '000	Internal borrowings \$ '000	Held as restricted assets \$ '000
		Cash \$ '000	Non-cash \$ '000					
Roads	150	-	-	-	-	-	-	150
Parking	576	-	-	14	-	-	-	590
Open Space	328	-	-	11	-	-	-	339
Community Facilities	201	144	-	6	-	-	-	351
Other	9	10	-	-	8	-	-	11
<b>Total</b>	<b>1,264</b>	<b>154</b>	<b>-</b>	<b>31</b>	<b>8</b>	<b>-</b>	<b>-</b>	<b>1,441</b>

<sup>(1)</sup> In the 2015/2016 financial year, Council's General Fund borrowed \$19,282k from unspent developer contributions as part of Council's Fit For The Future Improvement Plan that was adopted by Council on 22 June 2015. See Special Schedule 2(b) for details of this loan.

**Notes to the Financial Statements****30 June 2016****(continued)**

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**Note 18 Contingencies**

The following assets and liabilities do not qualify for recognition in the Statement of Financial Position but knowledge of those items is considered relevant to the users of the financial report in making and evaluating decisions about the allocation of scarce resources.

**Contingent Liabilities**

During the 2012/2013 financial year, Council became aware of a road construction product it has used which may have an inherent fault that is damaging roads and private property. Investigation into the facts pertaining to this issue are ongoing, including whether the cause is product related, and therefore it is not possible at this stage to reliably estimate the potential financial impact on Council.

Council contributes to the Local Government Superannuation Scheme (LGSS), which has a closed section where a portion of member entitlements are defined as a multiple of salary. Member councils bear the responsibility of ensuring there are sufficient monies available to pay out benefits as these members cease employment. The last valuation of the Fund was performed on 24<sup>th</sup> February 2016 relating to the period ending 30 June 2015. The position is monitored by the LGSS annually and it is estimated that as at 30 June 2016 a deficit of assets over liabilities still exists. Since July 2009, employers have been required to contribute additional contributions in order to rectify this deficit. On advice from the administrators of the Scheme, the share of the deficit that can be broadly attributed to Council is estimated to be \$2,266,587 as at 30 June 2016.

**Other Events Not Recognised**

Council holds a Self Insurance Licence in relation to workers compensation insurance.

Council provides bank guarantees to the value of \$4,262,000 to secure its self-insurance license for workers compensation. The guarantee is provided to State Insurance Regulatory Authority.



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# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2016 (continued)

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### Note 19 Interests in Other Entities

#### Interests in joint arrangements

	Type of joint arrangement	Principal place of business	Percentage Owned (%) 2016	Percentage Owned (%) 2015
<b>Joint arrangements:</b>				
Strategic Services Australia Limited	Joint Venture	Hunter Region	19.592%	19.592%

The percentage ownership interest held is equivalent to the percentage voting rights for all joint arrangements.

#### Strategic Services Australia Limited (Hunter Councils)

Council has an interest in Strategic Services Australia Limited, along with other Member Councils of Hunter Councils. The activities of this organisation are not controlled by any one Council. Strategic Services Australia Limited has been established to improve the quality and efficiency of local government service throughout the Hunter Region. One such service is the establishment and provision of a Record Repository Centre for the use of the Member Councils and to outsource this service to other organisations. This Organisation was established in January 2003 as Hunter Councils Limited after receiving Minister's consent, pursuant to Section 358(1) (a) of the Local Government Act 1993.

#### Aggregate information for joint ventures that are not individually material

The Group has interests in a number of joint ventures none of which is considered individually material. The table below summarises, in aggregate, the financial information of all individually immaterial joint ventures.

	Current year end \$	Prior year end \$
<b>Strategic Services Australia Limited</b>		
Carrying Amount of Investment in joint ventures that are not individually material	421	409
<b>Council's share of those joint ventures:</b>		
Profit or loss from continuing operations	24	123
Post-tax profit or loss from discontinued operations	-	-
Other comprehensive income	-	-
Total comprehensive income	24	123

#### Unrecognised share of losses

The unrecognised share of losses of joint ventures due to the Council's interest being reduce to zero under the equity methods are \$0 for the reporting period and \$0 on a cumulative basis.

#### Risk associated with the interests in joint ventures

Each of the partners in Strategic Services Australia Limited are jointly and severally liable for the debts of the organisation.

Commitments relating to joint ventures held	Nil
Contingent liabilities incurred jointly with other investments over joint ventures held	Nil

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements****30 June 2016****(continued)**

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**Note 20 Retained earnings, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors**

	Actual 2016 \$'000	Actual 2015 \$'000
<b>(a) Retained Earnings</b>		
Movements in retained earnings were as follows:		
At beginning of year	1,166,344	1,116,520
Adjustment to correct prior period errors (Note 20(d))	(25,791)	338
Net operating result for the year	92,798	49,486
At end of year	<u>1,233,351</u>	<u>1,166,344</u>
<b>(b) Revaluation Reserves</b>		
Infrastructure, property, plant and equipment revaluation reserve	<u>1,269,430</u>	<u>1,250,743</u>
<b>Movements:</b>		
<b><i>Infrastructure, property, plant and equipment revaluation reserve</i></b>		
At beginning of year	1,250,743	998,990
Revaluations (Note 9)	18,699	251,734
Net share of revaluation reserve of jointly controlled entity	(12)	19
At end of year	<u>1,269,430</u>	<u>1,250,743</u>
<b>(c) Nature and Purpose of Reserves</b>		
<b><i>(i) Infrastructure, property, plant and equipment revaluation reserve</i></b>		
The infrastructure, property, plant and equipment revaluation reserve is used to record increments and decrements on the revaluation of non-current assets.		
<b>(d) Correction of Errors in Previous Years</b>		
Depreciable land improvements not previously recognised (carrying value)	7,095	-
Infrastructure assets not previously recognised (carrying value)	3,146	3,527
Community land not previously recognised (carrying value)	6,063	-
Disposals of depreciable land improvements not previously recognised (carrying value)	(10,008)	-
Disposals of infrastructure assets not previously recognised (carrying value)	(5,147)	-
Disposals of operational land not previously recognised (carrying value)	(437)	(400)
Disposals of community land not previously recognised (carrying value)	(11,193)	(2,789)
Recognition of prior period error relating to 2011 community land revaluation (carrying value) <sup>(1)</sup>	(15,310)	-
	<u>(25,791)</u>	<u>338</u>

(1) During the 2010/2011 financial year, community land assets were revalued using NSW Valuer General's 2010 land valuations. It has since been substantiated that these values were inaccurate and could not be relied upon. Improved valuation methodology was applied by the Valuer General for the 2013 land valuations which resulted in significant downward movement from the previous valuations for the asset class. Therefore the change in the community land asset values for 2015/2016 was recognised as a prior period error and adjusted against retained earnings.

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements****30 June 2016****(continued)**

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**Note 21 Reinstatement, Rehabilitation and Restoration Liabilities****Asset Remediation**

Council is required by law to restore various sites in the City, including tipping sites, quarries and sanitary depots, to agreed upon standards by the various authorities. These sites are listed below with the estimated present value of the rehabilitation costs. The present value of the rehabilitation costs have been based upon the area required to be rehabilitated at the current estimated rehabilitation rates.

<b>Site</b>	<b>2016 Present Value \$'000</b>	<b>2015 Present Value \$'000</b>
Quarries		
- Croudace	949	924
- Hawkmount	4,936	4,806
- Oakdale	1,477	1,438
- Stockyard	1,823	1,775
- Belmont	1,253	1,220
- Bolton	1,740	1,695
- McDonalds	2,211	2,153
- Swansea	2,690	2,619
- Teralba	44	43
- Mirrabooka	1,664	1,620
Sanitary Depots		
- Wyee	274	267
Landfill		
- Awaba	13,128	12,824
- Redhead	229	223
- Belmont	278	271
- Catherine Hill Bay	375	365
- Marks Point	403	392
- Cooranbong	467	455
- Wyee	306	298
- Toronto	385	375
- West Wallsend	324	315
- Dora Creek	343	334
- Rathmines	734	714
- Bonnells Bay	278	271
- Valentine	1,171	1,141
	<b>37,482</b>	<b>36,538</b>
	<b>Actual</b>	<b>Actual</b>
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
At beginning of year	36,538	35,526
Amortisation of discount - expensed to borrowing costs	944	1,012
<b>At end of year</b>	<b>37,482</b>	<b>36,538</b>

**Notes to the Financial Statements**  
**30 June 2016**  
**(continued)**

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**Note 21 Reinstatement, Rehabilitation and Restoration Liabilities (continued)****Provisions for close down and restoration and for environmental clean up costs – Tips and quarries***Restoration*

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Estimated close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the development or during the operation phases, based on the net present value of estimated future costs. Provisions for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, e.g. updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals.

Close down and restoration costs are a normal consequence of tip and quarry operations, and the majority of close down and restoration expenditure is incurred at the end of the life of the operations. Although the ultimate cost to be incurred is uncertain, Council estimates the respective costs based on the area of rehabilitation required multiplied by the current estimated rehabilitation cost per hectare.

The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period. The amortisation of the discount is shown as a borrowing cost.

Other movements in the provisions for close down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

*Rehabilitation*

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each balance sheet date and the cost is charged to the income statement.

Provision is made for the estimated present value of the costs of environmental clean up obligations outstanding at the balance sheet date. These costs are charged to the income statement. Movements in the environmental clean up provisions are presented as an operating cost, except for the unwinding of the discount which is shown as a borrowing cost. Remediation procedures generally commence soon after the time the damage, remediation process and estimated remediation costs become known, but may continue for many years depending on the nature of the disturbance and the remediation techniques.

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other locations. The expected timing of expenditure can also change, for example in response to changes in quarry reserves or production rates. As a result there could be significant adjustments to the provision for close down and restoration and environmental clean up, which would affect future financial results.

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements  
30 June 2016  
(continued)**

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**Note 22 Non-Current Assets Classified as Held for Sale**

	<b>Actual 2016 \$'000</b>	<b>Actual 2015 \$'000</b>
Land	-	<u>12,395</u>

Council had two parcels of land which it disposed of during the 2015/2016 financial year. One parcel of land resulted in a gain on sale of \$8,118k and the second parcel of land resulted in a loss on sale of \$68k. Refer to Note 5 - Gain (or Loss) on Disposal of Investment Property.

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements****30 June 2016****(continued)**

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**Note 23 Intangible Assets – Non-Current**

	<b>Actual 2016 \$'000</b>	<b>Actual 2015 \$'000</b>
At beginning of the year		
- Cost	12,344	12,212
- Accumulated amortisation	(12,135)	(11,873)
- Net book value	<u>209</u>	<u>339</u>
Movement		
- Additions	658	132
- Amortisation charge (Note 4d)	(142)	(262)
Total	<u>516</u>	<u>(130)</u>
At end of the year		
- Cost	13,002	12,344
- Accumulated amortisation	(12,277)	(12,135)
- <b>Net Book Value</b>	<u><u>725</u></u>	<u><u>209</u></u>

Lake Macquarie City Council has contracted to acquire, under a managed service arrangement, a licence to access information technology services. The system solution was designed, developed and built by the contractor with assistance and input of Council employees. The above balances include amounts in relation to this system solution.

The above balances also include amounts relating to Council's digital library collection.

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2016 (continued)

### Note 24 Fair Value Measurement

Council measures the following assets and liabilities at fair value on a recurring basis:

- Infrastructure, property, plant and equipment
- Investment properties

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Council therefore measures non-current assets classified as held for sale at fair value on a non-recurring basis where their carrying amount exceeds their fair value.

During the current reporting period, there were no assets measured at fair value on a non-recurring basis.

Infrastructure, property, plant and equipment are primarily held for their current service potential and are not reported on in this Note.

#### **Fair Value Hierarchy**

AASB 13 *Fair Value Measurement* requires all assets and liabilities measured at fair value to be assigned to a level in the fair value hierarchy as follows:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3	Unobservable inputs for the asset or liability.

The following table shows the assigned level for each asset and liability measured and recognised at fair value required to be reported on by Council:

	Note	Level 2 Significant Observable Inputs \$'000	Level 3 Significant Unobservable Inputs \$'000	Total \$'000
<b>2016</b>				
<b>Recurring Fair Value Measurements</b>				
<b>Investment Properties</b>				
- Commercial land, office and retail	14	-	38,205	38,205
<b>Total</b>		-	<b>38,205</b>	<b>38,205</b>

	Note	Level 2 Significant Observable Inputs \$'000	Level 3 Significant Unobservable Inputs \$'000	Total \$'000
<b>2015</b>				
<b>Recurring Fair Value Measurements</b>				
<b>Investment Properties</b>				
- Commercial land, office and retail	14	-	36,956	36,956
<b>Total</b>		-	<b>36,956</b>	<b>36,956</b>

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements****30 June 2016****(continued)**

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**Note 24 Fair Value Measurement (continued)****Valuation Techniques****Level 3 Measurements****Investment Properties**

Council obtains valuations of its investment properties on an annual basis. The valuations are determined by Council's valuer who is a member of the Australian Property Institute. The best evidence of fair value is the current price in an active market for similar properties in the same location and condition and subject to similar occupancy terms. Adjustments are then made having regard to the property's inherent and external characteristics based on the available market evidence. For properties deriving income, the key valuation technique is the capitalisation approach, for which the key unobservable input is the capitalisation rate which is based on investment yields drawn on comparable properties. Should it be deemed that the investment property value is largely made up of land components, valuations are drawn by direct comparison with comparable properties and / or the summation approach, the key unobservable input for which is the price per square metre. There have been no changes in the valuation technique during the reporting period.

**Reconciliation of Movements**

A reconciliation of the movements in recurring fair value measurements allocated to Level 3 of the hierarchy is provided below:

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Opening Balance at 1 July</b>	<b>36,956</b>	<b>38,423</b>
<b><i>Total gains or losses for the period</i></b>		
Recognised in profit or loss - Realised - refer Note 5		134
Recognised in profit or loss - Unrealised - refer Notes 3 and 4	826	413
Recognised in other comprehensive income - Revaluation surplus	-	-
<b><i>Other movements</i></b>		
Purchases	423	1,811
Sales		(3,250)
Depreciation	-	-
Disposals in prior periods not previously recognised	-	-
Infrastructure assets not previously recognised	-	-
Transfers to/from real estate assets	-	-
Transfers to/from Held for Sale	-	(575)
Transfers into level 3	-	-
Transfers out of level 3	-	-
<b>Closing Balance as 30 June</b>	<b>38,205</b>	<b>36,956</b>



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# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2016 (continued)

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### Note 24 Fair Value Measurement (continued)

#### Unobservable Inputs and Sensitivities

Asset / Liability Category	Carrying Amount (at fair value) \$'000	Key Unobservable Inputs	Expected Range of Inputs	Description of How Changes in Inputs Will Affect the Fair Value
Investment Properties	38,205	- Investment yields - Improved Rate per square metre - Site Rate per square metre	- 7.25% to 8.75% - \$1,500 to \$4,300 (per square metre) - \$60 to \$1,050 (per square metre)	Significant changes in the investment yield or rate per square metre would result in significant changes to the fair value

#### Transfers Between Levels of the Hierarchy

There were no transfers between the levels of the fair value hierarchy during the reporting period.

Council's policy for determining when transfers into different levels of the hierarchy have occurred is at the end of the reporting period.

#### Highest and Best Use

Certain investment properties are not being used for highest and best use, which for most is redevelopment, and may contain structures which are leased until redevelopment proposal commences.

All other assets valued at fair value in this note are being used for their highest and best use.

#### Fair Values of Other Financial Instruments

Council also holds other financial instruments which are not recognised at fair value but for which fair value disclosures are required (refer Note 15). They are as follows:

- (i) Investments (\$214,288k): Council's investments are classified as held to maturity and therefore recognised and measured at amortised cost. Council obtains valuations from its investment advisor on a monthly basis. At each reporting date, Council assesses the fair value of the investments with reference to the latest valuation. Where the fair value does not differ materially from the carrying value, the fair value is assumed to approximate the carrying value. There have been no changes in the valuation technique during the reporting period.  
The fair values of fixed rate bonds, zero coupon bonds and floating rate notes are based on prices quoted on Reuters and therefore these instruments are included in level 1 of the fair value hierarchy.  
The fair values of term deposits are based on prices quoted on Reuters for similar fixed rate bonds. These instruments are therefore included in level 2 of the fair value hierarchy on the basis that the prices are based on valuation techniques using market observable inputs.  
The fair values of mortgage backed securities are based on valuations provided by Barclays Client Valuation Group. The market for Australian mortgage backed securities, regardless of the robustness of the structure, is highly illiquid as a direct consequence of the global financial crisis. This has caused difficulties in valuing these securities as there is limited "price discovery" in the market. As such these instruments are included in level 3 of the fair value hierarchy. At this stage, opportunistic bids for these securities would be expected in the mid 40c to 70c in the dollar area. Significant changes in the estimated unit price would result in significant changes to the fair value measurement.
- (ii) Borrowings (\$83,800k): Council's borrowings are recognised and measured at amortised cost. At each reporting date, Council assesses the fair value of the borrowings held using a discounted cash flow analysis. Where the fair value does not differ materially from the carrying value, the fair value is assumed to approximate the carrying value. The key input to the discounted cash flow analysis is the discounting factor which is based on interest rates applicable to similar loans at the reporting date. These instruments are included in level 2 of the fair value hierarchy. There have been no changes in the valuation technique during the reporting period.

The carrying values, (less impairment provision where applicable), of cash and cash equivalents, receivables and payables are assumed to approximate their fair values due to their short-term nature.



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## Lake Macquarie City Council

### Independent auditor's report to the Council – s417(2) Report on the general purpose financial statements

#### Report on the financial statements

We have audited the accompanying financial statements of Lake Macquarie City Council (the Council), which comprise the Statement of Financial Position as at 30 June 2016, and the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, accompanying Notes to the Financial Statements, and the Statement by Councillors and Management in the approved form as required by Section 413 (2) of the Local Government Act 1993.

#### *Councillor's responsibility for the financial statements*

The councillors of the Council are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Local Government Act 1993. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the council's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Councillors or management, as well as evaluating the overall presentation of the financial statements.

When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial statements.



Our audit did not involve an analysis of the prudence of business decisions made by Councillors or management.

Our audit responsibility does not extend to the Original Budget Figures included in the Income Statement, Statement of Cash Flows and the Original Budget disclosures in Notes 2(a) and 16 to the financial statements, nor the attached Special Schedules (1, 2 & 7) and accordingly, we express no opinion on them.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Auditor's opinion*

- a) the Council's accounting records have been kept in accordance with the requirements of the Local Government Act 1993, Chapter 13 Part 3 Division 2; and
- b) the financial statements:
  - i. have been presented in accordance with the requirements of this Division;
  - ii. are consistent with the Council's accounting records;
  - iii. present fairly the Council's financial position as at 30 June 2016 and the results of operations and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations); and
- c) all information relevant to the conduct of the audit has been obtained; and
- d) there are no material deficiencies in the accounting records or financial statements that have come to light during the course of the audit.



Pitcher Partners Newcastle & Hunter



Wayne Russell  
Partner

Newcastle  
5 October 2016



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## LAKE MACQUARIE CITY COUNCIL

### Independent Audit Report S417(3) - Report on the conduct of the audit

The Mayor  
Councillor K Fraser  
Lake Macquarie City Council  
126-138 Main Road  
Speers Point NSW 2284

Dear Councillor Fraser

#### REPORT ON THE CONDUCT OF THE AUDIT FOR THE YEAR ENDED 30 JUNE 2016 - SECTION 417(3)

We have completed our audit of the financial statements for Lake Macquarie City Council for the year ended 30 June 2016, in accordance with Section 415 of the Local Government Act 1993 (the Act). This report should be read in conjunction with our audit opinion under Section 417(2) of the Act on the General Purpose Financial Reports of Council.

The Council is responsible for the preparation and fair presentation of the financial statements in accordance with the Local Government Act 1993. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

We conducted an independent audit of the financial statements in order to express an opinion on them to the Council. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our audit responsibility does not extend to the Original Budget figures included in the Income Statement, Statement of Cash Flows and the Original Budget disclosures in Notes 2(a) and 16 to the financial statements, nor the attached Special Schedules (1, 2 & 7) and accordingly, we express no opinion on them. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Local Government Act 1993, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Council's financial position, and its performance as represented by the results of its operations and cash flows

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and



- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Council.

When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial statements.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by Councillors or management.

As a result of our audit there are a number of comments we wish to raise concerning the trends in Council's finances. These comments are set out below.

### **Income Statement**

These financial statements incorporate Council's consolidated accounts for the year ended 30 June 2016.

#### **a) Net Operating Result for the year before Capital Grants and Contributions**

Council's Net Operating Result before capital grants and contributions for the year ended 30 June 2016 shows a surplus of \$15,959,000 compared with a deficit of \$2,058,000 for the year ended 30 June 2015.

The movement in the result is largely attributable to increases in rates & annual charges revenue of \$8,859,000, a gain on sale from the disposal of assets of \$6,470,000, a increase in user charges & fees of \$1,615,000 and a decrease in materials & contracts expenses of \$9,464,000 offset by a decrease in grants & contributions for operating purposes of \$4,747,000 and a increase in depreciation & amortisation of \$3,461,000.

#### **b) Net Operating Result for the Year**

After allowing for items of a capital nature, Council's net operating result for the year ended 30 June 2016 was a surplus of \$92,798,000 compared to a surplus of \$49,486,000 for the year ended 30 June 2015.

The movement in the result is largely attributable to increases in transport grants of \$12,713,000, section 94 open space developer contributions of \$2,937,000 and dedications of \$15,559,000 offset by a decrease in RMS contributions of \$8,822,000.

### **Asset Recognition**

Except for land under roads, infrastructure assets acquired or constructed prior to 1 January 1993 have been capitalised in the accounts on a staged basis since June 1995, in accordance with the provisions of the Local Government Code of Accounting Practice and Financial Reporting.

In July 2006, the Office of Local Government (OLG) (previously the Division of Local Government) determined that all infrastructure, property, plant and equipment would be valued at fair value on a staged approach recognising water and sewerage assets (where applicable) in the year ended 30 June 2007; plant and equipment, land and buildings, and other assets in the year ended 30 June 2008; roads, bridges, footpaths and drainage in the year ending 30 June 2009 (which was subsequently deferred to 30 June 2010), and Community land, land improvements, other structures and other assets by 30 June 2010 (subsequently deferred to 30 June 2011).

The OLG requires that Councils undertake a revaluation of those asset classes at every five years (unless there have been material changes to the valuation beforehand). Under this framework Community land, land improvements, other structures and other assets were required to be revalued in the current year. Roads (including bulk earthworks), bridges, footpaths and drainage were required to be revalued in the prior year.

The fair value of plant and equipment, land and buildings and other assets was ascertained and based on the following methods:

- plant and equipment - approximated by depreciated historical cost
- buildings - fair value as determined by independent external and internal valuations
- operational land - fair value as determined by councils qualified valuers
- roads, bridges, footpaths and drainage assets was based on the method of written down replacement cost
- community land, land improvements and other structures was based on the following methods:
  - land improvements and other structures - approximated by depreciated historical cost
  - community land - on the following bases
    - the NSW Valuer General's valuations may be used to initially recognise community land acquired at no cost or nominal cost. It is considered that the valuations represent the fair value of such land in lieu of actual cost.
    - Community land acquired at market price should be recorded initially at cost.
    - the NSW Valuer General's valuations may be used under the revaluation model to represent fair value for the revaluation of community land.

The revaluation process in the current year resulted in an overall net revaluation increment of \$18,699,000. This compared to a revaluation increment of \$251,734,000 in the prior year.

## **Performance Indicators**

Our comments in regard to Council's performance for the 2016 year are based on those performance indicators and areas that are considered meaningful.

The indicators we have reviewed are as follows:

### **a) Liquidity**

At 30 June 2016, Council's net current assets stood at \$76,037,000 compared to \$74,792,000 at 30 June 2015. In other words, the total current assets that Council is expected to realise in the coming year exceeded the total current liabilities that will need to be met by this amount. This is referred to as the current asset ratio and is a measure of the liquidity of Council. The unrestricted current ratio is also a measure of liquidity (being Council's ability to meet short term obligations as they fall due), with unrestricted current assets (current assets less external restrictions) exceeding current liabilities (excluding specific purpose liabilities) by 2.67:1 (the benchmark is greater than 1.5). Prima facie these ratios place Council in a sound financial position, however it must be remembered that included are items which Council has determined are restricted in their use. This is best illustrated in the following table.

Council has total cash and investments of \$227,598,000 which are subject to restrictions as follows:

	30 June 2016 \$'000	30 June 2015 \$'000
Total cash and investments	227,598	207,679
Less: Items specifically restricted by external regulation	<u>(116,127)</u>	<u>(129,578)</u>
	111,471	78,101
Less: Amounts subject to restrictions made by Council to cover long term projects and commitments - Internal restrictions	<u>(111,471)</u>	<u>(78,101)</u>
Unrestricted cash and investments	<u><u>\$NIL</u></u>	<u><u>\$NIL</u></u>

#### *Unrestricted Current Ratio*

The unrestricted current ratio for the last three years is as follows:

2016	2015	2014
2.67	1.99	2.06

#### **b) Debt Service Cover Ratio**

At 30 June 2016 Council had outstanding loans of \$83,800,000 compared with \$85,056,000 at 30 June 2015. The debt service cover ratio has been used to give an indication of the availability of operating cash to service debt including principal, interest and lease repayments. The ratio is 7.44 for the year ended 30 June 2016 compared to 5.96 for the year ended 30 June 2015 and 6.28 for the year ended 30 June 2014. The benchmark is a ratio greater than 2.

#### **c) Own Source Operating Revenue**

This ratio (expressed as a percentage) is essentially a measure of the extent to which Council is dependent upon revenue from grants and contributions as compared to its total revenue. Put another way the less reliant Council is on grants and contributions the higher the percentage. For the year ended 30 June 2016, Council's own source operating revenue ratio was approximately 63.31% compared to 67.30% in 2015, 70.21% in 2014 and 78.75% in 2013. The benchmark is 60%, however care needs to be taken in interpreting the result as fluctuations in grant and contribution income between years can have a material impact on the calculation.

#### **d) Rates and Annual Charges Outstanding**

The rates and annual charges outstanding percentage is used to assess the impact of uncollected rates and annual charges on liquidity and the adequacy of debt recovery efforts. The percentage of rates and annual charges outstanding is 3.87% in 2016 compared to 3.64% in 2015 and 3.41% in 2014. The benchmark is less than 5% for metropolitan councils and less than 10% for rural councils.

#### **Internally Restricted Assets**

Council sets aside in the form of specific cash or investments amounts to cover future expenditure that is considered necessary for efficient long term operations. This cash is restricted for use on the specific purposes designated. It does not include restrictions on unexpended grant income or section 94

contributions, as these are provided for separately in external restrictions. Internal restrictions relate to expenditure on such items as leave entitlements, asset replacement and carry over works. At 30 June 2016, Council had internally restricted assets totalling \$111,471,000 compared to \$78,101,000 at 30 June 2015. It is prudent for Council to regularly consider and assess whether the level of cash and investments it has set aside for future projects and operations is appropriate compared to the desired level and timing of the expenditure at any given point in time.

### **Statement of Cash Flows**

#### *Cash flows from operating activities*

Net cash provided from operating activities amounted to \$92,772,000 in 2016 compared to \$88,145,000 for the previous year.

The cash flows from operating activities has increased slightly from the prior year as a result of an increase in receipts from rates & annual charges of \$8,763,000, a increase in receipts from grants & contributions of \$2,607,000 and a decrease in payments for materials & contracts of \$4,814,000 offset by a increase in payments for employee benefits & on-costs of \$2,164,000 and an increase in other payments of \$3,875,000.

#### *Cash flows from investing activities*

Net cash used in investing activities amounted to \$121,988,000 for the year ended 30 June 2016, compared to \$95,807,000 for the previous year.

The movement is primarily attributable to an increase in receipts from the sale of investments of \$109,028,000 offset by an increase in the purchase of investments of \$130,850,000 and a increase in the purchase of infrastructure, property, plant & equipment of \$24,600,000 over the prior year.

#### *Cash flows from financing activities*

Net cash used in financing activities amounted to \$1,256,000 for the year ended 30 June 2016 compared to net cash provided of \$11,177,000 in the previous year.

The movement is primarily attributable to a decrease in receipts from borrowings & advances of \$13,132,000 in the current year.

### **General**

A management letter highlighting matters arising from our audit covering internal controls and other accounting matters will be prepared where it is considered necessary or appropriate and issued to the Manager Finance and Administration in due course. Should a letter be issued any matters raised are not of a nature that is significant in arriving at our audit opinion.

We thank the General Manager, Manager Finance and Administration and their staff for the co-operation and courtesy extended to us during the course of our visit to Council's office.



Pitcher Partners Newcastle & Hunter



Wayne Russell  
Partner

Newcastle  
5 October 2016



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**LAKE MACQUARIE CITY COUNCIL****Special Purpose Financial Statements  
for the year ended 30 June 2016**

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**LAKE MACQUARIE CITY COUNCIL**

**Special Purpose Financial Statements  
for the year ended 30 June 2016**

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**Statement by Councillors and Management made pursuant to the Local Government  
Code of Accounting Practice and Financial Reporting**

The attached Special Purpose Financial Statements have been prepared in accordance with:

- NSW Government Policy Statement "*Application of National Competition Policy to Local Government*".
- Division of Local Government *Guidelines "Pricing & Costing for Council Businesses: A Guide to Competitive Neutrality"*.
- The Local Government Code of Accounting Practice and Financial Reporting.

To the best of our knowledge and belief, these Reports:

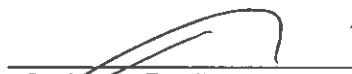
- present fairly the operating result and financial position for each of Council's declared Business Activities for the year, and
- accord with Council's accounting and other records.

We are not aware of any matter that would render the reports false or misleading in any way.

Signed in accordance with a resolution of Council made on 26 September 2016.



Cr Kay Fraser  
Mayor



Cr Jason Pauling  
Councillor



Brian Bell  
General Manager



Joanne Roberts  
Responsible Accounting Officer

# LAKE MACQUARIE CITY COUNCIL

## Income Statement of Category 1 Business Activities for the year ended 30 June 2016

	Business Activities			
	Civilake		Property Management	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Income from Continuing Operations</b>				
User charges and fees	4,774	7,945	9,257	9,010
Interest	-	-	448	351
Grants and contributions for non-capital purposes	-	-	-	-
Profit on sale of assets	-	-	8,738	343
Other income	-	-	2,265	1,230
<b>Total Income from Continuing Operations</b>	<b>4,774</b>	<b>7,945</b>	<b>20,708</b>	<b>10,934</b>
<b>Expenses from Continuing Operations</b>				
Employee benefits and on-costs	1,098	1,400	1,450	1,397
Materials and contracts	3,076	5,145	3,970	3,618
Borrowing costs	-	-	-	-
Depreciation and impairment	-	-	851	766
Calculated taxation equivalents	1	17	597	567
Debt guarantee fee	-	-	-	-
Other expenses	166	212	1,998	1,755
<b>Total Expenses from Continuing Operations</b>	<b>4,341</b>	<b>6,774</b>	<b>8,866</b>	<b>8,103</b>
<b>Surplus/(Deficit) from Continuing Operations before Capital Amounts</b>	<b>433</b>	<b>1,171</b>	<b>11,842</b>	<b>2,831</b>
Grants and contributions provided for capital purposes	-	-	-	-
<b>Surplus/(Deficit) from Continuing Operations after Capital Amounts</b>	<b>433</b>	<b>1,171</b>	<b>11,842</b>	<b>2,831</b>
<b>Surplus/(Deficit) from all Operations before Tax</b>	<b>433</b>	<b>1,171</b>	<b>11,842</b>	<b>2,831</b>
Less Corporate taxation equivalent (30%)	130	351	3,553	849
<b>Surplus/(Deficit) after Tax</b>	<b>303</b>	<b>820</b>	<b>8,289</b>	<b>1,982</b>
Less Dividend payment (5%)	15	41	592	142
<b>Surplus/(Deficit) after Dividend Payment</b>	<b>288</b>	<b>779</b>	<b>7,697</b>	<b>1,840</b>
<b>Opening Retained Profits</b>	<b>17,488</b>	<b>16,300</b>	<b>103,124</b>	<b>99,726</b>
Surplus/(deficit) after tax and dividend	288	779	7,697	1,840
Correction of errors in previous years	-	-	(1,393)	-
<b>Adjustments for Amounts Unpaid</b>				
Taxation equivalent payments	1	17	597	567
Debt guarantee fees	-	-	-	-
Corporate taxation equivalent	130	351	3,553	849
Dividend paid	15	41	592	142
<b>Closing Retained Profits</b>	<b>17,922</b>	<b>17,488</b>	<b>114,170</b>	<b>103,124</b>
<b>Return on Capital %</b>	<b>n/a</b>	<b>n/a</b>	<b>13.56%</b>	<b>2.92%</b>
<b>Subsidy from Council</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Calculation of Dividend Payable:</b>				
Surplus/(deficit) after tax	303	820	8,289	1,982
Less: Capital grants and contributions	-	-	-	-
Surplus for dividend calculation purposes	303	820	8,289	1,982
Dividend calculated from surplus	15	41	-	-

# LAKE MACQUARIE CITY COUNCIL

## Income Statement of Category 1 Business Activities for the year ended 30 June 2016

	Business Activities	
	Non-Domestic Waste	
	2016 \$'000	2015 \$'000
<b>Income from Continuing Operations</b>		
Rates and annual charges	1,762	1,657
User charges and fees	3,827	2,976
Interest	-	-
Grants and contributions for non-capital purposes		
Profit on sale of assets	-	-
Other income	-	-
<b>Total Income from Continuing Operations</b>	<b>5,589</b>	<b>4,633</b>
<b>Expenses from Continuing Operations</b>		
Employee benefits and on-costs	1,270	1,119
Materials and contracts	1,193	1,182
Borrowing costs	73	56
Depreciation and impairment	20	17
Calculated taxation equivalents	18	13
Debt guarantee fee	-	-
Other expenses	1,714	1,410
<b>Total Expenses from Continuing Operations</b>	<b>4,288</b>	<b>3,797</b>
<b>Surplus/(Deficit) from Continuing Operations before Capital Amounts</b>	<b>1,301</b>	<b>836</b>
Grants and contributions provided for capital purposes	-	-
<b>Surplus/(Deficit) from Continuing Operations after Capital Amounts</b>	<b>1,301</b>	<b>836</b>
<b>Surplus/(Deficit) from all Operations before Tax</b>	<b>1,301</b>	<b>836</b>
Less Corporate taxation equivalent (30%)	390	251
<b>Surplus/(Deficit) after Tax</b>	<b>911</b>	<b>585</b>
Less Dividend payment (5%)	46	29
<b>Surplus/(Deficit) after Dividend Payment</b>	<b>865</b>	<b>556</b>
<b>Opening Retained Profits</b>	<b>12,631</b>	<b>11,782</b>
Surplus/(deficit) after tax and dividend	865	556
<b>Adjustments for Amounts Unpaid</b>		
Taxation equivalent payments	18	13
Debt guarantee fees	-	-
Corporate taxation equivalent	390	251
Dividend paid	46	29
<b>Closing Retained Profits</b>	<b>13,950</b>	<b>12,631</b>
<b>Return on Capital %</b>	<b>63.96%</b>	<b>50.71%</b>
<b>Subsidy from Council</b>	<b>-</b>	<b>-</b>
<b>Calculation of Dividend Payable:</b>		
Surplus/(deficit) after tax	911	585
Less: Capital grants and contributions	-	-
Surplus for dividend calculation purposes	911	585
Dividend calculated from surplus	46	29

**LAKE MACQUARIE CITY COUNCIL**

**Statement of Financial Position of Category 1 Business Activities  
for the year ended 30 June 2016**

	Business Activities			
	Civilake		Property Management	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	-	-	28	80
Investments	17,903	17,898	28,816	13,752
Receivables	2,081	1,752	293	243
Inventories	-	-	1,933	1,270
Other	-	-	-	-
Non-current assets classified as held for sale	-	-	-	12,395
<b>Total Current Assets</b>	<b>19,984</b>	<b>19,650</b>	<b>31,070</b>	<b>27,740</b>
<b>Non-Current Assets</b>				
Investments	-	-	-	-
Receivables	-	-	-	-
Inventories	-	-	3,546	1,826
Infrastructure, property, plant and equipment	-	-	60,420	47,618
Investment property	-	-	38,205	36,956
Other	-	-	-	-
<b>Total Non-Current Assets</b>	<b>-</b>	<b>-</b>	<b>102,171</b>	<b>86,400</b>
<b>Total Assets</b>	<b>19,984</b>	<b>19,650</b>	<b>133,241</b>	<b>114,140</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Payables	330	241	148	94
Interest bearing liabilities	-	-	-	-
Provisions	1,713	1,867	601	524
<b>Total Current Liabilities</b>	<b>2,043</b>	<b>2,108</b>	<b>749</b>	<b>618</b>
<b>Non-Current Liabilities</b>				
Payables	-	-	-	-
Interest bearing liabilities	-	-	-	-
Provisions	19	54	38	24
<b>Total Non-Current Liabilities</b>	<b>19</b>	<b>54</b>	<b>38</b>	<b>24</b>
<b>Total Liabilities</b>	<b>2,062</b>	<b>2,162</b>	<b>787</b>	<b>642</b>
<b>Net Assets</b>	<b>17,922</b>	<b>17,488</b>	<b>132,454</b>	<b>113,498</b>
<b>EQUITY</b>				
Retained earnings	17,922	17,488	114,170	106,522
Revaluation reserves	-	-	18,284	10,374
<b>Total Equity</b>	<b>17,922</b>	<b>17,488</b>	<b>132,454</b>	<b>116,896</b>

**LAKE MACQUARIE CITY COUNCIL**

**Statement of Financial Position of Category 1 Business Activities  
for the year ended 30 June 2016**

	<b>Business Activities</b>	
	<b>Non-Domestic Waste</b>	
	<b>2016 \$'000</b>	<b>2015 \$'000</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	2	2
Investments	12,731	11,684
Receivables	39	30
Inventories	-	-
Other	-	-
Non-current assets classified as held for sale	-	-
<b>Total Current Assets</b>	<b>12,772</b>	<b>11,716</b>
<b>Non-Current Assets</b>		
Investments	-	-
Receivables	-	-
Inventories	-	-
Infrastructure, property, plant and equipment	2,061	1,676
Investment property	-	-
Other	-	-
<b>Total Non-Current Assets</b>	<b>2,061</b>	<b>1,676</b>
<b>Total Assets</b>	<b>14,833</b>	<b>13,392</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Payables	200	215
Interest bearing liabilities	-	-
Provisions	573	538
<b>Total Current Liabilities</b>	<b>773</b>	<b>753</b>
<b>Non-Current Liabilities</b>		
Payables	-	-
Interest bearing liabilities	-	-
Provisions	6	8
<b>Total Non-Current Liabilities</b>	<b>6</b>	<b>8</b>
<b>Total Liabilities</b>	<b>779</b>	<b>761</b>
<b>Net Assets</b>	<b>14,054</b>	<b>12,631</b>
<b>EQUITY</b>		
Retained earnings	13,950	12,631
Revaluation reserves	104	-
<b>Total Equity</b>	<b>14,054</b>	<b>12,631</b>

# LAKE MACQUARIE CITY COUNCIL

## Income Statement of Category 2 Business Activities for the year ended 30 June 2016

	Business Activities			
	Printing		Strategic Services Australia Ltd (Lake Macquarie Share)	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Income from Continuing Operations</b>				
User charges and fees	1,039	1,095	1,356	444
Interest	-	-	-	1
Grants and contributions for non-capital purposes	-	-	117	-
Profit on sale of assets	-	3	-	-
Other income	-	-	7	22
<b>Total Income from Continuing Operations</b>	<b>1,039</b>	<b>1,098</b>	<b>1,480</b>	<b>467</b>
<b>Expenses from Continuing Operations</b>				
Employee benefits and on-costs	460	477	923	-
Materials and contracts	458	461	249	268
Borrowing costs	-	-	22	27
Depreciation and impairment	12	5	70	36
Calculated taxation equivalents	-	-	-	-
Debt guarantee fee	-	-	4	4
Other expenses	4	42	195	13
<b>Total Expenses from Continuing Operations</b>	<b>934</b>	<b>985</b>	<b>1,463</b>	<b>348</b>
<b>Surplus/(Deficit) from Continuing Operations before Capital Amounts</b>	<b>105</b>	<b>113</b>	<b>17</b>	<b>119</b>
Grants and contributions provided for capital purposes	-	-	-	-
<b>Surplus/(Deficit) from Continuing Operations after Capital Amounts</b>	<b>105</b>	<b>113</b>	<b>17</b>	<b>119</b>
<b>Surplus/(Deficit) from all Operations before Tax</b>	<b>105</b>	<b>113</b>	<b>17</b>	<b>119</b>
Less Corporate taxation equivalent (30%)	31	34	5	35
<b>Surplus/(Deficit) after Tax</b>	<b>74</b>	<b>79</b>	<b>12</b>	<b>84</b>
Less Dividend payment (5%)	4	4	-	-
<b>Surplus/(Deficit) after Dividend Payment</b>	<b>70</b>	<b>75</b>	<b>12</b>	<b>84</b>
<b>Opening Retained Profits</b>	<b>1,073</b>	<b>960</b>	<b>108</b>	<b>(15)</b>
Surplus/(deficit) after tax and dividend	70	75	12	84
<b>Adjustments for Amounts Unpaid</b>				
Taxation equivalent payments	-	-	-	-
Debt guarantee fees	-	-	4	4
Corporate taxation equivalent	31	34	5	35
Dividend paid	4	4	-	-
<b>Closing Retained Profits</b>	<b>1,178</b>	<b>1,073</b>	<b>129</b>	<b>108</b>
<b>Return on Capital %</b>	<b>235.24%</b>	<b>197.04%</b>		
<b>Subsidy from Council</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Calculation of Dividend Payable:</b>				
Surplus/(deficit) after tax	74	79	17	84
Less: Capital grants and contributions	-	-	-	-
Surplus for dividend calculation purposes	74	79	17	84
Dividend calculated from surplus	4	4	-	-

**LAKE MACQUARIE CITY COUNCIL**

**Statement of Financial Position of Category 2 Business Activities  
for the year ended 30 June 2016**

	Business Activities			
	Printing		Strategic Services Australia Ltd (Lake Macquarie Share)	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	-	-	42	21
Investments	1,415	1,274	-	-
Receivables	35	42	196	103
Inventories	-	-	2	2
Other	-	-	6	-
Non-current assets classified as held for sale	-	-	-	-
<b>Total Current Assets</b>	<b>1,450</b>	<b>1,316</b>	<b>246</b>	<b>126</b>
<b>Non-Current Assets</b>				
Investments	-	-	-	-
Receivables	-	-	-	-
Inventories	-	-	-	-
Infrastructure, property, plant and equipment	44	56	948	895
Investment property	-	-	-	-
Other	-	-	-	-
<b>Total Non-Current Assets</b>	<b>44</b>	<b>56</b>	<b>948</b>	<b>895</b>
<b>Total Assets</b>	<b>1,494</b>	<b>1,372</b>	<b>1,194</b>	<b>1,021</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Payables	18	20	145	30
Interest bearing liabilities	-	-	376	194
Provisions	291	272	127	34
Other current liabilities	-	-	58	15
<b>Total Current Liabilities</b>	<b>309</b>	<b>292</b>	<b>706</b>	<b>273</b>
<b>Non-Current Liabilities</b>				
Payables	-	-	-	-
Interest bearing liabilities	-	-	49	323
Provisions	7	7	18	16
<b>Total Non-Current Liabilities</b>	<b>7</b>	<b>7</b>	<b>67</b>	<b>339</b>
<b>Total Liabilities</b>	<b>316</b>	<b>299</b>	<b>773</b>	<b>612</b>
<b>Net Assets</b>	<b>1,178</b>	<b>1,073</b>	<b>421</b>	<b>409</b>
<b>EQUITY</b>				
Retained earnings	1,178	1,073	129	108
Revaluation reserves	-	-	292	301
<b>Total Equity</b>	<b>1,178</b>	<b>1,073</b>	<b>421</b>	<b>409</b>



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**LAKE MACQUARIE CITY COUNCIL**

**Notes to the Special Purpose Financial Statements  
for the year ended 30 June 2016**

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**Contents of the Notes to the Financial Statements**

Note 1	Significant accounting policies	<b>Page</b> 97
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**Notes to the Financial Statements**  
**30 June 2016**  
**(continued)**

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**Note 1 Significant Accounting Policies**

A statement summarising the supplemental accounting policies adopted in the preparation of the Special Purpose Financial Statements (SPFS) for National Competition Policy reporting purposes follows.

These financial statements are SPFS prepared for use by Council and the Office of Local Government. For the purposes of these statements, Council is a non-reporting entity.

The figures presented in these special purpose financial statements have been prepared in accordance with the recognition criteria of applicable Australian Accounting Standards, other authoritative pronouncements of the AASB and Australian Accounting Interpretation. The disclosures in these special purpose financial statements have been prepared in accordance with the Local Government Act and Regulation and the Local Government Code of Accounting Practice and Financial Reporting.

The statements are also prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, current values of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

**National Competition Policy**

Council has adopted the principle of 'competitive neutrality' to its business activities as part of the national competition policy which is being applied throughout Australia at all levels of government. The framework for its application is set out in the June 1996 Government Policy statement on the "Application of National Competition Policy to Local Government". The "Pricing & Costing for Council Businesses A Guide to Competitive Neutrality" issued by the Division of Local Government in July 1997 has also been adopted.

The pricing & costing guidelines outline the process for identifying and allocating costs to activities and provide a standard of disclosure requirements. These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents; Council subsidies; return on investments (rate of return); and dividends paid.

**Declared Business Activities**

In accordance with *Pricing & Costing for Council Businesses - A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

**CATEGORY 1****CiviLake Management Group:**

Responsible for the management of all Council's non contestable maintenance, construction works and survey works including RMS works. CiviLake also manages Council's quarry operations which is managed on a cost basis plus an overhead charge.

Responsible for the tendering for external works for profit. The management unit hires where available all resources including labour, plant, equipment and human resources from the parent entity.

Council's expected return on capital is not applicable to this business unit. This is due to CiviLake hiring Council's equipment as opposed to purchasing new capital.

ABC costs are charged to the management group.

**Notes to the Financial Statements**  
**30 June 2016**  
**(continued)**

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**Note 1 Significant Accounting Policies (continued)****Property Management:**

Responsible for the management of all Council's investment properties, holiday parks, land development and land acquisitions and sales. The capital employed by Property Management during the year was \$56,782,785. Council's expected return on capital was 10.00%.

**Non-Domestic Waste:**

Responsible for the collection and disposal of waste other than domestic waste within the city. The capital employed by Non-Domestic Waste during the year was \$2,061,376. Council's expected return on capital was 1.9% in accordance with the 10 year Commonwealth Government Bond rate.

**CATEGORY 2****Printing:**

Responsible for all internal printing work as well as external printing on a competitive basis. The capital employed by Printing during the year was \$44,477. Council's expected return on capital was 1.9% in accordance with the 10 year Commonwealth Government Bond rate.

**Strategic Services Australia Ltd:**

Strategic Services Australia Limited (SSA Ltd) (formerly Hunter Councils) is a jointly controlled entity of Council along with other regional councils. The purpose of SSA Ltd is to improve the quality and efficiency of local government service throughout the Hunter region. Council makes contributions to the operations of the entity and shares in the operations and equity of the organisation. Council's expected return is 0%.

**Monetary Amounts**

Amounts shown in the financial statements are in Australian currency and rounded to the nearest one thousand dollars.

**(i) Taxation Equivalent Charges**

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations (Special Purpose Financial Statements) just like all other costs. However, where Council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council nominated business activities and are reflected in the SPFS.

For the purposes of disclosing comparative information relevant to the private sector equivalent the following taxation equivalents have been applied to all Council nominated business activities (this does not include Council's non-business activities):

	Notional Rate Applied %
Corporate Tax Rate	30%
Land Tax	Value \$nil to \$482,000 = Nil Value \$482,000 to \$2,947,000 = 1.6% of excess + \$100 Value > \$2,947,000 = 2%
Payroll Tax	5.45% with a \$750,000 threshold for the year 01/07/15 to 30/06/16
Other Taxes or Charges	Direct Costs Apply

**Notes to the Financial Statements**  
**30 June 2016**  
**(continued)**

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**Note 1 Significant Accounting Policies (continued)****Income Tax**

An income tax equivalent has been applied on the profits of the business. Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested. Accordingly, the return on capital invested is set at a pre-tax level (gain/(loss) from ordinary activities before capital amounts) as would be applied by a private sector competitor – that is, it should include a provision equivalent to the corporate income tax rate, currently 30%.

Income Tax is only applied where a positive gain/(loss) from ordinary activities before capital amounts has been achieved. Since the taxation equivalent is notional, that is, it is payable to the “Council” as the owner of business operations, it represents an internal payment and has no effect on the operations of the Council.

Accordingly, there is no need for disclosure of internal charges in the GPFS. The rate applied of 30% is the equivalent company tax rate prevalent as at reporting date. No adjustments have been made for variations which have occurred during the year.

**Local Government Rates and Charges**

A calculation of the equivalent rates and charges for all Category 1 businesses has been applied to all assets owned or exclusively used by the business activity.

**Loan and Debt Guarantee Fees**

The debt guarantee fee is designed to ensure that Council business activities face “true” commercial borrowing costs in line with private sector competitors. In order to calculate a debt guarantee fee, Council has determined what the differential borrowing rate would have been between the commercial rate and Council’s borrowing rate for its business activities.

**ii) Subsidies**

Government policy requires that subsidies provided to customers and the funding of those subsidies must be explicitly disclosed. Subsidies occur where Council provides services on a less than cost recovery basis. This option is exercised on a range of services in order for Council to meet its community service obligations. The overall effect of subsidies is contained within the Income Statement of business activities.

**(iii) Return on Investments (Rate of Return)**

The Policy statement requires that councils with Category 1 businesses “would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field”. Funds are subsequently available for meeting commitments or financing future investment strategies. The rate of return is disclosed for each of Council’s business activities on the Income Statement.

**Note 1 Significant Accounting Policies (continued)**

*(iv) Dividends*

Council is not required to pay dividends to either itself as owner of a range of businesses or to any external entities. Consequently, any form of dividend payment is purely notional and has been set at 5%. Dividend payments to Council are also restricted to those activities which do not levy special rates or charges (water, sewer, domestic waste management).

Council operates Domestic Waste Management (DWM) as a restricted activity. The Local Government Act 1993 requires that all operating surpluses or deficits of these funds are credited/debited to the equity of those funds.



# PITCHER PARTNERS

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## Lake Macquarie City Council Independent auditor's report to the Council Report on the special purpose financial statements

### Report on the financial statement

We have audited the accompanying financial statements, being special purpose financial statements, of Lake Macquarie City Council (the Council), which comprises the Statement of Financial Position by Business Activity for the year ended 30 June 2016, the Income Statements by Business Activity for the year then ended, notes to the financial statements of the business activities identified by Council and the Statement by Councillors and Management for Council for the year ended 30 June 2016.

#### *Councillor's responsibility for the financial statements*

The councillors of the Council are responsible for the preparation and fair presentation of the financial statements and have determined that the accounting policies described in Note 1 to the financial statements, are appropriate to meet the requirements of the Local Government Code of Accounting Practice and Financial Reporting. The Councillor's responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to error or fraud.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the council's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Councillors or management, as well as evaluating the overall presentation of the financial statements.

Our audit did not involve an analysis of the prudence of business decisions made by Councillors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Auditor's opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position by Business activity of Lake Macquarie City Council as at 30 June 2016 and its financial performance by Business activity for the year then ended in accordance with the accounting policies detailed in Note 1 to the financial statements, and the Local Government Code of Accounting Practice and Financial Reporting.

*Basis of accounting and restriction on distribution and use*

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describe the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the Local Government Code of Accounting Practice and Financial Reporting. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the Council.



Pitcher Partners Newcastle & Hunter



Wayne Russell  
Partner

Newcastle  
5 October 2016

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**LAKE MACQUARIE CITY COUNCIL****Special Schedules  
for the year ended 30 June 2016**

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**Contents*****Special Schedules (Not Audited)***

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**LAKE MACQUARIE CITY COUNCIL**

**Special Schedule No. 1  
Net Cost of Services  
for the year ended June 2016  
\$'000**

Function or Activity	Expenses from Continuing Operations	Income from Continuing Operations (non capital)	Income from Continuing Operations (capital)	Net Cost of Services
<b>Governance</b>	<b>4,424</b>	<b>4</b>	<b>-</b>	<b>(4,420)</b>
<b>Administration</b>	<b>26,596</b>	<b>4,079</b>	<b>98</b>	<b>(22,419)</b>
<b>Public Order and Safety</b>				
Fire Service Levy, Fire Protection and Emergency	5,260	1,018	624	<b>(3,618)</b>
Beach Control	1,647	2	27	<b>(1,618)</b>
Enforcement of Regs	1,226	572	-	<b>(654)</b>
Animal Control	784	365	-	<b>(419)</b>
<b>Total Public Order and Safety</b>	<b>8,917</b>	<b>1,957</b>	<b>651</b>	<b>(6,309)</b>
<b>Health</b>	<b>1,433</b>	<b>384</b>	<b>-</b>	<b>(1,049)</b>
<b>Environment</b>				
Noxious Plants and Insect / Vermin Control	195	70	8	<b>(117)</b>
Other Environmental Protection	10,636	963	168	<b>(9,505)</b>
Waste Management	33,898	33,759	-	<b>(139)</b>
Street Cleaning	3,565	-	-	<b>(3,565)</b>
Drainage	7,751	-	3,576	<b>(4,175)</b>
Stormwater Management	2,404	188	-	<b>(2,216)</b>
<b>Total Environment</b>	<b>58,449</b>	<b>34,980</b>	<b>3,752</b>	<b>(19,717)</b>
<b>Community Services and Education</b>				
Administration and Education	644	166	5	<b>(473)</b>
Aged Persons and Disabled	309	-	-	<b>(309)</b>
Children's Services	3,984	3,710	-	<b>(274)</b>
Other Community Services	648	325	7	<b>(316)</b>
<b>Total Community Services and Education</b>	<b>5,585</b>	<b>4,201</b>	<b>12</b>	<b>(1,372)</b>
<b>Housing and Community Amenities</b>				
Public Cemeteries	284	267	-	<b>(17)</b>
Public Conveniences	1,344	-	-	<b>(1,344)</b>
Street Lighting	3,664	255	-	<b>(3,409)</b>
Town Planning	8,667	5,157	19,347	<b>15,837</b>
Other Community Amenities	-	60	-	<b>60</b>
<b>Total Housing and Community Amenities</b>	<b>13,959</b>	<b>5,739</b>	<b>19,347</b>	<b>11,127</b>
<b>Water Supplies</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Sewerage Services</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

# LAKE MACQUARIE CITY COUNCIL

## Special Schedule No. 1 (continued) Net Cost of Services for the year ended 30 June 2016 \$'000

Function or Activity	Expenses from Continuing Operations	Income from Continuing Operations (non capital)	Income from Continuing Operations (capital)	Net Cost of Services
<b>Recreation and Culture</b>				
Public Libraries	7,609	728	-	(6,881)
Art Galleries	1,211	200	107	(904)
Community Centres and Halls	2,335	262	-	(2,073)
Performing Arts Venues	111	31	-	(80)
Other Cultural Services	687	18	-	(669)
Sporting Grounds and Venues	3,775	81	45	(3,649)
Swimming Pools	6,103	1,805	21	(4,277)
Parks and Gardens (lakes)	13,007	81	703	(12,223)
Other Sport and Recreation	787	116	122	(549)
<b>Total Recreation and Culture</b>	<b>35,625</b>	<b>3,322</b>	<b>998</b>	<b>(31,305)</b>
<b>Fuel and Energy</b>	-	-	-	-
<b>Agriculture</b>	-	-	-	-
<b>Mining, Manufacturing and Construction</b>				
Building Control	2,630	1,366	-	(1,264)
Other Mining Manufacturing and Construction	307	-	-	(307)
<b>Total Mining, Manufacturing and Construction</b>	<b>2,937</b>	<b>1,366</b>	-	<b>(1,571)</b>
<b>Transport and Communication</b>				
Urban Roads (UR) - Local	18,316	68	50,411	32,163
Urban Roads - Regional	949	902	-	(47)
Sealed Rural Roads (SRR) - Local	3,409	-	-	(3,409)
Sealed Rural Roads (SRR) - Regional	180	-	-	(180)
Unsealed Rural Roads (URR) - Local	3,512	-	-	(3,512)
Bridges on UR - Local	228	-	-	(228)
Bridges on SRR - Local	183	-	-	(183)
Footpaths	742	-	1,570	828
Other Transport and Communication	3,263	725	-	(2,538)
<b>Total Transport and Communication</b>	<b>30,782</b>	<b>1,695</b>	<b>51,981</b>	<b>22,894</b>
<b>Economic Affairs</b>				
Camping Areas and Caravan Parks	4,276	5,485	-	1,209
Other Economic Affairs	5,224	15,128	-	9,904
<b>Total Economic Affairs</b>	<b>9,500</b>	<b>20,613</b>	-	<b>11,113</b>
<b>Totals - Functions</b>	<b>198,207</b>	<b>78,340</b>	<b>76,839</b>	<b>(43,028)</b>
<b>General Purpose Revenues <sup>(1)</sup></b>				<b>135,802</b>
<b>Share of Interests in Joint Ventures and Associates Using the Equity Method <sup>(2)</sup></b>				<b>24</b>
<b>Net Operating Result for the Year <sup>(2)</sup></b>				<b>92,798</b>

*Notes:*

(1) The definition of general purpose income for the purposes of disclosure in Note 2(a) is the aggregation of specific income items disclosed in Note 3 viz., ordinary rates, general purpose untied grants, interest on (overdue rates and annual charges, internally restricted assets and general council cash and investments) and ex-gratia rates.

(2) As reported on the Income Statement

**LAKE MACQUARIE CITY COUNCIL**

**Special Schedule No. 2 (a)  
Statement of Long-Term Debt (all purpose)  
for the year ended 30 June 2016  
\$'000**

Classification of Debt	Principal Outstanding at Beginning of Year			New Loans Raised During the Year	Debt Redemption During the Year		Transfers to Sinking Funds	Interest Applicable for Year	Principal Outstanding at End of Year		
	Current	Non-Current	Total		From Revenue	Sinking Funds			Current	Non-Current	Total
<b>LOANS (By Source)</b>											
Commonwealth Government	-	-	-	-	-	-	-	-	-	-	-
Treasury Corporation	-	-	-	-	-	-	-	-	-	-	-
Other State Government	-	-	-	-	-	-	-	-	-	-	-
Public Subscription	-	-	-	-	-	-	-	-	-	-	-
Financial Institutions	3,121	81,935	85,056	1,868	3,124	-	-	5,313	2,332	81,468	83,800
Other	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL LOANS</b>	3,121	81,935	85,056	1,868	3,124	-	-	5,313	2,332	81,468	83,800
<b>OTHER LONG TERM DEBT</b>											
Ratepayers' Advances	-	-	-	-	-	-	-	-	-	-	-
Government Advances	-	-	-	-	-	-	-	-	-	-	-
Finance Leases	-	-	-	-	-	-	-	-	-	-	-
Deferred Payment	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL LONG TERM DEBT</b>	<b>3,121</b>	<b>81,935</b>	<b>85,056</b>	<b>1,868</b>	<b>3,124</b>	<b>-</b>	<b>-</b>	<b>5,313</b>	<b>2,332</b>	<b>81,468</b>	<b>83,800</b>

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**LAKE MACQUARIE CITY COUNCIL****Special Schedule No. 2 (b)  
Statement of Internal Loans (section 410 (3) the Act 1993)  
for the year ended 30 June 2016  
\$'000**

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**Summary of internal loans**

<b>Borrower (by purpose)</b>	<b>Amount originally raised</b>	<b>Total repaid during the year (principal and interest)</b>	<b>Principal outstanding at end of year</b>
General Fund	19,282	0	19,282
<b>Total</b>	<b>19,282</b>	<b>0</b>	<b>19,282</b>

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**Details of individual internal loans**

<b>Borrower (by purpose)</b>	<b>Lender (by purpose)</b>	<b>Date Minister advised</b>	<b>Date raised</b>	<b>Term years</b>	<b>Date of maturity</b>	<b>Rate of interest</b>	<b>Amount originally raised</b>	<b>Total repaid during the year</b>	<b>Principal outstanding at end of year</b>
General Fund	Developer contributions reserve	19-Aug-15	30-Jun-16	20	30-Jun-36	2.35%	19,282	0	19,282
<b>Totals</b>							<b>19,282</b>	<b>0</b>	<b>19,282</b>

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# LAKE MACQUARIE CITY COUNCIL

## Special Schedule No. 7 Report on Infrastructure Assets as at 30 June 2016 \$'000

Asset Class	Asset Category	Estimated Cost to Bring to a Satisfactory Standard	2015/16 Required Maintenance ^	2015/16 Actual Maintenance	Carrying Value *	Gross Replacement Cost (GRC)	Assets in Condition as a % of Gross Replacement Cost				
		\$'000	\$'000	\$'000	\$'000	\$'000	1	2	3	4	5
<b>Buildings</b>		1,824	11,166	8,204	191,298	237,654	16%	75%	8%	1%	-
<b>Other Structures</b>		2,832	1,079	218	21,460	40,565	21%	35%	37%	5%	2%
<b>Roads</b>	Sealed Roads	30,338	5,178	6,070	647,437	976,773	39%	45%	13%	2%	1%
	Unsealed Roads	-	1,101	1,101	6,522	14,223	6%	26%	58%	7%	3%
	Bridges	1,549	345	614	42,623	63,671	6%	75%	18%	1%	-
	Footpaths	479	2,306	687	41,563	60,813	20%	59%	19%	2%	-
	Other Road Assets (incl. bulk earth works)	11,036	3,444	4,468	564,139	770,808	32%	17%	48%	3%	-
	Sub-total	43,402	12,374	12,940	1,302,284	1,886,288					
<b>Stormwater Drainage</b>		-	3,690	3,484	287,630	456,120	57%	36%	4%	2%	1%
<b>Open Space/Recreational Assets</b>	Swimming Pools	240	1,269	1,467	6,357	8,361	17%	59%	24%	-	-
	Other Open Space / Recreational Assets	2,932	5,970	11,017	18,213	35,422	18%	45%	31%	4%	2%
	Sub-total	3,172	7,239	12,484	24,570	43,783					
<b>Other Infrastructure Assets</b>		4,329	86	209	11,870	24,843	16%	15%	65%	2%	2%
<b>Total Classes</b>	<b>Total - all assets</b>	55,559	35,634	37,539	1,839,112	2,689,253					

Level	Condition	IP & R Description
1	Excellent	No work required (normal maintenance)
2	Good	Only minor maintenance work required
3	Average	Maintenance work required
4	Poor	Renewal required
5	Very Poor	Urgent renewal/upgrading required

\* Must reconcile with Note 9.

^ Required maintenance is that amount identified in council's asset management plans.

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**LAKE MACQUARIE CITY COUNCIL****Special Schedule No. 7  
Report on Infrastructure Assets (continued)  
as at 30 June 2016  
\$'000**

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	Amounts \$'000	Current Year Indicators	2015	2014
<b>Building and Infrastructure Renewals Ratio</b>				
Asset renewals	\$ 31,483	0.84	0.78	1.02
Depreciation, amortisation and impairment	\$ 37,398			
<b>Infrastructure Backlog Ratio</b>				
Estimated cost to bring to satisfactory standard	\$ 55,559	3.02%	4.97%	7.54%
Carrying value of infrastructure assets	\$ 1,839,112			
<b>Asset Maintenance Ratio ^</b>				
Actual asset maintenance	\$ 37,539	1.05	0.96	0.95
Required asset maintenance	\$ 35,634			

\* All indicators are calculated using the asset classes identified in the above table

^ Clarification of calculation and definition below to be undertaken for the 2016-17 year

# LAKE MACQUARIE CITY COUNCIL

## Special Schedule No. 8 Permissible Income for General Rates

	2015/16 Calculation \$'000	2016/17 Calculation \$'000
<b>Notional General Income Calculation <sup>(1)</sup></b>		
Last year notional income yield	105,957	112,628
Plus/minus adjustments <sup>(2)</sup>	649	892
<b>Notional General Income</b>	<b>106,606</b>	<b>113,520</b>
<b>Permissible Income Calculation</b>		
Special variation <sup>(3)</sup>	0	0
OR rate peg	0	0
OR Crown land adjustment incl. rate peg	0	0
Less expiring special variations amount	0	0
Plus special variation amount	5,949	5,960
OR plus rate peg amount	0	0
OR plus Crown land adjustment and rate peg amount	0	0
<b>Sub total</b>	<b>112,555</b>	<b>119,480</b>
Plus or minus last year's carry forward total	3	6
Less valuation objections claimed in previous year	-14	-90
<b>Sub total</b>	<b>-11</b>	<b>-84</b>
<b>Total Permissible Income</b>	<b>112,544</b>	<b>119,396</b>
Less notional income yield	112,628	119,447
<b>Catch up or (excess) result</b>	<b>-84</b>	<b>-51</b>
Plus income lost due to valuation objections claimed <sup>(4)</sup>	90	52
Less unused catch up <sup>(5)</sup>	0	0
<b>Carry forward to next year <sup>(6)</sup></b>	<b>6</b>	<b>1</b>

*Notes:*

(1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which includes amounts that relate to prior years' rates income.

(2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called "supplementary valuations" as defined in the *Valuation of Land Act 1916*.

(3) The special variation percentage is inclusive of the rate peg percentage and where applicable Crown land adjustment.

(4) Valuation objections are unexpected changes in land values as a result of land owners successfully objecting to the land value issued by the Valuer-General. Councils can claim the value of the income lost due to valuation objections in any single year.

(5) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.

(6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require Ministerial approval by order published in the NSW Government Gazette in accordance with section 512 of the Act. The OLG will extract these amounts from councils' Special Schedule 8 in the Financial Data Return (FDR) to administer this process. Please check that data are transferred accurately to the Special Schedule 8 of the Financial Statement and FDR.



# PITCHER PARTNERS

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## Independent Auditor's Report to Lake Macquarie City Council

### Report on Special Schedule No.8

We have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule No.8) of Lake Macquarie City Council for the year ending 30 June 2016.

#### *Councillor's responsibility for the Statement*

The councillors are responsible for the preparation of Special Schedule No.8 in accordance with the Local Government Code of Accounting Practice and Financial Reporting (Guidelines) Update No.24, and for such internal controls as the councillors determine is necessary to enable the preparation and fair presentation of Special Schedule No.8 that is free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on Special Schedule No.8 based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the Special Schedule No.8 is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in Special Schedule No.8. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of Special Schedule No.8, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the Special Schedule No. 8 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 Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the councillors, as well as evaluating the overall presentation of Special Schedule No.8.

Because of the inherent limitations of our audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performance in accordance with Australian Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.





*Auditor's opinion*

In our opinion, the accompanying Special Schedule No.8 of Lake Macquarie City Council for 2016/17 is prepared, in all material respects, in accordance with the requirements of the Office of Local Government and in accordance with the books and records of the Council.

*Basis of Accounting and Restriction on Distribution and Use*

Without modifying our opinion, we draw attention that Special Schedule No.8 has been prepared for distribution to the Office of Local Government for the purposes of confirming that Lake Macquarie City Council's reconciliation of total permissible general income is presented fairly. As a result, the schedule may not be suitable for another purpose.



Pitcher Partners Newcastle & Hunter



Wayne Russell  
Partner

5 October 2016

# City of Lake Macquarie **Financial Statements**

for the year ending 30 June 2016

## **Lake Macquarie City Council**

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