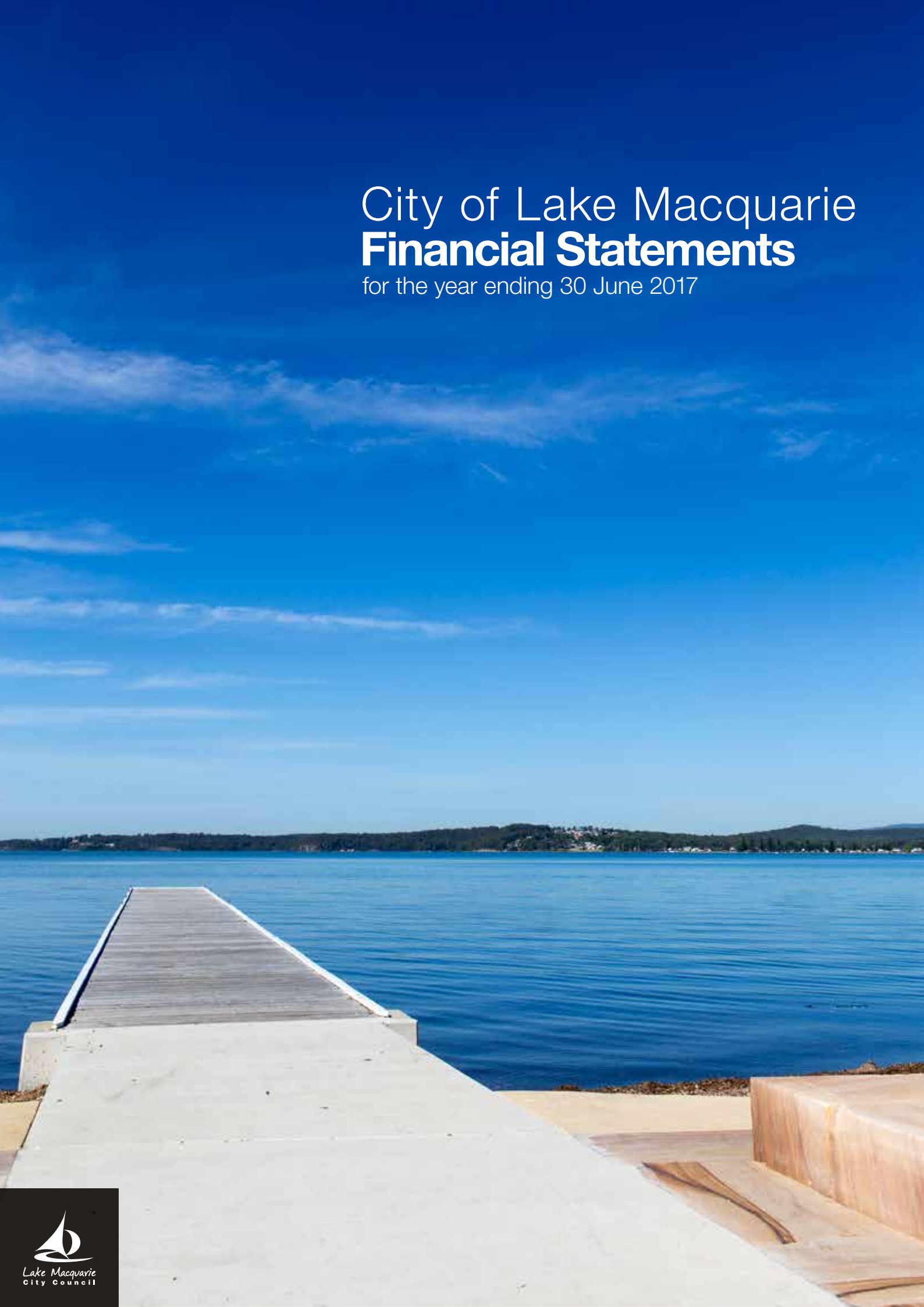


# City of Lake Macquarie **Financial Statements** for the year ending 30 June 2017





## **FINANCIAL STATEMENTS**

### **For the year ended 30 June 2017**

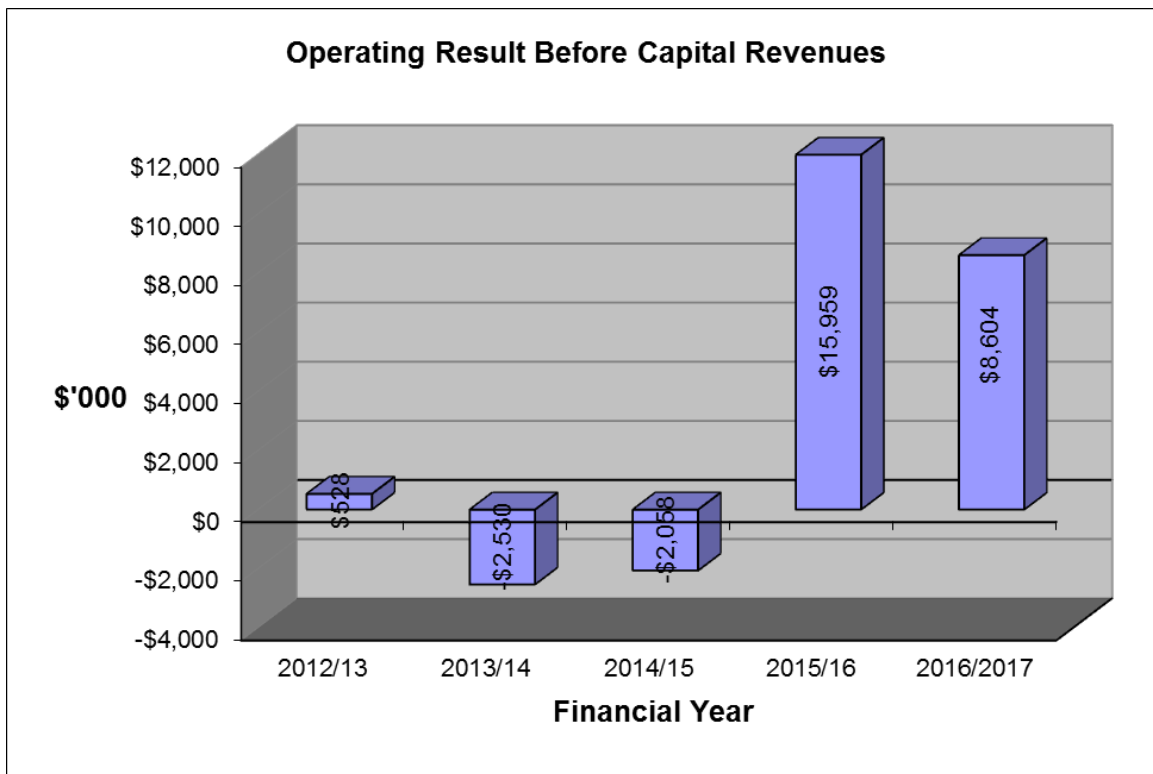
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## 2016/2017 FINANCIAL HIGHLIGHTS

### Financial Snapshot

	2016/17	2015/16
Operating Result Before Capital Revenues	\$8.604m	\$15.959m
Operating Result After Capital Revenues	\$69.946m	\$77.224m
Total Equity	\$2.506bn	\$2.435bn
Total Cash and Investments	\$242.062m	\$227.598m
Loan Borrowings Outstanding	\$84.698m	\$83.800m
Operating Performance Ratio	8.98%	4.18%
Own Source Operating Revenue Ratio	65.64%	66.99%
Unrestricted Current Ratio	2.90	2.67
Debt Service Cover Ratio	10.27	7.44
Rates and Annual Charges Outstanding Percentage	3.68%	3.87%
Cash Expense Cover Ratio (months)	10.92	10.00



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

Council has reported an Operating Surplus before Capital Revenue of \$8.604m. The surplus reflects the fact that Council has been able to contain its operating costs within its operating revenue base. This surplus contains \$7.9m of financial assistance grant for the 2017/18 financial year paid in advance.

### Financial Snapshot (continued)

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

The Operating Result before Capital Revenues has decreased by \$7.4m from the 2015/16 financial year.

This result has been impacted by a particularly strong gain on sale of investment property in the prior year as opposed to a significant net loss from the disposal of assets in the current year. This has been offset in particular by strong revenues from rates and annual charges, as well as grants and contributions provided for operating purposes. The factors contributing to the movement are discussed further below.

### **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 not cash.
- 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 can 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 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 decreased by \$7.4m from the 2015/16 financial year and the Operating Result including Capital Revenues decreased by \$7.3m. The movements in these results were due to a number of factors and the impacts of these factors are outlined below.

- Council recorded a Net Loss from the Disposal of Assets of \$13.7m, which includes amounts of \$9.5m relating to the Lake Macquarie Transport Interchange project and \$3.2m relating to the Awaba landfill extension project. Both of these projects included construction of assets that, under the terms of the contracts, were required to be dedicated to third parties (Roads and Maritime Services NSW and services providers) on practical completion of the projects. The assets were held in Council's books until such time as practical completion was achieved at which point they were required to be written off. Without the impact of the above projects, the total loss from disposal of assets would have been reduced to \$1.0m. This is in contrast to a gain on disposal of assets in the prior year of \$6.5m, due mainly to the sale of land at Bennetts Green.
- Operating Grants and Contributions increased by \$9.8m, mainly due to the impact of the first two instalments of the 2017/2018 financial assistance grant being received in the 2016/2017 financial year (\$7.9m) and natural disaster relief funding of \$2.3m received in relation to the April 2015 storms.
- Rates and Annual Charges increased by \$9.3m due primarily to the special rate variation.
- Employee Benefits and On-Costs increased by \$2.5m which is attributable to overall Enterprise Agreement increases and staff movements, offset by a decrease in workers compensation expense of \$1.1m which is predominantly a result of the lower self insurance provision.
- Materials and Contracts, Depreciation and Other Expenses experienced minimal increases, broadly in line with inflationary impacts and movements in asset bases, with no significant fluctuations noted.

Council has previously valued Land Under Roads based on a methodology set out in the Local Government Code of Accounting Practice and Financial Reporting. The Auditor General has interpreted the requirements of Accounting Standards differently and has concluded that to comply with Accounting Standards a discount rate should be applied to Land Under Road balances. On this basis, the valuation of Land Under Roads has been amended, which has resulted in additional disclosure in the form of a 'third balance sheet' and an accompanying note (Note 26).

## **Performance Indicators**

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

Council's unrestricted current ratio increased from 2.67 in 2015/2016 to 2.90 in 2016/2017. 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 3.00 for the 2015/2016 financial year.

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

Council's rates outstanding ratio improved from 3.87% in 2015/2016 to 3.68% in 2016/2017. 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 4.85% for the 2015/2016 financial year.

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

Council's operating performance ratio increased from 4.18% in 2015/2016 to 8.98% in 2016/2017. The main contributors to this improvement were the advance of half of the 2017/18 Financial Assistance Grant (\$7.9m) and reduced materials and contracts costs (\$7.5m). The benchmark as provided by the Office of Local Government is greater than 0%. The Group average for the councils in our group was 3.31% for the 2015/2016 financial year.

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

Council's own source operating revenue ratio changed slightly from 66.99% in 2015/2016, to 65.64% in 2016/2017. The benchmark as provided by the Office of Local Government is greater than 60%. The Group average for the councils in our group was 69.67% for the 2015/2016 financial year.

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

Council's debt service cover ratio increased from 7.44% in 2015/2016 to 10.27% in 2016/2017. The benchmark as provided by the Office of Local Government is greater than 2. The Group average for the councils in our group was 4.92% for the 2015/2016 financial year.

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

Council's cash expense cover ratio changed slightly from 10.00 months in 2015/2016 to 10.92 months in 2016/2017. 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 12.12 months for the 2015/2016 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 – Council is required to revalue each class of Infrastructure, Property, Plant and Equipment assets 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 2017-2027 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 is in consultation with the community for Lifestyle 2050, Council's future guiding land use, transport and green space strategy 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.
- In relation to the comments above regarding the long term Community Strategic Plan and infrastructure gap, Council applied for and was granted a seven year Special Rate Variation (SRV) in the 2011/2012 year, resulting in a cumulative increase in rates revenue of 57.48% over the seven years. The SRV will assist Council in delivering financial sustainability, ensuring levels of service are maintained to the community. It will also enable Council to manage its substantial and ageing asset base and address 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 foundation for financial sustainability. Council will continue to build on its position through strong financial management and continuous improvement. Council will strive to ensure the community receives a high level of efficient, effective and value for money 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 2017

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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 23 October 2017. 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 2017**

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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
- accord with the 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 23 October 2017.



Cr Kay Fraser  
Mayor



Cr Luke Cubis  
Deputy Mayor



Morven Cameron  
Chief Executive Officer  
General Manager



Dwight Graham  
Chief Financial Officer  
Responsible Accounting Officer

# LAKE MACQUARIE CITY COUNCIL

## Income Statement for the year ended 30 June 2017

Original Budget <sup>(1)</sup> 2017 \$'000		Notes	Actual 2017 \$'000	Actual 2016 Restated <sup>(2)</sup> \$'000
<b>INCOME FROM CONTINUING OPERATIONS</b>				
<i>Revenue:</i>				
149,365	Rates and annual charges	3a	151,954	142,633
16,057	User charges and fees	3b	17,954	17,362
6,002	Interest and investment revenue	3c	7,288	7,679
12,157	Other revenues	3d	12,723	12,751
26,584	Grants and contributions provided for operating purposes	3e,f	37,046	27,247
25,221	Grants and contributions provided for capital purposes	3e,f	61,342	61,265
<i>Other Income:</i>				
-	Net gain from the disposal of assets	5	-	6,470
-	Net share of interests in joint ventures and associates using the equity method	19	63	24
235,386	<b>Total Income from Continuing Operations</b>		<b>288,370</b>	<b>275,431</b>
<b>EXPENSES FROM CONTINUING OPERATIONS</b>				
87,889	Employee benefits and on-costs	4a	84,476	82,003
8,196	Borrowing costs	4b	5,459	6,257
47,096	Materials and contracts	4c	39,585	38,250
49,236	Depreciation and amortisation	4d	51,308	48,702
-	Impairment	4d	-	-
22,926	Other expenses	4e	23,924	22,995
-	Net loss from the disposal of assets	5	13,672	-
215,343	<b>Total Expenses from Continuing Operations</b>		<b>218,424</b>	<b>198,207</b>
<u>20,043</u>	<b>Operating Result from Continuing Operations</b>		<u><b>69,946</b></u>	<u><b>77,224</b></u>
<u>-</u>	<b>Operating Result from Discontinued Operations</b>		<u>-</u>	<u>-</u>
<u>20,043</u>	<b>NET OPERATING RESULT FOR THE YEAR</b>		<u><b>69,946</b></u>	<u><b>77,224</b></u>
Attributable to:				
20,043	- Council		69,946	77,224
-	- Non-controlling interests		-	-
<u>(5,178)</u>	<b>Net Operating Result for the Year Before Grants and Contributions Provided for Capital Purposes</b>		<u><b>8,604</b></u>	<u><b>15,959</b></u>

*Notes:*

1. Original budget as approved by Council - refer to Note 16.
2. Refer Note 26 for details regarding the restatement.

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 2017**

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		Actual 2017	Actual 2016 Restated <sup>(1)</sup>
	Notes	\$'000	\$'000
<b>Net Operating Result for the Year - from Income Statement</b>		<b>69,946</b>	<b>77,224</b>
<b>Other Comprehensive Income</b>			
<b><i>Amounts that will not be reclassified subsequently to operating result</i></b>			
Gain (loss) on revaluation of infrastructure, property, plant and equipment	20b	-	18,699
Net share gain (loss) on revaluation reserve of jointly controlled entity	20b	-	(12)
<b><i>Amounts that 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>-</b>	<b>18,687</b>
<b>Total Comprehensive Income for the Year</b>		<b>69,946</b>	<b>95,911</b>
<b>Attributable to:</b>			
- Council		<b>69,946</b>	<b>95,911</b>
- Non-controlling interests		<b>-</b>	<b>-</b>

1. Refer Note 26 for details regarding the restatement.

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

# LAKE MACQUARIE CITY COUNCIL

## Statement of Financial Position as at 30 June 2017

		Actual 2017 \$'000	Actual 2016 Restated <sup>(1)</sup> \$'000	Actual 2015 Restated <sup>(1)</sup> \$'000
<b>ASSETS</b>	<b>Notes</b>			
<b>Current Assets</b>				
Cash and cash equivalents	6a	25,327	13,310	43,782
Investments	6b	123,122	128,998	91,250
Receivables	7	13,396	13,762	11,905
Inventories	8	1,398	2,590	1,856
Other	8	376	601	364
Non-current assets classified as held for sale	22	263	-	12,395
<b>Total Current Assets</b>		<b>163,882</b>	<b>159,261</b>	<b>161,552</b>
<b>Non-Current Assets</b>				
Investments	6b	93,613	85,290	72,647
Receivables	7	1,045	1,096	784
Infrastructure, property, plant and equipment	9	2,384,352	2,327,949	2,274,825
Investments accounted for using equity method	19	484	421	409
Investment property	14	40,412	38,205	36,956
Intangible assets	23	1,354	725	209
Inventories	8	2,589	3,546	1,826
Other	8	988	1,270	1,516
<b>Total Non-Current Assets</b>		<b>2,524,837</b>	<b>2,458,502</b>	<b>2,389,172</b>
<b>Total Assets</b>		<b>2,688,719</b>	<b>2,617,763</b>	<b>2,550,724</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Payables	10a	18,449	17,911	21,506
Income received in advance	10a	55	68	18
Borrowings	10a	2,569	2,332	3,121
Provisions	10a	63,395	62,913	62,115
<b>Total Current Liabilities</b>		<b>84,468</b>	<b>83,224</b>	<b>86,760</b>
<b>Non-Current Liabilities</b>				
Payables	10a	-	-	-
Borrowings	10a	82,129	81,468	81,935
Provisions	10a	16,526	17,831	16,909
<b>Total Non-Current Liabilities</b>		<b>98,655</b>	<b>99,299</b>	<b>98,844</b>
<b>Total Liabilities</b>		<b>183,123</b>	<b>182,523</b>	<b>185,604</b>
<b>Net Assets</b>		<b>2,505,596</b>	<b>2,435,240</b>	<b>2,365,120</b>
<b>EQUITY</b>				
Retained earnings	20	1,237,774	1,167,418	1,115,985
Revaluation reserves	20	1,267,822	1,267,822	1,249,135
Other reserves	20	-	-	-
Non-controlling equity interest		-	-	-
<b>Total Equity</b>		<b>2,505,596</b>	<b>2,435,240</b>	<b>2,365,120</b>

1. Refer Note 26 for details regarding the restatement.

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 2017**

	Notes ref	Actual 2017 \$'000						Actual 2016 \$'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>1,167,418</b>	<b>1,267,822</b>	-	<b>2,435,240</b>	-	<b>2,435,240</b>	1,166,344	1,250,743	-	2,417,087	-	2,417,087
Correction of errors	26	-	-	-	-	-	-	(50,359)	(1,608)	-	(51,967)	-	(51,967)
Changes in accounting policies		-	-	-	-	-	-	-	-	-	-	-	-
<b>Restated Opening Balance</b>	20	<b>1,167,418</b>	<b>1,267,822</b>	-	<b>2,435,240</b>	-	<b>2,435,240</b>	1,115,985	1,249,135	-	2,365,120	-	2,365,120
Correction of errors	20c	410	-	-	410	-	410	(25,791)	-	-	(25,791)	-	(25,791)
Net operating result for the year	20	<b>69,946</b>	-	-	<b>69,946</b>	-	<b>69,946</b>	77,224	-	-	77,224	-	77,224
Other comprehensive income	20	-	-	-	-	-	-	-	18,687	-	18,687	-	18,687
<b>Total Comprehensive Income</b>	20	<b>69,946</b>	-	-	<b>69,946</b>	-	<b>69,946</b>	77,224	18,687	-	95,911	-	95,911
<b>Closing Balance</b>	20	<b>1,237,774</b>	<b>1,267,822</b>	-	<b>2,505,596</b>	-	<b>2,505,596</b>	1,167,418	1,267,822	-	2,435,240	-	2,435,240

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 2017

Budget 2017 \$'000	Notes	Actual 2017 \$'000	Actual 2016 \$'000
<b>Cash Flows from Operating Activities</b>			
<i>Receipts:</i>			
149,365	Rates and annual charges	152,703	142,423
16,057	User charges and fees	22,525	19,937
6,002	Investment revenue and interest	6,639	7,024
51,805	Grants and contributions	68,737	70,237
-	Deposits and retentions received	1,214	978
12,157	Other	13,481	17,386
<i>Payments:</i>			
(87,889)	Employee benefits and on-costs	(84,820)	(81,515)
(47,096)	Materials and contracts	(43,045)	(43,210)
(8,196)	Borrowing costs	(5,171)	(5,310)
-	Deposits and retentions refunded	(446)	(2,480)
(19,737)	Other	(32,646)	(32,698)
72,468	<b>Net Cash Provided (or Used) in Operating Activities</b>	99,171	92,772
	11(b)		
<b>Cash Flows from Investing Activities</b>			
<i>Receipts:</i>			
-	Sale of investments	211,030	210,103
2,485	Sale of infrastructure, property, plant and equipment	5,208	26,180
<i>Payments:</i>			
-	Purchase of investments	(213,000)	(260,050)
(97,040)	Purchase of infrastructure, property, plant and equipment	(91,290)	(98,221)
(94,555)	<b>Net Cash Provided by (or Used in) Investing Activities</b>	(88,052)	(121,988)
<b>Cash Flows from Financing Activities</b>			
<i>Receipts:</i>			
24,245	Borrowings and advances	3,230	1,868
<i>Payments:</i>			
(3,910)	Borrowings and advances	(2,332)	(3,124)
20,335	<b>Net Cash Provided by (or Used in) Financing Activities</b>	898	(1,256)
(1,752)	<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	12,017	(30,472)
202,212	<b>Cash and Cash Equivalents at Beginning of Reporting Period</b>	13,310	43,782
200,460	<b>Cash and Cash Equivalents at End of Reporting Period</b>	25,327	13,310

*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 2017**

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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements

30 June 2017

(continued)

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#### Note 1 Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these 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*

AASB 124 *Related Party Disclosures* was adopted during the year. The impact of this standard had no impact on reporting financial position or performance. However, Note 25 has been added.

AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 and AASB 11]* was adopted during the year. The adoption of this standard has not had any impact for Council.

##### (ii) *Early adoption of standards*

Lake Macquarie City Council has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2016.

##### (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.

- (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



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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements

30 June 2017

(continued)

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

##### *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 / contributed 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 or when the penalty has been applied, whichever first occurs.

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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements

30 June 2017

(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.

##### *(i) 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 2017****(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 2017****(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 or are not yet available for use 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 2017**  
**(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 2017****(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 2017, 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 were 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.

**Notes to the Financial Statements  
30 June 2017  
(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, 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 reporting 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 2017

(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 (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)

Non-specialised assets with short useful lives are measured at depreciated historical cost as an approximation of their fair value. Council has assessed that any difference between fair value and depreciated historical cost is unlikely to be material.

For all other asset classes, 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 2017

(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 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	20 – 100 years	Heritage assets	100 years
Buildings	15 – 100 years	Digital library collection	3 years
Other infrastructure	20 – 100 years	Library books	6 years
Other open space / recreational assets	10 – 100 years	Council Online solution	10 years
Other structures	15 – 50 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 2017****(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 2017**

**(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 2017 (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 2017 was \$2,632,804. The last valuation of the Fund was performed by Mr Richard Boyfield, FIAA, on 2<sup>nd</sup> December 2016 relating to the period ending 30 June 2016.

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 estimated that as at 30 June 2016 a deficit still existed. Effective from 1 July 2009, employers are required to contribute additional contributions to assist in extinguishing this deficit.

The share of the deficit that is broadly attributable to Council is estimated to be in the order of 2.99% as at 30 June 2017. 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 *Land Under Roads*. Land under roads acquired after 1 July 2008 is recognised in accordance with AASB 116 *Property, Plant and Equipment*. Land under roads has been recognised for land acquired before 1 July 2008 where a roadway has been constructed on the land after 1 July 2008.

**Notes to the Financial Statements  
30 June 2017  
(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. A discount factor is applied to these amounts to reflect the restrictions placed on land under roads.

**(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.

**(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 such time as discussions on this matter have concluded and the legislation changed, Council will recognise rural fire service assets including land, buildings, plant and vehicles.

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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements 30 June 2017 (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 2017 reporting periods. Lake Macquarie City Council's assessment of the impact of these new standards and interpretations relevant to them is set out below.

###### (i) *AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*

This standard amends AASB 107 Statement of Cash Flows to require entities who are preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

There will be no impact on reported financial position or performance, however councils will have to show the changes in liabilities arising from financing activities.

###### (ii) *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.

**Notes to the Financial Statements**  
**30 June 2017**  
**(continued)**

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

Impairment of assets is now based on expected losses in AASB 9 which requires councils 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 model for determining impairment losses in relation to receivables will be amended. The impact of the new model has not yet been quantified, although some impairment may be recognised earlier.

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

- (iii) *AASB 2014-10 Sale or contribution of Assets between an Investor and its Associate or Joint Venture*  
*AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128*

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.

AASB 2015-10 has delayed the effective date of this standard.

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

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

- (iv) *AASB 16 Leases*

AASB 16 will result in most of the operating leases of an entity being brought onto the statement of financial position. There are limited exceptions relating to short-term leases and low-value assets which may remain off the balance sheet.

The calculation of the lease liability will take into account appropriate discount rates, assumptions about the lease term, and increases in lease payments.

A corresponding right to use assets will be recognised, which will be amortised over the term of the lease.

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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements

30 June 2017

(continued)

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

Rent expense will no longer be shown. The profit and loss impact of the leases will be through amortisation and interest charges.

The effective date is annual reporting periods beginning on or after 1 January 2019.

Whilst the impact of AASB 16 has not yet been fully determined, Council currently has a number of operating leases which are likely to be brought to account. Rental expense will decrease and interest and depreciation will increase.

(v) *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 2019.

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.

(vi) *AASB 1058 Income of NFP Entities*

AASB 1058 supersedes all the income recognition requirements relating to councils, previously in *AASB 1004 Contributions*. The timing of income recognition depends on whether such a transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service), or a contribution by owners, related to an asset (such as cash or another asset) received by an entity.

AASB 1058 applies when a council receives volunteer services or enters into other transactions in which the consideration to acquire an asset is significantly less than the fair value of the asset, and where the council's objective is principally to enable the asset to further the council's objectives. In cases where the council enters into other transactions, the council recognises and measures the asset at fair value in accordance with the applicable Australian Accounting Standard (e.g. *AASB 116 Property, Plant and Equipment*).



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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements 30 June 2017 (continued)

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

Upon initial recognition of the asset, this standard requires Council to consider whether any other financial statement elements (called 'related amounts') should be recognised in accordance with the applicable Accounting Standard, such as:

- (a) contributions by owners
- (b) revenue, or a contract liability arising from a contract with a customer
- (c) a lease liability
- (d) a financial instrument
- (e) a provision.

If the transaction is a transfer of a financial asset to enable Council to acquire or construct a recognisable non-financial asset to be controlled by Council (i.e. an in-substance acquisition of a non-financial asset), the council recognises a liability for the excess of the fair value of the transfer over any related amounts recognised.

Council will recognise income as it satisfies its obligations under the transfer similarly to income recognition in relation to performance obligations under AASB 15.

If the transaction does not enable Council to acquire or construct a recognisable non-financial asset to be controlled by Council, then any excess of the initial carrying amount of the recognised asset over the related amounts is recognised as income.

The effective date is annual reporting periods beginning on or after 1 January 2019.

All revenue streams, including grant agreements, are currently being reviewed to determine the impact of AASB 1058. Prepaid rates received prior to the beginning of a rating period will be recognised as a financial liability until the commencement of the rating period.

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 2017 (continued)

#### Note 2(a) Functions or Activities

Income, expenses and assets have been directly attributed to the following functions. Details of those functions are provided in Note 2(b).													
Function	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 2017 \$'000	Actual 2017 \$'000	Actual 2016 Restated <sup>(2)</sup> \$'000	Original Budget 2017 \$'000	Actual 2017 \$'000	Actual 2016 \$'000	Original Budget 2017 \$'000	Actual 2017 \$'000	Actual 2016 Restated <sup>(2)</sup> \$'000	Actual 2017 \$'000	Actual 2016 \$'000	Actual 2017 \$'000	Actual 2016 Restated <sup>(2)</sup> \$'000
Governance	4	4	4	5,109	6,397	4,424	(5,105)	(6,393)	(4,420)	-	-	-	-
Administration	4,710	8,248	8,110	8,897	1,501	3,996	(4,187)	6,747	4,114	-	-	97,887	94,010
Caring for the environment	35,444	37,354	35,568	56,244	51,105	48,608	(20,800)	(13,751)	(13,040)	3,136	2,901	38,446	36,923
Caring for our community	6,718	8,026	7,394	18,906	20,328	21,421	(12,188)	(12,302)	(14,027)	3,186	3,129	47,400	45,522
Urban and economic development	12,191	28,286	26,183	20,209	20,369	18,423	(8,018)	7,917	7,760	12	7	125,445	120,477
Transport, roads and drainage	18,102	39,368	38,411	51,306	66,379	50,830	(33,204)	(27,011)	(12,419)	5,312	16,449	1,489,516	1,466,054
Sport, recreation and culture	2,707	4,077	3,304	42,681	42,571	41,289	(39,974)	(38,494)	(37,985)	1,370	398	763,115	732,892
CiviLake	4,587	2,996	4,779	3,900	2,380	4,486	687	616	293	-	-	12,860	12,352
Property management	10,255	9,676	15,852	8,091	7,394	4,730	2,164	2,282	11,122	-	-	114,050	109,533
<b>Total Functions</b>	94,718	138,035	139,605	215,343	218,424	198,207	(120,625)	(80,389)	(58,602)	13,016	22,884	2,688,719	2,617,763
Shares of gains or losses in joint ventures and associates using the equity method	-	63	24	-	-	-	-	63	24	-	-	-	-
General purpose income*	140,668	150,272	135,802	-	-	-	140,668	150,272	135,802	25,527	18,035	-	-
<b>Net Operating Result for the Year <sup>(1)</sup></b>	235,386	288,370	275,431	215,343	218,424	198,207	20,043	69,946	77,224	38,543	40,919	2,688,719	2,617,763

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

(2) Refer note 26 for details regarding the restatement

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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements

30 June 2017

(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 2017 (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 2017  
(continued)**

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**Note 3 Income from Continuing Operations**

<b>(a) Rates and Annual Charges</b>	<b>Actual 2017 (\$'000)</b>	<b>Actual 2016 (\$'000)</b>
<b>Ordinary Rates</b>		
Residential	98,887	92,845
Farmland	94	89
Mining	907	791
Business	16,938	16,028
<b>Total Ordinary Rates</b>	<b>116,826</b>	<b>109,753</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	32,259	30,265
Waste management services (not domestic)	1,860	1,701
Domestic waste - sanitary/sullage services	946	860
Section 611 charges	63	54
<b>Total Annual Charges</b>	<b>35,128</b>	<b>32,880</b>
<b>Total Rates and Annual Charges</b>	<b>151,954</b>	<b>142,633</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 \$4,362k and of this \$2,414k 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 2017  
(continued)**

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

	Actual 2017 (\$'000)	Actual 2016 (\$'000)
<b>(b) User Charges and Fees</b>		
<i>User Charges</i>		
Domestic waste management services	189	116
Waste management services (not domestic)	72	51
Sullage	285	285
<b>Total User Charges</b>	<b>546</b>	<b>452</b>
<i>Fees</i>		
Building assessment and compliance	1,489	1,493
Development assessment	2,330	2,033
Subdivision assessment	743	936
Animal enforcement	193	188
Health inspection	625	440
Private works	6	9
Tipping	1,847	2,140
Section 149 certificates	508	528
Section 603 certificates	370	364
Caravan parks	5,569	5,485
Swimming centres	1,627	1,488
Community facilities	1,572	1,400
Other	529	406
<b>Total Fees</b>	<b>17,408</b>	<b>16,910</b>
<b>Total User Charges and Fees</b>	<b>17,954</b>	<b>17,362</b>

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements  
30 June 2017  
(continued)**

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

	Actual 2017 (\$'000)	Actual 2016 (\$'000)
<b>(c) Interest and Investment Revenue (Losses)</b>		
Interest and dividends		
- Overdue rates and charges	285	295
- Cash and investments	4,483	4,861
- Interest on section 94 contributions	2,044	2,078
Amortisation of discounts and premiums	476	445
<b>Total Interest and Investment Revenue (Losses)</b>	<b>7,288</b>	<b>7,679</b>
<b>(d) Other Revenues</b>		
Fair value increments - investment properties	2,001	826
Fines - parking, animal and littering	727	730
Legal fees recovery	382	221
Sale of publications	13	16
Canteen sales	292	293
Sale of merchandise	42	44
Sundry sales and services	311	339
Commissions received	29	32
Insurance claims	213	327
External works	3,500	5,291
Rental income		
- Investment property	2,830	2,614
- Other property	1,650	1,606
Movement in provision for asset remediation	374	-
Other	359	412
<b>Total Other Revenue</b>	<b>12,723</b>	<b>12,751</b>

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2017 (continued)

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

	OPERATING		CAPITAL	
	Actual 2017 (\$'000)	Actual 2016 (\$'000)	Actual 2017 (\$'000)	Actual 2016 (\$'000)
<b>(e) Grants</b>				
<b>General Purpose (Untied)</b>				
Financial assistance				
- Equalisation component	12,633	12,950	-	-
- Local roads component	2,610	2,625	-	-
Financial assistance grant received in advance <sup>(1)</sup>				
- Equalisation component	6,530	-	-	-
- Local roads component	1,339	-	-	-
Pensioners' rates subsidies (General)	1,811	1,844	-	-
<b>Special Purpose</b>				
Pensioners' rates subsidies (DWM)	603	616	-	-
Economic development	5	-	-	-
Heritage	7	7	-	-
Bush fire services	973	842	697	624
Library and arts	681	608	-	-
Environmental	961	724	506	120
Community facilities and services	3,108	3,129	78	-
Waterways	-	-	681	672
Recreation	8	-	-	83
Transport (3x3, Flood Works, Roads to Recovery)	1,241	1,217	4,071	14,857
<b>Total Grants</b>	<b>32,510</b>	<b>24,562</b>	<b>6,033</b>	<b>16,356</b>
<b>Comprising:</b>				
- Commonwealth funding	28,321	20,805	3,890	14,675
- State funding	3,970	3,502	2,143	1,673
- Other funding	219	255	-	8
	<b>32,510</b>	<b>24,562</b>	<b>6,033</b>	<b>16,356</b>

<sup>(1)</sup> The 16/17 Financial Assistance Grant received in advance amount relates to the 17/18 allocation. This amount was not expended in the current financial year and has been restricted in note 6(c).



# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2017 (continued)

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

	OPERATING		CAPITAL	
	Actual 2017 (\$'000)	Actual 2016 (\$'000)	Actual 2017 (\$'000)	Actual 2016 Restated <sup>(1)</sup> (\$'000)
<b>(f) Contributions</b>				
Developer contributions:				
- Section 94 administration	346	327	-	-
- Section 94 drainage	-	-	-	113
- Section 94 open space	-	-	15,048	13,558
- Section 94 community facilities	-	-	3,639	3,359
- Section 94 traffic facilities	-	-	2,092	2,122
- Dedications of land in lieu of cash contributions	-	-	68	30
- Planning agreements	23	-	315	143
RMS contributions	51	301	384	3,369
Drainage	-	-	-	350
Roads	262	259	336	572
Environmental	208	373	-	5
Community facilities	20	60	-	-
Kerb and gutter	-	-	207	592
Administration	1,019	927	-	34
Economic development	12	23	-	-
Dedications	-	-	33,114	20,528
Bush fire services	1	176	-	-
Recreation and cultural	38	7	106	120
Natural disaster relief funding	2,331	-	-	-
Other	225	232	-	14
<b>Total Contributions</b>	<b>4,536</b>	<b>2,685</b>	<b>55,309</b>	<b>44,909</b>
<b>Total Grants and Contributions</b>	<b>37,046</b>	<b>27,247</b>	<b>61,342</b>	<b>61,265</b>

<sup>(1)</sup> Refer note 26 for details regarding the restatement

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements  
30 June 2017  
(continued)**

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

	<b>Actual 2017 (\$'000)</b>	<b>Actual 2016 (\$'000)</b>
<b>(g) Unspent 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 that have not been spent	<b>18,489</b>	24,948
Grants and contributions received for the provision of goods and services in a future period	<b>8,439</b>	221
Grants and contributions recognised in previous reporting periods that have been spent in the current reporting period	<b><u>(22,974)</u></b>	<b><u>(31,565)</u></b>

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements  
30 June 2017  
(continued)**

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**Note 4 Expenses from Continuing Operations**

	<b>Actual 2017 (\$'000)</b>	<b>Actual 2016 (\$'000)</b>
<b>(a) Employee Benefits and On-costs</b>		
Salaries and wages	<b>68,582</b>	66,529
Travelling	<b>415</b>	390
Employee leave entitlements	<b>14,547</b>	12,960
Superannuation	<b>10,281</b>	9,571
Workers' compensation insurance	<b>1,534</b>	2,632
FBT	<b>418</b>	429
Training costs (excluding salaries)	<b>773</b>	826
Other contractual payments	<b>771</b>	710
Other employee costs	<b>36</b>	-
Less: Capitalised costs	<b>(12,881)</b>	(12,044)
<b>Total Employee Costs Expended</b>	<b>84,476</b>	<b>82,003</b>
<b>(b) Borrowings Costs</b>		
Interest on loans	<b>5,165</b>	5,313
Amortisation of discounts and premiums: - Remediation (Quarries and tips)	<b>294</b>	944
Less: Capitalised costs	-	-
<b>Total Borrowing Costs Expended</b>	<b>5,459</b>	<b>6,257</b>

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements****30 June 2017****(continued)**

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

	<b>Actual</b>	<b>Actual</b>
	<b>2017</b>	<b>2016</b>
	<b>(\$'000)</b>	<b>(\$'000)</b>
<b>(c) Materials and Contracts</b>		
Raw materials and consumables	<b>18,158</b>	19,703
Contractor costs		
- Kerbside recycling	<b>3,681</b>	2,569
- Greenwaste collection and processing	<b>4,154</b>	3,473
- Council Online system	<b>1,798</b>	1,949
- Effluent removal	<b>1,202</b>	1,114
- Caravan park managers	<b>896</b>	880
- Cleaning	<b>489</b>	477
- Other	<b>713</b>	746
Consultancy costs		
- Development assessment	<b>77</b>	4
- Planning	<b>130</b>	-
- Asset management planning	<b>11</b>	125
- Environmental	<b>230</b>	352
- Design services	<b>10</b>	11
- Other consultants	<b>426</b>	532
Remuneration of auditors <sup>(1)</sup>	<b>88</b>	76
Other audit services	<b>-</b>	2
Legal fees		
- Planning and development	<b>929</b>	286
- Other	<b>549</b>	359
Operating leases		
- Buildings	<b>33</b>	32
- Computers	<b>716</b>	612
- Other	<b>136</b>	117
Other		
- Family day care	<b>2,814</b>	2,604
- Caravan park rental commission	<b>274</b>	274
- RSPCA payments	<b>175</b>	172
- Vehicle registrations	<b>397</b>	370
- Water charges	<b>1,428</b>	1,350
- Other	<b>71</b>	61
<b>Total Materials and Contracts</b>	<b>39,585</b>	<b>38,250</b>

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements****30 June 2017****(continued)**

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

	<b>Actual 2017 (\$'000)</b>	<b>Actual 2016 (\$'000)</b>
<b>(c) Materials and Contracts (continued)</b>		
<sup>(1)</sup> Auditors' remuneration		
During the year the following fees were paid or payable for services provided by the Auditor-General:		
<i>(i) Audit and other assurance services</i>		
Audit and review of financial statements	<b>83</b>	-
Other assurance services	<b>2</b>	-
Total remuneration for audit and other assurance services	<b>85</b>	-
<b>Total fees paid or payable to the Auditor-General</b>	<b>85</b>	-
During the year the following fees were paid or payable for services provided by other audit firms:		
<i>(i) Audit and other assurance services</i>		
Audit and review of financial statements	<b>1</b>	69
Other assurance services	<b>2</b>	7
Total remuneration for audit and other assurance services	<b>3</b>	76
<b>Total fees paid or payable to other audit firms</b>	<b>3</b>	76
<b>Total Remuneration of Auditors</b>	<b>88</b>	76

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements****30 June 2017****(continued)**

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

	Actual 2017 (\$'000)	Actual 2016 (\$'000)
<b>(d) Depreciation, Amortisation and Impairment</b>		
<b>Depreciation and amortisation</b>		
Intangible assets	530	142
Plant and equipment	5,513	5,654
Office equipment	985	1,091
Furniture and fittings	530	493
Land improvements (depreciable)	2,023	2,130
Infrastructure		
- Buildings	3,791	3,600
- Other structures	1,535	2,047
- Swimming pools	296	206
- Other open space / Recreational assets	1,653	1,454
- Roads, bridges, footpaths, other road assets	26,824	24,459
- Storm water drainage	5,285	5,113
- Other infrastructure	510	519
Other assets		
- Library books	463	424
Tip asset	1,370	1,370
<b>Total Depreciation and Amortisation Costs</b>	<b>51,308</b>	<b>48,702</b>

Council has no impairment costs for the current or previous periods

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements****30 June 2017****(continued)**

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

	Actual 2017 (\$'000)	Actual 2016 (\$'000)
<b>(e) Other Expenses</b>		
Cost of sales	-	-
Bad and doubtful debts	122	5
Mayoral fee	89	86
Councillors' fees	296	290
Councillors' (incl Mayor) expenses	213	115
Insurance	2,880	2,838
Street lighting	3,547	3,296
Electricity and heating	1,143	1,234
Telephone and communications	955	1,057
Contributions to state government - BFB and State Fire Brigades	3,176	3,152
Contributions to state government - EPA	7,121	6,906
Emergency services levy	374	343
Donations <sup>(1)</sup>	748	723
Advertising	635	582
Bank charges	431	404
Valuation fees	487	480
Subscriptions, memberships and publications	636	533
Other	1,071	951
<b>Total Other Expenses from Continuing Operations</b>	<b>23,924</b>	<b>22,995</b>

(1) In addition to the donations shown above, Council provided an amount in the sum of \$2,600k to community organisations by way of lease rental concessions.

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements****30 June 2017****(continued)**

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

	<b>Actual 2017 (\$'000)</b>	<b>Actual 2016 (\$'000)</b>
<b>Gain (or Loss) on Disposal of Infrastructure, Property, Plant and Equipment</b>		
Proceeds from disposal	5,208	5,291
Less: Carrying amount of assets sold	<u>(18,880)</u>	<u>(6,871)</u>
<b>Gain (or Loss) on Disposal</b>	<b><u>(13,672)</u></b>	<b><u>(1,580)</u></b>
<b>Gain (or Loss) on Disposal of Investment Property</b>		
Proceeds from disposal	-	20,891
Less: Carrying value of investment property	<u>-</u>	<u>(12,841)</u>
<b>Gain (or Loss) on Disposal</b>	<b><u>-</u></b>	<b><u>8,050</u></b>
<b>Net Gain (or Loss) from Disposal of Assets</b>	<b><u>(13,672)</u></b>	<b><u>6,470</u></b>

The loss on disposal of \$13,672k includes amounts of \$9,479k relating to the Lake Macquarie Interchange project and amounts of \$3,183k relating to the Awaba landfill extension project.

Both of these projects included construction of assets, (principally roads), which under the terms of the contracts were required to be dedicated to third parties, such as Roads & Maritime, on practical completion of the projects. On this basis, the assets were held in Council's books until such time as practical completion was achieved at which point they were required to be written off.

Without the impact of the above projects, the total loss from disposal of assets would have been reduced to \$1,010k.



# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements

30 June 2017

(continued)

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

	Actual 2017 \$'000	Actual 2016 \$'000
Cash at bank and on hand	7,327	13,310
Short term deposits	18,000	-
	<u>25,327</u>	<u>13,310</u>

### Note 6(b) Investments

The following financial assets are held as investments:

	Actual 2017		Actual 2016	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
Held to maturity investments	123,122	93,613	128,998	85,290
<b>Total</b>	<u>123,122</u>	<u>93,613</u>	<u>128,998</u>	<u>85,290</u>

#### Comprising of:

- Term Deposits	109,000	19,000	113,000	14,000
- Floating Rate Notes	6,500	71,952	11,005	61,453
- Mortgage Backed Securities	-	2,661	-	2,692
- Corporate Bonds	-	-	4,993	-
- Zero Coupon Bonds	7,622	-	-	7,145
	<u>123,122</u>	<u>93,613</u>	<u>128,998</u>	<u>85,290</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 2017 (continued)

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

	Actual 2017		Actual 2016	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
	\$242,062		\$227,598	
<b>Total Cash, Cash Equivalents and Investments</b>	<b>148,449</b>	<b>93,613</b>	142,308	85,290
External restrictions	25,242	93,613	30,837	85,290
Internal restrictions	123,207	-	111,471	-
	<b>148,449</b>	<b>93,613</b>	<b>142,308</b>	<b>85,290</b>
	Opening Balance \$'000	Transfers to Restrictions \$'000	Transfers from Restrictions	Closing Balance \$'000
<b>External Restrictions</b>				
<b>Included in liabilities</b>				
RMS advances (A)	1	2,073	2,074	-
	1	2,073	2,074	-
<b>Other</b>				
Developer contributions (B)	77,979	24,470	20,819	81,630
Specific purpose unexpended grants (C)	5,534	15,430	16,117	4,847
Domestic waste management (D)	15,767	33,133	33,502	15,398
DWM site rehabilitation (D)	7,073	915	1,000	6,988
DWM land infrastructure (D)	3,734	541	1,323	2,952
Caravan parks reserve	2,459	4,661	4,752	2,368
Crown reserve	133	250	245	138
Waste and sustainability improvement	71	423	326	168
Contribution to other works	3,193	4,348	3,357	4,184
Sundry income	183	-	1	182
	116,126	84,171	81,442	118,855
<b>Total External Restrictions</b>	<b>116,127</b>	<b>86,244</b>	<b>83,516</b>	<b>118,855</b>
<b>Internal Restrictions</b>				
Employee leave entitlements	1,000	-	-	1,000
Replacement of assets	28,879	54,080	51,958	31,001
Open space acquisition	3,713	1,000	37	4,676
Strategic property reserve	17,214	8,435	6,647	19,002
Unexpended loan funds	11,825	16,595	21,997	6,423
External works surplus	972	737	997	712
Quarry rehabilitation	539	3,200	628	3,111
Matching funds Sec 94	7,379	404	149	7,634
Grant matching funds	1,081	130	8	1,203
Cemeteries improvement	1,034	322	338	1,018
General fund carried forward works	5,670	10,845	2,417	14,098
Community land	16,891	727	139	17,479
IT replacement	3,065	3,191	993	5,263
Employee resources	216	209	1	424
Charlestown open space endowment fund	4,114	188	1,105	3,197
Cardiff town park endowment fund	2,461	48	-	2,509
Insurance proceeds	729	213	251	691
Bulk materials recycling	372	-	93	279
Roads and drainage	12	-	7	5
Community Facilities	1,454	27	60	1,421
Wangi Point Lakeside Holiday Park	574	909	785	698
Elections	884	259	804	339
Sustainability environmental levy	263	-	88	175
Water and energy reduction strategies	1,130	8	289	849
	111,471	101,527	89,791	123,207
<b>Total Internal Restrictions</b>	<b>111,471</b>	<b>101,527</b>	<b>89,791</b>	<b>123,207</b>
<b>Total Restrictions</b>	<b>227,598</b>	<b>187,771</b>	<b>173,307</b>	<b>242,062</b>

**Notes to the Financial Statements**  
**30 June 2017**  
**(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. Council's General Fund borrowed a further \$13,365k from developer contributions in the 2016/2017 financial year. The current year loan is included in the "Transfers from Restrictions" amount of \$20,819k.

Refer Special Schedule 2(b) for details of these loans.

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 2017 (continued)

### Note 7 Receivables

Purpose	Actual 2017		Actual 2016	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
Rates and annual charges	4,649	575	4,659	576
Interest and extra charges	273	333	241	295
User charges and fees	213	143	339	225
Accrued interest on investments	1,925	-	1,822	-
Government grants and subsidies	657	-	1,380	-
RMS	151	-	422	-
External works	381	-	2,115	-
Contribution to works	3,310	-	1,337	-
GST	1,556	-	952	-
Fines	42	-	42	-
Insurance proceeds	6	4	4	-
Other	237	275	451	385
<b>Total</b>	<b>13,400</b>	<b>1,330</b>	<b>13,764</b>	<b>1,481</b>
Less: Provision for impairment				
- Rates and annual charges	-	12	-	12
- Other receivables	4	273	2	373
	<b>13,396</b>	<b>1,045</b>	<b>13,762</b>	<b>1,096</b>

### Restricted Receivables

	Actual 2017		Actual 2016	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
<b>Externally Restricted Receivables</b>				
Domestic waste management	1,151	-	1,138	-
<b>Total Externally Restricted Receivables</b>	<b>1,151</b>	<b>-</b>	<b>1,138</b>	<b>-</b>
<b>Unrestricted Receivables</b>	<b>12,245</b>	<b>1,045</b>	<b>12,624</b>	<b>1,096</b>
<b>Total Receivables</b>	<b>13,396</b>	<b>1,045</b>	<b>13,762</b>	<b>1,096</b>

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2017 (continued)

### Note 8 Inventories and Other Assets

	Actual 2017		Actual 2016	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
<b>(a) Inventories</b>				
<b>At cost:</b>				
Real estate (refer (i) below)	754	2,589	1,933	3,546
Stores and materials	632	-	643	-
Trading stock - pools	12	-	14	-
<b>Total Inventories</b>	<b>1,398</b>	<b>2,589</b>	<b>2,590</b>	<b>3,546</b>
<b>(i) Real Estate Development</b>				
Residential	690	399	480	1,331
Industrial/Commercial	64	1,740	63	1,765
Other Properties	-	450	1,390	450
<b>Total Real Estate Held for Sale</b>	<b>754</b>	<b>2,589</b>	<b>1,933</b>	<b>3,546</b>
<b>Represented by:</b>				
Acquisition costs	641	1,313	1,887	2,276
Development costs	113	1,276	46	1,270
	754	2,589	1,933	3,546
Less: Provision for under recovery	-	-	-	-
<b>Total Real Estate Held for Sale</b>	<b>754</b>	<b>2,589</b>	<b>1,933</b>	<b>3,546</b>
<b>(ii) Inventories not expected to be realised within the next 12 months</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>(b) Other Assets</b>				
Prepayments	376	988	601	1,270
<b>Total Other Assets</b>	<b>376</b>	<b>988</b>	<b>601</b>	<b>1,270</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 2017		Actual 2016	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
<b>DWM</b>				
Stores and materials	82	-	83	-
<b>Total DWM</b>	<b>82</b>	<b>-</b>	<b>83</b>	<b>-</b>
<b>Total Externally Restricted Inventories and Other Assets</b>	<b>82</b>	<b>-</b>	<b>83</b>	<b>-</b>
<b>Unrestricted Inventories and Other Assets</b>	<b>1,692</b>	<b>3,577</b>	<b>3,108</b>	<b>4,816</b>
<b>Total Inventories and Other Assets</b>	<b>1,774</b>	<b>3,577</b>	<b>3,191</b>	<b>4,816</b>

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2017 (continued)

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

BY ASSET CLASS <sup>(1)</sup>	At 30 June 2016 Restated <sup>(5)</sup>			Movements during year						At 30 June 2017		
	Gross Carrying Amount \$'000	Accum Depn and Impairment \$'000	Net Carrying Amount \$'000	Renewals <sup>(2)</sup> \$'000	New Assets \$'000	Carrying Value of Disposals \$'000	Depn and Impairment \$'000	Transfers /Adjustments \$'000	Revaluation Increments/ (Decrements) \$'000	Gross Carrying Amount \$'000	Accum Depn and Impairment \$'000	Net Carrying Amount \$'000
Capital WIP	62,770	-	62,770	(3,257)	(25,168)	-	-	-	-	34,345	-	34,345
Plant and equipment	58,956	(29,311)	29,645	4,941	2,558	(1,243)	(5,513)	-	-	62,332	(31,944)	30,388
Office equipment	7,146	(5,139)	2,007	302	768	(4)	(985)	-	-	8,067	(5,979)	2,088
Furniture and fittings	9,357	(6,339)	3,018	200	71	(2)	(530)	(400)	-	9,021	(6,664)	2,357
Land												
- Operational land	130,468	-	130,468	110	1,486	(534)	-	(5,351)	-	126,179	-	126,179
- Community land	166,021	-	166,021	26	215	(72)	-	3,392	-	169,582	-	169,582
- Land under roads (post 01/07/08)	7,504	-	7,504	-	4,554	(417)	-	1,768	-	13,409	-	13,409
- Non-depreciable land improvements	8,270	(2,624)	5,646	835	1,572	-	-	(167)	-	10,552	(2,666)	7,886
- Depreciable land improvements	104,076	(37,528)	66,548	1,823	1,536	(205)	(2,023)	(437)	-	106,475	(39,233)	67,242
Infrastructure:												
- Buildings *	237,655	(46,357)	191,298	5,564	1,408	(1,394)	(3,791)	416	-	243,068	(49,567)	193,501
- Other structures *	40,565	(19,105)	21,460	660	828	(89)	(1,535)	(554)	-	41,148	(20,378)	20,770
- Roads *	990,995	(337,036)	653,959	27,528	32,964	(12,245)	(17,503)	410	-	1,039,899	(354,786)	685,113
- Bridges *	63,671	(21,048)	42,623	281	4,946	-	(597)	-	-	68,898	(21,645)	47,253
- Footpaths *	60,813	(19,250)	41,563	1,245	4,132	-	(1,195)	-	-	66,190	(20,445)	45,745
- Other road assets *	578,522	(206,671)	371,851	3,650	10,807	(17)	(7,529)	757	-	593,775	(214,256)	379,519
- Bulk earthworks (non-depreciable) *	192,288	-	192,288	2,916	11,489	-	-	-	-	206,693	-	206,693
- Stormwater drainage *	456,120	(168,490)	287,630	2,238	16,453	(13)	(5,285)	-	-	474,790	(173,767)	301,023
- Swimming pools *	8,361	(2,004)	6,357	22	-	-	(296)	-	-	8,383	(2,300)	6,083
- Other open space/recreational assets *	35,332	(17,182)	18,150	397	1,217	(19)	(1,653)	798	-	37,880	(18,990)	18,890
- Other infrastructure *	24,844	(12,974)	11,870	481	923	(1)	(510)	(414)	-	25,841	(13,492)	12,349
Other assets												
- Library books	7,298	(5,820)	1,478	564	-	(144)	(463)	-	-	6,903	(5,468)	1,435
- Remediation asset	20,965	(9,042)	11,923	-	-	-	(1,370)	-	-	20,965	(10,412)	10,553
- Artworks	1,872	-	1,872	-	77	-	-	-	-	1,949	-	1,949
<b>TOTALS <sup>(3)</sup></b>	<b>3,273,869</b>	<b>(945,920)</b>	<b>2,327,949</b>	<b>50,526</b>	<b>72,836</b>	<b>(16,399)</b>	<b>(50,778)</b>	<b>218</b>	<b>-</b>	<b>3,376,344</b>	<b>(991,992)</b>	<b>2,384,352</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.

4. Non-depreciable land improvements mainly comprise landscaping assets previously classified within depreciable land improvements. The accumulated depreciation on these assets reflects the depreciation charged against the asset up to point of re-classification to the non-depreciable asset class.

5. Refer note 26 for details regarding the restatement

\* 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 2017  
(continued)**

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

	Actual 2017 \$'000			Actual 2016 \$'000		
	Gross Carrying Amount \$'000	Accum Depn and Impairment \$'000	Net Carrying Amount \$'000	Gross Carrying Amount \$'000	Accum Depn and Impairment \$'000	Net Carrying Amount \$'000
<b>Domestic Waste Management</b>						
Plant and equipment	9,030	(5,085)	3,945	6,854	(4,051)	2,803
Buildings	1,023	(214)	809	1,008	(198)	810
Land						
- Operational land	1,486	-	1,486	970	-	970
Depreciable land improvements	2,899	(767)	2,132	2,586	(683)	1,903
Other Structures	5	-	5	-	-	-
Remediation asset	7,458	(5,739)	1,719	7,458	(4,835)	2,623
<b>Total DWM</b>	<b>21,901</b>	<b>(11,805)</b>	<b>10,096</b>	<b>18,876</b>	<b>(9,767)</b>	<b>9,109</b>
<b>TOTAL RESTRICTIONS</b>	<b>21,901</b>	<b>(11,805)</b>	<b>10,096</b>	<b>18,876</b>	<b>(9,767)</b>	<b>9,109</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 2017 (continued)

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

	Actual 2017		Actual 2016	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
<b>Payables</b>				
Goods and services	12,957	-	13,778	-
Accrued expenses	63	-	69	-
Deposits and retentions	2,793	-	2,006	-
Other payables	2,636	-	2,058	-
<b>Total Payables</b>	<b>18,449</b>	<b>-</b>	<b>17,911</b>	<b>-</b>
<b>Income Received in Advance</b>				
Payments received in advance	55	-	68	-
<b>Total Income Received in Advance</b>	<b>55</b>	<b>-</b>	<b>68</b>	<b>-</b>
<b>Borrowings</b>				
Loans:				
- Secured <sup>(1)</sup>	2,569	82,129	2,332	81,468
<b>Total Borrowings</b>	<b>2,569</b>	<b>82,129</b>	<b>2,332</b>	<b>81,468</b>
<b>Provisions</b> <sup>(2)</sup>				
Annual leave	8,850	-	8,206	-
Sick leave	8,009	-	8,929	-
Long service leave	20,130	1,016	18,785	1,228
Time in lieu	1,233	-	1,255	-
Self insurance - Workers compensation <sup>(3)</sup>	1,157	2,840	1,384	3,475
Asset remediation (Note 21)	24,016	12,670	24,354	13,128
<b>Total Provisions</b>	<b>63,395</b>	<b>16,526</b>	<b>62,913</b>	<b>17,831</b>
<b>Total Payables, Borrowings and Provisions</b>	<b>84,468</b>	<b>98,655</b>	<b>83,224</b>	<b>99,299</b>
<b>Liabilities Relating to Restricted Assets</b>				
Domestic waste management	10,242	24,576	9,927	24,373
Total restricted liabilities	10,242	24,576	9,927	24,373
Liabilities related to unrestricted assets	74,226	74,079	73,297	74,926
<b>Total</b>	<b>84,468</b>	<b>98,655</b>	<b>83,224</b>	<b>99,299</b>
<b>Current payables not expected to be settled within the next 12 months</b>	<b>1,597</b>	<b>n/a</b>	<b>1,125</b>	<b>n/a</b>
<b>Current provisions not expected to be settled within the next 12 months</b>	<b>50,429</b>	<b>n/a</b>	<b>50,191</b>	<b>n/a</b>

*Notes:*

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

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

(3) Recoveries of \$379k have been factored into the total net position of \$3,997k.



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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements

30 June 2017

(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>	4,859	(862)	-	-	3,997
Asset remediation <sup>(ii)</sup>	37,482	(374)	(716)	294	36,686
<b>Total</b>	<b>42,341</b>	<b>(1,236)</b>	<b>(716)</b>	<b>294</b>	<b>40,683</b>

(i) The provision for Self Insurance represents future estimated payments required to settle outstanding workers compensation claims as a result of Council's practice 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 2017, 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 2017.
- 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.

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements

30 June 2017

(continued)

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

	Notes	Actual 2017 \$'000	Actual 2016 \$'000
<b>(a) Reconciliation of Cash Assets</b>			
Total cash and cash equivalents	6a	<u>25,327</u>	13,310
<b>Balance as per statement of cash flows</b>		<u><u>25,327</u></u>	<u>13,310</u>
<b>(b) Reconciliation of Net Operating Result to Cash Provided from Operating Activities</b>			
		Actual 2017 \$'000	Actual 2016 Restated <sup>(1)</sup> \$'000
Net operating result from Income Statement		69,946	77,224
Depreciation, amortisation and impairment		51,308	48,702
Share of (profit) / loss in jointly controlled entity		(63)	(24)
Loss / (gain) on sale of assets		13,672	(6,470)
Amortisation of discounts and premiums recognised		(476)	(445)
Non-cash contributions and dedications		(33,854)	(21,333)
Fair value (gains) / losses on investment property		(2,001)	(826)
Increase / (decrease) in provision for doubtful debts		(98)	(109)
Increase / (decrease) in provision for employee leave entitlements		835	199
Increase / (decrease) in other provisions		(1,658)	1,521
(Increase) / decrease in receivables		515	(2,060)
(Increase) / decrease in inventories		13	(71)
(Increase) / decrease in other assets		507	9
Increase / (decrease) in payables		531	(3,548)
Increase / (decrease) in accrued interest payable		(6)	3
<b>Net Cash Provided from (or Used in) Operating Activities from Statement of Cash Flows</b>		<u><u>99,171</u></u>	<u>92,772</u>

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements****30 June 2017****(continued)**

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

	Actual 2017	Actual 2016 Restated <sup>(1)</sup>
Notes	\$'000	\$'000
<b>(c) Non-Cash Financing and Investing Activities</b>		
Bushfire grants	669	776
Dedications	33,185	20,557
	<u>33,854</u>	<u>21,333</u>

**(d) Financing Arrangements**

Unrestricted access was available at reporting date to the following:

- Bank overdraft facility <sup>(1)</sup>	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	4,853	4,262
	<u>4,853</u>	<u>4,262</u>

(1) Refer note 26 for details regarding the restatement

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# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements

30 June 2017

(continued)

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### Note 12 Commitments

	Actual 2017 \$'000	Actual 2016 \$'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	4,846	486
- Acquisition - plant	4,070	1,567
- Land acquisition	-	45
- Community facilities	128	132
- Information technology	96	-
- Infrastructure	17,526	11,448
- Environmental	-	264
- Buildings	805	908
<b>Total</b>	<b>27,471</b>	<b>14,850</b>

#### **Description of commitments**

- Sporting and Recreational Facilities commitments include improvements at swimming pools and sporting ovals and new recreational facilities including implementation of Speers Point Park Masterplan.
- 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.
- Information Technology commitments include works on Council's new systems.
- Infrastructure commitments include the Awaba Waste Management Facility and the Lake Macquarie Transport Interchange project.
- Environmental commitments include irrigation system upgrade projects at various locations in the city.
- Buildings commitments include works and improvements in various Council buildings.

#### **(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	649	674
Later than one year and not later than 5 years	1,385	1,608
Later than 5 years	-	168
<b>Total</b>	<b>2,034</b>	<b>2,450</b>

#### **Description of leases**

Non-cancellable operating leases include the following amounts:

- Office equipment including desktop computers and multi-function copying devices (\$1,470k): 3 to 5 year lease terms with extensions of leases available on an individual item basis.
- Property lease - Library (\$403): 8 year lease term with an option for a further 3 x 5 years.
- Property lease - Sporting oval (\$66k): 10 year lease term with an option for a further 1 x 10 years.
- Property lease - Community Facility (\$95k): 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 2017 (continued)

### Note 13 Statement of Performance Measures

	2017 Amounts \$'000	2017 Indicators	2016 Indicators Restated <sup>(7)</sup>	2015 Indicators	Benchmark
<b>1. Operating Performance</b>					
Total continuing operating revenue <sup>(1)</sup> excluding capital grants and contributions less operating expenses <sup>(2)</sup>	\$ 20,212	8.98%	4.18%	0.59%	>0
Total continuing operating revenue <sup>(1)</sup> excluding capital grants and contributions	\$ 224,964				
<b>2. Own Source Operating Revenue</b>					
Total continuing operating revenue <sup>(1)</sup> less all grants and contributions	\$ 187,918	65.64%	66.99%	67.30%	>60%
Total continuing operating revenue <sup>(1)</sup> inclusive of capital grants and contributions	\$ 286,306				
<b>3. Unrestricted Current Ratio</b>					
Current assets less all external restrictions <sup>(3)</sup>	\$ 137,407	2.90 x	2.67 x	1.99 x	>1.5x
Current liabilities less specific purpose liabilities <sup>(4),(5),(6)</sup>	\$ 47,373				
<b>4. Debt Service Cover Ratio</b>					
Operating results <sup>(1),(2)</sup> before capital excluding interest and depreciation/impairment/amortisation (EBITDA)	\$ 76,979	10.27 x	7.44 x	5.96 x	>2x
Principal repayments (from the Statement of Cash Flows) plus borrowing interest costs (from the Income Statement)	\$ 7,497				
<b>5. Rates and Annual Charges Outstanding Percentage</b>					
Rates and annual charges outstanding	\$ 5,818	3.68%	3.87%	3.64%	<5%
Rates and annual charges collectible	\$ 157,998				
<b>6. Cash Expense Cover Ratio</b>					
Current year cash and cash equivalents and term deposits	\$ 153,327	10.92	10.00	10.56	>3
Payments from Statement of Cash Flows of operating and financing activities <sup>*12</sup>	\$ 168,460	months	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) \$25.3m employee leave provisions not expected to be settled within 12 months deducted.
- (6) \$1.6m payables not expected to be settled within 12 months deducted.
- (7) Refer note 26 for details regarding the restatement.

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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements****30 June 2017****(continued)**

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**Note 14 Investment Properties**

	<b>Actual 2017 \$'000</b>	<b>Actual 2016 \$'000</b>
<b>At Fair Value</b>		
Opening balance at 1 July 2016	38,205	36,956
Capitalised subsequent expenditure	206	423
Net gain (loss) from fair value adjustment	2,001	826
<b>Closing Balance at 30 June 2017</b>	<b>40,412</b>	<b>38,205</b>
<b>(a) Amounts Recognised in Profit and Loss for Investment Property</b>		
Rental income	2,830	2,614
Net gain (loss) from fair value adjustment	2,001	826
Direct operating expenses from property that generated rental income	(878)	(695)
	<b>3,953</b>	<b>2,745</b>
<b>(b) Leasing Arrangements - Council as Lessor</b>		
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	2,119	1,955
- Later than one year but not later than 5 years	4,263	4,635
- Later than 5 years	-	7
	<b>6,382</b>	<b>6,597</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 2017  
(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>2017</b>	2016	<b>2017</b>	2016
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
<b>Financial Assets</b>				
Cash and cash equivalents	<b>25,327</b>	13,310	<b>25,327</b>	13,310
Receivables	<b>14,441</b>	14,858	<b>14,441</b>	14,858
Held to maturity investments	<b>216,735</b>	214,288	<b>216,735</b>	214,288
<b>Total</b>	<b><u>256,503</u></b>	<u>242,456</u>	<b><u>256,503</u></b>	<u>242,456</u>
<b>Financial Liabilities</b>				
Payables	<b>18,449</b>	17,911	<b>18,449</b>	17,911
Borrowings	<b>84,698</b>	83,800	<b>84,698</b>	83,800
<b>Total</b>	<b><u>103,147</u></b>	<u>101,711</u>	<b><u>103,147</u></b>	<u>101,711</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 2017

(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 & Administration 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-17 \$'000	30-Jun-16 \$'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	2,421 <sup>(3)</sup>	2,276 <sup>(3)</sup>
- Income statement	2,421 <sup>(3)</sup>	2,276 <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 2017****(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-17	30-Jun-16
<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	3,689	3,850
- 1 to 2 years	624	641
- 2 to 5 years	592	493
- Greater than 5 years	319	251
<b>Percentage of Other Receivables:</b>		
- Current	86%	86%
- Overdue	14%	14%
<b>Analysis of Overdue Debts:</b>		
	<b>\$'000</b>	<b>\$'000</b>
- 0 to 30 days overdue	486	440
- 31 to 60 days overdue	169	66
- 61 to 90 days overdue	191	116
- 91+ days overdue	445	716

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements

30 June 2017

(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:

2017	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total Contractual Cash flows	Carrying values
	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	16,852	1,597	-	18,449	18,449
Borrowings	7,804	31,050	107,797	146,651	84,698
	<b>24,656</b>	<b>32,647</b>	<b>107,797</b>	<b>165,100</b>	<b>103,147</b>

2016	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total Contractual Cash flows	Carrying values
	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	16,786	1,125	-	17,911	17,911
Borrowings	7,604	30,244	111,920	149,768	83,800
	<b>24,390</b>	<b>31,369</b>	<b>111,920</b>	<b>167,679</b>	<b>101,711</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 & Administration 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-17		30-Jun-16	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	\$'000	%	\$'000
Overdraft	-	-	-	-
Bank Loans - Fixed	6.15%	75,528	6.42%	74,206
- Variable	4.49%	9,170	4.67%	9,594
		<b>84,698</b>		<b>83,800</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 2017

(continued)

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#### Note 16 Material Budget Variations

Council's original budget was adopted by Council on 23 May 2016. 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 \$1,897k (11.81%). This was mainly due to higher than budgeted income relating to development application and sub-division fees (\$975k) indicative of the increased development activity across the city, higher than budgeted tipping fees (\$497k) and higher than budgeted swimming centre income (\$394k).

**2. Interest and Investment Revenue**

Interest and investment revenue exceeded the original budget by \$1,286k (21.43%). This was mainly due to Council having higher than budgeted reserves available for investment.

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

Grants and contributions for operating purposes exceeded the original budget by \$10,462k (39.35%). The major items that contributed to the variation were the grant received in advance for the 17/18 financial assistance grant \$7,869k and natural disaster relief funding of \$2,331k received in relation to the April 2015 storms. These were offset by various increases and decreases in grants received over a number of areas.

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

Grants and contributions for capital purposes exceeded the original budget by \$36,121k (143.22%). The major items that contributed to the variation were:

- Higher than budgeted dedications of infrastructure from new subdivisions \$17,687k;
- Recognition of land under roads in relation to the above infrastructure dedications \$4,420k; and
- Higher than budgeted Section 94 contributions received \$14,051k.

**5. Borrowing Costs**

Borrowing costs were lower than original budget by \$2,737k (33.39%). This was due to a lower than budgeted loan drawdown in the prior period resulting in significantly lower than budgeted interest payments, lower than budgeted interest rates on variable loans and a reduction in the provision for asset remediation resulting in lower amortisation costs.

**6. Materials and Contracts**

Materials and contracts was lower than original budget by \$7,511k (15.95%). The major items that contributed to the variation were:

- Lower than budgeted maintenance work during the year;
- Lower than budgeted costs associated with external waste disposal \$4,037k;
- Reduction in costs for green waste contract \$1,053k; and
- Lower than budgeted expenditure on materials, \$1,511k.

The impact of the above items was offset by higher than budgeted costs for contractual work of \$1,118k.

**7. Net Loss from the Disposal of Assets**

No budget was allowed for this item as it could not be reliably estimated.

**LAKE MACQUARIE CITY COUNCIL**

**Notes to the Financial Statements  
30 June 2017  
(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 at 30 June 2017 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Drainage	1,500	-	-	29	-	-	-	1,529	-
Traffic Facilities	8,107	1,550	-	189	161	-	92	9,777	-
Parking	4,841	-	-	79	-	-	-	4,920	-
Open Space	64,270	15,048	68	1,340	6,941	-	-	73,785	-
Community Facilities	15,803	3,639	-	345	52	-	(92)	19,643	-
Other	107	346	-	2	346	-	-	109	-
<b>Total S94 under plans</b>	<b>94,628</b>	<b>20,583</b>	<b>68</b>	<b>1,984</b>	<b>7,500</b>	<b>-</b>	<b>-</b>	<b>109,763</b>	<b>-</b>
Total S94 not under plans	1,192	542	-	29	-	-	-	1,763	-
Planning Agreements	1,441	338	-	31	23	-	-	1,787	-
<b>Total Contributions</b>	<b>97,261</b>	<b>21,463</b>	<b>68</b>	<b>2,044</b>	<b>7,523</b>	<b>-</b>	<b>-</b>	<b>113,313</b>	<b>-</b>
Council borrowing <sup>(1)</sup>	(19,282)							(31,683)	31,683
<b>Developer Contributions Reserve balance after Council General Fund borrowing</b>	<b>77,979</b>							<b>81,630</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 at 30 June 2017 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Drainage	346	-	-	6	-	-	-	352	-
Open Space	56	207	-	3	-	-	-	266	-
Community Facilities	36	133	-	2	-	-	-	171	-
Other	-	15	-	-	15	-	-	-	-
<b>Total</b>	<b>438</b>	<b>355</b>	<b>-</b>	<b>11</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>789</b>	<b>-</b>

**LAKE MACQUARIE CITY COUNCIL**

**Notes to the Financial Statements  
30 June 2017  
(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 betw een plans \$ '000	Internal borrow ings during the year \$ '000	Held as restricted assets at 30 June 2017 \$ '000	Cumulative balance of internal borrow ings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Drainage	676	-	-	14	-	-	-	690	-
Traffic Facilities	433	-	-	-	-	(433)	-	-	-
Open Space	13,403	6,806	-	182	(2)	(7,521)	-	12,872	-
Community Facilities	1,868	1,499	-	32	(1)	(972)	-	2,428	-
Other	-	143	-	-	143	-	-	-	-
<b>Total</b>	<b>16,380</b>	<b>8,448</b>	<b>-</b>	<b>228</b>	<b>140</b>	<b>(8,926)</b>	<b>-</b>	<b>15,990</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 betw een plans \$ '000	Internal borrow ings during the year \$ '000	Held as restricted assets at 30 June 2017 \$ '000	Cumulative balance of internal borrow ings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Drainage	477	-	-	9	-	-	-	486	-
Traffic Facilities	5,730	227	-	114	99	-	-	5,972	-
Open Space	8,140	571	-	152	1,313	-	-	7,550	-
Community Facilities	3,547	113	-	71	-	-	-	3,731	-
Other	106	16	-	2	16	-	-	108	-
<b>Total</b>	<b>18,000</b>	<b>927</b>	<b>-</b>	<b>348</b>	<b>1,428</b>	<b>-</b>	<b>-</b>	<b>17,847</b>	<b>-</b>

**LAKE MACQUARIE CITY COUNCIL**

**Notes to the Financial Statements  
30 June 2017  
(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 at 30 June 2017 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Drainage	1	-	-	-	-	-	-	1	-
<b>Total</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</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 at 30 June 2017 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Parking	1,027	-	-	4	-	(827)	-	204	-
Other	-	2	-	-	2	-	-	-	-
<b>Total</b>	<b>1,027</b>	<b>2</b>	<b>-</b>	<b>4</b>	<b>2</b>	<b>(827)</b>	<b>-</b>	<b>204</b>	<b>-</b>

**LAKE MACQUARIE CITY COUNCIL**

**Notes to the Financial Statements  
30 June 2017  
(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 borrowings during the year \$ '000	Held as restricted assets at 30 June 2017 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Traffic Facilities	212	-	-	4	-	-	-	216	-
Open Space	1,473	-	-	29	-	-	-	1,502	-
Community Facilities	500	-	-	10	-	-	-	510	-
<b>Total</b>	<b>2,185</b>	<b>-</b>	<b>-</b>	<b>43</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,228</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 borrowings during the year \$ '000	Held as restricted assets at 30 June 2017 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Traffic Facilities	18	-	-	-	-	-	-	18	-
<b>Total</b>	<b>18</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18</b>	<b>-</b>

**LAKE MACQUARIE CITY COUNCIL**

**Notes to the Financial Statements  
30 June 2017  
(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 at 30 June 2017 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Traffic Facilities	1,333	715	-	40	-	-	-	2,088	-
Parking	75	-	-	2	-	363	-	440	-
Open Space	9,761	1,711	-	206	192	-	-	11,486	-
Community Facilities	2,741	655	-	60	23	-	-	3,433	-
Other	1	83	-	-	83	-	-	1	-
<b>Total</b>	<b>13,911</b>	<b>3,164</b>	<b>-</b>	<b>308</b>	<b>298</b>	<b>363</b>	<b>-</b>	<b>17,448</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 at 30 June 2017 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Traffic Facilities	294	381	-	16	-	-	-	691	-
Parking	520	-	-	10	-	356	-	886	-
Open Space	18,154	3,871	-	369	2,669	-	-	19,725	-
Community Facilities	4,051	879	-	88	23	-	-	4,995	-
Other	-	36	-	-	36	-	-	-	-
<b>Total</b>	<b>23,019</b>	<b>5,167</b>	<b>-</b>	<b>483</b>	<b>2,728</b>	<b>356</b>	<b>-</b>	<b>26,297</b>	<b>-</b>



**LAKE MACQUARIE CITY COUNCIL**

**Notes to the Financial Statements  
30 June 2017  
(continued)**

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

**(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 at 30 June 2017 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Traffic Facilities	87	218	-	15	62	433	92	783	-
Parking	3,219	-	-	63	-	108	-	3,390	-
Open Space	13,283	1,171	-	245	2,701	-	-	11,998	-
Community Facilities	3,059	234	-	62	6	-	(92)	3,257	-
Other	-	41	-	-	41	-	-	-	-
<b>Total</b>	<b>19,648</b>	<b>1,664</b>	<b>-</b>	<b>385</b>	<b>2,810</b>	<b>541</b>	<b>-</b>	<b>19,428</b>	<b>-</b>

**(l) CONTRIBUTION PLAN NO. 10 TORONTO 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 at 30 June 2017 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Traffic Facilities	-	9	-	-	-	-	-	9	-
Open Space	-	711	68	154	68	7,521	-	8,386	-
Community Facilities	-	126	-	20	-	972	-	1,118	-
Other	-	10	-	-	10	-	-	-	-
<b>Total</b>	<b>-</b>	<b>856</b>	<b>68</b>	<b>174</b>	<b>78</b>	<b>8,493</b>	<b>-</b>	<b>9,513</b>	<b>-</b>

**LAKE MACQUARIE CITY COUNCIL**

**Notes to the Financial Statements  
30 June 2017  
(continued)**

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

**(m) 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 at 30 June 2017 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Drainage	156	-	-	3	-	-	-	159	-
Roads	525	542	-	16	-	-	-	1,083	-
Parking	506	-	-	10	-	-	-	516	-
Community Facilities	5	-	-	-	-	-	-	5	-
<b>Total</b>	<b>1,192</b>	<b>542</b>	<b>-</b>	<b>29</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,763</b>	<b>-</b>

**(n) 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 during the year \$ '000	Held as restricted assets at 30 June 2017 \$ '000
		Cash \$ '000	Non-cash \$ '000					
Roads	150	-	-	-	-	-	-	150
Parking	590	-	-	12	-	-	-	602
Open Space	339	194	-	13	-	-	-	546
Community Facilities	351	121	-	6	-	-	-	478
Other	11	23	-	-	23	-	-	11
<b>Total</b>	<b>1,441</b>	<b>338</b>	<b>-</b>	<b>31</b>	<b>23</b>	<b>-</b>	<b>-</b>	<b>1,787</b>

<sup>(1)</sup> In the 2016/2017 financial year, Council's General Fund borrowed \$13,365k 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 2017****(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. The private property damage is currently being resolved by Council's insurer.

Council has responded to Notices to Provide Information and Records received from the NSW Environment Protection Authority in relation to two incidents. The NSW Environment Protection Authority is investigating the incidents under the Protection of the Environment Operations Act 1997. Any potential liability is subject to the outcome of those investigations and it is not possible at this stage to reliably estimate the potential financial impact on Council.

Council is a Respondent to Court of Appeal proceedings in the Supreme Court of NSW in relation to the construction of a pipe. Council was successful in initial proceedings in the Land and Environment Court. Any potential liability for Council is subject to the outcome of those proceedings as determined by the Court. 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 by Mr Richard Boyfield, FIAA, on 2<sup>nd</sup> December 2016 relating to the period ending 30 June 2016. The position is monitored by the LGSS annually and it is estimated that as at 30 June 2017 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 2.99% as at 30 June 2017.

**Other Events Not Recognised**

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

Council provides bank guarantees to the value of \$4,853,000 to secure its self-insurance license for workers compensation. The guarantee is provided to the State Insurance Regulatory Authority.

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# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2017 (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 (%) 2017	Percentage Owned (%) 2016
<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.

Strategic Services Australia Limited has the same year end date as Council.

#### 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 individually immaterial joint ventures.

	Actual 2017 \$'000	Actual 2016 \$'000
<b>Strategic Services Australia Limited</b>		
Carrying Amount of Investment in joint ventures that are not individually material	<u>484</u>	<u>421</u>
<b>Council's share of those joint ventures:</b>		
Profit or loss from continuing operations	(2)	24
Post-tax profit or loss from discontinued operations	65	-
Other comprehensive income	-	-
Total comprehensive income	<u>63</u>	<u>24</u>

#### 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.

There are no significant restrictions on the ability of joint ventures to transfer funds to the group in the form of cash dividends, or to repay loans or advances made by the Council.

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

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements

30 June 2017

(continued)

### Note 20 Retained Earnings, Revaluation Reserves, Changes in Accounting Policies, Changes in Accounting Estimates and Errors

	Actual 2017 \$'000	Actual 2016 Restated <sup>(2)</sup> \$'000
<b>(a) Retained Earnings</b>		
Movements in retained earnings were as follows:		
At beginning of year	1,167,418	1,115,985
Adjustment to correct prior period errors (Note 20(c))	410	(25,791)
Net operating result for the year	69,946	77,224
At end of year	<u>1,237,774</u>	<u>1,167,418</u>
<b>(b) Reserves</b>		
Infrastructure, property, plant and equipment revaluation reserve	<u>1,267,822</u>	<u>1,267,822</u>
<b>Movements:</b>		
<b><i>Infrastructure, property, plant and equipment revaluation reserve</i></b>		
At beginning of year	1,267,822	1,249,135
Revaluations (Note 9)	-	18,699
Net share of revaluation reserve of jointly controlled entity	-	(12)
At end of year	<u>1,267,822</u>	<u>1,267,822</u>
<b>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 in the revaluation of non-current assets.		
<b>(c) Correction of Errors in Previous Years</b>		
Depreciable land improvements not previously recognised (carrying value)	-	7,095
Infrastructure assets not previously recognised (carrying value)	410	3,146
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)
Disposals of community land not previously recognised (carrying value)	-	(11,193)
Recognition of prior period error relating to 2011 community land revaluation (carrying value) <sup>(1)</sup>	-	(15,310)
	<u>410</u>	<u>(25,791)</u>

(1) During the 2010/2011 financial year, community land assets were revalued using NSW Valuer General's 2010 land valuations. It was subsequently 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.

(2) Refer note 26 for details regarding the restatement.

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements

30 June 2017

(continued)

### 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.

Site	2017 Present Value \$'000	2016 Present Value \$'000
Quarries		
- Croudace	958	949
- Hawkmount	4,981	4,936
- Oakdale	1,650	1,477
- Stockyard	1,839	1,823
- Belmont	1,264	1,253
- Bolton	1,756	1,740
- McDonalds	1,571	2,211
- Swansea	2,714	2,690
- Teralba	45	44
- Mirrabooka	1,622	1,664
Sanitary Depots		
- Wyee	277	274
Landfill		
- Awaba	12,670	13,128
- Redhead	231	229
- Belmont	280	278
- Catherine Hill Bay	379	375
- Marks Point	407	403
- Cooranbong	471	467
- Wyee	308	306
- Toronto	388	385
- West Wallsend	327	324
- Dora Creek	346	343
- Rathmines	740	734
- Bonnells Bay	280	278
- Valentine	1,182	1,171
	<u>36,686</u>	<u>37,482</u>
	Actual 2017 \$'000	Actual 2016 \$'000
At beginning of year	37,482	36,538
Amounts recognised in other revenue		
- Revised costs	145	-
- Revised life	(519)	-
Amortisation of discount - expensed to borrowing costs	294	944
Amounts used	(716)	-
<b>At end of year</b>	<u>36,686</u>	<u>37,482</u>

**Notes to the Financial Statements**  
**30 June 2017**  
**(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 where they relate to an asset which Council owns, otherwise they are charged to the income statement. 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 2017  
(continued)**

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

	Actual 2017 \$'000	Actual 2016 \$'000
Land	<u>263</u>	<u>-</u>

Council has parcels of land which it has made a decision to dispose of. The land is currently available for sale and has been actively marketed.



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**LAKE MACQUARIE CITY COUNCIL****Notes to the Financial Statements****30 June 2017****(continued)**

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

	Actual 2017 \$'000	Actual 2016 \$'000
Opening values		
- Gross book value	13,002	12,344
- Accumulated amortisation	<u>(12,277)</u>	<u>(12,135)</u>
- Net book value - opening balance	<u>725</u>	<u>209</u>
Movements for the year		
- Purchases	175	215
- Development costs	984	443
- Amortisation charges	(530)	(142)
Closing values		
- Gross book value	14,161	13,002
- Accumulated amortisation	<u>(12,807)</u>	<u>(12,277)</u>
<b>Total Intangible Assets - Net Book Value</b>	<b><u>1,354</u></b>	<b><u>725</u></b>
<i>The net book value of intangible assets represents:</i>		
- Software	1,014	425
- Digital library collection	<u>340</u>	<u>300</u>
<b>Total Intangible Assets - Net Book Value</b>	<b><u>1,354</u></b>	<b><u>725</u></b>

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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements

30 June 2017

(continued)

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#### 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:

		Level 2 Significant Observable Inputs \$'000	Level 3 Significant Unobservable Inputs \$'000	Total \$'000
<b>2017</b>	<b>Note</b>			
<b>Recurring Fair Value Measurements</b>				
<b>Investment Properties</b>				
- Commercial land, office and retail	14	-	40,412	40,412
<b>Total</b>		-	<b>40,412</b>	<b>40,412</b>

		Level 2 Significant Observable Inputs \$'000	Level 3 Significant Unobservable Inputs \$'000	Total \$'000
<b>2016</b>	<b>Note</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>

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## LAKE MACQUARIE CITY COUNCIL

### Notes to the Financial Statements

30 June 2017

(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:

	2017 \$'000	2016 \$'000
<b>Opening Balance at 1 July</b>	<b>38,205</b>	<b>36,956</b>
<b><i>Total gains or losses for the period</i></b>		
Recognised in profit or loss - Unrealised - refer Notes 3 and 4	2,001	826
<b><i>Other movements</i></b>		
Purchases	206	423
<b>Closing Balance as 30 June</b>	<b>40,412</b>	<b>38,205</b>

##### 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	40,412	- Investment yields - Improved rate per square metre - Site rate per square metre	- 6.5% to 9.0% - \$1,500 to \$4,500 (per square metre) - \$60 to \$1,100 (per square metre)	Significant changes in the investment yield or rate per square metre would result in significant changes to the fair value measurement.

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# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2017 (continued)

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### Note 24 Fair Value Measurement (continued)

#### 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 (\$216,735k): 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 80c in the dollar area. Significant changes in the estimated unit price would result in significant changes to the fair value measurement.
- (ii) Borrowings (\$84,698k): 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.

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2017 (continued)

### Note 25 Related Party Disclosures

#### Key Management Personnel

Key management personnel (KMP) of the Council are those persons having the authority and responsibility for planning, directing and controlling the activities of the council, directly or indirectly.

The aggregate amount of KMP compensation included in the Income Statement is:

	2017
	\$
<b>Compensation</b>	
Short-term benefits	1,622,194
Post-employment benefits	152,216
Other long-term benefits	-
Termination benefits	-
<b>Total</b>	<u><u>1,774,410</u></u>

#### Other Transactions with KMP and their Related Parties

Council has determined that transactions at arm's length between KMP and Council as part of Council delivering a public service objective (e.g. access to library or Council swimming pool by KMP) will not be disclosed.

There were no other material transactions between KMP and their related parties and Council during the financial year.

#### Other Related Parties

Type of Related Party	Nature of the Transactions	Amount of the Transactions During the Year	Outstanding Balances, Including Commitments at Year End	Terms and Conditions	Provisions for Doubtful Debts Related to the Amount of Outstanding Balance	Expense Recognised During the Period Relating to Bad or Doubtful Debts Due From Related Parties
Joint Venture <sup>(1)</sup>	Payments for recycling bin services	\$3,784,254	\$292,679	Standard procurement terms and conditions	N/A	Nil
Joint Venture	Payments for annual subscriptions	\$50,131	NIL	Payments shared between the parties in the Joint Venture	N/A	Nil
Joint Venture	Payments for legal services	\$196,444	NIL	Provided under the Joint Venture arrangement	N/A	Nil
Joint Venture	Payments for record management services	\$55,024	NIL	Provided under the Joint Venture arrangement	N/A	Nil
Subsidiary <sup>(2)</sup>	Payments of grant funding	\$855,768	\$67,727	Grants provided as part of funding agreement	N/A	Nil

<sup>(1)</sup> Relates to Hunter Resource Recovery which has not been consolidated in Council's financial statements due to amounts being immaterial to Council operations

<sup>(2)</sup> Relates to Dantia Prosperity in Abundance which has not been consolidated in Council's financial statements due to amounts being immaterial to Council operations

# LAKE MACQUARIE CITY COUNCIL

## Notes to the Financial Statements 30 June 2017 (continued)

### Note 26 Correction of Valuation for Land Under Roads

Council has previously valued Land Under Roads based on a methodology that did not recognise the impact of restrictions associated with the land. In 2016-17 Council adopted a revised valuation basis to reflect the restrictions associated with this land. A discount rate of 90% was applied to Land Under Road balances. On this basis, the valuation of Land Under Roads has been corrected and the following financial statement line items for the prior periods have been restated accordingly.

<b>BALANCE SHEET (extract)</b>	<b>Actual 2016 \$'000</b>	<b>Increase / (Decrease) \$'000</b>	<b>2016 Restated \$'000</b>	<b>Actual 2015 \$'000</b>	<b>Increase / (Decrease) \$'000</b>	<b>2015 Restated \$'000</b>
Infrastructure, property, plant and equipment	2,395,490	(67,541)	2,327,949	2,326,792	(51,967)	2,274,825
<b>Net Assets</b>	<b>2,502,781</b>	<b>(67,541)</b>	<b>2,435,240</b>	<b>2,417,087</b>	<b>(51,967)</b>	<b>2,365,120</b>
Retained earnings	1,233,351	(65,933)	1,167,418	1,166,344	(50,359)	1,115,985
Revaluation reserves	1,269,430	(1,608)	1,267,822	1,250,743	(1,608)	1,249,135
<b>Total Equity</b>	<b>2,502,781</b>	<b>(67,541)</b>	<b>2,435,240</b>	<b>2,417,087</b>	<b>(51,967)</b>	<b>2,365,120</b>

<b>INCOME STATEMENT (extract)</b>	<b>Actual 2016 \$'000</b>	<b>Increase / (Decrease) \$'000</b>	<b>2016 Restated \$'000</b>
Grants and contributions provided for capital purposes	76,839	(15,574)	61,265
<b>Net Operating Result for the Year</b>	<b>92,798</b>	<b>(15,574)</b>	<b>77,224</b>
Attributable to:			
- Council	92,798	(15,574)	77,224
- Non-controlling interests	-	-	-

<b>STATEMENT OF COMPREHENSIVE INCOME (extract)</b>	<b>Actual 2016 \$'000</b>	<b>Increase / (Decrease) \$'000</b>	<b>2016 Restated \$'000</b>
<b>Net Operating Result for the Year</b>	<b>92,798</b>	<b>(15,574)</b>	<b>77,224</b>
<b>Total Other Comprehensive Income for the Year</b>	<b>18,687</b>	<b>-</b>	<b>18,687</b>
<b>Total Comprehensive Income for the Year</b>	<b>111,485</b>	<b>(15,574)</b>	<b>95,911</b>
Attributable to:			
- Council	111,485	(15,574)	95,911
- Non-controlling interests	-	-	-



## INDEPENDENT AUDITOR'S REPORT

### Report on the general purpose financial statements

#### Lake Macquarie City Council

To the Councillors of the Lake Macquarie City Council

### Opinion

I have audited the accompanying financial statements of Lake Macquarie City Council (the Council), which comprise the statement of financial position as at 30 June 2017, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by Councillors and Management.

In my opinion,

- 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 (the Division)
- the financial statements:
  - have been presented, in all material respects, in accordance with the requirements of this Division
  - are consistent with the Council's accounting records
  - present fairly, in all material respects, the financial position of the Council as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

My opinion should be read in conjunction with the rest of this report.

### Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

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

### **The Councillors' Responsibility for the Financial Statements**

The Councillors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the *Local Government Act 1993*, and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors must assess the Council's ability to continue as a going concern except where the Council will be dissolved or amalgamated by an Act of Parliament. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

### **Auditor's Responsibility for the Audit of the Financial Statements**

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar3.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf). The description forms part of my auditor's report.



My opinion does *not* provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, Note 2(a) and Note 16 budget variation explanations
- on the attached Special Schedules
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



C J Giumelli  
Director, Financial Audit Services

24 October 2017  
SYDNEY

Cr Kay Fraser  
Mayor  
Lake Macquarie City Council  
PO Box 1906  
HUNTER REGIONAL MAIL CENTRE NSW 2310

Contact: Chris Giumelli  
Phone no: 9275 7167  
Our ref: D17247556/1751

24 October 2017

Dear Mayor

**Report on the Conduct of the Audit  
for the year ended 30 June 2017  
Lake Macquarie City Council**

I have audited the general purpose financial statements of the Lake Macquarie City Council (the Council) for the year ended 30 June 2017 as required by s415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's general purpose financial statements.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2017 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the general purpose financial statements issued under section 417(2) of the Act.

**INCOME STATEMENT**

**Operating result**

	2017	2016	Variance
	\$m	\$m	%
<b>Rates and annual charges revenue</b>	152	142.6	6.6 ↑
<b>Grants and contributions revenue</b>	98.4	88.5	11.2 ↑
<b>Operating result for the year</b>	69.9	77.2	-9.5 ↓
<b>Net operating result before capital amounts</b>	8.6	16.0	-46.3 ↓

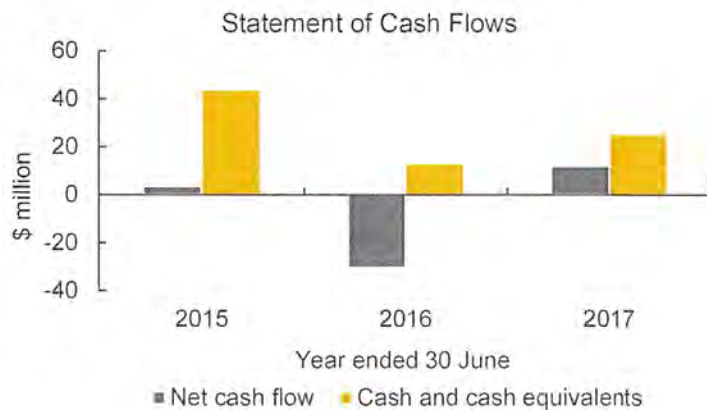
The operating result has largely been impacted by:

- Rates increase of 5.25% for the year, in line with the approved Special Rate Variation
- Receipt of Financial Assistance grant instalment of \$7.9 million in 2016-17 which relates to 2017-18
- Decrease in capital grants for transport of \$10.8 million as in the prior year a significant amount of grants were received for the construction of the Lake Macquarie Inter-Change
- Increase in Section 94 contributions of \$1.6 million
- Increase in capital dedications of \$12.6 million
- Increase in employee benefits and on-costs of \$2.5 million
- Increase in depreciation and amortisation of \$2.6 million
- Net loss from the disposal of assets of \$13.7 million compared to a net gain of \$6.5 million in the prior year.

## STATEMENT OF CASH FLOWS

The statement of cash flows has been impacted by:

- Increase in receipts from rates and charges of \$10.3 million
- Decrease in receipts from other revenue of \$3.9 million
- Increase in payments for employee benefits and on-costs of \$3.3 million
- Net decrease in the purchase of investments of \$48.0 million
- Decrease in receipts from the sale of infrastructure, property, plant & equipment of \$21.0 million offset by a decrease in purchases of infrastructure, property, plant and equipment of \$6.9 million



## FINANCIAL POSITION

### Cash and Investments

Restricted Cash and Investments	2017	2016	Commentary
	\$m	\$m	
External restrictions	118.9	116.1	Movements in restricted cash and investments have been impacted by:
Internal restrictions	123.2	111.5	
Unrestricted	-	-	
<b>Total Cash and Investments</b>	<b>242.1</b>	<b>227.6</b>	<ul style="list-style-type: none"> <li>• Increase in external restrictions relating to developer contributions of \$3.7 million</li> <li>• Increase in internal restrictions for the replacement of assets of \$2.1 million</li> <li>• Increase in internal restrictions for quarry rehabilitation of \$2.6 million</li> <li>• Increase in internal restrictions for IT replacement of \$2.2 million.</li> <li>• Increase in internal restrictions for carry forward works of \$8.4 million offset by decrease in unexpended loan funds of \$5.4 million.</li> </ul>

## PERFORMANCE RATIOS

The definition of each ratio analysed below (except for the 'building and infrastructure renewals ratio') is included in Note 13 of the Council's audited general purpose financial statements. The 'building and infrastructure renewals ratio' is defined in Council's Special Schedule 7.

### Operating performance ratio

The 'operating performances ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is greater than zero per cent.

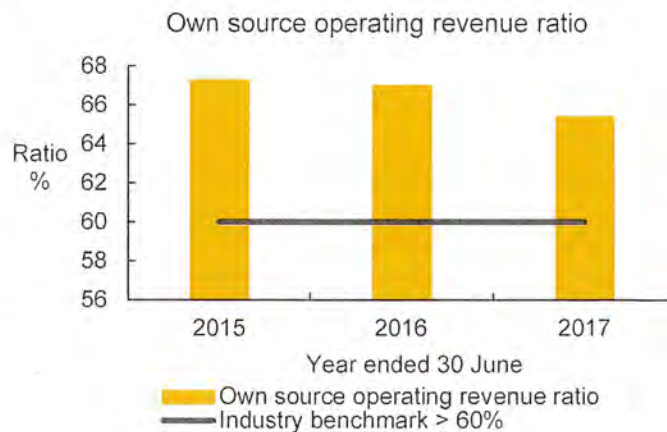
- Council exceeded the benchmark in 2016-17. The reasons are included in the commentary on the operating result on page 3.



## Own source operating revenue ratio

The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.

- Council is above the benchmark as Council's operating revenue base is diversified and not reliant on revenue from grants and contributions.



## Unrestricted current ratio

The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.

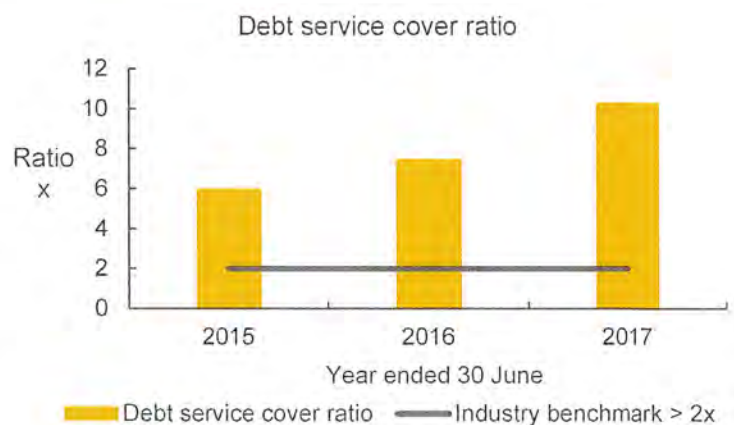
- Councils unrestricted ratio remains in a positive position and above the industry benchmark.



## Debt service cover ratio

The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.

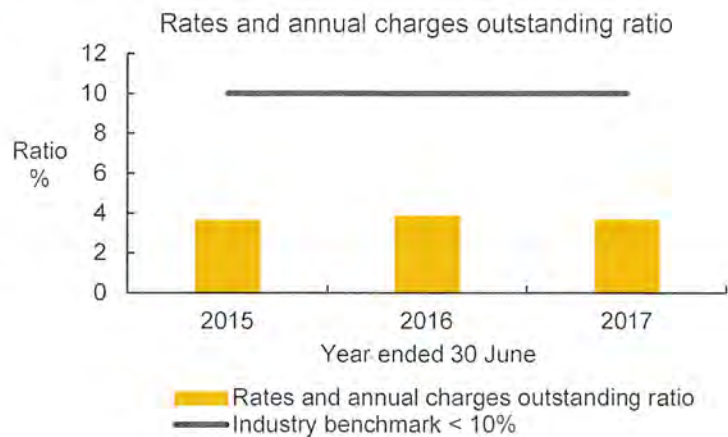
- The ratio has improved in the current year due to the improved operating result before capital (after allowing for loss on disposal of assets) and excluding interest, depreciation, impairment and amortisation.



## Rates and annual charges outstanding ratio

The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for rural councils.

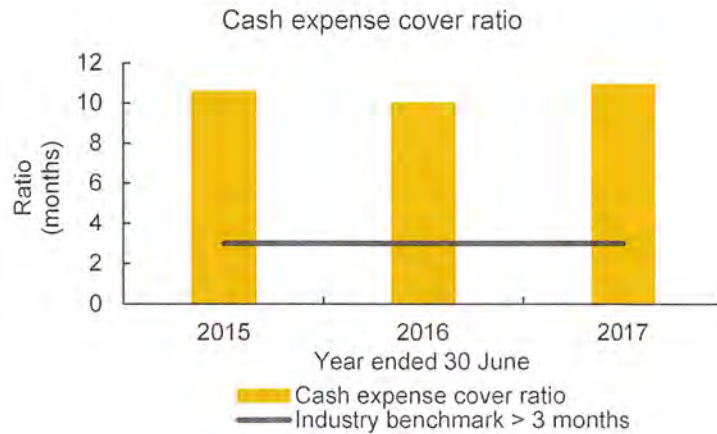
- Councils rates and annual charges outstanding ratio remains better than the industry benchmark and consistent between years.



## Cash expense cover ratio

This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by OLG is greater than three months.

- Council's liquidity ratio is better than benchmark due to ongoing fiscal management as well as the influence in the current year of the advance payment of the 2017-18 Financial Assistance Grant.

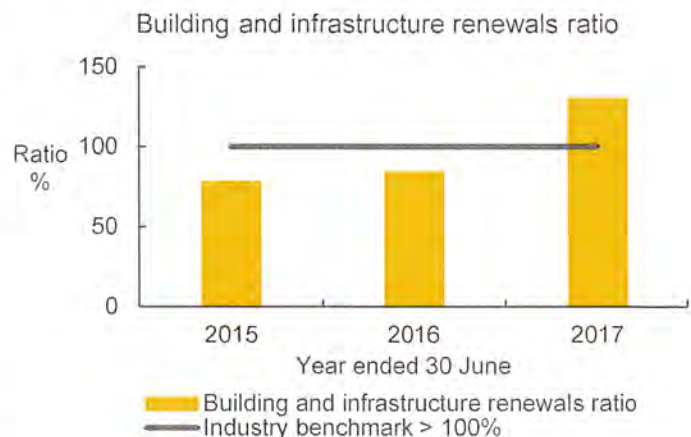


## Building and infrastructure renewals ratio

The 'building and infrastructure renewals ratio' assesses the rate at which these assets are being renewed against the rate at which they are depreciating. The benchmark set by OLG is greater than 100 per cent.

This ratio is sourced from information contained in council's Special Schedule 7 which has not been audited.

- The current year ratio is above the industry benchmark as the amount of asset renewals in the current year is greater than depreciation, amortisation and impairment expenses.



## OTHER MATTERS

### New accounting standards implemented

#### AASB 124 'Related Party Disclosures'

Effective for annual reporting periods beginning on or 1 July 2016

AASB 2015-6 extended the scope of AASB 124 to include not-for-profit public sector entities. As a result, Council's financial statements disclosed the:

- compensation paid to their key management personnel
- nature of their related party relationships
- amount and nature of their related party transactions, outstanding balances and commitments and outstanding balances (including commitments).

### Legislative compliance

My audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council's accounting records or financial reports. The Council's:

- accounting records were maintained in a manner and form to allow the general purpose financial statements to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.



Chris Giumelli

Director, Financial Audit Services

24 October 2017

SYDNEY

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**LAKE MACQUARIE CITY COUNCIL****Special Purpose Financial Statements  
for the year ended 30 June 2017**

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## LAKE MACQUARIE CITY COUNCIL

### Special Purpose Financial Statements for the year ended 30 June 2017

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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 23 October 2017.



Cr Kay Fraser  
Mayor



Cr Luke Cubis  
Deputy Mayor



Morven Cameron  
Chief Executive Officer  
General Manager



Dwight Graham  
Chief Financial Officer  
Responsible Accounting Officer

# LAKE MACQUARIE CITY COUNCIL

## Income Statement of Category 1 Business Activities for the year ended 30 June 2017

	Business Activities			
	CiviLake		Property Management	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<b>Income from Continuing Operations</b>				
User charges and fees	2,996	4,774	9,632	9,257
Interest	-	-	528	448
Grants and contributions for non-capital purposes	-	-	-	-
Profit on sale of assets	-	-	-	8,738
Other income	-	-	3,400	2,265
<b>Total Income from Continuing Operations</b>	<b>2,996</b>	<b>4,774</b>	<b>13,560</b>	<b>20,708</b>
<b>Expenses from Continuing Operations</b>				
Employee benefits and on-costs	711	1,098	1,653	1,450
Materials and contracts	1,552	3,076	4,081	3,970
Borrowing costs	-	-	-	-
Depreciation and impairment	-	-	1,050	851
Calculated taxation equivalents	-	1	568	597
Debt guarantee fee	-	-	-	-
Other expenses	3	166	2,110	1,998
Net loss from the disposal of assets	-	-	144	-
<b>Total Expenses from Continuing Operations</b>	<b>2,266</b>	<b>4,341</b>	<b>9,606</b>	<b>8,866</b>
<b>Surplus/(Deficit) from Continuing Operations before Capital Amounts</b>	<b>730</b>	<b>433</b>	<b>3,954</b>	<b>11,842</b>
Grants and contributions provided for capital purposes	-	-	-	-
<b>Surplus/(Deficit) from Continuing Operations after Capital Amounts</b>	<b>730</b>	<b>433</b>	<b>3,954</b>	<b>11,842</b>
<b>Surplus/(Deficit) from all Operations before Tax</b>	<b>730</b>	<b>433</b>	<b>3,954</b>	<b>11,842</b>
Less Corporate taxation equivalent (30%)	219	130	1,186	3,553
<b>Surplus/(Deficit) after Tax</b>	<b>511</b>	<b>303</b>	<b>2,768</b>	<b>8,289</b>
Less Dividend payment (5%)	26	15	138	592
<b>Surplus/(Deficit) after Dividend Payment</b>	<b>485</b>	<b>288</b>	<b>2,630</b>	<b>7,697</b>
<b>Opening Retained Profits</b>	<b>17,922</b>	<b>17,488</b>	<b>114,170</b>	<b>103,124</b>
Surplus/(deficit) after tax and dividend	485	288	2,630	7,697
Correction of errors in previous years	-	-	-	(1,393)
<b>Adjustments for Amounts Unpaid</b>				
Taxation equivalent payments	-	1	568	597
Debt guarantee fees	-	-	-	-
Corporate taxation equivalent	219	130	1,186	3,553
Dividend paid	26	15	138	592
<b>Closing Retained Profits</b>	<b>18,652</b>	<b>17,922</b>	<b>118,692</b>	<b>114,170</b>
<b>Return on Capital %</b>	<b>n/a</b>	<b>n/a</b>	<b>4.47%</b>	<b>13.56%</b>
<b>Subsidy from Council</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Calculation of Dividend Payable:</b>				
Surplus/(deficit) after tax	511	303	2,768	8,289
Less: Capital grants and contributions	-	-	-	-
Surplus for dividend calculation purposes	511	303	2,768	8,289
Dividend calculated from surplus	26	15	-	-

# LAKE MACQUARIE CITY COUNCIL

## Income Statement of Category 1 Business Activities for the year ended 30 June 2017

	<b>Business Activities</b>	
	<b>Non-Domestic Waste</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Income from Continuing Operations</b>		
Rates and annual charges	1,918	1,762
User charges and fees	3,779	3,827
Interest	-	-
Grants and contributions for non-capital purposes	-	-
Profit on sale of assets	-	-
Other income	-	-
<b>Total Income from Continuing Operations</b>	<b>5,697</b>	<b>5,589</b>
<b>Expenses from Continuing Operations</b>		
Employee benefits and on-costs	1,346	1,270
Materials and contracts	1,214	1,193
Borrowing costs	66	73
Depreciation and impairment	26	20
Calculated taxation equivalents	4	18
Debt guarantee fee	-	-
Other expenses	1,574	1,714
<b>Total Expenses from Continuing Operations</b>	<b>4,230</b>	<b>4,288</b>
<b>Surplus/(Deficit) from Continuing Operations before Capital Amounts</b>	<b>1,467</b>	<b>1,301</b>
Grants and contributions provided for capital purposes	-	-
<b>Surplus/(Deficit) from Continuing Operations after Capital Amounts</b>	<b>1,467</b>	<b>1,301</b>
<b>Surplus/(Deficit) from all Operations before Tax</b>	<b>1,467</b>	<b>1,301</b>
Less Corporate taxation equivalent (30%)	440	390
<b>Surplus/(Deficit) after Tax</b>	<b>1,027</b>	<b>911</b>
Less Dividend payment (5%)	51	46
<b>Surplus/(Deficit) after Dividend Payment</b>	<b>976</b>	<b>865</b>
<b>Opening Retained Profits</b>	<b>13,950</b>	<b>12,631</b>
Surplus/(deficit) after tax and dividend	976	865
<b>Adjustments for Amounts Unpaid</b>		
Taxation equivalent payments	4	18
Debt guarantee fees	-	-
Corporate taxation equivalent	440	390
Dividend paid	51	46
<b>Closing Retained Profits</b>	<b>15,421</b>	<b>13,950</b>
<b>Return on Capital %</b>	<b>45.84%</b>	<b>63.96%</b>
<b>Subsidy from Council</b>	<b>-</b>	<b>-</b>
<b>Calculation of Dividend Payable:</b>		
Surplus/(deficit) after tax	1,027	911
Less: Capital grants and contributions	-	-
Surplus for dividend calculation purposes	1,027	911
Dividend calculated from surplus	51	46

**LAKE MACQUARIE CITY COUNCIL**

**Statement of Financial Position of Category 1 Business Activities  
for the year ended 30 June 2017**

	<b>Business Activities</b>			
	<b>CiviLake</b>		<b>Property Management</b>	
	<b>2017 \$'000</b>	<b>2016 \$'000</b>	<b>2017 \$'000</b>	<b>2016 \$'000</b>
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	-	-	48	28
Investments	20,249	17,903	36,536	28,816
Receivables	339	2,081	81	293
Inventories	-	-	754	1,933
Other	-	-	-	-
Non-current assets classified as held for sale	-	-	33	-
<b>Total Current Assets</b>	<b>20,588</b>	<b>19,984</b>	<b>37,452</b>	<b>31,070</b>
<b>Non-Current Assets</b>				
Investments	-	-	-	-
Receivables	-	-	-	-
Inventories	-	-	2,589	3,546
Infrastructure, property, plant and equipment	-	-	57,707	60,420
Investment property	-	-	40,412	38,205
Other	-	-	-	-
<b>Total Non-Current Assets</b>	<b>-</b>	<b>-</b>	<b>100,708</b>	<b>102,171</b>
<b>Total Assets</b>	<b>20,588</b>	<b>19,984</b>	<b>138,160</b>	<b>133,241</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Payables	137	330	425	148
Interest bearing liabilities	-	-	-	-
Provisions	1,765	1,713	717	601
<b>Total Current Liabilities</b>	<b>1,902</b>	<b>2,043</b>	<b>1,142</b>	<b>749</b>
<b>Non-Current Liabilities</b>				
Payables	-	-	-	-
Interest bearing liabilities	-	-	-	-
Provisions	34	19	42	38
<b>Total Non-Current Liabilities</b>	<b>34</b>	<b>19</b>	<b>42</b>	<b>38</b>
<b>Total Liabilities</b>	<b>1,936</b>	<b>2,062</b>	<b>1,184</b>	<b>787</b>
<b>Net Assets</b>	<b>18,652</b>	<b>17,922</b>	<b>136,976</b>	<b>132,454</b>
<b>EQUITY</b>				
Retained earnings	18,652	17,922	118,692	114,170
Revaluation reserves	-	-	18,284	18,284
<b>Total Equity</b>	<b>18,652</b>	<b>17,922</b>	<b>136,976</b>	<b>132,454</b>

**LAKE MACQUARIE CITY COUNCIL**

**Statement of Financial Position of Category 1 Business Activities  
for the year ended 30 June 2017**

	<b>Business Activities</b>	
	<b>Non-Domestic Waste</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	2	2
Investments	13,442	12,731
Receivables	22	39
Inventories	-	-
Other	-	-
Non-current assets classified as held for sale	-	-
<b>Total Current Assets</b>	<b>13,466</b>	<b>12,772</b>
<b>Non-Current Assets</b>		
Investments	-	-
Receivables	-	-
Inventories	-	-
Infrastructure, property, plant and equipment	2,884	2,061
Investment property	-	-
Other	-	-
<b>Total Non-Current Assets</b>	<b>2,884</b>	<b>2,061</b>
<b>Total Assets</b>	<b>16,350</b>	<b>14,833</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Payables	234	200
Interest bearing liabilities	-	-
Provisions	584	573
<b>Total Current Liabilities</b>	<b>818</b>	<b>773</b>
<b>Non-Current Liabilities</b>		
Payables	-	-
Interest bearing liabilities	-	-
Provisions	7	6
<b>Total Non-Current Liabilities</b>	<b>7</b>	<b>6</b>
<b>Total Liabilities</b>	<b>825</b>	<b>779</b>
<b>Net Assets</b>	<b>15,525</b>	<b>14,054</b>
<b>EQUITY</b>		
Retained earnings	15,421	13,950
Revaluation reserves	104	104
<b>Total Equity</b>	<b>15,525</b>	<b>14,054</b>

# LAKE MACQUARIE CITY COUNCIL

## Income Statement of Category 2 Business Activities for the year ended 30 June 2017

	Business Activities			
	Printing		Strategic Services Australia Ltd (Lake Macquarie Share)	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<b>Income from Continuing Operations</b>				
User charges and fees	1,092	1,039	982	1,356
Interest	-	-	-	-
Grants and contributions for non-capital purposes	-	-	233	117
Profit on sale of assets	-	-	-	-
Other income	-	-	3	7
<b>Total Income from Continuing Operations</b>	<b>1,092</b>	<b>1,039</b>	<b>1,218</b>	<b>1,480</b>
<b>Expenses from Continuing Operations</b>				
Employee benefits and on-costs	484	460	777	923
Materials and contracts	493	458	239	249
Borrowing costs	-	-	19	22
Depreciation and impairment	12	12	43	70
Calculated taxation equivalents	-	-	-	-
Debt guarantee fee	-	-	4	4
Other expenses	1	4	142	195
<b>Total Expenses from Continuing Operations</b>	<b>990</b>	<b>934</b>	<b>1,224</b>	<b>1,463</b>
<b>Surplus/(Deficit) from Continuing Operations before Capital Amounts</b>	<b>102</b>	<b>105</b>	<b>(6)</b>	<b>17</b>
Grants and contributions provided for capital purposes	-	-	-	-
<b>Surplus/(Deficit) from Continuing Operations after Capital Amounts</b>	<b>102</b>	<b>105</b>	<b>(6)</b>	<b>17</b>
Surplus (deficit) from discontinued operations	-	-	65	-
<b>Surplus/(Deficit) from all Operations before Tax</b>	<b>102</b>	<b>105</b>	<b>59</b>	<b>17</b>
Less Corporate taxation equivalent (30%)	31	31	18	5
<b>Surplus/(Deficit) after Tax</b>	<b>71</b>	<b>74</b>	<b>41</b>	<b>12</b>
Less Dividend payment (5%)	4	4	2	-
<b>Surplus/(Deficit) after Dividend Payment</b>	<b>67</b>	<b>70</b>	<b>39</b>	<b>12</b>
<b>Opening Retained Profits</b>	<b>1,178</b>	<b>1,073</b>	<b>129</b>	<b>108</b>
Surplus/(deficit) after tax and dividend	67	70	39	12
Depreciation transfer from revaluation reserve	-	-	9	-
<b>Adjustments for Amounts Unpaid</b>				
Taxation equivalent payments	-	-	-	-
Debt guarantee fees	-	-	4	4
Corporate taxation equivalent	31	31	18	5
Dividend paid	4	4	2	-
<b>Closing Retained Profits</b>	<b>1,280</b>	<b>1,178</b>	<b>201</b>	<b>129</b>
<b>Return on Capital %</b>	<b>311.24%</b>	<b>235.24%</b>		
<b>Subsidy from Council</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Calculation of Dividend Payable:</b>				
Surplus/(deficit) after tax	71	74	41	17
Less: Capital grants and contributions	-	-	-	-
Surplus for dividend calculation purposes	71	74	41	17
Dividend calculated from surplus	4	4	2	-

**LAKE MACQUARIE CITY COUNCIL**

**Statement of Financial Position of Category 2 Business Activities  
for the year ended 30 June 2017**

	Business Activities			
	Printing		Strategic Services Australia Ltd (Lake Macquarie Share)	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	-	-	43	42
Investments	1,570	1,415	-	-
Receivables	39	35	155	196
Inventories	-	-	2	2
Other	-	-	20	6
Non-current assets classified as held for sale	-	-	97	-
<b>Total Current Assets</b>	<b>1,609</b>	<b>1,450</b>	<b>317</b>	<b>246</b>
<b>Non-Current Assets</b>				
Investments	-	-	-	-
Receivables	-	-	-	-
Inventories	-	-	-	-
Infrastructure, property, plant and equipment	33	44	808	948
Investment property	-	-	-	-
Other	-	-	-	-
<b>Total Non-Current Assets</b>	<b>33</b>	<b>44</b>	<b>808</b>	<b>948</b>
<b>Total Assets</b>	<b>1,642</b>	<b>1,494</b>	<b>1,125</b>	<b>1,194</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Payables	21	18	138	145
Interest bearing liabilities	-	-	238	376
Provisions	341	291	129	127
Other current liabilities	-	-	93	58
<b>Total Current Liabilities</b>	<b>362</b>	<b>309</b>	<b>598</b>	<b>706</b>
<b>Non-Current Liabilities</b>				
Payables	-	-	-	-
Interest bearing liabilities	-	-	32	49
Provisions	-	7	11	18
<b>Total Non-Current Liabilities</b>	<b>-</b>	<b>7</b>	<b>43</b>	<b>67</b>
<b>Total Liabilities</b>	<b>362</b>	<b>316</b>	<b>641</b>	<b>773</b>
<b>Net Assets</b>	<b>1,280</b>	<b>1,178</b>	<b>484</b>	<b>421</b>
<b>EQUITY</b>				
Retained earnings	1,280	1,178	201	129
Revaluation reserves	-	-	283	292
<b>Total Equity</b>	<b>1,280</b>	<b>1,178</b>	<b>484</b>	<b>421</b>

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**LAKE MACQUARIE CITY COUNCIL**

**Notes to the Special Purpose Financial Statements  
for the year ended 30 June 2017**

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**Notes to the Financial Statements**  
**30 June 2017**  
**(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 2017**  
**(continued)**

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

Responsible for the management of all Council's strategic investment properties, holiday parks, land development and land acquisitions and sales. The capital employed by Property Management during the year was \$57,485,076. Council's expected return on strategic investment holdings is currently 6%–8%.

**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 \$2,884,149. Council's expected return on capital was 2.6% 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 \$32,710. Council's expected return on capital was 2.6% 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 \$549,000 = Nil Value \$549,000 to \$3,357,000 = 1.6% of excess + \$100 Value > \$3,357,000 = 2% + \$45,028
Payroll Tax	5.45% with a \$750,000 threshold for the year 01/07/16 to 30/06/17
Other Taxes or Charges	Direct Costs Apply

**Notes to the Financial Statements**  
**30 June 2017**  
**(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.



## INDEPENDENT AUDITOR'S REPORT

### Report on the special purpose financial statement

#### Lake Macquarie City Council

To the Councillors of the Lake Macquarie City Council

### Opinion

I have audited the accompanying special purpose financial statements (the financial statements) of Lake Macquarie City Council's (the Council) Declared Business Activities, which comprise the statement of financial position of each Declared Business Activity as at 30 June 2017, the income statement of each Declared Business Activity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information for the Business Activities declared by Council, and the Statement by Councillors and Management.

The Declared Business Activities of the Council are:

- Civilake
- Property Management
- Non-Domestic Waste
- Printing
- Strategic Services Australia Ltd (Lake Macquarie share)

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council's declared Business Activities as at 30 June 2017, and their financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting (LG Code).

My opinion should be read in conjunction with the rest of this report and in particular, the Emphasis of Matter referring to the basis of accounting.

### Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

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

### **Emphasis of Matter - Basis of Accounting**

Without modifying my opinion, I draw attention to Note (1) to the financial statements which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

### **The Councillors' Responsibility for the Financial Statements**

The Councillors are responsible for the preparation and fair presentation of the financial statements and for determining that the accounting policies, described in Note 1 to the financial statements, are appropriate to meet the requirements in the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors must assess the Council's ability to continue as a going concern except where the Council will be dissolved or amalgamated by an Act of Parliament. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting, as it affects the Council's Declared Business Activities.

### **Auditor's Responsibility for the Audit of the Financial Statements**

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf).

The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



C J Giumelli  
Director, Financial Audit Services

24 October 2017  
SYDNEY

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**LAKE MACQUARIE CITY COUNCIL****Special Schedules  
for the year ended 30 June 2017**

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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 30 June 2017  
\$'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>6,397</b>	<b>4</b>	<b>-</b>	<b>(6,393)</b>
<b>Administration</b>	<b>25,897</b>	<b>5,734</b>	<b>76</b>	<b>(20,087)</b>
<b>Public Order and Safety</b>				
Fire Service Levy, Fire Protection and Emergency	5,620	973	697	(3,950)
Beach Control	1,757	-	2	(1,755)
Enforcement of Regs	1,272	564	-	(708)
Animal Control	813	361	-	(452)
<b>Total Public Order and Safety</b>	<b>9,462</b>	<b>1,898</b>	<b>699</b>	<b>(6,865)</b>
<b>Health</b>	<b>1,472</b>	<b>554</b>	<b>-</b>	<b>(918)</b>
<b>Environment</b>				
Noxious Plants and Insect / Vermin Control	223	104	-	(119)
Other Environmental Protection	7,118	943	506	(5,669)
Waste Management	35,822	35,556	-	(266)
Street Cleaning	1,415	-	-	(1,415)
Drainage	7,639	-	7,977	338
Stormwater Management	3,656	174	-	(3,482)
<b>Total Environment</b>	<b>55,873</b>	<b>36,777</b>	<b>8,483</b>	<b>(10,613)</b>
<b>Community Services and Education</b>				
Administration and Education	1,075	141	268	(666)
Aged Persons and Disabled	324	93	-	(231)
Children's Services	3,865	3,855	-	(10)
Other Community Services	1,000	128	-	(872)
<b>Total Community Services and Education</b>	<b>6,264</b>	<b>4,217</b>	<b>268</b>	<b>(1,779)</b>
<b>Housing and Community Amenities</b>				
Public Cemeteries	349	322	-	(27)
Public Conveniences	1,325	-	-	(1,325)
Street Lighting	3,555	260	-	(3,295)
Town Planning	10,027	5,498	21,093	16,564
Other Community Amenities	2	-	-	(2)
<b>Total Housing and Community Amenities</b>	<b>15,258</b>	<b>6,080</b>	<b>21,093</b>	<b>11,915</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 2017 \$'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	7,748	927	-	(6,821)
Art Galleries	1,112	85	77	(950)
Community Centres and Halls	2,423	367	-	(2,056)
Performing Arts Venues	114	32	-	(82)
Other Cultural Services	834	58	-	(776)
Sporting Grounds and Venues	5,273	32	107	(5,134)
Swimming Pools	6,299	1,989	-	(4,310)
Parks and Gardens (lakes)	11,995	100	-	(11,895)
Other Sport and Recreation	1,180	82	877	(221)
<b>Total Recreation and Culture</b>	<b>36,978</b>	<b>3,672</b>	<b>1,061</b>	<b>(32,245)</b>
<b>Fuel and Energy</b>	-	-	-	-
<b>Agriculture</b>	-	-	-	-
<b>Mining, Manufacturing and Construction</b>				
Building Control	2,698	1,401	-	(1,297)
Other Mining Manufacturing and Construction	1,024	-	-	(1,024)
<b>Total Mining, Manufacturing and Construction</b>	<b>3,722</b>	<b>1,401</b>	-	<b>(2,321)</b>
<b>Transport and Communication</b>				
Urban Roads (UR) - Local	32,886	2,504	28,481	(1,901)
Urban Roads - Regional	947	661	-	(286)
Sealed Rural Roads (SRR) - Local	3,801	-	-	(3,801)
Sealed Rural Roads (SRR) - Regional	206	-	-	(206)
Unsealed Rural Roads (URR) - Local	4,597	-	-	(4,597)
Bridges on UR - Local	368	-	-	(368)
Bridges on SRR - Local	294	-	-	(294)
Footpaths	951	-	1,074	123
Other Transport and Communication	3,096	589	107	(2,400)
<b>Total Transport and Communication</b>	<b>47,146</b>	<b>3,754</b>	<b>29,662</b>	<b>(13,730)</b>
<b>Economic Affairs</b>				
Camping Areas and Caravan Parks	4,441	5,569	-	1,128
Other Economic Affairs	5,514	7,033	-	1,519
<b>Total Economic Affairs</b>	<b>9,955</b>	<b>12,602</b>	-	<b>2,647</b>
<b>Totals - Functions</b>	<b>218,424</b>	<b>76,693</b>	<b>61,342</b>	<b>(80,389)</b>
<b>General Purpose Revenues <sup>(1)</sup></b>				<b>150,272</b>
<b>Share of Interests in Joint Ventures and Associates Accounted for Using the Equity Method <sup>(2)</sup></b>				<b>63</b>
<b>Net Operating Result for the Year <sup>(2)</sup></b>				<b>69,946</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 2017  
\$'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	-	-	-	-	-	-	-	-	-	-	-
NSW Treasury Corporation	-	-	-	3,230	-	-	-	1	113	3,117	3,230
Other State Government	-	-	-	-	-	-	-	-	-	-	-
Public Subscription	-	-	-	-	-	-	-	-	-	-	-
Financial Institutions	2,332	81,468	83,800	-	2,332	-	-	5,164	2,456	79,012	81,468
Other	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL LOANS</b>	<b>2,332</b>	<b>81,468</b>	<b>83,800</b>	<b>3,230</b>	<b>2,332</b>	<b>-</b>	<b>-</b>	<b>5,165</b>	<b>2,569</b>	<b>82,129</b>	<b>84,698</b>
<b>OTHER LONG TERM DEBT</b>											
Ratepayers' Advances	-	-	-	-	-	-	-	-	-	-	-
Government Advances	-	-	-	-	-	-	-	-	-	-	-
Finance Leases	-	-	-	-	-	-	-	-	-	-	-
Deferred Payment	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL LONG TERM DEBT</b>	<b>2,332</b>	<b>81,468</b>	<b>83,800</b>	<b>3,230</b>	<b>2,332</b>	<b>-</b>	<b>-</b>	<b>5,165</b>	<b>2,569</b>	<b>82,129</b>	<b>84,698</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 2017  
\$'000**

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**Summary of internal loans**

<b>Borrower (by purpose)</b>	<b>Amount originally raised</b>	<b>New borrowings during the year</b>	<b>Total repaid during the year (principal and interest)</b>	<b>Principal outstanding at end of year</b>
General Fund	19,282	13,365	964	31,683
<b>Total</b>	<b>19,282</b>	<b>13,365</b>	<b>964</b>	<b>31,683</b>

**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	Variable	19,282	964	18,318
General Fund	Developer contributions reserve	19-Aug-15	30-Jun-17	20	30-Jun-37	Variable	13,365	-	13,365
<b>Totals</b>							<b>32,647</b>	<b>964</b>	<b>31,683</b>

# LAKE MACQUARIE CITY COUNCIL

## Special Schedule No. 7 Report on Infrastructure Assets as at 30 June 2017 \$'000

Asset Class	Asset Category	Estimated Cost to Bring to a Satisfactory Standard	Estimated Cost to Bring to the Agreed Level of Service Set by Council	2016/17 Required Maintenance ^	2016/17 Actual Maintenance	Net Carrying Amount *	Gross Replacement Cost (GRC)	Asset Condition as % of Gross Replacement Cost				
		\$'000		\$'000	\$'000	\$'000	\$'000	1	2	3	4	5
<b>Buildings</b>		-	3,842	11,160	8,579	193,501	238,459	42%	55%	2%	1%	-
<b>Other Structures</b>		-	1,123	1,976	198	20,770	42,217	42%	28%	23%	6%	1%
<b>Roads</b>	Sealed Roads	30,110	30,110	7,292	5,823	678,790	985,456	38%	44%	14%	3%	1%
	Unsealed Roads	-	-	939	939	6,323	10,604	7%	23%	49%	15%	6%
	Bridges	3,582	207	488	451	47,253	65,917	7%	73%	19%	1%	-
	Footpaths	4,439	106	1,047	463	45,745	141,523	17%	61%	17%	5%	-
	Other Road Assets (incl. bulk earth works)	6,873	6,873	5,065	4,478	586,212	684,418	7%	23%	68%	2%	-
	Sub-total	45,004	37,296	14,831	12,154	1,364,323	1,887,918					
<b>Stormwater Drainage</b>		-	644	3,584	3,554	301,023	484,307	60%	33%	5%	1%	1%
<b>Open Space/Recreational Assets</b>	Swimming Pools	110	1,020	1,282	1,213	6,083	8,543	20%	57%	23%	-	-
	Other Open Space / Recreational Assets	2,180	1,732	5,655	9,770	18,890	37,673	24%	41%	28%	6%	1%
	Sub-total	2,290	2,752	6,937	10,983	24,973	46,216					
<b>Other Infrastructure Assets</b>		-	1,439	192	210	12,349	26,003	49%	12%	35%	3%	1%
<b>Total Classes</b>	<b>Total - all assets</b>	47,294	47,096	38,680	35,678	1,916,939	2,725,120					

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

\* Refer to Note 9.

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

**LAKE MACQUARIE CITY COUNCIL**

**Special Schedule No. 7  
Report on Infrastructure Assets (continued)  
as at 30 June 2017  
\$'000**

**Infrastructure Asset Performance Indicators \***

	Amounts \$'000	Current Year Indicators	2016	2015	Benchmarks
<b>Building and Infrastructure Renewals Ratio</b>					
Asset renewals	\$ 44,982	<u>1.13</u>	<u>0.84</u>	<u>0.78</u>	<u>&gt;100%</u>
Depreciation, amortisation and impairment	\$ 39,894				
<b>Infrastructure Backlog Ratio</b>					
Estimated cost to bring to satisfactory standard	\$ 47,294	<u>2.47%</u>	<u>3.02%</u>	<u>4.97%</u>	<u>&lt;2%</u>
Net carrying amount of infrastructure assets	\$ 1,916,939				
<b>Asset Maintenance Ratio</b>					
Actual asset maintenance	\$ 35,678	<u>0.92</u>	<u>1.05</u>	<u>0.96</u>	<u>&gt;100%</u>
Required asset maintenance	\$ 38,680				
<b>Cost to Bring Assets to Agreed Service Level</b>					
Estimated cost to bring assets to an agreed level of service set by council	\$ 47,096	<u>1.73%</u>			
Gross replacement cost	\$ 2,725,120				

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

## LAKE MACQUARIE CITY COUNCIL

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

	2016/17 Calculation \$'000	2017/18 Calculation \$'000
<b>Notional General Income Calculation <sup>(1)</sup></b>		
Last year notional income yield	\$112,628	\$119,447
Plus/minus adjustments <sup>(2)</sup>	\$892	\$1,271
<b>Notional General Income</b>	<b>\$113,520</b>	<b>\$120,718</b>
<b>Permissible Income Calculation</b>		
Special variation <sup>(3)</sup>	5.25%	4.75%
OR rate peg	1.80%	1.50%
OR Crown land adjustment incl. rate peg	0.00%	0.00%
Less expiring special variations amount	\$0	\$0
Plus special variation amount	\$5,960	\$5,734
OR plus rate peg amount	\$0	\$0
OR plus Crown land adjustment and rate peg amount	\$0	\$0
<b>Sub total</b>	<b>\$119,480</b>	<b>\$126,452</b>
Plus or minus last year's carry forward total	\$6	\$1
Less valuation objections claimed in previous year	-\$90	-\$52
<b>Sub total</b>	<b>-\$84</b>	<b>-\$51</b>
<b>Total Permissible Income</b>	<b>\$119,396</b>	<b>\$126,401</b>
Less notional income yield	\$119,447	\$126,398
<b>Catch up or (excess) result</b>	<b>-\$51</b>	<b>\$3</b>
Plus income lost due to valuation objections claimed <sup>(4)</sup>	\$52	\$0
Less unused catch up <sup>(5)</sup>	\$0	\$0
<b>Carry forward to next year <sup>(6)</sup></b>	<b>\$1</b>	<b>\$3</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.



## INDEPENDENT AUDITOR'S REPORT

### Special Schedule No. 8

#### Lake Macquarie City Council

To the Councillors of Lake Macquarie City Council

### Opinion

I 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 (the Council) for the year ending 30 June 2018.

In my opinion, Special Schedule No. 8 of Lake Macquarie City Council for 30 June 2018 is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting (LG Code) issued by the Office of Local Government (OLG), and is in accordance with the books and records of the Council.

My opinion should be read in conjunction with the rest of this report, and in particular the Emphasis of Matter paragraph, which describes the basis of accounting.

### Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of Special Schedule No.8' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

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



## **Emphasis of Matter - Basis of Accounting**

Without modifying my opinion, I draw attention to the notes and explanations in Special Schedule No. 8 that instruct councils in its preparation so it complies with OLG's requirements as described in the LG Code. As a result, Special Schedule No. 8 may not be suitable for another purpose.

## **Councillors' Responsibility for Special Schedule No. 8**

The Councillors of the Council are responsible for the preparation of Special Schedule No. 8 in accordance with the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation of Special Schedule No. 8 that is free from material misstatement, whether due to fraud or error.

In preparing Special Schedule No.8, the Councillors must assess the Council's ability to continue as a going concern except where the Council will be dissolved or amalgamated by an Act of Parliament. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

## **Auditor's Responsibility for the Audit of Special Schedule No. 8**

My objectives are to:

- obtain reasonable assurance whether Special Schedule No. 8 as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on Special Schedule No.8.

A description of my responsibilities for the audit of Special Schedule No.8 is located at the Auditing and Assurance Standards Board website at [http://www.auasb.gov.au/auditors\\_responsibilities/ar8.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar8.pdf). The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited Special Schedule No.8 on any website where they may be presented
- about any other information which may have been hyperlinked to/from Special Schedule No 8.



C J Giumelli  
Director, Financial Audit Services

24 October 2017  
SYDNEY

# City of Lake Macquarie **Financial Statements**

for the year ending 30 June 2017

## **Lake Macquarie City Council**

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