



Lake Macquarie
City Council

OUR FINANCIAL YEAR



Lake Macquarie City Financial Statements
for the year ending 30 June 2018



FINANCIAL STATEMENTS

For the year ended 30 June 2018

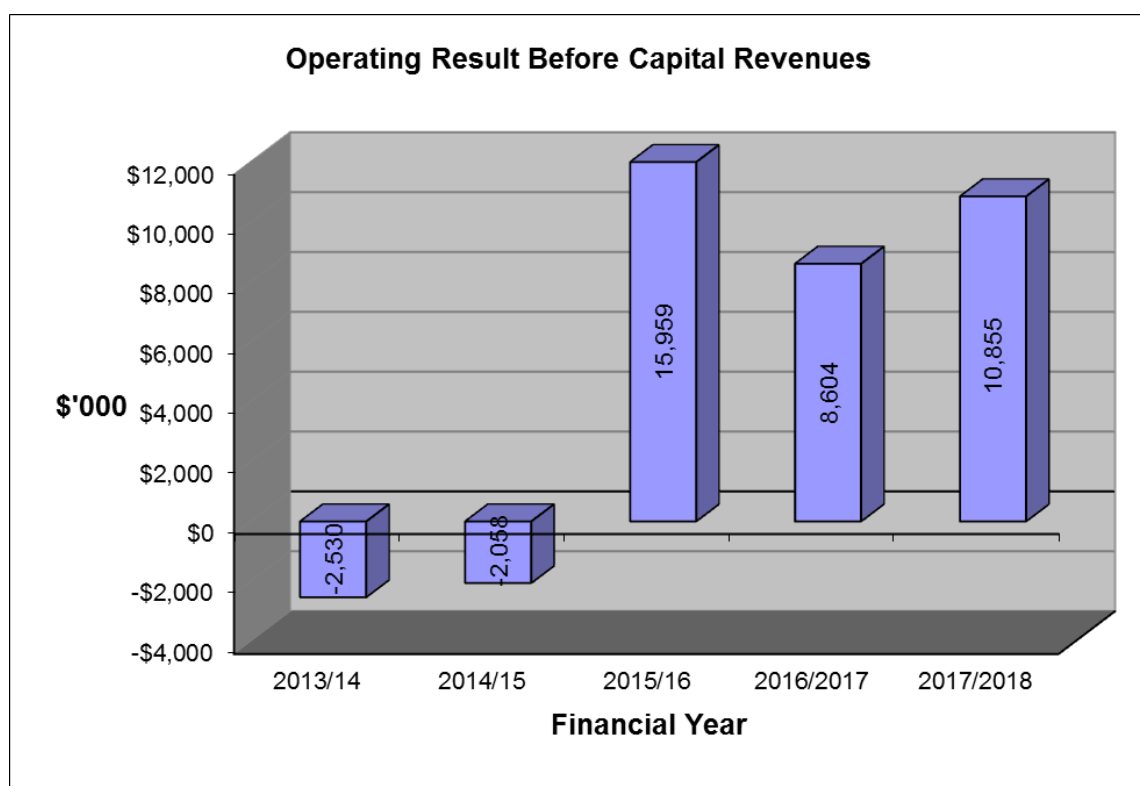
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2017/2018 FINANCIAL HIGHLIGHTS

Financial Snapshot

	2017/18	2016/17
Operating Result Before Capital Revenues	\$10.855m	\$8.604m
Operating Result After Capital Revenues	\$75.065m	\$69.946m
Total Equity	\$2.630bn	\$2.506bn
Total Cash and Investments	\$214.271m	\$242.062m
Loan Borrowings Outstanding	\$82.129m	\$84.698m
Operating Performance Ratio	5.56%	8.98%
Own Source Operating Revenue Ratio	78.24%	65.64%
Unrestricted Current Ratio	2.75	2.90
Debt Service Cover Ratio	8.52	9.88
Rates and Annual Charges Outstanding Percentage	4.09%	3.68%
Cash Expense Cover Ratio (months)	8.74	10.92



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 \$10.855m. The surplus reflects the fact that Council has been able to contain its operating costs within its operating revenue base. This surplus contains \$8.2m of financial assistance grant for the 2018/19 financial year paid in advance, while the 2016/17 year recognised \$7.9m of the 2017/18 financial assistance grant in advance.

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

Financial Snapshot (continued)

The Operating Result before Capital Revenues has increased by \$2.3m from the 2016/17 financial year.

This result has been impacted by increased revenues from rates and annual charges and other revenues. This has been offset in an increase in overall expenditure and a decrease from last year in operating grants.

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 7.11 (previously s94) 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', where revenue and expenses which relate to one another are reported in the same accounting period.
- 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 due to restrictions in revenues, this cash is not available for the general operations of Council.

Significant Impacts on the Financial Statements

The Operating Result before Capital Revenues increased by \$2.3m from the 2016/17 financial year and the Operating Result including Capital Revenues increased by \$5.1m. The movements in these results were due to a number of factors which are outlined below:

- Rates and Annual Charges increased by \$10.1m due primarily to the special rate variation.
- Other Revenues increased by \$2.7m, which is due to a significant increase in Road Maintenance Council Contracts work completed by CiviLake (\$5.3m), up from \$2.9m on 2016/17.
- Operating Grants and Contributions decreased by \$7.8m, mainly due to the impact of the first instalment of the 2017/2018 financial assistance grant being received in the 2016/2017 financial year (\$7.9m) and \$2.3m of natural disaster relief funding received in in 2016/17.
- Employee Costs increased by \$5.4m which is attributable to an increase in salaries and wages and corresponding employee entitlements, driven by a combination of the annual increase and filling positions which were vacant in from 2016/17.
- Depreciation and amortisation costs increased by \$3.1m primarily due to the increase of \$4.5m in dedicated assets during the 2017/18 financial year.
- Materials and Contracts increased from 2016/17 by \$3.8m due to higher external contract costs. Borrowing costs increased by \$569k as a result of an increase in the remediation provision due to a higher cost relating to the McDonalds West site. Other expenses experienced minimal increases, broadly in line with inflationary impacts, with no significant fluctuations noted.
- The Net Loss from the Disposal of Assets decreased by \$10.6m. The loss recorded in 2016/17 was related to the Lake Macquarie Transport Interchange project and Awaba landfill extension project. Both of these projects included assets which were required to be dedicated to third parties 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. The \$3.1m loss in 2017/18 primarily relates to disposal of property and specialised buildings.

Performance Indicators

Unrestricted Current Ratio

Council's unrestricted current ratio decreased from 2.90 in 2016/2017 to 2.75 in 2017/2018. The benchmark as provided by the Office of Local Government is greater than 1.5.

Rates Outstanding Ratio

Council's rates outstanding ratio increased from 3.68% in 2016/2017 to 4.09% in 2017/2018. 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.

Operating Performance Ratio

Council's operating performance ratio decreased from 8.98% in 2016/2017 to 5.56% in 2017/2018. The benchmark as provided by the Office of Local Government is greater than 0%. It should be noted that the result was boosted in 2016/17 by the early receipt of half of the 2017/18 financial assistance grant (\$7.9m).

Own Source Operating Revenue Ratio

Council's own source operating revenue ratio increased from 65.64% in 2016/2017 to 78.24% in 2017/2018. The benchmark as provided by the Office of Local Government is greater than 60%.

Debt Service Cover Ratio

Council's debt service cover ratio decreased from 9.88 in 2016/2017 to 8.52 in 2017/2018. The benchmark as provided by the Office of Local Government is greater than 2.

Cash Expense Cover Ratio

Council's cash expense cover ratio changed from 10.92 months in 2016/2017 to 8.74 months in 2017/2018. The benchmark as provided by the Office of Local Government is greater than 3 months.

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 in recent 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.

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

LAKE MACQUARIE CITY COUNCIL

General Purpose Financial Statements for the year ended 30 June 2018

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Lake Macquarie City Council is constituted under the *Local Government Act 1993 (NSW)* 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 29 October 2018. 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.

LAKE MACQUARIE CITY COUNCIL

**General Purpose Financial Statements
for the year ended 30 June 2018**

**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 29 October 2018.



Cr Kay Fraser
Mayor

29/10/18



Cr David Belcher
Deputy Mayor

29/10/2018



Morven Cameron
Chief Executive Officer
General Manager

29/10/18



Dwight Graham
Chief Financial Officer
Responsible Accounting Officer

29/10/18

LAKE MACQUARIE CITY COUNCIL

Income Statement for the year ended 30 June 2018

Original unaudited Budget ⁽¹⁾ 2018 \$'000		Notes	Actual 2018 \$'000	Actual 2017 \$'000
INCOME FROM CONTINUING OPERATIONS				
<i>Revenue:</i>				
159,520	Rates and annual charges	3a	162,097	151,954
17,017	User charges and fees	3b	18,625	17,954
6,219	Interest and investment revenue	3c	7,441	7,288
11,923	Other revenues	3d	13,442	10,722
19,548	Grants and contributions provided for operating purposes	3e,f	29,259	37,046
70,961	Grants and contributions provided for capital purposes	3e,f	64,210	61,342
<i>Other Income:</i>				
-	Net gain from the disposal of assets	5	-	-
-	Fair value increment on investment properties	3c	506	2,001
-	Reversal of revaluation decrements on IPPE previously expensed	10	-	-
-	Net share of interests in joint ventures and associates using the equity method	16	587	63
285,188	Total Income from Continuing Operations		296,167	288,370
EXPENSES FROM CONTINUING OPERATIONS				
92,977	Employee benefits and on-costs	4a	89,903	84,476
7,502	Borrowing costs	4b	6,028	5,459
41,715	Materials and contracts	4c	43,344	39,585
51,571	Depreciation and amortisation	4d	54,425	51,308
	Impairment of investments	4d	-	-
26,031	Other expenses	4e	24,328	23,924
-	Interest and investment losses	3c	-	-
-	Net loss from the disposal of assets	5	3,074	13,672
-	Revaluation decrement/impairment of IPPE	4d	-	-
219,796	Total Expenses from Continuing Operations		221,102	218,424
65,392	Operating Result from Continuing Operations		75,065	69,946
-	Operating Result from Discontinued Operations		-	-
65,392	NET OPERATING RESULT FOR THE YEAR		75,065	69,946
Attributable to:				
65,392	- Council		75,065	69,946
-	- Non-controlling interests		-	-
(5,569)	Net Operating Result for the Year Before Grants and Contributions Provided for Capital Purposes		10,855	8,604

⁽¹⁾ Original budget as approved by Council - refer to Note 20.
The above Income Statement should be read in conjunction with the accompanying notes.

LAKE MACQUARIE CITY COUNCIL**Statement of Comprehensive Income
for the year ended 30 June 2018**

	Actual 2018	Actual 2017
	\$'000	\$'000
Net Operating Result for the Year - from Income Statement	<u>75,065</u>	<u>69,946</u>
Other Comprehensive Income		
<i>Amounts that will not be reclassified subsequently to operating result</i>		
Gain (loss) on revaluation of infrastructure, property, plant and equipment	50,250	-
Net share gain (loss) on revaluation reserve of jointly controlled entity	-	-
<i>Amounts that will be reclassified subsequently to operating result when specific conditions are met</i>		
Gain (loss) on revaluation of available-for-sale investments	-	-
Realised available-for-sale investment gains (losses) recognised in operating result	-	-
Total Other Comprehensive Income for the Year	<u>50,250</u>	-
Total Comprehensive Income for the Year	<u>125,315</u>	<u>69,946</u>
Attributable to:		
- Council	125,315	69,946
- Non-controlling interests	<u>-</u>	<u>-</u>

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 2018

		Actual 2018	Actual 2017
	Notes	\$'000	\$'000
ASSETS			
Current Assets			
Cash and cash equivalents	6a	36,389	25,327
Investments	6b	112,278	123,122
Receivables	7	13,641	13,396
Inventories	8	1,832	1,398
Other	8	461	376
Non-current assets classified as held for sale	9	7,084	263
Total Current Assets		171,685	163,882
Non-Current Assets			
Investments	6b	65,603	93,613
Receivables	7	1,940	1,045
Infrastructure, property, plant and equipment	10	2,520,750	2,384,352
Investments accounted for using equity method	16	1,071	484
Investment property	11	41,215	40,412
Intangible assets	12	5,326	1,354
Inventories	8	2,637	2,589
Other	8	725	988
Total Non-Current Assets		2,639,267	2,524,837
Total Assets		2,810,952	2,688,719
LIABILITIES			
Current Liabilities			
Payables	13	11,409	18,449
Income received in advance	13	55	55
Borrowings	13	2,708	2,569
Provisions	14	64,397	63,395
Total Current Liabilities		78,569	84,468
Non-Current Liabilities			
Payables	13	-	-
Borrowings	13	79,422	82,129
Provisions	14	22,051	16,526
Total Non-Current Liabilities		101,472	98,655
Total Liabilities		180,041	183,123
Net Assets		2,630,911	2,505,596
EQUITY			
Accumulated surplus		1,312,839	1,237,774
Revaluation reserves		1,318,072	1,267,822
Other reserves		-	-
Council interest		2,630,911	2,505,596
Non-controlling equity interest		-	-
Total Equity		2,630,911	2,505,596

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 2018**

	Notes ref	Actual 2018 \$'000					Actual 2017 \$'000						
		Accumulated surplus	IPP&E Revaluation Reserve	Other Reserves	Council Equity Interest	Non- Controlling Interest	Total Equity	Accumulated surplus	IPP&E Revaluation Reserve	Other Reserves	Council Equity Interest	Non- Controlling Interest	Total Equity
Opening Balance		1,237,774	1,267,822	-	2,505,596	-	2,505,596	1,167,418	1,267,822	-	2,435,240	-	2,435,240
Correction of errors		-	-	-	-	-	-	-	-	-	-	-	-
Changes in accounting policies		-	-	-	-	-	-	-	-	-	-	-	-
Restated Opening Balance		1,237,774	1,267,822	-	2,505,596	-	2,505,596	1,167,418	1,267,822	-	2,435,240	-	2,435,240
Correction of errors		-	-	-	-	-	-	410	-	-	410	-	410
Net operating result for the year		75,065	-	-	75,065	-	75,065	69,946	-	-	69,946	-	69,946
Other comprehensive income	10	-	50,250	-	50,250	-	50,250	-	-	-	-	-	-
Total Comprehensive Income		75,065	50,250	-	125,315	-	125,315	69,946	-	-	69,946	-	69,946
Closing Balance		1,312,839	1,318,072	-	2,630,911	-	2,630,911	1,237,774	1,267,822	-	2,505,596	-	2,505,596

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 2018

Original unaudited Budget 2018 \$'000		Notes	Actual 2018 \$'000	Actual 2017 \$'000
Cash Flows from Operating Activities				
<i>Receipts:</i>				
159,521	Rates and annual charges		162,099	152,703
17,017	User charges and fees		20,294	22,525
6,219	Investment revenue and interest		6,804	6,639
90,509	Grants and contributions		60,619	68,737
-	Deposits and retentions received		245	1,214
11,923	Other		19,198	13,481
<i>Payments:</i>				
(92,977)	Employee benefits and on-costs		(88,646)	(84,820)
(41,716)	Materials and contracts		(52,447)	(43,045)
(7,502)	Borrowing costs		(4,253)	(5,171)
-	Deposits and retentions refunded		(1,105)	(446)
(26,031)	Other		(35,632)	(32,646)
116,963	Net Cash Provided (or Used) in Operating Activities	15(b)	87,176	99,171
Cash Flows from Investing Activities				
<i>Receipts:</i>				
-	Sale of investments		238,257	211,030
2,152	Sale of infrastructure, property, plant and equipment		4,422	5,208
<i>Payments:</i>				
-	Purchase of investments		(199,027)	(213,000)
(130,934)	Purchase of infrastructure, property, plant and equipment		(117,197)	(91,290)
(128,782)	Net Cash Provided by (or Used in) Investing Activities		(73,545)	(88,052)
Cash Flows from Financing Activities				
<i>Receipts:</i>				
23,288	Borrowings and advances		-	3,230
<i>Payments:</i>				
(3,596)	Borrowings and advances		(2,569)	(2,332)
19,692	Net Cash Provided by (or Used in) Financing Activities		(2,569)	898
7,873	Net Increase/(Decrease) in Cash and Cash Equivalents		11,062	12,017
242,062	Cash and Cash Equivalents at Beginning of Reporting Period		25,327	13,310
249,935	Cash and Cash Equivalents at End of Reporting Period	15(a)	36,389	25,327

⁽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.

**Notes to the Financial Statements
for the year ended 30 June 2018**

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**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 1 Basis of preparation

These financial statements were authorised for issue by Council on 29/10/2018. Council has the power to amend and reissue these financial statements.

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.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the *Local Government Act 1993 (NSW)* and Regulations, 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. The financial statements are presented in Australian dollars and are rounded to the nearest thousand dollars.

(a) New and amended standards adopted by Council

The following new standards were adopted during the year. There was no material impact on reported financial position, performance or cash flows of the entity although some additional disclosures have arisen.

AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*

AASB 2016-2 *Disclosure Initiative – Amendment to AAS 107*

AASB 2016-4 *Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-For-Profit Entities*

AASB 2017-2 *Amendments to Australian Accounting Standards – Further Annual Improvements 2014 – 2016 cycle*

(b) 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 infrastructure, property, plant and equipment and investment property.

(c) 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 – refer Note 10
- (ii) Estimated fair values of investment properties – refer Note 11
- (iii) Estimated provision for asset remediation (tips, quarries and sanitary depots) – refer Note 14
- (iv) Estimated provision for self-insurance claims – refer Note 14
- (v) Employee benefit provisions – refer Note 14

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 1 Basis of preparation (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 - refer 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 – refer Note 16.

Monies and other assets received by Council

(i) The Consolidated Fund

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

The Consolidated Fund consists of General Purpose Operations only.

(ii) The Trust Fund

In accordance with the provisions of Section 411 of the *Local Government Act 1993 (NSW)* (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.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 1 Basis of preparation (continued)**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.

New accounting standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 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 9 Financial Instruments and Associated Amending Standards.*

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

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

Impairment of assets is now based on expected losses in AASB 9 which requires 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

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 1 Basis of preparation (continued)

(ii) *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.
AASB 2017-5 defers the effective date of AASB 2014-10 to 1 January 2022.

The effective date is annual reporting periods beginning on or after 1 January 2022.

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

(iii) *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.

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.

Council will need to review each of the leases in place, particularly where Council is a lessee to determine the impact of AASB 16.

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. This will result in a non-current right of use asset and recognition of a lease liability which will be separated into a current and non-current component.

Rental expense will decrease and interest and depreciation will increase.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 1 Basis of preparation (continued)

(iv) *AASB 2017 - 1 Amendments to Australian Accounting Standards – Transfers of Investment Property 2014-2016 Cycle and Other Amendments (AASB 1, AASB 128, AASB 140)*

This standard makes changes to the following standards:

- AASB 1 – deletes some short-term exemptions for first-time adopters that were available only for reporting period that have passed and to add exemptions arising from AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration;
- AASB 128 – clarify that:
 - (a) A venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture; and
 - (b) An entity that is not an investment entity may elect to retain the fair value measurement applied by its associates and joint ventures that are investment entities when applying the equity method. This choice is available separately for each investment entity associate or joint venture; and
- AASB 140 – reflects the principle that an entity transfers a property to, or from, investment property when, and only when, there is a change in use of the property supported by evidence that a change in use has occurred.

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

The changes to AASB 1 and AASB 128 will have no impact for Council.

If Council changes the use of any of any investment properties, consideration will need to be given of whether a change of use which is supported by evidence has actually occurred.

(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.

Council will need to assess each revenue stream but particular impact is expected for grant income and rates which are paid before the commencement of the rating period.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 1 Basis of preparation (continued)

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 on Council is still in the process of being 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*).

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.

Council will need to assess each revenue stream but particular impact is expected for grant income and rates which are paid before the commencement of the rating period.

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.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 1 Basis of preparation (continued)

(vii) *AASB 2018 - 1 Amendments to Australian Accounting Standards – Annual Improvements Cycle 2015-2017 Cycle*

This standard makes changes to the following standards:

- AASB 3 – clarifies that an entity remeasures its previously held interest in a joint operation when it obtains control of the business
- AASB 11 – clarifies that an entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the business
- AASB 112 – clarifies that an entity accounts for all income tax consequences of dividend payments according to where the entity originally recognised the past transactions or events that generated the distributable profits and
- AASB 123 – clarifies that an entity treats any borrowing originally made to develop a qualifying asset as part of general borrowings when the asset is ready for its intended use or sale.

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

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

(viii) *AASB 2017 - 7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures*

This standard amends AASB 128 to clarify that an entity is required to account for long-term interests in an associate or joint venture, which in substance for part of the net investment in the associate or joint venture the equity method is not applied, using AASB 9 *Financial Instruments* before applying the loss allocation and impairment requirements in AASB 128.

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

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

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
for the year ended 30 June 2018
(continued)**

Note 2(a) Functions

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 2018	Actual 2018	Actual 2017	Original Budget 2018	Actual 2018	Actual 2017	Original Budget 2018	Actual 2018	Actual 2017	Actual 2018	Actual 2017	Actual 2018	Actual 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Unique Landscape	15,982	17,082	15,251	39,254	37,636	36,902	(23,272)	(20,554)	(21,652)	110	96	10,916	10,441
Lifestyle and Wellbeing	54,260	58,847	59,113	76,110	75,544	72,396	(21,850)	(16,697)	(13,283)	3,712	2,846	772,510	738,918
Mobility and Accessibility	52,369	41,695	39,001	54,121	57,262	64,621	(1,753)	(15,567)	(25,620)	1,447	1,422	1,756,650	1,680,263
Diverse Economy	46	23	25	1,997	2,267	1,829	(1,951)	(2,245)	(1,803)	-	-	15,682	15,000
Connected Communities	2,183	3,639	3,009	20,961	22,504	22,018	(18,778)	(18,866)	(19,009)	2,040	2,259	22,560	21,579
Creativity	223	467	341	1,832	1,994	1,399	(1,609)	(1,527)	(1,059)	-	-	6,638	6,349
Shared Decision-Making	2	-	0	2,819	2,944	4,113	(2,818)	(2,944)	(4,113)	-	-	-	-
Corporate	5,253	6,488	8,624	10,949	8,892	5,362	(5,696)	(2,405)	3,262	1,720	6,392	98,409	94,130
Property	9,845	9,938	9,676	8,008	7,028	7,404	1,838	2,910	2,272	-	-	114,659	109,673
Civilake	4,397	5,833	2,996	3,743	5,029	2,380	654	803	616	-	-	12,929	12,366
Total Functions	144,561	144,012	138,035	219,796	221,102	218,424	(75,235)	(77,090)	(80,389)	9,029	13,016	2,810,952	2,688,719
Shares of gains or losses in joint ventures and associates using the equity method		587	63			-		587	63			-	-
General purpose income*	140,627	151,568	150,272	-		-	140,627	151,568	150,272	22,752	25,527	-	-
Net Operating Result for the Year ⁽¹⁾	285,188	296,167	288,370	219,796	221,102	218,424	65,392	75,065	69,946	31,781	38,543	2,810,952	2,688,719

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

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 2(b) Components of Functions or Activities

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

Unique Landscape

Waste strategic planning, tree and bushland preservation and management, sustainability governance, ecosystem enhancement, noxious weed control, overgrown land control, management of lake, foreshore, and natural areas, Landcare, development assessment and compliance and integrated planning administration.

Lifestyle and Wellbeing

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

Effluent services, maintenance of pedestrian areas, ranger activities, cleaning of public amenities, environment and public health compliance, food premise compliance and essential services legislative compliance.

Community development and facilities, community planning, Lake Macquarie Family Day Care, public cemeteries, developer contribution administration, management of sport and recreation facilities, Hunter Region Sports Centre, parks liaison, recreation and land planning, development and operations of leisure services.

Beach and lifeguard services, Lake Macquarie City Games, Swim centres and cultural activities.

Mobility and Accessibility

Asset management administration and policy development.

Roads – Infrastructure planning, land acquisitions for roads construction, construction of new roads, sealing gravel roads, kerb and gutter construction, resurfacing program, roads reconstruction and rehabilitation works, city wide road, bridges and car park maintenance.

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, cycleway construction/improvements, footpath improvements.

Diverse Economy

Economic and employment development, tourism including marketing, planning and promotion.

Connected Communities

Environmental security, sustainability engagement, sustainable living, Fire Protection services, State Emergency services

Social and community planning, including children's services, aboriginal services, aged and disabled services, family day care service, community halls, multi-purpose centres, youth and neighbourhood centres.

Library Services – Library administration, children's and extension services, acquisition services, information services, regional branch libraries

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

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

Creativity

Art gallery and cultural services administration

Shared Decision-Making

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

Administrative services, advertising, purchasing, stores, printing and stationery, insurance, risk management, records management, administration building cleaning and maintenance, treasury functions, rates, cash collections, debt collection, personnel and industrial relations, payroll, staff training and development, work health and safety, workers compensation, legal services, information technology, public relations, grants and sponsorship, mechanical services, plant new and replacement, Council's Works Depot operations/services.

Property

Management of residential, industrial and commercial properties held in Council's ownership, leases to community groups, bowling clubs etc.. Holiday parks, 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.

CiviLake

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

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 3 Income from Continuing Operations

(a) Rates and Annual Charges	Actual 2018 (\$'000)	Actual 2017 (\$'000)
Ordinary Rates		
Residential	105,825	98,887
Farmland	72	94
Mining	914	907
Business	17,790	16,938
Total Ordinary Rates	124,601	116,826
Special Rates		
- No special rates were made by Council in the current year. A 7-year Special Variation was granted in 2012/2013.		
Annual Charges (pursuant to s.496, s.496A, s.496B, s.501 and s.611)		
Domestic waste management services	34,567	32,259
Waste management services (not domestic)	1,958	1,860
Domestic waste - sanitary/sullage services	967	946
Section 611 charges	4	63
Total Annual Charges	37,496	35,128
Total Rates and Annual Charges	162,097	151,954

Council has used 2016 valuations provided by the NSW Valuer General in calculating its rates.

Additional Information:

Compulsory Pensioner Rebates under Section 575 of the *Local Government Act 1993 (NSW)* issued this financial year totalled \$4,225k and of this \$2,287k 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.

Accounting policy for rates and charges

Rates, annual charges, grants and contributions (including developer contributions) are recognised as revenue 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.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 3 Income from Continuing Operations (continued)

	Actual 2018 (\$'000)	Actual 2017 (\$'000)
(b) User Charges and Fees		
<i>User Charges</i>		
Domestic waste management services	190	189
Waste management services (not domestic)	85	72
Sullage	281	285
Total User Charges	556	546
<i>Fees</i>		
Building assessment and compliance	1,450	1,489
Development assessment	2,346	2,330
Subdivision assessment	843	743
Animal enforcement	225	193
Health inspection	503	625
Private works	7	6
Tipping	2,012	1,847
Section 149 certificates	511	508
Section 603 certificates	383	370
Caravan parks	6,040	5,569
Swimming centres	1,757	1,627
Community facilities	1,575	1,572
Other	417	529
Total Fees	18,069	17,408
Total User Charges and Fees	18,625	17,954

Accounting policy for user charges and fees

User charges and fees are recognised as revenue when the service has been provided.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 3 Income from Continuing Operations (continued)

	Actual 2018 (\$'000)	Actual 2017 (\$'000)
(c) Interest and Investment Revenue (Losses)		
Interest and dividends		
- Overdue rates and annual charges	296	285
- Cash and investments	4,935	4,483
- Interest on section 7.11 contributions	1,834	2,044
Fair value increments - investment properties	506	2,001
Amortisation of discounts and premiums	376	476
Total Interest and Investment Revenue (Losses)	7,947	9,289

Accounting policy for interest and investment revenue

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

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 3 Income from Continuing Operations (continued)

	Actual 2018 (\$'000)	Actual 2017 (\$'000)
(d) Other Revenues		
Fines - parking, animal and littering	772	727
Legal fees recovery	193	382
Sale of publications	7	13
Canteen sales	270	292
Sale of merchandise	41	42
Sundry sales and services	366	311
Commissions received	23	29
Insurance claims	313	213
External works	6,342	3,500
Rental income		
- Investment property	2,833	2,830
- Other property	1,808	1,650
Movement in provision for asset remediation	-	374
Other	474	359
Total Other Revenue	13,442	10,722

Accounting policy for other revenue

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.

Parking fees and fines are recognised as revenue when the service has been provided, or when the penalty has been applied, whichever comes first.

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

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

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

LAKE MACQUARIE CITY COUNCIL

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

Note 3 Income from Continuing Operations (continued)

	OPERATING		CAPITAL	
	Actual 2018 (\$'000)	Actual 2017 (\$'000)	Actual 2018 (\$'000)	Actual 2017 (\$'000)
(e) Grants				
General Purpose (Untied)				
Financial assistance				
- Equalisation component	6,679	12,633	-	-
- Local roads component	1,340	2,610	-	-
Financial assistance grant received in advance ⁽¹⁾				
- Equalisation component	6,857	6,530	-	-
- Local roads component	1,390	1,339	-	-
Pensioners' rates subsidies (General)	1,720	1,811	-	-
Special Purpose				
Pensioners' rates subsidies (DWM)	567	603	-	-
Economic development	10	5	-	-
Heritage	106	7	30	-
Bush fire services	865	973	579	697
Library and arts	650	681	1,063	-
Environmental	576	961	225	506
Community facilities and services	3,378	3,108	470	78
Waterways	-	-	1,164	681
Recreation	8	8	154	-
Transport (3x3, Flood Works, Roads to Recovery)	1,266	1,241	2,685	4,071
Total Grants	25,412	32,510	6,370	6,033
Comprising:				
- Commonwealth funding	21,659	28,321	2,504	3,890
- State funding	3,551	3,970	3,866	2,143
- Other funding	202	219	-	-
	25,412	32,510	6,370	6,033

⁽¹⁾ The 17/18 Financial Assistance Grant received in advance related to the 18/19 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 for the year ended 30 June 2018 (continued)

Note 3 Income from Continuing Operations (continued)

	OPERATING		CAPITAL	
	Actual 2018 (\$'000)	Actual 2017 (\$'000)	Actual 2018 (\$'000)	Actual 2017 (\$'000)
(f) Contributions				
Developer contributions				
(s7.4 and s7.11 - EP&A Act, S64 of the LGA):				
Cash contributions				
s7.4 - contributions using planning agreements	-	23	408	315
s7.11 - contributions towards amenities/services	481	346	17,002	20,779
Non-cash contributions				
- Dedications of land in lieu of cash contributions	-	-	1,663	68
Total Developer contributions	481	369	19,073	21,162
Other contributions				
Cash contributions				
RMS contributions	64	51	420	384
Roads	274	262	332	336
Environmental	482	208	-	-
Community facilities	35	20	-	-
Kerb and gutter	-	-	11	207
Administration	932	1,019	-	-
Economic development	-	12	-	-
Bush fire services	1	1	-	-
Recreation and cultural	68	38	-	106
Natural disaster relief funding	1,054	2,331	-	-
Other	456	225	375	-
Non-cash contributions				
- Dedications of land and works in lieu of cash con	-	-	37,629	33,114
Total other contributions	3,366	4,167	38,767	34,147
Total Contributions	3,847	4,536	57,840	55,309
Total Grants and Contributions	29,259	37,046	64,210	61,342

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 3 Income from Continuing Operations (continued)**Accounting policy for grants and contributions**

Control over grants and contributions is normally obtained upon their receipt (or acquittal) and is valued at the fair value of the granted or contributed asset at the date of transfer.

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 un-discharged at reporting date, the unused grant or contribution is disclosed above.

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 reporting date.

	Actual 2018 (\$'000)	Actual 2017 (\$'000)
(g) Unspent Grants and Contributions		
Certain grants and contributions are obtained by Council on the condition they be spent in a specified manner		
Operating Grants		
Operating grants recognised in the current period that have not been spent	1,551	1,235
Operating grants received for the provision of goods and services in a future period	8,246	8,439
Operating grants recognised in previous reporting periods that have been spent in the current reporting period	(956)	(903)
Capital Grants		
Capital grants recognised in the current period that have not been spent	1,390	1,897
Capital grants received for the provision of goods and services in a future period	-	-
Capital grants recognised in previous reporting periods that have been spent in the current reporting period	(1,898)	(2,347)
Contributions		
Contributions recognised in the current period that have not been spent	16,728	15,357
Contributions received for the provision of goods and services in a future period	-	-
Contributions recognised in previous reporting periods that have been spent in the current reporting period	<u>(29,673)</u>	<u>(19,724)</u>

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 4 Expenses from Continuing Operations

	Actual 2018 (\$'000)	Actual 2017 (\$'000)
(a) Employee Benefits and On-costs		
Salaries and wages	72,622	68,582
Travelling	426	415
Employee leave entitlements	16,519	14,547
Superannuation	11,100	10,281
Workers' compensation insurance	2,416	1,534
FBT	359	418
Training costs (excluding salaries)	833	773
Other contractual payments	656	771
Other employee costs	110	36
Less: Capitalised costs	(15,138)	(12,881)
Total Employee Costs Expended	89,903	84,476

Accounting policy for employee benefits and on-costs

Employee benefit expenses are recorded when the service has been provided by the employee.

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.

Superannuation plans

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.

Council participates in a defined benefit plan under the Local Government Superannuation Scheme, however sufficient information to account for the plan as a defined benefit is not available. Therefore 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- refer to Note 18 for more information.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 4 Expenses from Continuing Operations (continued)

	Actual 2018 (\$'000)	Actual 2017 (\$'000)
(b) Borrowings Costs		
Interest on loans	5,141	5,165
Amortisation of discounts and premiums:		
- Remediation (Quarries and tips)	887	294
Less: Capitalised costs	-	-
Total Borrowing Costs Expensed	6,028	5,459

Accounting policy for 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.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 4 Expenses from Continuing Operations (continued)

	Actual 2018 (\$'000)	Actual 2017 (\$'000)
(c) Materials and Contracts		
Raw materials and consumables	21,580	18,158
Contractor costs		
- Kerbside recycling	3,949	3,681
- Greenwaste collection and processing	3,840	4,154
- Council Online system	1,631	1,798
- Effluent removal	1,208	1,202
- Caravan park managers	973	896
- Cleaning	533	489
- Other	750	713
Consultancy costs		
- Development assessment	79	77
- Planning	287	130
- Asset management planning	24	11
- Environmental	216	230
- Design services	14	10
- Other consultants	767	426
Remuneration of auditors ⁽¹⁾	87	85
Other audit services	-	3
Legal fees		
- Planning and development	517	929
- Other	356	549
Operating leases		
- Buildings	34	33
- Computers	746	716
- Other	146	136
Other		
- Family day care	2,995	2,814
- Caravan park rental commission	330	274
- RSPCA payments	184	175
- Vehicle registrations	408	397
- Water charges	1,590	1,428
- Other	100	71
Total Materials and Contracts	43,344	39,585

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 4 Expenses from Continuing Operations (continued)**Accounting policy for operating leases**

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.

	Actual 2018 (\$'000)	Actual 2017 (\$'000)
(1) Auditors' remuneration		
Auditors of the Council - NSW Auditor-General		
<i>(i) Audit and other assurance services</i>		
Audit and review of financial statements	87	83
Other assurance services	-	<u>2</u>
Total remuneration for audit and other assurance services	<u>87</u>	<u>85</u>
Total fees paid or payable to the Auditor-General	<u>87</u>	<u>85</u>

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 4 Expenses from Continuing Operations (continued)

	Actual 2018 (\$'000)	Actual 2017 (\$'000)
(d) Depreciation, Amortisation and Impairment		
Depreciation and amortisation		
Intangible assets	823	530
Plant and equipment	5,571	5,513
Office equipment	896	985
Furniture and fittings	540	530
Land improvements (depreciable)	2,091	2,023
Infrastructure		
- Buildings	4,548	3,791
- Other structures	1,603	1,535
- Swimming pools	332	296
- Other open space / Recreational assets	1,569	1,653
- Roads, bridges, footpaths, other road assets	29,800	26,824
- Storm water drainage	5,669	5,285
- Other infrastructure	534	510
Other assets		
- Library books	449	463
Tip asset	-	1,370
Total Depreciation and Amortisation Costs	54,425	51,308

Council has no impairment costs for the current or previous periods

Accounting policy for depreciation, amortisation and impairment expenses*Depreciation and amortisation*

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. Useful lives are included in Note 10 for IPPE assets and Note 12 for intangible assets.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 4 Expenses from Continuing Operations (continued)**Accounting policy for depreciation, amortisation and impairment expenses (continued)****Impairment of non-financial assets**

Intangible assets that have an indefinite useful life, or are not yet available for use, 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 that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses for revalued assets are firstly offset against the amount in the revaluation surplus for the class of asset, with only the excess to be recognised in the Income Statement.

Impairment of financial assets

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.

LAKE MACQUARIE CITY COUNCIL**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 4 Expenses from Continuing Operations (continued)

	Actual 2018 (\$'000)	Actual 2017 (\$'000)
(e) Other Expenses		
Cost of sales	-	-
Bad and doubtful debts	10	122
Mayoral fee	113	89
Councillors' fees	363	296
Councillors' (incl Mayor) expenses	172	213
Insurance	2,386	2,880
Street lighting	3,704	3,547
Electricity and heating	1,122	1,143
Telephone and communications	774	955
Contributions to state government - BFB and State Fire Brigades	3,292	3,176
Contributions to state government - EPA	7,464	7,121
Emergency services levy	334	374
Donations ⁽¹⁾	1,204	748
Advertising	556	635
Bank charges	461	431
Valuation fees	458	487
Subscriptions, memberships and publications	625	636
Postal Charges	486	530
Other	804	541
Total Other Expenses from Continuing Operations	24,328	23,924

⁽¹⁾ In addition to the donations shown above, Council provided an amount in the sum of \$2,631k to community organisations by way of lease rental concessions.

Accounting policy for other expenses

Other expenses are recorded on an accruals basis as the Council receives the goods or services.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 5 Gain or Loss from the Disposal of Assets

	Note	Actual 2018 (\$'000)	Actual 2017 (\$'000)
Gain (or Loss) on Disposal of Infrastructure, Property, Plant and Equipment	10		
Proceeds from disposal		2,715	1,834
Less: Carrying amount of assets sold		(6,601)	(16,401)
Gain (or Loss) on Disposal		(3,886)	(14,567)
Gain (or Loss) on Disposal of Investment Property	11		
Proceeds from disposal		-	-
Less: Carrying value of investment property		-	-
Gain (or Loss) on Disposal		-	-
Gain (or Loss) on Disposal of Non-Current Assets Held for Sale	8		
Proceeds from disposal		1,708	3,374
Less: Carrying value of investment property		(896)	(2,479)
Gain (or Loss) on Disposal		812	895
Net Gain (or Loss) from Disposal of Assets		(3,074)	(13,672)

The loss on disposal of \$3,074k includes amounts totalling \$1,005k which relate to assets written off before the end of their useful lives due to being demolished in conjunction with refurbishment works at Parbury Park Swansea and Glendon Crescent Glendale. Similarly, the above amount also includes \$950k which relates to the derecognition of Crown Land previously under the management of Council.

Accounting policy for disposal of assets

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

LAKE MACQUARIE CITY COUNCIL**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 6(a) Cash and Cash Equivalents

	Actual	Actual
	2018	2017
	\$'000	\$'000
Cash at bank and on hand	22,389	7,327
Short term deposits	14,000	18,000
	36,389	25,327

Accounting policy for cash and cash equivalents

For Statement of Cash Flow presentation purposes, cash and cash equivalents include: 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. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position. Council has a bank overdraft facility but this was not required during this financial year.

LAKE MACQUARIE CITY COUNCIL**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 6(b) Investments

The following financial assets are held as investments:

	Actual 2018		Actual 2017	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
Held to maturity investments	112,278	65,603	123,122	93,613
Total	112,278	65,603	123,122	93,613
Comprising of:				
- Term Deposits	95,027	3,000	109,000	19,000
- Floating Rate Notes	17,251	60,000	6,500	71,952
- Mortgage Backed Securities	-	2,603	-	2,661
- Corporate Bonds	-	-	-	-
- Zero Coupon Bonds	-	-	7,622	-
	112,278	65,603	123,122	93,613

Accounting policy for investments**Classification**

Council classifies its investments in the following categories: financial assets at fair value through profit or loss; held to maturity investments; and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. 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 2018, all Council's investments were classified as held to maturity.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are held at fair value with changes in value taken through profit or loss at each reporting period.

b) Held to maturity investments

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. Assets in this category are measured at amortised cost.

c) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Investments are designated as available for sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term. Assets in this category are held at fair value with changes in fair value taken to other comprehensive income.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 6(b) Investments (continued)

Accounting policy for investments (continued)

Recognition and derecognition

Regular purchases and sales of investments 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 carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the Income Statement. Investments are de-recognised when the rights to receive cash flows have expired or have been transferred, and Council has transferred substantially all the risks and rewards of ownership.

When securities classified as available for sale are sold, the accumulated fair value adjustments recognised in equity are included in the Income Statement as gains and losses from investment securities.

Impairment of available for sale investments

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Investment policy

Council has an approved investment policy complying with Section 625 of the Local Government Act 1993 (NSW) 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.

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

	Actual 2018		Actual 2017	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
		\$214,270		\$242,062
Total Cash, Cash Equivalents and Investments	148,667	65,603	148,449	93,613
External restrictions	33,006	65,603	25,242	93,613
Internal restrictions	115,661	-	123,207	-
	148,667	65,603	148,449	93,613

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

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

		2018 restricted cash	2017 restricted cash
	Notes	\$'000	\$'000
External Restrictions			
<i>Included in liabilities</i>			
RMS advances		-	-
		-	-
Other			
Developer contributions	A	59,485	81,630
Specific purpose unexpended grants	B	3,905	4,847
Domestic waste management	C	16,672	15,398
DWM site rehabilitation	C	7,722	6,988
DWM land infrastructure	C	3,516	2,952
Caravan parks reserve		3,576	2,368
Crown reserve		122	138
Waste and sustainability improvement		24	168
Contribution to other works		3,450	4,184
Sundry income		137	182
		98,609	118,855
Total External Restrictions		98,609	118,855
Internal Restrictions			
Employee leave entitlements		1,000	1,000
Replacement of assets		26,166	31,001
Open space acquisition		4,486	4,676
Strategic property reserve		18,753	19,002
Unexpended loan funds		-	6,423
External works surplus		960	712
Quarry and Contamination reserve		3,331	3,111
Matching funds Sec 7.11		8,256	7,634
Grant matching funds		4,722	1,203
Cemeteries improvement		1,101	1,018
General fund carried forward works		14,470	14,098
Community land		17,069	17,479
IT replacement		4,582	5,263
Employee resources		655	424
Charlestown open space endowment fund		3,325	3,197
Cardiff town park endowment fund		2,552	2,509
Insurance proceeds		784	691
Bulk materials recycling		55	279
Roads and drainage		34	5
Community Facilities		1,396	1,421
Wangi Point Lakeside Holiday Park		874	698
Elections		545	339
Sustainability environmental levy		54	175
Water and energy reduction strategies		491	849
		115,661	123,207
Total Internal Restrictions		115,661	123,207
Total Restrictions		214,270	242,062

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

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

A 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).

The current year loan is included in the closing balance amount of \$59,485k. In the 2017/18 financial year the Council borrowed \$11,665k from unspent developer contributions. The Council has borrowed \$41,715k in total

B Grants which are not yet expended for the purposes for which they were obtained, (see Note 1).

C 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 for the year ended 30 June 2018 (continued)

Note 7 Receivables

Purpose	Actual 2018		Actual 2017	
	Current \$'000	Non- Current \$'000	Current \$'000	Non- Current \$'000
Rates and annual charges	3,815	1,548	4,649	575
Interest and extra charges	195	387	273	333
User charges and fees	402	9	213	143
Accrued interest on investments	2,210	-	1,925	-
Government grants and subsidies	2,113	29	657	-
RMS	1,166	-	151	-
External works	972	-	381	-
Contribution to works	537	-	3,310	-
GST	1,786	-	1,556	-
Fines	146	-	42	-
Insurance proceeds	10	-	6	4
Other	290	10	237	275
Total	13,643	1,983	13,400	1,330
Less: Provision for impairment				
- Rates and annual charges	-	-	-	12
- Other receivables	2	43	4	273
	13,641	1,940	13,396	1,045

Restricted/Unrestricted Receivables

	Actual 2018		Actual 2017	
	Current \$'000	Non- Current \$'000	Current \$'000	Non- Current \$'000
Externally Restricted Receivables				
Domestic waste management	1,181	-	1,151	-
Unrestricted Receivables	12,460	1,940	12,245	1,045
Total Receivables	13,641	1,940	13,396	1,045

Accounting policy for receivables

Recognition and measurement

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. 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.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 7 Receivables (continued)

Accounting policy for receivables (continued)

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Impairment

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 profit or loss.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable 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. When a receivable for which an impairment allowance had been recognised becomes uncollectable 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.

LAKE MACQUARIE CITY COUNCIL

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

Note 8 Inventories and Other Assets

	Actual 2018		Actual 2017	
	Current \$'000	Non- Current \$'000	Current \$'000	Non- Current \$'000
(a) Inventories				
At cost:				
Real estate (refer (i) below)	1,091	2,637	754	2,589
Stores and materials	729	-	632	-
Trading stock - pools	12	-	12	-
Total Inventories	1,832	2,637	1,398	2,589
(i) Real Estate Development				
Residential	1,091	447	690	399
Industrial/Commercial	-	1,740	64	1,740
Other Properties	-	450	-	450
Total Real Estate Held for Sale	1,091	2,637	754	2,589
Represented by:				
Acquisition costs	1,091	1,340	641	1,313
Development costs	-	1,297	113	1,276
Less: Provision for under recovery	-	-	-	-
Total Real Estate Held for Sale	1,091	2,637	754	2,589
(ii) Inventories not expected to be realised within the next 12 months	-	-	-	-
(b) Other Assets				
Prepayments	461	725	376	988
Total Other Assets	461	725	376	988
Externally Restricted Inventories and Other Assets				
DWM - Stores and materials	94	-	82	-
Total Externally Restricted Inventories and Other Assets	94	-	82	-
Unrestricted Inventories and Other Assets	2,198	3,362	1,692	3,577
Total Inventories and Other Assets	2,293	3,362	1,774	3,577

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 8 Inventories and Other Assets (continued)

Accounting policy for inventories and other assets

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.

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.

Inventory held for distribution

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

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 9 Non-Current Assets Classified as Held for Sale

	Actual 2018 \$'000	Actual 2017 \$'000
Land	<u>7,084</u>	<u>263</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.

Refer Note 23 Events Occurring after Reporting Date for further information on this land.

Accounting policy for non-current assets classified as 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 continued 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 properties that are carried at fair value.

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.

LAKE MACQUARIE CITY COUNCIL

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

Note 10 Infrastructure, Property, Plant and Equipment

BY ASSET CLASS ⁽¹⁾

	At 30 June 2017			Movements during year						At 30 June 2018		
	Gross Carrying Amount \$'000	Accum Depn and Impairment \$'000	Net Carrying Amount \$'000	Renewals ⁽²⁾ \$'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	34,345	-	34,345	(3,109)	26,704	-	-	-	-	57,940	-	57,940
Plant and equipment	62,332	(31,944)	30,388	8,117	635	(2,168)	(5,571)	104	-	63,153	(31,648)	31,505
Office equipment	8,067	(5,979)	2,088	91	59	(6)	(896)	-	-	7,189	(5,854)	1,335
Furniture and fittings	9,021	(6,664)	2,357	409	59	(24)	(540)	(111)	-	6,162	(4,013)	2,149
Land												
- Operational land	126,179	-	126,179	33	3,766	-	-	(4,798)	42,700	167,880	-	167,880
- Community land	169,582	-	169,582	17	1,919	(1,110)	-	(3,511)	7,406	174,303	-	174,303
- Land under roads (post 01/07/08)	13,409	-	13,409	-	3,303	-	-	-	(0)	16,712	-	16,712
- Non-depreciable land improvements	10,552	(2,666)	7,886	718	365	-	-	-	-	11,635	(2,666)	8,969
- Depreciable land improvements	106,475	(39,233)	67,242	1,928	3,535	(329)	(2,091)	30	-	111,421	(41,106)	70,315
Infrastructure:												
- Buildings *	243,068	(49,567)	193,501	2,406	3,375	(1,660)	(4,548)	(236)	144	285,826	(92,844)	192,982
- Other structures *	41,148	(20,378)	20,770	1,451	1,534	(399)	(1,603)	166	-	43,480	(21,561)	21,919
- Roads *	1,039,899	(354,786)	685,113	23,056	17,558	(7)	(19,854)	0	-	1,080,555	(374,689)	705,866
- Bridges *	68,898	(21,645)	47,253	40	-	-	(664)	-	-	68,938	(22,309)	46,629
- Footpaths *	66,190	(20,445)	45,745	2,200	5,563	(256)	(1,396)	-	-	73,578	(21,721)	51,857
- Other road assets *	593,775	(214,256)	379,519	3,997	5,739	(23)	(7,886)	-	-	603,477	(222,131)	381,346
- Bulk earthworks (non-depreciable) *	206,693	-	206,693	2,350	3,551	-	-	-	-	212,594	-	212,594
- Stormwater drainage *	474,790	(173,767)	301,023	2,641	15,706	(10)	(5,669)	-	-	493,121	(179,430)	313,691
- Swimming pools *	8,383	(2,300)	6,083	1,688	-	(74)	(332)	-	-	9,945	(2,580)	7,364
- Other open space/recreational assets *	37,880	(18,990)	18,890	3,765	2,707	(154)	(1,569)	48	-	43,780	(20,092)	23,688
- Other infrastructure *	25,841	(13,492)	12,349	631	900	(2)	(534)	-	-	27,164	(13,820)	13,344
Other assets												
- Library books	6,903	(5,468)	1,435	565	-	(106)	(449)	-	-	6,825	(5,379)	1,446
- Remediation asset	20,965	(10,412)	10,553	-	-	-	-	4,196	-	25,161	(10,412)	14,749
- Artworks	1,949	-	1,949	-	218	-	-	-	-	2,167	-	2,167
TOTALS ⁽³⁾	3,376,344	(991,992)	2,384,352	52,994	97,196	(6,326)	(53,602)	(4,112)	50,250	3,593,006	(1,072,255)	2,520,750

⁽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 the point of re-classification to the non-depreciable asset class.

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

Refer to Note 21 Fair Value Measurement for information regarding the fair value of Infrastructure, Property, Plant and Equipment.

LAKE MACQUARIE CITY COUNCIL

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

Note 10 Infrastructure, Property, Plant and Equipment (continued)

BY ASSET CLASS ⁽¹⁾	At 30 June 2016			Movements during year						At 30 June 2017		
	Gross Carrying Amount \$'000	Accum Depn and Impairment \$'000	Net Carrying Amount \$'000	Renewals ⁽²⁾ \$'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
TOTALS ⁽³⁾	3,273,869	(945,920)	2,327,949	50,526	72,836	(16,399)	(50,778)	218	-	3,376,344	(991,992)	2,384,352

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 10 Infrastructure, Property, Plant and Equipment (continued)

Accounting policy for infrastructure, property, plant and equipment

Infrastructure, property, plant and equipment are held at fair value. Independent valuations are performed at least every five years, however the carrying amount of assets is assessed at each reporting date to confirm that it is not materially different from current fair value.

Increases in the carrying amounts arising on revaluation are credited to the 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.

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	Foot paving & cycle ways	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. 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 (NSW)*.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 10 Infrastructure, Property, Plant and Equipment (continued)

Accounting policy for infrastructure, property, plant and equipment (continued)

Land under roads

Land under roads is land under roadways and road reserves including land under footpaths, nature strips and median strips. 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.

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.

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.

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.

Nature and Purpose of Reserve

Revaluation Reserve

The infrastructure, property, plant and equipment revaluation reserve is used to record increments and decrements in the revaluation of non-current assets.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 11 Investment Properties

	Actual 2018 \$'000	Actual 2017 \$'000
At Fair Value		
Opening balance at 1 July 2017	40,412	38,205
Acquisitions	-	-
Capitalised subsequent expenditure	297	206
Disposals	-	-
Classified as held for sale or disposals	-	-
Transfer from held for sale or disposals	-	-
Net gain (loss) from fair value adjustment	506	2,001
Transfer (to) from inventories and owner occupied property	-	-
Closing Balance at 30 June 2018	41,215	40,412

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

Rental income	2,833	2,830
Net gain (loss) from fair value adjustment	506	2,001
Direct operating expenses from property that generated rental income	(748)	(878)
Direct operating expenses from property that did not generate rental income	-	-
	2,591	3,953

(b) Leasing Arrangements – Council as Lessor

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	2,617	2,119
- Later than one year but not later than 5 years	4,129	4,263
- Later than 5 years	-	-
	6,746	6,382

(c) Repairs and maintenance: Investment Property - Council as lessor

Contractual obligations for future repairs and maintenance	-	-
	-	-

Accounting policy for 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. Changes in fair values are recorded in the Income Statement as part of other income.

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
for the year ended 30 June 2018
(continued)**

Note 12 Intangible Assets

	Actual 2018 \$'000	Actual 2017 \$'000
Opening values		
- Gross book value	14,161	13,002
- Accumulated amortisation	(12,807)	(12,277)
- Net book value - opening balance	1,354	725
Movements for the year		
- Purchases	160	175
- Development costs	4,635	984
- Amortisation charges	(823)	(530)
Closing values		
- Gross book value	18,956	14,161
- Accumulated amortisation	(13,630)	(12,807)
Total Intangible Assets - Net Book Value	5,326	1,354
<i>The net book value of intangible assets represents:</i>		
- Software	4,966	1,014
- Digital library collection	360	340
Total Intangible Assets - Net Book Value	5,326	1,354

Accounting policy for 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 services, direct payroll, and payroll-related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from three to five 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.

LAKE MACQUARIE CITY COUNCIL

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

Note 13 Payables and Borrowings

	Actual 2018		Actual 2017	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
Payables				
Goods and services	6,790	-	12,957	-
Accrued expenses	63	-	63	-
Deposits and retentions	1,923	-	2,793	-
Other payables	2,633	-	2,636	-
Total Payables	11,409	-	18,449	-
Income Received in Advance				
Payments received in advance	55	-	55	-
Total Income Received in Advance	55	-	55	-
Borrowings				
Loans:				
- Secured ⁽¹⁾	2,708	79,422	2,569	82,129
Finance lease liability	-	-	-	-
Deferred payment liabilities	-	-	-	-
Total Borrowings	2,708	79,422	2,569	82,129
(a) Liabilities Relating to Restricted Assets				
Domestic waste management	2,472	15,590	2,399	16,143
Total restricted liabilities	2,472	15,590	2,399	16,143
Liabilities related to unrestricted assets	11,700	63,831	18,674	65,986
(b) Current payables not expected to be settled within the next 12 months	1,019	n/a	1,597	n/a

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

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 13 Payables and Borrowings (continued)

(c) Changes in liabilities arising from financing activities

	2017	Cash flows	Non-cash changes			2018
			Acquisition	Fair value changes	Other non-cash movement	
Loans:						
- secured	82,129	(2,707)	-	-	-	79,422
- unsecured	-	-	-	-	-	-
Finance lease liability	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total liabilities from financing activities	82,129	(2,707)	-	-	-	79,422

(d) Financing arrangements

**2018
\$'000** **2017
\$'000**

Total facilities

The amount of total financing facilities available to Council at reporting date is:

- Bank overdraft facility	700	700
- Corporate credit cards	1,000	1,000
	1,700	1,700

Drawn facilities

The amount of total financing facilities drawn down at reporting date is:

- Bank overdraft facility	-	-
- Corporate credit cards	179	176
	179	176

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

Undrawn facilities

The amount of undrawn financing facilities available to Council at reporting date is:

- Bank overdraft facility	700	700
- Corporate credit cards	821	824
	1,521	1,524

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 13 Payables and Borrowings (continued)**Accounting policy for payables and borrowings****Payables**

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

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 reporting date.

Finance 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.

LAKE MACQUARIE CITY COUNCIL

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

Note 14 Provisions

	Actual 2018		Actual 2017	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
Provisions				
Annual leave	9,306	-	8,850	-
Sick leave	7,807	-	8,009	-
Long service leave	20,236	1,181	20,130	1,016
Time in lieu	1,550	-	1,233	-
Self-insurance - Workers compensation	851	3,819	1,157	2,840
Asset remediation	24,647	17,051	24,016	12,670
Total Provisions	64,397	22,051	63,395	16,526
Current provisions not expected to be settled within the next 12 months	50,568	n/a	50,429	n/a

(a) 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.

	Self- insurance \$'000	Asset remediation \$'000	Total \$'000
At beginning of year	3,997	36,686	40,683
Changes to provision:			
New disturbances to tip	-	-	-
Revised costs	673	4,196	1,274
Revised life	-	-	288
Revised discount rate	-	-	101
Amounts used	-	(71)	(71)
Unwinding of discount	-	887	(103)
Unused amounts reversed	-	-	-
Other	-	-	-
Total	4,670	41,698	42,172

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 14 Provisions (continued)**Nature and purpose of non-employee benefit provisions****Self-insurance**

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 2018, 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 2018.

- 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.

Asset remediation

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.

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.

Accounting policy for 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.

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
for the year ended 30 June 2018
(continued)**

Note 14 Provisions (continued)**Employee benefits***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.

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 Council does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

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.

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.

Provisions for close-down and restoration, and 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.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 14 Provisions (continued)

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 reporting 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.

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.

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.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 15 Statement of Cash Flows information

	Notes	Actual 2018 \$'000	Actual 2017 \$'000
(a) Reconciliation of Cash Assets			
Total cash and cash equivalents	6(a)	36,389	25,327
Balance as per statement of cash flows		36,389	25,327
(b) Reconciliation of Net Operating Result to Cash Provided from Operating Activities			
		Actual 2018 \$'000	Actual 2017 \$'000
Net operating result from Income Statement		75,065	69,946
Depreciation, amortisation and impairment		54,425	51,308
Share of (profit) / loss in jointly controlled entity		(587)	(63)
Loss / (gain) on sale of assets		3,074	13,672
Amortisation of discounts and premiums recognised		(376)	(476)
Non-cash contributions and dedications		(38,150)	(33,854)
Fair value (gains) / losses on investment property		(506)	(2,001)
Increase / (decrease) in provision for doubtful debts		(232)	(98)
Increase / (decrease) in provision for employee leave entitlements		841	835
Increase / (decrease) in other provisions		1,489	(1,658)
(Increase) / decrease in receivables		(908)	515
(Increase) / decrease in inventories		(96)	13
(Increase) / decrease in other assets		178	507
Increase / (decrease) in payables		(7,040)	531
Increase / (decrease) in accrued interest payable		(1)	(6)
Net Cash Provided from (or Used in) Operating Activities from Statement of Cash Flows		87,176	99,171

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 15 Statement of Cash Flows information (continued)

		Actual 2018	Actual 2017
	Notes	\$'000	\$'000
(c) Non-Cash Financing and Investing Activities			
Bushfire grants		521	669
Dedications	3(f)	37,629	33,185
		38,150	33,854

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 16 Interests in Other Entities

Interests in joint arrangements

	Type of joint arrangement	Principal place of business	Percentage Owned (%) 2018	Percentage Owned (%) 2017
Joint arrangements:				
Strategic Services Australia Limited	Joint Venture	Hunter Region	19.592%	19.592%

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 2018 \$'000	Actual 2017 \$'000
Strategic Services Australia Limited		
Carrying Amount of Investment in joint ventures that are not individually material	1,071	484
Council's share of those joint ventures:		
Profit or loss from continuing operations	587	(2)
Post-tax profit or loss from discontinued operations	-	65
Other comprehensive income	-	-
Total comprehensive income	587	63

Unrecognised share of losses

The unrecognised share of losses of joint ventures due to the Council's interest, 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

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 16 Interests in Other Entities (continued)

Accounting Policy for joint arrangements

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.

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.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 17 Commitments

	Actual 2018 \$'000	Actual 2017 \$'000
(a) Capital Commitments (exclusive of GST)		
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
- Sporting and recreational facilities	1,988	4,846
- Acquisition - plant	2,505	4,070
- Land acquisition	-	-
- Community facilities	1,838	128
- Information technology	140	96
- Infrastructure	11,823	17,526
- Signage	-	-
- Environmental	-	-
- Buildings	944	805
Total	19,238	27,471

Description of commitments

- Sporting and Recreational Facilities commitments include improvements at swimming pools and sporting ovals and new recreational facilities including the construction of the Pasterfields Sports Complex in Cameron Park.
- Acquisition - Plant commitments include trucks, mowers, trailers and light commercial vehicles under the plant replacement program.
- Community Facilities commitments include improvements at libraries, art gallery and neighbourhood centres as well as the construction of the Pelican Boat Ramp.
- Buildings commitments include works and improvements in various Council buildings.

	Actual 2018 \$'000	Actual 2017 \$'000
(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	956	649
Later than one year and not later than 5 years	1,355	1,385
Later than 5 years	-	-
Total	2,311	2,034

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 17 Commitments (continued)

Description of leases

Non-cancellable operating leases include the following amounts:

- Office equipment including desktop computers and multi-function copying devices (\$1.47m): 3 to 5 year lease terms with extensions of leases available on an individual item basis.
- Property lease - Library (\$318k): 8 year lease term with an option for a further 3 x 5 years.
- Property lease - Sporting oval (\$48k): 10 year lease term with an option for a further 4 x 10 years.
- Property lease - Community Facility (\$68k): 5 year lease term with an option for a further 4 x 5 years.
- Property lease - Holiday Park (\$151k): 25 year lease term

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 18 Contingencies and other liabilities/assets not recognised

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

LMCC's investigation of the facts, quantum and long term solutions for remediation in relation to a product used previously for road construction, which may have an inherent fault, is continuing. LMCC is involved in District Court proceedings in relation to damage to two private properties allegedly associated with the product, and the outcome of those proceedings as ordered by the Court will determine any potential liability.

Defined Benefit Plan

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 2018 was \$2,461,396. The last valuation of the Fund was performed by Mr Richard Boyfield, FIAA, on 12 December 2017 relating to the period ending 30 June 2017.

The Scheme had previously advised member councils that, as result of the global financial crisis, it has a significant deficiency of assets over liabilities resulting in additional annual contributions. The requirement for additional contributions (currently \$40M per annum) is assessed annually by the Actuary and is designed to not only restore the Funds to a satisfactory financial position but to allow the Trustee, on behalf of the employers, to commence de-risking the asset allocation and consequently reduce the market exposure risk to growth assets.

To enable this de-risking of the asset allocation to commence, additional contributions are estimated to remain in place until 30 June 2021. It is estimated that there are \$3,594,000 additional contributions remaining. The Trustee will be reviewing the financial position of the fund on an annual basis. Council's expected contribution to the plan for the next annual reporting period is \$2,324,840.

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 2018. 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 a possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

Contingent assets

LMCC is a participant Applicant in a Federal Court Class Action in relation to loss arising from reliance on financial representations and advice given by the Respondent in relation to a \$1M investment. It is expected that the Court will make a determination during the 2018/2019 period.

LMCC was the Second Respondent to Court of Appeal proceedings in the Supreme Court of NSW in which Judgment was handed down in October 2017. The First Respondent is responsible for payment of LMCC's costs in relation to the proceedings. A costs assessment process is required to determine the value of LMCC's costs entitlement.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 18 Contingencies and other liabilities/assets not recognised (continued)

LMCC was the Applicant in Land and Environment Court proceedings, with Judgment handed down by the Court in February 2018. A costs order against the Respondent was made in favour of LMCC in relation to the proceedings. A costs assessment process is being undertaken to determine the value of LMCC's costs entitlement.

LMCC was the Respondent to Federal Court proceedings which were the subject of a negotiated settlement, the terms of which remain confidential. Components of the settlement are under assessment by LMCC's insurers and may be reimbursed.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 19 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.

The fair value of cash and cash equivalents, receivables, held-to-maturity investments and financial liabilities approximates the carrying amount.

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 1993 (NSW)* and Ministerial Investment Order 625. The policy is regularly reviewed by Council and a monthly investment report is provided to Council setting out the make-up and performance of the portfolio as required by local government regulations.

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.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 19 Financial Risk Management (continued)**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

	2018	2017
	\$'000	\$'000
Impact of movement ⁽¹⁾ in price of investments:		
- Equity	NIL	NIL
- Income statement	NIL	NIL
Impact of a 1% ⁽²⁾ movement in interest rates on cash and investments:		
- Equity	2,143 ⁽³⁾	2,421
- Income statement	2,143 ⁽³⁾	2,421

⁽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 expectations of future possible market movements. Interest rate movements are calculated on cash, cash equivalents and held to maturity investments.

⁽³⁾ Maximum impact.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 19 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 debt 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. 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 Council's credit risk at reporting date was:

	Not due yet \$'000	Overdue debts				Total \$'000
		< 1 year \$'000	1-2 years \$'000	2-5 years \$'000	> 5 years \$'000	
Rates and Annual Charges						
2018	-	4,202	593	619	379	5,793
2017	-	3,689	624	592	319	5,224

	Not due yet \$'000	Overdue debts				Total \$'000
		< 1 year \$'000	1-2 years \$'000	2-5 years \$'000	> 5 years \$'000	
Receivables - other than rates and annual charges						
2018	7,844	580	754	267	343	9,788
2017	7,926	486	169	191	445	9,217

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 19 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.

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

	Weighted average interest rate	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total Contractual Cash flows	Carrying values
2018	%	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	-	10,391	1,019	-	11,410	11,409
Borrowings	6.00	7,787	30,983	100,076	138,846	82,129
		18,178	32,002	100,076	150,256	93,538
2017						
Payables	-	16,852	1,597	-	18,449	18,449
Borrowings	5.97	7,804	31,050	107,797	146,651	84,698
		24,656	32,647	107,797	165,100	103,147

d. Financing arrangements

Refer Note 13 (d) for undrawn borrowing facilities available.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 20 Material Budget Variations

Council's original budget was adopted by Council on 26 June 2017 and is not required to be audited.

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, and decisions made by Council.

Material variations of more than 9% are explained below:

Revenues**1. User Charges and Fees**

User charges and fees exceeded the original budget by \$1,608k (9.45%). This was mainly due to higher than budgeted income relating to development application and sub-division fees (\$1,024k) indicative of the increased development activity across the city, higher than budgeted caravan parks income (\$476k) and higher than budgeted swimming centre income (\$432k). This is slightly offset by a decrease in tipping fees (\$293k).

2. Interest and Investment Revenue

Interest and investment revenue exceeded the original budget by \$1,222k (19.65%). This was mainly due to Council having higher than budgeted reserves available for investment, resulting in an increased interest revenue.

3. Other Revenues

Other revenues exceeded the original budget by \$1,518k (12.73%). This is due to the significant increase in RMCC contract work completed by CivilLake (\$1,544k).

4. Grants and Contributions Provided for Operating Purposes

Grants and contributions for operating purposes exceeded the original budget by \$9,711k (49.68%). The major item that contributed to the variation was the 2018/19 financial assistance grant received in advance for \$8,246k.

5. Grants and Contributions Provided for Capital Purposes

Grants and contributions for capital purposes were lower than the original budget by \$6,751k (9.51%). The major variance item was a reduction in special purpose grants received (\$30,771) mostly driven by the unsuccessful Lake Macquarie Transport Interchange grant application. This was offset by other major items:

- Higher than budgeted dedications of infrastructure from new subdivisions \$20,825k, in particular roads \$7,446k and drainage \$9,509k;
- Recognition of land under roads in relation to the above infrastructure dedications \$3,303k; and
- Higher than budgeted Section 94 contributions received \$2,212k.

Expenses**1. Borrowing Costs**

Borrowing costs were lower than original budget by \$1,474k (19.65%). This was due to a lower than budgeted loan drawdown in the prior period resulting in significantly lower than budgeted interest payments and lower than budgeted interest rates on variable loans. This was offset by an increase in the provision for asset remediation resulting in higher amortisation costs.

2. Net Loss from the Disposal of Assets

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

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 21 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.

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.

LAKE MACQUARIE CITY COUNCIL

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

Note 21 Fair Value Measurement (continued)

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

	Note	Level 2 Significant Observable Inputs \$'000		Level 3 Significant Unobservable Inputs \$'000		Total \$'000	
		2018	2017	2018	2017	2018	2017
Recurring Fair Value Measurements							
Infrastructure, property, plant and equipment							
Plant and equipment	10	-	-	31,505	30,388	31,505	30,388
Office equipment	10	-	-	1,335	2,088	1,335	2,088
Furniture and fittings	10	-	-	2,149	2,357	2,149	2,357
Operational land	10	167,880	126,179	-	-	167,880	126,179
Community land	10	-	-	174,303	169,582	174,303	169,582
Land under roads (post 01/07/08)	10	-	-	16,712	13,409	16,712	13,409
Non-depreciable land improvements	10	-	-	8,969	7,886	8,969	7,886
Depreciable land improvements	10	-	-	70,315	67,242	70,315	67,242
Buildings	10	-	-	192,982	193,501	192,982	193,501
Other structures	10	-	-	21,919	20,770	21,919	20,770
Roads	10	-	-	705,866	685,113	705,866	685,113
Bridges	10	-	-	46,629	47,253	46,629	47,253
Footpaths	10	-	-	51,857	45,745	51,857	45,745
Other road assets	10	-	-	381,346	379,519	381,346	379,519
Bulk earthworks (non-depreciable)	10	-	-	212,594	206,693	212,594	206,693
Stormwater drainage	10	-	-	313,691	301,023	313,691	301,023
Swimming pools	10	-	-	7,364	6,083	7,364	6,083
Other open space/recreational assets	10	-	-	23,688	18,890	23,688	18,890
Other infrastructure	10	-	-	13,344	12,349	13,344	12,349
Library books	10	-	-	1,446	1,435	1,446	1,435
Remediation asset	10	-	-	14,749	10,553	14,749	10,553
Artworks	10	-	-	2,167	1,949	2,167	1,949
Total Infrastructure, property, plant and equipment		167,880	126,179	2,294,930	2,223,827	2,462,810	2,350,006
Investment Properties							
Commercial land, office and retail	11	-	-	41,215	40,412	41,215	40,412
Total Investment Properties		-	-	41,215	40,412	41,215	40,412
Non-Recurring Fair Value Measurements							
Non-Current Assets Classified as Held for Sale							
Operational land	9	7,084	263	-	-	7,084	263
Total Non-Current Assets Classified as Held for Sale		7,084	263	-	-	7,084	263

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 21 Fair Value Measurement (continued)

Valuation techniques used to derive Level 2 and Level 3 Fair Values

Investment Properties

Council obtains valuations of its investment properties on an annual basis. Council's valuer who is a member of the Australian Property Institute determines the valuations.

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.

Plant and equipment, office equipment and furniture and fittings

Plant & equipment, office equipment and furniture and fittings are valued at historical cost but disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items. Examples of assets within these classes are as follows;

- | | |
|--------------------------|---|
| - Plant and Equipment | Motor vehicles, trucks, trailers, gardening equipment |
| - Office Equipment | Audio visual equipment, televisions, cameras |
| - Furniture and fittings | Chairs, desks, shelving units |

The key unobservable inputs to the valuation are the useful life, pattern of consumption, asset condition and residual value.

There have been no changes in the valuation technique during the reporting period.

Operational Land

This asset class comprises all of Council's land classified as Operational under the *Local Government Act 1993 (NSW)*. Council operational land is valued using market valuations. The last valuation was undertaken as at 30 June 2018.

Valuations are based off market value of recent sales of land parcels with similar zoning in adjacent areas. They were obtained from a combination of an external valuation as well as in-house qualified experts. Sale prices of comparable land parcels with similar locations and zonings were adjusted for key attributes such as size and configuration.

There have been no changes in the valuation technique during the reporting period.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 21 Fair Value Measurement (continued)**Community Land**

Council's community land (including owned by the Council, the Crown and various other Government Agencies that is managed by Council) by definition is land intended for public access and use or where other restrictions applying to the land create some obligation to maintain public access, such as dedication under s7.11 of the *Environment Planning and Assessment Act 1979 (amended)*.

Valuations of all Council's Community Land and Council controlled Crown land were based on the land values provided by the Valuer-General. As these rates are not considered to be observable market evidence they have been classified as Level 3. In line with data issued by the Crown, a small amount of Crown land parcels in this asset class were revalued at 30 June 2018 to reflect current Valuer-General valuations.

There have been no changes in the valuation technique during the reporting period.

Land under roads (post 01/07/2008)

Land under roads is land under roadways and road reserves including land under footpaths, nature strips and median strips. Council recognised this asset for the first time in financial year 2008/09 in accordance with *AASB 1051 Land Under Roads*.

Values were determined using Valuer-General valuations of adjacent land and applying discount factors. This asset class is classified as Level 3 as significant inputs used in this methodology are unobservable.

Land under roads was previously valued using the adjacent site method, however applying discounting factors allows to reflect the restrictions placed on land under roads and therefore is considered to be a more accurate approach.

Land improvements - Depreciable and non-depreciable

The land improvements asset class consists of car-park upgrades, irrigation, landscaping and paving of public areas.

Land improvements were valued in-house by Council's Asset Management staff on a unit rate basis. Input such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value.

The asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There have been no changes in the valuation technique during the reporting period.

Buildings

This asset class comprises of Specialised and Non Specialised buildings including Community Halls, Administration buildings, Caravan Parks and Residential premises

In determining the current cost of the specialised asset, reference is made to the cost of replacing the assets based in industry unit rates. This approach estimates the replacement cost by breaking the building down into significant components with different useful life and taking into account a range of factors such as the remaining useful life of the asset, condition, pattern of consumption and residual value.

The asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There have been no changes in the valuation technique during the reporting period.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 21 Fair Value Measurement (continued)**Footpaths**

This asset class comprises of sealed or non-sealed footpaths and cycle ways.

Footpath assets were valued in-house using the cost approach by experienced Asset Management staff. The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors and applying a unit rate. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

The asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There have been no changes in the valuation technique during the reporting period.

Bridges

This asset class comprises of Council's bridges.

The assets were valued in-house using the cost approach by experienced Asset Management staff. The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors and applying a unit rate. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

The asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There have been no changes in the valuation technique during the reporting period.

Roads

This asset class comprises of road asset such as pavement, asphalt, kerb & gutter, street furniture, traffic facilities and retaining walls.

The cost approach was utilised to value roads by breaking down each asset into significant components, applying a unit rate and then rolling up these component values to provide an overall road valuation for each road segment within the Council's Asset Management System. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

The asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There have been no changes in the valuation technique during the reporting period.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 21 Fair Value Measurement (continued)**Bulk earthworks (non-depreciable)**

This asset class was valued in-house using the cost approach by experienced Asset Management staff. The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors and applying a unit rate. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

The asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There have been no changes in the valuation technique during the reporting period.

Stormwater drainage

This asset class comprises of pits, pipes, stormwater quality improvement devices and headwalls.

Stormwater drainage assets were valued in-house using the cost approach by experienced Asset Management staff. The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors and applying a unit rate. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

The asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There have been no changes in the valuation technique during the reporting period.

Swimming pools

This asset class comprises of Council's swimming pools, including caravan park pools.

Swimming pool assets were valued in-house using the cost approach by experienced Asset Management staff. The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors and applying a unit rate. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

The asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There have been no changes in the valuation technique during the reporting period.

Other open space/recreational assets

This asset class comprises of Council's various outdoor playing fields, sporting facilities, playgrounds and picnic ground facilities.

The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors and by componentising its significant parts where applicable. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 21 Fair Value Measurement (continued)

The asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There have been no changes in the valuation technique during the reporting period.

Other infrastructure

The other infrastructure asset class consists of jetties, retaining walls, boat ramps and seawalls.

Other infrastructure assets were valued in-house using the cost approach by experienced Asset Management staff. The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors and applying a unit rate. Inputs such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There have been no changes in the valuation technique during the reporting period.

Library books

This asset class comprises of assets such as library books, CD's, DVD's, publications etc. Library books are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items.

There have been no changes to the valuation process during the reporting period.

Remediation asset

This asset class includes the landfill cells at Council's Waste Management site which is recognised and valued at cost. It is recognised that there will be significant costs associated with the closure and post closure management of the landfill site.

Council assumes that the carrying amount reflects the fair value of the assets due to the nature of the item. Significant unobservable inputs considered in the valuation of these assets are useful life and pattern of consumption and therefore categorised at Level 3.

There have been no changes in the valuation technique during the reporting period.

Artworks

Assets within this class are collections of the Art Gallery. Market value is used to determine the fair value of the Art Gallery collection, and is valued on a 5-year cycle.

The asset class is categorised as Level 3 as gross replacement cost, pattern of consumption and estimated remaining useful life require significant professional judgement and are therefore unobservable.

There have been no changes in the valuation technique during the reporting period.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 21 Fair Value Measurement (continued)

Non-Current Assets Classified as Held for Sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transactions rather than continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell.

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 de-recognition.

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. The asset class is categorised as Level 2 as some of the inputs used in the valuation require professional judgement, which are unobservable, combined with observable inputs such as market valuations.

Unobservable inputs

The following table summarises the quantitative information relating to the significant unobservable inputs used in deriving the various Level 3 asset class fair values.

Asset / Liability Category	Carrying Amount (at fair value) \$'000	Valuation technique(s)	Key Unobservable inputs
IPPE			
Plant and equipment	31,505	Historical cost	Pattern of consumption Asset condition Remaining useful life Residual value
Office equipment	1,335	Historical cost	Pattern of consumption Asset condition Remaining useful life Residual value
Furniture and fittings	2,149	Historical cost	Pattern of consumption Asset condition Remaining useful life Residual value
Community land	174,303	Valuer-General valuations	Market value
Land under roads (post 01/07/08)	16,712	Discounted Valuer-General valuations	Market value, discount rate
Non-depreciable land improvements	8,969	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Depreciable land improvements	70,315	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 21 Fair Value Measurement (continued)

Asset / Liability Category	Carrying Amount (at fair value) \$'000	Valuation technique(s)	Key Unobservable inputs
Buildings	192,982	Industry cost indexes	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Other structures	21,919	Industry cost indexes	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Roads	705,866	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Bridges	46,629	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Footpaths	51,857	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Other road assets	381,346	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Bulk earthworks (non-depreciable)	212,594	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Stormwater drainage	313,691	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Swimming pools	7,364	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 21 Fair Value Measurement (continued)

Asset / Liability Category	Carrying Amount (at fair value) \$'000	Valuation technique(s)	Key Unobservable inputs
Other open space/recreational assets	23,688	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Other infrastructure	13,344	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Library books	1,446	Cost approach	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Remediation asset	14,749	Cost approach	Discount rate Remaining useful life
Artworks	2,167	Market value	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost

Asset / Liability Category	Carrying Amount (at fair value) \$'000	Valuation technique(s)	Key Unobservable inputs
Investment Properties			
Commercial land, office and retail	41,215	Market value	Investment yields Improved rate per square metre Site rate per square metre

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 21 Fair Value Measurement (continued)

Reconciliation of movements

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

Infrastructure, property, plant and equipment	2018 \$'000	2017 \$'000
Opening Balance at 1 July	2,223,829	2,134,712
Total gains or losses for the period		
Recognised in profit or loss - Realised - refer Note 5	-	-
Recognised in profit or loss - Unrealised - refer Notes 3 and 4	-	-
Recognised in other comprehensive income - Revaluation surplus	7,550	-
Other movements		
Purchases	122,797	150,192
Sales	(6,328)	(15,866)
Depreciation	(53,602)	(50,778)
Transfers into level 3	-	-
Transfers out of level 3	-	-
Other movements	686	5,569
Closing Balance as 30 June	2,294,932	2,223,829

Investment Properties	2018 \$'000	2017 \$'000
Opening Balance at 1 July	40,412	38,205
Total gains or losses for the period		
Recognised in profit or loss - Realised - refer Note 5	-	-
Recognised in profit or loss - Unrealised - refer Notes 3 and 4	506	2,001
Recognised in other comprehensive income - Revaluation surplus	-	-
Other movements		
Purchases	297	206
Sales	-	-
Depreciation	-	-
Transfers into level 3	-	-
Transfers out of level 3	-	-
Other movements	-	-
Closing Balance as 30 June	41,215	40,412

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 21 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.

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 22 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:

	2018	2017
	\$	\$
Compensation		
Short-term benefits	2,257,631	1,622,194
Post-employment benefits	128,625	152,216
Other long-term benefits	-	-
Termination benefits	181,510	-
Total	<u>2,567,766</u>	<u>1,774,410</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 KMP using Council services (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.

LAKE MACQUARIE CITY COUNCIL

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 22 Related Party Disclosures (continued)

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
2018						
Joint Venture ⁽¹⁾	Payments for recycling bin services	\$4,397,537	\$357,392	Standard procurement terms and conditions	N/A	Nil
Joint Venture	Payments for annual subscriptions	\$58,400	NIL	Payments shared between the parties in the Joint Venture	N/A	Nil
Joint Venture	Payments for legal services	\$129,444	NIL	Provided under the Joint Venture arrangement	N/A	Nil
Joint Venture	Payments for record management services	\$13,773	NIL	Provided under the Joint Venture arrangement	N/A	Nil
Subsidiary ⁽²⁾	Payments of grant funding	\$1,300,102	\$0	Grants provided as part of funding agreement	N/A	Nil
2017						
Joint Venture ⁽¹⁾	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 ⁽²⁾	Payments of grant funding	\$855,768	\$67,727	Grants provided as part of funding agreement	N/A	Nil

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

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

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 23 Events Occurring after Reporting Date

The parcels of land noted as held for sale in Note 9 were sold as one parcel of land subsequent to 30 June 2018. The land in Smith Street, Charlestown settled on 26 July 2018 for a sale price of \$7m.

LAKE MACQUARIE CITY COUNCIL

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 24 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 2018 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Drainage	1,529	83	-	30	-	-	-	1,642	-
Traffic Facilities	9,777	3,548	-	198	2,043	-	-	11,480	-
Parking	4,920	-	-	68	-	-	-	4,988	-
Open Space	73,785	10,355	1,609	1,154	25,700	-	-	61,204	-
Community Facilities	19,643	3,006	-	321	5,218	-	-	17,752	-
Other	109	471	-	2	470	-	-	113	-
Total s7.11 (prev s94) under plans	109,763	17,463	1,609	1,773	33,431	-	-	97,178	-
Total s7.11 (prev s94) not under plan	1,763	269	-	33	-	-	-	2,066	-
s7.4 Planning Agreements	1,787	149	-	32	12	-	-	1,956	-
Total Contributions	113,313	17,881	1,609	1,837	33,443	-	-	101,200	-
Council borrowing ⁽¹⁾	(31,683)							(41,715)	41,715
Developer Contributions Reserve balance after Council General Fund borrowing	81,630							59,485	

(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 2018 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Drainage	352	-	-	7	-	-	-	359	-
Open Space	266	215	-	6	-	-	-	487	-
Community Facilities	171	139	-	4	-	-	-	314	-
Other	-	16	-	-	16	-	-	-	-
Total	789	369	-	17	16	-	-	1,160	-

LAKE MACQUARIE CITY COUNCIL

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 24 Statement of Developer Contributions (continued)

(c) CONTRIBUTION PLAN CITY WIDE PLAN 2004

PURPOSE	Opening balance \$ '000	Contributions received during the year		Interest and investment income earned during year \$ '000	Expended during year \$ '000	Transfer between plans \$ '000	Internal borrowings during the year \$ '000	Held as restricted assets at 30 June 2018 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Drainage	690	-	-	12	-	-	-	701	-
Open Space	12,872	252	102	225	102	-	-	13,349	-
Community Facilities	2,428	56	-	42	-	-	-	2,526	-
Other	-	10	-	-	10	-	-	-	-
Total	15,990	318	102	279	112	-	-	16,576	-

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

PURPOSE	Opening balance \$ '000	Contributions received during the year		Interest and investment income earned during year \$ '000	Expended during year \$ '000	Transfer between plans \$ '000	Internal borrowings during the year \$ '000	Held as restricted assets at 30 June 2018 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Drainage	486	83	-	10	-	-	-	579	-
Traffic Facilities	5,972	1,204	-	96	2,043	-	-	5,229	-
Open Space	7,550	3,205	-	71	10,034	-	-	792	-
Community Facilities	3,731	1,071	-	47	3,106	-	-	1,742	-
Other	108	85	-	2	84	-	-	110	-
Total	17,847	5,647	-	225	15,266	-	-	8,452	-

LAKE MACQUARIE CITY COUNCIL

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 24 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 2018 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Drainage	1	-	-	1	-	-	-	2	-
Total	1	-	-	1	-	-	-	2	-

(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 2018 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Traffic Facilities	-	-	-	3	-	-	-	3	-
Parking	204	-	-	1	-	-	-	205	-
Total	204	-	-	4	-	-	-	208	-

(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 2018 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Traffic Facilities	216	52	-	4	-	-	-	273	-
Open Space	1,502	402	-	29	-	-	-	1,934	-
Community Facilities	510	168	-	4	678	-	-	4	-
Other	-	13	-	0	13	-	-	0	-
Total	2,228	636	-	38	691	-	-	2,211	-

LAKE MACQUARIE CITY COUNCIL

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 24 Statement of Developer Contributions (continued)

(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 2018 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Traffic Facilities	18	5	-	0	-	-	-	23	-
Total	18	5	-	0	-	-	-	23	-

(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 2018 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Traffic Facilities	2,088	822	-	49	-	-	-	2,960	-
Parking	440	-	-	1	-	-	-	441	-
Open Space	11,486	2,069	-	215	109	-	-	13,661	-
Community Facilities	3,433	769	-	59	814	-	-	3,447	-
Other	1	101	-	-	101	-	-	1	-
Total	17,448	3,760	-	324	1,024	-	-	20,510	-

Notes to the Financial Statements
for the year ended 30 June 2018
(continued)

Note 24 Statement of Developer Contributions (continued)

(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 2018 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Roads	-	10	-	0	-	-	-	10	-
Traffic Facilities	691	431	-	22	-	-	-	1,144	-
Parking	886	-	-	9	-	-	-	895	-
Open Space	19,725	1,696	1,507	291	8,813	-	-	14,407	-
Community Facilities	4,995	413	-	88	142	-	-	5,354	-
Other	-	109	-	-	109	-	-	(0)	-
Total	26,297	2,659	1,507	411	9,064	-	-	21,809	-

(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 2018 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Traffic Facilities	783	995	-	23	-	-	-	1,801	-
Parking	3,390	-	-	57	-	-	-	3,447	-
Open Space	11,998	1,783	-	169	6,263	-	-	7,688	-
Community Facilities	3,257	348	-	57	451	-	-	3,210	-
Other	-	90	-	-	90	-	-	-	-
Total	19,428	3,216	-	306	6,804	-	-	16,146	-

LAKE MACQUARIE CITY COUNCIL

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 24 Statement of Developer Contributions (continued)

(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 betw een plans \$ '000	Internal borrow ings during the year \$ '000	Held as restricted assets at 30 June 2018 \$ '000	Cumulative balance of internal borrow ings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Traffic Facilities	9	38	-	0	-	-	-	48	-
Open Space	8,386	733	-	148	380	-	-	8,887	-
Community Facilities	1,118	43	-	19	27	-	-	1,154	-
Other	-	47	-	-	47	-	-	-	-
Total	9,513	862	-	167	454	-	-	10,088	-

(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 betw een plans \$ '000	Internal borrow ings during the year \$ '000	Held as restricted assets at 30 June 2018 \$ '000	Cumulative balance of internal borrow ings (to)/from \$ '000
		Cash \$ '000	Non-cash \$ '000						
Drainage	159	-	-	3	-	-	-	162	-
Roads	1,083	269	-	19	-	-	-	1,371	-
Open Space	-	-	-	9	-	-	-	9	-
Parking	516	-	-	-	-	-	-	516	-
Community Facilities	5	-	-	0	-	-	-	5	-
Other	-	-	-	2	-	-	-	2	-
Total	1,763	269	-	33	-	-	-	2,066	-

LAKE MACQUARIE CITY COUNCIL

**Notes to the Financial Statements
for the year ended 30 June 2018
(continued)**

Note 24 Statement of Developer Contributions (continued)

(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 betw een plans \$ '000	Internal borrow ings during the year \$ '000	Held as restricted assets at 30 June 2018 \$ '000
		Cash \$ '000	Non-cash \$ '000					
Roads	150	-	-	-	-	-	-	150
Parking	602	-	-	11	-	-	-	613
Open Space	546	86	-	14	-	-	-	646
Community Facilities	478	53	-	7	2	-	-	537
Other	11	10	-	0	10	-	-	11
Total	1,787	149	-	32	12	-	-	1,956

⁽¹⁾ In the 2017/2018 financial year, Council's General Fund borrowed \$11,665k from unspent developer contributions.

LAKE MACQUARIE CITY COUNCIL

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

Note 25 Statement of Performance Measures

	2018 Amounts \$'000	2018 Indicators	2017 Indicators	2016 Indicators	Benchmark
1. Operating Performance					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	\$ 12,835	5.56%	8.98%	4.18%	>0
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	\$ 230,863				
2. Own Source Operating Revenue					
Total continuing operating revenue ⁽¹⁾ less all grants and contributions	\$ 230,863	78.24%	65.64%	66.99%	>60%
Total continuing operating revenue ⁽¹⁾ inclusive of capital grants and contributions	\$ 295,073				
3. Unrestricted Current Ratio					
Current assets less all external restrictions ⁽²⁾	\$ 137,404	2.75 x	2.90 x	2.67 x	>1.5x
Current liabilities less specific purpose liabilities ^{(3),(4)}	\$ 50,007				
4. Debt Service Cover Ratio					
Operating results ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation (EBITDA)	\$ 73,288	8.52 x	9.88 ⁽⁵⁾ x	7.06 x	>2x
Principal repayments (from the Statement of Cash Flows) plus borrowing interest costs (from the Income Statement)	\$ 8,597				
5. Rates and Annual Charges Outstanding Percentage					
Rates and annual charges outstanding	\$ 6,375	4.09%	3.68%	3.87%	<5% metro <10% regional & rural
Rates and annual charges collectible	\$ 156,018				
6. Cash Expense Cover Ratio					
Current year cash and cash equivalents and term deposits	\$ 134,417	8.73 months	10.92 months	10.00 months	>3 months
Payments from Statement of Cash Flows of operating and financing activities *12	\$ 184,652				

⁽¹⁾ Excludes fair value adjustments, reversal of revaluation decrements, net gain/ (loss) on sale of assets, and net share of interest in joint ventures and associates.

⁽²⁾ Refer to Note 6 – 8 inclusive.

⁽³⁾ Refer to Note 13.

⁽⁴⁾ Excludes all payables and provisions (including employee leave entitlements) not expected to be settled within the next 12 months.

⁽⁵⁾ 2017 & 2016 indicators have been corrected and restated calculated off borrowing interest costs from the Income Statement



INDEPENDENT AUDITOR'S REPORT
Report on the general purpose financial report
Lake Macquarie City Council

To the Councillors of Lake Macquarie City Council

Opinion

I have audited the accompanying financial report of Lake Macquarie City Council (the Council), which comprise the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the 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 report:
 - has been presented, in all material respects, in accordance with the requirements of this Division
 - is consistent with the Council's accounting records
 - presents fairly, in all material respects, the financial position of the Council as at 30 June 2018, 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 report 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 Report' 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.

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the financial report and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the special purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial report does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the special purpose financial statements and Special Schedule 2 - Permissible income for general rates.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Report

The Councillors are responsible for the preparation and fair presentation of the financial report 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 report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting except where the Council will be dissolved or amalgamated by an Act of Parliament, or otherwise cease operations.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error
- 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 report.

A description of my responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: 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
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 20 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule 2 - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.



Nathan Carter
Director, Financial Audit Services

31 October 2018
SYDNEY

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

Contact: Nathan Carter
Phone no: 02 9275 7349
Our ref: D1826554/1751

31 October 2018

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2018
Lake Macquarie City Council**









I have audited the general purpose financial statements of Lake Macquarie City Council (the Council) for the year ended 30 June 2018 as required by section 415 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 2018 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

	2018 \$m	2017 \$m	Variance %
Rates and annual charges revenue	162.1	152	 6.6
Other revenues	13.4	10.7	 2.7
Grants and contributions revenue	93.5	98.4	 5
Employee benefits and on-costs	89.9	84.5	 6.3
Materials and contracts expense	43.3	39.6	 9.3
Loss on disposal of assets	3	16.7	 82
Operating result for the year	75.1	69.9	 7.4
Net operating result before capital amounts	10.9	8.6	 27

Council's net operating result for the year was \$75.1 million and was \$5.2 million higher than the 2016–17 result. The net operating result before capital grants and contributions was \$10.9 million and was \$2.3 million higher than the 2016–17 result of \$8.6m. The reasons for the movements are outlined below.

Rates and annual charges revenue increased by \$10.1 million or 6.6 per cent in 2017–18, mainly as a result of Council's approved special rate variation of 4.75 per cent in 2017–18.

Other revenues, driven by external works, increased by \$2.7m or 25 per cent from \$10.7 million in 2016–17.

Offsetting the above increases in rates and annual charges and other revenues was a reduction in grants and contributions revenue of \$4.9 million or 5 per cent in 2017–2018. This was mainly due to the 2016–17 year being the first year that the financial assistance grant was paid early, resulting in six quarterly payments being received in the 2016–17 year, compared to four in 2017–18. This produced a reduction in the financial assistance grant equalisation component of \$5.9 million (47 per cent).

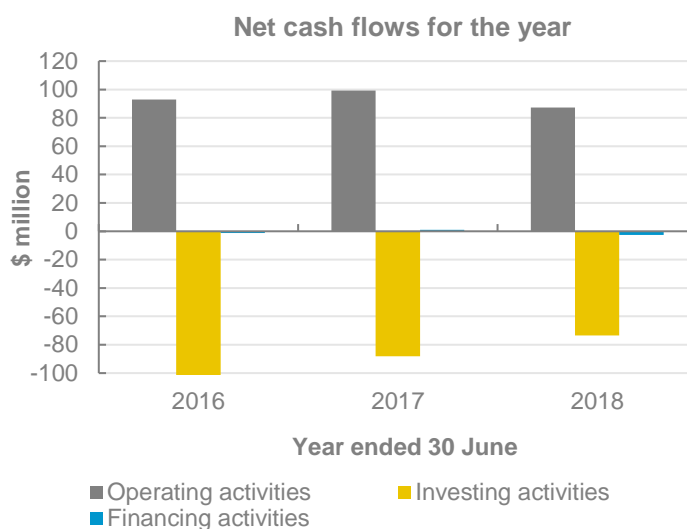
Employee benefits and on-costs increased by \$5.4 million or 6.3 per cent as a result of an increase in award rates and termination payments, including leave entitlements.

Materials and contracts expense (\$43.3 million) increased by \$3.7 million (9.3 per cent) in 2017–18 mainly attributable due to an \$3.4 million increase in raw material and consumables expense.

Loss on disposal of assets has decreased by \$10.7 million or 82 per cent in 2017–18 due to some large one off disposals of infrastructure in 2016–17.

STATEMENT OF CASH FLOWS

- The decrease in cash provided from operating activities of \$12.0 million is largely due to a decrease in receipts from grants and contributions of \$8.1 million, a decrease in user fees and charges of \$2.2 million, an increase in payments to employees of \$3.8 million and an increase in payments for materials and contracts of \$9.4 million, offset by an increase in rates and annual charges of \$9.4 million.
- The decrease in net cash used in investing activities of \$14.6 million is due to an increase in net receipts from the sale of investments of \$37.3 million, offset by an increase in purchases of assets of \$25.9 million.



FINANCIAL POSITION

Cash and Investments

Cash and Investments	2018	2017	Commentary
	\$m	\$m	
External restrictions	98.61	118.85	• External restrictions have decreased due to a reduction in developer contributions of \$22.1 million, which is mainly due to using these funds for internal borrowings.
Internal restrictions	115.66	123.21	
Unrestricted	--	--	
Cash and investments	214.27	242.06	<ul style="list-style-type: none"> • Internal restrictions have decreased due to a reduction of \$4.8 million in funds set aside for asset replacement. • Council does not have any unrestricted cash and investments.

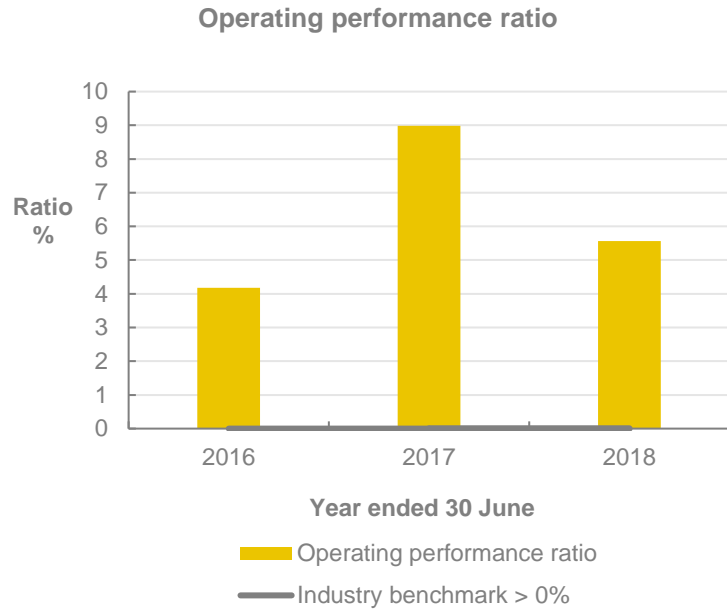
PERFORMANCE RATIOS

The definition of each ratio analysed below (except for the ‘building and infrastructure renewals ratio’) is included in Note 25 of the Council’s audited general purpose financial statements. The ‘building and infrastructure renewals ratio’ is defined in Council’s Special Schedule 7 and is not audited.

Operating performance ratio

Council has exceeded the benchmark in the current year as a result of its positive operating result. For further analysis of the operating result refer to the ‘Income Statement’ commentary above.

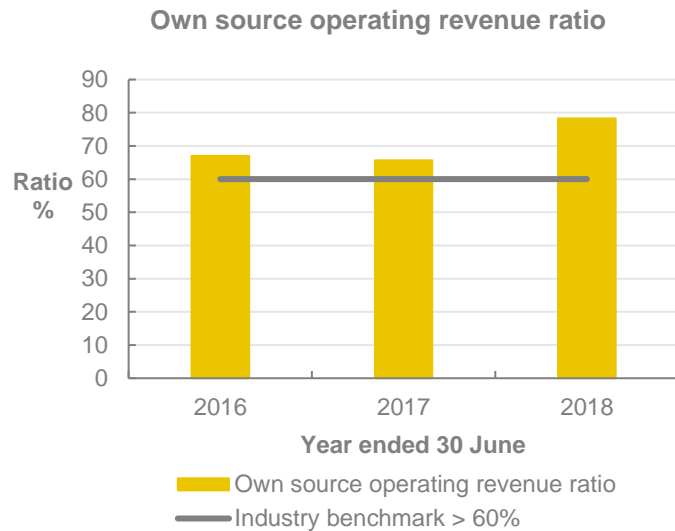
The ‘operating performance ratio’ measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is greater than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



Own source operating revenue ratio

Council has exceeded the benchmark in the current year, as a result of its diversified sources of operating revenue.

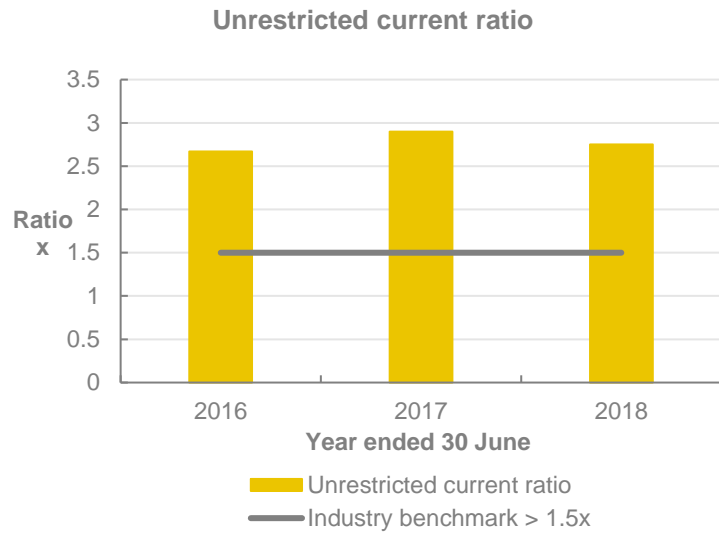
The ‘own source operating revenue ratio’ measures council’s fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



Unrestricted current ratio

Council has exceeded the benchmark in the current year and the ratio remains consistent with comparative years.

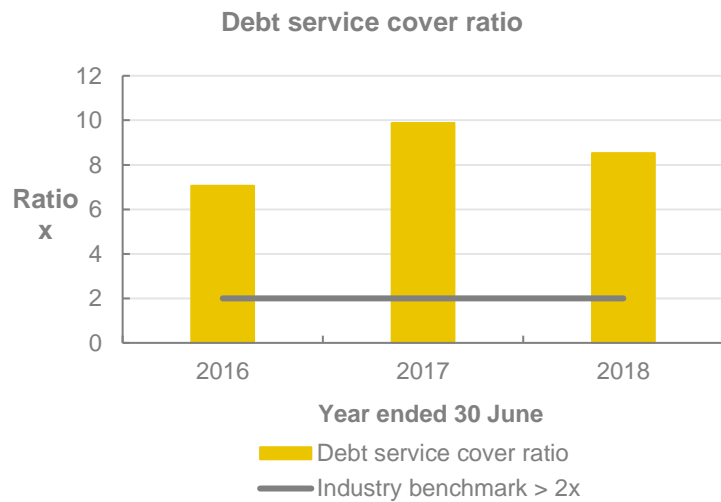
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



Debt service cover ratio

Council has exceeded the benchmark in the current year and remains well above the benchmark level.

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.

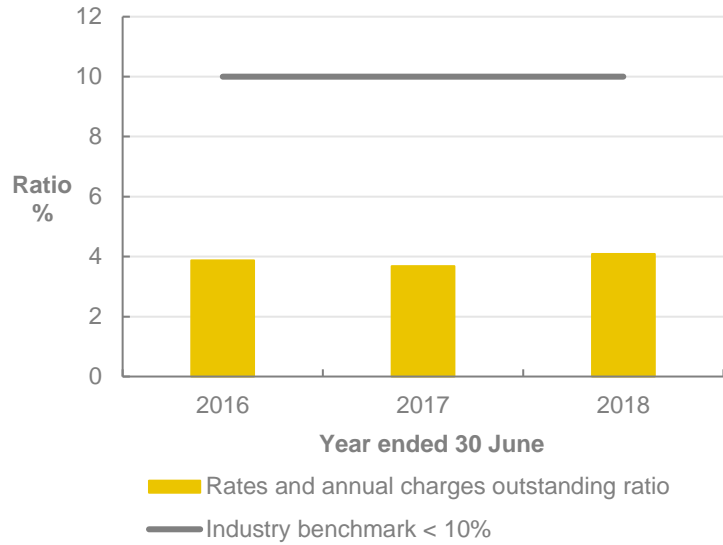


Rates and annual charges outstanding ratio

Councils rates and annual charges outstanding ratio has remained stable over the last three years and remains better than the industry benchmark.

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 regional and rural councils.

Rates and annual charges outstanding ratio

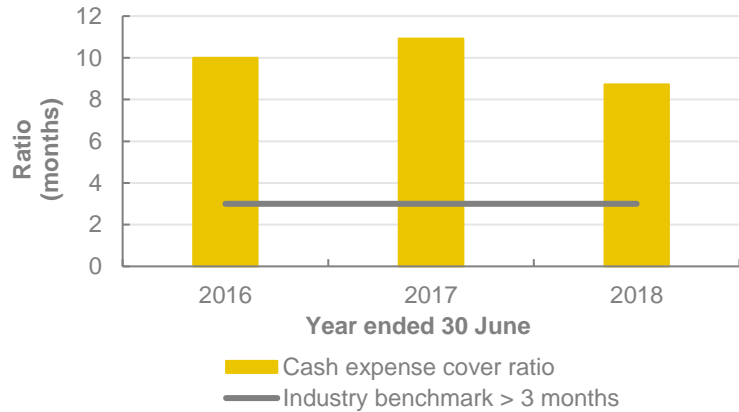


Cash expense cover ratio

Councils cash expense cover ratio has exceeded the industry benchmark due to ongoing fiscal management. The ratio has reduced from 10.92 months in 2016–17 to 8.73 months in 2017–18.

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.

Cash expense cover ratio

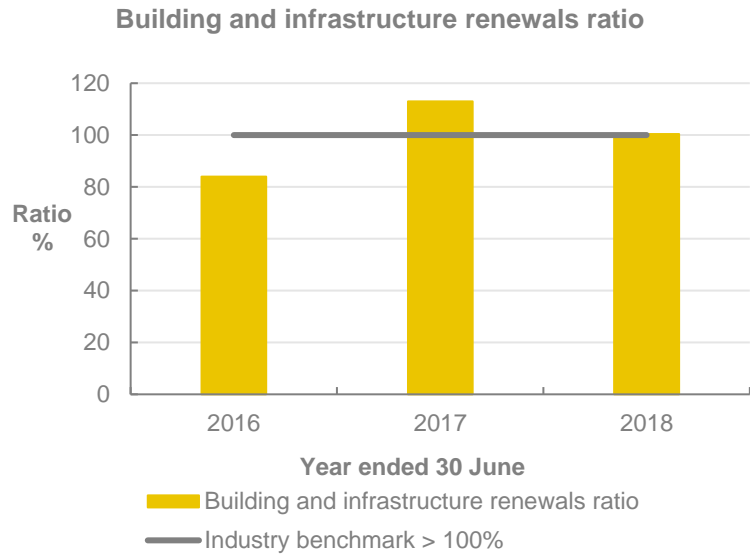


Building and infrastructure renewals ratio (unaudited)

Council has marginally exceeded the benchmark in the current year. The ratio has decreased from the prior year because of an increase in depreciation expense in 2017–18.

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 council's Special Schedule 7 which is not audited.



OTHER MATTERS

New accounting standards implemented

AASB 2016-2 'Disclosure Initiative – Amendments to AASB 107'

Effective for annual reporting periods beginning on or after 1 January 2017

This Standard requires entities to provide disclosures that enable users of financial statements to evaluate changes (both cash flows and non-cash changes) in liabilities arising from financing activities.

Council's disclosure of the changes in their liabilities arising from financing activities is disclosed in Note 13.

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.

Nathan Carter
Director, Financial Audit Services

cc: Ms Morven Cameron, Chief Executive Officer
Mr Tim Hurst, Chief Executive of the Office of Local Government

LAKE MACQUARIE CITY COUNCIL**Special Purpose Financial Statements
for the year ended 30 June 2018**

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LAKE MACQUARIE CITY COUNCIL

**Special Purpose Financial Statements
for the year ended 30 June 2018**

**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:

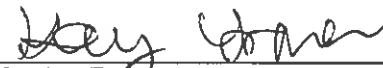
- NSW Government Policy Statement, *Application of National Competition Policy to Local Government*
- Division of Local Government Guidelines, *Pricing & Costing for Council Businesses: A Guide to Competitive Neutrality*
- The Local Government Code of Accounting Practice and Financial Reporting

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 this report false or misleading in any way.

Signed in accordance with a resolution of Council made on 29 October 2018



Cr Kay Fraser
Mayor

29/10/18




Cr David Belcher
Deputy Mayor

29/10/2018



Morven Cameron
Chief Executive Officer
General Manager

29/10/18



Dwight Graham
Chief Financial Officer
Responsible Accounting Officer

29,10,18

LAKE MACQUARIE CITY COUNCIL

Income Statement of Category 1 Business Activities for the year ended 30 June 2018

	Business Activities			
	CiviLake		Property Management	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Income from Continuing Operations				
User charges and fees	5,831	2,996	10,077	9,632
Interest	-	-	521	528
Grants and contributions for non-capital purposes	-	-	-	-
Profit on sale of assets	-	-	755	-
Other income	-	-	2,058	3,400
Total Income from Continuing Operations	5,831	2,996	13,410	13,560
Expenses from Continuing Operations				
Employee benefits and on-costs	914	711	1,876	1,653
Materials and contracts	3,632	1,552	4,320	4,081
Borrowing costs	-	-	-	-
Depreciation and impairment	-	-	1,115	1,050
Calculated taxation equivalents	-	-	676	568
Debt guarantee fee	-	-	-	-
Other expenses	210	3	2,160	2,110
Net loss from the disposal of assets	-	-	-	144
Total Expenses from Continuing Operations	4,756	2,266	10,147	9,606
Surplus/(Deficit) from Continuing Operations before Capital Amounts	1,075	730	3,263	3,954
Grants and contributions provided for capital purposes	-	-	-	-
Surplus/(Deficit) from Continuing Operations after Capital Amounts	1,075	730	3,263	3,954
Surplus/(Deficit) from all Operations before Tax	1,075	730	3,263	3,954
Less Corporate taxation equivalent (30%)	322	219	979	1,186
Surplus/(Deficit) after Tax	752	511	2,284	2,768
Less Dividend payment (5%)	38	26	114	138
Surplus/(Deficit) after Dividend Payment	714	485	2,170	2,630
Opening Retained Profits	18,652	17,922	118,692	114,170
Surplus/(deficit) after tax and dividend	714	485	2,170	2,630
Correction of errors in previous years	-	-	-	-
Adjustments for Amounts Unpaid	-	-	-	-
Taxation equivalent payments	-	-	676	568
Debt guarantee fees	-	-	-	-
Corporate taxation equivalent	322	219	979	1,186
Dividend paid	38	26	114	138
Closing Retained Profits	19,726	18,652	122,632	118,692
Return on Capital %	n/a	n/a	3.01%	4.47%
Subsidy from Council	-	-	-	-
Calculation of Dividend Payable:				
Surplus/(deficit) after tax	752	511	2,284	2,768
Less: Capital grants and contributions	-	-	-	-
Surplus for dividend calculation purposes	752	511	2,284	2,768
Dividend calculated from surplus	38	26	114	138

LAKE MACQUARIE CITY COUNCIL

Income Statement of Category 1 Business Activities for the year ended 30 June 2018

	Business Activities	
	Non-Domestic Waste	
	2018 \$'000	2017 \$'000
Income from Continuing Operations		
Rates and annual charges	2,017	1,918
User charges and fees	4,746	3,779
Interest	-	-
Grants and contributions for non-capital purposes	-	-
Profit on sale of assets	-	-
Other income	-	-
Total Income from Continuing Operations	6,763	5,697
Expenses from Continuing Operations		
Employee benefits and on-costs	1,388	1,346
Materials and contracts	1,380	1,214
Borrowing costs	78	66
Depreciation and impairment	59	26
Calculated taxation equivalents	18	4
Debt guarantee fee	-	-
Other expenses	2,991	1,574
Total Expenses from Continuing Operations	5,913	4,230
Surplus/(Deficit) from Continuing Operations before Capital Amounts	850	1,467
Grants and contributions provided for capital purposes	-	-
Surplus/(Deficit) from Continuing Operations after Capital Amounts	850	1,467
Surplus/(Deficit) from all Operations before Tax	850	1,467
Less Corporate taxation equivalent (30%)	255	440
Surplus/(Deficit) after Tax	595	1,027
Less Dividend payment (5%)	30	51
Surplus/(Deficit) after Dividend Payment	565	976
Opening Retained Profits	15,421	13,950
Surplus/(deficit) after tax and dividend	565	976
Adjustments for Amounts Unpaid		
Taxation equivalent payments	18	4
Debt guarantee fees	-	-
Corporate taxation equivalent	255	440
Dividend paid	30	51
Closing Retained Profits	16,289	15,421
Return on Capital %	26.51%	45.84%
Subsidy from Council	-	-
Calculation of Dividend Payable:		
Surplus/(deficit) after tax	595	1,027
Less: Capital grants and contributions	-	-
Surplus for dividend calculation purposes	595	1,027
Dividend calculated from surplus	30	51

LAKE MACQUARIE CITY COUNCIL

**Statement of Financial Position of Category 1 Business Activities
for the year ended 30 June 2018**

	Business Activities			
	CiviLake		Property Management	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
ASSETS				
Current Assets				
Cash and cash equivalents	-	-	47	48
Investments	20,392	20,249	33,910	36,536
Receivables	2,323	339	73	81
Inventories	-	-	1,091	754
Other	-	-	-	-
Non-current assets classified as held for sale	-	-	7,084	33
Total Current Assets	22,715	20,588	42,206	37,452
Non-Current Assets				
Investments	-	-	-	-
Receivables	-	-	-	-
Inventories	-	-	2,637	2,589
Infrastructure, property, plant and equipment	-	-	61,162	57,707
Investment property	-	-	41,171	40,412
Other	-	-	-	-
Total Non-Current Assets	-	-	104,969	100,708
Total Assets	22,715	20,588	147,175	138,160
LIABILITIES				
Current Liabilities				
Payables	436	137	76	425
Interest bearing liabilities	-	-	-	-
Provisions	2,522	1,765	1,024	717
Total Current Liabilities	2,958	1,902	1,101	1,142
Non-Current Liabilities				
Payables	-	-	-	-
Interest bearing liabilities	-	-	-	-
Provisions	30	34	51	42
Total Non-Current Liabilities	30	34	51	42
Total Liabilities	2,989	1,936	1,152	1,184
Net Assets	19,726	18,652	146,023	136,976
EQUITY				
Retained earnings	19,726	18,652	122,632	118,692
Revaluation reserves	-	-	23,391	18,284
Total Equity	19,726	18,652	146,023	136,976

LAKE MACQUARIE CITY COUNCIL

**Statement of Financial Position of Category 1 Business Activities
for the year ended 30 June 2018**

	Business Activities	
	Non-Domestic Waste	
	2018	2017
	\$'000	\$'000
ASSETS		
Current Assets		
Cash and cash equivalents	-	2
Investments	14,654	13,442
Receivables	82	22
Inventories	-	-
Other	-	-
Non-current assets classified as held for sale	-	-
Total Current Assets	14,736	13,466
Non-Current Assets		
Investments	-	-
Receivables	-	-
Inventories	-	-
Infrastructure, property, plant and equipment	3,206	2,884
Investment property	-	-
Other	-	-
Total Non-Current Assets	3,206	2,884
Total Assets	17,942	16,350
LIABILITIES		
Current Liabilities		
Payables	798	234
Interest bearing liabilities	-	-
Provisions	745	584
Total Current Liabilities	1,543	818
Non-Current Liabilities		
Payables	-	-
Interest bearing liabilities	-	-
Provisions	1	7
Total Non-Current Liabilities	1	7
Total Liabilities	1,544	825
Net Assets	16,397	15,525
EQUITY		
Retained earnings	16,293	15,421
Revaluation reserves	104	104
Total Equity	16,397	15,525

LAKE MACQUARIE CITY COUNCIL

Income Statement of Category 2 Business Activities for the year ended 30 June 2018

	Business Activities			
	Printing		Strategic Services Australia Ltd (Lake Macquarie Share)	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Income from Continuing Operations				
User charges and fees	1,070	1,092	976	982
Grants and contributions for non-capital purposes	-	-	230	233
Profit on sale of assets	-	-	213	-
Other income	-	-	41	3
Total Income from Continuing Operations	1,070	1,092	1,460	1,218
Expenses from Continuing Operations				
Employee benefits and on-costs	491	484	764	777
Materials and contracts	467	493	292	239
Borrowing costs	-	-	25	19
Depreciation and impairment	12	12	35	43
Debt guarantee fee	-	-	-	4
Other expenses	8	1	242	142
Total Expenses from Continuing Operations	977	990	1,358	1,224
Surplus/(Deficit) from Continuing Operations before Capital Amounts	93	102	102	(6)
Grants and contributions provided for capital purposes	-	-	-	-
Surplus/(Deficit) from Continuing Operations after Capital Amounts	93	102	102	(6)
Surplus (deficit) from discontinued operations	-	-	485	65
Surplus/(Deficit) from all Operations before Tax	93	102	587	59
Less Corporate taxation equivalent (30%)	28	31	176	18
Surplus/(Deficit) after Tax	65	71	411	41
Less Dividend payment (5%)	3	4	21	2
Surplus/(Deficit) after Dividend Payment	62	67	390	39
Opening Retained Profits	1,280	1,178	201	129
Surplus/(deficit) after tax and dividend	62	67	390	39
Depreciation transfer from revaluation reserve	-	-	-	9
Adjustments for Amounts Unpaid				
Taxation equivalent payments	-	-	-	-
Debt guarantee fees	-	-	-	4
Corporate taxation equivalent	28	31	176	18
Dividend paid	3	4	21	2
Closing Retained Profits	1,373	1,280	788	201
Return on Capital %	391.76%	311.24%		
Subsidy from Council	-	-	-	-
Calculation of Dividend Payable:				
Surplus/(deficit) after tax	65	71	411	41
Less: Capital grants and contributions	-	-	-	-
Surplus for dividend calculation purposes	65	71	411	41
Dividend calculated from surplus	3	4	21	2

LAKE MACQUARIE CITY COUNCIL

**Statement of Financial Position of Category 2 Business Activities
for the year ended 30 June 2018**

	Business Activities			
	Printing		Strategic Services Australia Ltd (Lake Macquarie Share)	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
ASSETS				
Current Assets				
Cash and cash equivalents	-	-	989	43
Investments	1,681	1,570	-	-
Receivables	32	39	330	155
Inventories	-	-	-	2
Other	-	-	10	20
Non-current assets classified as held for sale	-	-	-	97
Total Current Assets	1,713	1,609	1,329	317
Non-Current Assets				
Investments	-	-	-	-
Receivables	-	-	-	-
Inventories	-	-	-	-
Infrastructure, property, plant and equipment	24	33	93	808
Investment property	-	-	-	-
Other	-	-	-	-
Total Non-Current Assets	24	33	93	808
Total Assets	1,737	1,642	1,422	1,125
LIABILITIES				
Current Liabilities				
Payables	3	21	134	138
Interest bearing liabilities	-	-	-	238
Provisions	360	341	121	129
Other current liabilities	-	-	88	93
Total Current Liabilities	363	362	343	598
Non-Current Liabilities				
Payables	-	-	-	-
Interest bearing liabilities	-	-	-	32
Provisions	-	-	8	11
Total Non-Current Liabilities	-	-	8	43
Total Liabilities	363	362	351	641
Net Assets	1,374	1,280	1,071	484
EQUITY				
Retained earnings	1,374	1,280	1,071	201
Revaluation reserves	-	-	-	283
Total Equity	1,374	1,280	1,071	484

LAKE MACQUARIE CITY COUNCIL

**Notes to the Special Purpose Financial Statements
for the year ended 30 June 2018**

Contents of the Notes to the Financial Statements

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Notes to the Financial Statements
30 June 2018
(continued)

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, not-for-profit 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 Interpretations.

The disclosures in these special purpose financial statements have been prepared in accordance with the *Local Government Act 1993 (NSW)* and the *'Local Government (General) Regulation 2005'*, and the Local Government Code of Accounting Practice and Financial Reporting 1993 (NSW).

The statements are 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.

The Statement of Financial Position includes notional assets/liabilities receivable from/payable to Council's general fund. These balances reflect a notional intra-entity funding arrangement with the declared business activities.

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 2018
(continued)

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 \$72,102,151. 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 \$3,205,617. 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 \$23,661. 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 \$629,000 = Nil Value \$629,000 to \$3,846,000 = 1.6% of excess + \$100 Value > \$3,846,000 = 2% + \$51,572
Payroll Tax	5.45% with a \$750,000 threshold for the year 01/07/17 to 30/06/18
Other Taxes or Charges	Direct Costs Apply

Notes to the Financial Statements
30 June 2018
(continued)

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 SPFS. 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.

Notes to the Financial Statements

30 June 2018

(continued)

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 (NSW)* 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 report

Lake Macquarie City Council

To the Councillors of Lake Macquarie City Council

Opinion

I have audited the accompanying special purpose financial report (the financial report) of Lake Macquarie City Council's (the Council's) Declared Business Activities, which comprise the Income Statement of each Declared Business Activity for the year ended 30 June 2018, the Statement of Financial Position of each Declared Business Activity as at 30 June 2018, 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 Shire).

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Council's declared Business Activities as at 30 June 2018, and its 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.

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 Report' 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 the 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 report which describes the basis of accounting. The financial report has been prepared for the purposes of fulfilling Council's financial reporting responsibilities under the LG Code. As a result, the financial report may not be suitable for another purpose.

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the financial report and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial report does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and Special Schedule 2 - Permissible income for general rates.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Report

The Councillors are responsible for the preparation and fair presentation of the financial report and for determining that the accounting policies, described in Note 1 to the financial report, 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 report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error
- 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 report.

A description of my responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: 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 report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.



Nathan Carter
Director, Financial Audit Services

31 October 2018
SYDNEY

LAKE MACQUARIE CITY COUNCIL**Special Schedules
for the year ended 30 June 2018**

Contents***Special Schedules***

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LAKE MACQUARIE CITY COUNCIL

**Special Schedule No. 1
Net Cost of Services
for the year ended 30 June 2018
\$'000**

Function or Activity	Expenses from Continuing Operations	Income from Continuing Operations (non capital)	Income from Continuing Operations (capital)	Net Cost of Services
Governance	5,305	3	-	(5,303)
Administration	9,122	4,347	605	(4,169)
Public Order and Safety				
Fire Service Levy, Fire Protection and Emergency	5,748	865	579	(4,303)
Beach Control	1,957	27	-	(1,930)
Enforcement of Regs	1,913	608	-	(1,306)
Animal Control	1,223	388	-	(834)
Total Public Order and Safety	10,840	1,887	579	(8,373)
Health	1,934	430	-	(1,504)
Environment				
Noxious Plants and Insect / Vermin Control	347	115	-	(230)
Other Environmental Protection	11,051	1,973	1,230	(7,848)
Waste Management	37,939	38,017	159	237
Street Cleaning	1,524	-	-	(1,524)
Drainage	7,878	-	12,741	4,863
Stormwater Management	1,947	252	-	(1,696)
Total Environment	60,685	40,357	14,129	(6,198)
Community Services and Education				
Administration and Education	3,015	254	22	(2,739)
Aged Persons and Disabled	1,138	72	-	(1,067)
Children's Services	4,597	4,133	-	(464)
Other Community Services	1,193	77	9	(1,107)
Total Community Services and Education	9,944	4,537	31	(5,377)
Housing and Community Amenities				
Public Cemeteries	420	321	-	(99)
Public Conveniences	1,521	0	-	(1,521)
Street Lighting	4,665	265	-	(4,400)
Town Planning	15,732	5,483	17,410	7,161
Other Community Amenities	-	-	33	33
Total Housing and Community Amenities	22,338	6,069	17,443	1,174
Water Supplies	-	-	-	-
Sewerage Services	-	-	-	-

LAKE MACQUARIE CITY COUNCIL

Special Schedule No. 1 (continued) Net Cost of Services for the year ended 30 June 2018 \$'000

Function or Activity	Expenses from Continuing Operations	Income from Continuing Operations (non capital)	Income from Continuing Operations (capital)	Net Cost of Services
Recreation and Culture				
Public Libraries	10,829	787	20	(10,022)
Art Galleries	1,547	248	1,262	(37)
Community Centres and Halls	897	149	264	(484)
Performing Arts Venues	-	-	-	-
Other Cultural Services	1,285	223	-	(1,062)
Sporting Grounds and Venues	6,419	45	54	(6,322)
Swimming Pools	7,336	2,053	60	(5,224)
Parks and Gardens (lakes)	13,969	49	243	(13,677)
Other Sport and Recreation	1,411	73	495	(843)
Total Recreation and Culture	43,693	3,627	2,396	(37,671)
Fuel and Energy	-	-	-	-
Agriculture	-	-	-	-
Mining, Manufacturing and Construction				
Building Control	2,768	1,438	-	(1,331)
Other Mining Manufacturing and Construction	551	-	-	(551)
Total Mining, Manufacturing and Construction	3,320	1,438	-	(1,883)
Transport and Communication				
Urban Roads (UR) - Local	24,327	28	22,564	(1,734)
Urban Roads - Regional	1,077	1,317	466	707
Sealed Rural Roads (SRR) - Local	4,506	3	3,294	(1,208)
Sealed Rural Roads (SRR) - Regional	244	9	179	(56)
Unsealed Rural Roads (URR) - Local	4,522	1	781	(3,740)
Bridges on UR - Local	382	-	-	(382)
Bridges on SRR - Local	306	-	-	(306)
Footpaths	1,084	-	1,741	657
Other Transport and Communication	3,477	3	-	(3,474)
Total Transport and Communication	39,922	1,363	29,024	(9,534)
Economic Affairs				
Camping Areas and Caravan Parks	4,678	6,040	-	1,363
Other Economic Affairs	9,320	9,704	-	384
Total Economic Affairs	13,998	15,743	-	1,746
Totals - Functions	221,102	79,801	64,210	(77,091)
General Purpose Income ⁽¹⁾				151,569
Share of Interests in Joint Ventures and Associates Accounted for Using the Equity Method ⁽²⁾				587
Net Operating Result for the Year ⁽²⁾				75,065

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 Permissible Income for General Rates for the year ended 30 June 2018 \$'000

	2018/19 Calculation \$'000	2017/18 Calculation \$'000
Notional General Income Calculation ⁽¹⁾		
Last year notional income yield	126,398	119,447
Plus/minus adjustments ⁽²⁾	1,595	1,271
Notional General Income	127,993	120,718
Permissible Income Calculation		
Special variation ⁽³⁾	4.75%	4.75%
OR rate peg	2.30%	1.50%
OR Crown land adjustment incl. rate peg	0.00%	0.00%
Less expiring special variations amount	-	-
Plus special variation amount	6,080	5,734
OR plus rate peg amount	-	-
OR plus Crown land adjustment and rate peg amount	-	-
Sub total	134,072	126,452
Plus or minus last year's carry forward total	3	1
Less valuation objections claimed in previous year	-	(52)
Sub total	3	(51)
Total Permissible Income	134,075	126,401
Less notional income yield	134,128	126,398
Catch up or (excess) result	(52)	3
Plus income lost due to valuation objections claimed ⁽⁴⁾	54	-
Less unused catch up ⁽⁵⁾	-	-
Carry forward to next year ⁽⁶⁾	2	3

⁽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.

LAKE MACQUARIE CITY COUNCIL

Special Schedule No. 7 Report on Infrastructure Assets as at 30 June 2018 \$'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	2017/18 Required Maintenance^	2017/18 Actual Maintenance	Net Carrying Amount*	Gross Replacement Cost (GRC)	Asset Condition as % of Gross Replacement Cost				
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	1	2	3	4	5
Buildings *		-	6,448	11,383	7,827	192,982	285,826	41%	47%	12%	0%	0%
Other Structures *		1,175	684	2,035	143	21,919	43,480	36%	32%	20%	12%	0%
Roads *	Sealed Roads	30,011	30,011	6,971	7,150	699,727	1,066,207	30%	47%	20%	3%	0%
	Unsealed Roads	-	-	1,025	1,025	6,139	14,348	4%	35%	39%	17%	5%
	Bridges	3,093	205	510	457	46,629	68,938	5%	48%	43%	4%	0%
	Footpaths	3,850	788	544	493	51,857	73,578	22%	47%	23%	8%	0%
	Other Road Assets (incl. bulk earth works)	7,870	7,870	6,039	4,675	593,940	816,071	7%	42%	47%	4%	0%
	Sub-total	44,824	38,874	15,089	13,800	1,398,293	2,039,142					
Stormwater Drainage *		-	656	3,649	3,751	313,691	493,121	46%	39%	11%	3%	1%
Open Space/Recreational Assets *	Swimming Pools	-	899	1,493	829	7,361	9,945	29%	53%	18%	0%	0%
	Other Open Space / Recreational Assets	1,100	1,802	6,571	10,736	23,688	43,780	30%	38%	26%	6%	0%
	Sub-total	1,100	2,701	8,064	11,565	31,049	53,725					
Other Infrastructure Assets *		900	1,068	201	388	13,344	27,164	40%	23%	24%	13%	0%
Total Classes	Total - all assets	47,999	50,431	40,421	37,474	1,971,278	2,942,458					

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

* Reconciles with Note 10

^ 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 2018
\$'000**

	Amounts \$'000	Current Year Indicators	2017	Benchmarks
Building and Infrastructure Renewals Ratio #				
Asset renewals	\$ 44,225	<u>100.39%</u>	<u>113%</u>	<u>>100%</u>
Depreciation, amortisation and impairment	\$ 44,055			
Infrastructure Backlog Ratio #				
Estimated cost to bring to satisfactory standard	\$ 47,999	<u>2.43%</u>	<u>2.47%</u>	<u><2%</u>
Net carrying amount of infrastructure assets	\$ 1,971,277			
Asset Maintenance Ratio				
Actual asset maintenance	\$ 37,474	<u>92.7%</u>	<u>92.2%</u>	<u>>100%</u>
Required asset maintenance	\$ 40,421			
Cost to Bring Assets to Agreed Service Level				
Estimated cost to bring assets to an agreed level of service set by council	\$ 50,431	<u>1.71%</u>	<u>1.73%</u>	
Gross replacement cost	\$ 2,942,458			

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

Excludes Work in Progress (WIP)



INDEPENDENT AUDITOR'S REPORT

Special Schedule 2 - Permissible Income for general rates

Lake Macquarie City Council

To the Councillors of Lake Macquarie City Council

Opinion

I have audited the accompanying Special Schedule 2 – Permissible Income for general rates (the Schedule) of Lake Macquarie City Council (the Council) for the year ending 30 June 2019.

In my opinion, the Schedule of the Council for the year ending 30 June 2019 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.

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 Schedule' 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 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 special purpose framework used to prepare the Schedule. The Schedule has been prepared for the purpose of fulfilling the Council's reporting obligations under the LG Code. As a result, the Schedule may not be suitable for another purpose.

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the Schedule and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements, special purpose financial statements and the Special Schedules excluding Special Schedule 2 (the other Schedules).

My opinion on the Schedule does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and the special purpose financial statements.

In connection with my audit of the Schedule, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Schedule or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

The Councillors are responsible for the preparation of the Schedule 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 the Schedule that is free from material misstatement, whether due to fraud or error.

In preparing the Schedule, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

- obtain reasonable assurance whether the Schedule 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 the Schedule.

A description of my responsibilities for the audit of the Schedule is located at the Auditing and Assurance Standards Board website at: 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 Schedule on any website where it may be presented
- about any other information which may have been hyperlinked to/from the Schedule.



Nathan Carter
Director, Financial Audit Services

31 October 2018
SYDNEY







LAKE MACQUARIE CITY



FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2018

Prepared by Lake Macquarie City Council

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Printed December 2018
by Lakemac Print (02) 4921 0510
on Monza Recycled paper

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