

# Lithgow City Council

GENERAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2016

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*"A centre of regional excellence that:*

- encourages community growth and development,*
- contributes to the efficient and effective management of the environment, community and economy for present and future generations."*



# Lithgow City Council

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

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### Overview

- (i) These financial statements are General Purpose Financial Statements and cover the operations for Lithgow City Council.
- (ii) Lithgow City Council is a body politic of NSW, Australia – being constituted as a local government area by proclamation and is duly empowered by the *Local Government Act 1993* (LGA).

Council's Statutory Charter is detailed in Paragraph 8 of the LGA and includes giving Council;

- the ability to provide goods, services and facilities, and to carry out activities appropriate to the current and future needs of the local community and of the wider public,
- the responsibility for administering regulatory requirements under the LGA and
- a role in the management, improvement and development of the resources in the area.

A description of the nature of Council's operations and its principal activities are provided in Note 2(b).

- (iii) All figures presented in these financial statements are presented in Australian currency.
- (iv) These financial statements were authorised for issue by the Council on dd/mm/yy.  
Council has the power to amend and reissue these financial statements.
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## Lithgow City Council

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

## Understanding Council's financial statements

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### Introduction

Each year, individual local governments across New South Wales are required to present a set of audited financial statements to their council and community.

### What you will find in the statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2016.

The format of the financial statements is standard across all NSW Councils and complies with both the accounting and reporting requirements of Australian Accounting Standards and requirements as set down by the Office of Local Government.

### About the Councillor/Management Statement

The financial statements must be certified by senior staff as 'presenting fairly' the Council's financial results for the year, and are required to be adopted by Council – ensuring both responsibility for and ownership of the financial statements.

### About the primary financial statements

The financial statements incorporate five 'primary' financial statements:

#### 1. The Income Statement

This statement summarises Council's financial performance for the year, listing all income and expenses.

This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

#### 2. The Statement of Comprehensive Income

This statement primarily records changes in the fair values of Council's infrastructure, property, plant and equipment.

#### 3. The Statement of Financial Position

An end of year snapshot of Council's financial position indicating its assets, liabilities and equity ('net wealth').

#### 4. The Statement of Changes in Equity

The overall change for the year (in dollars) of Council's 'net wealth'.

#### 5. The Statement of Cash Flows

This statement indicates where Council's cash came from and where it was spent. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

### About the Notes to the Financial Statements

The Notes to the Financial Statements provide greater detail and additional information on the five primary financial statements.

### About the Auditor's Reports

Council's financial statements are required to be audited by external accountants (that generally specialise in local government). In NSW, the auditor provides 2 audit reports:

1. An opinion on whether the financial statements present fairly the Council's financial performance and position, and
2. Their observations on the conduct of the audit, including commentary on the Council's financial performance and financial position.

### Who uses the financial statements?

The financial statements are publicly available documents and must be presented at a Council meeting between seven days and five weeks after the date of the Audit Report.

The public can make submissions to Council up to seven days subsequent to the public presentation of the financial statements.

Council is required to forward an audited set of financial statements to the Office of Local Government.

# Lithgow City Council

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

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, and
- the Local Government Code of Accounting Practice and Financial Reporting.

**To the best of our knowledge and belief, these financial statements:**

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

**We are not aware of any matter that would render these statements false or misleading in any way.**

**Signed in accordance with a resolution of Council made on 10 November 2016.**



Stephen Lesslie  
Mayor



Martin Ticehurst  
Councillor



Andrew Muir  
General manager



Neil Derwent  
Responsible accounting officer

## Lithgow City Council

## Income Statement

for the year ended 30 June 2016

Budget 2016	<sup>1</sup> \$ '000	Notes	Actual 2016	Actual 2015
Income from continuing operations				
Revenue:				
24,361	Rates and annual charges	3a	24,361	23,379
5,944	User charges and fees	3b	6,606	6,300
585	Interest and investment revenue	3c	759	712
1,154	Other revenues	3d	790	1,030
6,464	Grants and contributions provided for operating purposes	3e,f	8,892	6,768
11,646	Grants and contributions provided for capital purposes	3e,f	6,958	3,682
Other income:				
431	Net gains from the disposal of assets	5	—	—
50,585	Total income from continuing operations		48,368	41,871
Expenses from continuing operations				
13,138	Employee benefits and on-costs	4a	15,257	15,277
1,130	Borrowing costs	4b	1,998	1,560
11,808	Materials and contracts	4c	9,875	8,878
9,493	Depreciation and amortisation	4d	12,280	10,151
3,772	Other expenses	4e	5,210	3,746
—	Net losses from the disposal of assets	5	909	289
39,341	Total expenses from continuing operations		45,528	39,901
11,244	Operating result from continuing operations		2,840	1,970
11,244	Net operating result for the year		2,840	1,970
11,244	Net operating result attributable to Council		2,840	1,970
(402)	Net operating result for the year before grants and contributions provided for capital purposes		(4,118)	(1,712)

<sup>1</sup> Original budget as approved by Council – refer Note 16

## Lithgow City Council

# Statement of Comprehensive Income

for the year ended 30 June 2016

\$ '000	Notes	Actual 2016	Actual 2015
<b>Net operating result for the year</b> (as per Income Statement)		<b>2,840</b>	<b>1,970</b>
<b>Other comprehensive income:</b>			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	14,035	21,683
<b>Total items which will not be reclassified subsequently to the operating result</b>		<b>14,035</b>	<b>21,683</b>
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Other movements in reserves	20b (ii)	1,113	–
<b>Total items which will be reclassified subsequently to the operating result when specific conditions are met</b>		<b>1,113</b>	<b>–</b>
<b>Total other comprehensive income for the year</b>		<b>15,148</b>	<b>21,683</b>
<b>Total comprehensive income for the year</b>		<b>17,988</b>	<b>23,653</b>
<b>Total comprehensive income attributable to Council</b>		<b>17,988</b>	<b>23,653</b>

## Lithgow City Council

Statement of Financial Position  
as at 30 June 2016

\$ '000	Notes	Actual 2016	Actual 2015	Actual 2014
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	6a	20,881	13,436	15,162
Investments	6b	4,000	5,013	3,934
Receivables	7	5,131	5,912	5,460
Inventories	8	719	618	479
Other	8	228	227	204
<b>Total current assets</b>		<b>30,959</b>	<b>25,206</b>	<b>25,239</b>
<b>Non-current assets</b>				
Inventories	8	—	—	738
Infrastructure, property, plant and equipment	9	413,614	401,087	379,314
<b>Total non-current assets</b>		<b>413,614</b>	<b>401,087</b>	<b>380,052</b>
<b>TOTAL ASSETS</b>		<b>444,573</b>	<b>426,293</b>	<b>405,291</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Payables	10	3,704	2,752	4,551
Borrowings	10	1,598	1,763	1,237
Provisions	10	3,529	3,611	3,857
<b>Total current liabilities</b>		<b>8,831</b>	<b>8,126</b>	<b>9,645</b>
<b>Non-current liabilities</b>				
Payables	10	7	—	—
Borrowings	10	18,076	19,572	15,685
Provisions	10	12,092	11,016	10,696
<b>Total non-current liabilities</b>		<b>30,175</b>	<b>30,588</b>	<b>26,381</b>
<b>TOTAL LIABILITIES</b>		<b>39,006</b>	<b>38,714</b>	<b>36,026</b>
<b>Net assets</b>		<b>405,567</b>	<b>387,579</b>	<b>369,265</b>
<b>EQUITY</b>				
Retained earnings	20	251,326	244,495	247,864
Revaluation reserves	20	154,241	143,084	121,401
<b>Total equity</b>		<b>405,567</b>	<b>387,579</b>	<b>369,265</b>

## Lithgow City Council

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

\$ '000	Notes	Retained earnings	Reserves (Refer 20b)	Council interest	Non-controlling Interest	Total equity
<b>2016</b>						
<b>Opening balance</b> (as per last year's audited accounts)		244,495	143,084	<b>387,579</b>	—	<b>387,579</b>
a. Correction of prior period errors	20 (c)	—	—	—	—	—
b. Changes in accounting policies (prior year effects)	20 (d)	—	—	—	—	—
<b>Revised opening balance (as at 1/7/15)</b>		<b>244,495</b>	<b>143,084</b>	<b>387,579</b>	<b>—</b>	<b>387,579</b>
<b>c. Net operating result for the year</b>		<b>2,840</b>	—	<b>2,840</b>	—	<b>2,840</b>
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	—	14,035	<b>14,035</b>	—	<b>14,035</b>
– Other reserves movements	20b (ii)	(269)	(2,878)	<b>(3,147)</b>	—	<b>(3,147)</b>
– Other reserves movements	20b (ii)	(500)	—	<b>(500)</b>	—	<b>(500)</b>
– Other reserves movements	20b (ii)	4,760	—	<b>4,760</b>	—	<b>4,760</b>
<b>Other comprehensive income</b>		<b>3,991</b>	<b>11,157</b>	<b>15,148</b>	<b>—</b>	<b>15,148</b>
<b>Total comprehensive income (c&amp;d)</b>		<b>6,831</b>	<b>11,157</b>	<b>17,988</b>	<b>—</b>	<b>17,988</b>
e. Distributions to/(contributions from) non-controlling Interests		—	—	—	—	—
f. Transfers between equity		—	—	—	—	—
<b>Equity – balance at end of the reporting period</b>		<b>251,326</b>	<b>154,241</b>	<b>405,567</b>	<b>—</b>	<b>405,567</b>

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council Interest	Non-controlling Interest	Total Equity
<b>2015</b>						
<b>Opening balance</b> (as per last year's audited accounts)		247,864	121,401	<b>369,265</b>	—	<b>369,265</b>
a. Correction of prior period errors	20 (c)	(5,339)	—	<b>(5,339)</b>	—	<b>(5,339)</b>
b. Changes in accounting policies (prior year effects)	20 (d)	—	—	—	—	—
<b>Revised opening balance (as at 1/7/14)</b>		<b>242,525</b>	<b>121,401</b>	<b>363,926</b>	<b>—</b>	<b>363,926</b>
<b>c. Net operating result for the year</b>		<b>1,970</b>	—	<b>1,970</b>	—	<b>1,970</b>
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	—	21,683	<b>21,683</b>	—	<b>21,683</b>
<b>Other comprehensive income</b>		<b>—</b>	<b>21,683</b>	<b>21,683</b>	<b>—</b>	<b>21,683</b>
<b>Total comprehensive income (c&amp;d)</b>		<b>1,970</b>	<b>21,683</b>	<b>23,653</b>	<b>—</b>	<b>23,653</b>
e. Distributions to/(contributions from) non-controlling Interests		—	—	—	—	—
f. Transfers between equity		—	—	—	—	—
<b>Equity – balance at end of the reporting period</b>		<b>244,495</b>	<b>143,084</b>	<b>387,579</b>	<b>—</b>	<b>387,579</b>



## Lithgow City Council

Statement of Cash Flows  
for the year ended 30 June 2016

Budget 2016	\$ '000	Notes	Actual 2016	Actual 2015
<b>Cash flows from operating activities</b>				
<b>Receipts:</b>				
24,318	Rates and annual charges		24,469	23,550
5,744	User charges and fees		7,207	5,269
585	Investment and interest revenue received		669	795
18,110	Grants and contributions		16,621	9,411
–	Bonds, deposits and retention amounts received		182	237
1,154	Other		1,708	2,645
<b>Payments:</b>				
(13,138)	Employee benefits and on-costs		(15,147)	(15,523)
(12,597)	Materials and contracts		(10,521)	(11,455)
(1,130)	Borrowing costs		(949)	(1,033)
–	Bonds, deposits and retention amounts refunded		(324)	–
(3,772)	Other		(5,110)	(3,616)
<b>19,274</b>	<b>Net cash provided (or used in) operating activities</b>	11b	<b>18,807</b>	<b>10,280</b>
<b>Cash flows from investing activities</b>				
<b>Receipts:</b>				
–	Sale of investment securities		5,013	3,934
431	Sale of infrastructure, property, plant and equipment		589	71
<b>Payments:</b>				
–	Purchase of investment securities		(4,000)	(5,013)
–	Purchase of infrastructure, property, plant and equipment		(11,157)	(14,819)
–	Deferred debtors and advances made		–	(40)
–	Other investing activity payments		–	(383)
<b>431</b>	<b>Net cash provided (or used in) investing activities</b>		<b>(9,555)</b>	<b>(16,250)</b>
<b>Cash flows from financing activities</b>				
<b>Receipts:</b>				
–	Proceeds from borrowings and advances		–	5,600
<b>Payments:</b>				
–	Repayment of borrowings and advances		(1,807)	(1,356)
<b>–</b>	<b>Net cash flow provided (used in) financing activities</b>		<b>(1,807)</b>	<b>4,244</b>
<b>19,705</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>7,445</b>	<b>(1,726)</b>
–	Plus: cash and cash equivalents – beginning of year	11a	13,436	15,162
<b>19,705</b>	<b>Cash and cash equivalents – end of the year</b>	11a	<b>20,881</b>	<b>13,436</b>
Additional Information:				
plus:	Investments on hand – end of year	6b	4,000	5,013
<b>Total cash, cash equivalents and investments</b>			<b>24,881</b>	<b>18,449</b>

Please refer to Note 11 for additional cash flow information

This statement should be read in conjunction with the accompanying notes.

# Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

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n/a – not applicable

# Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

### Note 1. Summary of significant accounting policies

The principal accounting policies adopted by Council in the preparation of these consolidated financial statements are set out below in order to assist in its general understanding.

Under Australian Accounting Standards (AASBs), accounting policies are defined as those specific principles, bases, conventions, rules and practices applied by a reporting entity (in this case Council) in preparing and presenting its financial statements.

#### (a) Basis of preparation

##### (i) Background

These financial statements are general purpose financial statements, which have been prepared in accordance with:

- Australian Accounting Standards and Australian Accounting Interpretations issued by the Australian Accounting Standards Board,
- the *Local Government Act (1993)* and Regulation, and
- the Local Government Code of Accounting Practice and Financial Reporting.

For the purpose of preparing these financial statements, Council has been deemed to be a not-for-profit entity.

##### (ii) Compliance with International Financial Reporting Standards (IFRSs)

Because AASBs are sector neutral, some standards either:

- (a) have local Australian content and prescription that is specific to the not-for-profit sector (including local government) which are not in compliance with IFRSs, or
- (b) specifically exclude application by not-for-profit entities.

Accordingly, in preparing these financial statements and accompanying notes, Council has been unable to comply fully with International Accounting Standards, but has complied fully with Australian Accounting Standards.

Under the *Local Government Act (LGA)*, Regulation and Local Government Code of Accounting Practice and Financial Reporting, it should be noted that Councils in NSW only have a requirement to comply with AASBs.

##### (iii) New and amended standards adopted by Council

There have been no new accounting standards adopted in this year's financial statements which have had any material impact on reported financial position, performance or cash flows.

##### (iv) Early adoption of accounting standards

Council has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2015.

For summary information relating to the effects of standards with future operative dates refer further to paragraph (ab).

##### (v) Basis of accounting

These financial statements have been prepared under the **historical cost convention** except for:

- (i) certain financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets, which are all valued at fair value,
- (ii) the write down of any asset on the basis of impairment (if warranted), and
- (iii) certain classes of non-current assets (eg. infrastructure, property, plant and equipment and investment property) that are accounted for at fair valuation.

The accrual basis of accounting has also been applied in their preparation.

##### (vi) Changes in accounting policies

Council's accounting policies have been consistently applied to all the years presented, unless otherwise stated.

There have also been no changes in accounting policies when compared with previous financial statements unless otherwise stated [refer Note 20 (d)].

# Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

### Note 1. Summary of significant accounting policies (continued)

#### (vii) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates (in conformity with AASBs).

Accordingly this requires management to exercise its judgement in the process of applying the 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 Council and that are believed to be reasonable under the circumstances.

#### **Critical accounting estimates and assumptions**

Council makes estimates and assumptions concerning the future.

The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

- (i) Estimated fair values of infrastructure, property, plant and equipment,
- (ii) Estimated remediation provisions.

#### (b) Revenue recognition

Council recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to it, and specific criteria have been met for each of the Council's activities as described below.

Council bases any estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is measured on major income categories as follows:

#### **Rates, Annual Charges, Grants and Contributions**

Rates, annual charges, grants and contributions (including developer contributions) are recognised as revenues when the Council obtains control over the assets comprising these receipts.

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.

A provision for the impairment on rates receivables has not been established as unpaid rates represent a charge against the rateable property that will be recovered when the property is next sold.

Control over granted assets/contributed assets is normally obtained upon their receipt (or acquittal) or upon earlier notification that a grant has been secured, and is valued at their fair value at the date of transfer.

Revenue from contributions is recognised when the Council either obtains control of the contribution or the right to receive it, **(i)** it is probable that the economic benefits comprising the contribution will flow to the Council and **(ii)** the amount of the contribution can be measured reliably.

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner or used over a particular period and those conditions were undischarged at balance date, the unused grant or contribution is disclosed in Note 3 (g).

Note 3 (g) also discloses the amount of unused grant or contribution from prior years that was expended on Council's operations during the current year.

The Council has obligations to provide facilities from contribution revenues levied on developers under the provisions of s94 of the *EPA Act 1979*.

Whilst Council generally incorporates these amounts as part of a Development Consents Order, such developer contributions are only recognised as income upon their physical receipt by Council, due to the possibility that individual development consents may not be acted upon by the applicant and accordingly would not be payable to Council.

# Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

### Note 1. Summary of significant accounting policies (continued)

Developer contributions may only be expended for the purposes for which the contributions were required but the Council may apply contributions according to the priorities established in work schedules.

A detailed note relating to developer contributions can be found at Note 17.

#### User charges, fees and other income

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

A provision for the impairment of these receivables is recognised when collection in full is no longer probable.

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

#### Sale of infrastructure, property, plant and equipment

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

#### Interest and rents

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

Interest income from cash and investments is accounted for using the effective interest rate at the date that interest is earned.

#### Dividend income

Revenue is recognised when the Council's right to receive the payment is established, which is generally when shareholders approve the dividend.

#### Other Income

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

#### (c) Principles of consolidation

These consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

##### (i) The Consolidated Fund

In accordance with the provisions of section 409(1) of the LGA 1993, all money and property received by Council is held in the Council's consolidated fund unless it is required to be held in the Council's trust fund.

The consolidated fund and other entities through which the Council controls resources to carry on its functions have been included in the financial statements forming part of this report.

The following entities have been included as part of the consolidated fund:

- General purpose operations
- Water supply
- Sewerage service

##### (ii) The trust fund

In accordance with the provisions of section 411 of the *Local Government Act 1993* (as amended), a separate and distinct trust fund is maintained to account for all money and property received by the Council in trust that 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 statements.

Trust monies and property held by Council but not subject to the control of Council have been excluded from these statements.

A separate statement of monies held in the trust fund is available for inspection at the Council office by any person free of charge.

##### (iii) Interests in other entities

#### Subsidiaries

Council has no interest in any subsidiaries.

# Lithgow City Council

## Notes to the Financial Statements for the year ended 30 June 2016

### Note 1. Summary of significant accounting policies (continued)

#### County councils

Council is not a member of any county councils

#### (d) Leases

All leases entered into by Council are reviewed and classified on inception date as either a finance lease or an operating lease.

##### Finance leases

Leases of property, plant and equipment where the Council has substantially all the risks and rewards of ownership are classified as finance leases.

Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments.

The corresponding rental obligations, net of finance charges, are included in borrowings.

Each lease payment is allocated between the liability outstanding and the recognition of a finance charge.

The interest element of the finance charge is costed to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance leases is depreciated over the shorter of each leased asset's useful life and the lease term.

##### Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

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

#### (e) Cash and Cash Equivalents

For Statement of Cash Flows (and Statement of Financial Position) presentation purposes, cash and cash equivalents includes;

- cash on hand,
- deposits held **at call** with financial institutions,
- other short-term, highly liquid investments **with original maturities of three months or less** that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value, and
- bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities on the balance sheet but are incorporated into cash and cash equivalents for presentation of the Cash Flow Statement.

#### (f) Investments and other financial assets

Council (in accordance with AASB 139) classifies each of its investments into one of the following categories for measurement purposes:

- **financial assets at fair value through profit or loss,**
- **loans and receivables,**
- **held-to-maturity investments, and**
- **available-for-sale financial assets.**

Each classification depends on the purpose or intention for which the investment was acquired and at the time it was acquired.

Management determines each investment classification at the time of initial recognition and re-evaluates this designation at each reporting date.

#### (i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are 'held for trading'.



# Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

### Note 1. Summary of significant accounting policies (continued)

A financial asset is classified in the 'held for trading' category if it is acquired principally for the purpose of selling in the short term.

Assets in this category are primarily classified as current assets as they are primarily held for trading and/or are expected to be realised within 12 months of the balance sheet date.

#### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

They arise when the Council provides money, goods or services directly to a debtor with no intention (or in some cases ability) of selling the resulting receivable.

They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

#### (iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Council's management has the positive intention and ability to hold to maturity.

In contrast to the 'loans and receivables' classification, these investments are generally quoted in an active market.

Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

#### (iv) 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 must be 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.

Accordingly, this classification principally comprises marketable equity securities, but can include all types of financial assets that could otherwise be classified in one of the other investment categories.

They are generally included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date or the term to maturity from the reporting date is less than 12 months.

#### Financial assets – reclassification

Council may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term.

Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term.

Council may also choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if it has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made.

Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

#### General accounting and measurement of financial instruments:

##### (i) Initial recognition

Investments are initially recognised (and measured) at fair value, plus in the case of investments not at 'fair value through profit or loss', directly attributable transactions costs.

# Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

### Note 1. Summary of significant accounting policies (continued)

Purchases and sales of investments are recognised on trade-date – the date on which the Council commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Council has transferred substantially all the risks and rewards of ownership.

#### (ii) Subsequent measurement

**Available-for-sale financial assets** and **financial assets at fair value through profit and loss** are subsequently carried at fair value.

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

Realised and unrealised gains and losses arising from changes in the fair value of the financial assets classified as **'fair value through profit or loss'** category are included in the income statement in the period in which they arise.

Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as **'available-for-sale'** are recognised in equity in the available-for-sale investments revaluation reserve.

When securities classified as **'available-for-sale'** are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

#### Impairment

Council assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a 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.

#### (iii) Types of investments

Council has an approved Investment Policy in order to invest in accordance with (and to comply with) section 625 of the *Local Government Act* and s212 of the LG (General) Regulation 2005.

Investments are placed and managed in accordance with the policy and having particular regard to authorised investments prescribed under the Ministerial Local Government Investment Order.

Council maintains its Investment Policy in compliance 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 that Council holds are no longer prescribed (eg. managed funds, CDOs, and equity linked notes), however they have been retained under grandfathering provisions of the Order. These will be disposed of when most financially advantageous to Council.

#### (g) Fair value estimation – financial instruments

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

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques.

Council uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held.



# Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

### Note 1. Summary of significant accounting policies (continued)

If the market for a financial asset is not active (and for unlisted securities), the Council establishes fair value by using valuation techniques.

These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Council for similar financial instruments.

#### (h) Receivables

Receivables are initially recognised at fair value and subsequently measured at amortised cost, less any provision for impairment.

Receivables (excluding rates and annual charges) are generally due for settlement no more than 30 days from the date of recognition.

The collectibility of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off in accordance with Council's policy.

A provision for impairment (i.e. an allowance account) relating to receivables is established when objective evidence shows that Council will not be able to collect all amounts due according to the original terms of each receivable.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Impairment losses are recognised in the Income Statement within other expenses.

When a receivable for which an impairment allowance had been recognised becomes

uncollectible in a subsequent period, it is written off against the allowance account.

Subsequent recoveries of amounts previously written off are credited against other expenses in the Income Statement.

#### (i) Inventories

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

Raw materials and stores, work in progress and finished goods in respect of business undertakings are all 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.

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.

Inventories held in respect of non-business undertakings have been valued at cost subject to adjustment for loss of service potential.

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

Land held for resale is stated at the lower of cost and net realisable value.

Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development.

When development is completed borrowing costs and other holding charges are expensed as incurred.

Borrowing costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made.

# Lithgow City Council

## Notes to the Financial Statements for the year ended 30 June 2016

### Note 1. Summary of significant accounting policies (continued)

Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

#### (j) Infrastructure, property, plant and equipment (I,PP&E)

##### Acquisition of assets

Council's non-current assets are continually revalued (over a 5-year period) in accordance with the fair valuation policy as mandated by the Office of Local Government.

At balance date, the following classes of I,PP&E were stated at their fair value:

- **Plant and equipment**  
(as approximated by depreciated historical cost)
- **Operational land** (external valuation)
- **Community land** (internal valuation)
- **Land improvements**  
(as approximated by depreciated historical cost)
- **Buildings – specialised/non-specialised**  
(external valuation)
- **Other structures**  
(as approximated by depreciated historical cost)
- **Roads assets including roads, bridges and footpaths** (internal valuation)
- **Bulk earthworks** (external/internal valuation)
- **Stormwater drainage** (internal valuation)
- **Water and sewerage networks**  
(external/internal valuation)
- **Swimming pools** (internal valuation)
- **Other open space/recreational assets**  
(internal valuation)
- **Other infrastructure** (internal valuation)
- **Other assets**  
(as approximated by depreciated historical cost)
- **Investment properties** – refer Note 1(p),

##### Initial recognition

On initial recognition, an asset's cost is measured at its fair value, plus all expenditure that is directly attributable to the acquisition.

Where settlement of any part of an asset's cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of recognition (i.e. date of exchange) of the asset to arrive at fair value.

The discount rate used is the Council's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Where infrastructure, property, plant and equipment assets are acquired for no cost or for an amount other than cost, the assets are recognised in the financial statements at their fair value at acquisition date – being the amount that the asset could have been exchanged between knowledgeable willing parties in an arm's length transaction.

##### Subsequent costs

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.

##### Asset revaluations (including indexation)

In accounting for asset revaluations relating to infrastructure, property, plant and equipment:

- increases in the combined carrying amounts of asset classes arising on revaluation are credited to the asset revaluation reserve,
- to the extent that a net asset class increase reverses a decrease previously recognised via the profit or loss, then increase is first recognised in profit or loss,
- net decreases that reverse previous increases of the same asset class are first charged against

# Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

### Note 1. Summary of significant accounting policies (continued)

revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset, with all other decreases charged to the Income Statement.

Water and sewerage network assets are indexed annually between full revaluations in accordance with the latest indices provided in the NSW Office of Water – Rates Reference Manual.

For all other assets, Council assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date.

If any such indication exists, Council determines the asset's fair value and revalues the asset to that amount.

Full revaluations are undertaken for all assets on a 5-year cycle.

#### Capitalisation thresholds

Items of infrastructure, property, plant and equipment are not capitalised unless their cost of acquisition exceeds the following:

##### Land

- council land	100% Capitalised
- open space	100% Capitalised
- land under roads (purchases after 30/6/08)	100% Capitalised

##### Plant & Equipment

Office Furniture	> \$2,000
Office Equipment	> \$2,000
Other Plant & Equipment	> \$2,000

##### Buildings & Land Improvements

Park Furniture & Equipment	> \$2,000
Building	
- construction/extensions	100% Capitalised
- renovations	> \$10,000
Other Structures	> \$2,000

##### Water & Sewer Assets

Reticulation extensions	> \$5,000
Other	> \$5,000

##### Stormwater Assets

Drains & Culverts	> \$5,000
Other	> \$5,000

##### Transport Assets

Road construction & reconstruction	> \$10,000
Reseal/Re-sheet & major repairs:	> \$10,000
Bridge construction & reconstruction	> \$10,000

##### Other Infrastructure Assets

Swimming Pools	> \$10,000
Other Open Space/Recreational Assets	> \$10,000
Other Infrastructure	> \$10,000

#### Depreciation

Depreciation on Council's infrastructure, property, plant and equipment assets is calculated using the straight-line method in order to allocate an asset's cost (net of residual values) over its estimated useful life.

Land is not depreciated.

Estimated useful lives for Council's I, PP&E include:

##### Plant & Equipment

- Office Equipment	5 to 10 years
- Office furniture	10 to 20 years
- Computer Equipment	4 years
- Vehicles	5 to 8 years
- Heavy Plant/Road Making equip.	5 to 8 years
- Other plant and equipment	5 to 15 years

##### Other Equipment

- Playground equipment	5 to 15 years
- Benches, seats etc	10 to 20 years

##### Buildings

- Buildings: Masonry	50 to 100 years
- Buildings: Other	20 to 40 years

##### Stormwater Drainage

- Drains	80 to 100 years
- Culverts	50 to 80 years

##### Transportation Assets

- Sealed Roads: Surface	20 years
- Sealed Roads: Structure	50 years
- Unsealed roads	20 years
- Bridge: Concrete	100 years
- Bridge: Other	50 years
- Road Pavements	60 years

# Lithgow City Council

## Notes to the Financial Statements for the year ended 30 June 2016

### Note 1. Summary of significant accounting policies (continued)

- Kerb, Gutter & Paths	40 years
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#### Water & Sewer Assets

- Dams and reservoirs	80 to 100 years
- Bores	20 to 40 years
- Reticulation pipes: PVC	80 years
- Reticulation pipes: Other	25 to 75 years
- Pumps and telemetry	15 to 20 years

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#### Other Infrastructure Assets

- Bulk earthworks	Infinite
- Swimming Pools	25 to 50 years
- Other Open Space/ Recreational Assets	25 to 50 years
- Other Infrastructure	25 to 50 years

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All asset residual values and useful lives are reviewed and adjusted (if appropriate) at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount – refer Note 1 (s) on asset impairment.

#### Disposal and De-recognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in Council's Income Statement in the year the asset is derecognised.

#### (k) Land

Land (other than land under roads) is in accordance with Part 2 of Chapter 6 of the *Local Government Act (1993)* classified as either operational or community.

This classification of land is disclosed in Note 9 (a).

#### (l) 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 acquired after 1 July 2008 is recognised in accordance with AASB 116 – Property, Plant and Equipment.

#### (m) Intangible assets

Council has not classified any assets as intangible.

#### (n) Crown reserves

Crown reserves under Council's care and control are recognised as assets of the 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 within Council's Income Statement.

Representations are currently being sought across state and local government to develop a consistent accounting treatment for Crown Reserves across both tiers of government.

#### (o) Rural fire service assets

Under section 119 of the *Rural Fires 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'.

## Lithgow City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

At present, the accounting for such fire fighting equipment is not treated in a consistent manner across all Councils.

Until such time as discussions on this matter have concluded and the legislation changed, Council will continue to account for these assets as it has been doing in previous years, which is to incorporate the assets, their values and depreciation charges within these financial statements.

#### **(p) Provisions for close down, restoration and for environmental clean-up costs – including tips and quarries**

Close down, restoration and remediation costs include the dismantling and demolition of infrastructure, the removal of residual materials and the 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 phase, based on the net present value of estimated future costs.

Provisions for close down and restoration costs do not include any additional obligations that are expected to arise from future disturbance.

Costs are estimated on the basis of a closure plan.

The cost estimates are calculated annually during the life of the operation to reflect known developments, e.g. updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals.

Close down, restoration and remediation 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 feasibility and engineering studies using current restoration standards and techniques.

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.

This amortisation of the discount is disclosed as a borrowing cost in Note 4 (b).

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

These costs are then depreciated over the lives of the assets to which they relate.

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

Provision is made for the estimated present value of the costs of environmental clean-up obligations outstanding at the balance sheet date.

These costs are charged to the Income Statement.

Movements in the environmental clean-up provisions are presented as an operating cost, except for the unwind 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



# Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

### Note 1. Summary of significant accounting policies (continued)

environmental clean-up, which would affect future financial results.

Specific information about Council's provisions relating to close down, restoration and remediation costs can be found at Note 26.

#### **(q) Non-current assets (or disposal groups) 'held for sale' and discontinued operations**

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of either **(i)** their carrying amount and **(ii)** fair value less costs to sell, if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

The exception to this is plant and motor vehicles, which are turned over on a regular basis. Plant and motor vehicles are retained in non-current assets under the classification of infrastructure, property, plant and equipment – unless the assets are to be traded in after 30 June and the replacement assets were already purchased and accounted for as at 30 June.

For any assets or disposal groups classified as non-current assets 'held for sale', an impairment loss is recognised at any time when the assets carrying value is greater than its fair value less costs to sell.

Non-current assets 'held for sale' are not depreciated or amortised while they are classified as 'held for sale'.

Non-current assets classified as 'held for sale' are presented separately from the other assets in the balance sheet.

A discontinued operation is a component of Council that has been disposed of or is classified as 'held for sale' and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale.

The results of discontinued operations are presented separately on the face of the Income Statement.

#### **(r) Impairment of assets**

All Council's I,PP&E is subject to an annual assessment of impairment.

Assets that are subject to amortisation are reviewed 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 (for example infrastructure assets) and would be replaced if the Council was deprived of it, then depreciated replacement cost is used as value in use, otherwise value in use is estimated by using a discounted cash flow model.

Non-financial assets (other than goodwill) that suffered a prior period impairment are reviewed for possible reversal of the impairment at each reporting date.

Goodwill and other intangible assets that have an indefinite useful life and are not subject to amortisation are tested annually for impairment.

#### **(s) Payables**

These amounts represent liabilities and include goods and services provided to the Council prior to the end of financial year that are unpaid.

The amounts for goods and services are unsecured and are usually paid within 30 days of recognition.

#### **(t) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred.

Borrowings are subsequently measured at amortised cost.

# Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

### Note 1. Summary of significant accounting policies (continued)

Amortisation results in any difference between the proceeds (net of transaction costs) and the redemption amount being recognised in the Income Statement over the period of the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

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

#### (u) Borrowing costs

Borrowing costs are expensed / except to the extent that they are incurred during the construction of qualifying assets.

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.

#### (v) Provisions

Provisions for legal claims, service warranties and other like liabilities are recognised when:

- Council has a present legal or constructive obligation as a result of past events,
- it is more likely than not that an outflow of resources will be required to settle the obligation, and
- the amount has been reliably estimated.

Provisions are not recognised for future operating losses.

Where there are a 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.

#### (w) Employee benefits

##### (i) Short-term obligations

Short-term employee benefit obligations include liabilities for wages and salaries (including non-monetary benefits), annual leave and vesting sick leave expected to be wholly settled within the 12 months after the reporting period.

Leave liabilities are recognised in the provision for employee benefits in respect of employees' services up to the reporting date with other short term employee benefit obligations disclosed under payables.

These provisions are measured at the amounts expected to be paid when the liabilities are settled.

All other short-term employee benefit obligations are presented as payables.

Liabilities for non-vesting sick leave are recognised at the time when the leave is taken and measured at the rates paid or payable, and accordingly no Liability has been recognised in these reports.

Wages and salaries, annual leave and vesting sick leave are all classified as current liabilities.

##### (ii) Other long-term obligations

The liability for all long service and annual leave in respect of services provided by employees up to the reporting date (which is not expected to be wholly settled within the 12 months after the reporting period) are recognised in the provision for employee benefits.

## Lithgow City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

These liabilities are measured at the present value of the expected future payments to be made 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 then discounted using market yields at the reporting date based on national government bonds with terms to maturity and currency that match as closely as possible the estimated future cash outflows.

Due to the nature of when and how long service leave can be taken, all long service leave for employees with 4 or more years of service has been classified as current, as it has been deemed that Council does not have the unconditional right to defer settlement beyond 12 months – even though it is not anticipated that all employees with more than 4 years service (as at reporting date) will apply for and take their leave entitlements in the next 12 months.

#### (iii) Retirement benefit obligations

All employees of the 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.

#### Defined benefit plans

A liability or asset in respect of defined benefit superannuation plans would ordinarily be recognised in the balance sheet, 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 periods of service.

However, when this information is not reliably available, Council can account for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans – i.e. as an expense when they become payable.

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named the 'Local Government Superannuation Scheme – Pool B'.

This scheme has been deemed to be a 'multi-employer fund' for the purposes of AASB 119.

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.

Council has, however, disclosed a contingent liability in Note 18 to reflect the possible obligation that may arise should the scheme require immediate payment to correct the deficiency.

#### Defined contribution 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.

#### (iv) Employee benefit on-costs

Council has recognised at year end the aggregate on-cost liabilities arising from employee benefits, and in particular those on-cost liabilities that will arise when payment of current employee benefits is made in future periods.

These amounts include superannuation and workers compensation expenses which will be payable upon the future payment of certain leave liabilities accrued as at 30/06/16.

#### (x) Self-insurance

Council does not self-insure.



# Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

### Note 1. Summary of significant accounting policies (continued)

#### (y) Allocation between current and non-current assets and liabilities

In the determination of whether an asset or liability is classified as current or non-current, consideration is given to the time when each asset or liability is expected to be settled.

The asset or liability is classified as current if it is expected to be settled within the next 12 months, being the Council's operational cycle.

#### Exceptions

In the case of liabilities where Council does not have the unconditional right to defer settlement beyond 12 months (such as vested long service leave), the liability is classified as current even if it is not expected to be settled within the next 12 months.

In the case of inventories that are 'held for trading', these are also classified as current even if not expected to be realised in the next 12 months.

#### (z) Taxes

The Council is exempt from both Commonwealth Income Tax and Capital Gains Tax.

Council does, however, have to comply with both Fringe Benefits Tax and Goods and Services Tax (GST).

#### Goods and Services Tax (GST)

Income, expenses and assets are all recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO).

In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the revenue / expense.

Receivables and payables within the Balance Sheet are stated inclusive of any applicable GST.

The net amount of GST recoverable from or payable to the ATO is included as a current asset or current liability in the Balance Sheet.

Operating cash flows within the Cash Flow Statement are on a gross basis, i.e. they are inclusive of GST where applicable.

Investing and financing cash flows are treated on a net basis (where recoverable from the ATO), i.e. they are exclusive of GST. Instead, the GST component of investing and financing activity cash flows that are recoverable from or payable to the ATO are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from (or payable to) the ATO.

#### (aa) New accounting standards and Interpretations issued (not yet effective)

Certain new (or amended) accounting standards and interpretations have been published that are not mandatory for reporting periods ending 30 June 2016.

Council has not adopted any of these standards early.

Apart from the AASB disclosures below, there are no other standards that are 'not yet effective' that are expected to have a material impact on Council in the current or future reporting periods and on foreseeable future transactions.

Council's assessment of the impact of upcoming new standards and interpretations that are likely to have an effect are set out below.

#### AASB 9 – Financial Instruments

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement and has an effective date for reporting periods beginning on or after 1 January 2018 (and must be applied retrospectively).

The overriding impact of AASB 9 is to change the requirements for the classification, measurement and disclosures associated with financial assets and financial liabilities.

These requirements are designed to improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

## Lithgow City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

Under the new requirements the four current categories of financial assets stipulated in AASB 139 will be replaced with two measurement categories:

- fair value, and
- amortised cost (where financial assets will only be able to be measured at amortised cost when very specific conditions are met).

Council is yet to undertake a detailed assessment of the impact of AASB 9.

#### **AASB 15 – Revenue from Contracts with Customers and associated amending standards**

AASB 15 will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.

AASB 15 will introduce a 5-step process for revenue recognition with the core principle of the new standard being that entities recognise revenue so as 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.

The changes in revenue recognition requirements in AASB 15 may cause changes to accounting policies relating to the timing and amount of revenue recorded in the financial statements, as well as additional disclosures.

The effective date of this standard is for annual reporting periods beginning on or after 1 January 2018.

Council is yet to undertake a detailed assessment of the impact of AASB 15.

#### **AASB ED 260 Income of Not-for-Profit Entities**

The AASB previously issued exposure draft AASB ED 260 on Income of Not-for-Profit Entities in April 2015.

The exposure draft proposed specific not-for-profit entity requirements and guidance when applying the principles of AASB 15 to income from certain transactions.

Much of the material in AASB 1004 is expected to be replaced by material included in AASB ED 260.

Specific revenue items that may considerably change are Grants and Contributions.

The most likely financial statement impact is the deferred recognition of Grants and Contributions (i.e. recognition as unearned revenue [liability]) until Council has met the associated performance obligation/s relating to the Grants or Contribution.

At this stage there is no specific date of release for a standard nor a date of applicability.

#### **AASB16 – Leases**

AASB 116 Leases replaces AASB 117 Leases and some associated lease-related Interpretations.

AASB 16 introduces a single lease accounting model (for lessees) that will require all leases to be accounted for on the balance sheet (ie. recognition of both a right-of-use asset and a corresponding lease) for all leases with a term of more than 12 months unless the underlying assets are determined to be of 'low value'. There will also be detailed disclosure requirements for all lessees.

The effective date of this standard is for annual reporting periods beginning on or after 1 January 2019.

Council is yet to undertake a detailed assessment of the accounting impacts from AASB 16. However, based on preliminary assessments, impacts from the first time adoption of the standard are likely to include:

- a significant increase in lease assets and financial liabilities recognised on the balance sheet,
- a reduction in reported equity as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities,
- lower operating cash outflows and higher financing cash flows in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities.

# Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

### Note 1. Summary of significant accounting policies (continued)

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#### **AASB2015-6 – Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities**

From 1 July 2016, AASB 124 Related Party Disclosures will apply to Council.

This means that Council will be required to disclose information about related parties and Council transactions with those related parties.

Related parties will more than likely include the Mayor, Councillors and certain Council staff. In addition, the close family members of those people and any organisations that they control or are associated with will be classified as related parties (and fall under the related party reporting requirements).

#### **(ab) Rounding of amounts**

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

#### **(ac) Comparative figures**

To ensure comparability with the current reporting period's figures, some comparative period line items and amounts may have been reclassified or individually reported for the first time within these financial statements and/or the notes.

#### **(ad) Disclaimer**

Nothing contained within these statements may be taken to be an admission of any liability to any person under any circumstance.

## Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 2(a). Council functions/activities – financial information

Functions/activities	Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b).												
	Income from continuing operations			Expenses from continuing operations			Operating result from continuing operations			Grants included in income from continuing operations		Total assets held (current & non-current)	
	Original budget	Actual	Actual	Original budget	Actual	Actual	Original budget	Actual	Actual	Actual	Actual	Actual	Actual
	2016	2016	2015	2016	2016	2015	2016	2016	2015	2016	2015	2016	2015
Governance	11	10	11	(6,466)	(359)	1,128	6,477	369	(1,117)	0	1,425	3	333,428
Administration	141	196	992	568	398	1,080	(427)	(202)	(88)	–	–	22,524	–
Public order and safety	1,321	1,610	796	2,776	2,279	1,766	(1,455)	(669)	(970)	–	–	–	–
Health	228	147	–	757	485	780	(529)	(338)	(780)	–	–	–	–
Environment	4,346	4,259	5,000	5,011	4,936	4,305	(665)	(677)	695	44	1,155	24,990	–
Community services and education	342	274	–	756	667	1,650	(414)	(393)	(1,650)	255	–	–	–
Housing and community amenities	530	587	804	4,797	4,692	2,618	(4,267)	(4,105)	(1,814)	5	–	73,523	–
Water supplies	6,548	6,881	6,290	6,624	7,843	6,495	(76)	(962)	(205)	212	–	34,975	30,591
Sewerage services	17,179	8,276	6,908	6,406	7,000	6,421	10,773	1,276	487	775	148	66,923	62,274
Recreation and culture	955	2,944	1,579	5,589	6,318	5,838	(4,634)	(3,374)	(4,259)	2,498	1,021	16,239	–
Transport and communication	1,833	5,697	2,501	11,178	10,250	5,812	(9,345)	(4,553)	(3,311)	4,988	586	204,605	–
Economic affairs	59	143	94	1,345	1,020	2,008	(1,286)	(877)	(1,914)	–	–	–	–
<b>Total functions and activities</b>	<b>33,493</b>	<b>31,025</b>	<b>24,975</b>	<b>39,341</b>	<b>45,528</b>	<b>39,901</b>	<b>(5,848)</b>	<b>(14,503)</b>	<b>(14,926)</b>	<b>8,777</b>	<b>4,335</b>	<b>443,782</b>	<b>426,293</b>
Share of gains/(losses) in associates and joint ventures (using the equity method)	–	–	–	–	–	–	–	–	–	–	–	–	–
General purpose income <sup>1</sup>	17,088	17,343	16,896	–	–	–	17,088	17,343	16,896	4,884	4,928	791	–
<b>Operating result from continuing operations</b>	<b>50,581</b>	<b>48,368</b>	<b>41,871</b>	<b>39,341</b>	<b>45,528</b>	<b>39,901</b>	<b>11,240</b>	<b>2,840</b>	<b>1,970</b>	<b>13,661</b>	<b>9,263</b>	<b>444,573</b>	<b>426,293</b>

1. Includes: rates and annual charges (incl. ex-gratia), untied general purpose grants and unrestricted interest and investment income.

## Lithgow City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 2(b). Council functions/activities – component descriptions

**Details relating to the Council's functions/activities as reported in Note 2(a) are as follows:**

##### **GOVERNANCE**

Includes costs relating to Council's role as a component of democratic government, including elections, members' fees and expenses, subscriptions to local authority associations, meetings of Council and policy-making committees, public disclosure (e.g. GIPA), and legislative compliance.

##### **ADMINISTRATION**

Includes corporate support and other support services, engineering works, and any Council policy compliance.

##### **PUBLIC ORDER AND SAFETY**

Fire protection, animal control, beach control, enforcement of local government regulations, emergency services, other.

##### **HEALTH**

Includes immunisation, food control, health centres etc.

##### **ENVIRONMENT**

Includes noxious plants and insect/vermin control; other environmental protection; solid waste management, including domestic waste; other waste management; other sanitation; and garbage, street cleaning, drainage and stormwater management.

##### **COMMUNITY SERVICES AND EDUCATION**

Includes administration and education; social protection (welfare); migrant, Aboriginal and other community services and administration (excluding accommodation – as it is covered under 'housing and community amenities'); youth services; aged and disabled persons services; children's services, including family day care; child care; and other family and children services.

##### **HOUSING AND COMMUNITY AMENITIES**

Includes public cemeteries; public conveniences; street lighting; town planning; other community amenities, including housing development and accommodation for families and children, aged persons, disabled persons, migrants and Indigenous persons.

##### **WATER SUPPLIES**

##### **SEWERAGE SERVICES**

##### **RECREATION AND CULTURE**

Includes public libraries; museums; art galleries; community centres and halls, including public halls and performing arts venues; sporting grounds and venues; swimming pools; parks; gardens; lakes; and other sporting, recreational and cultural services.

##### **TRANSPORT AND COMMUNICATION**

Urban local, urban regional, includes sealed and unsealed roads, bridges, footpaths, parking areas, and aerodromes.

##### **ECONOMIC AFFAIRS**

Includes camping areas and caravan parks; tourism and area promotion; industrial development promotion; sale yards and markets; real estate development; commercial nurseries; and other business undertakings.

# Lithgow City Council

## Notes to the Financial Statements for the year ended 30 June 2016

### Note 3. Income from continuing operations

\$ '000	Notes	Actual 2016	Actual 2015
<b>(a) Rates and annual charges</b>			
<b>Ordinary rates</b>			
Residential		6,399	6,219
Farmland		1,675	1,436
Mining		1,997	1,977
Business		1,669	1,624
<b>Total ordinary rates</b>		<b>11,740</b>	<b>11,256</b>
<b>Special rates</b>			
Sewerage services		6,413	6,078
Parking		240	236
<b>Total special rates</b>		<b>6,653</b>	<b>6,314</b>
<b>Annual charges</b> (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services		3,843	3,887
Stormwater management services		238	238
Water supply services		1,421	1,310
Sewerage services		444	353
Gas mains		22	21
<b>Total annual charges</b>		<b>5,968</b>	<b>5,809</b>
<b>TOTAL RATES AND ANNUAL CHARGES</b>		<b>24,361</b>	<b>23,379</b>

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

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
<b>(b) User charges and fees</b>			
<b>Specific user charges</b> (per s.502 – specific 'actual use' charges)			
Water supply services		5,121	4,933
Septic approval		93	57
Trade waste		144	137
<b>Total user charges</b>		<b>5,358</b>	<b>5,127</b>
<b>Other user charges and fees</b>			
<b>(i) Fees and charges – statutory and regulatory functions (per s.608)</b>			
Planning and building regulation		870	746
Private works – section 67		13	153
<b>Total fees and charges – statutory/regulatory</b>		<b>883</b>	<b>899</b>
<b>(ii) Fees and charges – other (incl. general user charges (per s.608))</b>			
Leaseback fees – Council vehicles		96	136
Swimming centres		269	131
Other		–	7
<b>Total fees and charges – other</b>		<b>365</b>	<b>274</b>
<b>TOTAL USER CHARGES AND FEES</b>		<b>6,606</b>	<b>6,300</b>

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
<b>(c) Interest and investment revenue (including losses)</b>			
<b>Interest</b>			
– Interest on overdue rates and annual charges (incl. special purpose rates)		127	125
– Interest earned on investments (interest and coupon payment income)		632	587
<b><u>TOTAL INTEREST AND INVESTMENT REVENUE</u></b>		<b><u>759</u></b>	<b><u>712</u></b>
<b>Interest revenue is attributable to:</b>			
<b>Unrestricted investments/financial assets:</b>			
Overdue rates and annual charges (general fund)		127	125
General Council cash and investments		591	587
<b>Restricted investments/funds – external:</b>			
Water fund operations		41	–
<b><u>Total interest and investment revenue recognised</u></b>		<b><u>759</u></b>	<b><u>712</u></b>
<b>(d) Other revenues</b>			
Rental income – other council properties		447	471
Esbank house		8	8
Fines – parking		30	–
Fines – other		2	–
Inspections		69	34
Legal fees recovery – rates and charges (extra charges)		2	–
Library charges		28	27
Commissions and agency fees		4	–
Insurance claim recoveries		68	–
Sales – tourism		55	65
Other		77	425
<b><u>TOTAL OTHER REVENUE</u></b>		<b><u>790</u></b>	<b><u>1,030</u></b>



## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 3. Income from continuing operations (continued)

\$ '000	2016 Operating	2015 Operating	2016 Capital	2015 Capital
<b>(e) Grants</b>				
<b>General purpose (untied)</b>				
Financial assistance	4,581	4,622	–	–
Pensioners' rates subsidies – general component	303	306	–	–
<b>Total general purpose</b>	<b>4,884</b>	<b>4,928</b>	<b>–</b>	<b>–</b>
<b>Specific purpose</b>				
Pensioners' rates subsidies:				
– Water	95	86	–	–
– Sewerage	88	89	–	–
Water supplies	–	–	117	–
Sewerage services	–	–	687	148
Economic development	–	25	–	–
Flood restoration	–	23	–	863
Heritage and cultural	–	11	–	–
Library – per capita	–	64	–	–
LIRS subsidy	130	–	–	–
Recreation and culture	–	–	2,623	865
Street lighting	182	66	–	–
Transport (roads to recovery)	1,596	–	–	–
Transport (other roads and bridges funding)	98	–	3,112	1,309
Storm damage	–	694	–	–
Other	49	92	–	–
<b>Total specific purpose</b>	<b>2,238</b>	<b>1,150</b>	<b>6,539</b>	<b>3,185</b>
<b>Total grants</b>	<b>7,122</b>	<b>6,078</b>	<b>6,539</b>	<b>3,185</b>
<b>Grant revenue is attributable to:</b>				
– Commonwealth funding	1,597	4,622	–	–
– State funding	5,525	764	6,449	2,462
– Other funding	0	692	90	723
	<b>7,122</b>	<b>6,078</b>	<b>6,539</b>	<b>3,185</b>

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 3. Income from continuing operations (continued)

\$ '000	2016 Operating	2015 Operating	2016 Capital	2015 Capital
<b>(f) Contributions</b>				
<b>Developer contributions:</b>				
<b>(s93 &amp; s94 – EP&amp;A Act, s64 of the LGA):</b>				
S 94A – fixed development consent levies	–	–	221	203
S 64 – water supply contributions	–	–	73	43
S 64 – sewerage service contributions	–	–	67	46
<b>Total developer contributions</b>	17	–	<b>361</b>	<b>292</b>
<b>Other contributions:</b>				
Employment	85	68	–	–
Fire contribution	477	296	–	–
Heritage/cultural UWS	–	6	–	–
Hazard reduction	29	28	–	–
Kerb and gutter	–	–	–	10
Rebates	168	102	–	–
Recreation and culture	266	42	–	175
RMS contributions (regional roads, block grant)	340	99	–	–
Sewerage (excl. section 64 contributions)	393	33	–	–
Waste	–	–	58	–
Other	12	16	–	20
<b>Total other contributions</b>	<b>1,770</b>	<b>690</b>	<b>58</b>	<b>205</b>
<b>Total contributions</b>	<b>1,770</b>	<b>690</b>	<b>419</b>	<b>497</b>
<b>TOTAL GRANTS AND CONTRIBUTIONS</b>	<b>8,892</b>	<b>6,768</b>	<b>6,958</b>	<b>3,682</b>

\$ '000	Actual 2016	Actual 2015
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**(g) Restrictions relating to grants and contributions****Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:**

Unexpended at the close of the previous reporting period	2,782	3,724
Add: grants and contributions recognised in the current period but not yet spent:	6,730	4,711
Less: grants and contributions recognised in a previous reporting period now spent:	(7,056)	(5,653)
<b>Net increase (decrease) in restricted assets during the period</b>	<b>(326)</b>	<b>(942)</b>
<b>Unexpended and held as restricted assets</b>	<b>2,456</b>	<b>2,782</b>
<b>Comprising:</b>		
– Specific purpose unexpended grants	1,008	1,250
– Developer contributions	1,448	1,506
– Other contributions	–	26
	<b>2,456</b>	<b>2,782</b>

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 4. Expenses from continuing operations

\$ '000	Notes	Actual 2016	Actual 2015
<b>(a) Employee benefits and on-costs</b>			
Salaries and wages		10,451	11,362
Travel expenses		203	691
Employee leave entitlements (ELE)		2,039	1,499
Superannuation		1,358	1,399
Workers' compensation insurance		642	534
Fringe benefit tax (FBT)		29	40
Payroll tax		90	79
Training costs (other than salaries and wages)		457	227
Central west group apprentices		445	38
Corporate uniforms		13	23
Other		93	–
<b>Total employee costs</b>		<b>15,820</b>	<b>15,892</b>
Less: capitalised costs		(563)	(615)
<b>TOTAL EMPLOYEE COSTS EXPENSED</b>		<b>15,257</b>	<b>15,277</b>
Number of 'full-time equivalent' employees (FTE) at year end		<b>169</b>	<b>188</b>
<b>(b) Borrowing costs</b>			
<b>(i) Interest bearing liability costs</b>			
Interest on overdraft		1	–
Interest on loans		929	1,071
<b>Total interest bearing liability costs expensed</b>		<b>930</b>	<b>1,071</b>
<b>(ii) Other borrowing costs</b>			
Discount adjustments relating to movements in provisions (other than ELE)			
– Remediation liabilities	26	922	320
Interest applicable on interest free (and favourable) loans to Council		146	169
<b>Total other borrowing costs</b>		<b>1,068</b>	<b>489</b>
<b>TOTAL BORROWING COSTS EXPENSED</b>		<b>1,998</b>	<b>1,560</b>
<b>(c) Materials and contracts</b>			
Raw materials and consumables		5,413	8,630
Contractor and consultancy costs		4,334	119
Auditors remuneration <sup>(1)</sup>		53	63
Legal expenses:			
– Legal expenses: planning and development		56	18
– Legal expenses: other		19	48
<b>TOTAL MATERIALS AND CONTRACTS</b>		<b>9,875</b>	<b>8,878</b>

(continued on the next page...)

## Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
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## (c) Materials and contracts (continued)

**Auditor remuneration**

During the year, the following fees were incurred for services provided by the Council's Auditor:

**Audit and other assurance services**

– Audit and review of financial statements: Council's Auditor

**Remuneration for audit and other assurance services****Total Auditor remuneration**

53	63
<b>53</b>	<b>63</b>
<b>53</b>	<b>63</b>

\$ '000	Notes	Impairment costs		Depreciation/amortisation	
		Actual 2016	Actual 2015	Actual 2016	Actual 2015

## (d) Depreciation, amortisation and impairment

Plant and equipment		–	–	986	815
Office equipment		–	–	181	171
Furniture and fittings		–	–	8	8
Infrastructure:					
– Buildings – specialised		–	–	2,932	3,225
– Other structures		–	–	394	323
– Roads		–	–	3,657	2,005
– Bridges		–	–	158	97
– Footpaths		–	–	249	174
– Stormwater drainage		–	–	356	427
– Water supply network		–	–	1,311	1,303
– Sewerage network		–	–	1,729	1,365
– Swimming pools		–	–	95	24
Other assets					
– Library books		–	–	65	59
Asset reinstatement costs	9 & 26	–	–	159	155
<b>TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED</b>		<b>–</b>	<b>–</b>	<b>12,280</b>	<b>10,151</b>

# Lithgow City Council

## Notes to the Financial Statements for the year ended 30 June 2016

### Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
<b>(e) Other expenses</b>			
Other expenses for the year include the following:			
Advertising		74	76
Bad and doubtful debts		178	27
Bank charges		154	112
Commissions		8	5
Councillor expenses – mayoral fee		31	31
Councillor expenses – councillors' fees		80	79
Councillors' expenses (incl. mayor) – other (excluding fees above)		7	16
Donations, contributions and assistance to other organisations (Section 356)			
– Contributions emergency services		499	675
– Donations, contributions and assistance		406	–
Electricity and heating		1,011	795
Insurance		1,070	1,079
Office expenses (including computer expenses)		510	104
Postage		92	67
Printing and stationery		145	28
Street lighting		386	334
Subscriptions and publications		278	52
Telephone and communications		168	193
Valuation fees		96	79
Other		17	(6)
<b><u>TOTAL OTHER EXPENSES</u></b>		<b><u>5,210</u></b>	<b><u>3,746</u></b>

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 5. Gains or losses from the disposal of assets

\$ '000	Notes	Actual 2016	Actual 2015
<b>Property</b> (excl. investment property)			
Less: carrying amount of property assets sold/written off		(537)	–
<b>Net gain/(loss) on disposal</b>		<b>(537)</b>	<b>–</b>
<b>Plant and equipment</b>			
Proceeds from disposal – plant and equipment		131	71
Less: carrying amount of plant and equipment assets sold/written off		(75)	(52)
<b>Net gain/(loss) on disposal</b>		<b>56</b>	<b>19</b>
<b>Infrastructure</b>			
Proceeds from disposal – infrastructure		458	–
Less: carrying amount of infrastructure assets sold/written off		(574)	(308)
<b>Net gain/(loss) on disposal</b>		<b>(116)</b>	<b>(308)</b>
<b>Financial assets</b>			
Proceeds from disposal/redemptions/maturities – financial assets		5,013	3,934
Less: carrying amount of financial assets sold/redeemed/matured		(5,013)	(3,934)
<b>Net gain/(loss) on disposal</b>		<b>–</b>	<b>–</b>
<b>Grant Debtor</b>			
Less: carrying amount of Grant Debtor assets sold/written off		(312)	–
<b>Net gain/(loss) on disposal</b>		<b>(312)</b>	<b>–</b>
<b>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</b>		<b>(909)</b>	<b>(289)</b>

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 6a. – Cash assets and Note 6b. – investments

\$ '000	Notes	2016 Actual Current	2016 Actual Non-current	2015 Actual Current	2015 Actual Non-current
<b>Cash and cash equivalents (Note 6a)</b>					
Cash on hand and at bank		259	–	2,718	–
Cash-equivalent assets <sup>1</sup>					
– Deposits at call		3,055	–	3,565	–
– Short-term deposits		17,567	–	7,153	–
<b>Total cash and cash equivalents</b>		<b>20,881</b>	<b>–</b>	<b>13,436</b>	<b>–</b>
<b>Investments (Note 6b)</b>					
– Long term deposits		4,000	–	5,013	–
<b>Total investments</b>		<b>4,000</b>	<b>–</b>	<b>5,013</b>	<b>–</b>
<b>TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS</b>		<b>24,881</b>	<b>–</b>	<b>18,449</b>	<b>–</b>

<sup>1</sup> Those investments where time to maturity (from date of purchase) is < 3 mths.

**Cash, cash equivalents and investments were  
classified at year end in accordance with  
AASB 139 as follows:**

**Cash and cash equivalents**

a. 'At fair value through the profit and loss'

<b>20,881</b>	<b>–</b>	<b>13,436</b>	<b>–</b>
---------------	----------	---------------	----------

**Investments**

a. 'Held to maturity'

6(b-i)

Investments

4,000	–	5,013	–
<b>4,000</b>	<b>–</b>	<b>5,013</b>	<b>–</b>

**Note 6(b-i)**

**Reconciliation of investments  
classified as 'held to maturity'**

Balance at the beginning of the year	5,013	–	3,934	–
Additions	4,000	–	5,013	–
Disposals (sales and redemptions)	(5,013)	–	(3,934)	–
<b>Balance at end of year</b>	<b>4,000</b>	<b>–</b>	<b>5,013</b>	<b>–</b>

**Comprising:**

– Long term deposits	–	–	5,013	–
– Other long term financial assets	4,000	–	–	–
<b>Total</b>	<b>4,000</b>	<b>–</b>	<b>5,013</b>	<b>–</b>

Refer to Note 27. Fair value measurement for information regarding the fair value of investments held.

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 6c. Restricted cash, cash equivalents and investments – details

	2016 Actual Current	2016 Actual Non-current	2015 Actual Current	2015 Actual Non-current
<b>\$ '000</b>				
<b>Total cash, cash equivalents and investments</b>	<b>24,881</b>	<b>–</b>	<b>18,449</b>	<b>–</b>
<b>attributable to:</b>				
External restrictions (refer below)	9,429	–	8,844	–
Internal restrictions (refer below)	14,775	–	7,932	–
Unrestricted	677	–	1,673	–
	<b>24,881</b>	<b>–</b>	<b>18,449</b>	<b>–</b>

	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
<b>2016 \$ '000</b>				
<b>Details of restrictions</b>				
<b>External restrictions – included in liabilities</b>				
Nil				
<b>External restrictions – other</b>				
Developer contributions – general (D)	1,506	221	(279)	1,448
RMS (formerly RTA) contributions (E)	26	–	(26)	–
Specific purpose unexpended grants (F)	1,250	6,509	(6,752)	1,007
Water supplies (G)	2,706	1,520	(1,529)	2,696
Sewerage services (G)	2,356	1,781	(1,334)	2,803
Domestic waste management (G)	1,000	647	(172)	1,475
<b>External restrictions – other</b>	<b>8,844</b>	<b>10,678</b>	<b>(10,092)</b>	<b>9,429</b>
<b>Total external restrictions</b>	<b>8,844</b>	<b>10,678</b>	<b>(10,092)</b>	<b>9,429</b>
<b>Internal restrictions</b>				
Plant and vehicle replacement	1,759	993	–	2,752
Employees leave entitlement	1,155	2,563	–	3,718
Deposits, retentions and bonds	958	–	(182)	776
Election	132	35	–	167
Land and building	1,676	750	(355)	2,071
Works in progress	2,252	11,030	(7,991)	5,291
<b>Total internal restrictions</b>	<b>7,932</b>	<b>15,371</b>	<b>(8,528)</b>	<b>14,775</b>
<b>TOTAL RESTRICTIONS</b>	<b>16,776</b>	<b>26,049</b>	<b>(18,620)</b>	<b>24,204</b>

D Development contributions which are not yet expended for the provision of services and amenities in accordance with contributions plans (refer Note 17).

E RMS contributions which are not yet expended for the provision of services and amenities in accordance with those contributions.

F Grants which are not yet expended for the purposes for which the grants were obtained. (refer Note 1 (b))

G Water, sewerage, domestic waste management (DWM) and other special rates/levies/charges are externally restricted assets and must be applied for the purposes for which they were raised.



## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 7. Receivables

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
<b>Purpose</b>					
Rates and annual charges		1,122	–	1,079	–
Interest and extra charges		306	–	232	–
User charges and fees		1,540	–	2,033	–
Accrued revenues					
– Interest on investments		79	–	63	–
– Other income accruals		13	–	–	–
Deferred debtors		146	–	146	–
Government grants and subsidies		1,402	–	1,740	–
Net GST receivable		222	–	245	–
Other debtors		518	–	412	–
<b>Total</b>		<b>5,348</b>	<b>–</b>	<b>5,950</b>	<b>–</b>
<b>Less: provision for impairment</b>					
Rates and annual charges		(106)	–	(17)	–
User charges and fees		–	–	(21)	–
Other debtors		(111)	–	–	–
<b>Total provision for impairment – receivables</b>		<b>(217)</b>	<b>–</b>	<b>(38)</b>	<b>–</b>
<b><u>TOTAL NET RECEIVABLES</u></b>		<b><u>5,131</u></b>	<b><u>–</u></b>	<b><u>5,912</u></b>	<b><u>–</u></b>
<b>Externally restricted receivables</b>					
<b>Water supply</b>					
– Specific purpose grants		145	–	192	–
– Rates and availability charges		123	–	79	–
– Other		1,436	–	1,608	–
<b>Sewerage services</b>					
– Specific purpose grants		204	–	17	–
– Rates and availability charges		467	–	181	–
– Other		42	–	149	–
<b>Total external restrictions</b>		<b>2,417</b>	<b>–</b>	<b>2,226</b>	<b>–</b>
<b>Internally restricted receivables</b>					
Nil					
<b>Unrestricted receivables</b>		<b>2,714</b>	<b>–</b>	<b>3,686</b>	<b>–</b>
<b>TOTAL NET RECEIVABLES</b>		<b>5,131</b>	<b>–</b>	<b>5,912</b>	<b>–</b>

**Notes on debtors above:**

- (i) Rates and annual charges outstanding are secured against the property.
- (ii) Doubtful rates debtors are provided for where the value of the property is less than the debt outstanding.  
An allowance for other doubtful debts is made when there is objective evidence that a receivable is impaired.
- (iii) Interest was charged on overdue rates and charges at 8.50% (2015 8.50%).  
Generally all other receivables are non-interest bearing.
- (iv) Please refer to Note 15 for issues concerning credit risk and fair value disclosures.

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 8. Inventories and other assets

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
(a) Inventories					
(i) Inventories at cost					
Stores and materials		719	–	618	–
Total inventories at cost		719	–	618	–
(ii) Inventories at net realisable value (NRV)					
Nil					
TOTAL INVENTORIES		719	–	618	–
(b) Other assets					
Prepayments		228	–	227	–
TOTAL OTHER ASSETS		228	–	227	–
Externally restricted assets					
Water					
Stores and materials		149	–	154	–
Total water		149	–	154	–
Sewerage					
Stores and materials		17	–	19	–
Total sewerage		17	–	19	–
Total externally restricted assets		166	–	173	–
Total internally restricted assets		–	–	–	–
Total unrestricted assets		781	–	672	–
TOTAL INVENTORIES AND OTHER ASSETS		947	–	845	–
Other disclosures					
(a) Details for real estate development					
Movements:					
– Purchases and other costs		–	–	–	738
– Transfers in from (out to) Note 9		–	–	–	(738)
Total real estate for resale		–	–	–	–

There were no amounts recognised as an expense relating to the write down of inventory balances held during the year.

Refer to Note 27. Fair value measurement for information regarding the fair value of other assets held.

Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

Note 9a. Infrastructure, property, plant and equipment

\$ '000	as at 30/6/2015					Asset movements during the reporting period							as at 30/6/2016				
	At cost	At fair value	Accumulated		Carrying value	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Revaluation increments to equity (ARR)	At cost	At fair value	Accumulated		Carrying value
			depreciation	impairment											depreciation	impairment	
Capital work in progress	4,735	–	–	–	4,735	–	768	–	–	(4,735)	–	–	768	–	–	–	768
Plant and equipment	–	19,384	16,549	–	2,835	284	7	(75)	(986)	–	(113)	–	–	16,941	14,989	–	1,952
Office equipment	–	3,954	3,436	–	518	–	12	–	(181)	–	1	–	–	3,966	3,616	–	350
Furniture and fittings	–	314	289	–	25	35	10	–	(8)	–	1	–	–	364	301	–	63
<b>Land:</b>																	
– Operational land	–	8,372	–	–	8,372	–	–	–	–	–	1	–	–	8,373	–	–	8,373
– Community land	–	14,850	–	–	14,850	–	–	–	–	–	–	8,376	–	23,226	–	–	23,226
<b>Infrastructure:</b>																	
– Buildings – specialised	–	100,000	55,307	–	44,693	133	25	–	(2,932)	–	5	–	–	100,158	58,234	–	41,924
– Other structures	–	13,497	8,322	–	5,175	743	158	(537)	(394)	–	3	4,430	–	15,330	5,724	–	9,606
– Roads	–	247,906	76,428	–	171,478	1,021	185	(538)	(3,657)	–	–	–	–	247,819	79,330	–	168,489
– Bridges	–	15,078	4,018	–	11,060	–	2,808	–	(158)	759	19	–	–	18,664	4,176	–	14,488
– Footpaths	–	9,899	3,906	–	5,993	–	172	–	(249)	–	1,468	–	–	10,018	2,634	–	7,384
– Bulk earthworks (non-depreciable)	–	12,181	–	–	12,181	–	–	–	–	–	–	–	–	12,181	–	–	12,181
– Stormwater drainage	–	35,553	15,288	–	20,265	–	71	–	(356)	3,434	–	–	–	39,058	15,644	–	23,414
– Water supply network	–	89,665	59,074	–	30,591	524	188	–	(1,311)	–	–	338	–	91,375	61,045	–	30,330
– Sewerage network	–	105,191	42,917	–	62,274	953	445	–	(1,729)	–	–	891	–	108,150	45,314	–	62,836
– Swimming pools	–	5,281	1,154	–	4,127	2,484	–	(36)	(95)	–	–	–	–	6,942	462	–	6,480
<b>Other assets:</b>																	
– Library books	–	902	720	–	182	–	64	–	(65)	–	–	–	–	994	813	–	181
<b>Reinstatement, rehabilitation and restoration assets</b> (refer Note 26):																	
– Tip assets	–	3,568	1,835	–	1,733	–	–	–	(159)	–	(4)	–	–	3,568	1,999	–	1,569
<b><u>TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.</u></b>	<b>4,735</b>	<b>685,595</b>	<b>289,243</b>	<b>–</b>	<b>401,087</b>	<b>6,177</b>	<b>4,912</b>	<b>(1,186)</b>	<b>(12,280)</b>	<b>(542)</b>	<b>1,381</b>	<b>14,035</b>	<b>768</b>	<b>707,127</b>	<b>294,281</b>	<b>–</b>	<b>413,614</b>

Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

Refer to Note 27. Fair value measurement for information regarding the fair value of other infrastructure, property, plant and equipment.

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 9b. Externally restricted infrastructure, property, plant and equipment

\$ '000 Class of asset	Actual 2016				Actual 2015			
	At cost	At fair value	A/Dep & impairm't	Carrying value	At cost	At fair value	A/Dep & impairm't	Carrying value
<b>Water supply</b>								
Plant and equipment	–	1,705	1,705	–	–	1,705	1,705	–
Office equipment	–	56	56	–	–	56	56	–
Infrastructure	–	91,375	61,045	<b>30,330</b>	–	89,665	59,074	<b>30,591</b>
<b>Total water supply</b>	<b>–</b>	<b>93,136</b>	<b>62,806</b>	<b>30,330</b>	<b>–</b>	<b>91,426</b>	<b>60,835</b>	<b>30,591</b>
<b>Sewerage services</b>								
Plant and equipment	–	151	151	–	–	–	–	–
Office equipment	–	8	8	–	–	–	–	–
Infrastructure	–	108,150	45,314	<b>62,836</b>	–	105,191	42,917	<b>62,274</b>
<b>Total sewerage services</b>	<b>–</b>	<b>108,309</b>	<b>45,473</b>	<b>62,836</b>	<b>–</b>	<b>105,191</b>	<b>42,917</b>	<b>62,274</b>
<b>Domestic waste management</b>								
Land								
– Operational land	–	613	–	<b>613</b>	–	706	–	<b>706</b>
– Community land	–	–	–	–	–	210	–	<b>210</b>
<b>Total DWM</b>	<b>–</b>	<b>613</b>	<b>–</b>	<b>613</b>	<b>–</b>	<b>916</b>	<b>–</b>	<b>916</b>
<b>TOTAL RESTRICTED I,PP&amp;E</b>	<b>–</b>	<b>202,058</b>	<b>108,279</b>	<b>93,779</b>	<b>–</b>	<b>197,533</b>	<b>103,752</b>	<b>93,781</b>

Note 9c. Infrastructure, property, plant and equipment – current year  
impairments

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Council has recognised no impairment losses during the reporting period nor reversed any prior period losses.

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 10a. Payables, borrowings and provisions

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
<b>Payables</b>					
Goods and services – operating expenditure		1,044	–	655	–
Accrued expenses:					
– Borrowings		67	–	87	–
– Salaries and wages		168	–	–	–
– Other expenditure accruals		689	7	174	–
Advances		959	–	918	–
Security bonds, deposits and retentions		776	–	918	–
Other		1	–	–	–
<b>Total payables</b>		<b>3,704</b>	<b>7</b>	<b>2,752</b>	<b>–</b>
<b>Borrowings</b>					
Loans – secured <sup>1</sup>		1,910	18,076	1,763	19,572
Loan Discount		(312)	–	–	–
<b>Total borrowings</b>		<b>1,598</b>	<b>18,076</b>	<b>1,763</b>	<b>19,572</b>
<b>Provisions</b>					
Employee benefits:					
Annual leave		1,201	–	1,393	–
Long service leave		2,328	153	2,218	–
Sub-total – aggregate employee benefits		<b>3,529</b>	<b>153</b>	<b>3,611</b>	<b>–</b>
Asset remediation/restoration (future works)	26	–	11,939	–	11,016
<b>Total provisions</b>		<b>3,529</b>	<b>12,092</b>	<b>3,611</b>	<b>11,016</b>
<b><u>TOTAL PAYABLES, BORROWINGS AND PROVISIONS</u></b>					
		<b>8,831</b>	<b>30,175</b>	<b>8,126</b>	<b>30,588</b>
<b>(i) Liabilities relating to restricted assets</b>					
		2016		2015	
		Current	Non-current	Current	Non-current
<b>Externally restricted assets</b>					
Water		708	1,221	632	1,357
Sewer		1,279	10,934	1,195	11,386
Liabilities relating to externally restricted assets		<b>1,987</b>	<b>12,155</b>	<b>1,827</b>	<b>12,743</b>
<b>Internally restricted assets</b>					
Nil					
<b>Total liabilities relating to restricted assets</b>		<b>1,987</b>	<b>12,155</b>	<b>1,827</b>	<b>12,743</b>
<b>Total liabilities relating to unrestricted assets</b>		<b>6,844</b>	<b>18,020</b>	<b>6,299</b>	<b>17,845</b>
<b>TOTAL PAYABLES, BORROWINGS AND PROVISIONS</b>		<b>8,831</b>	<b>30,175</b>	<b>8,126</b>	<b>30,588</b>

<sup>1</sup>. Loans are secured over the general rating income of Council

Disclosures on liability interest rate risk exposures, fair value disclosures and security can be found in Note 15.

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 10a. Payables, borrowings and provisions (continued)

	Actual 2016	Actual 2015
\$ '000		

**(ii) Current liabilities not anticipated to be settled within the next twelve months**

The following liabilities, even though classified as current, are not expected to be settled in the next 12 months.

Provisions – employees benefits	2,199	2,189
	<b>2,199</b>	<b>2,189</b>

## Note 10b. Description of and movements in provisions

Class of provision	2015	2016				Closing balance as at 30/6/16
	Opening balance as at 1/7/15	Additional provisions	Decrease due to payments	Remeasurement effects due to discounting	Unused amounts reversed	
Annual leave	1,393	742	(964)	30	–	1,201
Long service leave	2,218	401	(285)	147	–	2,481
Asset remediation	11,016	–	–	923	–	11,939
<b>TOTAL</b>	<b>14,627</b>	<b>1,143</b>	<b>(1,249)</b>	<b>1,100</b>	<b>–</b>	<b>15,621</b>

- Employees leave entitlements and on-costs represents those benefits accrued and payable and an estimate of those that will become payable in the future as a result of past service.
- Asset remediation, reinstatement and restoration provisions represent the present value estimate of future costs Council will incur in order to remove, restore and remediate assets and/or activities as a result of past operations.

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 11. Statement of cash flows – additional information

\$ '000	Notes	Actual 2016	Actual 2015
<b>(a) Reconciliation of cash assets</b>			
Total cash and cash equivalent assets	6a	20,881	13,436
Less bank overdraft	10	–	–
<b>Balance as per the Statement of Cash Flows</b>		<b>20,881</b>	<b>13,436</b>
<b>(b) Reconciliation of net operating result to cash provided from operating activities</b>			
<b>Net operating result from Income Statement</b>		<b>2,840</b>	<b>1,970</b>
<b>Adjust for non-cash items:</b>			
Depreciation and amortisation		12,280	10,151
Net losses/(gains) on disposal of assets		909	289
Amortisation of premiums, discounts and prior period fair valuations			
– Interest exp. on interest-free loans received by Council (previously fair valued)		146	169
Unwinding of discount rates on reinstatement provisions		923	320
<b>+/- Movement in operating assets and liabilities and other cash items:</b>			
Decrease/(increase) in receivables		602	(431)
Increase/(decrease) in provision for doubtful debts		179	19
Decrease/(increase) in inventories		(101)	(139)
Decrease/(increase) in other assets		(1)	(23)
Increase/(decrease) in payables		389	(2,438)
Increase/(decrease) in accrued interest payable		(20)	38
Increase/(decrease) in other accrued expenses payable		690	153
Increase/(decrease) in other liabilities		(100)	448
Increase/(decrease) in employee leave entitlements		71	(246)
<b>Net cash provided from/(used in) operating activities from the Statement of Cash Flows</b>		<b>18,807</b>	<b>10,280</b>



## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 11. Statement of cash flows – additional information (continued)

\$ '000	Notes	Actual 2016	Actual 2015
(c) Non-cash investing and financing activities			
Nil			
(d) Financing arrangements			
(i) Unrestricted access was available at balance date to the following lines of credit:			
Bank overdraft facilities <sup>(1)</sup>		500	500
Credit cards/purchase cards		25	25
<b>Total financing arrangements</b>		<b>525</b>	<b>525</b>
Amounts utilised as at balance date:			
– Credit cards/purchase cards		3	–
<b>Total financing arrangements utilised</b>		<b>3</b>	<b>–</b>

1. The bank overdraft facility may be drawn at any time and may be terminated by the bank without notice.  
Interest rates on overdrafts are interest rates on loans and other payables are disclosed in Note 15.

## (ii) Secured loan liabilities

Loans are secured by a mortgage over future years rate revenue only.

# Lithgow City Council

## Notes to the Financial Statements for the year ended 30 June 2016

### Note 12. Commitments for expenditure

\$ '000	Notes	Actual 2016	Actual 2015
<b>(a) Capital commitments (exclusive of GST)</b>			
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:			
<b>Property, plant and equipment</b>			
Water assets		818	2,554
Sewer assets		1,196	1,632
Portland Sewer Treatment Plant		15,050	–
<b>Total commitments</b>		<b>17,064</b>	<b>4,186</b>
<b>These expenditures are payable as follows:</b>			
Within the next year		12,064	4,186
Later than one year and not later than 5 years		5,000	–
<b>Total payable</b>		<b>17,064</b>	<b>4,186</b>
<b>Sources for funding of capital commitments:</b>			
Future grants and contributions		10,050	–
Externally restricted reserves		2,014	4,186
New loans (to be raised)		5,000	–
<b>Total sources of funding</b>		<b>17,064</b>	<b>4,186</b>

### (b) Finance lease commitments

Nil

### (c) Operating lease commitments (non-cancellable)

Nil

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 13a(i). Statement of performance measurement – indicators (consolidated)

\$ '000	Amounts 2016	Indicator 2016	Prior periods	
			2015	2014
Local government industry indicators – consolidated				
1. Operating performance ratio				
Total continuing operating revenue <sup>(1)</sup> excluding capital grants and contributions less operating expenses	(3,209)	-7.75%	-3.73%	-6.59%
Total continuing operating revenue <sup>(1)</sup> excluding capital grants and contributions	41,410			
2. Own source operating revenue ratio				
Total continuing operating revenue <sup>(1)</sup> excluding all grants and contributions	32,517	67.23%	75.04%	74.90%
Total continuing operating revenue <sup>(1)</sup>	48,368			
3. Unrestricted current ratio				
Current assets less all external restrictions <sup>(2)</sup>	18,947	4.08x	3.40x	1.90x
Current liabilities less specific purpose liabilities <sup>(3, 4)</sup>	4,645			
4. Debt service cover ratio				
Operating result <sup>(1)</sup> before capital excluding interest and depreciation/impairment/amortisation	11,069	2.91x	3.53x	3.57x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	3,805			
5. Rates, annual charges, interest and extra charges outstanding percentage				
Rates, annual and extra charges outstanding	1,322	5.13%	5.17%	6.33%
Rates, annual and extra charges collectible	25,785			
6. Cash expense cover ratio				
Current year's cash and cash equivalents plus all term deposits	24,881	8.82 mths	6.7 mths	7.7 mths
Payments from cash flow of operating and financing activities	2,821			

## Notes

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

<sup>(2)</sup> Refer Notes 6-8 inclusive.

Also excludes any real estate and land for resale not expected to be sold in the next 12 months.

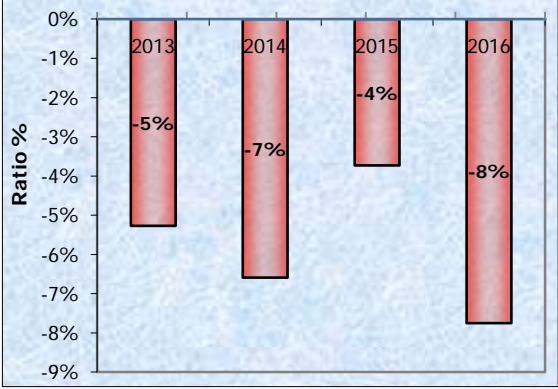
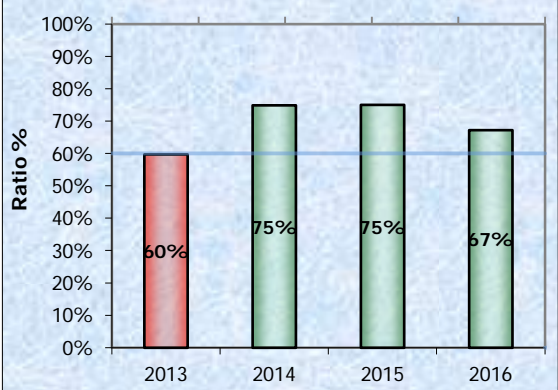
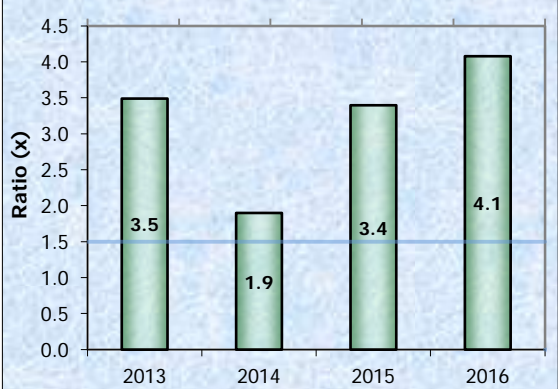
<sup>(3)</sup> Refer to Note 10(a).

<sup>(4)</sup> Refer to Note 10(a)(ii) – excludes all payables and provisions not expected to be paid in the next 12 months (incl. ELE).

# Lithgow City Council

## Notes to the Financial Statements for the year ended 30 June 2016

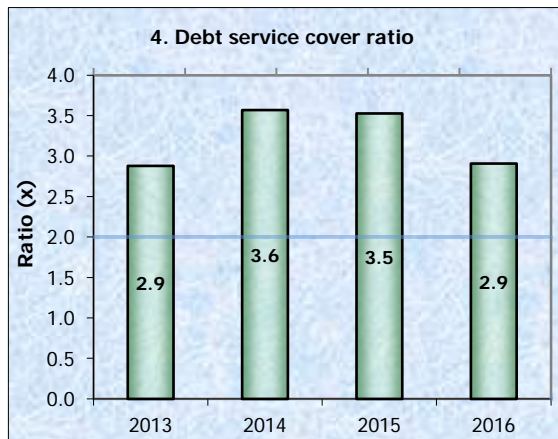
### Note 13a(ii). Local government industry indicators – graphs (consolidated)

<p><b>1. Operating performance ratio</b></p>  <p>Benchmark: — Minimum <math>\geq 0.00\%</math> Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>	<p><b>Purpose of operating performance ratio</b></p> <p>This ratio measures Council's achievement of containing operating expenditure within operating revenue.</p>	<p><b>Commentary on 2015/16 result</b></p> <p><b>2015/16 ratio    -7.75%</b></p> <p>Council has not made a profit before capital grants for the last four years causing negative Operating Performance Ratio results. This highlights the fact that Council has been successful in securing external grant funding for its capital program.</p>
<p><b>2. Own source operating revenue ratio</b></p>  <p>Benchmark: — Minimum <math>\geq 60.00\%</math> Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>	<p><b>Purpose of own source operating revenue ratio</b></p> <p>This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.</p>	<p><b>Commentary on 2015/16 result</b></p> <p><b>2015/16 ratio    67.23%</b></p> <p>Council continues to meet this benchmark in 2015/16. The ratio shows that Council is not reliant on external funding as it has raised 67% of operating income via its own sources.</p>
<p><b>3. Unrestricted current ratio</b></p>  <p>Benchmark: — Minimum <math>\geq 1.50</math> Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>	<p><b>Purpose of unrestricted current ratio</b></p> <p>To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.</p>	<p><b>Commentary on 2015/16 result</b></p> <p><b>2015/16 ratio    4.08x</b></p> <p>The results of this ratio show that Council is able to meet its short term (unrestricted) obligations as they fall due.</p>

# Lithgow City Council

## Notes to the Financial Statements for the year ended 30 June 2016

### Note 13a(ii). Local government industry indicators – graphs (consolidated)



Benchmark: — Minimum  $\geq 2.00$

Source for benchmark: Code of Accounting Practice and Financial Reporting #24



#### Purpose of debt service cover ratio

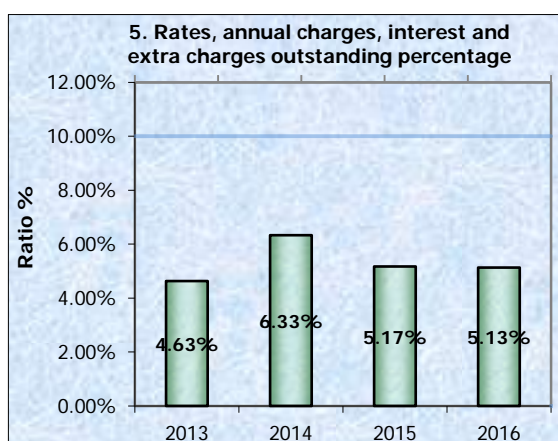
This ratio measures the availability of operating cash to service debt including interest, principal and lease payments

#### Commentary on 2015/16 result

**2015/16 ratio 2.91x**

Council is in a position that it is able to service its current debt 2.86 times over. This also suggests Council has the capacity to undertake further borrowings if required.

 Ratio achieves benchmark  
 Ratio is outside benchmark



Benchmark: — Maximum  $< 10.00\%$

Source for Benchmark: Code of Accounting Practice and Financial Reporting #24



#### Purpose of rates and annual charges outstanding ratio

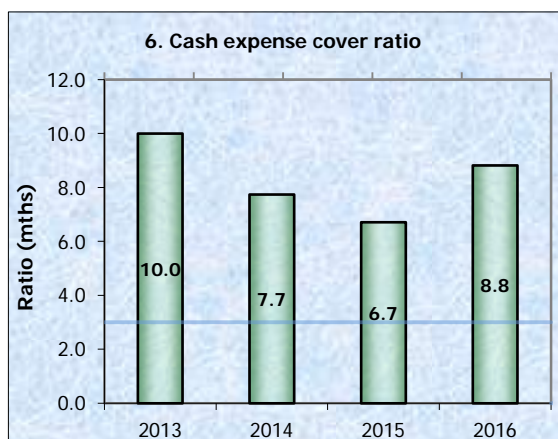
To assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.

#### Commentary on 2015/16 result

**2015/16 ratio 5.13%**

This ratio shows that Council is effectively managing its rates and annual charges debtors. A downward trend would suggest debt recovery methods are working.

 Ratio is within Benchmark  
 Ratio is outside Benchmark



Benchmark: — Minimum  $\geq 3.00$

Source for benchmark: Code of Accounting Practice and Financial Reporting #24



#### Purpose of cash expense cover ratio

This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.

#### Commentary on 2015/16 result

**2015/16 ratio 8.82 mths**

This ratio shows that Council has the capacity to continue to meet short term expenses for almost 9 months without any additional cashflow from 30 June 2016.

 Ratio achieves benchmark  
 Ratio is outside benchmark

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 13b. Statement of performance measurement – indicators (by fund)

\$ '000	Water 2016	Sewer 2016	General <sup>5</sup> 2016
<b>Local government industry indicators – by fund</b>			
<b>1. Operating performance ratio</b>			
Total continuing operating revenue <sup>(1)</sup> excluding capital grants and contributions less operating expenses	<b>-17.22%</b>	<b>6.93%</b>	<b>-9.48%</b>
Total continuing operating revenue <sup>(1)</sup> excluding capital grants and contributions	prior period: -3.26%	7.06%	-6.82%
<b>2. Own source operating revenue ratio</b>			
Total continuing operating revenue <sup>(1)</sup> excluding all grants and contributions	<b>95.86%</b>	<b>85.08%</b>	<b>56.85%</b>
Total continuing operating revenue <sup>(1)</sup>	prior period: 98.63%	98.71%	64.16%
<b>3. Unrestricted current ratio</b>			
Current assets less all external restrictions <sup>(2)</sup>	<b>6.43x</b>	<b>2.76x</b>	<b>4.08x</b>
Current liabilities less specific purpose liabilities <sup>(3, 4)</sup>	prior period: 7.50x	2.55x	3.40x
<b>4. Debt service cover ratio</b>			
Operating result <sup>(1)</sup> before capital excluding interest and depreciation/impairment/amortisation	<b>1.16x</b>	<b>2.33x</b>	<b>3.35x</b>
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	prior period: 11.25x	1.97x	4.33x
<b>5. Rates, annual charges, interest and extra charges outstanding percentage</b>			
Rates, annual and extra charges outstanding	<b>8.66%</b>	<b>7.28%</b>	<b>4.08%</b>
Rates, annual and extra charges collectible	prior period: 5.72%	2.95%	5.91%
<b>6. Cash expense cover ratio</b>			
Current year's cash and cash equivalents plus all term deposits	<b>4.85 mths</b>	<b>5.66 mths</b>	<b>10.95 mths</b>
Payments from cash flow of operating and financing activities	prior period: 0.00 mths	0.00 mths	4.75 mths

## Notes

(1) - (4) Refer to Notes at Note 13a(i) above.

(5) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

# Lithgow City Council

## Notes to the Financial Statements for the year ended 30 June 2016

### Note 14. Investment properties

\$ '000

Council has not classified any land or buildings as 'investment properties'.

### Note 15. Financial risk management

#### Risk management

Council's activities expose it to a variety of financial risks including **(1)** price risk, **(2)** credit risk, **(3)** liquidity risk and **(4)** 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 Council's finance section under policies approved by the Council.

A comparison by category of the carrying amounts and fair values of Council's financial assets and financial liabilities recognised in the financial statements is presented below.

	Carrying value		Fair value	
	2016	2015	2016	2015
<b>Financial assets</b>				
Cash and cash equivalents	20,881	13,436	20,881	13,436
Investments				
– 'Held to maturity'	4,000	5,013	4,000	5,013
Receivables	5,131	5,912	–	4,355
<b>Total financial assets</b>	<b>30,012</b>	<b>24,361</b>	<b>24,881</b>	<b>22,804</b>
<b>Financial liabilities</b>				
Payables	3,711	2,752	3,539	2,358
Loans/advances	19,674	21,335	19,675	21,335
<b>Total financial liabilities</b>	<b>23,385</b>	<b>24,087</b>	<b>23,214</b>	<b>23,693</b>

Fair value is determined as follows:

- **Cash** and **cash equivalents**, **receivables**, **payables** – are estimated to be the carrying value that approximates market value.
- **Borrowings** and **held-to-maturity** investments – are based upon estimated future cash flows discounted by the current mkt interest rates applicable to assets and liabilities with similar risk profiles, unless quoted market prices are available.
- Financial assets classified (i) '**at fair value through profit and loss**' or (ii) '**available-for-sale**' – are based upon quoted market prices (in active markets for identical investments) at the reporting date or independent valuation.

Refer to Note 27. Fair value measurement for information regarding the fair value of financial assets and liabilities.



# Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

### Note 15. Financial risk management (continued)

\$ '000

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital.

Council's finance area 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* and Minister's investment order. This policy is regularly reviewed by Council and its staff and an investment report is tabled before Council on a monthly basis setting out the portfolio breakup and its performance.

The risks associated with the investments held are:

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether there changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.

Council manages these risks (amongst other measures) by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees.

Council also seeks advice from independent advisers before placing any funds in cash equivalents and investments.

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

The following represents a summary of the sensitivity of Council's Income Statement and accumulated surplus (for the reporting period) due to a change in either the price of a financial asset or the interest rates applicable.

It is assumed that the change in interest rates would have been constant throughout the reporting period.

	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
<b>2016</b>				
Possible impact of a 1% movement in interest rates	260	260	(260)	(260)
<b>2015</b>				
Possible impact of a 1% movement in interest rates	10	10	(10)	(10)

# Lithgow City Council

## Notes to the Financial Statements for the year ended 30 June 2016

### Note 15. Financial risk management (continued)

\$ '000

#### (b) Credit risk

Council's major receivables comprise (i) rates and annual charges and (ii) user charges and fees.

The major risk associated with these receivables is credit risk – the risk that debts due and payable to Council may not be repaid in full.

Council manages this risk by monitoring outstanding debt and employing stringent debt recovery procedures. It also encourages ratepayers to pay their rates by the due date through incentives.

Credit risk on rates and annual charges is minimised by the ability of Council to secure a charge over the land relating to the debts – 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 the payment of debt.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

The level of outstanding receivables is reported to Council 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 subjected to a re-negotiation of repayment terms.

A profile of Council's receivables credit risk at balance date follows:

	2016 Rates and annual charges	2016 Other receivables	2015 Rates and annual charges	2015 Other receivables
<b>(i) Ageing of receivables – %</b>				
Current (not yet overdue)	4%	48%	6%	95%
Overdue	96%	52%	94%	5%
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

		2016 Rates and annual charges	2016 Other receivables	2015 Rates and annual charges	2015 Other receivables
<b>(ii) Ageing of receivables – value</b>					
<b>Rates and annual charges</b>	<b>Other receivables</b>				
Current	Current	49	2,014	64	4,622
< 1 year overdue	0 – 30 days overdue	728	75	182	52
1 – 2 years overdue	30 – 60 days overdue	128	316	415	–
2 – 5 years overdue	60 – 90 days overdue	131	64	245	–
> 5 years overdue	> 90 days overdue	86	1,757	173	197
		<b>1,122</b>	<b>4,226</b>	<b>1,079</b>	<b>4,871</b>

#### (iii) Movement in provision for impairment of receivables

	2016	2015
Balance at the beginning of the year	38	19
+ new provisions recognised during the year	179	27
– amounts already provided for and written off this year	–	(8)
<b>Balance at the end of the year</b>	<b>217</b>	<b>38</b>

# Lithgow City Council

## Notes to the Financial Statements for the year ended 30 June 2016

### Note 15. Financial risk management (continued)

\$ '000

#### (c) Liquidity risk

Payables and borrowings are both subject to liquidity risk – 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 maintaining an adequate cash buffer.

Payment terms can (in extenuating circumstances) also be extended and overdraft facilities utilised as required.

The contractual undiscounted cash outflows (ie. principal and interest) of Council's payables and borrowings are set out in the maturity table below:

\$ '000	Subject to no maturity	payable in:						Total cash outflows	Actual carrying values
		≤ 1 Year	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	> 5 Yrs		
2016									
Trade/other payables	776	2,935	–	–	–	–	–	3,711	3,711
Loans and advances	–	1,910	1,880	1,907	1,787	1,176	11,014	19,674	19,674
Total financial liabilities	776	4,845	1,880	1,907	1,787	1,176	11,014	23,385	23,385
2015									
Trade/other payables	918	1,460	–	–	–	–	17,425	19,803	2,752
Loans and advances	–	2,653	2,556	2,478	2,458	2,294	17,245	29,684	21,335
Total financial liabilities	918	4,113	2,556	2,478	2,458	2,294	34,670	49,487	24,087

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs and debt servicing requirements. Council manages this risk through the diversification of borrowing types, maturities and interest rate structures.

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

	2016		2015	
	Carrying value	Average interest rate	Carrying value	Average interest rate
Trade/other payables	3,711	0.00%	2,752	0.00%
Loans and advances – fixed interest rate	19,674	3.96%	21,335	5.30%
	<u>23,385</u>		<u>24,087</u>	

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 16. Material budget variations

\$ '000

Council's original financial budget for 15/16 was adopted by the Council on 01 June 2015.

While the Income Statement included in this General Purpose Financial Report must disclose the original budget adopted by Council, the *Local Government Act 1993* requires Council to review its financial budget on a quarterly basis, so that it is able to manage the various variations between actuals versus budget that invariably occur throughout the year.

This note sets out the details of **material variations** between Council's original budget and its actual results for the year as per the Income Statement – even though such variations may have been adjusted for during each quarterly budget review.

**Note that for variations\* of budget to actual :**

Material variations represent those variances that amount to **10%** or more of the original budgeted figure.

**F** = Favourable budget variation, **U** = Unfavourable budget variation

\$ '000	2016 Budget	2016 Actual	2016 ----- Variance* -----		
<b>REVENUES</b>					
<b>Rates and annual charges</b>	<b>24,361</b>	<b>24,361</b>	<b>0</b>	<b>0%</b>	<b>F</b>
<b>User charges and fees</b>	<b>5,944</b>	<b>6,606</b>	<b>662</b>	<b>11%</b>	<b>F</b>
Swimming pool fees, buildings fees and water usage income was greater than expected.					
<b>Interest and investment revenue</b>	<b>585</b>	<b>759</b>	<b>174</b>	<b>30%</b>	<b>F</b>
Due to an increase in cash Council has received additional investment interest income from additional investments held.					
<b>Other revenues</b>	<b>1,154</b>	<b>790</b>	<b>(364)</b>	<b>(32%)</b>	<b>U</b>
Variation due to Private Works income being incorrectly classified in original budget.					
<b>Operating grants and contributions</b>	<b>6,464</b>	<b>8,892</b>	<b>2,428</b>	<b>38%</b>	<b>F</b>
Council has been successful in applying for grants during the financial year having a favourable outcome in operating grant income.					
<b>Capital grants and contributions</b>	<b>11,646</b>	<b>6,958</b>	<b>(4,688)</b>	<b>(40%)</b>	<b>U</b>
Council did not receive all grant funding budgeted for due to capital grants being claim based. Timing issues with receipts of payment.					
<b>Net gains from disposal of assets</b>	<b>431</b>	<b>–</b>	<b>(431)</b>	<b>(100%)</b>	<b>U</b>
Original budget estimates allowed only for disposal of fleet. Other Structures, Swimming Pools and Roads categories contained a number of assets which made losses on disposal which were not originally considered/budgeted for.					

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 16. Material budget variations (continued)

\$ '000	2016 Budget	2016 Actual	2016 ----- Variance* -----	
<b>EXPENSES</b>				
<b>Employee benefits and on-costs</b>	<b>13,138</b>	<b>15,257</b>	<b>(2,119)</b>	<b>(16%) U</b>
Sick leaves and long service leave exceeded original budget by \$570,000. Salaries and wages distorted due to projects being marked as capital in original budget that eventually became operating in nature.				
<b>Borrowing costs</b>	<b>1,130</b>	<b>1,998</b>	<b>(868)</b>	<b>(77%) U</b>
Increased borrowing costs due to new loan being drawn down which was not included in original budget estimates.				
<b>Materials and contracts</b>	<b>11,808</b>	<b>9,875</b>	<b>1,933</b>	<b>16% F</b>
Classification issues in original budget between other expenses and materials and contracts due to introduction of new chart of accounts.				
<b>Depreciation and amortisation</b>	<b>9,493</b>	<b>12,280</b>	<b>(2,787)</b>	<b>(29%) U</b>
Roads, Bridges & Footpaths understated due to revaluation estimates not being included in original budget calculations due to timing issues.				
<b>Other expenses</b>	<b>3,772</b>	<b>5,210</b>	<b>(1,438)</b>	<b>(38%) U</b>
Classification issues in original budget between other expenses and materials and contracts due to introduction of new chart of accounts.				
<b>Net losses from disposal of assets</b>	<b>–</b>	<b>909</b>	<b>(909)</b>	<b>0% U</b>
A number of assets were disposed of as a part of revaluations of Other Structures and Community Land which were not accounted for in original budget.				

## Budget variations relating to Council's Cash Flow Statement include:

<b>Cash flows from operating activities</b>	<b>19,274</b>	<b>18,807</b>	<b>(467)</b>	<b>(2.4%) U</b>
<b>Cash flows from investing activities</b>	<b>431</b>	<b>(9,555)</b>	<b>(9,986)</b>	<b>(2316.9%) U</b>
<b>Cash flows from financing activities</b>	<b>–</b>	<b>(1,807)</b>	<b>(1,807)</b>	<b>0.0% U</b>

## Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 17. Statement of developer contributions

\$ '000

Council recovers contributions, raises levies and enters into planning agreements on development works that are subject to a development consent issued by Council. All contributions must be spent/utilised for the specific purpose they were levied and any interest applicable to unspent funds must be attributed to remaining funds.

The following tables detail the receipt, interest and use of the above contributions and levies and the value of all remaining funds which are 'restricted' in their future use.

## SUMMARY OF CONTRIBUTIONS AND LEVIES

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Roads	952	—	—	—	—	—	952	—
Bushfire	122	—	—	—	—	—	122	—
<b>S94 contributions – under a plan</b>	<b>1,074</b>	—	—	—	—	—	<b>1,074</b>	—
<b>S94A levies – under a plan</b>	<b>432</b>	<b>221</b>	—	—	(279)	—	<b>374</b>	—
<b>Total S94 revenue under plans</b>	<b>1,506</b>	<b>221</b>	—	—	(279)	—	<b>1,448</b>	—
<b>Total contributions</b>	<b>1,506</b>	<b>221</b>	—	—	(279)	—	<b>1,448</b>	—

## Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 17. Statement of developer contributions (continued)

\$ '000

## S94 CONTRIBUTIONS – UNDER A PLAN

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Roads	952	–	–	–	–	–	952	–
Bushfire	122	–	–	–	–	–	122	–
<b>Total</b>	<b>1,074</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,074</b>	<b>–</b>

## S94A LEVIES – UNDER A PLAN

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Other Sec 94A Plan 12/13	186	221	–	–	(279)	–	128	–
Other (Prev Yrs)	246	–	–	–	–	–	246	–
<b>Total</b>	<b>432</b>	<b>221</b>	<b>–</b>	<b>–</b>	<b>(279)</b>	<b>–</b>	<b>374</b>	<b>–</b>



# Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

### Note 18. Contingencies and other assets/liabilities not recognised

\$ '000

The following assets and liabilities do not qualify for recognition in the Statement of Financial Position, but their knowledge and disclosure is considered relevant to the users of Council's financial report.

#### LIABILITIES NOT RECOGNISED:

##### 1. Guarantees

###### (i) Defined benefit superannuation contribution plans

Council participates in an employer-sponsored defined benefit superannuation scheme, and makes contributions as determined by the superannuation scheme's trustees.

Member councils bear responsibility of ensuring there are sufficient funds available to pay out the required benefits as they fall due.

The schemes most recent full actuarial review indicated that the net assets of the scheme were not sufficient to meet the accrued benefits of the schemes defined benefit member category with member councils required to make significantly higher contributions in future years.

The Local Government Superannuation Scheme however is unable to provide Council with an accurate estimate of its share of the net deficit and accordingly Council has not recorded any net liability from its defined benefit scheme obligations in accordance with AASB 119.

Future contributions made to the defined benefit scheme to rectify the net deficit position will be recognised as an expense when they become payable – similar to the accounting for defined contributions plans.

###### (ii) Statewide Limited

Council is a member of Statewide Mutual, a mutual pool scheme providing liability insurance to local government.

Membership includes the potential to share in either the net assets or liabilities of the fund depending on its past performance. Council's share of the net assets or liabilities reflects Council's contributions to the pool and the result of insurance claims within each of the fund years.

The future realisation and finalisation of claims incurred but not reported to 30/6 this year may result in future liabilities or benefits as a result of past events that Council will be required to fund or share in respectively.

###### (iii) StateCover Limited

Council is a member of StateCover Mutual Limited and holds a partly paid share in the entity.

StateCover is a company providing workers compensation insurance cover to the NSW local government industry and specifically Council.

Council has a contingent liability to contribute further equity in the event of the erosion of the company's capital base as a result of the company's past performance and/or claims experience or as a result of any increased prudential requirements from APRA.

These future equity contributions would be required to maintain the company's minimum level of net assets in accordance with its licence requirements.

###### (iv) Other guarantees

Council has provided no other guarantees other than those listed above.

# Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000

#### LIABILITIES NOT RECOGNISED (continued):

##### 2. Other liabilities

###### (i) Third party claims

The Council is involved from time to time in various claims incidental to the ordinary course of business including claims for damages relating to its services.

Council believes that it is appropriately covered for all claims through its insurance coverage and does not expect any material liabilities to eventuate.

###### (ii) S94 plans

Council levies section 94/94A contributions upon various development across the Council area through the required contributions plans.

As part of these plans, Council has received funds for which it will be required to expend the monies in accordance with those plans.

As well, these plans indicate proposed future expenditure to be undertaken by Council, which will be funded by making levies and receipting funds in future years or where a shortfall exists by the use of Council's general funds.

These future expenses do not yet qualify as liabilities as of the reporting date, but represent Council's intention to spend funds in the manner and timing set out in those plans.

###### (iii) Potential land acquisitions due to planning restrictions imposed by Council

Council has classified a number of privately owned land parcels as local open space or bushland.

As a result, where notified in writing by the various owners, Council will be required to purchase these land parcels.

At reporting date, reliable estimates as to the value of any potential liability (and subsequent land asset) from such potential acquisitions has not been possible.

#### ASSETS NOT RECOGNISED:

###### (i) Land under roads

As permitted under AASB 1051, Council has elected not to bring to account land under roads that it owned or controlled up to and including 30/6/08.

###### (ii) Infringement notices/fines

Fines and penalty income, the result of Council issuing infringement notices is followed up and collected by the Infringement Processing Bureau.

Council's revenue recognition policy for such income is to account for it as revenue on receipt.

Accordingly, at year end, there is a potential asset due to Council representing issued but unpaid infringement notices.

Due to the limited information available on the status, value and duration of outstanding notices, Council is unable to determine the value of outstanding income.

## Lithgow City Council

### Notes to the Financial Statements for the year ended 30 June 2016

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

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\$ '000

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##### ASSETS NOT RECOGNISED:

##### **(iii) Grant Funds due Office of Water Lithgow & Wallerawang STPs:**

Following the completion of the upgrade to the Lithgow & Wallerawang STP, the final payments are due from the NSW Office of Water following the completion of the following reports:

- *Water & Sewerage Strategic Plans*
- *Residential Water Supply Best Practice Tariff*
- *Water Supply & Sewerage Development Servicing Plans*
- *Demand Management Plan*
- *Drought Management Plan*
- *Integrated Water Cycle Management Plan*

##### **(iv) Portland Pool and Three Tree Lodge**

Following advice received from Council's auditors assets pertaining to Portland Pool and Three Tree Lodge have been removed from the financials and now shown as a contingent asset. While it is expected that there will be financial transactions relating to these assets in future periods the timing and magnitude cannot be reliably estimated at this point in time

#### Note 19. Interests in other entities

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Council has no interest in any controlled entities, joint arrangements or associates.

## Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000	Notes	Actual 2016	Actual 2015
<b>(a) Retained earnings</b>			
<b>Movements in retained earnings were as follows:</b>			
Balance at beginning of year (from previous years audited accounts)		244,495	247,864
a. Correction of prior period errors	20 (c)	–	(5,339)
b. Other comprehensive income (excl. direct to reserves transactions)		3,991	–
c. Net operating result for the year		2,840	1,970
<b>Balance at end of the reporting period</b>		<b>251,326</b>	<b>244,495</b>
<b>(b) Revaluation reserves</b>			
<b>(i) Reserves are represented by:</b>			
– Infrastructure, property, plant and equipment revaluation reserve		154,510	143,853
– ‘Available for sale’ financial investments revaluation reserve		–	(500)
<b>Total</b>		<b>154,510</b>	<b>143,353</b>
<b>(ii) Reconciliation of movements in reserves:</b>			
<b>Infrastructure, property, plant and equipment revaluation reserve</b>			
– Opening balance		143,853	122,170
– Revaluations for the year	9(a)	14,035	21,683
– Other movements		(3,378)	–
<b>– Balance at end of year</b>		<b>154,510</b>	<b>143,853</b>
<b>‘Available for sale’ financial investments revaluation reserve</b>			
– Opening balance		(500)	(500)
– Other movements		500	–
<b>– Balance at end of year</b>		<b>–</b>	<b>(500)</b>
<b>TOTAL VALUE OF RESERVES</b>		<b>154,510</b>	<b>143,353</b>

**(iii) Nature and purpose of reserves****Infrastructure, property, plant and equipment revaluation reserve**

– The infrastructure, property, plant and equipment revaluation reserve is used to record increments/decrements of non-current asset values due to their revaluation.

**‘Available for sale’ financial investments revaluation reserve**

– The ‘available for sale’ financial investments revaluation reserve is used to account for the fair value movements in all financial assets so classified that remain on hand at year end.

Upon sale, amounts in reserves are recognised in the Income Statement (in full) by way of transfer from the reserve.

# Lithgow City Council

## Notes to the Financial Statements for the year ended 30 June 2016

### Note 20. Retained earnings, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

\$ '000	Notes	Actual 2016	Actual 2015
<b>(c) Correction of error/s relating to a previous reporting period</b>			
In accordance with AASB 108 – Accounting Policies, Changes in Accounting Estimates and Errors, the above prior period errors have been recognised retrospectively.			
These amounted to the following equity adjustments:			
– Adjustments to opening equity – 1/7/14 (relating to adjustments for the 30/6/14 reporting year end and prior periods)		–	(5,339)
– Adjustments to closing equity – 30/6/15 (relating to adjustments for the 30/6/15 year end)		–	–
<b>Total prior period adjustments – prior period errors</b>		<b>–</b>	<b>(5,339)</b>

### (d) Voluntary changes in accounting policies

Council made no voluntary changes in any accounting policies during the year.

### (e) Changes in accounting estimates

Council made no changes in accounting estimates during the year.

# Lithgow City Council

## Notes to the Financial Statements for the year ended 30 June 2016

### Note 21. Financial result and financial position by fund

Income Statement by fund \$ '000	Actual 2016	Actual 2016	Actual 2016
<b>Continuing operations</b>	<b>Water</b>	<b>Sewer</b>	<b>General<sup>1</sup></b>
<b>Income from continuing operations</b>			
Rates and annual charges	1,421	6,413	16,527
User charges and fees	5,133	628	845
Interest and investment revenue	41	–	718
Other revenues	–	–	790
Grants and contributions provided for operating purposes	95	481	8,316
Grants and contributions provided for capital purposes	190	753	6,015
<b>Total income from continuing operations</b>	<b>6,880</b>	<b>8,275</b>	<b>33,213</b>
<b>Expenses from continuing operations</b>			
Employee benefits and on-costs	2,141	1,598	11,518
Borrowing costs	98	505	1,395
Materials and contracts	2,642	2,421	4,812
Depreciation and amortisation	1,311	1,729	9,240
Other expenses	1,650	747	2,813
Net losses from the disposal of assets	–	–	909
<b>Total expenses from continuing operations</b>	<b>7,842</b>	<b>7,000</b>	<b>30,686</b>
<b>Operating result from continuing operations</b>	<b>(962)</b>	<b>1,275</b>	<b>2,527</b>
<b>Discontinued operations</b>			
Net profit/(loss) from discontinued operations	–	–	–
<b>Net operating result for the year</b>	<b>(962)</b>	<b>1,275</b>	<b>2,527</b>
<b>Net operating result attributable to each council fund</b>	<b>(962)</b>	<b>1,275</b>	<b>2,527</b>
<b>Net operating result attributable to non-controlling interests</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Net operating result for the year before grants and contributions provided for capital purposes</b>	<b>(1,152)</b>	<b>522</b>	<b>(3,488)</b>

<sup>1</sup> General fund refers to all Council's activities other than Water and Sewer.

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds.

## Lithgow City Council

Notes to the Financial Statements  
as at 30 June 2016

## Note 21. Financial result and financial position by fund (continued)

Statement of Financial Position by fund \$ '000	Actual 2016	Actual 2016	Actual 2016
<b>ASSETS</b>	<b>Water</b>	<b>Sewer</b>	<b>General<sup>1</sup></b>
<b>Current assets</b>			
Cash and cash equivalents	2,696	2,803	15,382
Investments	–	–	4,000
Receivables	1,704	713	2,714
Inventories	149	17	553
Other	–	–	228
Non-current assets classified as 'held for sale'	–	–	–
<b>Total current assets</b>	<b>4,549</b>	<b>3,533</b>	<b>22,877</b>
<b>Non-current assets</b>			
Investments	–	–	–
Receivables	–	–	–
Inventories	–	–	–
Infrastructure, property, plant and equipment	30,426	63,390	319,798
Investments accounted for using the equity method	–	–	–
Investment property	–	–	–
Intangible assets	–	–	–
<b>Total non-current assets</b>	<b>30,426</b>	<b>63,390</b>	<b>319,798</b>
<b>TOTAL ASSETS</b>	<b>34,975</b>	<b>66,923</b>	<b>342,675</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	137	256	3,311
Borrowings	139	864	595
Provisions	432	154	2,943
<b>Total current liabilities</b>	<b>708</b>	<b>1,274</b>	<b>6,849</b>
<b>Non-current liabilities</b>			
Payables	–	–	7
Borrowings	1,221	10,934	5,921
Provisions	–	5	12,087
<b>Total non-current liabilities</b>	<b>1,221</b>	<b>10,939</b>	<b>18,015</b>
<b>TOTAL LIABILITIES</b>	<b>1,929</b>	<b>12,213</b>	<b>24,864</b>
<b>Net assets</b>	<b>33,046</b>	<b>54,710</b>	<b>317,811</b>
<b>EQUITY</b>			
Retained earnings	14,051	25,311	211,964
Revaluation reserves	18,995	29,399	105,847
<b>Total equity</b>	<b>33,046</b>	<b>54,710</b>	<b>317,811</b>

<sup>1</sup> General Fund refers to all Council's activities other than Water and Sewer.

NB. All amounts disclosed above are gross – that is, they include internal receivables and payables between the funds.



## Lithgow City Council

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 22. 'Held for sale' non-current assets and disposal groups

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\$ '000

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Council did not classify any non-current assets or disposal groups as 'held for sale'.

#### Note 23. Events occurring after the reporting date

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Events that occur between the end of the reporting period (30 June 2016) and the date when the financial statements are 'authorised for issue' have been taken into account in preparing these statements.

Council has adopted the date of receipt of the Auditors' Report as the applicable 'authorised for issue' date relating to these General Purpose Financial Statements.

Accordingly, the 'authorised for issue' date is dd/mm/yy.

Events that occur after the reporting period represent one of two types:

##### **(i) Events that provide evidence of conditions that existed at the reporting period**

These financial statements (and the figures therein) incorporate all 'adjusting events' that provided evidence of conditions that existed at 30 June 2016.

##### **(ii) Events that provide evidence of conditions that arose after the reporting period**

These financial statements (and figures therein) do not incorporate any 'non-adjusting events' that have occurred after 30 June 2016 and which are only indicative of conditions that arose after 30 June 2016.

**Council is unaware of any material or significant 'non-adjusting events' that should be disclosed.**

#### Note 24. Discontinued operations

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Council has not classified any of its operations as 'discontinued'.

#### Note 25. Intangible assets

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Intangible assets represent identifiable non-monetary assets without physical substance.

Council is unaware of any control over intangible assets that warrant recognition in the financial statements, including either internally generated and developed assets or purchased assets.

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 26. Reinstatement, rehabilitation and restoration liabilities

\$ '000

Council has legal/public obligations to make restore, rehabilitate and reinstate the following assets/operations:

Asset/operation	Estimated year of restoration	NPV of provision	
		2016	2015
Tip operations	Various	11,939	11,016
<b>Balance at end of the reporting period</b>	10(a)	<b>11,939</b>	<b>11,016</b>

Under AASB 116 – Property, Plant and Equipment, where the use of an asset results in the obligation to dismantle or remove the asset and restore the site on which the asset stands, an estimate of such costs is required to be included in the cost of the asset.

An equivalent liability must be recognised under AASB 137 – Provisions, Contingent Liabilities and Contingent Assets.

The provision has been calculated by determining the present value of the future expenditures expected to be incurred. The discount rate used is the risk free borrowing rate applicable to Council.

**Reconciliation of movement in provision for year:**

Balance at beginning of year	11,016	10,696
Amounts capitalised to new or existing assets:		
Effect of a change in discount rates used in PV calculations	923	320
<b>Total – reinstatement, rehabilitation and restoration provision</b>	<b>11,939</b>	<b>11,016</b>

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 27. Fair value measurement

\$ '000

The Council measures the following asset and liability classes at fair value on a recurring basis:

– Infrastructure, property, plant and equipment – Financial assets and liabilities

The fair value of assets and liabilities must be estimated in accordance with various accounting standards for either recognition and measurement requirements or for disclosure purposes.

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:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(1) The following table presents all assets and liabilities that have been measured and recognised at fair values:

Fair value measurement hierarchy					
Level 1	Level 2	Level 3			
Quoted prices in active mkts	Significant observable inputs	Significant unobservable inputs			
Total					
2016					
Recurring fair value measurements					
Financial assets					
Investments					
– ‘Held to maturity’	30/06/16	4,000	–	–	4,000
Cash and cash equivalents	30/06/16	20,881	–	–	20,881
Total financial assets		24,881	–	–	24,881
Financial liabilities					
Loans/advances	30/06/16	20,633	–	–	20,633
Payables	30/06/16	1,909	–	–	1,909
Bonds and security deposits	30/06/16	–	776	–	776
Accrued interest	30/06/16	67	–	–	67
Total financial liabilities		22,609	776	–	23,385
Infrastructure, property, plant and equipment					
Operational land	30/06/13		8,373	–	8,373
Community land	30/06/16	–	–	23,226	23,226
Plant and equipment	30/06/14	–	–	1,952	1,952
Office equipment	30/06/14	–	–	350	350
Furniture and fittings	30/06/14	–	–	63	63
Buildings	30/06/13	–	–	41,924	41,924
Other structures	30/06/16	–	–	9,606	9,606
Roads	30/06/15	–	–	168,489	168,489
Bridges	30/06/15	–	–	14,488	14,488
Footpaths	30/06/15	–	–	7,384	7,384
Bulk earthworks	30/06/15	–	–	12,181	12,181
Stormwater drainage	30/06/15	–	–	23,414	23,414
Water supply	30/06/12	–	–	30,330	30,330
Sewerage network	30/06/12	–	–	62,836	62,836
Swimming pools	30/06/13	–	–	6,480	6,480
Library books	30/06/11	–	–	181	181
Tip asset rehabilitation	30/06/11	–	–	1,569	1,569
Work in Progress		–	–	768	768
Total infrastructure, property, plant and equipment			8,373	405,241	413,614

## Lithgow City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 27. Fair value measurement (continued)

\$ '000

**(1) The following table presents all assets and liabilities that have been measured and recognised at fair values: (continued)**

		Fair value measurement hierarchy			
2015		Level 1	Level 2	Level 3	Total
	Date of latest valuation	Quoted prices in active mkts	Significant observable inputs	Significant unobservable inputs	
Recurring fair value measurements					
Financial assets					
Investments					
– ‘Held to maturity’	30/06/15	5,013	–	–	5,013
Cash and cash equivalents	30/06/15	13,436	–	–	13,436
Total financial assets		18,449	–	–	18,449
Financial liabilities					
Loans/advances	30/06/15	22,253	–	–	22,253
Payables	30/06/15	829	–	–	829
Bonds and security deposits	30/06/15	–	918	–	918
Accrued interest	30/06/15	87	–	–	87
Total financial liabilities		23,169	918	–	24,087
Infrastructure, property, plant and equipment					
Operational land	30/06/13	–	8,372	–	8,372
Community land	30/06/11	–	–	14,850	14,850
Plant and equipment	30/06/14	–	–	2,835	2,835
Office equipment	30/06/14	–	–	518	518
Furniture and fittings	30/06/14	–	–	25	25
Buildings	30/06/13	–	–	44,693	44,693
Other structures	30/06/13	–	–	5,175	5,175
Roads	30/06/10	–	–	171,478	171,478
Bridges	30/06/10	–	–	11,060	11,060
Footpaths	30/06/10	–	–	5,993	5,993
Bulk earthworks	30/06/10	–	–	12,181	12,181
Stormwater drainage	30/06/10	–	–	20,265	20,265
Water supply	30/06/12	–	–	30,591	30,591
Sewerage network	30/06/12	–	–	62,274	62,274
Swimming pools	30/06/13	–	–	4,127	4,127
Library books	30/06/11	–	–	182	182
Tip asset rehabilitation	30/06/11	–	–	1,733	1,733
Total infrastructure, property, plant and equipment		–	8,372	387,980	396,352

**(2) Transfers between level 1 and level 2 fair value hierarchies**

During the year, there were no transfers between level 1 and level 2 fair value hierarchies for recurring fair value measurements.

# Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

### Note 27. Fair value measurement (continued)

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\$ '000

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#### (3) Valuation techniques used to derive level 2 and level 3 fair values

Where Council is unable to derive fair valuations using quoted market prices of identical assets (ie. level 1 inputs) Council instead utilises a spread of both observable inputs (level 2 inputs) and unobservable inputs (level 3 inputs).

The fair valuation techniques Council has employed while utilising level 2 and level 3 inputs are as follows:

#### Financial assets

All of Council's cash and investments are classified as level 1

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#### Financial liabilities

Bonds and securities are listed at their historical value. This figure represents the maximum exposure to Council for these financial liabilities. At the reporting date Council is unsure if the works have been completed satisfactorily, or if any cleaning and repairs needs to be undertaken to Council's assets, therefore there is uncertainty around how much, if any of the bond needs to be retained.

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#### Investment properties

Council does not have investment properties

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#### Infrastructure, property, plant and equipment (IPP&E)

Council's Infrastructure, Property Plant and Equipment are valued at fair value using a variety of inputs. Most common are cost per square metre, consumption rates and useful lives. These inputs relate to Specialised Buildings, Roads, Bulk earthworks, bridges, stormwater drainage, water supply and sewerage network.

Other inputs are depreciated replacement costs which have been applied to Library books. Tip Assets and swimming pools. Again, the unobservable input that sits behind these calculations are unit costs.

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#### Discontinued operations

Council does not have any discontinued operations

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#### Non-current assets classified as 'held for sale'

Council has not classified any non current assets as held for resale

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## Lithgow City Council

# Notes to the Financial Statements

for the year ended 30 June 2016

## Note 27. Fair value measurement (continued)

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\$ '000

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### (4). Fair value measurements using significant unobservable inputs (level 3)

a. The following tables present the changes in level 3 fair value asset classes.

	Property plant and equipment	Total
<b>Opening balance – 1/7/14</b>	379,315	379,315
Transfers from/(to) another asset class	738	738
Purchases (GBV)	14,813	14,813
Disposals (WDV)	(5,358)	(5,358)
Depreciation and impairment	(10,151)	(10,151)
FV gains – other comprehensive income	21,683	21,683
Other movement	47	47
<b>Closing balance – 30/6/15</b>	<b>401,087</b>	<b>401,087</b>
Purchases (GBV)	11,089	11,089
Disposals (WDV)	(1,186)	(1,186)
Depreciation and impairment	(12,280)	(12,280)
FV gains – other comprehensive income	14,063	14,063
FV gains – Income Statement	1,381	1,381
Other movement	(542)	(542)
<b>Closing balance – 30/6/16</b>	<b>413,612</b>	<b>413,612</b>

## Lithgow City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 27. Fair value measurement (continued)

\$ '000

## (4). Fair value measurements using significant unobservable inputs (level 3) (continued)

**b. Significant unobservable valuation inputs used (for level 3 asset classes) and their relationship to fair value.**

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

Class	Fair value (30/6/16) \$'000	Valuation technique/s	Unobservable inputs
<b>I,PP&amp;E</b>			
Specialised buildings	41,924	Depreciated replacement cost	Cost per sq metre, consumption rate, condition, useful life
Road infrastructure	168,489	Depreciated replacement cost	Cost per sq metres dimensions and specification, pattern of consumption components useful life residual value asset condition
Bulk earthworks	12,181	Current replacement cost	Cost per Sq metre
Footpaths	7,384	Depreciated replacement cost	Cost per sq metre pattern of consumption components useful lives asset conditions
Bridges	14,488	Depreciated replacement cost	Cost per Sq metre, dimensions and specifications, pattern of consumption components, useful lives, asset conditions
Stormwater drainage	23,414	Depreciated replacement cost	Cost per unit/ per metre
Water supply network	30,330	Depreciated replacement cost	Unit rates, pattern of consumption, components, useful life, residual value, asset condition
Sewerage network	62,386	Depreciated replacement cost	Unit rates, pattern of consumption, components, useful life, residual value, asset condition
Other structures	9,578	Depreciated replacement cost	Unit rates, pattern of consumption, components, useful life, residual value, asset condition
Library books	181	Depreciated replacement cost	Unit Costs
Tip assets	1,569	Depreciated replacement cost	Unit Costs
Swimming pools	6,480	Depreciated replacement cost	Cost per unit

## Lithgow City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 27. Fair value measurement (continued)

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\$ '000

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#### (4). Fair value measurements using significant unobservable inputs (level 3) (continued)

##### c. The valuation process for level 3 fair value measurements

Council needs to disclose here:

- the valuation process/es they use for level 3 fair valuation measurements,
- a description of what these processes are,
- how (and by who) the valuation processes are decided,
- how (and who) analyses the level 3 fair value movements post valuation.
- who undertakes the valuations,

Water and Sewer assets are subject to a full revaluation process by a registered valuer each 5 years. During the interim years water and sewer assets are incrementally revalued via an index published by the NSW Office of Water. For the 2016 financial year this index was 1.5%

Tip Assets shown in the balance sheet represent the taking up of, and restatement of the provision for tip remediation. In this regard the Tip Asset represents the net present value of the future expenditure on tip remediation and then depreciated over the life of the tip.

#### (5). Highest and best use

All of Council's non-financial assets are considered as being utilised for their highest and best use.



## Lithgow City Council

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 28. Council information and contact details

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**Principal place of business:**

180 Mort St  
LITHGOW NSW 2790

**Contact details****Mailing address:**

PO Box 19  
LITHGOW NSW 2790

**Opening hours:**

Monday to Friday  
8:15am to 4:30pm

**Telephone:** 02 6354 9999

**Facsimile:** 02 6351 4259

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**Officers****GENERAL MANAGER**

Andrew Muir

**Elected members****MAYOR**

Stephen Lesslie

**RESPONSIBLE ACCOUNTING OFFICER**

Neil Derwent

**Other information**

**ABN:** 59 986 092 492

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**INDEPENDENT AUDITORS' REPORT TO LITHGOW CITY COUNCIL  
(SECTION 417(2) – REPORT ON THE GENERAL PURPOSE  
FINANCIAL STATEMENTS)**

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of Lithgow City Council ('the Council'), which comprises the statement of financial position as at 30 June 2016 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 28 and the Statement by Councillors and Management of the Council. The financial statements and Council's statement are in the approved form as required by Section 413(2)(c) of the Local Government Act, 1993.

**COUNCIL'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The Councillors and management of the Council are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, Local Government Act 1993 (as amended) and the Regulations made there under and the Local Government Code of Accounting Practice and Financial Reporting. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**AUDITORS' RESPONSIBILITY**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Council, as well as evaluating the overall presentation of the financial statements.



We performed the procedures to assess whether in all material respects the financial statements presents fairly, in accordance with the Local Government Act 1993 (as amended) and the Regulations made there under and the Local Government Code of Accounting Practice and Financial Reporting and Australian Accounting Standards, a view which is consistent with our understanding of the Council's financial position and of its performance.

Our audit responsibilities do not extend to the Original Budget figures disclosed in the income statement, cash flow statement, Notes 2(a) and 16 to the financial statements nor the attached Special Schedules. Our audit opinion does not extend to cover the TCorp ratios in 13a(i) & 13a(ii) nor the projections data in Note 17 and accordingly, we express no opinion on them.

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

The audit opinion expressed in this report has been formed on the above basis.

#### AUDITOR'S OPINION

In our opinion:

- a) the Council's accounting records have been kept in accordance with the requirements of the Local Government Act 1993 Chapter 13, Part 3, Division 2;
- b) the Council's financial statements:
  - have been properly prepared in accordance with the requirements of this Division;
  - are consistent with the Council's accounting records;
  - present fairly the Council's financial position and result of its operations; and
  - are in accordance with applicable Accounting Standards.
- c) all information relevant to the conduct of the audit has been obtained; and
- d) there are no material deficiencies in the accounting records or financial statements that have come to light during the course of the audit.

*Crowe Horwath Auswild*  
CROWE HORWATH AUSWILD

*Clare Wagner*  
Clare Wagner  
Audit Partner

Dated at Bathurst this 10<sup>th</sup> day of November 2016

# Report on the Conduct of the Audit

Lithgow City Council

Year Ended 30 June 2016

10 November 2016

Mr Andrew Muir  
Acting General Manager  
Lithgow City Council  
PO Box 19  
LITHGOW NSW 2790

Dear Andrew,

Having completed an audit examination of the books of account and associated records of the Lithgow City Council for the twelve months period ended 30 June 2016 we have pleasure in submitting our report on the conduct of the audit in accordance with Section 417 (3) of the Local Government Act 1993.

## **BACKGROUND**

Council is required to prepare two sets of financial statements for audit each year, these being:

### **General Purpose Financial Statements**

These financial statements present the actual financial position and performance of the Council. Council has prepared the general purpose financial statements in accordance with:

- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board,
- the Local Government Act 1993 and Regulations and
- the Local Government Code of Accounting Practice and Financial Reporting (the Code).

For the purpose of preparing these financial statements Council has been deemed to be a not-for-profit entity.

These financial statements have been prepared in much the same manner as those of the previous year.

### **Special Purpose Financial Statements**

These financial statements have been prepared in accordance with the requirements of the National Competition Policy which requires separate financial statements for each declared business activity. Council's declared business activities for the 2016 financial year were:

- Waste Supply Operations
- Sewerage Operations

The principle differences between the general purpose financial statements and the special purpose financial statements are that:

- certain taxes and other costs that would apply if these business activities were operating in the commercial sector have been imputed in the special purpose financial statements (ie income tax and land tax),
- the special purpose financial statements contain additional disclosures such as council subsidies, return on investments and dividends paid.

These financial statements have been prepared in much the same manner as those of the previous year.

### **Auditor's Responsibility**

As part of our role as auditor of Council, Section 415 (3) of the Local Government Act 1993 and the Local Government (General) Regulation requires us to consider and provide comment on the material items affecting the general purpose financial statements and other matters pertinent to the audit. The following section of this report provides an understanding of Council's financial position as at 30 June 2016, its performance for the year then ended its cash flows and other material financial matters.

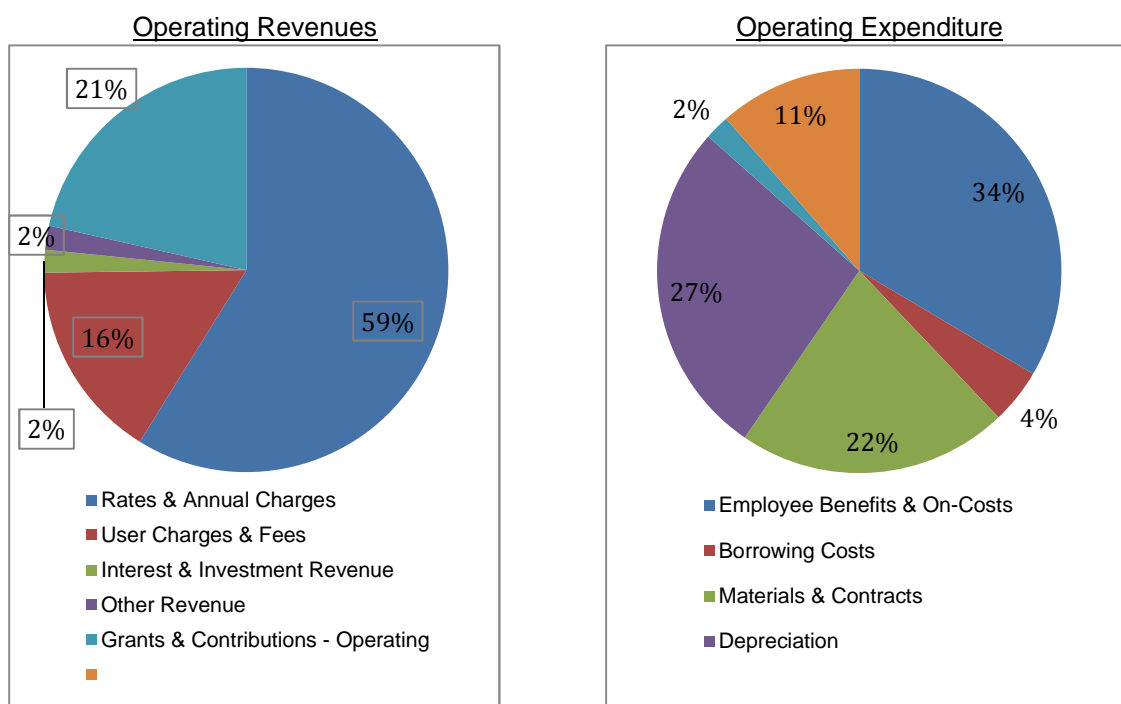
## FINANCIAL RESULTS

The net operating result for the year before grants and contributions provided for capital purposes is a \$4,118,000 deficit (2015: \$1,712,000 deficit). The significant variance in Council's reported financial results for the current year has been due to a number of major factors including:

- The increases in rates and annual charges being attributable to the increase based on the IPART rate peg of 2.4% in the 2015/16 year. This contributed an additional \$484,000 in revenue for rates and annual charges.
- Materials and contract expenditure for the year total to \$9,875,000, which was an increase of \$997,000 from prior year (2015: \$8,878,000).
- Depreciation expense rose from \$10,151,000 in 2015 year to \$12,280,000 in current year. This was mainly due to the revaluation of other structures, which resulted in a revaluation increment to the carrying value of the assets.

Excluding capital grants & contributions operating revenues for the year (\$41,410,000) have increased approximately 8% on those of the previous year (\$38,189,000) whilst during the same period operating expenses have also increased approximately 14% to \$45,528,000.

A breakdown of Council's operating revenues and expenses for the year are as follows:



In addition to operating revenues, Council received capital grants and contributions amounting to \$6,958,000 (2015: \$3,682,000). In the twelve months period to 30 June 2016 Council's operating result from continuing operations' (including capital grants and contributions) was a surplus of \$2,840,000 compared with a surplus of \$1,970,000 in the previous year.

## BUDGET COMPARISON

The net operating surplus for the year before Grants and Contributions provided for Capital Purposes of \$2,840,000 was significantly lower than the original budget expectations which anticipated a surplus of \$11,244,000.

Details of material variations between the original budget and actual results are detailed in Note 16 to the General Purpose Financial Statements. In essence, the variations from the expected result have been attributed to:

### Favourable Variances

- User charges and fees were higher due to swimming pool fees, building fees and water usage income was greater than expected.
- Interest and investment income had a favourable movement due to additional investments held during the year, resulting in higher than expected income.
- Operating grants and contributions had a favourable movement as a result of roads to recovery grants for both the 2015 and 2016 year paid to the Council in the current year. There were also increased LIRS subsidy, RMS contributions and S64 contributions received during the year.
- Materials and contracts expenses were lower than the budget, due to slightly different allocation of expenditure caused by the introduction of new chart of accounts.

### Unfavourable Variances

- Other revenue has an unfavourable variance due to private works income incorrectly classified as other revenue in the budget.
- Capital grants and contributions was significantly lower due to the nature of funding being claim based, and not all grant funding expected was claimed during the year.
- Employee benefits and on-cost were considerably more than the budget, due to several projects incorrectly marked as capital in nature, which has impacted the salaries and wages relating to those projects which should be operating expenditure. Sick leave and long service leave expenditure were also higher than the expected.
- Borrowing costs was higher because the budget did not consider the new loan drawn down at the end of 2015 financial year.
- Depreciation expense varied from the budget, due to the increase in asset value resulting from revaluation of assets not considered in the budget.
- Other expenses were significantly higher than what was budgeted for, due to the allocation of expenditure between other expenses and materials and contract expenses.
- Net losses from the disposal amounted to \$909,000 which differs from the budgeted gain of \$431,000. The loss was mainly caused by the disposals of other structures during the year, and the write off of the unrecoverable Collateralised Debt Obligation (CDO) investment.



## DETAILED AUDIT OBSERVATIONS

### OPERATING INCOME

#### Rates and Annual Charges

Revenue from rates and annual charges (excluding Council owned properties) amounted to \$24,361,000 (2015: \$23,279,000).

In setting the **ordinary rates** for the year Council resolved to adopt the approved maximum increase available of 2.4%. This action has resulted in revenues from ordinary rates increasing from \$11,256,000 in 2014/15 to \$11,740,000 in the current year.

Council's **ordinary rating base** remained fairly static in the current year with 11,152 assessments subject to **ordinary rates** at years end.

Council further resolved that other charges be adjusted as follows:

- Water supply annual charges increased from \$150 to \$160 per residential property.
- Domestic waste water charges increased from \$400 to \$415 per residential property.

Such increases have resulted in revenues as follows:

<b>Annual Charges</b>	<b>2016</b> \$	<b>2015</b> \$
Domestic Waste Management	3,843,000	3,887,000
Water Supply Services	1,421,000	1,310,000
Stormwater Management Services	238,000	238,000
Sewerage Services	444,000	353,000
Gas Mains	22,000	21,000

Interest and extra charges on overdue rates for the year was \$127,000 and outstanding rates were subject to interest at the rate of 8.50% pa (2015: 8.50%).

## User Charges and Fees

Council derived \$5,358,000 from **specific user charges** (2015: \$5,127,000 and a further \$1,248,000 from **other user charges and fees** (2015: \$1,173,000) imposed during the twelve months period ended 30 June 2016.

Impacting significantly on user charges and fees revenues for the year were:

### Water Supply Services Charges (increased \$188,000)

Water usage charges have decreased in the current year. Rates for the year are as follows:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Usage charge < 250 kilolitres	\$3.11 per kl	\$2.96 per kl
Usage charge >250 kilolitres	\$4.67 per kl	\$4.45 per kl

Revenue from domestic water consumption charges amounted to \$5,121,000 (2015: \$4,933,000).

### Other Fees and Charges (increased \$75,000)

The overall increase is contributed by the following major revenues:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Planning & Building Regulation	870,000	746,000
Private works – Section 67	13,000	153,000
Council vehicles leaseback fees	96,000	136,000
Swimming centres	269,000	131,000

## Interest

Interest and investment revenues decreased during the twelve months period with income being earned as follows:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Overdue Rates and Charges	127,000	125,000
General Council Investments	591,000	587,000
Water fund operations	41,000	-
	<b>759,000</b>	<b>712,000</b>

Interest on investments for the year represented approximately 6.5% (2015: 6.3%) of ordinary rating income.

## Other Revenues

Other revenue income in the current year (\$790,000) is significantly lower than previous year (\$1,030,000). This was due to RTA income \$332,000 disclosed as other income in 2015 year, but shown has contribution income in current year.

## Grants, Subsidies and Contributions

### Operating Grants and Contributions

Operating grants and contributions amounting to \$8,892,000 were received in 2015/2016 compared with \$6,768,000 received in the previous year.

The increase was a result of the Roads to recovery grant income for both 2015 and 2016 year receipted in the current financial year. Other major specific purpose operating grants and contributions were LIRS subsidy of \$130,000, Fire Contribution \$477,000, RMS contribution for regional roads \$340,000 and Sewerage contributions (Exc Sec 64 contributions) of \$393,000. The Council did not receive any storm damage grant in the 2016 financial year (2015: \$694,000).

### Capital Grants and Contributions

Total capital grants and contributions received for the year amounted to \$6,958,000 compared with \$3,682,000 received in the previous year. This increase is predominantly due to the Capital Grant for Transport (other roads and bridges funding) increasing from \$1,309,000 in 2015 to \$3,112,000 in 2015. Council also received large amount of capital grants funding for recreation and culture purposes, total grant income received in the current was \$2,623,000, compared to \$865,000 received in 2015 year.

In accordance with the Code of Accounting Practice all grant and contribution monies received in 2015/2016 (both expended and unexpended) have been brought to account as income. Grants and contributions recognised as revenues in the current reporting period but not yet expended in accordance with the conditions attached thereto, amounted to \$6,730,000. At year end Council held unexpended grants and contributions amounting to \$2,456,000 (201: \$2,782,000) and such funds have been identified as an externally restricted asset.

## **OPERATING EXPENDITURE**

Expenses from continuing operations (\$45,529,000) were higher than both budget expectations (\$39,341,000) and those of the previous year (\$39,901,000).

Impacting significantly on operating expenses for the year were:

### **Employee Costs**

Total employee costs (\$15,257,000) slightly decreased approximately 0.1% in the twelve months period to 30 June 2016. The movement was related to decreased salaries and wages, where the council operated with less staff and some unfilled positions during the year.

On the other hand, there was more expense paid for Central west group apprentices in current year \$445,000 as compared to \$38,000 in 2015 year.

Employees leave entitlements increased by \$540,000 to \$2,039,000, as the result of movements in the Long Service Leave provision. This is largely attributable to change in the present value rates based on lower interest rates.

At year end Council's full time equivalent employees numbered 169 (2015:188).

### **Materials and Contracts**

Materials and contracts expenditure (\$9,875,000) increased \$997,000 or 11.23% in the current year. This primarily due to more materials resulted from increased RMS works and increased contractor and consultancy costs. It is notable that the Council had shown some contractor expense into materials and consumables in 2015 year; and this was correctly classified in the current year.

### **Depreciation Expenses**

Depreciation expenses (\$12,280,000) significantly increased by \$2,129,000 or 20.97% from the previous year (\$10,151,000).

Depreciation expenses account for approximately 27% of Council's total expenses which is comparable with most Councils with whom we are associated.

## **ASSETS**

### **Cash & Investments**

At balance date Council controlled cash and investments totalling \$24,881,000 (2015: \$18,449,000).

Council utilises its investments to cover both externally and internally imposed requirements, and comprises of developer contributions - general (\$1,448,000), specific purpose unexpended grants (\$1,007,000), domestic waste management (\$1,475,000), water supplies (\$2,696,000), sewerage services (\$2,803,000), employee leave entitlements (\$3,718,000), plant and vehicle replacement (\$2,752,000), land and buildings (\$2,071,000) and works in progress (\$5,291,000).

Externally restricted investments amounted to \$9,429,000 whilst internally restricted investments amounted to \$14,775,000.

Council's cash and investments were held as follows:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Cash on Hand and at Bank	259,000	2,718,000
Deposits at Call	3,055,000	3,565,000
Short Term Deposits	17,567,000	7,153,000
Long Term Deposits	4,000,000	5,013,000
	<b>24,881,000</b>	<b>18,449,000</b>

### **Debtors**

#### **Rates and Annual Charges**

At balance date outstanding rates and annual charges and interest amounted to \$1,428,000 (2015: \$1,311,000) which represented 5.13% of total receivable (2015: 5.17%).

We encourage Council to continue implementing and enforcing stringent recovery action against ratepayers with arrears in an endeavour to lowering the percentage arrears to less than 5.00%.

Outstanding rates and annual charges have been subject to interest at the rate of 8.50% and Council has determined that a provision for doubtful debts is not necessary as all arrears are secured by a charge over the land.

### Property, Plant & Equipment

During the reporting period Council expended / acquired assets with the value of \$11,089,000 (2015: \$14,183,000).

The principal items being:

	<b>2016</b> \$	<b>2015</b> \$
Capital Works in Progress:	768,000	4,735,000
Plant & Equipment	291,000	440,000
Office Equipment	12,000	178,000
Furniture and Fittings	45,000	5,000
Specialised buildings	158,000	877,000
Other Structures	901,000	631,000
Roads	1,206,000	2,180,000
Bridges	2,808,000	-
Footpaths	172,000	131,000
Stormwater Drainage	71,000	-
Water Supply Network	712,000	857,000
Sewerage Network	1,398,000	1,166,000
Swimming pool	2,484,000	3,558,000
Library books	64,000	55,000

Additionally, we note that Council sold assets with a written down value of \$1,186,000. The sale of these assets has resulted in a loss of \$909,000 being brought to account (2015: loss of \$289,000).

Further, we report that in accordance with the requirements of the Code of Accounting Practice, Council's water and sewerage assets were indexed upwards in accordance with the latest indices provided by the NSW Office of Water.

These revaluations have resulted in Council's assets being adjusted as follows:

Water Supply Network	increased \$388,000 to \$30,330,000
Sewerage Network	increased \$891,000 to \$62,836,000

In 2016 Council was required to complete a revaluation of Community Land, other assets and land improvements. The revaluation increases for each is shown below:

Community Land revalued from \$14,850,000 to \$23,226,000

Other structures revalued from \$5,175,000 to \$9,606,000

The total amount of the revaluation was \$14,035,000 and is shown as other comprehensive income.

During the year, the Council started using the Finance One asset module to manage its fixed assets. The moving of assets from manual excel spreadsheets into the system had resulted in some adjustments to resolve the discrepancies discovered in the process. The total adjustments contributed to a \$1,381,000 increase to the Council's assets value.

Overall, the Council's revaluation reserve increased from \$143,084,000 to \$154,241,000.

The combined action of asset movements and revaluations has resulted in the written down value of property plant and equipment increasing from \$401,087,000 in 2014/2015 to \$413,614,000 as at 30 June 2016.

Major acquisitions during the year were again funded from grants, contributions and cash & investments.

## Provisions

At 30 June 2016 the Provision for Employee Accrued Entitlements totalled \$3,682,000.

The components of the liability are:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Annual Leave	1,201,000	1,393,000
Long Service Leave	2,481,000	2,218,000
	<b>3,682,000</b>	3,611,000

The average leave entitlement per full time employee as at 30 June 2016 was \$21,787 (2015: \$19,207).

Council's provision for asset remediation/restoration increased by \$923,000 in the current year and amounted to \$11,939,000 at year end.

### Loans and Debt Servicing

During the year there were no new loans raised. Council repaid borrowings of \$1,807,000 and at year end Council's borrowings amounted to \$19,674,000 (2015: \$21,335,000).

The loan liability is apportioned as follows:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Current	1,598,000	1,763,000
Non Current	18,076,000	19,572,000

Loan discount for the current year was \$312,000, as opposed to \$457,190 in prior year. The Council did not show the loan discount amount separately in the 2015 year.

Council required \$3,805,000 to service its loan commitments in 2015/2016, which has given Council an unfavourable debt service ratio of 2.91. We note that the majority of the debt is related to the sewer fund.



## SUMMARY

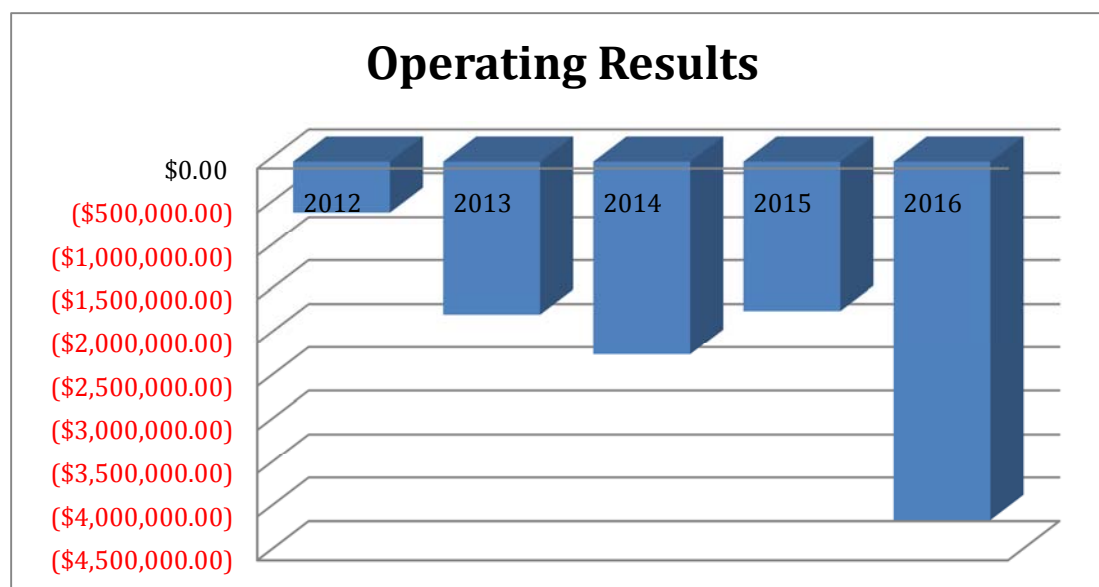
In analysing Council's financial results for the year, particular attention must be given to the following:

- Operating Result
- Cash Flow
- Reserves (internally restricted and unrestricted assets)
- Performance Ratios

### **Operating Result**

Council reported an operating deficit before capital amounts of \$4,118,000 for the twelve months period to 30 June 2016. This deficit result has been reported after allowing for depreciation expenses of \$12,280,000. The Council budgeted for an operating deficit of \$402,000 but the actual result is below the budget expectations and also higher than the operating deficit of \$1,712,000 reported in 2014/2015.

#### Operating Surplus/(Deficit) before Capital Amounts

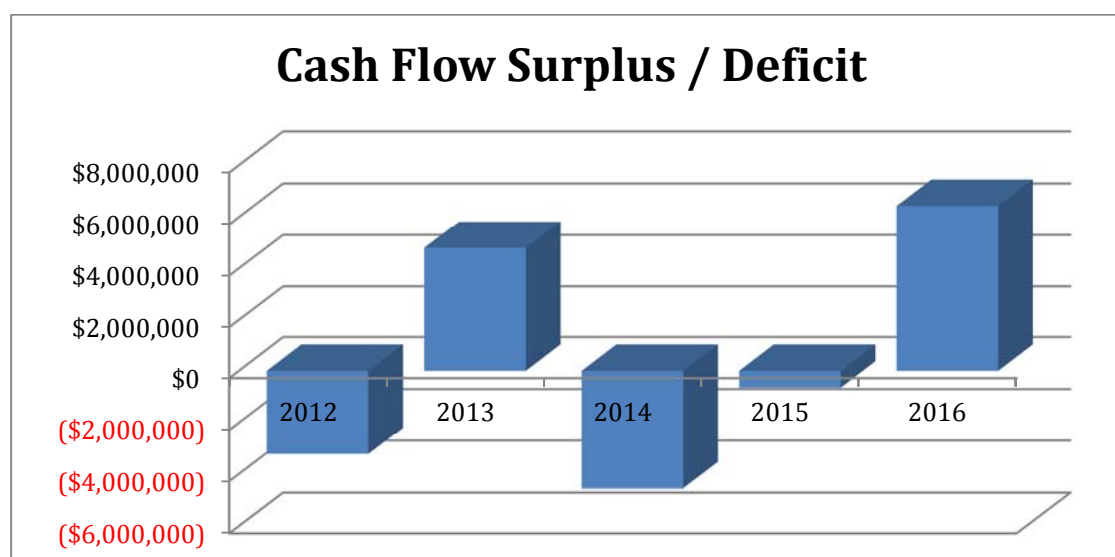


## Cash Flow

Council achieved a cash surplus of \$18,807,000 (2015: 10,280,000) from its general operating activities which was principally utilised to purchase assets and repay loans.

These actions together with the proceeds from the sale of assets have resulted in Council having a net increase in cash and investments of \$6,432,000 for the year (2015: \$647,000 decrease).

### Cash Flow Surplus/Deficit (movement)



For comparative purposes, we note the following factors that have impacted on the cash flow surplus in 2015/2016.

- Capital expenditure amounted to \$11,157,000 in the current year compared to \$14,819,000 in 2014/15.
- Grants and contributions have increased from \$9,411,000 in the previous year to \$16,621,000 in 2015/16.
- Increase in rates revenue and user charges and fees totalled \$2,857,000 during the year.

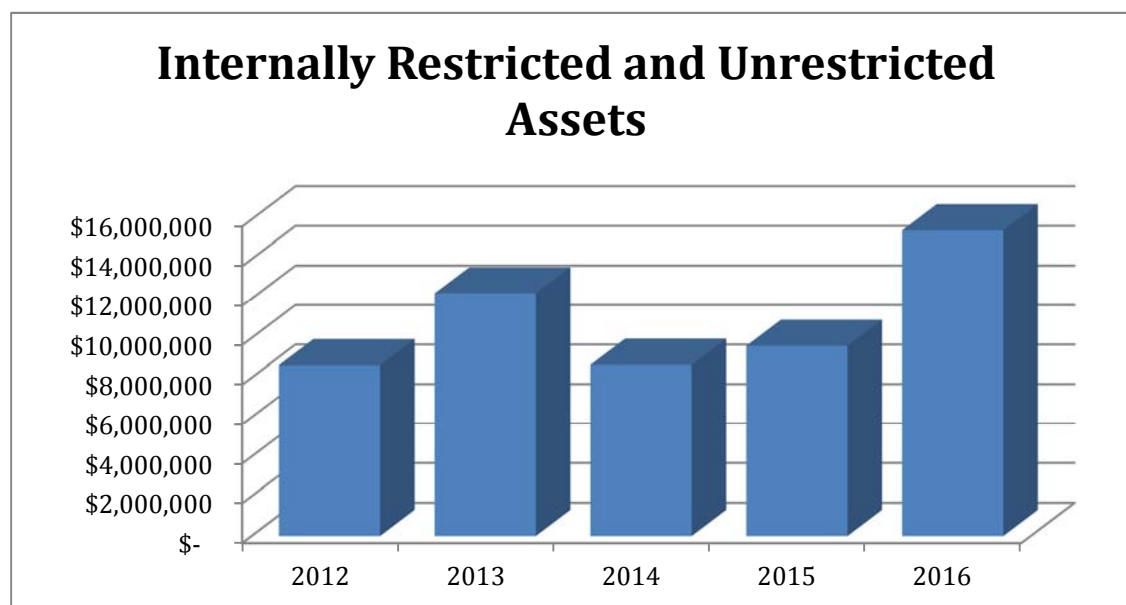
Upon analysis the cash flow surplus can be identified as follows:

<u>Activity</u>	<u>Surplus/(Deficit)</u>	
	2016 \$	2015 \$
Externally Restricted	9,429,000	8,844,000
Internally Restricted & Unrestricted	15,452,000	9,605,000

#### **Reserves (Internally Restricted and Unrestricted Assets)**

As noted previously, Council's internal and unrestricted funds have increased by \$6,432,000 during the twelve months period and at year end Council held internally restricted investments amounting to \$14,775,000 (2015: \$7,932,000) whilst a further \$677,000 was maintained as unrestricted investments (2015: \$1,673,000).

#### Internal and Unrestricted Reserve Funds



As illustrated, Council's reserve funds have remained in the range of \$8m to \$15m over the past 5 years. We strongly emphasise that adequate funding of reserves is probably the greatest challenge facing local government generally and we encourage Council to ensure that reserve funding is commensurable with Council's long term plans.

## Performance Ratios

Note 13 to the financial statements provide a measure of Council's performance using a number of selected ratios as follows:

### Operating Performance Ratio

This ratio measures a Council's ability to contain operating expenditure within operating revenue.

The ratio of a deficit of 7.75% (2015: 3.73% deficit) is outside the benchmark of 0%. Council's Operating performance ratio has been impacted by significantly increased depreciation expense. Council needs to aim for the benchmark of 0%, however, this is difficult to achieve when depreciation expense represents 27% of Council's expenditure in the income statement.

We stress the importance of considering these ratios in conjunction with other performance indicators and not in isolation. The fact that these ratios are based upon consolidated funds should also be kept in mind as the ratios for individual funds (i.e General, Water, Sewer, etc.) may vary significantly.

### Own source Operating Revenue

This ratio measures the fiscal flexibility of Council and its degree of reliance on external funding sources such as operating grants and contributions. A Council's financial flexibility improves the higher the level of its own source revenue.

The ratio of 67.23% (2015: 75.04%) is above the benchmark of 60% and indicates Council is not reliant on government grants and contributions to provide services to the community. This is a sound position.

### Unrestricted Current Ratio

The unrestricted current ratio is a measure of Council's liquidity and demonstrates Council's ability to satisfy obligations out short-term and immediate asset balances.

Council's ratio of 4.08:1 (2015: 3.40:1) is considered strong, as the benchmark is a minimum of 1.5:1. The ratio has also been impacted by higher levels of goods and services creditors due to the timing of payments at year end.

### Debt Service Cover Ratio

The debt service cover ratio measures the availability of operating cash to service debt including interest, principal and lease payments.

Council's ratio of 2.91% (2015: 3.53%) is considered reasonable as the benchmark is a minimum of 2.00%. This result indicates that Council has the ability to borrow further if required.

### Rates and Annual Charges Outstanding Ratio

The rates and annual charges outstanding percentage is a measure of management efficiency. Whilst prevailing economic conditions may influence Council's ability to collect revenue, the efficiency and application of collection procedures are still the largest determinant of this ratio.

Council's rates and annual charges outstanding percentage of 5.13% (2015: 5.17%) is an outstanding result. The result is within the benchmark of 10% however we recommend that council continue to maintain diligent recovery procedures to reduce this ratio further.

### **Cash Expense Cover Ratio**

This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.

Council's ratio of 8.82 months (2015: 6.7 months) is well above the minimum benchmark of 3 months and indicates that Council is in a strong cash and investment position.

### **OTHER MATTERS**

Several performance improvement observations were noted during our year end audit visits. A final management letter will be issued to management. There were no major control deficiencies noted in Council's systems.

### **Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

### **Reliance on the Report**

The report on the conduct of the audit has been prepared for distribution to Council. We disclaim any assumption of responsibility for any reliance on this report to any person other than Council or for any purpose other than that for which it was prepared.

## Contact Us

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# Lithgow City Council

SPECIAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2016

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*"A centre of regional excellence that:*  
*- encourages community growth and development,*  
*- contributes to the efficient and effective management of the environment,*  
*community and economy for present and future generations."*



# Lithgow City Council

## Special Purpose Financial Statements

for the year ended 30 June 2016

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Income Statement – Sewerage Business Activity	4
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### Background

- (i) These Special Purpose Financial Statements have been prepared for the use by both Council and the Office of Local Government in fulfilling their requirements under National Competition Policy.
  - (ii) The principle of competitive neutrality is based on the concept of a 'level playing field' between persons/entities competing in a market place, particularly between private and public sector competitors.  
  
Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.
  - (iii) For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.  
  
These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).
  - (iv) In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).
-



# Lithgow City Council

## Special Purpose Financial Statements

for the year ended 30 June 2016

## 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:**

- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government',
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,
- the NSW Office of Water Best-Practice Management of Water and Sewerage Guidelines.

**To the best of our knowledge and belief, these financial statements:**

- 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 these statements false or misleading in any way.**

**Signed in accordance with a resolution of Council made on 10 November 2016.**



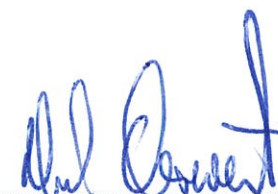
Stephen Lesslie  
Mayor



Martin Ticehurst  
Councillor



Andrew Muir  
General manager



Neil Derwent  
Responsible accounting officer

## Lithgow City Council

## Income Statement of Council's Water Supply Business Activity

for the year ended 30 June 2016

\$ '000	Actual 2016	Actual 2015
<b>Income from continuing operations</b>		
Access charges	1,421	1,348
User charges	5,121	4,739
Fees	12	40
Interest	41	34
Grants and contributions provided for non-capital purposes	95	86
Profit from the sale of assets	—	—
Other income	—	—
<b>Total income from continuing operations</b>	<b>6,690</b>	<b>6,247</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	2,141	1,350
Borrowing costs	98	107
Materials and contracts	2,642	2,064
Depreciation and impairment	1,311	1,303
Water purchase charges	1,465	1,489
Loss on sale of assets	—	—
Calculated taxation equivalents	—	—
Debt guarantee fee (if applicable)	—	—
Other expenses	185	182
<b>Total expenses from continuing operations</b>	<b>7,842</b>	<b>6,495</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>(1,152)</b>	<b>(248)</b>
Grants and contributions provided for capital purposes	190	43
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>(962)</b>	<b>(205)</b>
Surplus (deficit) from discontinued operations	—	—
<b>Surplus (deficit) from all operations before tax</b>	<b>(962)</b>	<b>(205)</b>
Less: corporate taxation equivalent (30%) [based on result before capital]	—	—
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>(962)</b>	<b>(205)</b>
Plus opening retained profits	14,771	14,976
Plus/less: prior period adjustments	—	—
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	—	—
– Debt guarantee fees	—	—
– Corporate taxation equivalent	—	—
Less:		
– Tax equivalent dividend paid	—	—
– Surplus dividend paid	—	—
<b>Closing retained profits</b>	<b>13,809</b>	<b>14,771</b>
<b>Return on capital %</b>	<b>-3.5%</b>	<b>-0.5%</b>
<b>Subsidy from Council</b>	<b>1,659</b>	<b>1,065</b>
<b>Calculation of dividend payable:</b>		
Surplus (deficit) after tax	(962)	(205)
Less: capital grants and contributions (excluding developer contributions)	73,160	(43)
<b>Surplus for dividend calculation purposes</b>	<b>72,198</b>	<b>—</b>
<b>Potential dividend calculated from surplus</b>	<b>36,099</b>	<b>—</b>

## Lithgow City Council

# Income Statement of Council's Sewerage Business Activity

for the year ended 30 June 2016

\$ '000	Actual 2016	Actual 2015
<b>Income from continuing operations</b>		
Access charges	6,413	6,141
User charges	444	311
Liquid trade waste charges	144	104
Fees	40	37
Interest	—	—
Grants and contributions provided for non-capital purposes	481	122
Profit from the sale of assets	—	—
Other income	—	—
<b>Total income from continuing operations</b>	<b>7,522</b>	<b>6,715</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	1,598	1,464
Borrowing costs	505	714
Materials and contracts	2,421	2,878
Depreciation and impairment	1,729	1,365
Loss on sale of assets	—	—
Calculated taxation equivalents	—	—
Debt guarantee fee (if applicable)	—	—
Other expenses	747	—
<b>Total expenses from continuing operations</b>	<b>7,000</b>	<b>6,421</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>522</b>	<b>294</b>
Grants and contributions provided for capital purposes	753	194
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>1,275</b>	<b>488</b>
Surplus (deficit) from discontinued operations	—	—
<b>Surplus (deficit) from all operations before tax</b>	<b>1,275</b>	<b>488</b>
Less: corporate taxation equivalent (30%) [based on result before capital]	(157)	(88)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>1,118</b>	<b>399</b>
Plus opening retained profits	21,933	21,445
Plus/less: prior period adjustments	—	—
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	—	—
– Debt guarantee fees	—	—
– Corporate taxation equivalent	157	88
Less:		
– Tax equivalent dividend paid	—	—
– Surplus dividend paid	—	—
<b>Closing retained profits</b>	<b>23,208</b>	<b>21,933</b>
<b>Return on capital %</b>	<b>1.6%</b>	<b>1.6%</b>
<b>Subsidy from Council</b>	<b>234</b>	<b>873</b>
<b>Calculation of dividend payable:</b>		
Surplus (deficit) after tax	1,118	399
Less: capital grants and contributions (excluding developer contributions)	65,890	(194)
<b>Surplus for dividend calculation purposes</b>	<b>67,009</b>	<b>205</b>
<b>Potential dividend calculated from surplus</b>	<b>33,504</b>	<b>103</b>

## Lithgow City Council

Statement of Financial Position – Council's Water Supply Business Activity  
as at 30 June 2016

\$ '000	Actual 2016	Actual 2015
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,696	2,706
Investments	–	–
Receivables	1,704	1,879
Inventories	149	154
Other	–	–
Non-current assets classified as held for sale	–	–
<b>Total current assets</b>	<b>4,549</b>	<b>4,739</b>
<b>Non-current assets</b>		
Investments	–	–
Receivables	–	–
Inventories	–	–
Infrastructure, property, plant and equipment	30,426	30,589
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Other	–	–
<b>Total non-current assets</b>	<b>30,426</b>	<b>30,589</b>
<b>TOTAL ASSETS</b>	<b>34,975</b>	<b>35,328</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank overdraft	–	–
Payables	137	126
Borrowings	139	122
Provisions	432	384
<b>Total current liabilities</b>	<b>708</b>	<b>632</b>
<b>Non-current liabilities</b>		
Payables	–	–
Borrowings	1,221	1,357
Provisions	–	–
<b>Total non-current liabilities</b>	<b>1,221</b>	<b>1,357</b>
<b>TOTAL LIABILITIES</b>	<b>1,929</b>	<b>1,989</b>
<b>NET ASSETS</b>	<b>33,046</b>	<b>33,339</b>
<b>EQUITY</b>		
Retained earnings	14,051	14,682
Revaluation reserves	18,995	18,657
Council equity interest	33,046	33,339
Non-controlling equity interest	–	–
<b>TOTAL EQUITY</b>	<b>33,046</b>	<b>33,339</b>

## Lithgow City Council

Statement of Financial Position – Council's Sewerage Business Activity  
as at 30 June 2016

\$ '000	Actual 2016	Actual 2015
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,803	2,676
Investments	–	–
Receivables	713	347
Inventories	17	19
Other	–	–
Non-current assets classified as held for sale	–	–
<b>Total Current Assets</b>	<b>3,533</b>	<b>3,042</b>
<b>Non-current assets</b>		
Investments	–	–
Receivables	–	–
Inventories	–	–
Infrastructure, property, plant and equipment	63,390	62,276
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Other	–	–
<b>Total non-current assets</b>	<b>63,390</b>	<b>62,276</b>
<b>TOTAL ASSETS</b>	<b>66,923</b>	<b>65,318</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank overdraft	–	–
Payables	256	36
Borrowings	864	777
Provisions	154	382
<b>Total current liabilities</b>	<b>1,274</b>	<b>1,195</b>
<b>Non-current liabilities</b>		
Payables	–	–
Borrowings	10,934	11,386
Provisions	5	–
<b>Total non-current liabilities</b>	<b>10,939</b>	<b>11,386</b>
<b>TOTAL LIABILITIES</b>	<b>12,213</b>	<b>12,581</b>
<b>NET ASSETS</b>	<b>54,710</b>	<b>52,737</b>
<b>EQUITY</b>		
Retained earnings	25,311	24,228
Revaluation reserves	29,399	28,509
Council equity interest	54,710	52,737
Non-controlling equity interest	–	–
<b>TOTAL EQUITY</b>	<b>54,710</b>	<b>52,737</b>

## Lithgow City Council

### Special Purpose Financial Statements

for the year ended 30 June 2016

#### Contents of the notes accompanying the financial statements

Note	Details	Page
1	Summary of significant accounting policies	8
2	Water Supply Business Best-Practice Management disclosure requirements	11
3	Sewerage Business Best-Practice Management disclosure requirements	13

## Lithgow City Council

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

#### Note 1. Significant accounting policies

These financial statements are a Special Purpose Financial Statements (SPFS) prepared for use by Council and the Office of Local Government.

For the purposes of these statements, the Council is not a reporting not-for-profit entity.

The figures presented in the SPFS, unless otherwise stated, have been prepared in accordance with:

- the recognition and measurement criteria of relevant Australian Accounting Standards,
- other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and
- Australian Accounting Interpretations.

The disclosures in the SPFS have been prepared in accordance with:

- the Local Government Act (1993) NSW,
- the Local Government (General) Regulation, and
- the Local Government Code of Accounting Practice and Financial Reporting.

The statements are also prepared on an accruals basis, based on historic costs and do not take into account changing money values nor current values of non-current assets (except where specifically stated).

Certain taxes and other costs (appropriately described) have been imputed for the purposes of the National Competition Policy.

#### National Competition Policy

Council has adopted the principle of 'competitive neutrality' to its business activities as part of the national competition policy which is being applied throughout Australia at all levels of government.

The framework for its application is set out in the June 1996 government policy statement, *Application of National Competition Policy to Local Government*.

The *Pricing and Costing for Council Businesses, A Guide to Competitive Neutrality*, issued by the Office of Local Government in July 1997, has also been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide standards for disclosure. 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 and Costing for Council Businesses – A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

##### Category 1

(where gross operating turnover is over \$2 million)

##### a. Water Supply Service

*Comprising the whole of the water supply operations and net assets servicing the Lithgow area.*

##### b. Sewerage (Waste Water) Service

*Comprising the whole of the sewerage reticulation & treatment operations and net assets servicing the Lithgow area.*

##### Category 2

(where gross operating turnover is less than \$2 million)

Council does not operate any Category 2 businesses.

#### Monetary amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest thousand dollars, with the exception of some figures disclosed in Note 2 (Water Supply Best-Practice Management Disclosures) and Note 3 (Sewerage Best-Practice Management Disclosures).

As required by the NSW Office of Water (Department of Primary Industries) the amounts shown in Note 2 and Note 3 are disclosed in whole dollars.

#### (i) Taxation-equivalent charges

Council is liable to pay various taxes and financial duties in undertaking its business activities. Where



## Lithgow City Council

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

#### Note 1. Significant accounting policies (continued)

this is the case, they are disclosed in these statements as a cost of operations just like all other costs.

However, where Council is exempt from paying taxes which are generally paid by private sector businesses (such as income tax), equivalent tax payments have been applied to all Council-nominated business activities and are reflected in these financial statements.

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 income tax rate – 30%

Land tax – the first **\$482,000** of combined land values attracts **0%**. For that valued from \$482,001 to \$2,947,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$2,947,000, a premium marginal rate of **2.0%** applies.

Payroll tax – **5.45%** on the value of taxable salaries and wages in excess of \$750,000.

In accordance with the Best-Practice Management of Water Supply and Sewerage Guidelines, a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from water supply and sewerage business activities.

The payment of taxation equivalent charges, referred in the Best-Practice Management of Water Supply and Sewerage Guidelines to as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the *Local Government Act, 1993*.

Achievement of substantial compliance against the Best-Practice Management of Water Supply and Sewerage Guidelines is not a prerequisite for the payment of the tax equivalent charges, however the payment must not exceed \$3 per assessment.

#### Income tax

An income tax equivalent has been applied on the profits of each reported business activity.

While 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 or 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 this taxation equivalent is notional – that is, it is payable to 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 Council's General Purpose Financial Statements.

The 30% rate applied is the equivalent company tax rate prevalent as at balance date. No adjustments have been made for variations that have occurred during the year.

#### Local government rates and charges

A calculation of the equivalent rates and charges payable on all category 1 businesses has been applied to all land 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.



## Lithgow City Council

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

#### Note 1. Significant accounting policies (continued)

Subsidies occur when 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.

Accordingly, 'subsidies disclosed' (in relation to National Competition Policy) represents the difference between revenue generated from 'rate of return' pricing and revenue generated from prices set by Council in any given financial year.

The overall effect of subsidies is contained within the Income Statement of each reported business activity.

#### (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'.

Such funds are subsequently available for meeting commitments or financing future investment strategies.

The rate of return on capital is calculated as follows:

**Operating result before capital income + interest expense**

**Written down value of I,PP&E as at 30 June**

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 1.99% at 30/6/16.

The actual rate of return achieved by each business activity is disclosed at the foot of each respective Income Statement.

#### (iv) Dividends

Council is not required to pay dividends to either itself (as owner of a range of businesses) or to any external entities.

Local government water supply and sewerage businesses are permitted to pay an annual dividend from its water supply or sewerage business surplus.

The dividend, calculated and approved in accordance with the Best-Practice Management of

Water Supply and Sewerage Guidelines, must not exceed either:

- (i) 50% of this surplus in any one year, or
- (ii) the number of water supply or sewerage assessments at 30 June 2016 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Best-Practice Management of Water Supply and Sewerage Guidelines, a Dividend Payment Form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the NSW Office of Water prior to making the dividend and only after it has approved the payment.

## Lithgow City Council

Notes to the Special Purpose Financial Statements  
for the year ended 30 June 2016Note 2. Water supply business  
best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2016

## 1. Calculation and payment of tax-equivalents

[all local government local water utilities must pay this dividend for tax equivalents]

(i)	Calculated tax equivalents	–
(ii)	Number of assessments multiplied by \$3/assessment	24,804
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	–
(iv)	Amounts actually paid for tax equivalents	–

## 2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	36,098,900
(ii)	Number of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	248,040
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2016, less the cumulative dividends paid for the 2 years to 30 June 2015 and 30 June 2014	71,949,800

2016 Surplus	72,197,800	2015 Surplus	(248,000)	2014 Surplus	–
		2015 Dividend	–	2014 Dividend	–

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	248,040
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	–
(vi)	Are the overhead reallocation charges to the water business fair and reasonable? <sup>a</sup>	

## 3. Required outcomes for 6 criteria

[to be eligible for the payment of a 'dividend from surplus', all the criteria below need a 'YES']

(i)	Completion of strategic business plan (including financial plan)	YES
(ii)	Full cost recovery, without significant cross subsidies [refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines]	YES
	– Complying charges [item 2 (b) in table 1]	YES
	– DSP with commercial developer charges [item 2 (e) in table 1]	NO
	– If dual water supplies, complying charges [item 2 (g) in table 1]	YES
(iii)	Sound water conservation and demand management implemented	YES
(iv)	Sound drought management implemented	YES
(v)	Complete performance reporting form (by 15 September each year)	YES
(vi)	a. Integrated water cycle management evaluation	YES
	b. Complete and implement integrated water cycle management strategy	NO

## Lithgow City Council

Notes to the Special Purpose Financial Statements  
for the year ended 30 June 2016Note 2. Water supply business  
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2016

## National Water Initiative (NWI) financial performance indicators

<b>NWI F1</b>	Total revenue (water) Total income (w13) – grants for the acquisition of assets (w11a) – interest income (w9) – Aboriginal Communities W&S Program income (w10a)	\$'000	6,722
<b>NWI F4</b>	Revenue from residential usage charges (water) Income from residential usage charges (w6b) x 100 divided by the sum of [income from residential usage charges (w6a) + income from residential access charges (w6b)]	%	78.28%
<b>NWI F9</b>	Written down replacement cost of fixed assets (water) Written down current cost of system assets (w47)	\$'000	30,425
<b>NWI F11</b>	Operating cost (OMA) (water) Management expenses (w1) + operational and maintenance expenses (w2)	\$'000	4,796
<b>NWI F14</b>	Capital expenditure (water) Acquisition of fixed assets (w16)	\$'000	712
<b>NWI F17</b>	Economic real rate of return (water) [total income (w13) – interest income (w9) – grants for acquisition of assets (w11a) – operating costs (NWI F11) – current cost depreciation (w3)] x 100 divided by [written down current cost of system assets (w47) + plant and equipment (w33b)]	%	2.02%
<b>NWI F26</b>	Capital works grants (water) Grants for the acquisition of assets (w11a)	\$'000	117

- Notes:
- References to w (e.g. w12) refer to item numbers within Special Schedules 3 and 4 of Council's Annual Financial Statements.
  - The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
- a refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007

## Lithgow City Council

Notes to the Special Purpose Financial Statements  
for the year ended 30 June 2016Note 3. Sewerage business  
best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2016

## 1. Calculation and payment of tax-equivalents

[all local government local water utilities must pay this dividend for tax equivalents]

(i)	Calculated tax equivalents	–
(ii)	Number of assessments multiplied by \$3/assessment	22,986
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	–
(iv)	Amounts actually paid for tax equivalents	–

## 2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	33,504,400
(ii)	Number of assessments x (\$30 less tax equivalent charges per assessment)	229,860
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2016, less the cumulative dividends paid for the 2 years to 30 June 2015 and 30 June 2014	67,214,278

2016 Surplus	67,008,800	2015 Surplus	205,478	2014 Surplus	–
		2015 Dividend	–	2014 Dividend	–

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	229,860
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	–
(vi)	Are the overhead reallocation charges to the sewer business fair and reasonable? <sup>a</sup>	

## 3. Required outcomes for 4 criteria

[to be eligible for the payment of a 'dividend from surplus', all the criteria below need a 'YES']

(i)	Completion of strategic business plan (including financial plan)	YES
(ii)	Pricing with full cost-recovery, without significant cross subsidies [refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines]	YES
	Complying charges (a) Residential [item 2 (c) in table 1]	YES
	(b) Non-residential [item 2 (c) in table 1]	YES
	(c) Trade waste [item 2 (d) in table 1]	YES
	DSP with commercial developer charges [item 2 (e) in table 1]	NO
	Liquid trade waste approvals and policy [item 2 (f) in table 1]	YES
(iii)	Complete performance reporting form (by 15 September each year)	YES
(iv)	a. Integrated water cycle management evaluation	YES
	b. Complete and implement integrated water cycle management strategy	NO

## Lithgow City Council

Notes to the Special Purpose Financial Statements  
for the year ended 30 June 2016Note 3. Sewerage business  
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2016

## National Water Initiative (NWI) financial performance indicators

NWI F2	Total revenue (sewerage) Total income (s14) – grants for acquisition of assets (s12a) – interest income (s10) – Aboriginal Communities W&S Program income (w10a)	\$'000	7,589
NWI F10	Written down replacement cost of fixed assets (sewerage) Written down current cost of system assets (s48)	\$'000	63,390
NWI F12	Operating cost (sewerage) Management expenses (s1) + operational and maintenance expenses (s2)	\$'000	3,746
NWI F15	Capital expenditure (sewerage) Acquisition of fixed assets (s17)	\$'000	1,398
NWI F18	Economic real rate of return (sewerage) [total income (s14) – interest income (s10) – grants for acquisition of assets (s12a) – operating cost (NWI F12) – current cost depreciation (s3)] x 100 divided by [written down current cost (i.e. WDCC) of system assets (s48) + plant and equipment (s34b)]	%	3.33%
NWI F27	Capital works grants (sewerage) Grants for the acquisition of assets (12a)	\$'000	687

National Water Initiative (NWI) financial performance indicators  
Water and sewer (combined)

NWI F3	Total income (water and sewerage) Total income (w13 + s14) + gain/loss on disposal of assets (w14 + s15) minus grants for acquisition of assets (w11a + s12a) – interest income (w9 + s10)	\$'000	14,311
NWI F8	Revenue from community service obligations (water and sewerage) Community service obligations (NWI F25) x 100 divided by total income (NWI F3)	%	1.28%
NWI F16	Capital expenditure (water and sewerage) Acquisition of fixed assets (w16 + s17)	\$'000	2,110
NWI F19	Economic real rate of return (water and sewerage) [total income (w13 + s14) – interest income (w9 + s10) – grants for acquisition of assets (w11a + s12a) – operating cost (NWI F11 + NWI F12) – current cost depreciation (w3 + s3)] x 100 divided by [written down replacement cost of fixed assets (NWI F9 + NWI F10) + plant and equipment (w33b + s34b)]	%	2.91%
NWI F20	Dividend (water and sewerage) Dividend paid from surplus (2 (v) of Note 2 + 2 (v) of Note 3)	\$'000	–
NWI F21	Dividend payout ratio (water and sewerage) Dividend (NWI F20) x 100 divided by net profit after tax (NWI F24)	%	0.00%

## Lithgow City Council

Notes to the Special Purpose Financial Statements  
for the year ended 30 June 2016Note 3. Sewerage business  
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2016

National Water Initiative (NWI) financial performance indicators  
Water and sewer (combined)

<b>NWI F22</b>	Net debt to equity (water and sewerage)	%	8.73%
	Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]		
<b>NWI F23</b>	Interest cover (water and sewerage)		5
	Earnings before interest and tax (EBIT) divided by net interest		
	Earnings before interest and tax (EBIT):		2,729
	Operating result (w15a + s16a) + interest expense (w4a + s4a) – interest income (w9 + s10) – gain/loss on disposal of assets (w14 + s15) + miscellaneous expenses (w4b + w4c + s4b + s4c)		
	Net interest:		562
	Interest expense (w4a + s4a) – interest income (w9 + s10)		
<b>NWI F24</b>	Net profit after tax (water and sewerage)	\$'000	(499)
	Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv))		
<b>NWI F25</b>	Community service obligations (water and sewerage)	\$'000	183
	Grants for pensioner rebates (w11b + s12b)		

- Notes:
- References to w (eg. s12) refer to item numbers within Special Schedules 5 and 6 of Council's Annual Financial Statements.
  - The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
- a refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007

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## **INDEPENDENT AUDITORS' REPORT TO LITHGOW CITY COUNCIL REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENTS**

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements, being special purpose financial statements, of Lithgow City Council (the Council), which comprises the statements of financial position by business activity as at 30 June 2016, and the income statements by business activity for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the Statement by Councillors and Management.

### **COUNCIL'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The Councillors' and management of the Council are responsible for the preparation and fair presentation of the financial statements and have determined that the basis of preparation described in Note 1 to the financial statements, are appropriate to meet the requirements of the 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 and The Department of Water and Energy Practice Management of Water Supply and Sewerage Guidelines and are appropriate to meet the needs of the Council and the Division of Local Government.

### **AUDITORS' RESPONSIBILITY**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial statements that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial statements

## OPINION

In our opinion the financial statements of Lithgow City Council are in accordance with the Local Government Code of Accounting Practice and Financial Reporting, including:

- (i) giving a true and fair view of the Council's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards to the extent described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting

## BASIS OF ACCOUNTING

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the Councils' financial reporting responsibilities under the Local Government Code of Accounting Practice and Financial Reporting. As a result, the financial report may not be suitable for another purpose.

The financial statements have been prepared for distribution to Council for the purpose of fulfilling the Council's financial reporting obligations under the Local Government Code of Accounting Practice and Financial Reporting. We disclaim any assumption of responsibility for any reliance on this report or on the financial statements to which it relates to any person other than the Council and the Division of Local Government, or for any purpose other than that for which it was prepared.

*Crowe Horwath Auswild*  
CROWE HORWATH AUSWILD

*Clare Wagner*

**Clare Wagner**  
**Audit Partner**

Dated at Bathurst this 10<sup>th</sup> day of November 2016



# Lithgow City Council

## SPECIAL SCHEDULES

for the year ended 30 June 2016

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*"A centre of regional excellence that:*

- encourages community growth and development,*
- contributes to the efficient and effective management of the environment, community and economy for present and future generations."*



# Lithgow City Council

## Special Schedules for the year ended 30 June 2016

Contents	Page
<b>Special Schedules<sup>1</sup></b>	
<b>Special Schedule 1</b>	Net Cost of Services 2
<b>Special Schedule 2(a)</b>	Statement of Long Term Debt (all purposes) 4
<b>Special Schedule 2(b)</b>	Statement of Internal Loans (Sect. 410(3) LGA 1993) n/a
<b>Special Schedule 3</b>	Water Supply Operations – incl. Income Statement 5
<b>Special Schedule 4</b>	Water Supply – Statement of Financial Position 8
<b>Special Schedule 5</b>	Sewerage Service Operations – incl. Income Statement 9
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<b>Notes to Special Schedules 3 and 5</b>	13
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<b>Special Schedule 8</b>	Permissible Income Calculation 19

<sup>1</sup> Special Schedules are not audited (with the exception of Special Schedule 8).

### Background

- (i) These Special Schedules have been designed to meet the requirements of special purpose users such as;
- the NSW Grants Commission
  - the Australian Bureau of Statistics (ABS),
  - the NSW Office of Water (NOW), and
  - the Office of Local Government (OLG).
- (ii) The financial data is collected for various uses including;
- the allocation of Financial Assistance Grants,
  - the incorporation of Local Government financial figures in national statistics,
  - the monitoring of loan approvals,
  - the allocation of borrowing rights, and
  - the monitoring of the financial activities of specific services.

## Lithgow City Council

# Special Schedule 1 – Net Cost of Services

for the year ended 30 June 2016

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
<b>Governance</b>	<b>(359)</b>	<b>10</b>	<b>–</b>	<b>369</b>
<b>Administration</b>	<b>398</b>	<b>196</b>	<b>–</b>	<b>(202)</b>
<b>Public order and safety</b>				
Fire service levy, fire protection, emergency services	749	477	–	(272)
Beach control	–	–	–	–
Enforcement of local government regulations	1,502	641	221	(640)
Animal control	–	–	–	–
Other	28	271	–	243
<b>Total public order and safety</b>	<b>2,279</b>	<b>1,389</b>	<b>221</b>	<b>(669)</b>
<b>Health</b>	<b>485</b>	<b>147</b>	<b>–</b>	<b>(338)</b>
<b>Environment</b>				
Noxious plants and insect/vermin control	36	–	–	(36)
Other environmental protection	143	120	–	(23)
Solid waste management	3,747	3,843	58	154
Street cleaning	559	–	–	(559)
Drainage	451	238	–	(213)
Stormwater management	–	–	–	–
<b>Total environment</b>	<b>4,936</b>	<b>4,201</b>	<b>58</b>	<b>(677)</b>
<b>Community services and education</b>				
Administration and education	667	19	255	(393)
Social protection (welfare)	–	–	–	–
Aged persons and disabled	–	–	–	–
Children's services	–	–	–	–
<b>Total community services and education</b>	<b>667</b>	<b>19</b>	<b>255</b>	<b>(393)</b>
<b>Housing and community amenities</b>				
Public cemeteries	260	130	–	(130)
Public conveniences	230	–	–	(230)
Street lighting	–	–	–	–
Town planning	542	3	–	(539)
Other community amenities	3,660	454	–	(3,206)
<b>Total housing and community amenities</b>	<b>4,692</b>	<b>587</b>	<b>–</b>	<b>(4,105)</b>
<b>Water supplies</b>	<b>7,843</b>	<b>6,691</b>	<b>190</b>	<b>(962)</b>
<b>Sewerage services</b>	<b>7,000</b>	<b>7,523</b>	<b>753</b>	<b>1,276</b>

## Lithgow City Council

# Special Schedule 1 – Net Cost of Services (continued)

for the year ended 30 June 2016

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
<b>Recreation and culture</b>				
Public libraries	1,626	116	118	(1,392)
Museums	—	—	—	—
Art galleries	—	—	—	—
Community centres and halls	191	23	—	(168)
Performing arts venues	—	—	—	—
Other performing arts	—	—	—	—
Other cultural services	—	—	—	—
Sporting grounds and venues	656	29	—	(627)
Swimming pools	893	399	2,250	1,756
Parks and gardens (lakes)	724	1	—	(723)
Other sport and recreation	2,228	8	—	(2,220)
<b>Total recreation and culture</b>	<b>6,318</b>	<b>576</b>	<b>2,368</b>	<b>(3,374)</b>
<b>Fuel and energy</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Agriculture</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Mining, manufacturing and construction</b>				
Building control	—	—	—	—
Other mining, manufacturing and construction	—	—	—	—
<b>Total mining, manufacturing and const.</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Transport and communication</b>				
Urban roads (UR) – local	—	—	—	—
Urban roads – regional	2,092	300	249	(1,543)
Sealed rural roads (SRR) – local	744	1,965	56	1,277
Sealed rural roads (SRR) – regional	—	—	—	—
Unsealed rural roads (URR) – local	465	—	—	(465)
Unsealed rural roads (URR) – regional	943	—	—	(943)
Bridges on UR – local	20	—	2,808	2,788
Bridges on SRR – local	—	—	—	—
Bridges on URR – local	—	—	—	—
Bridges on regional roads	—	—	—	—
Parking areas	—	—	—	—
Footpaths	—	—	—	—
Aerodromes	—	—	—	—
Other transport and communication	5,986	319	—	(5,667)
<b>Total transport and communication</b>	<b>10,250</b>	<b>2,584</b>	<b>3,113</b>	<b>(4,553)</b>
<b>Economic affairs</b>				
Camping areas and caravan parks	—	—	—	—
Other economic affairs	1,020	143	—	(877)
<b>Total economic affairs</b>	<b>1,020</b>	<b>143</b>	<b>—</b>	<b>(877)</b>
<b>Totals – functions</b>	<b>45,528</b>	<b>24,067</b>	<b>6,958</b>	<b>(14,503)</b>
<b>General purpose revenues <sup>(1)</sup></b>		<b>17,343</b>		<b>17,343</b>
<b>Share of interests – joint ventures and associates using the equity method</b>	<b>—</b>	<b>—</b>		<b>—</b>
<b>NET OPERATING RESULT <sup>(2)</sup></b>	<b>45,528</b>	<b>41,410</b>	<b>6,958</b>	<b>2,840</b>

(1) Includes: rates and annual charges (including ex gratia, excluding water and sewer), non-capital general purpose grants, interest on investments (excluding externally restricted assets) and interest on overdue rates and annual charges (2) As reported in the Income Statement

## Lithgow City Council

## Special Schedule 2(a) – Statement of Long Term Debt (all purpose)

for the year ended 30 June 2016

\$'000

Classification of debt	Principal outstanding at beginning of the year			New loans raised during the year	Debt redemption during the year		Transfers to sinking funds	Interest applicable for year	Principal outstanding at the end of the year		
	Current	Non-current	Total		From revenue	Sinking funds			Current	Non-current	Total
<b>Loans (by source)</b>											
Commonwealth government	–	–	–	–	–	–	–	–	–	–	–
Treasury corporation	–	–	–	–	–	–	–	–	–	–	–
Other state government	489	1,959	2,448	–	490	–	–	–	490	1,468	1,958
Public subscription	–	–	–	–	–	–	–	–	–	–	–
Financial institutions	1,274	18,071	19,345	–	1,318	–	–	929	1,420	16,607	18,027
Other	–	–	–	–	–	–	–	–	–	–	–
<b>Total loans</b>	<b>1,763</b>	<b>20,030</b>	<b>21,793</b>	<b>–</b>	<b>1,808</b>	<b>–</b>	<b>–</b>	<b>929</b>	<b>1,910</b>	<b>18,075</b>	<b>19,985</b>
<b>Other long term debt</b>											
Ratepayers advances	–	–	–	–	–	–	–	–	–	–	–
Government advances	–	–	–	–	–	–	–	–	–	–	–
Finance leases	–	–	–	–	–	–	–	–	–	–	–
Deferred payments	–	–	–	–	–	–	–	–	–	–	–
<b>Total long term debt</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total debt</b>	<b>1,763</b>	<b>20,030</b>	<b>21,793</b>	<b>–</b>	<b>1,808</b>	<b>–</b>	<b>–</b>	<b>929</b>	<b>1,910</b>	<b>18,075</b>	<b>19,985</b>

Notes: excludes (i) internal loans and (ii) principal inflows/outflows relating to loan re-financing.

This schedule is prepared using the **face value** of debt obligations, rather than **fair value** (which are reported in the GPFS).

## Lithgow City Council

## Special Schedule 3 – Water Supply Income Statement

Includes all internal transactions, i.e. prepared on a gross basis  
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
<b>A Expenses and income</b> <b>Expenses</b>		
<b>1. Management expenses</b>		
a. Administration	475	1,186
b. Engineering and supervision	635	395
<b>2. Operation and maintenance expenses</b>		
– dams and weirs		
a. Operation expenses	53	–
b. Maintenance expenses	53	–
– Mains		
c. Operation expenses	488	628
d. Maintenance expenses	371	409
– Reservoirs		
e. Operation expenses	33	31
f. Maintenance expenses	267	93
– Pumping stations		
g. Operation expenses (excluding energy costs)	8	–
h. Energy costs	37	28
i. Maintenance expenses	61	36
– Treatment		
j. Operation expenses (excluding chemical costs)	480	175
k. Chemical costs	119	98
l. Maintenance expenses	231	458
– Other		
m. Operation expenses	–	–
n. Maintenance expenses	20	–
o. Purchase of water	1,465	1,489
<b>3. Depreciation expenses</b>		
a. System assets	1,311	1,302
b. Plant and equipment	–	–
<b>4. Miscellaneous expenses</b>		
a. Interest expenses	98	107
b. Revaluation decrements	–	–
c. Other expenses	1,647	60
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	–	–
<b>5. Total expenses</b>	<b>7,852</b>	<b>6,495</b>

## Lithgow City Council

## Special Schedule 3 – Water Supply Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis  
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
<b>Income</b>		
<b>6. Residential charges</b>		
a. Access (including rates)	1,421	1,045
b. Usage charges	5,121	5,279
<b>7. Non-residential charges</b>		
a. Access (including rates)	—	—
b. Usage charges	—	—
<b>8. Extra charges</b>	—	34
<b>9. Interest income</b>	41	—
<b>10. Other income</b>	12	—
<b>10a. Aboriginal Communities Water and Sewerage Program</b>	—	—
<b>11. Grants</b>		
a. Grants for acquisition of assets	117	—
b. Grants for pensioner rebates	95	86
c. Other grants	—	—
<b>12. Contributions</b>		
a. Developer charges	73	—
b. Developer provided assets	—	—
c. Other contributions	—	—
<b>13. Total income</b>	<b>6,880</b>	<b>6,444</b>
<b>14. Gain (or loss) on disposal of assets</b>	—	—
<b>15. Operating result</b>	<b>(972)</b>	<b>(51)</b>
<b>15a. Operating result (less grants for acquisition of assets)</b>	<b>(1,089)</b>	<b>(51)</b>

## Lithgow City Council

## Special Schedule 3 – Water Supply Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis  
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
<b>B Capital transactions</b>		
<b>Non-operating expenditures</b>		
<b>16. Acquisition of fixed assets</b>		
a. New assets for improved standards	188	–
b. New assets for growth	–	–
c. Renewals	524	857
d. Plant and equipment	–	–
<b>17. Repayment of debt</b>	123	–
<b>18. Totals</b>	<b>835</b>	<b>857</b>
<b>Non-operating funds employed</b>		
<b>19. Proceeds from disposal of assets</b>	–	–
<b>20. Borrowing utilised</b>	–	–
<b>21. Totals</b>	<b>–</b>	<b>–</b>
<b>C Rates and charges</b>		
<b>22. Number of assessments</b>		
a. Residential (occupied)	7,193	7,142
b. Residential (unoccupied, ie. vacant lot)	571	595
c. Non-residential (occupied)	445	449
d. Non-residential (unoccupied, ie. vacant lot)	59	58
<b>23. Number of ETs for which developer charges were received</b>	– ET	– ET
<b>24. Total amount of pensioner rebates (actual dollars)</b>	\$ 175,600	\$ –



## Lithgow City Council

## Special Schedule 4 – Water Supply Statement of Financial Position

Includes internal transactions, i.e. prepared on a gross basis  
as at 30 June 2016

\$'000	Actuals Current	Actuals Non-current	Actuals Total
<b>ASSETS</b>			
<b>25. Cash and investments</b>			
a. Developer charges	–	–	–
b. Special purpose grants	–	–	–
c. Accrued leave	–	–	–
d. Unexpended loans	–	–	–
e. Sinking fund	–	–	–
f. Other	2,696	–	2,696
<b>26. Receivables</b>			
a. Specific purpose grants	145	–	145
b. Rates and availability charges	123	–	123
c. User charges	1,436	–	1,436
d. Other	–	–	–
<b>27. Inventories</b>	149	–	149
<b>28. Property, plant and equipment</b>			
a. System assets	–	30,426	30,426
b. Plant and equipment	–	–	–
<b>29. Other assets</b>	–	–	–
<b>30. Total assets</b>	<b>4,549</b>	<b>30,426</b>	<b>34,975</b>
<b>LIABILITIES</b>			
<b>31. Bank overdraft</b>	–	–	–
<b>32. Creditors</b>	137	–	137
<b>33. Borrowings</b>	139	1,221	1,360
<b>34. Provisions</b>			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	432	–	432
<b>35. Total liabilities</b>	<b>708</b>	<b>1,221</b>	<b>1,929</b>
<b>36. NET ASSETS COMMITTED</b>	<b>3,841</b>	<b>29,205</b>	<b>33,046</b>
<b>EQUITY</b>			
<b>37. Accumulated surplus</b>			14,051
<b>38. Asset revaluation reserve</b>			18,995
<b>39. TOTAL EQUITY</b>			<b>33,046</b>
<b>Note to system assets:</b>			
<b>40. Current replacement cost</b> of system assets			91,470
<b>41. Accumulated current cost</b> depreciation of system assets			(61,045)
<b>42. Written down current cost</b> of system assets			30,425

## Lithgow City Council

## Special Schedule 5 – Sewerage Service Income Statement

Includes all internal transactions, i.e. prepared on a gross basis  
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
<b>A Expenses and income</b> <b>Expenses</b>		
<b>1. Management expenses</b>		
a. Administration	87	843
b. Engineering and supervision	248	281
<b>2. Operation and maintenance expenses</b>		
– mains		
a. Operation expenses	56	–
b. Maintenance expenses	344	475
– Pumping stations		
c. Operation expenses (excluding energy costs)	53	–
d. Energy costs	73	74
e. Maintenance expenses	239	320
– Treatment		
f. Operation expenses (excl. chemical, energy, effluent and biosolids management costs)	1,152	–
g. Chemical costs	–	–
h. Energy costs	542	336
i. Effluent management	475	652
j. Biosolids management	–	–
k. Maintenance expenses	468	1,259
– Other		
l. Operation expenses	9	–
m. Maintenance expenses	–	–
<b>3. Depreciation expenses</b>		
a. System assets	1,729	1,365
b. Plant and equipment	–	–
<b>4. Miscellaneous expenses</b>		
a. Interest expenses	505	714
b. Revaluation decrements	–	–
c. Other expenses	1,019	102
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	–	–
<b>5. Total expenses</b>	<b>6,999</b>	<b>6,421</b>

## Lithgow City Council

## Special Schedule 5 – Sewerage Service Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis  
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
<b>Income</b>		
<b>6. Residential charges</b> (including rates)	6,413	6,140
<b>7. Non-residential charges</b>		
a. Access (including rates)	—	—
b. Usage charges	444	311
<b>8. Trade waste charges</b>		
a. Annual fees	144	136
b. Usage charges	—	—
c. Excess mass charges	—	—
d. Re-inspection fees	—	—
<b>9. Extra charges</b>	—	—
<b>10. Interest income</b>	—	—
<b>11. Other income</b>	40	35
<b>11a. Aboriginal Communities Water and Sewerage Program</b>	—	—
<b>12. Grants</b>		
a. Grants for acquisition of assets	687	—
b. Grants for pensioner rebates	88	89
c. Other grants	—	—
<b>13. Contributions</b>		
a. Developer charges	67	—
b. Developer provided assets	—	—
c. Other contributions	393	—
<b>14. Total income</b>	<b>8,276</b>	<b>6,711</b>
<b>15. Gain (or loss) on disposal of assets</b>	—	—
<b>16. Operating result</b>	<b>1,277</b>	<b>290</b>
<b>16a. Operating result (less grants for acquisition of assets)</b>	590	290

## Lithgow City Council

## Special Schedule 5 – Sewerage Service Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis  
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
<b>B Capital transactions</b>		
<b>Non-operating expenditures</b>		
<b>17. Acquisition of fixed assets</b>		
a. New assets for improved standards	–	–
b. New assets for growth	445	–
c. Renewals	953	1,166
d. Plant and equipment	–	–
<b>18. Repayment of debt</b>	676	591
<b>19. Totals</b>	<b>2,074</b>	<b>1,757</b>
<b>Non-operating funds employed</b>		
<b>20. Proceeds from disposal of assets</b>	–	–
<b>21. Borrowing utilised</b>	–	–
<b>22. Totals</b>	<b>–</b>	<b>–</b>
<b>C Rates and charges</b>		
<b>23. Number of assessments</b>		
a. Residential (occupied)	6,789	6,745
b. Residential (unoccupied, ie. vacant lot)	399	423
c. Non-residential (occupied)	434	434
d. Non-residential (unoccupied, ie. vacant lot)	40	39
<b>24. Number of ETs for which developer charges were received</b>	– ET	– ET
<b>25. Total amount of pensioner rebates (actual dollars)</b>	\$ 161,411	\$ -

## Lithgow City Council

## Special Schedule 6 – Sewerage Service Statement of Financial Position

Includes internal transactions, i.e. prepared on a gross basis  
as at 30 June 2016

\$'000	Actuals Current	Actuals Non-current	Actuals Total
<b>ASSETS</b>			
<b>26. Cash and investments</b>			
a. Developer charges	–	–	–
b. Special purpose grants	–	–	–
c. Accrued leave	–	–	–
d. Unexpended loans	–	–	–
e. Sinking fund	–	–	–
f. Other	2,803	–	2,803
<b>27. Receivables</b>			
a. Specific purpose grants	204	–	204
b. Rates and availability charges	467	–	467
c. User charges	42	–	42
d. Other	–	–	–
<b>28. Inventories</b>	17	–	17
<b>29. Property, plant and equipment</b>			
a. System assets	–	63,390	63,390
b. Plant and equipment	–	–	–
<b>30. Other assets</b>	–	–	–
<b>31. Total assets</b>	<b>3,533</b>	<b>63,390</b>	<b>66,923</b>
<b>LIABILITIES</b>			
<b>32. Bank overdraft</b>	–	–	–
<b>33. Creditors</b>	256	–	256
<b>34. Borrowings</b>	864	10,934	11,798
<b>35. Provisions</b>			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	159	–	159
<b>36. Total liabilities</b>	<b>1,279</b>	<b>10,934</b>	<b>12,213</b>
<b>37. NET ASSETS COMMITTED</b>	<b>2,254</b>	<b>52,456</b>	<b>54,710</b>
<b>EQUITY</b>			
<b>38. Accumulated surplus</b>			25,311
<b>39. Asset revaluation reserve</b>			29,399
<b>40. TOTAL EQUITY</b>			<b>54,710</b>
<b>Note to system assets:</b>			
<b>41. Current replacement cost</b> of system assets			108,704
<b>42. Accumulated current cost</b> depreciation of system assets			(45,314)
<b>43. Written down current cost</b> of system assets			63,390

# Lithgow City Council

## Notes to Special Schedules 3 and 5

for the year ended 30 June 2016

### Administration <sup>(1)</sup>

(item 1a of Special Schedules 3 and 5) comprises the following:

- Administration staff:
  - Salaries and allowance
  - Travelling expenses
  - Accrual of leave entitlements
  - Employment overheads.
- Meter reading
- Bad and doubtful debts
- Other administrative/corporate support services

### Engineering and supervision <sup>(1)</sup>

(item 1b of Special Schedules 3 and 5) comprises the following:

- Engineering staff:
  - Salaries and allowance
  - Travelling expenses
  - Accrual of leave entitlements
  - Employment overheads.
- Other technical and supervision staff:
  - Salaries and allowance
  - Travelling expenses
  - Accrual of leave entitlements
  - Employment overheads.

**Operational expenses** (item 2 of Special Schedules 3 and 5) comprise the day to day operational expenses excluding maintenance expenses.

**Maintenance expenses** (item 2 of Special Schedules 3 and 5) comprise the day to day repair and maintenance expenses. (Refer to Section 5 of the Local Government Asset Accounting Manual regarding capitalisation principles and the distinction between capital and maintenance expenditure).

**Other expenses** (item 4c of Special Schedules 3 and 5) includes all expenses not recorded elsewhere.

**Revaluation decrements** (item 4b of Special Schedules 3 and 5) is to be used when I,PP&E decreases in FV.

**Impairment losses** (item 4d and 4e of Special Schedules 3 and 5) are to be used when the carrying amount of an asset exceeds its recoverable amount (refer to page D-31).

**Aboriginal Communities Water and Sewerage Program** (item 4f of Special Schedules 3 and 5) is to be used when operation and maintenance work has been undertaken on behalf of the Aboriginal Communities Water and Sewerage Program. Similarly, income for item 11a of Special Schedule 3 and item 12a of Special Schedule 5 are for services provided to the Aboriginal Communities Water and Sewerage Program and is not part of Council's water supply and sewerage revenue.

**Residential charges** <sup>(2)</sup> (items 6a, 6b and item 6 of Special Schedules 3 and 5 respectively) include all income from residential charges. Item 6 of Schedule 3 should be separated into 6a access charges (including rates if applicable) and 6b usage charges.

**Non-residential charges** <sup>(2)</sup> (items 7a, 7b of Special Schedules 3 and 5) include all income from non-residential charges separated into 7a access charges (including rates if applicable) and 7b usage charges.

**Trade waste charges** (item 8 of Special Schedule 5) include all income from trade waste charges separated into 8a annual fees, 8b usage charges and 8c excess mass charges and 8d re-inspection fees.

**Other income** (items 10 and 11 of Special Schedules 3 and 5 respectively) include all income not recorded elsewhere.

**Other contributions** (items 12c and 13c of Special Schedules 3 and 5 respectively) including capital contributions for water supply or sewerage services received by Council under Section 565 of the *Local Government Act*.

### Notes:

<sup>(1)</sup> Administration and engineering costs for the development of capital works projects should be reported as part of the capital cost of the project and not as part of the recurrent expenditure (ie. in item 16 for water supply and item 17 for sewerage, and **not** in items 1a and 1b).

<sup>(2)</sup> To enable accurate reporting of **residential revenue from usage charges**, it is essential for councils to accurately separate their residential (item 6) charges and non-residential (item 7) charges.

## Lithgow City Council

## Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2016

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2015/16 Required maintenance <sup>a</sup>	2015/16 Actual maintenance	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings												
	Buildings – specialised	2,780	–	3,788	1,825	41,924	100,158	0%	23%	63%	14%	0%
	<b>Sub-total</b>	<b>2,780</b>	<b>–</b>	<b>3,788</b>	<b>1,825</b>	<b>41,924</b>	<b>100,158</b>	<b>0.0%</b>	<b>23.3%</b>	<b>62.5%</b>	<b>14.2%</b>	<b>0.0%</b>
Other structures												
	Other structures	Data not assessed yet				554	9,606					100%
	<b>Sub-total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>554</b>	<b>9,606</b>	<b>15,281</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>100.0%</b>
Roads												
	Sealed roads	6,717	–	3,105	3,321	158,935	239,444	9%	40%	31%	20%	0%
	Unsealed roads	577	–	267	1,408	9,554	20,555	9%	40%	31%	20%	0%
	Bridges	373	–	242	20	14,488	18,664	0%	10%	80%	10%	0%
	Footpaths	–	–	130	74	7,384	10,018					100%
	Bulk earthworks	78	–	158	–	12,181	12,181	9%	40%	31%	20%	0%
	<b>Sub-total</b>	<b>7,745</b>	<b>–</b>	<b>3,902</b>	<b>4,823</b>	<b>202,542</b>	<b>300,862</b>	<b>8.1%</b>	<b>36.8%</b>	<b>33.0%</b>	<b>18.7%</b>	<b>3.3%</b>

## Lithgow City Council

## Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2016 (continued)

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2015/16 Required maintenance <sup>a</sup>	2015/16 Actual maintenance	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Water supply network	Water supply network	5,578	–	3,259	2,473	30,330	91,375	26%	2%	54%	18%	0%
	<b>Sub-total</b>	<b>5,578</b>	<b>–</b>	<b>3,259</b>	<b>2,473</b>	<b>30,330</b>	<b>91,375</b>	<b>26.0%</b>	<b>2.0%</b>	<b>54.0%</b>	<b>18.0%</b>	<b>0.0%</b>
Sewerage network	Sewerage network	22,821	–	2,635	1,043	62,836	100,150	31%	15%	28%	11%	15%
	<b>Sub-total</b>	<b>22,821</b>	<b>–</b>	<b>2,635</b>	<b>1,043</b>	<b>62,836</b>	<b>100,150</b>	<b>31.0%</b>	<b>15.0%</b>	<b>28.0%</b>	<b>11.0%</b>	<b>15.0%</b>
Stormwater drainage	Stormwater drainage	832	–	183	95	23,414	39,058	0%	10%	75%	15%	0%
	<b>Sub-total</b>	<b>832</b>	<b>–</b>	<b>183</b>	<b>95</b>	<b>23,414</b>	<b>39,058</b>	<b>0.0%</b>	<b>10.0%</b>	<b>75.0%</b>	<b>15.0%</b>	<b>0.0%</b>
Open space/recreational assets	Swimming pools	Data not assessed yet			41	6,480	6,942	100%				0%
	<b>Sub-total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>41</b>	<b>6,480</b>	<b>6,942</b>	<b>100.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
	<b>TOTAL – ALL ASSETS</b>	<b>39,756</b>	<b>–</b>	<b>13,767</b>	<b>10,854</b>	<b>377,132</b>	<b>653,826</b>	<b>13.2%</b>	<b>23.7%</b>	<b>41.1%</b>	<b>15.9%</b>	<b>6.2%</b>

## Notes:

<sup>a</sup> Required maintenance is the amount identified in Council's asset management plans.

## Infrastructure asset condition assessment 'key'

1	<b>Excellent</b>	No work required (normal maintenance)
2	<b>Good</b>	Only minor maintenance work required
3	<b>Average</b>	Maintenance work required
4	<b>Poor</b>	Renewal required
5	<b>Very poor</b>	Urgent renewal/upgrading required



## Lithgow City Council

# Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2016

\$ '000	Amounts 2016	Indicator 2016	Prior periods	
			2015	2014
Infrastructure asset performance indicators * consolidated				
1. Infrastructure renewals ratio				
Asset renewals <sup>(1)</sup>	5,858	53.84%	102.83%	142.10%
Depreciation, amortisation and impairment	10,881			
2. Infrastructure backlog ratio				
Estimated cost to bring assets to a satisfactory standard	39,756	10.89%	9.37%	11.45%
Carrying value of infrastructure assets	364,951			
3. Asset maintenance ratio				
Actual asset maintenance	10,854	0.79	0.76	0.97
Required asset maintenance	13,767			
4. Capital expenditure ratio				
Annual capital expenditure	9,903	0.81	0.93	1.41
Annual depreciation	12,280			

## Notes

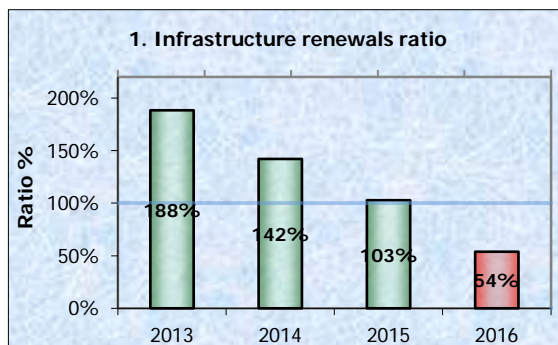
\* All asset performance indicators are calculated using the asset classes identified in the previous table.

<sup>(1)</sup> Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

## Lithgow City Council

# Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2016



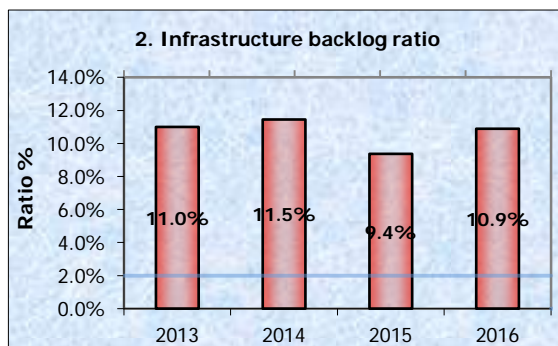
## Purpose of asset renewals ratio

To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

**2015/16 Ratio 53.84%**

Benchmark: — Minimum  $\geq 100.00\%$   
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

■ Ratio achieves benchmark  
■ Ratio is outside benchmark



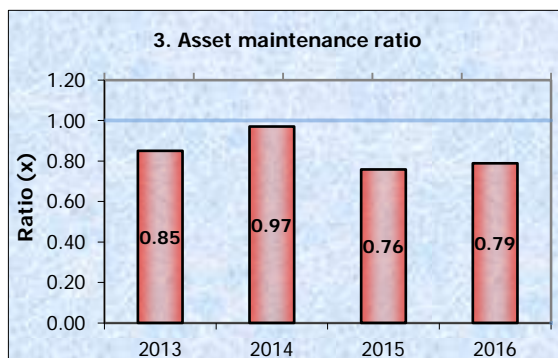
## Purpose of infrastructure backlog ratio

This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.

**2015/16 Ratio 10.89%**

Benchmark: — Maximum  $< 2.00\%$   
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

■ Ratio achieves benchmark  
■ Ratio is outside benchmark



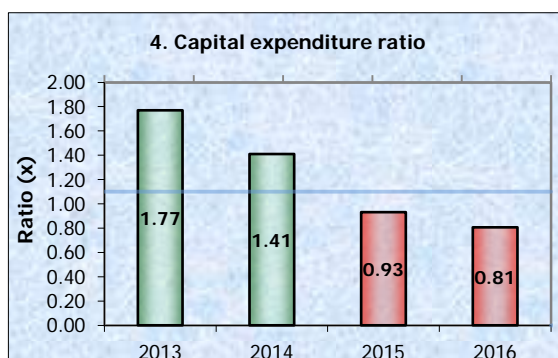
## Purpose of asset maintenance ratio

Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing.

**2015/16 Ratio 0.79 x**

Benchmark: — Minimum  $> 1.00$   
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

■ Ratio achieves benchmark  
■ Ratio is outside benchmark



## Purpose of capital expenditure ratio

To assess the extent to which a Council is expanding its asset base thru capital expenditure on both new assets and the replacement and renewal of existing assets.

**2015/16 Ratio 0.81 x**

Benchmark: — Minimum  $> 1.10$   
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

■ Ratio achieves benchmark  
■ Ratio is outside benchmark

## Lithgow City Council

## Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2016

\$ '000	Water 2016	Sewer 2016	General <sup>(1)</sup> 2016
<b>Infrastructure asset performance indicators by fund</b>			
<b>1. Infrastructure renewals ratio</b>			
Asset renewals <sup>(2)</sup>	<b>39.97%</b>	<b>55.12%</b>	<b>55.87%</b>
Depreciation, amortisation and impairment			
prior period:	0.00%	0.00%	146.55%
<b>2. Infrastructure backlog ratio</b>			
Estimated cost to bring assets to a satisfactory standard	<b>18.39%</b>	<b>36.32%</b>	<b>4.18%</b>
Carrying value of infrastructure assets			
prior period:	18.00%	26.67%	4.27%
<b>3. Asset maintenance ratio</b>			
Actual asset maintenance	<b>0.76</b>	<b>0.40</b>	<b>0.93</b>
Required asset maintenance			
prior period:	0.31	0.79	0.93
<b>4. Capital expenditure ratio</b>			
Annual capital expenditure	<b>0.54</b>	<b>0.81</b>	<b>0.84</b>
Annual depreciation			
prior period:	0.66	0.85	0.99

**Notes**

- (1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.
- (2) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

## Lithgow City Council

## Special Schedule 8 – Permissible Income Calculation

for the year ended 30 June 2017

\$'000		Calculation 2015/16	Calculation 2016/17
<b>Notional general income calculation <sup>(1)</sup></b>			
Last year notional general income yield	a	12,193	12,476
Plus or minus adjustments <sup>(2)</sup>	b	(1)	28
<b>Notional general income</b>	c = (a + b)	<b>12,192</b>	<b>12,504</b>
<b>Permissible income calculation</b>			
Special variation percentage <sup>(3)</sup>	d	0.00%	0.00%
Or rate peg percentage	e	2.40%	1.80%
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%
Less expiring special variation amount	g	—	—
Plus special variation amount	h = d x (c - g)	—	—
Or plus rate peg amount	i = c x e	293	225
Or plus Crown land adjustment and rate peg amount	j = c x f	—	—
<b>Sub-total</b>	k = (c + g + h + i + j)	<b>12,485</b>	<b>12,729</b>
Plus (or minus) last year's carry forward total	l	(7)	(0)
Less valuation objections claimed in the previous year	m	(2)	—
<b>Sub-total</b>	n = (l + m)	<b>(9)</b>	<b>(0)</b>
<b>Total permissible income</b>	o = k + n	<b>12,476</b>	<b>12,729</b>
Less notional general income yield	p	12,476	12,732
<b>Catch-up or (excess) result</b>	q = o - p	<b>(0)</b>	<b>(3)</b>
Plus income lost due to valuation objections claimed <sup>(4)</sup>	r	—	—
Less unused catch-up <sup>(5)</sup>	s	—	—
<b>Carry forward to next year</b>	t = q + r - s	<b>(0)</b>	<b>(3)</b>

## Notes

- (1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include 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 *Local Government Act 1993*. The OLG will extract these amounts from Council's Special Schedule 8 in the financial data return (FDR) to administer this process.

## Lithgow City Council

### Special Schedule 8 – Independent Auditors Report for the year ended 30 June 2017

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#### **Report on Special Schedule 8**

We have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule 8) of Lithgow City Council for the year ending 30 June 2017.

#### **Responsibility of Council for Special Schedule 8**

The Council is responsible for the preparation and fair presentation of Special Schedule 8 in accordance with the Local Government Code of Accounting Practice and Financial Reporting (Guidelines) Update No. 23. This responsibility includes the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error; designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of Special Schedule 8 that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditors' responsibility**

Our responsibility is to express an opinion on Special Schedule 8 based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether Special Schedule 8 is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in Special Schedule 8. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of Special Schedule 8, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of Special Schedule 8.

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

In making our risk assessments, we consider internal controls relevant to the entity's preparation of Special Schedule 8 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

#### **Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

**Audit opinion**

In our opinion, Special Schedule 8 of Lithgow City Council for 2016/17 is properly drawn up in accordance with the requirements of the Office of Local Government and in accordance with the books and records of the Council.

**Basis of accounting**

Without modifying our opinion, we advise that this schedule has been prepared for distribution to the Office of Local Government for the purposes of confirming that Council's reconciliation of Council's total permissible general income is presented fairly. As a result, the schedule may not be suitable for another purpose.

FIRM NAME

---

Partner Name here...

**Partner**

**Dated at Sydney this XXth day of XXXXXXXX, 2015**

**Crowe Horwath Auswild**

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**LITHGOW CITY COUNCIL**

**INDEPENDENT AUDITORS' REPORT**

**REPORT ON SPECIAL SCHEDULE NO. 8**

We have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule No. 8) of Lithgow City Council, for 2016/17.

***Responsibility of Council for Special Schedule No. 8***

The Council is responsible for the preparation and fair presentation of Special Schedule No. 8 in accordance with the Local Government Code of Accounting Practice and Financial Reporting (Guidelines), update No. 24. This responsibility includes the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error; designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of Special Schedule No. 8 that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

***Auditor's' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in Special Schedule No. 8. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of Special Schedule No. 8, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of Special Schedule No. 8.

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

In making our risk assessments, we considered internal controls relevant to the entity's preparation of Special Schedule No. 8 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

***Independence***

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

***Audit Opinion***

In our opinion, Special Schedule No. 8 of Lithgow City Council for 2016/17, is properly drawn up in accordance with the requirements of Local Government, and in accordance with the books and records of the Council.

***Basis of Accounting***

Without modifying our opinion, we advise that this schedule has been prepared for distribution to the Office of Local Government for the purposes of confirming that Council's reconciliation of Council's total permissible general income is presented fairly. As a result the schedule may not be suitable for another purpose.

*Crowe Horwath Auswild*  
CROWE HORWATH AUSWILD

*Clare Wagner*  
Clare Wagner  
Audit Partner

Dated at Bathurst this 10<sup>th</sup> day of November 2016