

An aerial photograph of a town and its surrounding landscape. The town is nestled in a valley, with a main road running through it. To the left, there's a cluster of buildings, possibly a commercial or industrial area. To the right, there's a large, open grassy field. The background is dominated by dense, green forest covering rolling hills. A railway line runs diagonally across the upper part of the image. The overall scene is a mix of urban development and natural environment.

2016/17 Financial Statements



Lithgow
CITY COUNCIL

*General Purpose Financial Statements
& Auditors Report*

Lithgow City Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2017

"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 2017

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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 guiding principles are detailed in Chapter 3 of the LGA and includes:

- principles applying to the exercise of functions generally by council,
- principles to be applied when making decisions,
- principles of community participation,
- principles of sound financial management, and
- principles for strategic planning relating to the development of an integrated planning and reporting framework.

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 21 November 2017. Council has the power to amend and reissue these financial statements.

Lithgow City Council

General Purpose Financial Statements for the year ended 30 June 2017

Understanding Council's financial statements

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 2017.

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

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

Primarily records changes in the fair value of Council's Infrastructure, Property, Plant and Equipment.

3. The Statement of Financial Position

A 30 June snapshot of Council's financial position indicating its assets, liabilities and "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

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 annual financial statements are required to be audited by the NSW Audit Office. 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 2017

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:

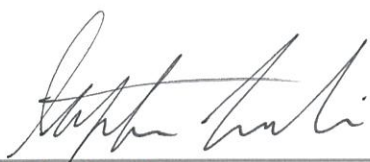
- the *Local Government Act 1993 (NSW)* (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and professional pronouncements, and
- the Local Government Code of Accounting Practice and Financial Reporting.

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 30 October 2017.



Stephen Lesslie
Mayor



Raymond Thompson
Councillor



Graeme Faulkner
General manager



Neil Derwent
Responsible accounting officer

Lithgow City Council

Income Statement

for the year ended 30 June 2017

Budget ¹ 2017	\$ '000	Notes	Actual 2017	Actual 2016
Income from continuing operations				
Revenue:				
24,786	Rates and annual charges	3a	24,815	24,361
5,987	User charges and fees	3b	6,643	6,606
601	Interest and investment revenue	3c	811	759
1,232	Other revenues	3d	4,600	790
8,451	Grants and contributions provided for operating purposes	3e,f	10,379	8,892
893	Grants and contributions provided for capital purposes	3e,f	9,561	6,958
Other income:				
431	Net gains from the disposal of assets	5	–	–
42,381	Total income from continuing operations		56,809	48,368
Expenses from continuing operations				
15,067	Employee benefits and on-costs	4a	16,076	15,257
1,251	Borrowing costs	4b	851	1,998
11,745	Materials and contracts	4c	10,843	9,875
11,706	Depreciation and amortisation	4d	12,136	12,280
4,388	Other expenses	4e	5,369	5,210
–	Net losses from the disposal of assets	5	2,512	909
44,157	Total expenses from continuing operations		47,787	45,528
(1,776)	Operating result from continuing operations		9,022	2,840
(1,776)	Net operating result for the year		9,022	2,840
(1,776)	Net operating result attributable to Council		9,022	2,840
(2,669)	Net operating result for the year before grants and contributions provided for capital purposes		(539)	(4,118)

¹ Original budget as approved by Council – refer Note 16

Lithgow City Council

Statement of Comprehensive Income
for the year ended 30 June 2017

\$ '000	Notes	Actual 2017	Actual 2016
Net operating result for the year (as per Income Statement)		9,022	2,840
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	103,183	14,035
Total items which will not be reclassified subsequently to the operating result		103,183	14,035
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Other movements in reserves	20b (ii)	—	1,113
Total items which will be reclassified subsequently to the operating result when specific conditions are met		—	1,113
Total other comprehensive income for the year		103,183	15,148
Total comprehensive income for the year		112,205	17,988
Total comprehensive income attributable to Council		112,205	17,988

Lithgow City Council

Statement of Financial Position
as at 30 June 2017

\$ '000	Notes	Actual 2017	Restated 2016	Restated 2015
ASSETS				
Current assets				
Cash and cash equivalents	6a	29,867	20,881	13,436
Investments	6b	–	4,000	5,013
Receivables	7	5,393	5,131	5,912
Inventories	8	796	719	618
Other	8	245	228	227
Total current assets		36,301	30,959	25,206
Non-current assets				
Infrastructure, property, plant and equipment	9	511,090	409,008	396,481
Total non-current assets		511,090	409,008	396,481
TOTAL ASSETS		547,391	439,967	421,687
LIABILITIES				
Current liabilities				
Payables	10	3,541	3,704	2,752
Income received in advance	10	975	–	–
Borrowings	10	1,730	1,598	1,763
Provisions	10	3,274	3,529	3,611
Total current liabilities		9,520	8,831	8,126
Non-current liabilities				
Payables	10	21	7	–
Borrowings	10	16,168	18,076	19,572
Provisions	10	8,516	12,092	11,016
Total non-current liabilities		24,705	30,175	30,588
TOTAL LIABILITIES		34,225	39,006	38,714
Net assets		513,166	400,961	382,973
EQUITY				
Retained earnings	20	205,524	196,502	193,318
Revaluation reserves	20	307,642	204,459	189,655
Council equity interest		513,166	400,961	382,973
Total equity		513,166	400,961	382,973

Lithgow City Council

Statement of Changes in Equity
for the year ended 30 June 2017

\$ '000	Notes	2017				2016				
		Retained earnings	Asset revaluation reserve (Refer 20b)	Council interest	Total equity	Retained earnings	Asset revaluation reserve (Refer 20b)	Other reserves (Refer 20b)	Council interest	Total equity
Opening balance (as per last year's audited accounts)		251,326	154,241	405,567	405,567	244,495	143,853	(769)	387,579	387,579
a. Correction of prior period errors	20 (c)	(54,824)	50,218	(4,606)	(4,606)	(51,177)	46,571	–	(4,606)	(4,606)
Revised opening balance		196,502	204,459	400,961	400,961	193,318	190,424	(769)	382,973	382,973
b. Net operating result for the year		9,022	–	9,022	9,022	2,840	–	–	2,840	2,840
c. Other comprehensive income										
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	–	103,183	103,183	103,183	–	14,035	–	14,035	14,035
– Other reserves movements	20b (ii)	–	–	–	–	(269)	–	269	–	–
– Other reserves movements	20b (ii)	–	–	–	–	(500)	–	500	–	–
– Other reserves movements	20b (ii)	–	–	–	–	1,113	–	–	1,113	1,113
Other comprehensive income		–	103,183	103,183	103,183	344	14,035	769	15,148	15,148
Total comprehensive income (c&d)		9,022	103,183	112,205	112,205	3,184	14,035	769	17,988	17,988
Equity – balance at end of the reporting period		205,524	307,642	513,166	513,166	196,502	204,459	–	400,961	400,961

Lithgow City Council

Statement of Cash Flows

for the year ended 30 June 2017

Budget 2017	\$ '000	Notes	Actual 2017	Actual 2016
Cash flows from operating activities				
Receipts:				
24,786	Rates and annual charges		24,684	24,470
5,987	User charges and fees		6,714	7,208
601	Investment and interest revenue received		712	669
9,344	Grants and contributions		18,942	16,621
–	Bonds, deposits and retention amounts received		81	182
1,232	Other		6,210	1,708
Payments:				
(15,067)	Employee benefits and on-costs		(16,550)	(15,147)
(11,745)	Materials and contracts		(10,382)	(10,521)
(1,251)	Borrowing costs		(4,410)	(949)
–	Bonds, deposits and retention amounts refunded		(162)	(324)
(4,388)	Other		(6,169)	(5,110)
9,499	Net cash provided (or used in) operating activities	11b	19,670	18,807
Cash flows from investing activities				
Receipts:				
–	Sale of investment securities		4,000	5,013
431	Sale of infrastructure, property, plant and equipment		126	589
–	Deferred debtors receipts		146	–
Payments:				
–	Purchase of investment securities		–	(4,000)
–	Purchase of infrastructure, property, plant and equipment		(13,060)	(11,157)
431	Net cash provided (or used in) investing activities		(8,788)	(9,555)
Cash flows from financing activities				
Receipts:				
Nil				
Payments:				
–	Repayment of borrowings and advances		(1,896)	(1,807)
–	Net cash flow provided (used in) financing activities		(1,896)	(1,807)
9,930	Net increase/(decrease) in cash and cash equivalents		8,986	7,445
20,881	Plus: cash and cash equivalents – beginning of year	11a	20,881	13,436
30,811	Cash and cash equivalents – end of the year	11a	29,867	20,881
Additional Information:				
	plus: Investments on hand – end of year	6b	–	4,000
	Total cash, cash equivalents and investments		29,867	24,881

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

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n/a – not applicable

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Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies

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

(a) Basis of preparation

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

(i) 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.

AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 and AASB 11] and has had no impact in these accounts.

(ii) Early adoption of standards

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

(iii) Historical cost convention

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

(iv) Significant accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying 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 the 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 include:

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

Significant judgements in applying the Council's accounting policies

- (i) Impairment of Receivables

Council has made a significant judgement about the impairment of a number of its receivables in Note 7.

(b) Revenue recognition

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

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

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

(i) Rates, annual charges, grants and contributions

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

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

revenue when the Council obtains control over the assets comprising these receipts. Developer contributions may only be expended for the purposes for which the contributions were required, but the Council may apply contributions according to the priorities established in work schedules.

Control over assets acquired from rates and annual charges is obtained at the commencement of the rating year as it is an enforceable debt linked to the rateable property or, where earlier, upon receipt of the rates.

Control over granted assets/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.

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner or used over a particular period and those conditions were un-discharged at reporting date, the unused grant or contribution is disclosed in Note 3(g). The note also discloses the amount of unused grant or contribution from prior years that was expended on Council's operations during the current year.

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

(ii) User charges and fees

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

(iii) 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.

(iv) Interest

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

(v) Rent

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

(vi) Dividend income

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

(vii) 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

(i) The Consolidated Fund

In accordance with the provisions of Section 409(1) of the Local Government Act 1993 (NSW), all money and property received by Council is held in the Council's Consolidated Fund unless it is required to be held in the Council's Trust Fund.

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

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

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(iii) County Councils

Council is a member of the Upper Macquarie County Council, a body corporate established under the Local Government Act 1993 (NSW) to inspect and advise property owners on weed control issues. Council is one of four constituent members and neither controls nor significantly influences the County Council. Accordingly, the County Council has not been consolidated in the financial statements.

(iv) Interests in other entities

Subsidiaries

Council has no interest in any subsidiaries.

Joint arrangements

Council has no interest in any joint arrangements.

(d) Leases

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

Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged 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.

The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that Council will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Council as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to

the income statement on a straight-line basis over the period of the lease.

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

(e) Impairment of assets

Intangible assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

(f) Cash and cash equivalents

For Statement of Cash Flow presentation purposes, cash and cash equivalents includes cash on hand; deposits held at call with financial institutions; other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value; and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(g) Inventories

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

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value.

Cost comprises direct materials, direct labour, and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(ii) Inventory held for distribution

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

(iii) Land held for resale/capitalisation of borrowing costs

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

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

(h) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets; assets arising from employee benefits; financial assets; and investment properties that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

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

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

(i) Investments and other financial assets

Classification

Council classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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

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

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

Loans and receivables are included in other receivables (note 8) and receivables (note 7) in the Statement of Financial Position.

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

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

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Council's management has the positive intention and ability to hold to maturity. If Council were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

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

management intends to dispose of the investment within 12 months of the reporting date.

Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade-date: the date on which Council commits to purchase or sell the asset.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

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

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

Subsequent measurement

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

Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Impairment

Council assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or 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

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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.

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

(i) Assets carried at amortised cost

For loans and receivables the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Council may measure impairment on the basis of an instrument's fair value using an observable market price.

Collectability of receivables is reviewed on an on-going basis. Debts that are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that Council will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

amounts previously written off are credited against other expenses in the income statement.

Investment Policy

Council has an approved investment policy complying with Section 625 of the Local Government Act 1993 (NSW) and Clause 212 of the Local Government (General) Regulation 2005 (NSW).

Investments are placed and managed in accordance with that policy and having particular regard to authorised investments prescribed under the Ministerial Local Government Investment Order. Council maintains an investment policy that complies with the Act and ensures that it, or its representatives, exercise the 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 (the Order) arising from the Cole Inquiry recommendations. Certain investments the Council holds are no longer prescribed; however, they have been retained under grandfathering provisions of the Order. These will be disposed of when most financially advantageous to Council.

(j) Fair value estimation – financial instruments

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

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Council uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Council for similar financial instruments.

(k) Infrastructure, property, plant and equipment (IPPE)

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

Externally valued:

- Operational land
- Community land
- Land improvements
- Buildings – specialised/non-specialised
- Other structures
- Roads assets including roads, bridges and footpaths
- Bulk earthworks
- Stormwater drainage
- Water and sewerage networks
- Swimming pools
- Other open space/recreational assets
- Other infrastructure
- Other assets

Internally valued:

- Plant and equipment

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

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 asset classes, Council assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, Council determines the asset's fair value and revalue the asset to that

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

Increases in the carrying amounts arising on revaluation are credited to the asset revaluation reserve. To the extent that the increase reverses a decrease previously recognising profit or loss relating to that asset class, the increase is first recognised as profit or loss.

Decreases that reverse previous increases of assets in the same class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the class; all other decreases are charged to the Income Statement.

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

Depreciation

Land is not depreciated.

Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

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
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Lithgow City Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

- Culverts	50 to 80 years
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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
- Kerb, Gutter & Paths	40 years

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

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(l) Investment property

Investment property, principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Council.

Investment property is carried at fair value, which is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, Council uses alternative valuation methods such as recent prices in less active markets, or discounted cash flow projections. Changes in fair values are recorded in the income statement as part of other income.

Properties that are under construction for future use as investment properties are regarded as investment

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

(m) Payables

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

(n) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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

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

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(o) Borrowing costs

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

(p) Provisions

Provisions are recognised when Council has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a 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.

(q) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

The liability for annual leave and accumulating sick leave is recognised in the provision for employee

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

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave that is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the Statement of Financial Position if the Council does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

(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 Statement of Financial Position, and measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost.

The present value of the defined benefit obligation is based on expected future payments that arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method.

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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 accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable.

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.

(r) Land under roads

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

Council has elected not to recognise land under roads acquired before 1 July 2008 in accordance with AASB 1051 Land Under Roads

Land under roads acquired after 1 July 2008 is recognised in accordance with AASB 116 Property, Plant and Equipment.

(s) Self-insurance

Council does not self-insure.

(t) Intangible assets

Council has not classified any assets as intangible.

(u) 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.

(v) Rural fire service assets

Under section 119 of the Rural Fire Services Act 1997 (NSW), *"all fire fighting equipment purchased or constructed wholly or from money to the credit of the Fund is to be vested in the council of the area for or on behalf of which the fire fighting equipment has been purchased or constructed"*.

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

(w) Goods and Services Tax (GST)

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

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

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

(x) New accounting standards and interpretations issued not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period and which have not been applied.

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

As at the date of authorisation of the financial statements, the standards and interpretations listed below were in issue but not yet effective.

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

AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15

AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15

AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107

Effective for annual reporting periods beginning on or after 1 January 2018

AASB 15 Revenue from Contracts with Customers

AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)

AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)
AASB 1057 Application of Australian Accounting Standards

AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15

Effective for annual reporting periods beginning on or after 1 January 2019

AASB 16 Leases

AASB 16 Leases (Appendix D)

AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities

AASB 1058 Income of Not-for-Profit Entities

AASB 2016-8 Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities

The full impact of these standards has yet to be ascertained or quantified but will range from additional and/or revised disclosures to changes in

how certain transactions and balances are accounted for.

(y) Rounding of amounts

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

(z) 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.

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

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 and non-current)	
	Original budget	Actual	Actual	Original budget	Actual	Actual	Original budget	Actual	Actual	Actual	Actual	Actual	Actual
	2017	2017	2016	2017	2017	2016	2017	2017	2016	2017	2016	2017	2016
Governance	(1)	14	10	(1,322)	1,906	(359)	1,321	(1,892)	369	–	–	30,035	(4,603)
Administration	232	408	196	1,125	994	398	(893)	(586)	(202)	–	–	5,187	22,524
Public order and safety	363	466	1,610	804	1,168	2,279	(441)	(702)	(669)	–	–	5,937	–
Health	201	118	147	788	329	485	(587)	(211)	(338)	–	–	546	–
Environment	4,165	8,252	4,259	3,960	3,889	4,936	205	4,363	(677)	323	44	29,606	24,990
Community services and education	–	–	274	–	–	667	–	–	(393)	2	255	7,319	–
Housing and community amenities	971	1,881	588	6,105	5,511	4,692	(5,134)	(3,630)	(4,104)	–	5	4,426	73,523
Water supplies	6,916	6,793	6,881	6,736	6,357	7,843	180	436	(962)	158	212	37,594	34,975
Sewerage services	7,735	14,971	8,276	7,108	6,334	7,000	627	8,637	1,276	7,804	775	76,616	66,923
Recreation and culture	770	773	2,944	5,969	8,507	6,318	(5,199)	(7,734)	(3,374)	–	2,498	59,790	16,239
Transport and communication	3,148	3,302	5,697	11,552	11,860	10,250	(8,404)	(8,558)	(4,553)	1,809	4,988	280,698	204,605
Economic affairs	55	77	143	1,213	932	1,020	(1,158)	(855)	(877)	258	–	8,751	–
Total functions and activities	24,555	37,055	31,025	44,038	47,787	45,528	(19,483)	(10,732)	(14,503)	10,354	8,777	546,505	439,176
Share of gains/(losses) in associates and joint ventures (using the equity method)	–	–	–	–	–	–	–	–	–	–	–	–	–
General purpose income ¹	17,826	19,754	17,343	119	–	–	17,707	19,754	17,343	6,994	4,884	886	791
Operating result from continuing operations	42,381	56,809	48,368	44,157	47,787	45,528	(1,776)	9,022	2,840	17,348	13,661	547,391	439,967

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 2017

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

Includes Council's fire and emergency services levy, fire protection, emergency services, beach control, enforcement of regulations and animal control.

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 2017

Note 3. Income from continuing operations

\$ '000	Actual 2017	Actual 2016
(a) Rates and annual charges		
Ordinary rates		
Residential	6,535	6,400
Farmland	1,714	1,675
Mining	2,032	1,997
Business	1,704	1,669
Total ordinary rates	11,985	11,740
Special rates		
Sewerage services	6,561	6,413
Parking	243	240
Total special rates	6,804	6,653
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Domestic waste management services	3,418	3,843
Stormwater management services	240	238
Water supply services	1,492	1,421
Sewerage services	339	444
Waste management services (non-domestic)	511	–
Gas mains	26	22
Total annual charges	6,026	5,968
<u>TOTAL RATES AND ANNUAL CHARGES</u>	<u>24,815</u>	<u>24,361</u>

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 2017

Note 3. Income from continuing operations (continued)

\$ '000	Actual 2017	Actual 2016
(b) User charges and fees		
Specific user charges (per s.502 – specific ‘actual use’ charges)		
Water supply services	4,935	5,122
Septic approval	102	93
Trade waste	120	144
Total user charges	5,157	5,358
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Planning and building regulation	608	870
Private works – section 67	74	13
Regulatory/ statutory fees	33	–
Section 149 certificates (EPA Act)	73	–
Total fees and charges – statutory/regulatory	788	883
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Cemeteries	160	–
Fire and emergency services levy (FESL) implementation	67	–
Leaseback fees – Council vehicles	97	96
Hall and park hire	56	–
Swimming centres	308	269
Other	10	–
Total fees and charges – other	698	365
TOTAL USER CHARGES AND FEES	6,643	6,606

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

\$ '000	Actual 2017	Actual 2016
(c) Interest and investment revenue (including losses)		
Interest		
– Interest on overdue rates and annual charges (incl. special purpose rates)	122	127
– Interest earned on investments (interest and coupon payment income)	689	632
<u>TOTAL INTEREST AND INVESTMENT REVENUE</u>	<u>811</u>	<u>759</u>
Interest revenue is attributable to:		
Unrestricted investments/financial assets:		
Overdue rates and annual charges (general fund)	86	127
General Council cash and investments	689	591
Restricted investments/funds – external:		
Water fund operations	36	41
Total interest and investment revenue recognised	<u>811</u>	<u>759</u>
(d) Other revenues		
Rental income – other council properties	420	448
Esbank house	7	8
Fines – parking	38	30
Fines – other	2	2
Inspections	2	69
Legal fees recovery – rates and charges (extra charges)	–	2
Legal fees recovery – other	38	–
Library charges	17	28
Commissions and agency fees	10	4
Diesel rebate	72	–
Insurance claim recoveries	132	68
Remediation reversal	3,669	–
Sale of abandoned vehicles	2	–
Sales – general	9	–
Sales – Aquatic Centre	82	–
Sales – tourism	48	55
Other	52	77
<u>TOTAL OTHER REVENUE</u>	<u>4,600</u>	<u>790</u>

Lithgow City Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

\$ '000	2017 Operating	2016 Operating	2017 Capital	2016 Capital
(e) Grants				
General purpose (untied)				
Financial assistance	6,681	4,581	–	–
Pensioners' rates subsidies – general component	313	303	–	–
Total general purpose	6,994	4,884	–	–
Specific purpose				
Pensioners' rates subsidies:				
– Water	92	95	–	–
– Sewerage	90	88	–	–
Water supplies	66	–	–	117
Sewerage services	–	–	7,714	687
Community centres	18	–	–	–
Environmental protection	183	–	–	–
Heritage and cultural	4	–	72	–
Library – per capita	66	–	–	–
LIRS subsidy	77	130	–	–
Recreation and culture	–	–	16	2,623
Street lighting	69	182	–	–
Transport (roads to recovery)	1,585	1,596	–	–
Transport (other roads and bridges funding)	–	98	155	3,112
Waste services	–	–	140	–
Other	7	49	–	–
Total specific purpose	2,257	2,238	8,097	6,539
Total grants	9,251	7,122	8,097	6,539
Grant revenue is attributable to:				
– Commonwealth funding	8,268	1,597	–	–
– State funding	976	5,525	8,097	6,449
– Other funding	7	–	–	90
	9,251	7,122	8,097	6,539

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

\$ '000	Notes	2017 Operating	2016 Operating	2017 Capital	2016 Capital
(f) Contributions					
Developer contributions:					
(s93 & s94 – EP&A Act, s64 of the LGA):					
S 93F – contributions using planning agreements		–	–	214	–
S 94 – contributions towards amenities/services		–	–	14	–
S 94A – fixed development consent levies		–	–	420	221
S 64 – water supply contributions		–	–	107	73
S 64 – sewerage service contributions		–	–	96	67
Total developer contributions	17	–	–	851	361
Other contributions:					
Community services		1	–	–	–
Employment		70	85	–	–
Fire contribution		441	477	–	–
Hazard reduction		30	29	–	–
Rebates		123	168	–	–
Recreation and culture		–	266	–	–
Roads and bridges		–	–	613	–
RMS contributions (regional roads, block grant)		445	340	–	–
Sewerage (excl. section 64 contributions)		–	393	–	–
Waste		8	–	–	58
Other		10	12	–	–
Total other contributions		1,128	1,770	613	58
Total contributions		1,128	1,770	1,464	419
TOTAL GRANTS AND CONTRIBUTIONS		10,379	8,892	9,561	6,958

\$ '000	Actual 2017	Actual 2016
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(g) Unspent 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	2,456	2,782
Add: grants and contributions recognised in the current period but not yet spent:	2,318	6,730
Less: grants and contributions recognised in a previous reporting period now spent:	(1,287)	(7,056)
Net increase (decrease) in restricted assets during the period	1,031	(326)
Unexpended and held as restricted assets	3,487	2,456
Comprising:		
– Specific purpose unexpended grants	1,709	1,008
– Developer contributions	1,778	1,448
	3,487	2,456

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 4. Expenses from continuing operations

\$ '000	Notes	Actual 2017	Actual 2016
(a) Employee benefits and on-costs			
Salaries and wages		11,472	10,451
Travel expenses		23	203
Employee leave entitlements (ELE)		1,919	2,039
Superannuation		1,344	1,358
Superannuation – defined benefit plans		24	–
Workers' compensation insurance		618	642
Fringe benefit tax (FBT)		35	29
Payroll tax		92	90
Training costs (other than salaries and wages)		226	457
Protective clothing		62	–
Central west group apprentices		506	445
Corporate uniforms		11	13
Other		27	93
Total employee costs		16,359	15,820
Less: capitalised costs		(283)	(563)
TOTAL EMPLOYEE COSTS EXPENSED		16,076	15,257
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on overdraft		–	1
Interest on loans		731	929
Total interest bearing liability costs expensed		731	930
(ii) Other borrowing costs			
Discount adjustments relating to movements in provisions (other than ELE)			
– Remediation liabilities	26	–	922
Interest applicable on interest free (and favourable) loans to Council		120	146
Total other borrowing costs		120	1,068
TOTAL BORROWING COSTS EXPENSED		851	1,998
(c) Materials and contracts			
Raw materials and consumables		5,520	5,413
Contractor and consultancy costs		5,091	4,334
Auditors remuneration ⁽¹⁾		89	53
Legal expenses:			
– Legal expenses: planning and development		28	56
– Legal expenses: other		109	19
Operating leases:			
– Operating lease rentals: minimum lease payments ⁽²⁾		6	–
TOTAL MATERIALS AND CONTRACTS		10,843	9,875

(continued on the next page...)

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(c) Materials and contracts			
1. Auditor remuneration			
a. During the year, the following fees were incurred for services provided by the Auditor-General:			
Audit and other assurance services			
Audit and review of financial statements: Auditor-General		65	–
Remuneration for audit and other assurance services		65	–
Total Auditor-General remuneration		65	–
b. During the year, the following fees were incurred for services provided by the other Council's Auditors:			
Audit and other assurance services			
Audit and review of financial statements: Council's Auditor		24	53
Remuneration for audit and other assurance services		24	53
Total remuneration of other Council's Auditors		24	53
Total Auditor remuneration		89	53
2. Operating lease payments are attributable to:			
Other		6	–
		6	–
(d) Depreciation, amortisation and impairment			
Plant and equipment		627	986
Office equipment		160	181
Furniture and fittings		12	8
Infrastructure:			
– Buildings – specialised		2,154	2,932
– Other structures		643	394
– Roads		4,244	3,657
– Bridges		177	158
– Footpaths		294	249
– Stormwater drainage		421	356
– Water supply network		1,377	1,311
– Sewerage network		1,695	1,729
– Swimming pools		106	95
Other assets			
– Library books		67	65
Asset reinstatement costs	9 & 26	159	159
Total depreciation and amortisation costs		12,136	12,280
Impairment			
Nil			
TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED		12,136	12,280

Lithgow City Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 4. Expenses from continuing operations (continued)

\$ '000	Actual 2017	Actual 2016
(e) Other expenses		
Advertising	224	74
Bad and doubtful debts	371	178
Bank charges	136	154
Commissions	14	8
Councillor expenses – mayoral fee	29	31
Councillor expenses – councillors' fees	77	80
Councillors' expenses (incl. mayor) – other (excluding fees above)	18	7
Donations, contributions and assistance to other organisations (Section 356)		
– Contributions emergency services	504	499
– Donations, contributions and assistance	361	406
Electricity and heating	697	1,011
Insurance	1,103	1,070
Office expenses (including computer expenses)	437	510
Postage	87	92
Printing and stationery	184	145
Street lighting	337	386
Subscriptions and publications	243	278
Telephone and communications	232	168
Lease fees	36	–
Valuation fees	187	96
Other	92	17
<u>TOTAL OTHER EXPENSES</u>	<u>5,369</u>	<u>5,210</u>

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 5. Gains or losses from the disposal of assets

\$ '000	Actual 2017	Actual 2016
Property (excl. investment property)		
Less: carrying amount of property assets sold/written off	—	(537)
Net gain/(loss) on disposal	—	(537)
Plant and equipment		
Proceeds from disposal – plant and equipment	126	131
Less: carrying amount of plant and equipment assets sold/written off	(83)	(75)
Net gain/(loss) on disposal	43	56
Infrastructure		
Proceeds from disposal – infrastructure	—	458
Less: carrying amount of infrastructure assets sold/written off	(2,555)	(574)
Net gain/(loss) on disposal	(2,555)	(116)
Financial assets		
Proceeds from disposal/redemptions/maturities – financial assets	4,000	5,013
Less: carrying amount of financial assets sold/redeemed/matured	(4,000)	(5,013)
Net gain/(loss) on disposal	—	—
Grant Debtor		
Less: carrying amount of Grant Debtor assets sold/written off	—	(312)
Net gain/(loss) on disposal	—	(312)
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS	(2,512)	(909)

Lithgow City Council

Notes to the Financial Statements
for the year ended 30 June 2017

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

\$ '000	2017 Actual Current	2017 Actual Non-current	2016 Actual Current	2016 Actual Non-current
Cash and cash equivalents (Note 6a)				
Cash on hand and at bank	117	–	259	–
Cash-equivalent assets ¹				
– Deposits at call	1,250	–	3,055	–
– Short-term deposits	28,500	–	17,567	–
Total cash and cash equivalents	29,867	–	20,881	–
Investments (Note 6b)				
– Long term deposits	–	–	4,000	–
Total investments	–	–	4,000	–
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	29,867	–	24,881	–

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'

29,867	–	20,881	–
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Investments

a. 'Held to maturity'

–	–	4,000	–
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Investments

–	–	4,000	–
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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 2017

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

	2017 Actual Current	2017 Actual Non-current	2016 Actual Current	2016 Actual Non-current
\$ '000				
Total cash, cash equivalents and investments	29,867	–	24,881	–
attributable to:				
External restrictions (refer below)	13,759	–	9,429	–
Internal restrictions (refer below)	16,107	–	14,775	–
Unrestricted	1	–	677	–
	29,867	–	24,881	–

2017 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
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Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended loans – general (A)	–	2,089	–	2,089
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External restrictions – included in liabilities

	–	2,089	–	2,089
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External restrictions – other

Developer contributions – general (B)	1,448	669	(339)	1,778
Specific purpose unexpended grants (C)	1,007	1,478	(805)	1,680
Specific purpose unexpended grants-water fund (C)	–	66	(37)	29
Water supplies (D)	2,696	2,150	(1,963)	2,882
Sewerage services (D)	2,803	1,592	(1,062)	3,333
Domestic waste management (D)	1,475	886	(393)	1,968

External restrictions – other

	9,429	6,841	(4,599)	11,670
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Total external restrictions

	9,429	8,930	(4,599)	13,759
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Internal restrictions

Plant and vehicle replacement	2,752	1,206	(2,458)	1,500
Employees leave entitlement	3,718	–	(2,662)	1,056
Deposits, retentions and bonds	776	–	(81)	695
Election	167	36	(121)	82
Land and building	2,071	6,065	(464)	7,672
Works in progress	5,291	4,298	(4,487)	5,102

Total internal restrictions

	14,775	11,605	(10,273)	16,107
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TOTAL RESTRICTIONS

	24,204	20,535	(14,872)	29,866
--	---------------	---------------	-----------------	---------------

A Loan moneys which must be applied for the purposes for which the loans were raised.

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

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

D 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 2017

Note 7. Receivables

\$ '000	2017		2016	
	Current	Non-current	Current	Non-current
Purpose				
Rates and annual charges	1,284	—	1,122	—
Interest and extra charges	348	—	306	—
User charges and fees	1,559	—	1,540	—
Accrued revenues				
– Interest on investments	136	—	79	—
– Other income accruals	4	—	13	—
Deferred debtors	—	—	146	—
Government grants and subsidies	1,847	—	1,402	—
Net GST receivable	360	—	222	—
Other debtors	236	—	518	—
Total	5,774	—	5,348	—
Less: provision for impairment				
Rates and annual charges	(106)	—	(106)	—
Other debtors	(275)	—	(111)	—
Total provision for impairment – receivables	(381)	—	(217)	—
<u>TOTAL NET RECEIVABLES</u>	<u>5,393</u>	<u>—</u>	<u>5,131</u>	<u>—</u>
Externally restricted receivables				
Water supply				
– Specific purpose grants	10	—	145	—
– Rates and availability charges	104	—	123	—
– Other	1,389	—	1,436	—
Sewerage services				
– Specific purpose grants	1,385	—	204	—
– Rates and availability charges	463	—	467	—
– Other	60	—	42	—
Total external restrictions	3,411	—	2,417	—
Internally restricted receivables				
Nil				
Unrestricted receivables	1,982	—	2,714	—
<u>TOTAL NET RECEIVABLES</u>	<u>5,393</u>	<u>—</u>	<u>5,131</u>	<u>—</u>

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% (2016 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 2017

Note 8. Inventories and other assets

\$ '000	2017		2016	
	Current	Non-current	Current	Non-current
(a) Inventories				
(i) Inventories at cost				
Stores and materials	796	–	719	–
Total inventories at cost	796	–	719	–
(ii) Inventories at net realisable value (NRV)				
Nil				
TOTAL INVENTORIES	796	–	719	–
(b) Other assets				
Prepayments	245	–	228	–
TOTAL OTHER ASSETS	245	–	228	–
Externally restricted assets				
Water				
Stores and materials	153	–	149	–
Total water	153	–	149	–
Sewerage				
Stores and materials	23	–	17	–
Total sewerage	23	–	17	–
Domestic waste management				
Nil				
Other				
Nil				
Total externally restricted assets	176	–	166	–
Total internally restricted assets	–	–	–	–
Total unrestricted assets	865	–	781	–
TOTAL INVENTORIES AND OTHER ASSETS	1,041	–	947	–

(i) Other disclosures**(a) Inventory write downs**

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

\$30,169 was 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 2017

Note 9a. Infrastructure, property, plant and equipment

Asset class \$ '000	as at 30/6/2016			Asset movements during the reporting period									as at 30/6/2017		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Other movements	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
Capital work in progress	768	–	768	7,531	98	–	–	(119)	–	–	–	–	8,278	–	8,278
Plant and equipment	16,941	14,989	1,952	652	–	(83)	(627)	–	–	–	–	–	17,241	15,347	1,894
Office equipment	3,966	3,616	350	76	16	–	(160)	–	–	–	–	–	4,058	3,776	282
Furniture and fittings	364	301	63	35	–	–	(12)	–	–	–	–	–	399	313	86
Land:															
– Operational land	8,373	–	8,373	–	–	–	–	–	927	–	–	7,912	17,211	–	17,211
– Community land	23,226	–	23,226	–	–	–	–	–	(927)	–	(2,136)	–	20,164	–	20,164
Infrastructure:															
– Buildings – specialised	100,158	58,234	41,924	378	7	–	(2,154)	–	3,714	105	–	9,503	73,387	19,910	53,477
– Other structures	15,330	5,724	9,606	309	908	(1,726)	(643)	–	(25)	(51)	–	2,591	22,335	11,367	10,968
– Roads	247,819	79,330	168,489	1,669	224	(766)	(4,244)	–	–	–	–	49,554	283,454	68,529	214,925
– Bridges	18,664	4,176	14,488	–	249	(57)	(177)	–	–	–	–	4,542	21,453	2,408	19,045
– Footpaths	10,018	2,634	7,384	–	68	–	(294)	–	–	–	–	3,856	14,187	3,172	11,015
– Bulk earthworks (non-depreciable)	12,181	–	12,181	–	–	–	–	–	–	–	–	13,457	25,639	–	25,639
– Stormwater drainage	34,452	15,644	18,808	16	16	–	(421)	5	–	–	–	6,071	41,964	17,469	24,495
– Water supply network	91,375	61,045	30,330	835	223	–	(1,377)	–	–	–	–	3,584	88,665	55,071	33,594
– Sewerage network	108,150	45,314	62,836	279	52	–	(1,695)	–	–	–	–	4,424	107,413	41,517	65,896
– Swimming pools	6,942	462	6,480	–	146	(5)	(106)	–	(3,689)	(54)	(175)	–	2,737	140	2,597
Other assets:															
– Library books	994	813	181	–	–	–	(67)	–	–	–	–	–	994	880	114
Reinstatement, rehabilitation and restoration assets (refer Note 26):															
– Tip assets	3,568	1,999	1,569	–	–	–	(159)	–	–	–	–	–	3,568	2,158	1,410
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	703,289	294,281	409,008	11,780	2,007	(2,637)	(12,136)	(114)	–	–	(2,311)	105,494	753,147	242,057	511,090

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 2017

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

\$ '000 Class of asset	Actual 2017			Actual 2016		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Water supply						
WIP	26	–	26	–	–	–
Plant and equipment	1,969	1,863	106	1,705	1,705	–
Office equipment	56	56	–	56	56	–
Infrastructure	88,665	55,071	33,594	91,375	61,045	30,330
Total water supply	90,716	56,990	33,726	93,136	62,806	30,330
Sewerage services						
WIP	7,706	–	7,706	–	–	–
Plant and equipment	349	275	74	151	151	–
Office equipment	8	8	–	8	8	–
Infrastructure	107,413	41,517	65,896	108,150	45,314	62,836
Total sewerage services	115,476	41,800	73,676	108,309	45,473	62,836
Domestic waste management						
Land						
– Operational land	1,172	–	1,172	613	–	613
– Community land	463	–	463	–	–	–
Total DWM	1,635	–	1,635	613	–	613
TOTAL RESTRICTED I,PP&E	207,827	98,790	109,037	202,058	108,279	93,779

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

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 2017

Note 10a. Payables, borrowings and provisions

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
Payables					
Goods and services – operating expenditure		2,290	–	1,044	–
Accrued expenses:					
– Borrowings		57	–	67	–
– Salaries and wages		–	–	168	–
– Other expenditure accruals		489	21	689	7
Advances		–	–	959	–
Security bonds, deposits and retentions		695	–	776	–
ATO – net GST payable		10	–	–	–
Other		–	–	1	–
Total payables		3,541	21	3,704	7
Income received in advance					
Payments received in advance		975	–	–	–
Total income received in advance		975	–	–	–
Borrowings					
Loans – secured ¹		1,921	16,168	1,910	18,076
Loan discount		(191)	–	(312)	–
Total borrowings		1,730	16,168	1,598	18,076
Provisions					
Employee benefits:					
Annual leave		1,228	–	1,201	–
Long service leave		2,046	246	2,328	153
Sub-total – aggregate employee benefits		3,274	246	3,529	153
Asset remediation/restoration (future works)	26	–	8,270	–	11,939
Total provisions		3,274	8,516	3,529	12,092
TOTAL PAYABLES, BORROWINGS AND PROVISIONS					
		9,520	24,705	8,831	30,175
(i) Liabilities relating to restricted assets					
		2017		2016	
		Current	Non-current	Current	Non-current
Externally restricted assets					
Water		154	1,073	708	1,221
Sewer		1,139	10,030	1,279	10,934
Liabilities relating to externally restricted assets		1,293	11,103	1,987	12,155
Internally restricted assets					
Nil					
Total liabilities relating to restricted assets		1,293	11,103	1,987	12,155
Total liabilities relating to unrestricted assets		8,227	13,602	6,844	18,020
TOTAL PAYABLES, BORROWINGS AND PROVISIONS					
		9,520	24,705	8,831	30,175

¹ 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 2017

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

	Actual 2017	Actual 2016
\$ '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	2,104	2,199
	2,104	2,199

Note 10b. Description of and movements in provisions

Class of provision	2016	2017				Closing balance as at 30/6/17
	Opening balance as at 1/7/16	Additional provisions	Decrease due to payments	Remeasurement effects due to discounting	Unused amounts reversed	
Asset remediation	11,939	1,499	–	(5,168)	–	8,270
TOTAL	11,939	1,499	–	(5,168)	–	8,270

- a. 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 2017

Note 11. Statement of cash flows – additional information

\$ '000	Notes	Actual 2017	Actual 2016
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6a	29,867	20,881
Less bank overdraft	10	–	–
Balance as per the Statement of Cash Flows		29,867	20,881
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		9,022	2,840
Adjust for non-cash items:			
Depreciation and amortisation		12,136	12,280
Net losses/(gains) on disposal of assets		2,512	909
Non-cash capital grants and contributions		(613)	–
Amortisation of premiums, discounts and prior period fair valuations			
– Interest exp. on interest-free loans received by Council (previously fair valued)		120	146
Unwinding of discount rates on reinstatement provisions		(3,669)	923
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		(572)	602
Increase/(decrease) in provision for doubtful debts		164	179
Decrease/(increase) in inventories		(77)	(101)
Decrease/(increase) in other assets		(17)	(1)
Increase/(decrease) in payables		1,246	389
Increase/(decrease) in accrued interest payable		(10)	(20)
Increase/(decrease) in other accrued expenses payable		(354)	690
Increase/(decrease) in other liabilities		(56)	(100)
Increase/(decrease) in employee leave entitlements		(162)	71
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		19,670	18,807

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	Actual 2017	Actual 2016
(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 ⁽¹⁾	500	500
Credit cards/purchase cards	25	25
Total financing arrangements	525	525
Amounts utilised as at balance date:		
– Credit cards/purchase cards	9	3
Total financing arrangements utilised	9	3

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 2017

Note 12. Commitments for expenditure

	Actual 2017	Actual 2016
\$ '000		

(a) Capital commitments (exclusive of GST)

Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:

Property, plant and equipment

Water assets	164	818
Sewer assets	107	1,196
Portland Sewer Treatment Plant	4,007	15,050
Total commitments	4,278	17,064

These expenditures are payable as follows:

Within the next year	4,278	12,064
Later than one year and not later than 5 years	–	5,000
Total payable	4,278	17,064

Sources for funding of capital commitments:

Future grants and contributions	3,637	10,050
Externally restricted reserves	641	2,014
New loans (to be raised)	–	5,000
Total sources of funding	4,278	17,064

(b) Finance lease commitments

Nil

(c) Operating lease commitments (non-cancellable)

a. Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable:

Within the next year	22	–
Later than one year and not later than 5 years	82	–
Later than 5 years	–	–
Total non-cancellable operating lease commitments	104	–

b. Non-cancellable operating leases include the following assets:

Viatek Office Printer Lease

Terms: 11 printers leased for a period of 60 months, \$1,792 per month commencing May 2017, finishing April 2022

Conditions relating to operating leases:

- All operating lease agreements are secured only against the leased asset.
- No lease agreements impose any financial restrictions on Council regarding future debt etc.

(d) Investment property commitments

Nil

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	Amounts 2017	Indicator 2017	Prior periods		Benchmark
			2016	2015	
Local government industry indicators – consolidated					
1. Operating performance ratio					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	1,973	4.18%	-7.75%	-3.73%	>0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	47,248				
2. Own source operating revenue ratio					
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	36,869	64.90%	67.23%	75.04%	>60.00%
Total continuing operating revenue ⁽¹⁾	56,809				
3. Unrestricted current ratio					
Current assets less all external restrictions ⁽²⁾	18,955	3.10x	4.08x	3.40x	>1.5x
Current liabilities less specific purpose liabilities ^(3, 4)	6,123				
4. Debt service cover ratio					
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	14,960	5.45x	2.91x	3.53x	>2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	2,747				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	1,526	5.81%	5.13%	5.17%	<10% Rural
Rates, annual and extra charges collectible	26,259				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	29,867	9.06 mths	8.8 mths	6.7 mths	> 3 mths
Payments from cash flow of operating and financing activities	3,297				

Notes

⁽¹⁾ 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.

⁽²⁾ Refer Notes 6-8 inclusive.

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

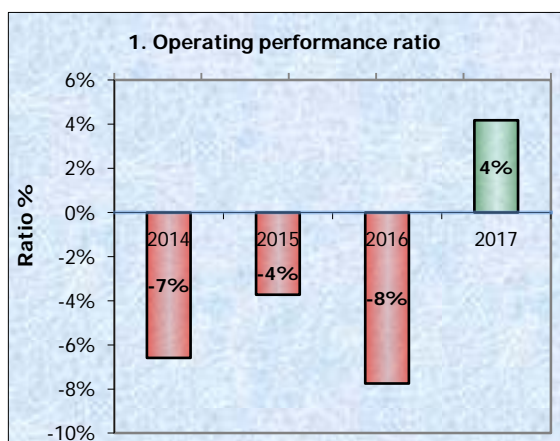
⁽³⁾ Refer to Note 10(a).

⁽⁴⁾ 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 2017

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

Benchmark: — Minimum $\geq 0.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #25

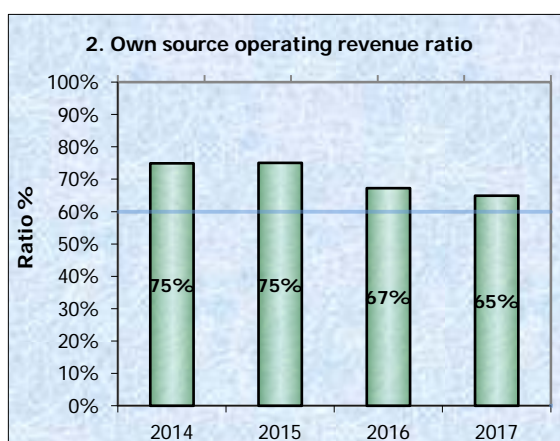
Purpose of operating performance ratio

This ratio measures Council's achievement of containing operating expenditure within operating revenue.

Commentary on 2016/17 result**2016/17 ratio 4.18%**

This ratio has been impacted positively by the prepayment of 50% of the 2017/18 FAGS grant in June 2017.

Ratio achieves benchmark
 Ratio is outside benchmark

Benchmark: — Minimum $\geq 60.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #25

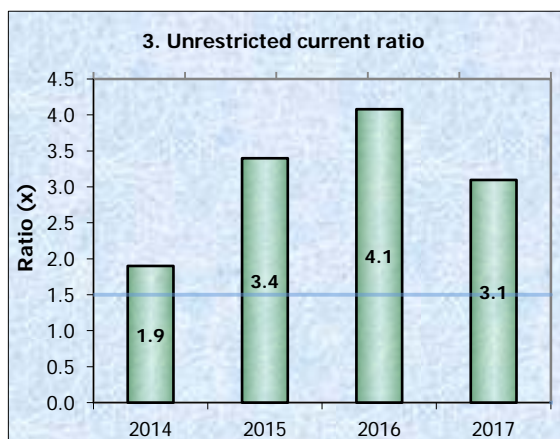
Purpose of own source operating revenue ratio

This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.

Commentary on 2016/17 result**2016/17 ratio 64.90%**

Council has had a sound performance in this ratio and performed above the KPI. This is a strong result as Council received \$19.94m in grants and contributions in 2016/17.

Ratio achieves benchmark
 Ratio is outside benchmark

Benchmark: — Minimum ≥ 1.50

Source for benchmark: Code of Accounting Practice and Financial Reporting #25

Purpose of unrestricted current ratio

To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.

Commentary on 2016/17 result**2016/17 ratio 3.10x**

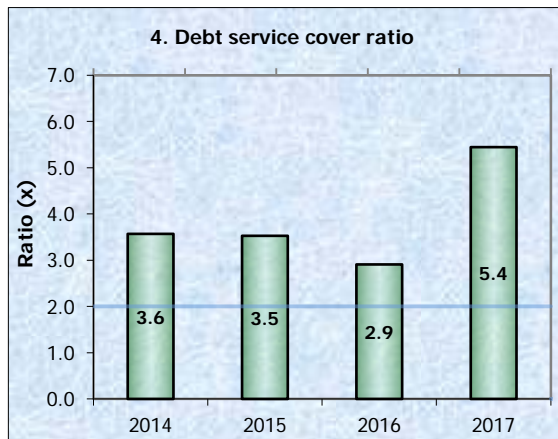
Council has continued with a strong performance in this ratio, over twice the KPI of 1.5 (x). This reflects Council's higher level of cash reserves.

Ratio achieves benchmark
 Ratio is outside benchmark

Lithgow City Council

Notes to the Financial Statements for the year ended 30 June 2017

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



Benchmark: — Minimum ≥ 2.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #25

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 2016/17 result

2016/17 ratio 5.45x

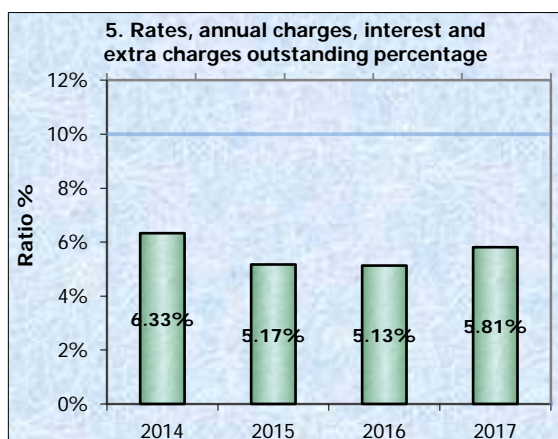
Council has recorded a strong result for this ratio of 2.7 times the KPI. This result reflects Council's current cash reserve level.



Ratio achieves benchmark



Ratio is outside benchmark



Benchmark: — Maximum $< 10.00\%$

Source for Benchmark: Code of Accounting Practice and Financial Reporting #25

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 2016/17 result

2016/17 ratio 5.81%

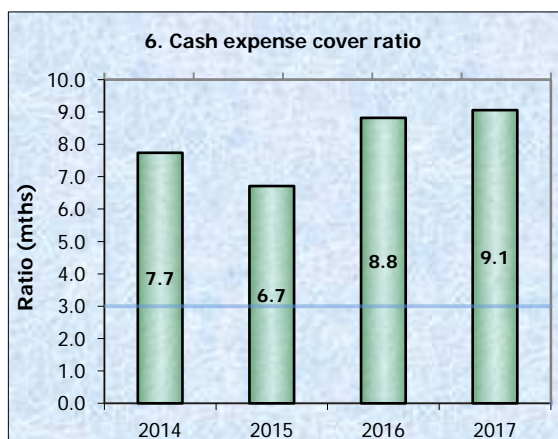
This ratio has increased by .68%, this is reflective of the economic conditions facing the LGA. Council is still performing well in this ratio.



Ratio is within Benchmark



Ratio is outside Benchmark



Benchmark: — Minimum ≥ 3.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #25

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 2016/17 result

2016/17 ratio 9.06 mths

Council has a high level of cash reserves which has resulted in high performance for this ratio.



Ratio achieves benchmark



Ratio is outside benchmark

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	General indicators ⁵		Water indicators		Sewer indicators		Benchmark
	2017	2016	2017	2016	2017	2016	
Local government industry indicators – by fund							
1. Operating performance ratio							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions							
less operating expenses							
<hr/>							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	2.13%	-9.48%	6.45%	-17.22%	11.52%	6.93%	>0.00%
2. Own source operating revenue ratio							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions							
<hr/>							
Total continuing operating revenue ⁽¹⁾	66.39%	56.85%	96.10%	95.86%	47.26%	85.08%	>60.00%
3. Unrestricted current ratio							
Current assets less all external restrictions ⁽²⁾							
<hr/>							
Current liabilities less specific purpose liabilities ^(3, 4)	3.10x	4.08x	29.47x	6.43x	4.62x	2.77x	>1.5x

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 2017

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

\$ '000	General indicators ⁵		Water indicators		Sewer indicators		Benchmark
	2017	2016	2017	2016	2017	2016	
Local government industry indicators – by fund (continued)							
4. Debt service cover ratio							
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	7.80x	3.35x	9.31x	1.16x	2.35x	2.33x	>2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
5. Rates, annual charges, interest and extra charges outstanding percentage							
Rates, annual and extra charges outstanding	5.37%	4.08%	6.97%	8.66%	6.71%	7.28%	<10% Rural
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	7.16	10.95	0.00	4.85	0.00	5.66	> 3 months
Payments from cash flow of operating and financing activities	months	months	months	months	months	months	

Notes

(1) 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 2017

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	
	2017	2016	2017	2016
Financial assets				
Cash and cash equivalents	29,867	20,881	6,867	20,881
Investments				
– 'Held to maturity'	–	4,000	23,000	4,000
Receivables	5,393	5,131	5,393	–
Total financial assets	35,260	30,012	35,260	24,881
Financial liabilities				
Payables	3,562	3,711	3,497	3,539
Loans/advances	17,898	19,674	17,898	19,675
Total financial liabilities	21,460	23,385	21,395	23,214

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 2017

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.

(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
2017				
Possible impact of a 1% movement in interest rates	120	120	(120)	(120)
2016				
Possible impact of a 1% movement in interest rates	260	260	(260)	(260)

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

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:

		2017 Rates and annual charges	2017 Other receivables	2016 Rates and annual charges	2016 Other receivables
(i) Ageing of receivables – %					
Current (not yet overdue)		10%	67%	4%	48%
Overdue		90%	33%	96%	52%
		100%	100%	100%	100%
(ii) Ageing of receivables – value					
Rates and annual charges	Other receivables	Rates and annual charges	Other receivables	Rates and annual charges	Other receivables
Current	Current	129	3,013	49	2,014
< 1 year overdue	0 – 30 days overdue	766	94	728	75
1 – 2 years overdue	31 – 60 days overdue	148	192	128	316
2 – 5 years overdue	61 – 90 days overdue	141	82	131	64
> 5 years overdue	> 91 days overdue	100	1,109	86	1,757
		1,284	4,490	1,122	4,226
(iii) Movement in provision for impairment of receivables					
				2017	2016
Balance at the beginning of the year				217	38
+ new provisions recognised during the year				263	179
– amounts already provided for and written off this year				(99)	–
Balance at the end of the year				381	217

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

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		
2017									
Trade/other payables	695	2,775	—	—	—	—	—	3,470	3,562
Loans and advances	—	2,570	2,527	2,342	1,673	1,673	12,351	23,136	17,898
Total financial liabilities	695	5,345	2,527	2,342	1,673	1,673	12,351	26,606	21,460
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

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:

	2017		2016	
	Carrying value	Average interest rate	Carrying value	Average interest rate
Trade/other payables	3,562	0.00%	3,711	0.00%
Loans and advances – fixed interest rate	17,898	3.69%	19,674	3.96%
	<u>21,460</u>		<u>23,385</u>	

Lithgow City Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 16. Material budget variations

\$ '000

Council's original financial budget for 16/17 was adopted by the Council on 06 June 2016.

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	2017 Budget	2017 Actual	2017 ----- Variance* -----	
REVENUES				
Rates and annual charges	24,786	24,815	29	0% F
User charges and fees	5,987	6,643	656	11% F
Aqautic Centre is now operating for the full financial year.				
Interest and investment revenue	601	811	210	35% F
As can be seen in Note 6, Council's cash has increased. This is largely due to a backlog in the capital program and an advance payment of FAGs.				
Other revenues	1,232	4,600	3,368	273% F
Variation due to revaluation of tip remediation liability.				
Operating grants and contributions	8,451	10,379	1,928	23% F
Variation to budget largely due to advance payment of FAGs.				
Capital grants and contributions	893	9,561	8,668	971% F
Additional capital grants have become available and due during the financial year.				
Net gains from disposal of assets	431	–	(431)	(100%) U
A number of assets were disposed of during revaluations of Council's assets, which weren't identified when compiling original budget.				

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 16. Material budget variations (continued)

\$ '000	2017 Budget	2017 Actual	2017 Variance*	
EXPENSES				
Employee benefits and on-costs	15,067	16,076	(1,009)	(7%) U
Variance largely due to termination of previous General Manager and incorrect budget allocation for overtime.				
Borrowing costs	1,251	851	400	32% F
Loans have been re-financed to lower interest rates, in addition to overstated budgeted expenditure for borrowings.				
Materials and contracts	11,745	10,843	902	8% F
Depreciation and amortisation	11,706	12,136	(430)	(4%) U
Other expenses	4,388	5,369	(981)	(22%) U
Offset can be seen in materials and contracts, incorrect budget allocation.				
Net losses from disposal of assets	–	2,512	(2,512)	0% U
A number of assets were disposed of during revaluations of Council's assets.				
Budget variations relating to Council's Cash Flow Statement include:				
Cash flows from operating activities	9,499	19,670	10,171	107.1% F
No cashflow budget was set.				
Cash flows from investing activities	431	(8,788)	(9,219)	(2139.0%) U
No cashflow budget was set.				
Cash flows from financing activities	–	(1,896)	(1,896)	0.0% U
No cashflow budget was set.				

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

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	48	–	–	–	–	1,000	–
Bushfire	122	5	–	–	–	–	127	–
S94 contributions – under a plan	1,074	53	–	–	–	–	1,127	–
S94A levies – under a plan	374	420	–	–	(339)	–	455	–
Total S94 revenue under plans	1,448	473	–	–	(339)	–	1,582	–
S93F planning agreements	–	196	–	–	–	–	196	–
Total contributions	1,448	669	–	–	(339)	–	1,778	–

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

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	48	–	–	–	–	1,000	–
Bushfire	122	5	–	–	–	–	127	–
Total	1,074	53	–	–	–	–	1,127	–

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	128	420	–	–	(339)	–	209	–
Other (Prev Yrs)	246	–	–	–	–	–	246	–
Total	374	420	–	–	(339)	–	455	–

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

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 2017

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.

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

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.

Note 19. Interests in other entities

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 2017

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

\$ '000	Notes	Actual 2017	Actual 2016
(a) Retained earnings			
Movements in retained earnings were as follows:			
Balance at beginning of year (from previous years audited accounts)		251,326	244,495
a. Correction of prior period errors	20 (c)	(54,824)	(51,177)
b. Other comprehensive income (excl. direct to reserves transactions)		–	344
c. Net operating result for the year		9,022	2,840
Balance at end of the reporting period		205,524	196,502
(b) Revaluation reserves			
(i) Reserves are represented by:			
– Infrastructure, property, plant and equipment revaluation reserve		307,642	204,459
Total		307,642	204,459
(ii) Reconciliation of movements in reserves:			
Infrastructure, property, plant and equipment revaluation reserve			
– Opening balance from previous year audited accounts		154,241	143,853
– Revaluations for the year	9(a)	103,183	14,035
– Correction of prior period errors	20(c)	50,218	46,571
– Balance at end of year		307,642	204,459
‘Available for sale’ financial investments revaluation reserve			
– Opening balance		–	(500)
– Other movements		–	500
– Balance at end of year		–	–
Other reserves			
– Opening balance		–	(269)
– Transfers to retained earnings		–	269
– Balance at end of year		–	–
TOTAL VALUE OF RESERVES		307,642	204,459

(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 2017

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

\$ '000	Notes	Actual 2017	Actual 2016
(c) Correction of error/s relating to a previous reporting period			
Correction of errors disclosed in this year's financial statements:			
Correction transferring to retained earnings from the roads asset revaluation reserve for the period ending 30 June 2015 to the value of \$50.218M which has resulted in a net zero change in total equity. This is a result of incorrect accounting treatment for the disposal of assets in prior periods.			
– reduction in (transfer from) Retained earnings		(54,824)	3,647
– increase in (transfer to) Asset revaluation reserve		54,824	(3,647)
Correction relates to duplicate stormwater assets held in asset register from previous periods. Disposal should have been all from revaluation reserve, not processed through Income Statement:			
– disposal of duplicate stormwater assets from Asset evaluation reserve		(4,606)	–
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 – 1/7/15 (relating to adjustments for the 30/6/15 reporting year end and prior periods)		(4,606)	–
– Adjustments to closing equity – 30/6/16 (relating to adjustments for the 30/6/16 year end)		–	–
Total prior period adjustments – prior period errors		(4,606)	–

(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 2017

Note 21. Financial result and financial position by fund

Income Statement by fund \$ '000	Actual 2017	Actual 2017	Actual 2017
Continuing operations	Water	Sewer	General¹
Income from continuing operations			
Rates and annual charges	1,492	6,901	16,422
User charges and fees	5,000	169	1,474
Interest and investment revenue	36	–	775
Other revenues	1	1	4,598
Grants and contributions provided for operating purposes	158	90	10,131
Grants and contributions provided for capital purposes	107	7,810	1,644
Other income			
Net gains from disposal of assets	–	9	(9)
Total income from continuing operations	6,794	14,980	35,035
Expenses from continuing operations			
Employee benefits and on-costs	1,377	1,406	13,293
Borrowing costs	64	391	396
Materials and contracts	1,844	2,489	6,510
Depreciation and amortisation	1,398	1,709	9,029
Impairment	–	–	–
Other expenses	1,671	349	3,349
Net losses from the disposal of assets	2	–	2,510
Total expenses from continuing operations	6,356	6,344	35,087
Operating result from continuing operations	438	8,636	(52)
Discontinued operations			
Net profit/(loss) from discontinued operations	–	–	–
Net operating result for the year	438	8,636	(52)
Net operating result attributable to each council fund	438	8,636	(52)
Net operating result attributable to non-controlling interests	–	–	–
Net operating result for the year before grants and contributions provided for capital purposes	331	826	(1,696)

¹ 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 2017

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

Statement of Financial Position by fund \$ '000	Actual 2017	Actual 2017	Actual 2017
ASSETS	Water	Sewer	General¹
Current assets			
Cash and cash equivalents	2,912	3,333	23,622
Receivables	1,503	1,908	1,982
Inventories	153	23	620
Other	–	–	245
Total current assets	4,568	5,264	26,469
Non-current assets			
Infrastructure, property, plant and equipment	33,727	73,677	403,686
Total non-current assets	33,727	73,677	403,686
TOTAL ASSETS	38,295	78,941	430,155
LIABILITIES			
Current liabilities			
Payables	7	223	3,311
Income received in advance	–	–	975
Borrowings	147	916	667
Provisions	–	–	3,274
Total current liabilities	154	1,139	8,227
Non-current liabilities			
Payables	–	–	21
Borrowings	1,073	10,030	5,065
Provisions	–	–	8,516
Total non-current liabilities	1,073	10,030	13,602
TOTAL LIABILITIES	1,227	11,169	21,829
Net assets	37,068	67,772	408,326
EQUITY			
Retained earnings	14,488	33,948	157,088
Revaluation reserves	22,580	33,824	251,238
Total equity	37,068	67,772	408,326

¹ 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 2017

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

\$ '000

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

Note 23. Events occurring after the reporting date

Events that occur between the end of the reporting period (30 June 2017) 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 21/11/17.

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 2017.

(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 2017 and which are only indicative of conditions that arose after 30 June 2017.

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

Note 24. Discontinued operations

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

Note 25. Intangible assets

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 2017

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	Note	NPV of provision	
			2017	2016
Tip operations	2020 - 2035		8,270	11,939
Balance at end of the reporting period		10(a)	8,270	11,939

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	11,939	11,016
Effect of a change in discount rates used in PV calculations	–	923
Effect of a change in other calculation estimates used	(3,669)	–
Total – reinstatement, rehabilitation and restoration provision	8,270	11,939

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

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			
2017		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’	30/06/17	23,000	–	–	23,000
Total financial assets		23,000	–	–	23,000
Financial liabilities					
Bonds and security deposits	30/06/17	–	695	–	695
Accrued interest	30/06/17	57	–	–	57
Total financial liabilities		57	695	–	752
Infrastructure, property, plant and equipment					
Operational land	1/02/17	–	–	17,211	17,211
Community land	1/02/17	–	–	20,164	20,164
Plant and equipment	30/06/17	–	–	1,894	1,894
Office equipment	30/06/17	–	–	282	282
Furniture and fittings	30/06/17	–	–	86	86
Buildings	1/02/17	–	–	53,477	53,477
Other structures	30/06/17	–	–	10,968	10,968
Roads	1/02/17	–	–	214,925	214,925
Bridges	1/02/17	–	–	19,045	19,045
Footpaths	1/02/17	–	–	11,015	11,015
Bulk earthworks	1/02/17	–	–	25,639	25,639
Stormwater drainage	1/02/17	–	–	24,495	24,495
Water supply	1/02/17	–	–	33,594	33,594
Sewerage network	1/02/17	–	–	65,896	65,896
Swimming pools	1/02/17	–	–	2,597	2,597
Library books	30/06/17	–	–	114	114
Tip asset rehabilitation	30/06/17	–	–	1,410	1,410
Work in Progress	30/06/17	–	–	8,278	8,278
Total infrastructure, property, plant and equipment		–	–	511,090	511,090

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2017

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					
Level 1	Level 2	Level 3			
Quoted prices in active mkts	Significant observable inputs	Significant unobservable inputs			
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	–	–	18,808	18,808
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	dd/mm/yy	–	–	768	768
Total infrastructure, property, plant and equipment		–	8,373	400,635	409,008

(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 2017

Note 27. Fair value measurement (continued)

\$ '000

(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

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.

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.

(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
Opening balance – 1/7/15	396,481	396,481
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	1,381	1,381
Other movement	(542)	(542)
Closing balance – 30/6/16	409,006	409,006
Purchases (GBV)	13,787	13,787
Disposals (WDV)	(5,512)	(5,512)
Depreciation and impairment	(12,136)	(12,136)
FV gains – other comprehensive income	100,586	100,586
Other movement	(114)	(114)
Closing balance – 30/6/17	505,617	505,617

Lithgow City Council

Notes to the Financial Statements for the year ended 30 June 2017

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 (30/6/17) \$'000	Valuation technique/s	Unobservable inputs
I,PP&E			
Specialised buildings	53,477	Depreciated historical cost	Cost per sq metre, consumption rate, condition, useful life
Road infrastructure	214,925	Depreciated historical cost	Cost per sq metres dimensions and specification, pattern of consumption components useful life residual value asset condition
Bulk earthworks	25,639	Current replacement cost	Cost per Sq metre
Footpaths	11,015	Depreciated historical cost	Cost per sq metre pattern of consumption components useful lives asset conditions
Bridges	19,045	Depreciated historical cost	Cost per Sq metre, dimensions and specifications, pattern of consumption components, useful lives, asset conditions
Stormwater drainage	24,495	Depreciated historical cost	Cost per unit/ per metre
Water supply network	33,594	Depreciated historical cost	Unit rates, pattern of consumption, components, iuseful life, residual value, asset condition
Sewerage network	65,896	Depreciated historical cost	Unit rates, pattern of consumption, components, iuseful life, residual value, asset condition
Other structures	10,103	Depreciated historical cost	Unit rates, pattern of consumption, components, iuseful life, residual value, asset condition
Library books	114	Depreciated historical cost	Unit Costs
Tip assets	1,410	Depreciated historical cost	Unit Costs
Swimming pools	2,597	Depreciated historical cost	Cost per unit

c. The valuation process for level 3 fair value measurements

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 and index published by the NSW Office of Water.

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 2017

Note 28. Related party disclosures

\$ '000

a. Key management personnel

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

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

	Actual
Compensation:	2017
Short-term benefits	1,057
Post-employment benefits	86
Other long-term benefits	309
Termination benefits	247
Total	1,699

Lithgow City Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 29. Council information and contact details

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

Internet: <http://www.council.lithgow.com>

Email: council@lithgow.nsw.gov.au

Officers
GENERAL MANAGER

Graeme Faulkner

RESPONSIBLE ACCOUNTING OFFICER

Neil Derwent

PUBLIC OFFICER

Graeme Faulkner

AUDITORS

The Audit Office of New South Wales
Level 15, 1 Margaret Street
Sydney NSW 2000

Elected members
MAYOR

Stephen Lesslie

COUNCILLORS

Cassandra Coleman
Wayne McAndrew
Raymond Thompson
Maree Statham
Ronald Smith
Steven Ring
Darryl Goodwin
Deanna Goodsell

Other information

ABN: 59 986 092 492



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Lithgow City Council

To the Councillors of Lithgow City Council

Opinion

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

In my opinion,

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial statements:
 - have been presented, in all material respects, in accordance with the requirements of this Division
 - are consistent with the Council's accounting records
 - present fairly, in all material respects, the financial position of the Council as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

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

Basis for Opinion

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

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

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

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

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

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

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

Other Matter

The financial statements of the Council for the year ended 30 June 2016 were audited by another auditor who expressed an unmodified opinion on that financial statement on 10 November 2016.

The Councillors' Responsibility for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does *not* provide assurance:

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

A handwritten signature in black ink, appearing to read 'C. Clayton', with a stylized flourish at the end.

Chris Clayton
Director, Financial Audit Services

21 November 2017
SYDNEY

Councillor Stephen Lesslie
Mayor
Lithgow City Council
PO Box 19
LITHGOW NSW 2790

Contact: Chris Clayton
Phone no: 02 9275 7248
Our ref: D1728443/1755

21 November 2017

Dear Mayor

Report on the Conduct of the Audit for the year ended 30 June 2017 Lithgow City Council

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

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

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

INCOME STATEMENT

Operating result

	2017 \$m	2016 \$m	Variance % ¹
Rates and annual charges revenue	24.8	24.4	1.9 ↑
Grants and contributions revenue	19.9	15.9	25.8 ↑
Operating result for the year	9.0	2.8	217.7 ↑
Net operating result before capital amounts	(0.5)	(4.1)	86.9 ↑

¹ Variance calculated based on underlying financial statements, rounded to the nearest thousand dollars.

Council's operating result for the year ended 30 June 2017 of \$9.0 million was \$6.2 million more than the previous year.

\$1.5 million of additional grants for specific purposes were received in 2016-17. This was a result of additional revenue from the receipt of 2017-18 financial assistance grant instalments in 2016-17.

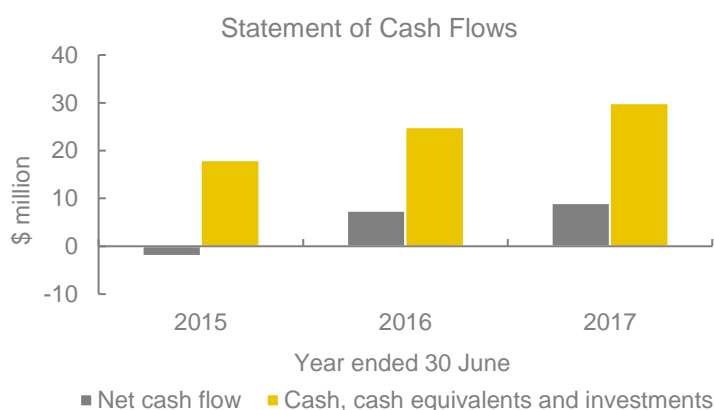
The reversal of a tip remediation provision due to Council reassessing the estimated remediation cost accounted for \$3.7 million of additional revenue during 2016-17.

Other borrowing costs decreased \$0.9 million related to the reduction in the remediation provision.

STATEMENT OF CASH FLOWS

During 2016-17, Council saw a net cash inflow of \$9.0 million. Council has experienced a steady growth in its cash, cash equivalents and investments balance over the past three years.

Over this period, Council has generated operating cash flow surpluses allowing it to maintain and renew community infrastructure.



FINANCIAL POSITION

Cash and Investments

Restricted Cash and Investments	2017	2016	Commentary
	\$m	\$m	
External restrictions	13.8	9.4	Externally restricted cash and investments are restricted in their use by externally imposed requirements. The increase in external restrictions mainly relate to specific purpose unexpended loans.
Internal restrictions	16.1	14.8	
Unrestricted	0.0	0.7	
Cash and investments	29.9	24.9	Internally restricted cash and investments have been restricted in the use by resolution or policy of Council to reflect identified programs of works and any forward plans identified by Council. Increased internal restrictions related to land and building works offset by reductions in funds for employee leave entitlements and plant and vehicle replacement. At 30 June 2017, Council had effectively no unrestricted cash and investments available for use.

Debt

At 30 June 2017, Council had external borrowings of \$17.9 million (30 June 2016: \$19.7 million). The loans are secured over Council's general rating income.

At 30 June 2017, Council also had access to a \$500,000 (30 June 2016: \$500,000) bank overdraft facility. This facility was unused at year end.

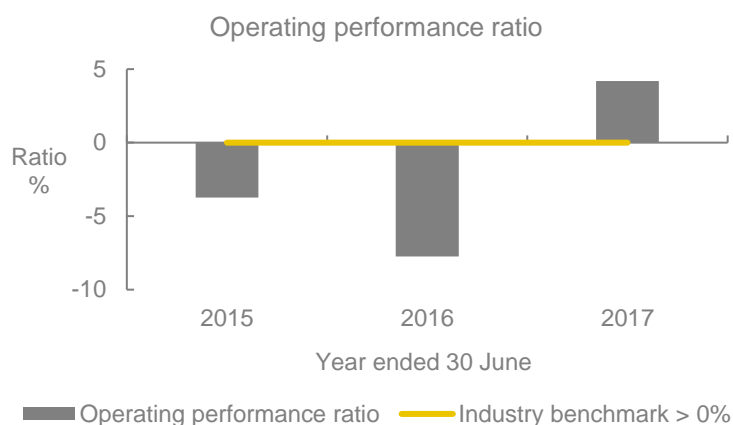
PERFORMANCE RATIOS

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

Operating performance ratio

Council's operating performance ratio exceeded the industry benchmark for the first time in the past three years. Council's 2016-17 ratio reflects the advanced receipt of 2017-18 financial assistance grant instalments from the Commonwealth Government in 2016-17. Without these receipts, Council would not have met the industry benchmark (the ratio would have been 0.7 per cent in deficit).

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

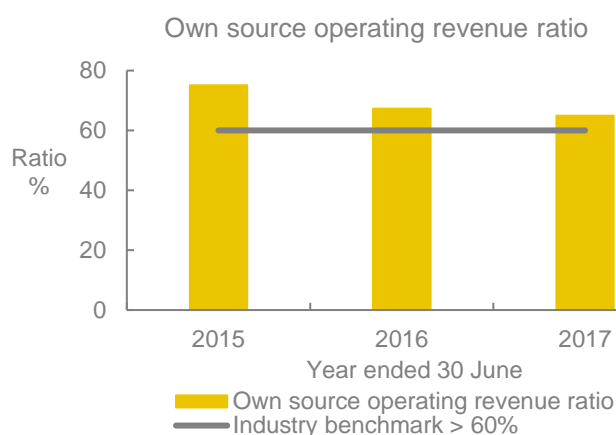


Own source operating revenue ratio

Council's own source operating revenue ratio exceeded the industry benchmark over the past three years.

The increased level of operating and capital grants and contributions impacts Council's own source revenue ratio.

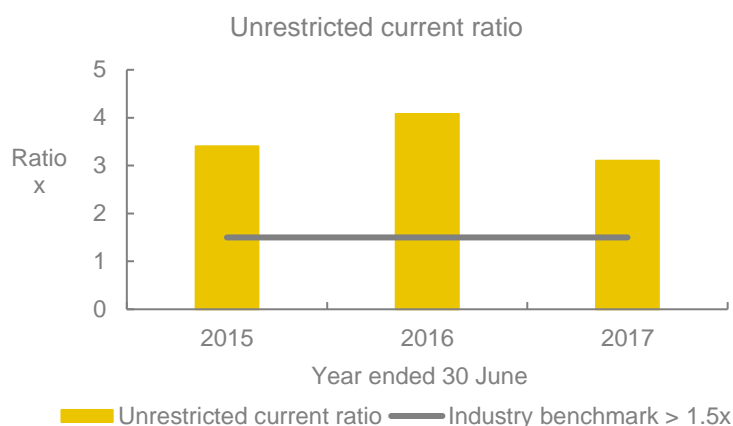
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



Unrestricted current ratio

Council's unrestricted current ratio exceeded the industry benchmark over the past three years. This indicates Council has sufficient liquidity to meet its current liabilities as and when they fall due.

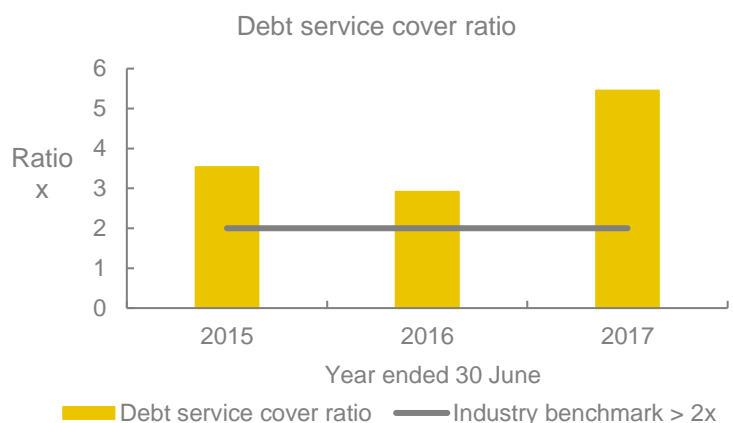
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



Debt service cover ratio

Council's debt service cover ratio exceeded the industry benchmark over the past three years. The ratio indicates Council has adequate revenue to cover the principal repayments and borrowing costs of its debt.

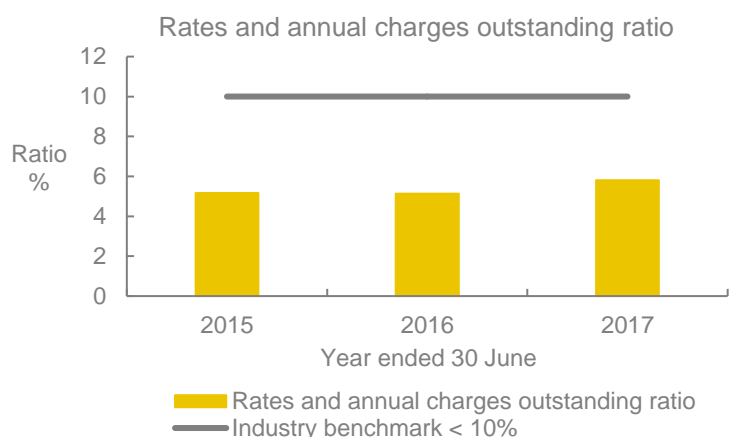
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.



Rates and annual charges outstanding ratio

Council's rates and annual charges outstanding ratio is better than the benchmark for rural councils over the past three years. Economic conditions in the local government area have remained consistent year on year, resulting in stable debt recovery rates and few write offs.

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

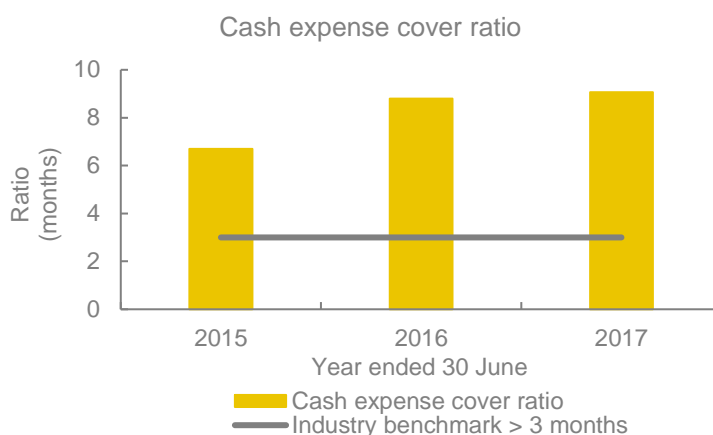


Cash expense cover ratio

At 30 June 2017, Council had the capacity to cover 9 months of cash expenditure without additional cash inflows.

Council's high levels of liquidity means its cash expense cover ratio far exceeded the industry benchmark over the past three years.

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

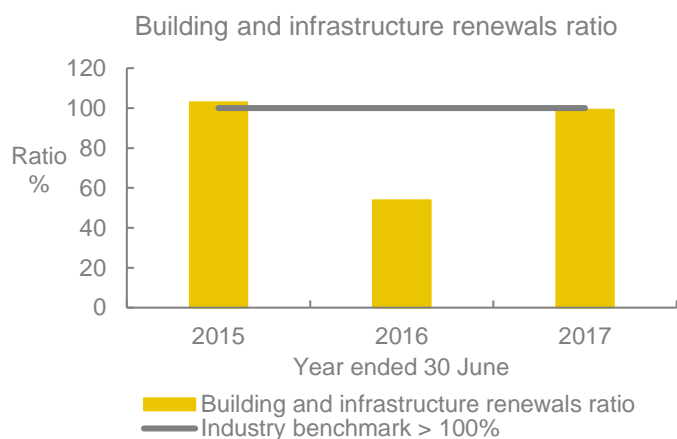


Building and infrastructure renewals ratio

Council's building and infrastructure renewals ratio improved during 2016-17, achieving a ratio of 99.2 per cent (53.8 per cent during 2015-16). Council reviewed asset management plans and has begun implementing a new system to help with asset management. During the year, Council focused its capital program on asset renewal.

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

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



OTHER MATTERS

Council Entities

Council's interest in 'council entities' include:

- Statewide Limited
- StateCover Limited.

I have obtained sufficient audit evidence to be satisfied Council's general purpose financial statements materially reflect Council's interest in the entities.

New accounting standards implemented

AASB 124 'Related Party Disclosures'

Effective for annual reporting periods beginning on or 1 July 2016

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

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

Legislative compliance

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

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



Chris Clayton
Director, Financial Audit Services

cc: Mr Graeme Faulkner, General Manager
Mr Tim Hurst, Acting Chief Executive of the Office of Local Government

Lithgow City Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2017

"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 2017

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Income Statement – Water Supply Business Activity	3
Income Statement – Sewerage Business Activity	4
Income Statement – Other Business Activities	n/a
Statement of Financial Position – Water Supply Business Activity	5
Statement of Financial Position – Sewerage Business Activity	6
Statement of Financial Position – Other Business Activities	n/a
3. Notes to the Special Purpose Financial Statements	7
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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 2017

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 30 October 2017.



Stephen Lesslie
Mayor



Raymond Thompson
Councillor



Graeme Faulkner
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 2017

\$ '000	Actual 2017	Actual 2016
Income from continuing operations		
Access charges	1,492	1,421
User charges	4,935	5,121
Fees	65	12
Interest	36	41
Grants and contributions provided for non-capital purposes	158	95
Profit from the sale of assets	–	–
Share of profit from equity accounted investment	–	–
Other income	1	–
Total income from continuing operations	6,687	6,690
Expenses from continuing operations		
Employee benefits and on-costs	1,377	2,141
Borrowing costs	64	98
Materials and contracts	1,844	2,642
Depreciation, amortisation and impairment	1,398	1,311
Water purchase charges	1,474	1,465
Loss on sale of assets	2	–
Calculated taxation equivalents	–	–
Debt guarantee fee (if applicable)	–	–
Other expenses	197	185
Total expenses from continuing operations	6,356	7,842
Surplus (deficit) from continuing operations before capital amounts	331	(1,152)
Grants and contributions provided for capital purposes	107	190
Surplus (deficit) from continuing operations after capital amounts	438	(962)
Surplus (deficit) from discontinued operations	–	–
Surplus (deficit) from all operations before tax	438	(962)
Less: corporate taxation equivalent (30%) [based on result before capital]	(99)	–
SURPLUS (DEFICIT) AFTER TAX	339	(962)
Plus opening retained profits	13,809	14,771
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	–	–
– Debt guarantee fees	–	–
– Corporate taxation equivalent	99	–
Less:		
– Tax equivalent dividend paid	–	–
– Surplus dividend paid	–	–
Closing retained profits	14,247	13,809
Return on capital %	1.2%	-3.5%
Subsidy from Council	408	1,659
Calculation of dividend payable:		
Surplus (deficit) after tax	339	(962)
Less: capital grants and contributions (excluding developer contributions)	106,515	73,160
Surplus for dividend calculation purposes	106,854	72,198
Potential dividend calculated from surplus	53,427	36,099

Lithgow City Council

Income Statement of Council's Sewerage Business Activity

for the year ended 30 June 2017

\$ '000	Actual 2017	Actual 2016
Income from continuing operations		
Access charges	6,901	6,413
User charges	–	444
Liquid trade waste charges	120	144
Fees	49	40
Interest	–	–
Grants and contributions provided for non-capital purposes	90	481
Profit from the sale of assets	9	–
Share of profit from equity accounted investment	–	–
Other income	1	–
Total income from continuing operations	7,170	7,522
Expenses from continuing operations		
Employee benefits and on-costs	1,406	1,598
Borrowing costs	391	505
Materials and contracts	2,489	2,421
Depreciation, amortisation and impairment	1,709	1,729
Loss on sale of assets	–	–
Calculated taxation equivalents	–	–
Debt guarantee fee (if applicable)	–	–
Other expenses	349	747
Total expenses from continuing operations	6,344	7,000
Surplus (deficit) from continuing operations before capital amounts	826	522
Grants and contributions provided for capital purposes	7,810	753
Surplus (deficit) from continuing operations after capital amounts	8,636	1,275
Surplus (deficit) from discontinued operations	–	–
Surplus (deficit) from all operations before tax	8,636	1,275
Less: corporate taxation equivalent (30%) [based on result before capital]	(248)	(157)
SURPLUS (DEFICIT) AFTER TAX	8,388	1,118
Plus opening retained profits	23,208	21,933
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	–	–
– Debt guarantee fees	–	–
– Corporate taxation equivalent	248	157
Less:		
– Tax equivalent dividend paid	–	–
– Surplus dividend paid	–	–
Closing retained profits	31,844	23,208
Return on capital %	1.7%	1.6%
Subsidy from Council	537	234
Calculation of dividend payable:		
Surplus (deficit) after tax	8,388	1,118
Less: capital grants and contributions (excluding developer contributions)	88,250	65,890
Surplus for dividend calculation purposes	96,638	67,009
Potential dividend calculated from surplus	48,319	33,504

Lithgow City Council

Statement of Financial Position – Council's Water Supply Business Activity
as at 30 June 2017

\$ '000	Actual 2017	Actual 2016
ASSETS		
Current assets		
Cash and cash equivalents	2,912	2,696
Investments	–	–
Receivables	1,503	1,704
Inventories	153	149
Other	–	–
Non-current assets classified as held for sale	–	–
Total current assets	4,568	4,549
Non-current assets		
Investments	–	–
Receivables	–	–
Inventories	–	–
Infrastructure, property, plant and equipment	33,727	30,426
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Other	–	–
Total non-current assets	33,727	30,426
TOTAL ASSETS	38,295	34,975
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	7	137
Income received in advance	–	–
Borrowings	147	139
Provisions	–	432
Total current liabilities	154	708
Non-current liabilities		
Payables	–	–
Borrowings	1,073	1,221
Provisions	–	–
Total non-current liabilities	1,073	1,221
TOTAL LIABILITIES	1,227	1,929
NET ASSETS	37,068	33,046
EQUITY		
Retained earnings	14,488	14,051
Revaluation reserves	22,580	18,995
Other reserves	–	–
Council equity interest	37,068	33,046
Non-controlling equity interest	–	–
TOTAL EQUITY	37,068	33,046

Lithgow City Council

Statement of Financial Position – Council's Sewerage Business Activity
as at 30 June 2017

\$ '000	Actual 2017	Actual 2016
ASSETS		
Current assets		
Cash and cash equivalents	3,333	2,803
Investments	–	–
Receivables	1,908	713
Inventories	23	17
Other	–	–
Non-current assets classified as held for sale	–	–
Total current Assets	5,264	3,533
Non-current assets		
Investments	–	–
Receivables	–	–
Inventories	–	–
Infrastructure, property, plant and equipment	73,677	63,390
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Other	–	–
Total non-current assets	73,677	63,390
TOTAL ASSETS	78,941	66,923
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	223	256
Income received in advance	–	–
Borrowings	916	864
Provisions	–	154
Total current liabilities	1,139	1,274
Non-current liabilities		
Payables	–	–
Borrowings	10,030	10,934
Provisions	–	5
Total non-current liabilities	10,030	10,939
TOTAL LIABILITIES	11,169	12,213
NET ASSETS	67,772	54,710
EQUITY		
Retained earnings	33,948	25,311
Revaluation reserves	33,824	29,399
Other reserves	–	–
Council equity interest	67,772	54,710
Non-controlling equity interest	–	–
TOTAL EQUITY	67,772	54,710

Lithgow City Council

Special Purpose Financial Statements

for the year ended 30 June 2017

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 2017

Note 1. Significant accounting policies

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

These financial statements are SPFS prepared for use by Council and the Office of Local Government. For the purposes of these statements, the Council is a non-reporting not-for-profit entity.

The figures presented in these Special Purpose Financial Statements have been prepared in accordance with the recognition 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 these Special Purpose Financial Statements 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 prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, current values of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' in 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 NSW government policy statement titled '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 a standard for disclosure requirements.

These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies, return on investments (rate of return), and dividends paid.

Declared business activities

In accordance with *Pricing 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, except for 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. Where this is the case, they are disclosed as a cost of operations just like all other costs.

Lithgow City Council

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

Note 1. Significant accounting policies (continued)

However, where Council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council-nominated business activities and are reflected in Special Purpose 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 **\$549,000** of combined land values attracts **0%**. For the combined land values in excess of \$549,001 up to \$3,357,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$3,357,000 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 Department of Primary Industries Water (DPIW), 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 to in the NSW Office of Water 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 to the NSW Office of Water 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 the business activities.

Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested.

Accordingly, the return on capital invested is set at a pre-tax level - gain/(loss) from ordinary activities before capital amounts, as would be applied by a private sector competitor. That is, it should include a provision equivalent to the corporate income tax rate, currently 30%.

Income tax is only applied where a gain/ (loss) from ordinary activities before capital amounts has been achieved.

Since the 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 the SPFS.

The rate applied of 30% is the equivalent company tax rate prevalent at reporting 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.

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.

Lithgow City Council

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

Note 1. Significant accounting policies (continued)

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.

(less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the DPIW guidelines a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the DPIW.

(iii) Return on investments (rate of return)

The NCP 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 actual rate of return achieved by each business activity is disclosed at the foot of each respective Income Statement.

The rate of return 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 2.38% at 30/6/17.

(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.

Each dividend must be calculated and approved in accordance with the DPIW guidelines and must not exceed:

- (i) 50% of this surplus in any one year, or
- (ii) the number of water supply or sewerage assessments at 30 June 2017 multiplied by \$30

Lithgow City Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 2. Water supply business
best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2017

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	24,810
(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]	53,426,950
(ii)	Number of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	248,100
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2017, less the cumulative dividends paid for the 2 years to 30 June 2016 and 30 June 2015	178,803,700

2017 Surplus	106,853,900	2016 Surplus	72,197,800	2015 Surplus	(248,000)
		2016 Dividend	–	2015 Dividend	–

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	248,100
(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? ^a	

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 2017Note 2. Water supply business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2017

National Water Initiative (NWI) financial performance indicators

NWI F1	Total revenue (water) Total income (w13) – grants for the acquisition of assets (w11a) – interest income (w9) – Aboriginal Communities W&S Program income (w10a)	\$'000	6,758
NWI F4	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)]	%	76.79%
NWI F9	Written down replacement cost of fixed assets (water) Written down current cost of system assets (w47)	\$'000	33,594
NWI F11	Operating cost (OMA) (water) Management expenses (w1) + operational and maintenance expenses (w2)	\$'000	4,691
NWI F14	Capital expenditure (water) Acquisition of fixed assets (w16)	\$'000	1,094
NWI F17	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)]	%	1.99%
NWI F26	Capital works grants (water) Grants for the acquisition of assets (w11a)	\$'000	–

- 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 2017Note 3. Sewerage business
best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2017

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	22,971
(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]	48,318,900
(ii)	Number of assessments x (\$30 less tax equivalent charges per assessment)	229,710
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2017, less the cumulative dividends paid for the 2 years to 30 June 2016 and 30 June 2015	163,852,078

2017 Surplus	96,637,800	2016 Surplus	67,008,800	2015 Surplus	205,478
		2016 Dividend	–	2015 Dividend	–

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	229,710
(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? ^a	YES

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 2017Note 3. Sewerage business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2017

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	7,161
NWI F10	Written down replacement cost of fixed assets (sewerage) Written down current cost of system assets (s48)	\$'000	65,896
NWI F12	Operating cost (sewerage) Management expenses (s1) + operational and maintenance expenses (s2)	\$'000	3,916
NWI F15	Capital expenditure (sewerage) Acquisition of fixed assets (s17)	\$'000	366
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)]	%	2.33%
NWI F27	Capital works grants (sewerage) Grants for the acquisition of assets (12a)	\$'000	7,810

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	13,926
NWI F8	Revenue from community service obligations (water and sewerage) Community service obligations (NWI F25) x 100 divided by total income (NWI F3)	%	1.31%
NWI F16	Capital expenditure (water and sewerage) Acquisition of fixed assets (w16 + s17)	\$'000	1,460
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)]	%	2.21%
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 2017Note 3. Sewerage business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2017

National Water Initiative (NWI) financial performance indicators
Water and sewer (combined)

NWI F22	Net debt to equity (water and sewerage)	%	5.65%
	Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]		
NWI F23	Interest cover (water and sewerage)		5
	Earnings before interest and tax (EBIT) divided by net interest		
	Earnings before interest and tax (EBIT):		2,205
	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:		419
	Interest expense (w4a + s4a) – interest income (w9 + s10)		
NWI F24	Net profit after tax (water and sewerage)	\$'000	753
	Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv))		
NWI F25	Community service obligations (water and sewerage)	\$'000	182
	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



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statement

Lithgow City Council

To the Councillors of Lithgow City Council

Opinion

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

The Declared Business Activities of the Council are:

- Water Supply
- Sewerage.

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Matter

The financial statements of the Council for the year ended 30 June 2016 were audited by another auditor who expressed an unmodified opinion on that financial statement on 10 November 2016.

The Councillors' Responsibility for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

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

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

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

http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf.

The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the best practice management disclosures in Notes 2 and 3 of the financial statements
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

A handwritten signature in black ink, appearing to read 'C. Clayton', with a stylized flourish at the end.

Chris Clayton
Director, Financial Audit Services

21 November 2017
SYDNEY

Lithgow City Council

SPECIAL SCHEDULES

for the year ended 30 June 2017

"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 2017

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¹ 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 2017

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Governance	1,906	14	–	(1,892)
Administration	994	408	–	(586)
Public order and safety				
Fire service levy, fire protection, emergency services	1,001	441	–	(560)
Beach control	–	–	–	–
Enforcement of local government regulations	–	–	–	–
Animal control	167	25	–	(142)
Other	–	–	–	–
Total public order and safety	1,168	466	–	(702)
Health	329	118	–	(211)
Environment				
Noxious plants and insect/vermin control	–	–	–	–
Other environmental protection	265	260	–	(5)
Solid waste management	3,072	7,612	140	4,680
Street cleaning	424	–	–	(424)
Drainage	128	–	–	(128)
Stormwater management	–	240	–	240
Total environment	3,889	8,112	140	4,363
Community services and education				
Administration and education	–	–	–	–
Social protection (welfare)	–	–	–	–
Aged persons and disabled	–	–	–	–
Children's services	–	–	–	–
Total community services and education	–	–	–	–
Housing and community amenities				
Public cemeteries	256	160	–	(96)
Public conveniences	136	–	–	(136)
Street lighting	337	69	–	(268)
Town planning	4,067	582	648	(2,837)
Other community amenities	715	422	–	(293)
Total housing and community amenities	5,511	1,233	648	(3,630)
Water supplies	6,357	6,686	107	436
Sewerage services	6,334	7,161	7,810	8,637

Lithgow City Council

Special Schedule 1 – Net Cost of Services (continued)

for the year ended 30 June 2017

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Recreation and culture				
Public libraries	1,496	102	—	(1,394)
Museums	53	9	—	(44)
Art galleries	—	—	—	—
Community centres and halls	53	19	—	(34)
Performing arts venues	31	5	—	(26)
Other performing arts	—	—	—	—
Other cultural services	592	11	72	(509)
Sporting grounds and venues	809	54	—	(755)
Swimming pools	1,160	482	—	(678)
Parks and gardens (lakes)	647	(1)	16	(632)
Other sport and recreation	3,666	4	—	(3,662)
Total recreation and culture	8,507	685	88	(7,734)
Fuel and energy	—	—	—	—
Agriculture	—	—	—	—
Mining, manufacturing and construction				
Building control	—	—	—	—
Other mining, manufacturing and construction	—	—	—	—
Total mining, manufacturing and const.	—	—	—	—
Transport and communication				
Urban roads (UR) – local	2,036	113	—	(1,923)
Urban roads – regional	—	—	—	—
Sealed rural roads (SRR) – local	647	1,960	155	1,468
Sealed rural roads (SRR) – regional	—	—	—	—
Unsealed rural roads (URR) – local	1,015	—	—	(1,015)
Unsealed rural roads (URR) – regional	—	—	—	—
Bridges on UR – local	101	—	—	(101)
Bridges on SRR – local	130	—	—	(130)
Bridges on URR – local	—	—	—	—
Bridges on regional roads	—	—	—	—
Parking areas	16	276	—	260
Footpaths	83	—	—	(83)
Aerodromes	—	—	—	—
Other transport and communication	7,832	185	613	(7,034)
Total transport and communication	11,860	2,534	768	(8,558)
Economic affairs				
Camping areas and caravan parks	—	—	—	—
Other economic affairs	932	77	—	(855)
Total economic affairs	932	77	—	(855)
Totals – functions	47,787	27,494	9,561	(10,732)
General purpose revenues ⁽¹⁾		19,754		19,754
Share of interests – joint ventures and associates using the equity method	—	—		—
NET OPERATING RESULT ⁽²⁾	47,787	47,248	9,561	9,022

(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 2017

\$'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
Loans (by source)											
Commonwealth Government	–	–	–							–	–
NSW Treasury Corporation	–	–	–							–	–
Other State Government	490	1,468	1,958	–	490	–	–	–	490	978	1,468
Public subscription	–	–	–							–	–
Financial institutions	1,420	16,607	18,027	–	1,407	–	–	731	1,432	15,188	16,620
Other	–	–	–							–	–
Total loans	1,910	18,075	19,985	–	1,897	–	–	731	1,922	16,166	18,088
Other long term debt											
Ratepayers advances	–	–	–							–	–
Government advances	–	–	–							–	–
Finance leases	–	–	–							–	–
Deferred payments	–	–	–							–	–
Total long term debt	–	–	–	–	–	–	–	–	–	–	–
Total debt	1,910	18,075	19,985	–	1,897	–	–	731	1,922	16,166	18,088

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 2017

\$'000	Actuals 2017	Actuals 2016
A Expenses and income Expenses		
1. Management expenses		
a. Administration	550	475
b. Engineering and supervision	372	635
2. Operation and maintenance expenses		
– dams and weirs		
a. Operation expenses	34	53
b. Maintenance expenses	24	53
– Mains		
c. Operation expenses	129	488
d. Maintenance expenses	602	371
– Reservoirs		
e. Operation expenses	81	33
f. Maintenance expenses	138	267
– Pumping stations		
g. Operation expenses (excluding energy costs)	14	8
h. Energy costs	25	37
i. Maintenance expenses	16	61
– Treatment		
j. Operation expenses (excluding chemical costs)	593	480
k. Chemical costs	130	119
l. Maintenance expenses	107	231
– Other		
m. Operation expenses	–	–
n. Maintenance expenses	402	20
o. Purchase of water	1,474	1,465
3. Depreciation expenses		
a. System assets	1,377	1,311
b. Plant and equipment	21	–
4. Miscellaneous expenses		
a. Interest expenses	64	98
b. Revaluation decrements	–	–
c. Other expenses	201	1,647
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	–	–
5. Total expenses	6,354	7,852

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 2017

\$'000	Actuals 2017	Actuals 2016
Income		
6. Residential charges		
a. Access (including rates)	1,492	1,421
b. Usage charges	4,935	5,121
7. Non-residential charges		
a. Access (including rates)	—	—
b. Usage charges	—	—
8. Extra charges	—	—
9. Interest income	36	41
10. Other income	66	12
10a. Aboriginal Communities Water and Sewerage Program	—	—
11. Grants		
a. Grants for acquisition of assets	—	117
b. Grants for pensioner rebates	92	95
c. Other grants	66	—
12. Contributions		
a. Developer charges	—	73
b. Developer provided assets	—	—
c. Other contributions	107	—
13. Total income	6,794	6,880
14. Gain (or loss) on disposal of assets	(2)	—
15. Operating result	438	(972)
15a. Operating result (less grants for acquisition of assets)	438	(1,089)

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 2017

\$'000	Actuals 2017	Actuals 2016
B Capital transactions		
Non-operating expenditures		
16. Acquisition of fixed assets		
a. New assets for improved standards	1,058	188
b. New assets for growth	–	–
c. Renewals	–	524
d. Plant and equipment	36	–
17. Repayment of debt	140	123
18. Totals	1,234	835
Non-operating funds employed		
19. Proceeds from disposal of assets	–	–
20. Borrowing utilised	–	–
21. Totals	–	–
C Rates and charges		
22. Number of assessments		
a. Residential (occupied)	7,209	7,193
b. Residential (unoccupied, ie. vacant lot)	555	571
c. Non-residential (occupied)	446	445
d. Non-residential (unoccupied, ie. vacant lot)	60	59
23. Number of ETs for which developer charges were received	– ET	– ET
24. Total amount of pensioner rebates (actual dollars)	\$ 171,845	\$ 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 2017

\$'000	Actuals Current	Actuals Non-current	Actuals Total
ASSETS			
25. Cash and investments			
a. Developer charges	–	–	–
b. Special purpose grants	29	–	29
c. Accrued leave	–	–	–
d. Unexpended loans	–	–	–
e. Sinking fund	–	–	–
f. Other	2,882	–	2,882
26. Receivables			
a. Specific purpose grants	10	–	10
b. Rates and availability charges	104	–	104
c. User charges	1,537	–	1,537
d. Other	(148)	–	(148)
27. Inventories	153	–	153
28. Property, plant and equipment			
a. System assets	–	33,621	33,621
b. Plant and equipment	–	106	106
29. Other assets	–	–	–
30. Total assets	4,567	33,727	38,294
LIABILITIES			
31. Bank overdraft	–	–	–
32. Creditors	7	–	7
33. Borrowings	147	1,073	1,220
34. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	–	–	–
35. Total liabilities	154	1,073	1,227
36. NET ASSETS COMMITTED	4,413	32,654	37,067
EQUITY			
37. Accumulated surplus			14,489
38. Asset revaluation reserve			22,580
39. Other reserves			–
40. TOTAL EQUITY			37,069
Note to system assets:			
41. Current replacement cost of system assets			88,665
42. Accumulated current cost depreciation of system assets			(55,071)
43. Written down current cost of system assets			33,594

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 2017

\$'000	Actuals 2017	Actuals 2016
A Expenses and income Expenses		
1. Management expenses		
a. Administration	258	87
b. Engineering and supervision	346	248
2. Operation and maintenance expenses		
– mains		
a. Operation expenses	128	56
b. Maintenance expenses	222	344
– Pumping stations		
c. Operation expenses (excluding energy costs)	134	53
d. Energy costs	87	73
e. Maintenance expenses	306	239
– Treatment		
f. Operation expenses (excl. chemical, energy, effluent and biosolids management costs)	342	1,152
g. Chemical costs	525	–
h. Energy costs	154	542
i. Effluent management	642	475
j. Biosolids management	–	–
k. Maintenance expenses	590	468
– Other		
l. Operation expenses	52	9
m. Maintenance expenses	130	–
3. Depreciation expenses		
a. System assets	1,695	1,729
b. Plant and equipment	14	–
4. Miscellaneous expenses		
a. Interest expenses	391	505
b. Revaluation decrements	–	–
c. Other expenses	839	1,019
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	–	–
5. Total expenses	6,855	6,999

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 2017

\$'000	Actuals 2017	Actuals 2016
Income		
6. Residential charges (including rates)	6,562	6,413
7. Non-residential charges		
a. Access (including rates)	—	—
b. Usage charges	339	444
8. Trade waste charges		
a. Annual fees	120	144
b. Usage charges	—	—
c. Excess mass charges	—	—
d. Re-inspection fees	—	—
9. Extra charges	—	—
10. Interest income	—	—
11. Other income	50	40
11a. Aboriginal Communities Water and Sewerage Program	—	—
12. Grants		
a. Grants for acquisition of assets	7,810	687
b. Grants for pensioner rebates	90	88
c. Other grants	—	—
13. Contributions		
a. Developer charges	—	67
b. Developer provided assets	—	—
c. Other contributions	—	393
14. Total income	14,971	8,276
15. Gain (or loss) on disposal of assets	9	—
16. Operating result	8,125	1,277
16a. Operating result (less grants for acquisition of assets)	315	590

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 2017

\$'000	Actuals 2017	Actuals 2016
B Capital transactions		
Non-operating expenditures		
17. Acquisition of fixed assets		
a. New assets for improved standards	–	–
b. New assets for growth	331	445
c. Renewals	–	953
d. Plant and equipment	35	–
18. Repayment of debt	852	676
19. Totals	1,218	2,074
Non-operating funds employed		
20. Proceeds from disposal of assets	–	–
21. Borrowing utilised	–	–
22. Totals	–	–
C Rates and charges		
23. Number of assessments		
a. Residential (occupied)	6,802	6,789
b. Residential (unoccupied, ie. vacant lot)	380	399
c. Non-residential (occupied)	434	434
d. Non-residential (unoccupied, ie. vacant lot)	41	40
24. Number of ETs for which developer charges were received	– ET	– ET
25. Total amount of pensioner rebates (actual dollars)	\$ 162,043	\$ 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 2017

\$'000	Actuals Current	Actuals Non-current	Actuals Total
ASSETS			
26. Cash and investments			
a. Developer charges	–	–	–
b. Special purpose grants	–	–	–
c. Accrued leave	–	–	–
d. Unexpended loans	–	–	–
e. Sinking fund	–	–	–
f. Other	3,333	–	3,333
27. Receivables			
a. Specific purpose grants	1,385	–	1,385
b. Rates and availability charges	463	–	463
c. User charges	57	–	57
d. Other	3	–	3
28. Inventories	23	–	23
29. Property, plant and equipment			
a. System assets	–	73,602	73,602
b. Plant and equipment	–	75	75
30. Other assets	–	–	–
31. Total assets	5,264	73,677	78,941
LIABILITIES			
32. Bank overdraft	–	–	–
33. Creditors	223	–	223
34. Borrowings	916	10,030	10,946
35. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	–	–	–
36. Total liabilities	1,139	10,030	11,169
37. NET ASSETS COMMITTED	4,125	63,647	67,772
EQUITY			
38. Accumulated surplus			33,947
39. Asset revaluation reserve			33,824
40. Other reserves			–
41. TOTAL EQUITY			67,771
Note to system assets:			
42. Current replacement cost of system assets			107,413
43. Accumulated current cost depreciation of system assets			(41,517)
44. Written down current cost of system assets			65,896

Lithgow City Council

Notes to Special Schedules 3 and 5

for the year ended 30 June 2017

Administration ⁽¹⁾

(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 ⁽¹⁾

(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 ⁽²⁾ (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 ⁽²⁾ (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:

⁽¹⁾ 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).

⁽²⁾ 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 2017

\$'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	2016/17 Required maintenance ^a	2016/17 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings	Buildings – specialised	4,116		807	453	53,477	73,013	6%	22%	40%	32%	0%
	Sub-total	4,116	–	807	453	53,477	73,013	5.9%	21.7%	40.0%	32.2%	0.2%
Other structures	Other structures	963		1,744	729	10,968	12,924	49%	27%	10%	2%	12%
	Sub-total	963	–	1,744	729	10,968	12,924	49.0%	27.0%	10.0%	2.0%	12.0%
Roads	Sealed roads	8,625		861	1,088	216,491	277,007	9%	6%	75%	7%	3%
	Unsealed roads	991		699	1,387	24,073	31,819	9%	6%	75%	7%	3%
	Bridges	281		12	7	19,045	21,453	17%	29%	47%	7%	0%
	Footpaths	80		7	37	11,015	14,127	0%	7%	91%	2%	0%
	Sub-total	9,977	–	1,579	2,519	270,624	344,406	9.3%	7.1%	73.9%	6.8%	3.0%
Water supply network	Water supply network	2,230		2,696	2,043	33,594	62,830	11%	8%	63%	17%	1%
	Sub-total	2,230	–	2,696	2,043	33,594	62,830	11.0%	8.0%	63.0%	17.0%	1.0%
Sewerage network	Sewerage network	7,519		1,621	1,122	65,896	107,797	36%	12%	35%	7%	10%
	Sub-total	7,519	–	1,621	1,122	65,896	107,797	36.0%	12.0%	35.0%	7.0%	10.0%

Lithgow City Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2017 (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	2016/17 Required maintenance ^a	2016/17 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Stormwater drainage	Stormwater drainage	6,680		26	91	24,495	41,949	0%	9%	0%	91%	0%
	Sub-total	6,680	–	26	91	24,495	41,949	0.0%	8.5%	0.0%	91.2%	0.3%
Open space/recreational assets	Swimming pools	–		177	95	2,597	2,737	96%	0%	3%	1%	0%
	Sub-total	–	–	177	95	2,597	2,737	96.0%	0.0%	3.0%	1.0%	0.0%
	TOTAL – ALL ASSETS	31,485	–	8,650	7,052	461,651	645,656	14.1%	10.1%	56.1%	16.0%	3.6%

Notes:

a Required maintenance is the amount identified in Council's asset management plans.

Infrastructure asset condition assessment 'key'

1	Excellent	No work required (normal maintenance)
2	Good	Only minor maintenance work required
3	Average	Maintenance work required
4	Poor	Renewal required
5	Very poor	Urgent renewal/upgrading required

Lithgow City Council

Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2017

\$ '000	Amounts 2017	Indicator 2017	Benchmark	Prior periods	
				2016	2015
Infrastructure asset performance indicators *					
consolidated					
1. Infrastructure renewals ratio					
Asset renewals ⁽¹⁾	11,017	99.15%	>= 100%	53.84%	102.83%
Depreciation, amortisation and impairment	11,111				
2. Infrastructure backlog ratio					
Estimated cost to bring assets to a satisfactory standard	31,485	7.22%	< 2.00%	11.03%	9.37%
Net carrying amount of infrastructure assets	436,012				
3. Asset maintenance ratio					
Actual asset maintenance	7,052	0.82	> 1.00	0.79	0.76
Required asset maintenance	8,650				

Notes

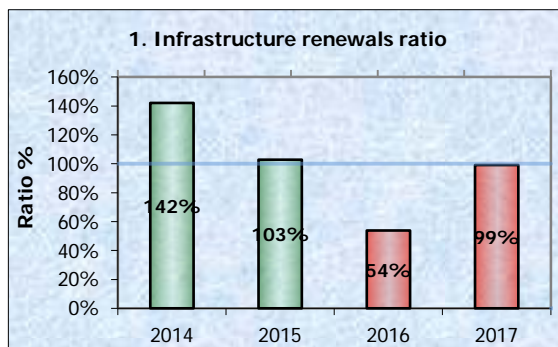
* All asset performance indicators are calculated using the asset classes identified in the previous table.

⁽¹⁾ 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 2017



Benchmark: — 100.00%

Source for benchmark: Code of Accounting Practice and Financial Reporting #25

Purpose of asset renewals ratio

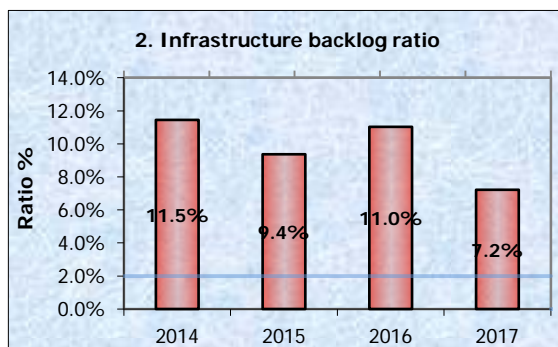
To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

Commentary on 2016/17 result

2016/17 Ratio 99.15%

Council has made significant improvement in this 2016/17 financial year achieving 99%. Council has reviewed asset management plans and is implementing asset management module in Technology One.

Ratio achieves benchmark
Ratio is outside benchmark



Benchmark: — 2.00%

Source for benchmark: Code of Accounting Practice and Financial Reporting #25

Purpose of infrastructure backlog ratio

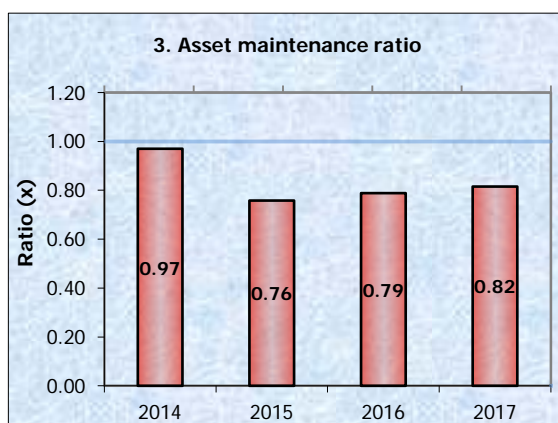
This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.

Commentary on 2016/17 result

2016/17 Ratio 7.22%

Council has made significant improvement in ratio. This result has involved revaluing assets, reviewing asset management plans and impending implementation of asset management software on Technology One.

Ratio achieves benchmark
Ratio is outside benchmark



Benchmark: — 1.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #25

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.

Commentary on 2016/17 result

2016/17 Ratio 0.82 x

Council has made slight improvement this financial year. It would be expected to see more improvement in the 2017/18 financial as a result of reviewing asset management plans and implementing asset management software in 2017/18 on Technology one.

Ratio achieves benchmark
Ratio is outside benchmark

Lithgow City Council

Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2017

\$ '000	Benchmark	Water 2017	Sewer 2017	General 2017
Infrastructure asset performance indicators by fund				
1. Infrastructure renewals ratio				
Asset renewals ⁽²⁾				
Depreciation, amortisation and impairment	>= 100%	61.95%	438.88%	33.90%
	prior period:	39.97%	55.12%	55.87%
2. Infrastructure backlog ratio				
Estimated cost to bring assets to a satisfactory standard				
Net carrying amount of infrastructure assets	< 2.00%	6.64%	11.41%	6.46%
	prior period:	18.39%	36.32%	4.25%
3. Asset maintenance ratio				
Actual asset maintenance				
Required asset maintenance	> 1.00	0.76	0.69	0.90
	prior period:	0.76	0.40	0.93

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 2018

\$'000		Calculation 2016/17	Calculation 2017/18
Notional general income calculation ⁽¹⁾			
Last year notional general income yield	a	12,476	12,732
Plus or minus adjustments ⁽²⁾	b	28	27
Notional general income	c = (a + b)	12,504	12,759
Permissible income calculation			
Special variation percentage ⁽³⁾	d	0.00%	0.00%
Or rate peg percentage	e	1.80%	1.50%
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%
Less expiring special variation amount	g	—	—
Plus special variation amount	$h = d \times (c - g)$	—	—
Or plus rate peg amount	$i = c \times e$	225	191
Or plus Crown land adjustment and rate peg amount	$j = c \times f$	—	—
Sub-total	$k = (c + g + h + i + j)$	12,729	12,950
Plus (or minus) last year's carry forward total	l	(0)	(3)
Less valuation objections claimed in the previous year	m	—	—
Sub-total	$n = (l + m)$	(0)	(3)
Total permissible income	$o = k + n$	12,729	12,947
Less notional general income yield	p	12,732	12,920
Catch-up or (excess) result	$q = o - p$	(3)	27
Plus income lost due to valuation objections claimed ⁽⁴⁾	r	—	—
Less unused catch-up ⁽⁵⁾	s	—	—
Carry forward to next year	$t = q + r - s$	(3)	27

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.



INDEPENDENT AUDITOR'S REPORT

Special Schedule No. 8

Lithgow City Council

To the Councillors of Lithgow City Council

Opinion

I have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule No. 8) of Lithgow City Council (the Council) for the year ending 30 June 2018.

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Matter

Special Schedule No.8 of the Council for the year ended 30 June 2017 was audited by another auditor who expressed an unmodified opinion on Special Schedule No. 8 on 10 November 2016.

Councillors' Responsibility for Special Schedule No. 8

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

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

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

My objectives are to:

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

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

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

My opinion does not provide assurance:

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



Chris Clayton
Director, Financial Audit Services

21 November 2017
SYDNEY