



General Purpose Financial Statements

for the year ended 30 June 2005

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

The following Annual General Purpose Financial Statements have been drawn up in accordance with:

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

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

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

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

Signed in accordance with a resolution of Council made on 31 October 2005.



Clover Moore
Lord Mayor



Robyn Kemmis
Councillor



Peter Seamer
Chief Executive Officer



Bill Carter
Finance Manager

**Statement of Financial Performance
for the year ended 30 June 2005**

Original Budget* 2005 \$'000		Notes	Actual 2005 \$'000	Actual 2004 \$'000
	EXPENSES FROM ORDINARY ACTIVITIES			
111,528	Employee costs	3	106,032	109,365
48,331	Materials and contracts	3	52,829	51,665
–	Borrowing costs	3	–	9
47,000	Depreciation and amortisation	3	39,067	41,507
75,212	Other expenses	3	60,491	53,903
282,071	Total expenses from ordinary activities		258,419	256,449
	REVENUES FROM ORDINARY ACTIVITIES			
192,031	Rates and annual charges	4	192,025	180,206
58,209	User charges and fees	4	59,631	56,915
11,595	Interest	4	19,954	14,584
10,045	Grants and contributions – operating	4	7,753	9,379
59,732	Other revenues	4	65,775	61,832
	Gain on disposal and recognition of assets	5	8,710	883
331,612	Total revenues from ordinary activities before capital amounts		353,848	323,799
49,541	SURPLUS (DEFICIT) FROM ORDINARY ACTIVITIES BEFORE CAPITAL AMOUNTS		95,429	67,350
23,152	Grants and contributions – capital	4	14,176	21,854
72,693	SURPLUS (DEFICIT) FROM ORDINARY ACTIVITIES AFTER CAPITAL AMOUNTS		109,605	89,204
	Correction of P, P & E errors – prior year	20	–	3,492
72,693	SURPLUS FROM ORDINARY ACTIVITIES		109,605	92,696
	Boundary change – financial impact	21	–	(3,887)
72,693	NET SURPLUS	2	109,605	88,809

*Original budget as approved by Council.

This statement is to be read in conjunction with the accompanying notes.

**Statement of Financial Position
as at 30 June 2005**

	Notes	Actual 2005 \$'000	Actual 2004 \$'000
CURRENT ASSETS			
Cash assets	6	342,109	259,907
Investment securities	6	–	27,000
Receivables	7	23,330	22,374
Inventories	8	184	78
Other	8	3,378	2,713
TOTAL CURRENT ASSETS		369,001	312,072
NON-CURRENT ASSETS			
Investment securities	6	–	4,000
Receivables	7	253	258
Inventories	8	492	287
Property, plant and equipment	9	3,143,182	3,081,598
TOTAL NON-CURRENT ASSETS		3,143,927	3,086,143
TOTAL ASSETS		3,512,928	3,398,215
CURRENT LIABILITIES			
Payables	10	54,126	43,882
Provisions	10	14,868	16,694
TOTAL CURRENT LIABILITIES		68,994	60,576
NON-CURRENT LIABILITIES			
Payables	10	–	3,445
Provisions	10	38,187	38,051
TOTAL NON CURRENT LIABILITIES		38,187	41,496
TOTAL LIABILITIES		107,181	102,072
NET ASSETS		3,405,747	3,296,142
EQUITY			
Accumulated surplus		3,090,737	2,981,132
Asset revaluation reserve		315,010	315,010
TOTAL EQUITY		3,405,747	3,296,142

This statement is to be read in conjunction with the accompanying notes.

**Statement of Changes in Equity
for the year ended 30 June 2005**

	Accum Surplus	2005 \$'000 Asset Reval Reserve	Total	Accum Surplus	2004 \$'000 Asset Reval Reserve	Total
Balance at beginning of the reporting period	2,981,132	315,010	3,296,142	2,892,323	315,010	3,207,333
Change in Net Assets recognised in the Statement of Financial Performance	109,605		109,605	88,809		88,809
Balance at end of the reporting period	3,090,737	315,010	3,405,747	2,981,132	315,010	3,296,142

This statement is to be read in conjunction with the accompanying notes.

Statement of Cash Flows
for the year ended 30 June 2005

Budget* 2005 \$'000		Notes	Actual 2005 \$'000	Actual 2004 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts				
192,031	Rates and annual charges		192,912	178,231
58,209	User charges and fees		49,822	66,976
11,595	Interest		17,865	14,784
33,197	Grants and contributions		22,552	30,196
59,732	Other operating receipts		80,587	73,703
Payments				
(111,528)	Employee costs		(106,126)	(111,762)
(48,331)	Materials and contracts		(44,030)	(50,622)
(75,212)	Other operating payments		(67,245)	(67,498)
119,693	Net cash provided by (or used in) operating activities	11	146,337	134,008
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
	Proceeds from sale of property, plant and pquipment	9	2,590	3,018
	Proceeds from sale of investment securities		31,000	1,500
Payments				
(231,000)	Purchase of property, plant and equipment	9	(94,532)	(60,027)
(231,000)	Net cash provided by (or used in) investing activities		(60,942)	(55,509)
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
	Deposits and retentions		346	749
Payments				
	Sydney City Council settlement			(2,500)
	Section 94 land dedication		(3,539)	(141)
–	Net cash provided by (or used in) financing activities		(3,193)	(1,892)
(111,307)	Net increase (decrease) in cash held		82,202	76,607
259,907	Cash at beginning of reporting period	11	259,907	183,301
148,600	Cash at end of reporting period	11	342,109	259,907

This statement is to be read in conjunction with the accompanying notes.

Notes to and forming part of the Financial Statements for the year ending 30 June 2005

Note 1 – Significant accounting policies

1. The Local Government reporting entity

The City of Sydney has its principal business office at Town Hall House, 456 Kent Street, Sydney, NSW 2000, Australia. City of Sydney (the Council) is empowered by the *NSW Local Government Act (LGA) 1993* and its Charter is specified in Section 8 of the Act.

A description of the nature of Council's operations and its principal activities are provided in Note 2 of this report.

The General Purpose Financial Statements incorporate the assets and liabilities of the Council for the financial period ended on 30 June 2005. In the process of reporting on the local government as a single unit, all transactions and balance between activities (for example, loans and transfers) have been eliminated.

1.1 The General Fund

In accordance with the provisions of Section 409(1) of the *Local Government Act 1993*, all money and property received by Council is held in Council's General Fund. The General Fund, through which Council controls resources to carry on our functions, has been included in the financial statements forming part of this report.

The total revenue and expenditure from ordinary activities and the net assets held are as follows:

	\$'000
Total revenue from ordinary activities including capital amounts	368,024
Total expenditure from ordinary activities	258,419
Total net assets (Equity) held	3,405,747

1.2 The Trust Fund

In accordance with the provisions of Section 411 of the *Local Government Act 1993* (as amended), separate and distinct Trust Funds are 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 held and properties owned by Council, but not subject to control by Council, have been excluded from these reports. A separate, more detailed statement of monies held in Trust, is available for inspection at the Council office by any person free of charge.

2. Basis of accounting

2.1 Compliance

This general purpose financial report has been prepared in accordance with applicable Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views, the *Local Government Act 1993* and Regulations, the Local Government Code of Accounting Practice and Financial Reporting and the Local Government Asset Accounting Manual.

2.2 Reporting

This general purpose financial report encompasses all business and non-business operations which the City of Sydney controls and has been prepared on the accrual basis of accounting. Except for property, plant and equipment that have been deemed to be valued at cost (refer 5.5.2), investments valued at market value, and employee leave entitlements shown at the present value of future cash flows, and the report has been prepared in accordance with the historical cost convention.

The accounting policies adopted for the reporting period are consistent with those of the previous reporting period except where otherwise indicated.

3. Rates

The rating period and reporting period for the Council coincide; accordingly, all rates levied for the year are recognised as revenues. Uncollected rates are recognised as receivables after providing for amounts due from unknown owners and postponed rates in accordance with the requirements of the *Local Government Act 1993*.

4. Grants, contributions and donations

4.1 General

Grants, contributions and donations (in cash or in kind) are recognised as revenues when Council obtains control over the assets comprising the contributions. Control over granted assets is normally obtained upon their receipt. When notification has been received that a grant has been secured and Council acts in reliance of that notification, control is deemed at that time.

Yet to be received contributions over which Council has control are recognised as receivables.

Where grants, contributions and donations are recognised as revenues during the reporting period on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the nature of and amounts pertaining to those undischarged conditions are disclosed in these notes.

Also disclosed is the amount of grants and contributions recognised as revenues in a previous reporting period, which were obtained in respect of Council's operations for the current reporting period.

**Notes to and forming part of the Financial Statements
for the year ending 30 June 2005**

Note 1 – Significant Accounting Policies (continued)

4.2 Contributions under Section 94 of *The Environmental Planning and Assessment (EPA) Act 1991*

The Council has obligations to provide facilities from contributions required from developers under the provisions of Section 94 of *The EPA Act 1991*. These contributions may be expended only for the purposes for which the contributions were required, but the Council may, within each area of benefit, apply contributions according to the priorities established in the relevant contributions plans and accompanying works schedules.

Contributions plans adopted by Council are available for public inspection free of cost.

5. Property, plant and equipment

5.1 Transitional provisions

Infrastructure assets (which were expensed prior to 1 January 1993) have been capitalised in the accounts on a 'staged' basis since June 1995. All assets, apart from land under roads (the transitional provisional applicable to land under roads have now extended pursuant to Australian Accounting Standards Board 1045, released in October 2002, until 31 December 2006), have now been brought to account. The initial recognition of existing non-current assets has resulted in an increase in the level of non-current assets and the accumulated surplus.

All non-current assets purchased or constructed are capitalised when the asset is held 'ready for use'.

5.2 Capitalisation materiality

Assets with an economic life which is determined to be longer than one year are only capitalised where the cost of acquisition/construction exceeds materiality thresholds established by Council for each type of asset. In determining such thresholds regard is given to the nature of the asset and its estimated service life.

Council's current capitalisation policy is to expense any purchases less than \$5,000 that may be considered to be of a capital nature.

Examples of capitalisation thresholds applied during the year under review are provided below:

– Plant and equipment	Capitalise if value > \$5,000
– Office Equipment	Capitalise if value > \$5,000
– Furniture and Fittings	Capitalise if value > \$5,000
– Land – Council Land	Capitalise
– Open Space	Capitalise
– Roads, bridges, footpaths	
– Construction/Reconstruction	Capitalise
– Drainage	Capitalise if value > \$5,000

5.3 Depreciation of non-current assets

All assets that have a limited useful life are systematically depreciated over their useful lives in a manner that reflects the consumption of the service potential embodied in those assets.

Depreciation is recognised on a straight-line basis, using a standard range of rates, which are reviewed annually. The amalgamation of assets from the former Council of South Sydney required a comprehensive review of depreciation rates. The result of that review is reflected in the table of depreciation periods below. The Council does not depreciate Street Trees nor Heritage Assets, as these assets have been determined to be non-depreciating.

The reviewed major depreciation periods are:

Office equipment	5 years
Computer equipment	4 years
Plant and equipment	3 – 10 years
Parking meters	7 years
Vehicles and road-making equipment	7 years
Furniture and fittings	5 – 10 years
Parks and assets	25 – 50 years
Swimming pools	30 years
Street furniture	20 years
Roads – upper strata	25 years
Roads – lower strata	0 years
Other structures	25 – 50 years
Open museum	100 years
Library books	10 years
Kerbs and gutters	100 years
Kerbs and gutters – trachyte	150 years
Footpaths	50 years
Buildings – public conveniences	25 years
Buildings	75 years
Drainage	100 years
Depots	100 years
Bridges	100 years

5.4 Valuation of assets

5.4.1 Recoverable amounts test

Council is exempted from the 'recoverable amounts test' except in relation to recognised trading operations under the provision of paragraph 30 of AAS 10 (AASB 1010) 'Recoverable Amount of Non Current Assets'.

5.4.2 Valuation at cost

Council has deemed all of its property plant and equipment, with the exception of land under roads, to be 'at cost', being the carrying value of those assets as at 30 June 2000, in accordance with the transitional provisions of AAS 38 (AASB 1041) 'Revaluation of Non-Current Assets'. Land under roads has not been revalued and has been excluded from this report.

5.4.3 Land

5.4.3.1 Operational land

Land classified by Council as Operational in accordance with Part 2 of Chapter 6 of the *Local Government Act 1993*, and buildings thereon, were valued by independent valuation (Valuer General) in the reporting period ended 30 June 1995. A valuation was undertaken in 1998/1999 to adjust for additional rateable properties. At 1 July 2000, Council elected to adopt its valuations and disclosed them on the cost basis in accordance with AAS38 (AASB 1041) paragraph 10.4(a) of the Standard.

Pursuant to clause 8.2.1 of AAS 36, Council has undertaken valuations of all land.

Current Valuation – Independent Valuations of operational land based on market value was undertaken as at 30 June 2003 by Mr Neil Hemmings of International Valuation Consultants and Mr Steve Eccleston of BEM Property Consultants. Operational Land from the former South Sydney City Council was valued by Council Officers as at 30 June 2003. The combined market valuation was \$555,445,000. The new valuation has not been brought to account as Council has continued to adopt the 'cost basis' for recording this asset.

5.4.3.2 Community land

Land not classified by Council as operational land is deemed as community land and was valued by Council officers at adjoining land value during the reporting period ended 30 June 1995. The Adjoining Land Rate is calculated by dividing the land area (hectares) of all rateable land (excluding mining) into the dollar value of that rateable land as determined by the Valuer General and then applying that rate towards the non rateable property controlled by the Council.

At 1 July 2000, Council elected to adopt its valuations and disclosed them using the cost basis in accordance with AAS 30 (AASB 1041) paragraph 10.4(a) of the Standard.

Current Valuation – Independent valuations of community land based on adjacent land values was undertaken as at 30 June 2003 by Mr Geoff Roper of Australia Pacific P.C.S. Community Land from the former South Sydney City Council was valued by Council officers as at 30 June 2003. The combined market valuation was \$952,985,500. The new valuation has not been brought to account as Council has continued to adopt the 'cost basis' for recording this asset.

5.4.4 Land under roads

Land Under Roads has not been valued or recognised as an asset in the Statement of Financial Position (as allowed under transitional provisions for asset recognition contained in AAS 27A Amendments to the Transitional Provisions in AAS 27, paragraph 108). The transitional provisions applicable to land under roads have now been extended pursuant to AASB 1045, released in October 2002, until 31 December 2006.

5.4.5 Contributed buildings

When buildings are acquired through contributions, they are valued at 'fair value' in accordance with AAS 15 Revenue. Where an independent fair value cannot be determined as there is no market for the particular type of building contributed, as is the case for the Angel Place City Recital Hall, the value has been determined by indexing an independent cost estimate by the Producer Price Index (Construction) to the time of recognition. This valuation is considered to closely approximate fair value.

6. Receivables

Receivables are recognised and carried at the original invoice amount, less a provision for any doubtful debts.

The required provision is derived from the sum of all debts outstanding 90 days or more (unless Council believes collection is virtually certain), plus any other debts that Council believes it may not be able to collect. Bad debts are written off against the provision as incurred.

7. Investment securities

Investments are recognised at market value as at 30 June 2005. Interest revenues are recognised as they accrue.

It has been determined that all of Council's current investment securities satisfy the definition of cash equivalents per AAS28 (AASB 1026) 'Statement of Cash Flows'. In keeping with this determination Cash Assets for the purposes of the Statement of Cash Flows includes Cash Assets and Current Investment Securities as shown on the Statement of Financial Position.

**Notes to and forming part of the Financial Statements
for the year ending 30 June 2005**

Note 1 – Significant Accounting Policies (continued)

8. Employee leave benefits

8.1 Salaries, wages and compensated absences

Employee benefits are accrued on a pro-rata basis for annual leave, sick leave, long service leave and gratuities, in respect of the service provided by employees up to the reporting date in accordance with AASB 1028 'Employee Benefits'. Accruals are assessed as at each reporting date, having regard to employee entitlements, departures, projected employee rates of pay and their periods of service.

Liabilities for employee benefits not expected to be paid or settled within 12 months are measured as the present value of the estimated future cash outflows to be made in respect of service provided by employees up to the reporting date. Present values are calculated using government guaranteed security rates with similar maturity terms.

8.2 Superannuation

The superannuation expense for the year is the amount of the statutory contribution Council makes to the superannuation plan that provides benefits to its employees. Council has not been required to make a full contribution to the Local Government Superannuation Scheme (LGSS) for the past five financial years, and no contribution at all since November 2000, as the Trustees of that fund have advised that the net assets are this time are sufficient to satisfy all anticipated liabilities. LGSS has two types of membership, each of which is funded differently.

Accumulation Fund Members

The accumulation fund receives both employer and employee contributions on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings in accordance with Superannuation Guarantee Legislation (9 per cent since 2002/03). No further liability accrues to the employer as the superannuation benefits accruing to employees are represented by their share of the net assets of the Fund.

Defined Benefit Members

Council makes employer contributions to the defined benefits categories of the LGSS at rates determined by the Scheme's Trustee. The rate is currently nil per cent (since 2000/01) of superannuation salary. Employees also make member contributions to the Fund. As such, assets accumulate in the Fund to meet the members' benefits, as defined in the Trust Deed, as they accrue.

The Local Government Superannuation Scheme reporting under AASB 1028 advises the following: The associated Rate of Investment Return is 12 per cent per annum from 1/7/2004 to 30/6/2005 and 7 per cent thereafter. Salary growth rate is assumed at 4 per cent per annum and inflation is assumed at 2.5 per cent per annum.

Employer assets	67,618,904
Employer liabilities	59,281,897
Surplus/(deficit)	8,337,007

As at balance date a number of Council staff were making contributions to a defined superannuation scheme referred to as the LGSS. That scheme was one of five superannuation schemes provided by State Superannuation which were incorporated, without change, into the LGSS from 1 July 1997. It is referred to in the Trust Deed as Division D. Two other staff members were also making contributions to two other defined superannuation schemes referred to as the State Authorities Non-Contributory Superannuation Scheme (SANCS) and the State Authorities Superannuation Scheme (SASS).

Council is the sponsor of a defined benefit superannuation fund. Under existing Australian Generally Accepted Accounting Principles (GAAP), a liability or asset in respect of defined benefit superannuation does not need to be recognised in the provision for employee benefits. Under AASB 119 Employee Benefits, a liability or asset in respect of defined benefit superannuation is recognised and measured as the difference between the present value of employees' accrued benefits at the reporting date and the net market value of the superannuation fund's assets at that date.

As at 30 June 2005, Council had not received a response from the defined benefits superannuation fund in relation to the actuarial assessment of the funds assets and liabilities. Council has continued to disclose its requirements under Section 6.10 of AASB 1028.

The SANCS, SASS and the State Superannuation Scheme (SSS) reporting under AASB 1028 advise the following:

The associated Rate of Investment Return is 7 per cent. Salary growth rate is assumed at 4 per cent per annum and Inflation is assumed at 2.5 per cent per annum.

Employer assets	265,102
Employer liabilities	253,625
Surplus/(deficit)	11,477

9. Joint ventures

Council does not currently have an interest in any joint ventures.

10. Leases

Lease arrangements have been accounted for in accordance with AAS 17 (AASB 1008) 'Accounting for Leases'.

10.1 Queen Victoria Building

Council entered into a 99 year lease as lessor of the Queen Victoria Building (QVB) with Ipoh Garden Berhad (Aust) Pty Ltd (Ipoh) on 28 February 1984.

At the date of inception of the lease the QVB required extensive restoration work. This work was carried out by Ipoh at a cost of \$97.259 million. Under the terms of the lease, Ipoh is entitled to recover this cost plus interest (compounded). Ipoh is also entitled to retain \$9.7 million for each year of the agreement and a portion of net revenue is deposited annually into a fund for the specific purpose of Ipoh refurbishing or upgrading the building.

Following the above deductions from net revenue, any remaining profit is split 50/50 between Council and Ipoh. The rental revenue received by Council is recognised as income in the month it is earned.

At the end of the lease Ipoh is required to return the building to Council in good condition.

It has been determined that the QVB is not controlled by council under the definition of control per Statement of Accounting Concepts 4 (SAC4) and the asset is not included in Council's property, plant and equipment at balance date.

10.2 Capitol Theatre and associated properties

Council is lessor in a 99 year lease with Capitol Theatre Management Pty Ltd (formerly Ipoh Theatre Management Pty Ltd) for the Capitol Theatre. This lease also incorporates the Manning Building, Watkins Terraces and Parker Street.

Under this agreement, Council receives revenue based on a percentage of theatre revenue. The rental revenue is recognised as income in the month it is earned.

It has been determined that the Capitol Theatre and associated properties are not controlled by Council under the definition of control per statement of accounting concepts 4 (SAC4) and the asset is not included in Council's property plant and equipment at balance date.

10.3 Operating leases in which Council is lessee

In respect of operating leases, where the lessor substantially retains all of the risks and benefits incident to ownership of the leased items, lease payments are charged as an expense over the lease term.

11. Inventories

Council holds inventories for consumption. AAS 2 (AASB 1019) 'Inventories' does not apply to consumable stores and materials held by Council for the purpose of providing works and services. As there is no objective of sale for such items, valuation at the lower of cost or net realisable value is not appropriate. Council therefore values these items at cost, assessed for loss of service potential, and where appropriate, writes the value down accordingly.

Council does not hold any land for re-sale.

12. Monetary amounts

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

13. Budget information

The Statement of Financial Performance provides budget information on major income and expenditure items. Details of material budget variations are detailed in Note 16. Note 2 also provides budget information of revenues and expenses of each of Council's major activities. Budget figures represented are those approved by Council at the beginning of the financial year and do not reflect Council approved variations throughout the year.

Budget information in the financial report is not subject to audit.

14. Financial instruments

Council has adopted all of the disclosure requirements required by AAS 33 (AASB 1033) 'Presentation and Disclosure of Financial Instruments' as detailed in Note 15.

15. Interest bearing liabilities

The City of Sydney Council does not have any loans.

16. Payables and other current liabilities

Creditors and other current liabilities are amounts due to external parties for the purchase of goods and services and are recognised as liabilities when the goods and services are received. Creditors are normally paid 30 days after initial recognition. Interest is not payable on these.

17. Provisions, contingent liabilities and contingent assets

In October 2001, the AASB issued a standard on 'Provisions, Contingent Liabilities and Contingent Assets', AASB 1044. The new standard applies to annual reporting periods beginning on or after 1 July 2002.

Council has recognised and disclosed all Provisions (Note 10(a), (b) and (c)), Contingencies and Other Assets and Liabilities Not Recognised (Note 18) as required by AASB 1044.

Notes to and forming part of the Financial Statements for the year ending 30 June 2005

18. Comparative figures

Comparative figures included in the financial statements relate to the financial year ended 30 June 2004. These figures have been reclassified, where necessary, on a basis consistent with current disclosure for 2004/05.

Note 1 – Significant Accounting Policies (continued)

19. Policy on internal and external restrictions for cash

Cash is restricted for prudent financial management purposes as follows:

Property reserve – 20 per cent of rental income is set aside to fund refurbishment, major maintenance of Council's properties, and in some instances to purchase investment properties.

Parking station reserve – 5 per cent of income from parking stations is set aside to fund major maintenance and capital improvements.

Parking meter reserve – 10 per cent of income from parking meters is set aside to fund replacements.

Plant and asset replacement reserve – 2.5 per cent of operating income is set aside to fund purchases of Plant and Assets.

Employee leave entitlements – 10 per cent of the employee leave entitlement provision is set aside to fund extraordinary movements of staff. Normal annual payments of leave entitlements are funded from operating income.

Public liability and workers compensation insurance – Cash has been restricted for 100 per cent of both provisions.

Domestic waste reserve – Any cash surplus from operations is held as a restricted asset to fund capital expenditure or process improvements to the Domestic Waste collection business.

Security deposits reserve – All security deposits are held as restricted funds.

Investment reserve – Net cash amount realised from sale of income producing assets is restricted.

Unexpended grants reserve – 100 per cent of grants received not spent during the year are treated as restricted funds.

Utzon Foundation reserve – 100 per cent of the liability for John Utzon Foundation, to celebrate and foster the creativity in the performing arts internationally, is restricted.

Mode Group reserve – 100 per cent of the Mode Bank Account, which is part of Council cash is restricted.

Green Square Multi Purpose Civic Centre – 100 per cent of monies to be set aside for the purpose of construction of this facility.

20. Work In Progress

Work in progress comprises the amount expended on the capital works projects which are incomplete at balance date.

21. Goods and Service Tax (GST)

In accordance with the provisions of *A New Tax System (Goods and Services Tax) Act 1999* legislation, Council is required to account for GST under the 'accruals' method, and submits monthly returns to the Australian Taxation Office.

Revenues, expenses and assets are recognised net of the amount of GST, except where:

The amount of GST incurred, as a purchaser, that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense;

Receivables and payables are stated with the amount of GST included.

The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the Australian Taxation Office is classified as operating cash flows.

22. Insurance

Pursuant to Section 382 of the *Local Government Act 1993*, Council has primary and excess layer insurance cover against Public Liability and Professional Indemnity liability. Council carries a self-insured retention (deductible) on this policy and makes provision for its uninsured exposure in relation to claims outstanding.

The current Public Liability and Professional Indemnity Policy has been negotiated for a three year period with an annual reducing premium scale and an annual increasing deductible, over the period, reflecting a growing acceptance of risk by Council within reasonable commercial, financial and operational boundaries.

Council's other significant insurance cover is its Industrial Special Risks Insurance. This policy covers Council owned and leased properties, where required, together with contents and equipment in these properties. The deductible within this policy also reflects an acceptance of risk within reasonable commercial, financial and operational boundaries.

Council is a self-insurer, to a self-insured retention level, of its Workers' Compensation liability. To fulfil a condition of WorkCover's NSW Workers' Compensation Self-Insurance licence, Council has Excess Employers Indemnity Insurance cover, which is unlimited in excess of Council's self-insured retention.

In addition to the above insurance coverage, Council has other classes of insurance covering risks such as Councillors' and Officers' Liability, General Property, Contract Works, Fidelity Guarantee, Hirers' and Authorised Users Liability etc.

23. Significant change to accounting policy

There have been no significant changes to accounting policy during the current financial year. An operational review of depreciation rates for Property, Plant and Equipment took place as at 1 July 2004 (Refer 5.3 above)

24. Treatment of library book acquisitions

It was Council's policy to expense library books at the date of acquisition. Council has now adopted the policy of depreciating library books. The effect of this policy is that City of Sydney added \$1.245 million of new library assets and expensed \$0.158 million in Depreciation for the year.

25. Treatment of parking enforcement agreement with NSW Police

During 2001/02 Council commenced an agreement with NSW Police for the provision of parking enforcement services within the CBD. Under this agreement Council has agreed to pay NSW Police 50 per cent of profits generated from the provision of the service. This payment is recognised as an operating expense within the Annual Financial Report. Revenues from the issuing of infringement notices are shown as gross amounts.

Council does not recognise a receivable for all infringement notices at the time each notice is issued. The lack of certainty of collection precludes this accounting treatment. Council has applied a policy of recognising as a receivable that portion of infringement notices that are likely to be collected based on past experience in the collection of such notices.

26. First Time Adoption of International Accounting Standards

The AASB is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the Council's financial statements for the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The transition to international accounting standards is being managed on an industry-wide basis at both a national and state level. A national working party has been set up, and the NSW Department of Local Government and the Local Government Accounting Advisory Group will identify significant changes affecting the industry, and State authorities will liaise with councils regarding the training of Council staff.

The Council has established a project team to manage its own transition to AIFRS, including training of staff and system and internal control changes necessary to gather all the required financial information. The project team has prepared a detailed timetable for managing the transition and is currently on schedule.

The project team has analysed the AIFRS and has identified the accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. These choices have been analysed to determine the most appropriate accounting policy for the Council.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB. Therefore, until the Council prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

The assessment and planning phase is continuing at the date of preparation of these reports, although completion is anticipated in the near future. Council will apply the AIFRS from the reporting period beginning 1 July 2005 and is managing the transition to the new standards by allocating internal resources. Council is fully utilising training and information provided by auditors, the Department of Local Government in conjunction with the Finance Professional Groups of Regional Councils, and the updates to the Code of Accounting Practice.

**Notes to and forming part of the Financial Statements
for the year ending 30 June 2005**

Note 2 – Functions

Revenues, Expenses and Assets have been directly attributed to the following activities. Details are provided.

	Expenses from ordinary activities			Revenues from ordinary activities			Operating results from ordinary activities before share of outside profits and corrections			Grants included in revenues from ordinary activities		Total assets held (current and non-current)	
	Original Budget	Actual	Actual	Original Budget	Actual	Actual	Original Budget	Actual	Actual	Actual	Actual	Actual	Actual
	2005 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
City environment													
Development	10,000	9,323	8,599	24,700	16,790	16,813	14,700	7,467	8,214		310	771	3,210
Environment			1,997			9,575			7,578		4	150	142
Regulatory compliance	7,400	6,541	11,184	5,600	6,008	12,154	(1,800)	(533)	970				641
Transport, traffic and access	29,300	24,524	17,965	57,000	59,174	43,527	27,700	34,650	25,562	148	72	13,390	21,712
City environment total	46,700	40,388	39,745	87,300	81,972	82,069	40,600	41,584	42,324	148	386	14,311	25,705
City improvement/city works													
City projects	8,800	6,446	8,199	2,000	380	442	(6,800)	(6,066)	(7,757)		850	928	32,110
Waste services			9,981			7,481			(2,500)		431		2,627
Service delivery			19,196			8,648			(10,548)				
Fleet services			3,730			210			(3,520)				598
Asset infrastructure			2,190			1,044			(1,146)		68		176
City improvement/works total	8,800	6,446	43,296	2,000	380	17,825	(6,800)	(6,066)	(25,471)	–	1,349	928	35,511
City services													
Asset management	41,800	44,782	43,859	9,800	12,657	10,052	(32,000)	(32,125)	(33,807)	3,228	1,379	2,010,033	2,322,880
Clean city	20,200	18,988	13,477	900	886	1,468	(19,300)	(18,102)	(12,009)			3,713	6,953
Customer service	3,900	3,895	2,438	1,500	1,544	1,170	(2,400)	(2,351)	(1,268)			54	101
Homeless persons	2,500	2,335	1,900	600	622	489	(1,900)	(1,713)	(1,411)	577	489	158	1,819
Safe city	2,000	2,098	1,819	100	212	3	(1,900)	(1,886)	(1,816)			266	200
Service support	7,000	10,801	6,920	–	61	24	(7,000)	(10,740)	(6,896)			4,869	157
City services total	77,400	82,899	70,413	12,900	15,982	13,206	(64,500)	(66,917)	(57,207)	3,805	1,868	2,019,093	2,332,110

Note 2(a) – Functions (continued)

	Expenses from ordinary activities			Revenues from ordinary activities			Operating results from ordinary activities before share of outside profits and corrections			Grants included in revenues from ordinary activities		Total assets held (current and non-current)	
	Original Budget 2005 \$'000	Actual 2005 \$'000	Actual 2004 \$'000	Original Budget 2005 \$'000	Actual 2005 \$'000	Actual 2004 \$'000	Original Budget 2005 \$'000	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
City facilities													
Libraries	6,300	5,663	4,077	600	592	523	(5,700)	(5,071)	(3,554)	317	185	2,499	322
Pools	500	278	767	1,000	100	1,085	500	(178)	318			190,447	193,021
Recreation and community centres	12,000	11,344	6,883	4,700	5,001	2,350	(7,300)	(6,343)	(4,533)	1,467	362	878	471
Town Hall	3,700	3,268	2,256	3,300	2,290	1,756	(400)	(978)	(500)			2,994	5,135
City facilities total	22,500	20,553	13,983	9,600	7,983	5,714	(12,900)	(12,570)	(8,269)	1,784	547	196,818	198,949
City life													
Cultural affairs	6,600	6,517	5,243	400	431	407	(6,200)	(6,086)	(4,836)			123	242
Events	5,400	5,872	3,555	900	877	787	(4,500)	(4,995)	(2,768)			2	18
Public affairs/support services			1,156			144	–	–	(1,012)				
Retail strategies	1,400	1,087	1,304	600	490	608	(800)	(597)	(696)			(17)	
Leisure services			2,270			262	–	–	(2,008)		208		3,767
People services			4,668			2,068	–	–	(2,600)		1,106		13,337
Community relations			1,482			204	–	–	(1,278)				92
City life total	13,400	13,476	19,678	1,900	1,798	4,480	(11,500)	(11,678)	(15,198)	–	1,314	108	17,456
City organisation													
Corporate services	109,907	89,850	62,932	65,248	80,988	43,153	(44,659)	(9,205)	(19,779)			1,281,656	788,478
Governance	3,600	4,464	6,402			21	(3,600)	(4,464)	(6,381)			14	6
City organisation total	113,507	94,314	69,334	65,248	80,988	43,174	(48,259)	(13,669)	(26,160)	–	–	1,281,670	788,484
Total functions	282,307	258,419	256,449	178,948	189,103	166,468	(103,359)	(69,316)	(89,981)	5,737	5,464	3,512,928	3,398,215
Settlement with City of Sydney			3,887				–	–	(3,887)				
Correction of fundamental error						3,492	–	–	3,492				
General purpose revenue				176,052	178,921	179,185	176,052	178,921	179,185	3,122	3,703		
Surplus/(deficit) from all activities	282,307	258,419	260,336	355,000	368,024	349,145	72,693	109,605	88,809	8,859	9,167	3,512,928	3,398,215

Notes to and forming part of the Financial Statements for the year ending 30 June 2005

Note 2 – Functions (continued)

Component of functions

1. City environment

Town Planning policy and regulations, processing of building and development applications. Provide advice to Council, residents, developers, Planning NSW and Central Sydney Planning Committee. Monitor and evaluate national and international trends and practices in urban design, heritage and strategic planning. Management of transport, traffic, pedestrians and access within the City's areas.

2. City improvement

Develop and construct the City Improvement Program and establish Public Domain master plans and policy. Facilitate city improvements by developers and consult with the community and stakeholders. Project manage capital works projects, ensuring cost control. Provide advice to other parts of the city organisation.

3. City services

Cleaning and maintenance of streets, parks, drainage and Council owned properties, including all their structures. Provision of a commercial waste collection service. Parking management and enforcement. Management of Council owned venues, including parking stations. Provide building certification and process all applications. Monitor and enforce public health regulations and local laws. Provide printed and oral information with regards to the City's services. Provide services and information with regards to safety of residents, workers and visitors to the city. Provide support and emergency accommodation for the homeless. Develop and enhance strategies in dealing with chronic homeless, including maintaining database of homelessness.

Provide services and information within the City organisation, including legal, financial, administrative, fleet management, human resources, property and asset management, security, information technology, competitive tendering, corporate planning and risk management and insurance services.

4. City facilities

Provide services from and management of community facilities used for sport, aquatic, leisure and library activities. Provide information regarding local events, activities, services and facilities. Maintain demographic information on the City LGA residential population.

5. City life

Staging of cultural events in the city such as New Year's Eve, Chinese New Year, Night Markets, Christmas Concert as well as sponsorship of major events such as the Sydney Festival. Consultation and communication with community groups. Tourism promotion and the Sydney City Marketing partnership with key retailers to increase visitation and spending in Sydney CBD.

6. City organisation

Relates to the Council's role as a component of democratic government, including elections, members fees and expenses, subscriptions to local authority associations, meetings of Council and policy making committees, area representation and public disclosure and compliance.

Note 3 – Expenses from ordinary activities

	2005 \$'000	2004 \$'000		2005 \$'000	2004 \$'000
Employee costs			Depreciation and amortisation		
Salaries and wages	83,623	88,122	Plant and equipment	5,400	5,737
Travelling	238	178	Office equipment	2,444	2,623
Employee leave entitlements	9,377	10,572	Furniture and fittings	5,383	4,033
Superannuation	4,704	4,627	Land improvements	4,278	660
Workers' Compensation Insurance	4,546	2,827	Buildings	8,703	9,708
Fringe Benefits Tax	512	658	Other structures	2,918	
Training costs (excluding Salaries)	1,445	1,728	Infrastructure		
Other	1,587	653	– roads, bridges and footpaths	12,087	14,985
Total operating employee costs	106,032	109,365	– stormwater drainage	508	568
Total number of employees (<i>Full time equivalent at end of reporting period</i>)	1,443	1,462	Other assets		
			– heritage collections	–	106
			– library books	158	169
			– open museum	84	
			Amortisation of investment premiums	22	
Borrowing costs			Total depreciation and amortisation	39,067	41,507
Interest on other debts	–	9			
Total interest charges	–	9	Other expenses		
			Auditor's remuneration		
Materials and contracts			– Audit services	177	259
Stores and materials	6,008	7,973	Professional accounting services	465	400
Contractors	40,612	39,312	Bad and doubtful debts	(136)	116
Smartpole Agreement	1,084	728	Donations and contributions to local and regional bodies	2,779	2,632
Office and Other Equipment	3,002	896	Insurances	4,686	5,106
Other	2,123	2,756	Legal expenses		
	52,829	51,665	– Planning and development	1,674	1,408
			– Other legal expenses	1,573	1,165
			Electricity and gas	2,019	1,953
			Mayoral fee	142	194
			Councillors' fees	259	228

**Notes to and forming part of the Financial Statements
for the year ending 30 June 2005**

Note 3 – Expenses from ordinary activities (continued)

	2005 \$'000	2004 \$'000
Other expenses (continued)		
Councillors' (incl Mayor) expenses	336	478
Operating lease rentals – non-cancellable		
– minimum lease payments	2,819	3,097
Street lighting	2,870	2,582
Telephone and communications	1,934	2,262
Other		
– Advertising	1,789	1,715
– Bank charges	584	559
– Computing costs	553	526
– Consultancies	1,379	1,209
– Event and project costs	8,745	6,385
– Fees paid to investment fund managers	627	461
– Land tax and water rates	1,132	1,165
– Other property related expenditure	252	399
– Parking enforcement profit share	5,512	4,230
– Payments to other government agencies	13,282	10,514
– Postage and couriers	550	665
– Printing and stationery	1,697	1,424
– Research and development	123	82
– Security	467	262
– Subscriptions	159	164
– Valuation fees	94	
– Other expenses	2,043	2,169
Total other expenses	60,491	53,903

Note 4 – Revenues from ordinary activities

	2005 \$'000	2004 \$'000
Rates and annual charges		
Ordinary rates		
– Residential	31,352	29,950
– Business	141,847	133,264
	173,199	163,214
Annual charges		
– Domestic waste management	18,826	16,911
– Other	81	
	18,826	16,992
Total rates and annual charges	192,025	180,206
User charges		
– Other waste management	4	659
	4	659
Fees		
– Building and development fees	14,388	12,283
– Recreation centre fees	2,499	3,503
– Private works	4,732	5,020
– Parking station income	8,899	8,836
– Parking meters income	16,506	16,152
– Venue hire	2,047	1,757
– Filming fees	609	504
– Street furniture advertising	4,352	2,646
– Advertising signs revenue	659	–
– Other fees	4,936	5,555
	59,627	56,256
Total user charges and fees	59,631	56,915

	2005 \$'000	2004 \$'000
Investment revenues		
Interest on overdue rates and charges	621	588
Interest on investments attributable to		
– Section 94 contributions	1,552	886
– Other investments	17,781	13,110
Total investment revenues	19,954	14,584
Other revenues		
Ex gratia payments in lieu of rates	562	554
Fines	29,049	26,853
Rental of commercial properties	33,817	29,700
Special signs	326	1,358
Sponsorship	1,017	1,124
Sydney City Marketing partners	490	540
Other	514	1,703
Total other revenues	65,775	61,832

**Notes to and forming part of the Financial Statements
for the year ending 30 June 2005**

Note 4 – Revenues from ordinary activities (continued)

	Operating		Capital	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Grants				
General purpose (untied)				
– Financial assistance	2,772	3,446		
– Pensioner rates subsidies (general)	349	273		
– Pensioner rates subsidies (domestic waste management)	70			
Specific purpose	4,587	4,955	1,151	422
	7,708	8,744	1,151	422
Contributions				
Developer contributions				
– Developer contributions Section 61			6,215	10,027
– Contributions Section 94			4,490	10,064
– Other	45	635	1,668	8
Floor space contributions			487	1,333
Other			165	
	45	635	13,025	21,432
Total grants and contributions	7,753	9,379	14,176	21,854

Note 5 – Gain or loss on disposal of assets

	2005 \$'000	2004 \$'000
Disposal of plant and equipment		
Proceeds from disposals of assets	2,590	3,018
Less carrying amount of assets sold	1,803	2,135
Add: consideration from unregistered assets	51	
Gain on disposal	838	883
Stocktake		
Stocktake additions	11,728	
Less: carrying amount of stocktake disposals	3,856	
Recognition of stocktake effect.	7,872	
Gain/(loss) on disposal	8,710	883
Total gain/(loss) on disposal of assets	8,710	883

Note 6 – Cash assets and investment securities

	Note	2005 \$'000		2004 \$'000	
		Current	Non-current	Current	Non-current
Cash assets					
Cash on hand and at bank		12,740		7,052	
Deposits at call		75		10,075	
Managed funds/cash Investments		329,294		242,780	
		342,109	–	259,907	–
Investment securities					
Term deposits				27,000	4,000
		–	–	27,000	4,000
Total cash assets and investment securities		342,109	–	286,907	4,000
Cash Assets comprise highly liquid investments with short periods to maturity subject to insignificant risk of changes of value. Cash Assets subject to external restrictions that are not expected to be discharged during the next reporting period are classified as Non-current.					
External restrictions					
Included in liabilities					
– Developer contributions	17	28,003		26,170	
– Unexpended grants	14	66		565	
– Domestic waste management		6,196		5,177	
– Floor space bonus FSB/FSR		3,491		3,275	
– Mode Group (Westpac)		14		14	
		37,770	–	35,201	–
Total external restrictions		37,770	–	35,201	–
Total internal restrictions		25,589	64,993	56,959	51,529
Total unrestricted		278,750	(64,993)	194,747	(47,529)
Total cash assets and investment securities		342,109	–	286,907	4,000

**Notes to and forming part of the Financial Statements
for the year ending 30 June 2005**

Note 6 – Cash assets and investment securities (continued)

Details of movements and utilisation of restricted cash assets and investment securities

	Notes	Opening balance 1 July 2004 \$'000	Movements Transfers to restriction \$'000	Transfers from restriction \$'000	Closing balance 30 June 2005 \$'000	Proposed utilisation of restriction			
						Less than 1 Year \$'000	Between 1 and 5 years \$'000	Greater than 5 years \$'000	
External restrictions									
– Developer contributions	17	26,170	6,043	4,210	28,003	5,601	22,402	–	
– Unexpended grants	14	565	56	555	66	66	–	–	
– Domestic waste management		5,177	15,818	14,799	6,196	6,196	–	–	
– Floor Space Bonus FSB/FSR		3,275	487	271	3,491	698	2,793	–	
– Mode Group (Westpac)	14	–	–	14	14	–	–	–	
Total external restrictions		35,201	22,404	19,835	37,770	6,379	31,391	–	

External restrictions arise pursuant to Section 409(3) of the *Local Government Act*, the Local Government (Financial Management) Regulation 1999 and other applicable legislation. Further information relating to Developer Contributions is provided in Note 17 and Unexpended Grants in Note 14. Amounts raised by special rates (eg. water and sewer) or for domestic waste management may only be used for those purposes.

Internal restrictions									
– Public Liability Insurance		669		215	454			454	
– Employee leave entitlements		2,500	1,374		3,874			3,874	
– Provision Workers' Compensation		8,440	4,640		13,080			13,080	
– Utzon Foundation		100			100	100		–	
– Asset replacement reserve		10,817	9,311	10,269	9,859	9,859		–	
– Property reserve		8,257	4,677	1,770	11,164	11,164		–	
– Investment reserve		34,677		19,155	15,522		15,522	–	
– Security deposits		11,341	5,015	5,341	11,015	2,515	8,500	–	
– Parking meters		4,879	1,651	4,724	1,806	1,806		–	
– Parking station contribution		1,109	445	266	1,288	145	1,143	–	
– Green Square – Multi Purpose Civic Centre		22,420	–	–	22,420		22,420	–	
– Works program carried forward		3,279		3,279	–			–	
Total internal restrictions		108,488	27,113	45,019	90,582	25,589	47,585	17,408	

Internal restrictions arise pursuant to resolutions of Council to set aside reserves of cash resources either relating to liabilities recognised in these reports or to fund future expenditure for the stated purpose. Such reserves are not permitted to exceed the amounts of cash assets and cash investments not otherwise restricted.

Note 7 – Receivables

	2005 \$'000		2004 \$'000	
	Current	Non-current	Current	Non-current
Rates and annual charges	8,662	190	7,374	1,172
Extra charges	908	63	1,643	407
Rental debtors	907		1,034	
User charges and fees	3,378		6,686	
Accrued revenues	9,565		6,615	
Australian Taxation Office (net receivable)	1,419		1,998	
Other				
Total	24,839	253	25,350	1,579
Less: Provision for doubtful debts				
Rates and annual charges	308		1,527	914
Trade waste	12		160	
Rental debtors	182		531	
Returned receipts	6		6	
Extra charges	198			407
User charges and fees			408	
Other	803		344	
	23,330	253	22,374	258

Rates, annual charges, interest and extra charges

Overdue rates and annual charges (being amounts not paid on or before the due date determined in accordance with the *Local Government Act*) are secured over the relevant land and are subject to simple interest at a rate of 9% (2004: 9%). Although Council is not materially exposed to any individual ratepayer, credit risk exposure is concentrated within the Council boundaries in the State of New South Wales.

Other receivables

Amounts due (other than user charges which are secured over the relevant land) are unsecured and do not bear interest. Although Council is not materially exposed to any individual debtor, credit risk exposure is concentrated within the Council's boundaries in the State of New South Wales.

	2005 \$'000		2004 \$'000	
	Current	Non-current	Current	Non-current
Restricted Receivables				
Domestic Waste Annual Charges	1,077	50	727	
Domestic Waste Extra Charges	95	13		
Total Restrictions	1,172	63	727	–
Unrestricted Receivables	22,158	190	21,647	258
Total Receivables	23,330	253	22,374	258

Rates and annual charges

Rates and Annual Charges are secured by underlying properties. Interest is charged on overdue rates at 9.0% (2004: 9%). Rates are due for payment on 31 August, 30 November, 28 February and 31 May.

Overdue rates are those not paid within 1 day of the due date. The amount of overdue debts upon which interest is charged is \$8.852M (2004: \$8.546 million).

Where the collection of the debt is doubtful and/or the assessed value of the property is less than the amount outstanding, a provision for doubtful debt is recognised for the shortfall. A provision for doubtful debts in respect of the class of debtor has already been provided in an amount of \$0.308M (2004: \$2.441 million).

Accrued revenues

Revenue recognised for works and/or services undertaken during the financial year where actual payment has not been received, and an invoice has not been issued (includes parking fines).

GST receivable

Debtors arising from GST paid up to 30 June 2005 on which an input tax credit is collectable from the Australian Taxation Office.

Rental debtors and user charges/fees

Rental Debtors and User Charges/Fees are unsecured.

A provision for doubtful debts in respect of this class of debtor has already been provided in an amount of \$0.204 million.

Other debtors

Other Debtors are unsecured. A provision for doubtful debts of \$0.793 million has been provided for this class of asset.

Notes to and forming part of the Financial Statements
for the year ending 30 June 2005

Note 8 – Inventories and other assets

	2005 \$'000		2004 \$'000	
	Current	Non-current	Current	Non-current
Stores and materials	184	492	78	287
Total inventories	184	492	78	287
Other assets				
Prepayments	3,378		2,713	
Total other assets	3,378	–	2,713	–

Note 9 – Property, plant and equipment

	2004 \$'000		Carrying amount movements during year \$'000						2005 \$'000		
	At cost	Accumulated depreciation	Carrying amount	Asset purchases	Reclass'n at cost	Reclass'n assets depreciation	Asset disposals	Depreciation	At cost	Accumulated depreciation	Carrying amount
Plant and equipment	45,908	31,541	14,367	12,673	7,939	(6,521)	(1,526)	(5,399)	58,358	36,825	21,533
Office equipment	18,667	14,667	4,000	2,211	(1,715)	1,708	(20)	(2,444)	15,628	11,888	3,740
Furniture and fittings	59,018	20,833	38,185	4,530	15,269	(1,671)	(315)	(5,382)	77,904	27,288	50,616
Leased plant and equipment	–	–	–	–	–	–	–	–	–	–	–
Land											
– Council owned (freehold)	–	–	–	–	–	–	–	–	–	–	–
– Council controlled	–	–	–	–	–	–	–	–	–	–	–
– non-depreciable land improvements	–	–	–	–	–	–	–	–	–	–	–
– Community **	1,640,683	1,870	1,638,813	15,615	(69,829)	1,870	4,736	–	1,591,205	–	1,591,205
– Operational	178,206	–	178,206	–	66,683	–	2,309	–	247,198	–	247,198
– Land under roads	–	–	–	–	–	–	–	–	–	–	–
Land Improvements – depreciable	37,681	4,288	33,393	824	88,826	(14,636)	–	(4,278)	127,331	23,202	104,129
Buildings	562,992	103,358	459,634	55,041	3	126	725	(8,703)	618,489	111,663	506,826
Other structures	74,669	8,303	66,366	–	(74,669)	8,303	–	–	–	–	–
Other structures – trees	64,361	5,294	59,067	1,309	–	–	–	–	65,670	5,294	60,376
Capital work in progress	49,471	–	49,471	(23,488)	–	–	–	–	25,983	–	25,983
Infrastructure											
– Roads, bridges, footpaths	773,692	267,566	506,126	24,172	(35,465)	12,090	–	(12,087)	762,399	267,563	494,836
– Bulk earthworks – non-depreciable	–	–	–	–	–	–	–	–	–	–	–
– Stormwater drainage	50,719	24,820	25,899	154	–	–	–	(509)	50,873	25,329	25,544
– Water supply network	–	–	–	–	–	–	–	–	–	–	–
– Sewerage network	–	–	–	–	–	–	–	–	–	–	–

**Notes to and forming part of the Financial Statements
for the year ending 30 June 2005**

Note 9 – Property, plant and equipment (continued)

	2004 \$'000		Carrying amount movements during year \$'000						2005 \$'000		
	At cost	Accumulated depreciation	Carrying amount	Asset purchases	Reclass'n at cost	Reclass'n assets depreciation	Asset disposals	Depreciation	At cost	Accumulated depreciation	Carrying amount
Other assets											
– Heritage collections	–	–	–	–	–	–	–	–	–	–	–
– Open museum	5,281	1,855	3,426	–	3,157	(1,288)	–	(84)	8,438	3,227	5,211
– Town Hall collections	4,247	626	3,621	273	13	(9)	160	–	4,693	635	4,058
– Library books	1,775	754	1,021	1,245	(199)	18	–	(158)	2,821	894	1,927
– Other	13	10	3	–	(13)	10	–	–	–	–	–
Totals	3,567,383	485,785	3,081,598	94,559	–	–	6,069	(39,044)	3,656,990	513,808	3,143,182

** The Land – Community category of assets includes a number of Crown Reserve Trusts. The State Government are in the process of reviewing whether they control these Trusts by virtue of their capacity to revoke the City's appointment as the Reserve Trust Manager. The City is of the view that considering the City's financial rights and responsibilities as Reserve Trust Manager, and the fact that revocation is extremely unlikely given the history of the Trusts, it should continue to include these assets within its accounts. This matter will be subject to further review and investigation in 2005/06 by key stakeholders including the State Government and other local councils.

Restricted property, plant and equipment

	2005 \$'000			2005 \$'000				
	At cost	At valuation	Accumulated depreciation	Carrying amount	At cost	At valuation	Accumulated depreciation	Carrying amount
Domestic waste management								
Plant and equipment	2,302	–	1,549	754	3,505	–	2,710	795
Total domestic waste	2,302	–	1,549	754	3,505	–	2,710	795
Total restrictions	2,302	–	1,549	754	3,505	–	2,710	795

Note 10 – Liabilities

	2005 \$'000		2004 \$'000	
	Current	Non-current	Current	Non-current
Payables				
Goods and services	(45)		5,235	
Payments received in advance	5,683		4,939	
Accrued expenses	31,377		20,123	
Mode Group (Westpac)	14		13	
Employee related payables	1,292		548	
Property (land and buildings) purchases			3,539	
Deposits, retentions and bonds	12,639		8,848	3,445
Other	3,166		637	
Total payables	54,126	–	43,882	3,445
Provisions				
Annual leave	7,717		7,074	390
Sick leave	1,034	9,070	2,312	9,202
Long service leave	3,569	15,966	4,323	16,021
Gratuities	194	1,542	589	3,065
Worker's compensation	1,701	11,379	1,701	8,928
Public Liability Insurance provision	224	230	224	445
Public holidays	429			471
Total provisions	14,868	38,187	16,694	38,051
Aggregate liability arising from employee benefits				
	16,338	26,578	16,741	28,678

Note 11 – Reconciliation to cash flow statement

(a) Reconciliation of cash

Cash assets comprise highly liquid investments with short periods to maturity subject to insignificant risk of changes of value. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2005 \$'000	2004 \$'000
Total cash assets (Note 6)	342,109	259,907
Less: Bank overdraft (Note 10)	–	–
Balances per Statement of Cash Flows	342,109	259,907
(b) Reconciliation of change in net assets to cash from operating activities		
Change in net assets resulting from operations	109,605	88,809
Add: Depreciation and amortisation	39,067	41,507
Increase in provision for doubtful debts	–	–
Decrease in receivables	1,837	4,101
Decrease in other assets	–	798
Increase in accrued expenses payable	11,254	2,752
Increase in other payables	3,274	–
Loss on Council restructure	–	3,887
	165,037	141,854
Less: Decrease in provision for doubtful debts	2,788	71
Decrease in employee benefits	1,475	2,397
Decrease in other provisions	215	910
Increase in inventories	311	126
Increase in other assets	665	–
Decrease in trade creditors	4,536	2,227
Decrease in other payables	–	1,232
Gain on disposal and recognition of assets	8,710	883
Net cash provided by (or used in) operations	146,337	134,008

**Notes to and forming part of the Financial Statements
for the year ending 30 June 2005**

Note 11 – Reconciliation to cash flow statement (continued)

	2005 \$'000	2004 \$'000
(c) Non-cash financing and investing activities	–	–
(d) Financing arrangements		
Unrestricted access was available at balance date to the following lines of credit:		
Bank overdrafts	2,000	3,500
Total facilities	2,000	3,500

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. Interest rates on overdrafts are variable while the rates for loans are fixed for the period of the loan. The facility was not taken up during the current year.

Note 12 – Commitments for expenditure

	2005 \$'000	2004 \$'000
(a) Capital commitments		
Land	8,997	–
Buildings	–	571
Street furniture	22	423
Infrastructure	58,818	55,386
Plant and equipment	–	1,733
Total capital commitments	67,837	58,113
These expenditures are payable:		
Not later than one year	64,007	50,413
Later than one year and not later than 5 years	3,830	7,700
	67,837	58,113

Note 12 – Commitments for expenditure (continued)

(b) Other expenditure commitments

Other expenditure committed for (excluding inventories) at the reporting date but not recognised in the financial statements as liabilities:

	2005 \$'000	2004 \$'000
Audit Services	1	
Community services and facilities studies/investigations	–	35
Planning studies/investigations	–	317
Recycling services	4,546	325
Stormwater investigations	–	26
Parking meter maintenance	8,868	3,726
Street trees	1,324	1,553
Street furniture	3,073	5,707
Park maintenance	15,261	12,088
Domestic waste	17,262	6,595
Parking facilities	5,973	3,691
Outreach	1,718	1,741
Property	7,392	6,271
Cultural events	3,694	3,276
Other	160	226
Total other expenditure commitments	69,272	45,577
These expenditures are payable:		
Not later than one year	22,470	26,295
Later than one year and not later than 5 years	44,912	9,417
Later than 5 years	1,890	9,865
	69,272	45,577

(c) Finance lease commitments

Commitments under finance leases at the reporting date are as follows:

	–	–
--	---	---

Note 12 – Commitments for expenditure (continued)

(d) Operating lease commitments (non-cancellable)

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

	2005 \$'000	2004 \$'000
Future minimum lease payments		
Not later than one year	1,189	2,621
Later than one year and not later than 5 years	3,009	7,621
Later than 5 years	28,948	32,164
Total operating lease commitments	33,146	42,406

Included within the operating lease commitments above are input tax credits of \$3.199 million which are anticipated to be recovered from the Australian Taxation Office.

The operating lease commitments arise as a result of Council's commitment under a non-cancellable operating lease, being in relation to Goulburn Street Parking Station. Council has a 99 year lease arrangement to rent the airspace that the parking station exists in, from the State Rail Authority of NSW who control that asset. The commitment recognises the 56 years remaining on this lease, which is estimated at \$20.967 million.

The lease commitments also include duct rental payable to Energy Australia in respect of Smartpoles at \$330,000 per year for 30 years indexed at an assumed CPI of 3 per cent per annum. The smartpoles were purchased during the 2002/03 financial year. The agreement to 2032 results in a total commitment of \$15 million.

**Notes to and forming part of the Financial Statements
for the year ending 30 June 2005**

Note 13 – Statement of performance measurement

	Amounts	2005 Indicators	2004	2003	2002
Current ratio					
Current assets	\$369,001	5.35:1	5.15:1	3.26:1	2.58:1
Current liabilities	\$68,994				
Unrestricted current ratio					
Unrestricted current assets*	\$330,059	4.78:1	4.56:1	2.78:1	2.22:1
Current liabilities not relating to restricted assets *as defined in the code	\$68,994				
Debt service ratio					
Net debt service cost	\$0	0.00%	0.00%	0.00%	0.00%
Operating revenue *as defined in the code	\$349,216				
Rate and annual charges coverage ratio					
Rates and annual charges revenues	\$192,025	52.18%	52.13%	52.44%	52.61%
Total revenues	\$368,024				
Rates and annual charges outstanding percentage					
Rates and annual charges outstanding	\$9,317	4.65%*	4.18%	2.78%	2.39%
Rates and annual charges collectible	\$200,394				

* The ratios for 2004/05 have been distorted by a late supplementary levy of \$2.6 million which was due but not payable by ratepayers as at 30 June 2005. Discounting this levy for 2004/05 produces a ratio of 3.30 per cent.

Note 14 – Conditions over grants and contributions

	2005 \$'000		2004 \$'000	
	Grants	Contribution	Grants	Contribution
Unexpended at the close of the previous reporting period	565	26,170	672	25,670
Less: Expended during the current period from revenues recognised in previous reporting periods				
– Section 94/61 Developer Contributions		10,425		
– Other	6,237		672	20,478
Subtotal	6,237	10,425	672	20,478
Plus: Amounts recognised as revenues in this reporting period but not yet expended in accordance with the conditions				
– Section 94/61 Developer Contributions		12,258		
– Other	5,738		565	20,978
Subtotal	5,738	12,258	565	20,978
Unexpended at the close of this reporting period and held as restricted assets	66	28,003	565	26,170
Net increase (decrease) in restricted assets in the current reporting period	(499)	1,833	(107)	500

**Notes to and forming part of the Financial Statements
for the year ending 30 June 2005**

Note 15 – Financial instruments

(a) Interest rate risk exposures

	Floating Interest Rate \$'000	Fixed interest maturing in:			Non- interest bearing \$'000	Total \$'000
		< 1 year \$'000	> 1 year < 5 years \$'000	> 5 years \$'000		
2005						
Financial assets						
Cash assets	320,703	8,500			12,906	342,109
Receivables						
– Rates and annual charges		9,064	253			9,317
– User charges and fees					3,378	3,378
– Other					1,323	1,323
Total	320,703	17,564	253	–	17,607	356,127
<i>Weighted average interest rate</i>	5.52%					
Financial liabilities						
Payables						
– Goods and services					(45)	(45)
– Payments in advance					5,683	5,683
– Deposits, retentions, bonds					12,639	12,639
– Mode Group (Westpac)					14	14
– Employee related payables					1,292	1,292
– Other					3,166	3,166
Total	–	–	–	–	22,749	22,749
<i>Weighted average interest rate</i>	5.52%					

Note 15 – Financial instruments (continued)

(a) Interest rate risk exposures (continued)

	Floating Interest Rate \$'000	Fixed interest maturing in: < 1 year \$'000	> 1 year < 5 years \$'000	> 5 years \$'000	Non- interest bearing \$'000	Total \$'000
2004						
Financial assets						
Cash assets	7,090	10,000			37	17,127
Investment securities	242,780	27,000	4,000		–	273,780
Receivables						
– Rates and annual charges		5,121	258		1,674	7,053
– User charges and fees					6,276	6,276
– South Sydney Council settlement monies					13,250	13,250
– Rental debtors					1,034	1,034
– ATO (net receivable)					1,998	1,998
– Other					(344)	(344)
Total	249,870	42,121	4,258	–	23,925	320,174
<i>Weighted average interest rate</i>	5.17%					
Financial liabilities						
Payables						
– Goods and services					5,235	5,235
– Payments in advance					4,939	4,939
– Deposits, retentions, bonds	3,558		3,445		5,290	12,293
– Mode Group (Westpac)					13	13
– Employee related payables					548	548
– Property (land and buildings) purchases					3,539	3,539
– City of Sydney – settlement					13,251	13,251
– Other					637	637
Total	3,558	–	3,445	–	33,452	40,455
<i>Weighted average interest rate</i>	5.17%					

**Notes to and forming part of the Financial Statements
for the year ending 30 June 2005**

Note 15 – Financial instruments (continued)

Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties fail to perform as contracted. The maximum credit risk on financial assets of the Council is the carrying amount, net of any provision for doubtful debts. Except as detailed in Note 7 in relation to individual classes of financial assets, exposure is concentrated within the Council's boundaries within the State of New South Wales, and there is no material exposure to any individual debtor.

b) Reconciliation of financial assets and liabilities.

	2005 \$'000	2004 \$'000
Net financial assets from previous page:		
Financial assets	356,127	320,174
Financial liabilities	(22,749)	(40,455)
	333,378	279,719
Non-financial assets and liabilities:		
Accrued revenues	9,565	6,615
Inventories	676	365
Property, plant and equipment	3,143,182	3,081,598
Other asset	3,378	2,713
Accrued expenses	(31,377)	(20,123)
Provisions	(53,055)	(54,745)
	3,072,369	3,016,423
Net assets per Statement of Financial Position	3,405,747	3,296,142

c) Net fair value

All carrying values approximate fair value for all recognised financial instruments. With the exception of investments, there is no recognised market for the financial assets of the Council.

Note 16 – Significant variations from original budget

Depreciation and amortisation

The budget was prepared on the basis of the two disparate capitalisation and depreciation policies of the former City of Sydney and South Sydney City councils, and provided for additional depreciation expenses on the basis of the planned capital program for the year. During the year, an exercise was undertaken to align the capitalisation and depreciation policies for the new City, based upon a revised estimate of the useful lives of asset classes, which has resulted in a significant reduction in annual depreciation expense (\$7.9 million). Deferred capital works have also contributed to this variance.

Other expenses

The favourable budget variance of \$14.7 million is attributable to a range of items in this category, however the major contributors are:

- operational contingencies not required during the year (\$6.0 million)
- insurance savings reflecting favourable settlement of public liability claims and improved motor vehicle premiums (\$2.0 million)
- reduction in bad debt provision (\$0.6 million)
- savings in consultancies across the Council (\$0.9 million)
- unbudgeted expenditure recoveries (\$1.1 million)
- savings in advertising expenditure (\$0.2 million)
- savings in printing and stationery (\$0.6 million).

Interest revenue

The budget for interest was set in light of the budgeted capital expenditure, and delays in the capital program have lead to larger cash balances and therefore increased revenue returns (\$8.4 million favourable variance).

Grants and contributions – operating

The unfavourable variance (\$2.3 million) reflects a reduction in Council's financial assistance grant following the amalgamation (\$0.7 million) and the fact that Council now charges a property owner for rates where it used to receive a similar contribution in lieu (\$0.6 million).

Other revenues

The major contributors to this favourable variance are improved commercial property rentals (\$3.3 million) and enforcement revenue related to an under-accrual for uncollected fines for the 2003/04 year (\$2.0 million).

Gains on disposal and recognition of assets

The majority of this result (\$7.9 million) reflects the recognition of assets located from a stocktake of the City's fixed assets as at 30 June 2005. Parcels of land owned or controlled by Council have been identified and brought to account.

Grants and contributions – capital

The unfavourable variance of \$9. million reflects the fact that Section 94 capital contributions have been less than expected due to lower than anticipated development activity during the year.

**Notes to and forming part of the Financial Statements
for the year ending 30 June 2005**

Note 17 – Statement of contribution plans

Summary of contributions

Purpose	Opening balance	Contributions received during year		Interest earned during year	Expended during year	Expended in advance	Held as restricted asset	Works provided to date
	\$'000	Cash \$'000	Non-cash \$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Drainage								3,917
Roads	5,325	245		334	497		5,407	3,975
Traffic facilities	2,110	14		129			2,253	1,043
Parking	12						12	12
Open space	6,407	2,949		364	3,581		6,139	41,459
Community facilities	3,878	760		260	50		4,848	11,770
Other	7,541	523		416	82		8,398	2,801
Subtotal Section 94 under plans	25,273	4,491		1,503	4,210		27,057	64,977
Section 94 not under plans	897			49			946	6,137
Section 61 contributions		6,215			6,215			187,058
Total contributions	26,170	10,706		1,552	10,425		28,003	258,172

Note: The above summary of contribution plans represents the total of Council's individual contribution plans. Individual plan details are shown below.

Contribution plan – Ultimo/Pymont

Drainage	3,917
Open space	3,166
Community facilities	10,762
Other	1,683
Total	19,528

The City of Sydney has a Facilities and Works Agreement with the Sydney Harbour Foreshore Authority (SHFA) for the Ultimo/Pymont contribution plan. Under this agreement all Section 94 contributions received by the City are forwarded to the SHFA which is responsible for the provision of works. As at the date of this report SHFA had not advised Council of works to date to 30 June 2005.

Note 17 – Statement of contribution plans (continued)

Purpose	Opening balance \$'000	Contributions received during year		Interest earned during year \$'000	Expended during year \$'000	Expended in advance \$'000	Held as restricted asset \$'000	Works provided to date \$'000
		Cash \$'000	Non-cash \$'000					
Contribution plan – Walsh Bay								
Traffic facilities								478
Parking	12						12	12
Community facilities								473
Total	12						12	963
Contribution plan – Plan 1 (ex South Sydney City Council)								
Traffic facilities	636			35			671	
Open space	155			9			164	
Community facilities	240			13			253	
Other	1,761			97			1,858	
Total	2,792			154			2,946	
Contribution plan – Open Space – new plan (ex Leichhardt Municipal Council)								
Open space	5,918	727		341	838		6,148	838
Total	5,918	727		341	838		6,148	838
Contribution plan – Open Space – old plan (ex Leichhardt Municipal Council)								
Open space	174						174	
Total	174						174	
Contribution plan – Community Facilities (ex Leichhardt Municipal Council)								
Community facilities	677	132		61			870	
Total	677	132		61			870	
Contribution plan – LATM (ex Leichhardt Municipal Council)								
Open Space	10	12		5			27	
Total	10	12		5			27	

**Notes to and forming part of the Financial Statements
for the year ending 30 June 2005**

Purpose	Opening balance	Contributions received during year		Interest earned during year	Expended during Year	Expended in advance	Held as restricted asset	Works provided to date
	\$'000	Cash \$'000	Non-cash \$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Contribution plan – Light rail (ex Leichhardt Municipal Council)								
Traffic facilities		2		1			3	
Total		2		1			3	
Contribution plan – Bicycle works (ex Leichhardt Municipal Council)								
Traffic facilities	2	1		1			4	
Total	2	1		1			4	
Contribution plan – SSCC contribution plan 1								
Roads	5,325	245		334	497		5,407	3,975
Traffic facilities	1,472	11		92			1,575	565
Open space	150	2,210		9	2,743		(374)	37,455
Community facilities	2,961	628		186	50		3,725	535
Other	(313)	163		(20)	82		(252)	890
Total	9,595	3,257		601	3,372		10,081	43,420
Contribution plan – SSCC contribution plan 2								
Other	6,093	360		339			6,792	228
Total	6,093	360		339			6,792	228
Contributions not under plans (ex SSCC)								
Roads	13			1			14	
Parking	129			7			136	
Other	407			22			429	
Total	549			30			579	
SSCC contributions not under plan								
Roads	31			2			33	472
Parking	317			17			334	1,117
Open space								4,548
Total	348			19			367	6,137

Note 18 – Contingencies and assets and liabilities not recognised in the Statement of Financial Position

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

Contingent Liabilities

Self insurance – Worker’s Compensation

Council has decided, on the basis of proper risk management practices, to carry its own insurance in regard to worker’s compensation. A provision for self insurance has been made to recognise outstanding claims, the amount of which is detailed in Note 10.

A draft actuarial report commissioned by Council estimated Council’s liability for outstanding workers compensation claims as \$13.08 million as at 30 June 2005. These claims have not been determined by the Workers Compensation Court.

As a self-insurer, Council is required to lodge a bank guarantee with the Workcover Authority. At 30 June 2005, bank guarantees of \$12.62 million was held by the Workcover Authority, and the Authority is currently reviewing whether any additional assurance is required.

All other insurance risks, including worker’s compensation claims above \$750,000, are covered by external companies.

Council is not aware of any other contingent asset or liability which would be considered relevant to the users of financial reports in making and evaluating decisions about the allocation of scarce resources.

Note 20 – Correction of property, plant and equipment errors – prior years

This is part of a note provided to users of the former South Sydney City Council Annual Accounts and related to the 2003/04 financial year.

During the year, a comprehensive review of Council’s fixed assets was undertaken.

A net gain of \$3.492 million was brought to account.

Note 21 – Boundary change – financial impact

This is part of the note provided to users of the former South Sydney City Council Annual Accounts and related to the 2003/04 financial year.

As outlined in Council’s 2002/03 Financial Statements, part of the South Sydney LGA was transferred to the City of Sydney, effective from 8 May 2003, bringing to account an additional loss on boundary change of \$3.887 million.

This amount is considered outside the normal scope of ordinary activities.

**Notes to and forming part of the Financial Statements
for the year ending 30 June 2005**

Note 22 – Impacts of International Financial Reporting Standards

The adoption of Australian equivalents to International Financial Reporting Standards from 1 July 2005 is expected to affect the amounts disclosed in the Council's Statement of Financial Position at 30 June 2005 as shown below. Items (including reclassifications) not affecting the net amounts reported in these Statements are not disclosed in this Note.

	AASB 30/6/2005 \$000s	AIFRS 1/7/2005 \$000s
Investment property (AASB 140)		
Council has identified certain properties as investment properties and, pursuant to AASB 140.30 has elected to adopt the fair value model.		
These assets are currently included in property, plant and equipment and are recorded at cost.		
Property, plant and equipment (at cost less accumulated depreciation)	52,951	
Investment property (at fair value)		160,800
Financial instruments (AASB 132 and 139)		
Pursuant to AASB 139.45, Council has categorised certain investments as fair value through profit and loss or available-for-sale investments. Some of these amounts have a quoted market price in an active market and are measured at fair value; the remaining amounts are measured at cost.		
All are currently measured at fair value or the lower of cost and net realisable value.		
Investment securities (at fair value)	342,109	
Available-for-sale investments (at fair value)		342,109
Employee benefits provisions (AASB 117)		
Liabilities for employee benefits (other than long service leave) payable more than 12 months beyond reporting date, are presently measured at the present value of the future cash outflows.		
Provisions for employee benefits (at present value)	39,092	
Provisions for employee benefits (at present value)		39,092
Provision for future reinstatement (AASB 137)		
Council has not yet identified the degree or value of remediation required where it has an obligation to reinstate an asset to a specified condition on cessation of use. Future obligations will be measured at the present value of estimated future cash outflows.		
Total equity	3,405,747	3,513,596
Net difference in equity at 30 June 2005		107,849

Note 22 – Impacts of International Financial Reporting Standards (continued)

	AASB 30/6/2005 \$000s	AIFRS 1/7/2005 \$000s
Investment property (AASB 140)		
Depreciation expense recognised in Statement of Financial Performance	844	NIL
– net (increase) decrease in fair value recognised in income statement	NIL	(12,000)
Employee benefits provisions (AASB 117)		
Net increase (decrease) in expense recognised		
Defined benefit superannuation funds (AASB 119)		
Council is the sponsor of a defined benefit superannuation fund. Under existing Australian GAAP, a liability or asset in respect of defined benefit superannuation does not need to be recognised in the provision for employee benefits. Under AASB 119 Employee Benefits, a liability or asset in respect of defined benefit superannuation is recognised and measured as the difference between the present value of employees' accrued benefits at the reporting date and the net market value of the superannuation fund's assets at that date.		
As at 30 June 2005, Council had not received a response from the defined benefits superannuation fund in relation to the actuarial assessment of the funds assets and liabilities. Council has continued to disclose its requirements under Section 6.10 of AASB 1028.		
Provision for future reinstatement (AASB 137)		
Unwinding of present value discount (borrowing cost)	NIL	
Additional depreciation	NIL	
Excess reinstatement costs written off	NIL	
Net result for year surplus/loss	(109,605)	(122,449)
Adjustment to opening equity increase/decrease		(95,005)
Net difference in equity at 30 June 2005		107,849



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

Council of the City of Sydney

To the Lord Mayor and Councillors

Audit Opinion

In my opinion, for the year ended 30 June 2005:

- (a) The Council's accounting records have been kept in accordance with Division 2, Part 3, Chapter 13 of the *Local Government Act 1993*.
- (b) The general purpose financial report of the Council of the City of Sydney -
 - (i) has been prepared in accordance with the requirements of the aforementioned Division
 - (ii) is consistent with the Council's accounting records
 - (iii) presents fairly in accordance with applicable Accounting Standards and other mandatory professional requirements the Council's financial position as at 30 June 2005 and the results of its operations and cash flows for the year ended on that date.
- (c) All information relevant to the conduct of the audit has been obtained.
- (d) There are no material deficiencies in the accounting records or financial report that have come to light in the course of the audit.

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

Inherent uncertainty regarding control and recognition of Crown reserves

Without qualification to the opinion expressed above, attention is drawn to the following matter. As disclosed in Note 9 to the general purpose financial report, there is uncertainty as to whether the Council or the NSW State Government controls Crown reserves. I have been unable to carry out audit procedures to quantify the value of the reserves that are currently recognised in the Council's general purpose financial report. Until the NSW State Government and key stakeholders, including the Department of Local Government, the Department of Lands and local councils, review the legislation and investigate the available records for each Crown reserve, there is uncertainty regarding the appropriate accounting treatment.

The Lord Mayor and Councillors' Role

The general purpose financial report is the responsibility of the Lord Mayor and Councillors. It consists of the statement of financial performance, statement of financial position, statement of changes in equity and statement of cash flows and the accompanying notes.

The Auditor's Role and the Audit Scope

As required by the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*, I carried out an independent audit to enable me to express an opinion on the general purpose financial report. My audit provides *reasonable assurance* to the Lord Mayor and Councillors that the general purpose financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Lord Mayor and Councillors in preparing the general purpose financial report, and
- examined a sample of the evidence that supports
 - (i) the amounts and other disclosures in the general purpose financial report, and
 - (ii) compliance with accounting and associated record keeping requirements under the *Local Government Act 1993*

An audit does *not* guarantee that every amount and disclosure in the general purpose financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Lord Mayor and Councillors had not fulfilled their reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Council,
- that the Council has carried out its activities effectively, efficiently and economically,
- about the effectiveness of its internal controls, or
- on the assumptions used in formulating the budget figures disclosed in the general purpose financial report.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements.



R J Sendt
Auditor-General

SYDNEY
31 October 2005



GPO BOX 12
Sydney NSW 2001

THE COUNCIL OF THE CITY OF SYDNEY
REPORT ON THE CONDUCT OF THE AUDIT
FOR THE YEAR ENDED 30 JUNE 2005

In accordance with section 417 of the *Local Government Act 1993*, I report on the conduct of the audit of the Council of the City of Sydney (the Council) for the year ended 30 June 2005.

AUDIT RESULT

The audits of the Council's General Purpose Financial Report and the Special Purpose Financial Report resulted in unqualified audit opinions. The Council's General Purpose Financial Report included an emphasis of matter on the inherent uncertainty regarding control over Crown reserves. The emphasis of matter is not a qualification, but merely draws to the reader's attention the inherent uncertainty that exists in the financial report.

As disclosed in Note 9 to the general-purpose financial report, there is uncertainty as to whether the Council or the NSW State Government controls Crown reserves. I was unable to carry out audit procedures to quantify the value of the reserves that are currently recognised in the Council's general purpose financial report. Until the NSW State Government and key stakeholders, including the Department of Local Government, the Department of Lands and local councils, review the legislation and investigate the available records for each Crown reserve, there is uncertainty regarding the appropriate accounting treatment.

At present, the Council recognises in its Statement of Financial Position the Crown reserves that it manages on behalf of the NSW State Government. These include Hyde Park, Wentworth Park etc and management has informed us that the estimated value of the reserves at 30 June 2005 could be very significant. Management believes that whilst legal ownership remains with the NSW State Government, the Council can exercise sufficient control over the reserves to record them as assets of the Council. The accounting treatment adopted by the Council appears to be consistent with the treatment adopted by the majority of local councils in NSW.

In late 2004, the Audit Office and NSW Treasury agreed that the Crown Entity controls reserves that are managed by Councils and other bodies under sections 92 and 95 of the *Crown Lands Act 1989*. It was deemed that the Minister had control predominantly because of their capacity to appoint or dismiss a reserve trust manager at any time. It was also agreed that the reserve managers, such as local councils, were purely administering reserve trusts on behalf of the Minister. The Audit Office will liaise with the relevant agencies to help commence this extensive project.

CONDUCT OF THE AUDIT

The audit I conducted provides *reasonable assurance* to the Lord Mayor and Councillors that the financial reports are free of *material* misstatement. An audit does *not* guarantee that every amount and disclosure in the financial reports is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. My audit accorded with Australian Auditing and Assurance Standards and statutory requirements.

I examined the risks and the internal controls for the rates, cash and investments, expenditure, payroll and property, plant and equipment. I identified some areas for improvement and these have been discussed with management. Shortly, I will issue a management letter that will contain a detailed explanation of these matters.

Significant Audit Issues and Observations

- We reviewed the Council's current project capitalisation procedures, and we have recommended that the Council develop a policy on the capitalisation of completed projects and appropriate splitting of project costs into separate identifiable assets. This will ensure timely and consistent recording of completed assets. The policy should specify the minimum information the Finance Unit would require from Project Directors/Managers to facilitate complete and accurate recording of the Council's assets in the asset register.
- Management reviewed and amended the depreciation rates for each class of asset (buildings, roads etc.). The rates determined by management appear reasonable and consistent with industry practice. We have recommended that the Finance Unit obtain the results of the regular condition assessments conducted by the Council of its major assets, and review the results on an annual basis to ensure the condition and the remaining life of each major asset equates to the remaining life in the asset register. The register is used to determine annual depreciation expense.
- Management completed a thorough stocktake of most assets in 2004-05. The stocktake identified some assets that were not recorded in the asset register, and conversely identified assets disposed of but still in the asset register. In 2005-06, management should:
 - Continue updating the Council's asset register with the findings from the stocktake
 - Carry out a stocktake on the remaining assets, namely the Town Hall collection and Open Museum, and
 - Develop an annual stocktake policy
- Management have reviewed and assessed the impact of the new Australian equivalents to International Financial Reporting Standards (AIFRS). We will audit the Council's AIFRS opening balances in the coming months. The major impact of AIFRS on the Council's financial report appears to be:
 - reclassifying assets deemed to be investment property as current assets, and recognising subsequent movements in their value through the Profit and Loss Statement
 - recognising in the Balance Sheet the Council's net asset/liability in defined superannuation schemes. The Council currently discloses its net asset by way of note, and
 - recognising future remediation costs as part of the cost of acquiring an asset.

Financial Results

Overall, the Council has again achieved a positive financial result. The Council recorded an operating surplus from ordinary activities of \$109.6 million. This compares favourably against the 2003-04 result of \$92.7 million. The operating surplus was also \$36.9 million higher than budget. The Council is forecasting a net surplus of \$64.8 million for 2005-06, with a capital works program of \$173.8 million.

FINANCIAL INFORMATION	2005 \$m	%	2004 \$m	%
Revenue Items				
Business Rates	141.8	38.6	133.3	38.2
Residential Rates	31.4	8.5	30.0	8.6
Annual Charges	18.8	5.1	17.0	4.9
Parking fines revenue	29.0	7.9	26.9	7.7
Parking meter revenue	16.5	4.5	16.1	4.6
Grants and Contributions	21.9	6.0	31.2	8.9
Building & Development Fees	14.4	3.9	12.3	3.5
Commercial property rents	33.8	9.2	29.7	8.5
Investment Revenues	20.0	5.4	14.5	4.2
Other	40.4	10.9	38.1	10.9
TOTAL REVENUE	368.0	100.0	349.1	100.0
Expense Items				
Employee Costs	106.0	41.0	109.4	42.7
Depreciation	39.0	15.1	41.5	16.2
Other Expenses	60.6	23.5	53.9	21.0
Materials & Contracts	52.8	20.4	51.6	20.1
TOTAL EXPENSES	258.4	100.0	256.4	100.0

Rates contributed 47.1 per cent (46.8 per cent in 2003-04) of the Council's revenue. The increase in total revenue was largely due to an increase in rates revenue and investment income. The deferrals in the capital works program meant the Council had greater cash on hand to invest during the year, thus resulting in higher investment income. Total expenses for 2004-05 were consistent with the prior year.

Statement of Financial Position

	2005 \$m	2004 \$m	\$m Increase (Decrease)	% Increase (Decrease)
Net Assets	3405.7	3296.1	109.6	3.3
Total Current Assets	369.0	312.1	56.9	18.2
Total Non-Current Assets	3143.9	3086.1	57.8	1.9
Total Current Liabilities	69.0	60.6	8.4	13.9
Total Non-Current Liabilities	38.2	41.5	(3.3)	(8.0)

Assets included cash of \$342.1 million (\$259.9 million at 30 June 2004). The unrestricted portion of cash and investments was \$278.8 million (\$194.7 million). The Council will use some of this unrestricted cash to fund the capital works program in 2005-06.

The Council's current ratio, a measure of its liquidity, has remained static over the last two years. At 30 June 2005, the Council's current ratio was 5.35:1 (5.15:1). The City of Sydney's financial position is considered to be sound and stable.

The written down value of property, plant and equipment was \$3.1 billion (\$3.1 billion) and included land valued at \$1.8 billion (\$1.8 billion). The remainder related to buildings, infrastructure and other assets.

Current liabilities of \$69.0 million (\$60.6 million) included provisions, \$14.9 million (\$16.7 million). The City of Sydney had no borrowings.

Performance Indicators

	2005 %	2004 %
Unrestricted Current Ratio	4.8:1	4.6:1
Debt Service Ratio	0	0
Rate & Annual Charges Coverage Ratio	52.2	52.1
Rates & Annual Charges Outstanding Ratio	4.7	4.2

The Council's unrestricted current ratio of 4.78:1 is well above the recommended range of 2:1. The debt service ratio is nil reflecting the fact that Council has no external debt. The rates coverage ratio remained consistent. The rates outstanding ratio increased to 4.7 per cent (4.2 per cent). This was due to a late supplementary levy of \$2.6 million, which was due but not payable by ratepayers as at 30 June 2005. Excluding this supplementary levy, the outstanding ratio at 30 June 2005 is 3.3 per cent.



R J Sendt
Auditor-General

31 October 2005