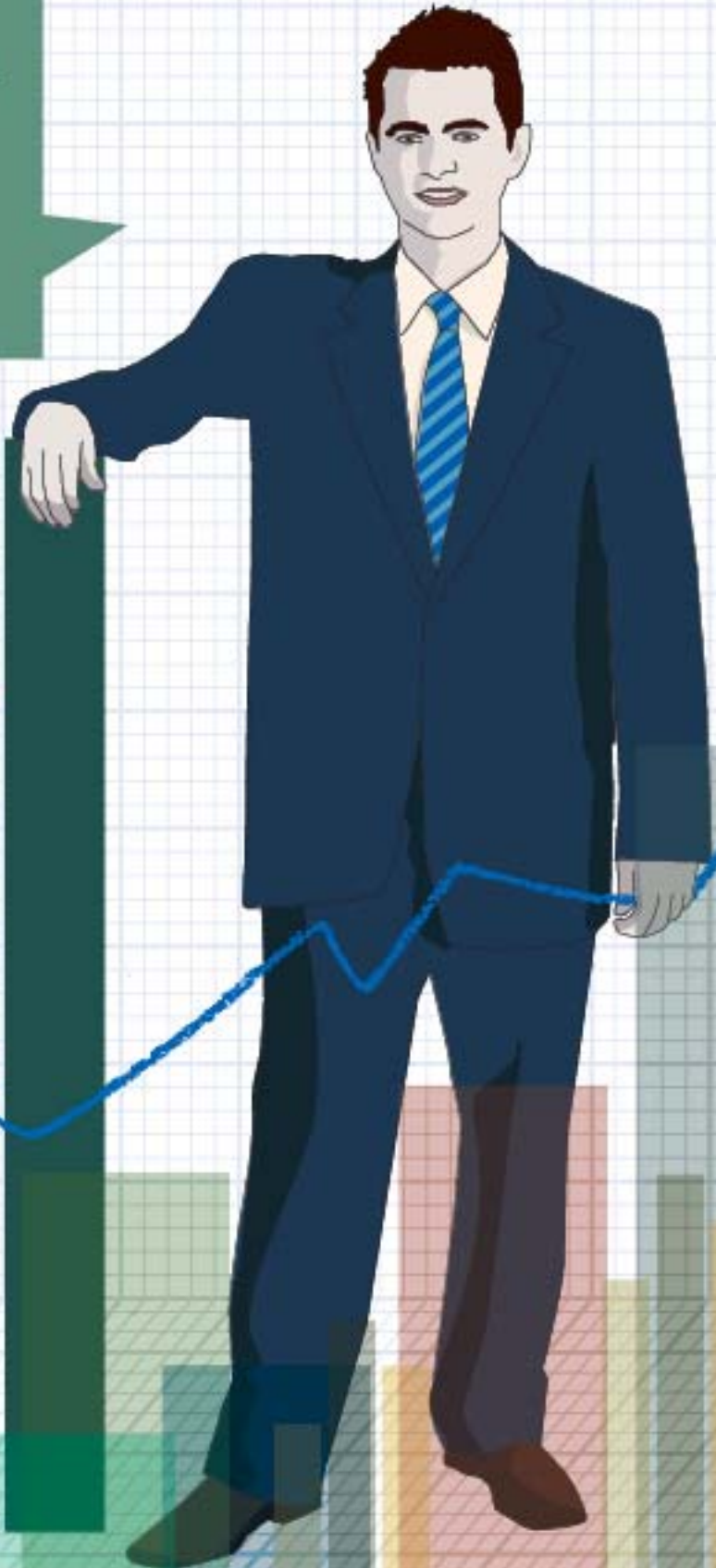


# 2006 FINANCIAL REPORT

We are continuing to make Sydney one of the great cities of the world



city of villages

# City of Sydney

ABN 22 636 550 790

## General Purpose Financial Reports

For the year ended 30 June 2006

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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 attached Annual Financial Statements have been drawn up in accordance with:

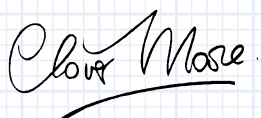
- The *Local Government Act 1993* (as amended) and the Regulations made thereunder;
- The Australian Accounting Standards and professional pronouncements;
- The Local Government Code of Accounting Practice and Financial Reporting; and
- The Local Government Asset Accounting Manual.

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.

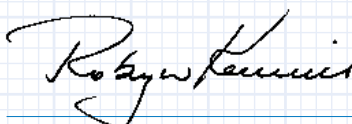
We are not aware of any matter that would render the reports false or misleading in any way.

Signed in accordance with a resolution of Council made on 23 October 2006.



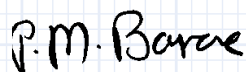
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**Clover Moore**  
Lord Mayor




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**Robyn Kemmis**  
Councillor



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**Monica Barone**  
Chief Executive Officer



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**Bill Carter**  
Finance Manager

## Income Statement for the year ended 30 June 2006

Budget 2006 \$'000		Notes	Actual 2006 \$'000	Actual 2005 \$'000
	<b>INCOME</b>			
	<b>Revenue:</b>			
200,068	Rates and annual charges	3	198,107	192,025
60,614	User charges and fees	3	61,471	59,676
15,830	Investment revenues	3	23,103	19,954
66,545	Other revenues	3	84,069	75,829
9,132	Grants and contributions – operating	3	7,920	7,707
12,800	Grants and contributions – capital	3	15,594	14,176
	<b>Other income:</b>			
–	Profit from disposal of assets	5	4,310	8,710
364,989	<b>Total income from continuing operations</b>		<b>394,574</b>	<b>378,077</b>
	<b>EXPENSES</b>			
114,648	Employee costs	4	110,832	104,923
68,543	Materials and contracts	4	74,083	60,969
–	Borrowing costs	4	147	–
49,000	Depreciation, amortisation and impairment	4	44,139	38,031
67,964	Other expenses	4	57,473	52,404
300,155	<b>Total expenses from continuing operations</b>		<b>286,674</b>	<b>256,327</b>
64,834	<b>NET OPERATING RESULT FOR YEAR</b>		<b>107,900</b>	<b>121,750</b>
	Attributable to:			
–	Minority interests	19	–	–
64,834	City of Sydney		107,900	121,750
64,834			<b>107,900</b>	<b>121,750</b>
52,034	<b>Net operating result before capital grants and contributions</b>		<b>92,306</b>	<b>107,574</b>

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

## Balance Sheet as at 30 June 2006

	Notes	Actual 2006 \$'000	Actual 2005 \$'000
<b>Current assets</b>			
Cash and cash equivalents	6	367,135	342,109
Investments	6	8,669	–
Receivables	7	24,834	23,330
Inventories	8	692	676
Other	8	4,300	3,378
<b>Total current assets</b>		<b>405,630</b>	<b>369,493</b>
<b>Non-current assets</b>			
Receivables	7	239	253
Infrastructure, property, plant and equipment	9	3,109,898	3,057,243
Investment property	14	143,225	125,940
<b>Total non-current assets</b>		<b>3,253,362</b>	<b>3,183,436</b>
<b>Total assets</b>		<b>3,658,992</b>	<b>3,552,929</b>
<b>Current liabilities</b>			
Payables	10	49,799	54,128
Provisions	10	28,572	28,664
<b>Total current liabilities</b>		<b>78,371</b>	<b>82,792</b>
<b>Non-current liabilities</b>			
Provisions	10	23,801	21,341
<b>Total non-current liabilities</b>		<b>23,801</b>	<b>21,341</b>
<b>Total liabilities</b>		<b>102,172</b>	<b>104,133</b>
<b>NET ASSETS</b>		<b>3,556,820</b>	<b>3,448,796</b>
<b>Equity</b>			
Retained earnings	20	2,226,460	2,118,436
Capital reserve	20	1,330,360	1,330,360
<b>TOTAL EQUITY</b>		<b>3,556,820</b>	<b>3,448,796</b>

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

## Statement of Changes in Equity for the year ended 30 June 2006

	2006 \$'000				2005 \$'000			
	Retained earnings	Other reserves	Council equity interest	Total	Retained earnings	Other reserves	Council equity interest	Total
Balance at beginning of the reporting period	2,118,436	1,330,360	3,448,796	3,448,796	1,996,686	1,330,360	3,327,046	3,327,046
Adjustment on adoption of AASB 132 and AASB 139 (Note 21)	124	–	124	124	–	–	–	–
Net movements recognised directly in equity	124	–	124	124	–	–	–	–
Net operating result for the year	107,900	–	107,900	107,900	121,750	–	121,750	121,750
<b>Balance at end of the reporting period</b>	<b>2,226,460</b>	<b>1,330,360</b>	<b>3,556,820</b>	<b>3,556,820</b>	<b>2,118,436</b>	<b>1,330,360</b>	<b>3,448,796</b>	<b>3,448,796</b>

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

## Cash Flow Statement for the year ended 30 June 2006

Budget 2006 \$'000		Notes	Actual 2006 \$'000	Actual 2005 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Receipts</b>				
200,468	Rates and annual charges		202,434	192,912
59,772	User charges and fees		60,796	49,822
15,830	Investments income		23,278	17,865
9,459	Grants and contributions		23,748	22,552
67,015	Other operating receipts		88,218	80,587
<b>Payments</b>				
(114,647)	Employee costs		(111,491)	(106,126)
(58,888)	Materials and contracts		(77,940)	(44,030)
(77,975)	Other operating payments		(81,763)	(67,245)
101,034	<b>Net cash provided by (or used in) operating activities</b>	11	<b>127,279</b>	<b>146,337</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Receipts</b>				
500	Proceeds from sale of infrastructure, property, plant and equipment		3,982	2,590
–	Proceeds from sale of investment securities		3,007	31,000
12,800	Other		–	–
<b>Payments</b>				
(174,500)	Purchase of infrastructure, property, plant and equipment		(93,548)	(94,532)
(9,100)	Purchase of real estate		(4,322)	–
–	Purchase of investment securities		(6,669)	–
(170,300)	<b>Net cash provided by (or used in) investing activities</b>		<b>(97,550)</b>	<b>(60,942)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>Receipts</b>				
1,000	Other		180	346
<b>Payments</b>				
–	S.94 Land dedication		–	(3,539)
1,000	<b>Net cash provided by (or used in) financing activities</b>		<b>180</b>	<b>(3,193)</b>
(68,266)	<b>Net increase (decrease) in cash held</b>		<b>29,909</b>	<b>82,202</b>
342,109	Cash assets at beginning of reporting period	11	342,109	259,907
–	Adjustment to opening cash assets on adoption of AASB 132 and AASB 139		(4,883)	–
273,843	<b>Cash assets at end of reporting period</b>	11	<b>367,135</b>	<b>342,109</b>

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

## Notes to and forming part of the Financial Statements for the year ended 30 June 2006

### Note 1 – Significant accounting policies

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

#### 1. The Local Government reporting entity

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 New South Wales Local Government Act (LGA) 1993 and its Charter is specified in Section 8 of the Act.

A description of the nature of the 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 report ended 30 June 2006 and the assets of Crown reserves and Crown reserve trusts controlled by the Council. Crown reserve trusts are established under the Crown Lands Act 1989. The Council consolidates the Crown reserves and the Crown reserve trusts because of its power to govern the financial and operating policies of the reserves and the trusts. Refer to Note 9 for further details on Crown reserves and Crown reserve trusts. 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 LGA 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 its 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	\$394,574
Total expenditure from ordinary activities	\$286,674
Total net assets (equity) held	\$3,566,820

#### 1.2 The Trust Fund

In accordance with the provisions of Section 411 of the LGA 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.

#### 1.3 Joint Venture

Council did not at any time for the years presented have an interest in any joint venture.

### 2. Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations, the Local Government Act 1993 and Regulations, the Local Government Code of Accounting Practice and Financial Reporting and the Local Government Asset Accounting Manual.

#### 2.1 Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRS ensures that the financial statements and notes of the Council comply with International Financial Reporting Standards (IFRS) except to the extent that the financial statements have adopted AIFRS requirements specific to not-for-profit entities that are inconsistent with IFRS requirements.

#### 2.2 Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first Council financial statements to be prepared in accordance with AIFRS. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of the Council until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Council 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. Council has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 January 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Council's equity and its net income are given in Note 21.

The Council is required to comply with AAS 27 *Financial Reporting by Local Governments*, and where AAS 27 conflicts with AIFRS, the requirements of AAS 27 have been applied. Where AAS 27 makes reference to another Australian accounting standard, the new Australian IFRS equivalent standards will apply. The specific 'not for profit' reporting requirements also apply.

## Notes to and forming part of the Financial Statements for the year ended 30 June 2006

### Note 1 – Significant accounting policies (continued)

#### 2.3 Reporting conventions

These financial statements encompass all business and non-business operations which the City of Sydney controls and have been prepared on the accrual basis of accounting.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss, employee leave entitlements shown at the present value of future cash flows, and investment property shown at fair value.

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Council's accounting policies.

#### 3. Revenue recognition

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

##### 3.1 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. A provision for Doubtful Debts on all other rates has not been established, as unpaid rates represents a charge against the rateable property that will be recovered when the property is next sold.

##### 3.2 Grants, contributions and donations

Grants, contributions and donations (in cash or in kind) are recognised as revenues when the 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 the 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.

The amount of grants and contributions recognised as revenues in a previous reporting period which were obtained in respect of the council's operations for the current reporting period are also disclosed.

#### 3.3 Contributions under Section 94 of the Environmental Planning and Assessment (EPA) Act 1979

The Council has obligations to provide facilities from contributions required from developers under the provisions of s.94 of the EPA Act 1979. 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 the Council are available for public inspection free of cost.

#### 3.4 User charges and fees

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

A provision for doubtful debt is recognised when collection in full is no longer probable.

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

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

#### 3.6 Interest and rents

Interest and rents are recognised as revenue on a proportional basis when the payment is due, the value of the payment is notified, or the payment is received, whichever first occurs.

### 4. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Short-term, highly liquid investments are valued at market value. All revenue and changes in market values are recognised in the income statement.

Council has an approved investment policy complying with Section 625 of the Local Government Act. Investments are placed and managed in accordance with that policy and having particular regard to authorised investments prescribed under the Local Government Investment Order.

### 5. Policy on internal and external restrictions on cash and cash equivalents

Cash and cash equivalents are restricted for prudent financial management purposes as follows:

**Property Reserve** – 20% 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% of income from parking stations is set aside to fund major maintenance and capital improvements.

**Parking Meter Reserve** – 10% of income from parking meters is set aside to fund replacements.

**Plant and Asset Replacement Reserve** – 2.5% of operating income is set aside to fund purchases of Plant and Assets.

**Employee Leave Entitlements** – 10% 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% 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% of grants received not spent during the year are treated as restricted funds.

**Utzon Foundation Reserve** – 100% of the liability for John Utzon Foundation, to celebrate and foster the creativity in the performing arts internationally, is restricted.

**Mode Group Reserve** – 100% of the Mode Bank Account, which is part of Council cash is restricted.

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

## 6. Investments and other financial assets

### 6.1 From 1 July 2004 to 30 June 2005

Council has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. Council has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

### 6.2 Adjustments on transition date: 1 July 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of held-to-maturity investments and loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Fair value is inclusive of transaction costs. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes to carrying amounts are taken to retained earnings or reserves.

### 6.3 From 1 July 2005

Council classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

#### (ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Council provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

Loans and receivables are included in receivables in the balance sheet.

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

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

#### (iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Council commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Council has transferred substantially all the risks and rewards of ownership.

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2006**

**Note 1 – Significant accounting policies (continued)**

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of investments are based on current bid prices. If the market for a financial asset is not active, the Council establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Council assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of investments classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the income statement.

Council has an approved investment policy complying with Section 625 of the Local Government Act. Investments are placed and managed in accordance with that policy and having particular regard to authorised investments prescribed under the Local Government Investment Order.

**7. Receivables**

Receivables are recognised and carried at the original invoice amount, less a provision for any doubtful debts. Receivables are normally due for settlement no more than 30 days from the date of recognition.

Collectibility of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the asset's carrying amount. Bad debts are written off against the provision as incurred.

**8. Inventories**

Council holds inventories for consumption for the purpose of providing works and services. There is no objective of sale for such items. Council 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.

**9. Infrastructure, property, plant and equipment**

**9.1 Valuation of assets**

All infrastructure, property, plant and equipment [except for investment properties – refer Note1(10)] is stated at cost (or deemed cost) less depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

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

Council has elected not to recognise land under roads in accordance with the deferral arrangements available under AASB 1045.

When assets are acquired through contributions, they are valued at fair value at the time of acquisition.

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 the 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

### 9.2 Depreciation of assets

Land, Street Trees and Heritage assets are not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost over their estimated useful lives, as follows:

Bridges	100 years
Bulldings	75 years
Buildings – public conveniences	25 years
Computer equipment	4 years
Depots	100 years
Drainage	100 years
Footpaths	50 years
Furniture and fittings	5–10 years
Kerbs and gutters	100 years
Kerbs and gutters – trachyte	150 years
Library books	10 years
Office equipment	5 years
Open museum	100 years
Other structures	25–50 years
Parking meters	7 years
Parks and assets	25–50 years
Plant and equipment	3–10 years
Roads – lower strata	80 years
Roads – upper strata	25 years
Street furniture	20 years
Swimming pools	30 years
Vehicles and road-making equipment	7 years

Leasehold improvement assets are amortised over the estimated useful life (as stated above) or the lease period, whichever is the lesser.

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

### 9.3 Impairment of assets

Assets that have an indefinite useful life are not subject to depreciation or amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For non-cash generating assets of the Council such as roads, drains, public buildings, etc., value in use is represented by the deprival value of the asset approximated by its written down replacement cost.

### 9.4 Classification of property

Property assets are classified as follows:

- Operational – Property assets classified as operational are owner-occupied and owner-operated properties of Council utilised for conducting Council functions and operations.
- Community – Property assets classified as community are publicly accessible and are clearly identified as kept for use by the general public for community, cultural or recreational purposes.
- Strategic – Property assets classified as strategic are primarily acquired for special and strategic purposes. Where these strategies extend over a number of years, such property assets may be utilised for other purposes, such as earning rental income, until such time as the strategy is capable of being fulfilled. Notwithstanding the utilisation of these assets for other purposes, they remain classified as strategic assets as long as the primary special and strategic purpose for which they were acquired still remains.
- Investment – Property assets classified as investment are primarily held to earn rentals or for capital appreciation or both. Investment properties are disclosed as a separate category in the financial statements.

### 10. Investment properties

Investment property, principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Council. Investment property is carried at fair value, representing open-market value determined annually by external valuers. Changes in fair values are recorded in the income statement as part of other income.

### 11. Non-current assets held for sale

Non-current assets are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The exception to this is plant and motor vehicles which are turned over on a regular basis – these are retained in infrastructure, property, plant and equipment.

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

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

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

## Notes to and forming part of the Financial Statements for the year ended 30 June 2006

### Note 1 – Significant accounting policies (continued)

#### 12. Work in progress

Work in progress is stated at the total costs expended on the capital works projects which are incomplete at balance date.

An impairment loss is recognised to the extent of any costs that may result in the estimated completion cost of any capital works project being in excess of its fair value at completion.

#### 13. Payables

Creditors and other current liabilities are amounts due to external parties for the purchase of goods and services provided to the Council prior to the end of the financial year 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 amounts.

#### 14. Borrowings

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

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

The Council did not at any time for the years presented have any borrowings.

#### 15. Provisions

Provisions for legal claims are recognised when:

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

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

#### 16. Employee benefits

##### 16.1 Salaries, wages and compensated absences

Liabilities for wages and salaries and annual leave expected to be settled within 12 months of the reporting date are recognised, as appropriate, in employee related payables and annual leave provision, in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for leave, long service leave and gratuities are recognised in the provision for employee benefits and are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds, with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

##### 16.2 Superannuation

Council contributes to various defined benefit plans and defined contribution plans on behalf of its employees.

##### Defined benefit plans

A liability or asset in respect of defined benefit superannuation plans would ordinarily be recognised in the balance sheet, and measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

However, when this information is not reliably available, Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans (see below).

##### Defined contribution plans

Contributions to defined contribution plans are recognised as an expense as they become payable.

## 17. Leases

Council has leases in the following categories:

### 17.1 Leases in which Council is lessor

Leases of property where the Council has substantially transferred to the lessee all the risks and rewards of ownership are classified as finance leases. Finance lease receivables are raised at the inception of the leases in respect the present value of the aggregate of the minimum lease payments receivable under the leases and any guaranteed residual values. Each lease payment is allocated between the receivable and interest so as to achieve a constant rate on the receivable balance outstanding. The interest revenue is credited to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period.

In leases classified as finance leases where the terms and conditions relating to lease payments result in either the occurrence of payments or the quantum of the payments or both being determined based upon presently undeterminable future events and occurrences, finance lease receivables are only raised at the time when the lease payments are certain and determinable.

Leases of property where the Council has substantially retained all the risks and rewards of ownership are classified as operating leases. Leased property assets are reflected on the balance sheet as assets and lease income rentals are recognised as income on a straight-line basis over the terms of the leases.

### 17.2 Leases in which Council is lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the terms of the leases.

## 18. Provisions for close down and restoration costs and for environmental clean up costs

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Estimated close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the development or during the operation phase, based on the net present value of estimated future costs. Provisions for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, eg updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals.

Close down and restoration costs are a normal consequence of any service operations, and the majority of close down and restoration expenditure is incurred at the end of the life of the operations. Although the ultimate cost to be incurred is uncertain, Council estimates the respective costs based on feasibility and engineering studies using current restoration standards and techniques.

The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period. The amortisation of the discount is shown as a borrowing cost.

Other movements in the provisions for close down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are capitalised within infrastructure, property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

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

Provision is made for the estimated present value of the costs of environmental clean up obligations outstanding at the balance sheet date. These costs are charged to the income statement and are recognised at the time a Remediation Action Plan (RAP) is produced. Movements in the environmental clean up provisions are presented as an operating cost, except for the unwind of the discount which is shown as a borrowing cost. Remediation procedures generally commence soon after the time the damage, remediation process and estimated remediation costs become known, but may continue for many years depending on the nature of the disturbance and the remediation techniques.

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other locations. The expected timing of expenditure can also change, for example in response to changes in quarry reserves or production rates. As a result there could be significant adjustments to the provision for close down and restoration and environmental clean up, which would affect future financial results.

## 19. Budget information

The Income Statement 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.

## Notes to and forming part of the Financial Statements for the year ended 30 June 2006

### Note 1 – Significant accounting policies (continued)

#### 20. Goods and services 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:

1. 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;
2. 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.

#### 21. 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's owned diverse property portfolio 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. Council's liability for worker's compensation is assessed annually by an actuary. In determining this assessment, the actuary incorporates major assumptions relating to discount rates, average weekly earnings and claims experience based on market data and actual levels of experience.

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

#### 22. 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% 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.

#### 23. Fair value estimation

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

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Council uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Council for similar financial instruments.

#### 24. Allocation between current and non-current

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be settled. The asset or liability is classified as current if it is expected to be settled within the next 12 months, being the Council's operational cycle. In the case of liabilities where Council does not have the unconditional right to defer settlement beyond 12 months, such as vested long service leave, the liability is classified as current even if not expected to be settled within the next 12 months.

#### 25. Comparative amounts

Comparative amounts included in the financial statements relate to the financial year ended 30 June 2005. These figures have been reclassified, where necessary, on a basis consistent with current disclosure for 2005/06.

## 26. Rounding of amounts

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

## 27. New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. Council's assessment of the impact of these new standards and interpretations is set out below.

### (i) UIG 4 Determining whether an asset contains a lease

UIG 4 is applicable to annual periods beginning on or after 1 January 2006. Council has not elected to adopt UIG 4 early. It will apply UIG 4 in its 2007 financial statements and the UIG 4 transition provisions. Council will therefore apply UIG 4 on the basis of facts and circumstances that existed as of 1 July 2006. Implementation of UIG 4 is not expected to change the accounting for any of Council's current arrangements.

### (ii) UIG 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

Council does not have interests in decommissioning, restoration and environmental rehabilitation funds. This interpretation will not affect the Council's financial statements.

### (iii) AASB 2005-9 Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 and AASB 132]

AASB 2005-9 is applicable to annual reporting periods beginning on or after 1 January 2006. The amendments relate to the accounting for financial guarantee contracts. Council has not entered into any financial guarantee contracts and there will be no effect on the Council's financial statements.

### (iv) AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038]

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Council has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in the financial instruments.

### (v) UIG 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

UIG 6 is applicable to annual reporting periods beginning on or after 1 December 2006. Council has not sold any electronic or electrical equipment on the European market and has not incurred any associated liabilities. This interpretation will not affect the Council's financial statements.

### (vi) AASB 2005-6 Amendments to Australian Accounting Standards [AASB 121]

AASB 2005-6 is applicable to annual reporting periods ending on or after 31 December 2006. The amendment relates to monetary items that form part of a reporting entity's net investment in a foreign operation. It removes the requirement that such monetary items had to be denominated either in the functional currency of the reporting entity or the foreign operation. Council does not have any monetary items forming part of a net investment in a foreign operation. The amendment to AASB 121 will therefore have no impact on the financial statements.

### (vii) AASB 119 Revision Employee Benefits

The revised AASB 119 is applicable to annual reporting periods beginning on or after 1 January 2006, although early adoption is permitted for periods beginning on or after 1 January 2006. The main amendment relates to the introduction of two additional options to account for actuarial gains and losses associated with defined benefit plans. In line with the circumstances quoted in Note 10 to these financial statements and the lack of availability of sufficient information relating to major defined benefit schemes, Council has not availed itself of an early adoption of the Standard. Council will continue to review the impacts of the Standard in the course of the next year subject to the availability of information relating to the major defined benefit schemes.

### (viii) AASB 1045 Land Under Roads: Amendments to AAS 27A, AAS 29A and AAS 31A

AASB 1045 altered the expiry date of the land under roads transitional provisions to the end of the first reporting period ending on or after 31 December 2006. Under these transitional provisions, Council has continued to elect a policy of not valuing land under roads. This will continue for the next reporting period. The delays in the implementation period were as a result of awaiting greater international convergence on the issue as part of the Australian Accounting Standards Board's review of AAS 27 (*Financial Reporting by Local Government*), AAS 29 (*Financial Reporting by Government Departments*) and AAS 31 (*Financial Reporting by Governments*).

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2006**

**Note 2 – Functions**

Revenues, expenses and assets have been directly attributed to the following functions and activities.

	Income from continuing operations			Expenses from continuing operations		
	Original budget 2006 \$'000	Actual 2006 \$'000	Actual 2005 \$'000	Original budget 2006 \$'000	Actual 2006 \$'000	Actual 2005 \$'000
<b>Quality urban environment</b>						
Quality assessment processes	23,073	17,191	22,618	11,834	10,306	10,622
The City's harbour	–	–	–	–	–	–
Sustainable development of land	2,638	90	–	1,802	862	1,945
Quality planning	41	27	14	7,258	5,342	4,338
	<b>25,752</b>	<b>17,308</b>	<b>22,632</b>	<b>20,894</b>	<b>16,510</b>	<b>16,905</b>
<b>The City's economy</b>						
Business and retail	3,255	2,660	2,290	4,280	3,302	3,251
Economic development	–	–	–	175	116	–
Tourism and visitors	1,447	1,370	1,133	6,298	6,465	6,004
	<b>4,702</b>	<b>4,030</b>	<b>3,423</b>	<b>10,753</b>	<b>9,883</b>	<b>9,255</b>
<b>Environmental leadership</b>						
Natural resource management	–	154	–	1,030	652	–
	<b>–</b>	<b>154</b>	<b>–</b>	<b>1,030</b>	<b>652</b>	<b>–</b>
<b>Community and social equity</b>						
Community health and well being	891	1,210	887	20,301	32,068	19,085
Community identity	–	–	–	703	891	532
Community participation and partnerships	5,283	5,792	5,190	23,612	23,083	21,276
Community planning and infrastructure	1,280	883	986	1,832	1,410	1,726
Community safety	638	602	834	4,809	5,125	4,414
	<b>8,092</b>	<b>8,487</b>	<b>7,897</b>	<b>51,257</b>	<b>62,577</b>	<b>47,033</b>
<b>Transport and accessibility</b>						
Road safety, congestion and parking	54,733	61,291	54,109	26,809	26,103	23,385
Integrated transport and land use planning	5,106	1,057	5,066	2,318	2,212	971
	<b>59,839</b>	<b>62,348</b>	<b>59,175</b>	<b>29,127</b>	<b>28,315</b>	<b>24,356</b>
<b>Quality public areas and facilities</b>						
Asset creation	–	–	–	–	433	–
Asset maintenance	43,895	61,811	57,440	79,149	64,998	71,023
Asset planning and strategy	40	3,004	381	6,832	13,066	5,079
	<b>43,935</b>	<b>64,815</b>	<b>57,821</b>	<b>85,981</b>	<b>78,497</b>	<b>76,102</b>
<b>Leadership and governance</b>						
Effective and efficient service delivery	–	–	–	240	735	82
Access to information	150	–	234	1,814	2,026	1,678
Leadership	–	1	–	3,585	3,505	3,671
Management and administration*	22,451	39,324	34,870	95,474	83,974	77,245
	<b>22,601</b>	<b>39,325</b>	<b>35,104</b>	<b>101,113</b>	<b>90,240</b>	<b>82,676</b>
Totals – functions	<b>164,921</b>	<b>196,467</b>	<b>186,052</b>	<b>300,155</b>	<b>286,674</b>	<b>256,327</b>
General purpose revenues	<b>200,068</b>	<b>198,107</b>	<b>192,025</b>	–	–	–
<b>Totals</b>	<b>364,989</b>	<b>394,574</b>	<b>378,077</b>	<b>300,155</b>	<b>286,674</b>	<b>256,327</b>

The above functions conform to those used by Council in its Corporate Plan.

\* Included in Management and Administration above is depreciation and impairment expense (\$44,345,000).

Whilst assets are distributed to particular divisions, depreciation is not allocated in that manner

Operating result from continuing operations			Grants included in income		Total assets held (current and non-current)	
Original budget 2006 \$'000	Actual 2006 \$'000	Actual 2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
11,239	6,885	11,996	-	-	93	133
-	-	-	-	-	-	-
836	(772)	(1,945)	90	-	6	1
(7,217)	(5,315)	(4,324)	-	-	479	741
<b>4,858</b>	<b>798</b>	<b>5,727</b>	<b>90</b>	<b>-</b>	<b>578</b>	<b>875</b>
(1,025)	(642)	(961)	-	-	4,064	2,991
(175)	(116)	-	-	-	-	-
(4,851)	(5,095)	(4,871)	-	-	65	111
<b>(6,051)</b>	<b>(5,853)</b>	<b>(5,832)</b>	<b>-</b>	<b>-</b>	<b>4,129</b>	<b>3,102</b>
(1,030)	(498)	-	40	-	-	-
<b>(1,030)</b>	<b>(498)</b>	<b>-</b>	<b>40</b>	<b>-</b>	<b>-</b>	<b>-</b>
(19,410)	(30,858)	(18,198)	-	-	1,972	3,713
(703)	(891)	(532)	-	-	5	6
(18,329)	(17,291)	(16,086)	1,708	1,784	4,692	2,986
(552)	(527)	(740)	-	-	193,708	191,378
(4,171)	(4,523)	(3,580)	549	577	545	118
<b>(43,165)</b>	<b>(54,090)</b>	<b>(39,136)</b>	<b>2,257</b>	<b>2,361</b>	<b>200,922</b>	<b>198,201</b>
27,924	35,188	30,724	-	-	1,146	9,372
2,788	(1,155)	4,095	134	148	1,228	1,481
<b>30,712</b>	<b>34,033</b>	<b>34,819</b>	<b>134</b>	<b>148</b>	<b>2,374</b>	<b>10,853</b>
-	(433)	-	-	-	-	-
(35,254)	(3,187)	(13,583)	3,748	3,228	3,035,724	2,961,162
(6,792)	(10,062)	(4,698)	-	-	825	927
<b>(42,046)</b>	<b>(13,682)</b>	<b>(18,281)</b>	<b>3,748</b>	<b>3,228</b>	<b>3,036,549</b>	<b>2,962,089</b>
(240)	(735)	(82)	60	-	-	-
(1,664)	(2,026)	(1,444)	-	-	-	-
(3,585)	(3,504)	(3,671)	-	-	52	-
(73,023)	(44,650)	(42,375)	3,282	3,121	414,388	377,809
<b>(78,512)</b>	<b>(50,915)</b>	<b>(47,572)</b>	<b>3,342</b>	<b>3,121</b>	<b>414,440</b>	<b>377,809</b>
<b>(135,234)</b>	<b>(90,207)</b>	<b>(70,275)</b>	<b>9,611</b>	<b>8,858</b>	<b>3,658,992</b>	<b>3,552,929</b>
<b>200,068</b>	<b>198,107</b>	<b>192,025</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>64,834</b>	<b>107,900</b>	<b>121,750</b>	<b>9,611</b>	<b>8,858</b>	<b>3,658,992</b>	<b>3,552,929</b>

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2006**

**Note 2 – Functions (continued)**

**Components of functions**

Council's stewardship of the City will be based on:

**Quality urban 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.

**The City economy**

Staging of cultural events in the city such as New Years 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 and area promotion through retail strategies and the Sydney City Marketing partnership with key retailers with point of purpose to increase visitation and spending in Sydney CBD.

**Environmental leadership**

Promotion and development of more environmentally efficient practices in residential and business communities. Ongoing infrastructure upgrades and operational reviews to improve sustainability and reduce pollution.

**Community and social equity**

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 Sydney LGA residential population.

**Transport and accessibility**

Management of transport, traffic, pedestrians and access within the City's areas. Parking management and enforcement. Development of transport infrastructure and long term accessibility plans. Promotion of public transport, cycling and walking.

**Public domain and facilities**

Cleaning and maintenance of streets, parks, drainage and council owned properties, including all their structures. Management of Council's vehicle fleet. Administration and implementation of Council's capital works program.

**Leadership and governance**

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

**Note 3 – Revenues**

	2006 \$'000	2005 \$'000
<b>Rates and annual charges</b>		
<b>Ordinary rates</b>		
Residential	36,003	31,352
Business	143,115	141,848
	179,118	173,200
<b>Annual charges</b>		
Domestic waste management	18,989	18,825
	18,989	18,825
<b>Total rates and annual charges</b>	<b>198,107</b>	<b>192,025</b>

Council has used 1 July 2003 valuations, provided by the NSW Valuer General in calculating rates. Valuations are updated every 3 years.

**Note 3 – Revenues (continued)**

	2006 \$'000	2005 \$'000
<b>User charges and fees</b>		
<b>User Charges</b>		
Other Waste Management	–	4
	–	4
<b>Fees</b>		
Planning and building	8,877	10,220
Private works	4,707	4,732
Recreation centre fees	1,579	2,499
Parking station income	8,541	8,899
Parking meter income	20,687	16,506
Venue hire	2,223	2,047
Workzone and filming fees	3,785	4,890
Street furniture advertising	4,174	4,352
Advertising signs revenue	347	659
Park hire and public entertainment	898	430
Other	5,653	4,438
	61,471	59,672
<b>Total user charges and fees</b>	<b>61,471</b>	<b>59,676</b>
<b>Investment revenues</b>		
Interest on overdue rates and charges	297	621
Interest on cash assets and investments		
externally restricted	1,800	1,552
unrestricted	21,006	17,781
<b>Total investment revenues</b>	<b>23,103</b>	<b>19,954</b>
<b>Other revenues</b>		
Ex gratia payments in lieu of rates	584	562
Fair value adjustments – investment property	13,089	10,000
Fines	32,116	29,049
Lease rental	35,473	33,817
Sponsorship	1,021	1,017
Sydney city marketing partners	473	490
Other	1,313	894
<b>Total other revenues</b>	<b>84,069</b>	<b>75,829</b>

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2006**

**Note 3 – Revenues (continued)**

	Notes	Operating		Capital	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Grants</b>					
<b>General purpose (untied)</b>					
Financial assistance		2,939	2,772	–	–
Pensioner rates subsidies (general)		343	349	–	–
<b>Specific purpose</b>					
Roads and bridges		2,215	2,225	1,644	1,151
Heritage and cultural services		–	–	40	–
Community care services		2,280	2,361	–	–
Bushfire and emergency services		60	–	–	–
Other		–	–	90	–
<b>Total grants and subsidies</b>		<b>7,837</b>	<b>7,707</b>	<b>1,774</b>	<b>1,151</b>
Comprising:					
– Commonwealth funding		3,049	3,074	1,684	1,133
– State funding		4,788	4,634	90	18
		7,837	7,708	1,774	1,151
<b>Contributions and donations</b>					
Developer Contributions					
Section 94	17	–	–	3,131	4,490
Section 61	17	–	–	5,766	6,215
Other		83	–	1,777	1,668
Floor space contributions		–	–	66	487
Government contributions to capital projects		–	–	3,080	165
<b>Total contributions and donations</b>		<b>83</b>	<b>–</b>	<b>13,820</b>	<b>13,025</b>
<b>Total grants and contributions</b>		<b>7,920</b>	<b>7,707</b>	<b>15,594</b>	<b>14,176</b>

**Conditions over grants and contributions**

Grants and contributions which were obtained on the condition that they be expended for specified purposes or in a future period, but which are not yet expended in accordance with those conditions, are as follows:

	2006 \$'000		2005 \$'000	
	Grants	Contributions	Grants	Contributions
Unexpended at the close of the previous reporting period	66	28,003	565	26,170
Less: expended during the current period from revenues recognised in previous reporting periods				
Section 94/61 developer contributions	–	12,168	–	10,425
Other	6,262	–	6,237	–
Plus: amounts recognised as revenues in this reporting period but not yet expended in accordance with the conditions				
Section 94/61 developer contributions	–	10,697	–	12,258
Other	6,329	–	5,738	–
Unexpended at the close of this reporting period and held as restricted assets	133	26,532	66	28,003
<b>Net increase (decrease) in restricted assets in the current reporting period</b>	<b>67</b>	<b>(1,471)</b>	<b>(499)</b>	<b>1,833</b>

### Note 3 – Revenues (continued)

#### Operating leases providing revenue to the Council

Council owns various buildings, plant and other facilities that are available for hire or lease (on a non-cancellable basis wherever practicable) in accordance with the published revenue policy. Rentals received from such leases are disclosed as rent and hire of non-investment property above.

Lessees commitments under all non-cancellable lease agreements, excluding those relating to Investment property, are as follows:

	2006 \$'000	2005 \$'000
Not later than one year	10,603	8,592
Later than one year and not later than 5 years	27,527	25,138
Later than 5 years	71,150	74,362
	<b>109,280</b>	<b>108,092</b>

### Note 4 – Expenses

#### Employee costs

Salaries and wages	88,398	83,623
Travelling	204	238
Employee leave entitlements	9,097	9,377
Superannuation – defined contribution plan contributions	3,745	2,768
Superannuation – defined benefit plan contributions	3,289	1,936
Workers' compensation insurance	2,330	3,437
Fringe benefits tax	531	512
Training costs (excluding salaries)	1,533	1,445
Other	1,705	1,587
<b>Total operating employee costs</b>	<b>110,832</b>	<b>104,923</b>

	2006 no.	2005 no.
<b>Total number of employees</b> (full time equivalent at end of reporting period)	1,447	1,443

	2006 \$'000	2005 \$'000
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#### Borrowing costs

Unwinding of present value discounts and premiums	147	–
<b>Total interest charges</b>	<b>147</b>	<b>–</b>

#### Materials and contracts

Raw materials and consumables	6,258	6,061
Contractor and consultancy costs	54,885	41,991
Auditor's remuneration		
– audit services	130	177
Other auditors	399	465
Legal expenses		
– planning and development	1,751	1,674
– other legal expenses	1,142	1,573
Office and other equipment	3,473	3,002
Operating lease rentals – non-cancellable		
– minimum lease payments	2,885	2,819
Smartpole maintenance	702	1,084
Other	2,458	2,123
<b>Total materials and contracts</b>	<b>74,083</b>	<b>60,969</b>

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2006**

**Note 4 – Expenses (continued)**

	2006 \$'000	2005 \$'000
<b>Depreciation and amortisation</b>		
Plant and equipment	7,640	5,400
Office equipment	1,832	2,444
Furniture and fittings	4,058	5,383
Land improvements	4,620	4,278
Buildings	8,354	7,667
Infrastructure		
– roads, bridges and footpaths	13,413	12,087
– stormwater drainage	509	508
Other assets		
– library books	346	158
– open museum	88	84
Future reinstatement costs		
– depots	845	–
Amortisation of investment premiums	–	22
<b>Total depreciation and amortisation</b>	<b>41,705</b>	<b>38,031</b>
<b>Impairment</b>		
Buildings	2,434	–
<b>Total impairment</b>	<b>2,434</b>	<b>–</b>
<b>Other expenses</b>		
Advertising	1,803	1,789
Bad and doubtful debts	171	(136)
Donations and contributions to local and regional bodies	3,544	2,779
Insurances	4,694	4,686
Utilities expenses	2,519	2,019
Mayoral allowance	147	142
Councillors' fees and allowances	269	259
Councillors' expenses	296	336
Payments to other levels of government	13,664	13,282
Street lighting	3,048	2,870
Subscriptions and publications	125	159
Telephone and communications	1,932	1,934
Other		
– bank charges	802	584
– computing costs	705	553
– event and project costs	8,733	8,745
– fees paid to investment fund managers	706	627
– land tax and water rates	934	1,132
– other property related expenditure	577	252
– parking enforcement profit share	6,588	5,512
– postage and couriers	750	550
– printing and stationery	2,023	1,697
– research and development	167	123
– security	1,089	467
Other	2,187	2,043
<b>Total other expenses</b>	<b>57,473</b>	<b>52,404</b>

#### Note 5 – Gain or loss on disposal of assets

	2006 \$'000	2005 \$'000
<b>Disposal of property</b>		
Proceeds from disposal	1,420	76
Less: Carrying amount of assets sold	61	63
<b>Gain (Loss) on disposal</b>	<b>1,359</b>	<b>13</b>
<b>Disposal of infrastructure, plant and equipment</b>		
Proceeds from disposal	2,562	2,565
Less: Carrying amount of assets sold	2,292	1,740
<b>Gain (Loss) on disposal</b>	<b>270</b>	<b>825</b>
<b>Stocktake</b>		
Stocktake additions	2,681	11,728
Less: Carrying amount of stocktake disposals	–	3,856
<b>Gain (Loss) on disposal</b>	<b>2,681</b>	<b>7,872</b>
<b>Total gain (loss) on disposal of assets</b>	<b>4,310</b>	<b>8,710</b>

#### Note 6 – Cash assets and investment securities

	2006 \$'000		2005 \$'000	
	Current	Non-Current	Current	Non-Current
<b>Cash assets</b>				
Cash on hand and at bank	2,788	–	12,740	–
Deposits at call	75	–	75	–
Short term deposits and bills, etc	364,272	–	329,294	–
<b>Total cash assets</b>	<b>367,135</b>	<b>–</b>	<b>342,109</b>	<b>–</b>
Cash assets comprise highly liquid investments with short periods to maturity subject to insignificant risk of changes of value.				
<b>Investment securities</b>				
<a href="#">Summary</a>				
Financial assets at fair value through profit and loss	8,669	–	–	–
<b>Total</b>	<b>8,669</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Financial assets at fair value through profit and loss</b>				
Adjustment on adoption of AASB 132 and AASB 139	5,007	–	–	–
Revaluation to income statement	9	–	–	–
Additions	6,660	–	–	–
Disposals	(3,007)	–	–	–
<b>At end of year</b>	<b>8,669</b>	<b>–</b>	<b>–</b>	<b>–</b>
Held for trading:				
– CDOs	8,669	–	–	–
	<b>8,669</b>	<b>–</b>	<b>–</b>	<b>–</b>

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2006**

**Note 6 – Cash assets and investment securities (continued)**

	2006 \$'000		2005 \$'000	
	Current	Non-Current	Current	Non-Current
Cash assets	367,135	–	342,109	–
Investment securities	8,669	–	–	–
<b>Total cash assets and investment securities</b>	<b>375,804</b>	<b>–</b>	<b>342,109</b>	<b>–</b>
External restrictions	37,172	–	37,770	–
Internal restrictions	81,589	–	90,582	–
Unrestricted	257,043	–	213,757	–
	<b>375,804</b>	<b>–</b>	<b>342,109</b>	<b>–</b>

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

	Notes	Opening balance 30 June 2005 \$'000	Movements		Closing balance 30 June 2006 \$'000
			Transfers to restriction \$'000	Transfers from restriction \$'000	
<b>External restrictions</b>					
<b>Included in liabilities</b>					
Mode Group (Westpac)		14	1	15	–
		<b>14</b>	<b>1</b>	<b>15</b>	<b>–</b>
<b>Other</b>					
Developer contributions	17	28,003	10,697	12,168	26,532
Contributions – capital works		–	93	28	65
Floor space bonus FSB/FSR		3,491	66	99	3,458
Unexpended grants		66	67	–	133
Domestic waste management		6,196	18,989	18,201	6,984
		37,756	29,912	30,496	37,172
<b>Total external restrictions</b>		<b>37,770</b>	<b>29,913</b>	<b>30,511</b>	<b>37,172</b>

External Restrictions arise pursuant to section 409(3) of the Local Government Act, the Local Government (General) Regulation 2005 and other applicable legislation. Further information relating to Developer Contributions is provided in Note 17 and Unexpended Grants in Note 3. Amounts raised for Domestic Waste Management may only be used for those purposes.

**Internal restrictions**

Employee leave entitlements	3,874	16	–	3,890
Public liability insurance	454	–	154	300
Provision workers' compensation	13,080	401	–	13,481
Utzon Foundation	100	–	–	100
Asset replacement reserve	9,859	9,328	11,560	7,627
Property reserve	11,164	5,208	10,441	5,931
Investment reserve	15,522	–	3,058	12,464
Security deposits	11,015	2,421	2,243	11,193
Parking meters	1,806	2,069	1,715	2,160
Parking station contribution	1,288	735	–	2,023
Green Square – multi purpose civic centre	22,420	–	–	22,420
<b>Total internal restrictions</b>	<b>90,582</b>	<b>20,178</b>	<b>29,171</b>	<b>81,589</b>

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

	2006 \$'000		2005 \$'000	
	Current	Non-Current	Current	Non-Current
Rates and annual charges	4,753	175	8,662	190
Interest and extra charges	905	64	908	63
User charges and fees	6,499	–	3,378	–
Accrued revenues	10,865	–	9,565	–
ATO – GST receivables	2,133	–	1,419	–
Rental debtors	1,341	–	907	–
<b>Total</b>	<b>26,496</b>	<b>239</b>	<b>24,839</b>	<b>253</b>
Less: Allowance for doubtful debts				
Rates and annual charges	308	–	308	–
Interest and extra charges	241	–	198	–
Returned receipts	6	–	6	–
Trade waste	–	–	12	–
Rental debtors	191	–	182	–
Other	916	–	803	–
	<b>24,834</b>	<b>239</b>	<b>23,330</b>	<b>253</b>

### 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 9.00% (2005: 9.00%). 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 levels of Government

Amounts due have been calculated in accordance with the terms and conditions of the respective programs following advice of approvals, and do not bear interest. All amounts are due by Departments and Agencies of the Government of New South Wales and the Government of Australia.

### 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.

	2006 \$'000		2005 \$'000	
	Current	Non-Current	Current	Non-Current
<b>Restricted receivables</b>				
Domestic waste annual charges	816	–	1,077	50
Domestic waste extra charges	111	–	95	13
Total restrictions	927	–	1,172	63
Unrestricted receivables	23,907	239	22,158	190
<b>Total receivables</b>	<b>24,834</b>	<b>239</b>	<b>23,330</b>	<b>253</b>

## Note 8 – Inventories and other assets

### Inventories

Stores and materials	692	–	676	–
<b>Total inventories</b>	<b>692</b>	<b>–</b>	<b>676</b>	<b>–</b>

### Other assets

Prepayments	4,300	–	3,378	–
<b>Total other assets</b>	<b>4,300</b>	<b>–</b>	<b>3,378</b>	<b>–</b>

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2006**

**Note 9 – Infrastructure, property, plant and equipment**

	2005 \$'000		
	At cost	Accumulated depreciation	Carrying amount
Plant and equipment	58,358	(36,825)	21,533
Office equipment	15,629	(11,887)	3,742
Furniture and fittings	77,904	(27,288)	50,616
Land			
– community**	1,591,205	–	1,591,205
– operational**	227,888	–	227,888
Land improvements – depreciable	127,331	(23,202)	104,129
Buildings	540,565	(100,369)	440,196
Other structures – trees	65,670	(5,294)	60,376
Capital works in progress	25,983	–	25,983
Infrastructure			
– roads, bridges, footpaths	762,399	(267,563)	494,836
– stormwater drainage	50,873	(25,328)	25,545
Other assets			
– Town Hall collection	4,693	(636)	4,057
– open museum	8,438	(3,228)	5,210
– library books	2,821	(894)	1,927
Future reinstatement costs			
– depots	–	–	–
<b>Totals</b>	<b>3,559,757</b>	<b>(502,514)</b>	<b>3,057,243</b>

\* The “Remeasurement” columns represent adjustments that were not regarded as making up part of the Asset Purchases, Disposals or Depreciation totals. The totals represent re-categorisation of land and building assets to Investment Property and the reclassing of assets within existing classifications. Furthermore, the columns reflect adjustments required relating to asset accruals at the end of 2004/05. Amounts were accrued into various asset classes from the Capital Work in Progress account. With further subsequent investigation, more detailed information was obtained regarding the nature of assets acquired.

\*\* The Land classes include a number of Crown Reserve assets at a cost of \$1,330 million. Ownership of these assets remains with the Crown while Council continues to retain both operational control of the assets and responsibility for the maintenance of improvements thereon in accordance with the specified purposes for which the crown reserves were created. Council includes the Crown Reserve assets on the balance sheet as well as the cost of Council funded related improvements on the basis of its financial rights and responsibilities in controlling and maintaining the assets and the fact that revocation of such control by the State Government is regarded as extremely unlikely given the history of Crown Reserves. Council incurred maintenance costs on the improvements on the Reserves of \$2.855 million and earned revenues of \$267,000.

Reserve Trusts were created for administrative purposes under section 92 of the Crown Lands act, 1989 (“the Act”) for a large proportion of these Crown Reserves. Prior to the enactment of the Act, Council was Reserve Trustee of these assets and upon enactment, section 5A of the Schedule 8 (Savings, transitional and other provisions) of the Act has appointed Council Reserve Trust Manager of the related Reserve Trusts created under section 92.

Carrying amount movements during year  
\$'000

2006  
\$'000

Asset purchases	Remeasurement Asset cost*	Remeasurement Asset depreciation*	Asset disposals	Depreciation	Impairment	At cost	Accumulated depreciation	Carrying amount
14,592	1,995	–	(1,451)	(7,640)	–	62,032	(33,003)	29,029
1,438	487	–	–	(1,832)	–	17,554	(13,719)	3,835
6,068	(526)	–	–	(4,058)	–	83,446	(31,346)	52,100
4,100	(664)	–	(61)	–	–	1,594,580	–	1,594,580
2,681	7,893	–	–	–	–	238,462	–	238,462
5,940	4,674	–	(840)	(4,620)	–	136,949	(27,666)	109,283
5,872	(17,408)	47	–	(8,355)	(2,434)	529,029	(111,111)	417,918
1,197	–	–	–	–	–	66,867	(5,294)	61,573
40,973	–	–	–	–	–	66,956	–	66,956
15,383	(508)	11	–	(13,413)	–	777,274	(280,965)	496,309
443	–	–	–	(509)	–	51,316	(25,837)	25,479
237	–	–	–	–	–	4,930	(636)	4,294
–	222	–	–	(88)	–	8,660	(3,316)	5,344
1,466	–	–	–	(346)	–	4,287	(1,240)	3,047
2,534	–	–	–	(845)	–	2,534	(845)	1,689
<b>102,924</b>	<b>(3,835)</b>	<b>58</b>	<b>(2,352)</b>	<b>(41,706)</b>	<b>(2,434)</b>	<b>3,644,876</b>	<b>(534,978)</b>	<b>3,109,898</b>

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2006**

**Note 9 – Infrastructure, property, plant and equipment (continued)**

**Comparative Period**

		2004 \$'000	
	At cost	Accumulated depreciation	Carrying amount
Plant and equipment	45,908	(31,541)	14,367
Office equipment	18,668	(14,666)	4,002
Furniture and fittings	59,018	(20,833)	38,185
Land			
– community**	1,640,683	(1,870)	1,638,813
– operational**	178,206	–	178,206
Land improvements – depreciable	37,681	(4,288)	33,393
Buildings	562,992	(103,358)	459,634
Other structures	74,669	(8,303)	66,366
Other structures – trees	64,361	(5,294)	59,067
Capital works in progress	49,471	–	49,471
Infrastructure			
– roads, bridges, footpaths	773,692	(267,566)	506,126
– stormwater drainage	50,719	(24,819)	25,900
Other assets			
– Town Hall collection	4,247	(626)	3,621
– open museum	5,281	(1,856)	3,425
– library books	1,775	(754)	1,021
– other	13	(10)	3
Future reinstatement costs			
– depots	–	–	–
<b>Totals</b>	<b>3,567,384</b>	<b>(485,784)</b>	<b>3,081,600</b>

\* The “Remeasurement” columns represent adjustments relating to the reclassing of assets within existing classifications (net effect \$0.00) and also the re-categorisation of land and buildings to Investment Properties under Australian Equivalents to International Financial Reporting Standards (refer Note 14 comparative year)

\*\* The Land classes include a number of Crown Reserve assets at a cost of \$1,330 million. Refer to the schedule on the prior page for further details

Carrying amount movements during year  
\$'000

2005  
\$'000

Asset purchases	Remeasurement Asset cost*	Remeasurement Asset depreciation*	Asset disposals	Depreciation	Impairment	At cost	Accumulated depreciation	Carrying amount
12,673	7,939	(6,521)	(1,526)	(5,399)	–	58,358	(36,825)	21,533
2,211	(1,715)	1,708	(20)	(2,444)	–	15,629	(11,887)	3,742
4,530	15,269	(1,671)	(315)	(5,382)	–	77,904	(27,288)	50,616
15,615	(69,829)	1,870	4,736	–	–	1,591,205	–	1,591,205
–	47,373	–	2,309	–	–	227,888	–	227,888
824	88,826	(14,636)	–	(4,278)	–	127,331	(23,202)	104,129
55,041	(77,921)	10,384	725	(7,667)	–	540,565	(100,369)	440,196
–	(74,669)	8,303	–	–	–	–	–	–
1,309	–	–	–	–	–	65,670	(5,294)	60,376
(23,488)	–	–	–	–	–	25,983	–	25,983
24,172	(35,465)	12,090	–	(12,087)	–	762,399	(267,563)	494,836
154	–	–	–	(509)	–	50,873	(25,328)	25,545
273	13	(9)	160	–	–	4,693	(636)	4,057
–	3,157	(1,288)	–	(84)	–	8,438	(3,228)	5,210
1,245	(199)	18	–	(158)	–	2,821	(894)	1,927
–	(13)	10	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
<b>94,559</b>	<b>(97,234)</b>	<b>10,258</b>	<b>6,069</b>	<b>(38,008)</b>	<b>–</b>	<b>3,559,757</b>	<b>(502,514)</b>	<b>3,057,243</b>

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2006**

**Note 9 – Infrastructure, property, plant and equipment (continued)**

**Restricted infrastructure, property, plant and equipment**

	2006 \$'000			2005 \$'000		
	At cost	Accumulated depreciation	Carrying amount	At cost	Accumulated depreciation	Carrying amount
<b>Domestic waste management</b>						
Plant and equipment	2,606	(1,448)	1,158	2,302	(1,549)	754
Total domestic waste	2,606	(1,448)	1,158	2,302	(1,549)	754
<b>Total restrictions</b>	<b>2,606</b>	<b>(1,448)</b>	<b>1,158</b>	<b>2,302</b>	<b>(1,549)</b>	<b>754</b>

Council has entered into long term leases as lessor on some assets. Since the term of the leases is for 99 years, no asset values have been recognised in Council's records.

Specific clauses in the leases relating to the determination of lease income result in the entitlement to and quantum of the amounts being determined based upon current events and occurrences. The leased assets accounted for in this manner are:

**Queen Victoria Building**

Council entered into a 99 year lease as lessor of the Queen Victoria Building (QVB) on 28 February 1984.

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

Following the above deductions from revenue, any remaining profit is split on an equal basis between Council and the lessee. The rental revenue received by Council is recognised as income only once it is determined and is enforceable under the terms of the lease.

At the conclusion of the lease the lessee is required to return the building back to Council in good condition.

**Capitol Theatre and associated properties**

Council is lessor in a 99 year lease for the Capitol Theatre. The lease also incorporates other associated properties being the Manning Building, Watkins Terrace and Parker Street.

Under the agreement Council receives rental revenue based upon a percentage of theatre revenue. The rental revenue is recognised as income only once it is determined and is enforceable under the terms of the lease.

**Note 10 – Liabilities**

	2006 \$'000		2005 \$'000	
	Current	Non-Current	Current	Non-Current
<b>Payables</b>				
Goods and services	1,720		(45)	
Payments received in advance	7,584		5,683	
Accrued expenses	24,009		31,378	
Employee related payables	1,770		1,292	
Deposits, retentions and bonds	13,024		12,639	
Other	1,692		3,181	
<b>Total payables</b>	<b>49,799</b>	<b>–</b>	<b>54,128</b>	<b>–</b>
<b>Provisions</b>				
Annual leave	7,344	–	7,717	–
Sick leave	3,247	6,303	3,435	6,669
Long service leave	15,426	4,675	14,964	4,571
Gratuities	241	1,374	194	1,542
Worker's compensation	1,701	8,649	1,701	8,329
Public liability insurance	180	120	224	230
Public holidays	292	–	429	–
Reinstatement, remediation, etc.	–	2,680	–	–
Other	141	–	–	–
<b>Total provisions</b>	<b>28,572</b>	<b>23,801</b>	<b>28,664</b>	<b>21,341</b>

## Note 10 – Liabilities (continued)

Class of provision	Opening	Increases/ (Decreases)	Unwinding of	Payments	Closing
	balance	in provision	present value		balance
	2006	2006	discounts		2006
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Movements in provisions</b>					
Annual leave	7,717	6,401	–	(6,774)	7,344
Sick leave	10,104	111	–	(666)	9,549
Long service leave	19,535	3,473	–	(2,906)	20,102
Gratuities	1,736	(56)	–	(65)	1,615
Worker's compensation	10,030	2,330	–	(2,010)	10,350
Public liability insurance	454	(154)	–	–	300
Public holidays	429	(137)	–	–	292
Reinstatement, remediation	–	2,533	147	–	2,680
Other	–	141	–	–	141
<b>Total provisions</b>	<b>50,005</b>	<b>14,642</b>	<b>147</b>	<b>(12,421)</b>	<b>52,373</b>

### Provision for reinstatement, remediation

Detailed information regarding this provision is provided in Note 22.

	2006		2005	
	Current	Non-Current	Current	Non-Current
<b>Aggregate liability arising from employee benefits</b>	<b>31,256</b>	<b>12,352</b>	<b>31,485</b>	<b>12,782</b>

### Defined benefit plans

The Local Government Superannuation Scheme – Pool B (the Scheme) is a defined benefit plan that has been deemed to be a “multi-employer fund” for the purposes of AASB 119. Sufficient information is not available to account for the scheme as a defined benefit plan because the assets to the Scheme are pooled together for all Councils. The amount of employer contributions recognised as an expense for the year ending 30 June 2006 was \$3,268,712. The last valuation of the Scheme was performed by Mr Martin Stevenson BSc, FIA, FIAA on 18th March 2004 and covers the period ended 30 June 2003. This valuation found that the Scheme's assets were \$2,453.7 million and its past service liabilities \$2,251.7 million, giving it a surplus of \$202 million. The existence of this surplus has resulted in Councils contributing during 2005/06 at half the normal level of contributions. The financial position is monitored annually.

In addition, Council is the sponsor of a defined benefit superannuation fund referred to as the State Authorities Non-Contributory Superannuation Scheme (SANCS) and the State Superannuation Scheme (SSS).

All the Schemes are closed to new members.

In respect of the defined benefit superannuation fund referred to as the State Authorities Non-Contributory Superannuation Scheme (SANCS) and the State Superannuation Scheme (SSS), the position is as follows.

	Actual 2006 \$'000	Actual 2005 \$'000
Present value of defined benefit obligations	493	565
Fair value of plan assets	(412)	(341)
Net (asset)/liability	81	224

The liabilities have not been recognised on the basis of materiality. Council continues to make contributions to the Funds and monitors the net position.

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2006**

**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 Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	2006 \$'000	2005 \$'000
Total cash assets (Note 6)	367,135	342,109
Less: bank overdraft (Note 10)	–	–
<b>Balances per cash flow statement</b>	<b>367,135</b>	<b>342,109</b>

**(b) Reconciliation of net operating result to cash from operating activities**

Net operating result from income statement	107,900	121,750
Add: Depreciation and amortisation	44,139	38,031
Unwinding of present value discounts and premiums	147	–
Increase in provision for doubtful debts	153	–
Increase in other provisions	170	–
Decrease in receivables	–	1,837
Increase in trade creditors	3,407	–
Increase in accrued expenses payable	–	11,254
Increase in other payables	–	3,274
	<b>155,916</b>	<b>176,146</b>
Less: Decrease in provision for doubtful debts	–	2,788
Decrease in employee benefits provisions	482	1,475
Decrease in other provisions	–	1,324
Increase in receivables	1,643	–
Increase in inventories	16	311
Increase in other assets	922	665
Decrease in trade creditors	–	4,536
Decrease in accrued expenses payable	7,369	–
Decrease in other payables	806	–
Gain on sale of assets	4,310	8,710
Fair value adjustments as revenue items	13,089	10,000
<b>Net cash provided by (or used in) operations</b>	<b>127,279</b>	<b>146,337</b>

**(c) Non-cash financing and investing activities**

Acquisition of assets by means of:		
– Transfers from Sydney Harbour Foreshore Authority	2,681	–
– Estimated future reinstatement, etc, costs	2,533	–
	<b>5,214</b>	<b>–</b>

**(d) Financing arrangements**

Unrestricted access was available at balance date to the following lines of credit:

**Bank overdrafts**

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.

## Note 12 – Commitments for expenditure

	2006 \$'000	2005 \$'000
<b>(a) Capital commitments</b>		
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
Land	5,629	8,997
Buildings	12,621	–
Street furniture	104	22
Infrastructure	35,174	58,818
Plant and equipment	–	–
	<b>53,528</b>	<b>67,837</b>
These expenditures are payable:		
Not later than one year	53,528	64,007
Later than one year and not later than 5 years	–	3,830
Later than 5 years	–	–
	<b>53,528</b>	<b>67,837</b>
<b>(b) Other Expenditure commitments</b>		
Other expenditure committed for (excluding inventories) at the reporting date but not recognised in the financial statements as liabilities:		
Audit services	–	1
Recycling services	5,414	4,546
Graffiti	11,922	1,011
Parking meter maintenance	14,426	8,868
Street trees/landscaping	5,033	1,324
Street furniture	3,360	3,073
Park maintenance	5,014	14,250
Domestic waste	28,124	17,262
Parking facilities	7,563	5,973
Outreach	1,113	1,718
Cultural events	3,544	3,694
Property	10,348	7,392
Repairs and maintenance – investment property	2,268	–
Other	210	160
	<b>98,339</b>	<b>69,272</b>
These expenditures are payable:		
Not later than one year	40,330	22,470
Later than one year and not later than 5 years	56,049	44,912
Later than 5 years	1,960	1,890
	<b>98,339</b>	<b>69,272</b>
<b>(c) Finance lease commitments</b>		
Commitments under finance leases at the reporting date are as follows:		
	–	–

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2006**

**Note 12 – Commitments for expenditure (continued)**

	2006 \$'000	2005 \$'000
<b>(d) Operating lease commitments (non-cancellable)</b>		
Commitments under non-cancellable operating leases at the reporting date but not recognised in the financial statements are payable as follows:		
<b>Total future minimum lease payments</b>		
Not later than one year	3,010	1,189
Later than one year and not later than 5 years	3,752	3,009
Later than 5 years	28,186	28,948
	<b>34,948</b>	<b>33,146</b>

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 54 years remaining on the lease, which is estimated at \$16.684 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 annum. The agreement to 2032 results in a total commitment of \$11.502 million.

	2006 \$'000	2005 \$'000
<b>(e) Remuneration commitments</b>		
Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at reporting date but not recognised as liabilities, payable:		
Not later than one year	–	–
Later than one year and not later than 5 years	–	–
Later than 5 years	–	–
	–	–

**Note 13 – Statement of performance measurement**

	Amounts	2006 Indicators	2005	2004	2003
<b>Current ratio</b>					
Current assets	\$405,630	5.18:1	4.46:1	5.15:1	3.26:1
Current liabilities	\$78,371				
<b>Unrestricted current ratio</b>					
Unrestricted current assets*	\$367,531	4.69:1	3.99:1	4.56:1	2.78:1
Current liabilities not relating to restricted assets	\$78,371				
<b>Debt service ratio</b>					
Net debt service cost	\$0	0.00%	0.00%	0.00%	0.00%
Operating revenue**	\$374,342				
<b>Rate and annual charges coverage ratio</b>					
Rates and annual charges revenues	\$198,107	50.21%	50.79%	55.65%	58.10%
Total revenues	\$394,574				
<b>Rates and annual charges outstanding percentage</b>					
Rates and annual charges outstanding	\$5,348	2.57%	4.65%	4.18%	2.78%
Rates and annual charges collectible	\$207,721				

\* Detailed methods of calculation of these indicators is defined in the Code.

\*\* "Operating Revenue" represents Revenue from Continuing Operations excluding capital items and specific purpose grants and contributions.

#### Note 14 – Investment property

	2006 \$'000	2005 \$'000
<b>At fair value</b>		
Opening balance at 1 July	125,940	115,940
Capitalised subsequent expenditure	1,243	–
Net gain (loss) from fair value adjustment	13,089	10,000
Transfer (to) from inventories or infrastructure, property, plant and equipment	2,953	–
Closing balance at 30 June	143,225	125,940
<b>Amounts recognised in profit and loss</b>		
Rental income	9,196	9,426
Net gain (loss) from fair value adjustment	13,089	10,000
	22,285	19,426
<b>Repairs, maintenance and other operating expenses</b>		
– property generating rental income	(892)	(583)
	21,393	18,843

#### Valuation basis

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction and reflects market conditions at the reporting date.

The 2006 valuation was made based on current prices in an active market for similar properties in the same location and condition and subject to similar leases by Mr Steve Eccleston, FAPI, Registered Valuer No.1287 of BEM Property Consultants Pty Limited.

#### Contractual arrangements

The Investment Properties are leased to tenants under long term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:

	2006 \$'000	2005 \$'000
Not later than one year	8,726	8,388
Later than one year and not later than 5 years	19,375	22,528
Later than 5 years	3,984	5,574
	32,085	36,490

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2006**

**Note 15 – Financial instruments**

**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		
<b>2006</b>						
<b>Financial assets</b>						
Cash assets	363,104	4,000	–	–	31	367,135
Investment securities	8,669	–	–	–	–	8,669
<b>Receivables</b>						
Rates and annual charges	–	5,109	239	–	–	5,348
User charges and fees	–	–	–	–	6,499	6,499
ATO – GST receivables	–	–	–	–	2,133	2,133
Accrued revenues	–	–	–	–	10,865	10,865
Other	–	–	–	–	228	228
<b>Total</b>	<b>371,773</b>	<b>9,109</b>	<b>239</b>	<b>–</b>	<b>19,756</b>	<b>400,877</b>
Weighted average interest rate	6.09%					
<b>Financial liabilities</b>						
<b>Payables</b>						
Goods and services	–	–	–	–	1,720	1,720
Payments in advance	–	–	–	–	7,584	7,584
Deposits, retentions, bonds	–	–	–	–	13,024	13,024
Accrued expenses	–	–	–	–	24,009	24,009
Other	–	–	–	–	3,462	3,462
Interest bearing liabilities	–	–	–	–	–	–
Finance lease liabilities	–	–	–	–	–	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>49,799</b>	<b>49,799</b>
Weighted average interest rate	0.00%					
<b>Net financial assets (liabilities)</b>	<b>371,773</b>	<b>9,109</b>	<b>239</b>	<b>–</b>	<b>(30,043)</b>	<b>351,078</b>
<b>2005</b>						
<b>Financial assets</b>						
Cash assets	333,569	8,500	–	–	40	342,109
<b>Receivables</b>						
Rates and annual charges	–	9,064	253	–	–	9,317
User charges and fees	–	–	–	–	3,378	3,378
ATO – GST receivables	–	–	–	–	1,419	1,419
Accrued revenues	–	–	–	–	9,565	9,565
Other	–	–	–	–	(96)	(96)
<b>Total</b>	<b>333,569</b>	<b>17,564</b>	<b>253</b>	<b>–</b>	<b>14,306</b>	<b>365,692</b>
Weighted average interest rate	5.52%					
<b>Financial liabilities</b>						
<b>Payables</b>						
Goods and services	–	–	–	–	(45)	(45)
Payments in advance	–	–	–	–	5,683	5,683
Deposits, retentions, bonds	–	–	–	–	12,639	12,639
Accrued expenses	–	–	–	–	31,378	31,378
Other	–	–	–	–	4,473	4,473
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>54,128</b>	<b>54,128</b>
Weighted average interest rate	0.00%					
<b>Net financial assets (liabilities)</b>	<b>333,569</b>	<b>17,564</b>	<b>253</b>	<b>–</b>	<b>(39,822)</b>	<b>311,564</b>

## 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.

### Reconciliation of financial assets and liabilities

	2006 \$'000	2005 \$'000
<b>Net financial assets from previous page</b>		
Financial assets	400,877	365,692
Financial liabilities	49,799	54,128
	351,078	311,564
<b>Non-financial assets and liabilities</b>		
Inventories	692	676
Property, plant and equipment	3,109,898	3,057,243
Investment property	143,225	125,940
Interest in associated bodies	–	–
Other assets	4,300	3,378
Provisions	(52,373)	(50,005)
Other liabilities	–	–
	3,205,742	3,137,232
<b>Net assets per statement of financial position</b>	<b>3,556,820</b>	<b>3,448,796</b>

### 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.

## Notes to and forming part of the Financial Statements for the year ended 30 June 2006

### Note 16 – Significant variations from original budget

Council's original budget comprised part of the Management Plan adopted by Council.

This Note sets out the principal variations between the original Budget and Actual results for the Income Statement.

#### 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 (\$7.3 million favourable variance).

#### Other revenue

The major contributors to this favourable variance are improved Parking Meter Income (\$2.4 million) arising from efficiencies gained from the installation of new meters and an increase in Enforcement Revenue (\$4.0 million), partly due to actual uncollected fines for the 2004/05 year exceeding original anticipated recoveries (\$2.0 million).

There is also a \$13.1 million favourable non-cash variance resulting from the increased and unbudgeted valuation of Council's investment properties.

#### Grants and contributions

Council reviewed its classification of accounts for grants after the adoption of the budget. As a result both grant categories indicate major variances from the budget but in total the variance is \$1.6 million unfavourable which is approximately a 7% variance.

The key variances are:

- s94 and s61 contributions for the year were less than budgeted due to the slowdown of the building industry resulting in a \$2.9 million unfavourable variance;
- recognition of unbudgeted contribution from RTA for major public domain projects of \$3.1 million; and
- other contributions with a favourable variance of \$0.5 million.

#### Other expenses

Favourable variance of \$10.2 million (15% variance) comprises:

- land tax and water rates were under budget showing the internal cost of rates (\$2.9 million);
- savings in other expenses reflect that Council did not require \$4.4 million of Contingencies; and
- savings in Government Authority Charges variance of \$1.7 million is due to savings in government levies and fees.

#### Materials and contracts

Unfavourable variance of \$4.8 million (7% variance) includes:

- Property Maintenance (\$1.7 million unfavourable) variance due to higher maintenance activity than estimated; and
- Public Domain Enhancement Contributions (\$4.598 million unfavourable) arising from works completed within the public domain on non-Council assets arising from the Capital Works program.

#### Depreciation

The budget was prepared on basis of the previous year projections plus an amount for additional infrastructure completed during the 2005/06 year. A review of the depreciation policies from the former South Sydney and City of Sydney councils has led to a significant reduction in depreciation expense.

#### Profit from disposal of assets

This was the result of unbudgeted sales of unused roads and lanes (Sussex Lane (\$0.5 million) and Slip Street (\$0.95 million)). Also, a gain was recognised for the acquisition of three pieces of land from the Sydney Harbour Foreshore Authority. The land was acquired for no consideration and was recognised at a value of \$2.68 million.

## Note 17 – Statement of Contribution Plans

### Summary of Contributions

Purpose	Opening balance \$'000	Contributions received during year		Interest earned during year \$'000	Expended during year \$'000	Internal borrowings (to)/from \$'000	Held as restricted asset \$'000	Works provided to date \$'000
		Cash \$'000	Non-Cash \$'000					
Drainage							0	0
Roads	5,407	775		353			6,535	3,975
Traffic facilities	2,280	81		141			2,502	1,043
Parking	12			1			13	13
Open space	12,904	1,750		839	(6,157)		9,336	44,678
Community facilities	4,848	337		305			5,490	1,008
Other	1,606	188		103	(245)		1,652	1,134
Subtotal s94 under plans	27,057	3,131		1,742	(6,402)		25,528	51,851
Sec 94 not under plans	946			58			1,004	6,137
Sec 61 contributions		5,766			(5,766)			192,824
<b>Total contributions</b>	<b>28,003</b>	<b>8,897</b>		<b>1,800</b>	<b>(12,168)</b>		<b>26,532</b>	<b>250,812</b>

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

#### Contribution plan – Walsh Bay

Traffic facilities								478
Parking	12			1			13	13
Community facilities								473
<b>Total</b>	<b>12</b>			<b>1</b>			<b>13</b>	<b>964</b>

#### Contribution Plan – Plan 1 (ex South Sydney Council)

Traffic facilities	671			41			712	
Open space	164			10			174	
Community facilities	253			15			268	
Other	1,858			113			1,971	
<b>Total</b>	<b>2,946</b>			<b>179</b>			<b>3,125</b>	

#### Contribution Plan – Open Space – New Plan (ex Leichhardt Municipal Council)

Open space	6,148	1,050		406	(5,003)		2,601	5,841
<b>Total</b>	<b>6,148</b>	<b>1,050</b>		<b>406</b>	<b>(5,003)</b>		<b>2,601</b>	<b>5,841</b>

#### Contribution Plan – Open Space – Old Plan (ex Leichhardt Municipal Council)

Open space	174			11			185	
<b>Total</b>	<b>174</b>			<b>11</b>			<b>185</b>	

#### Contribution Plan – Community Facilities (ex Leichhardt Municipal Council)

Community facilities	870	181		58			1,109	
<b>Total</b>	<b>870</b>	<b>181</b>		<b>58</b>			<b>1,109</b>	

#### Contribution Plan – LATM (ex Leichhardt Municipal Council)

Traffic facilities	27	28		3			58	
<b>Total</b>	<b>27</b>	<b>28</b>		<b>3</b>			<b>58</b>	

#### Contribution Plan – Light Rail (ex Leichhardt Municipal Council)

Traffic facilities	3	2					5	
<b>Total</b>	<b>3</b>	<b>2</b>					<b>5</b>	

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2006**

**Note 17 – Statement of Contribution Plans (continued)**

Purpose	Opening balance \$'000	Contributions received during year		Interest earned during year \$'000	Expended during year \$'000	Internal borrowings (to)/from \$'000	Held as restricted asset \$'000	Works provided to date \$'000
		Cash \$'000	Non-Cash \$'000					
<b>Contribution Plan – Bicycle Works (ex Leichhardt Municipal Council)</b>								
Traffic facilities	4	1					5	
<b>Total</b>	<b>4</b>	<b>1</b>					<b>5</b>	
<b>Contribution Plan – SSCC Contribution Plan 1</b>								
Roads	5,407	775		353			6,535	3,975
Traffic facilities	1,575	50		97			1,722	565
Open space	(374)	475		(8)	(1,154)		(1,061)	38,609
Community facilities	3,725	156		232			4,113	535
Other	(252)	188		(10)	(245)		(319)	1,134
<b>Total</b>	<b>10,081</b>	<b>1,644</b>		<b>664</b>	<b>(1,399)</b>		<b>10,990</b>	<b>44,818</b>
<b>Contribution Plan – SSCC Contribution Plan 2</b>								
Open space	6,792	225		420			7,437	228
<b>Total</b>	<b>6,792</b>	<b>225</b>		<b>420</b>			<b>7,437</b>	<b>228</b>
<b>Contributions Not Under Plans</b>								
Roads	47			3			50	472
Parking	470			29			499	1,117
Other	429			26			455	4,548
<b>Total</b>	<b>946</b>			<b>58</b>			<b>1,004</b>	<b>6,137</b>
Purpose	Opening balance \$'000	Contributions received during year		Interest earned during year \$'000	Forwarded during year \$'000	Internal borrowings (to)/from \$'000	Held as restricted asset \$'000	Works provided to date \$'000
		Cash \$'000	Non-Cash \$'000					
<b>Contribution Plan – Ultimo/Pymont</b>								
Drainage								2,484
Open space								49,292
Community facilities								10,095
Other		1,686			(1,686)			10,041
<b>Total</b>		<b>1,686</b>			<b>(1,686)</b>			<b>71,912</b>

Note: Council has excluded the Ultimo/Pymont Contribution plan from the totals disclosed above. This decision was taken due to the fact that the Sydney Harbour Foreshore Authority complete all works under this plan and all contributions received by Council are collected on behalf of SHFA and immediately forwarded.

The contributions received column represents Contributions collected during the 2005/06 year by Council, all of which have been forwarded to SHFA.

The Works to Date total has been updated for the 2005/06 Financial Report using updated data provided by SHFA. SHFA continue to compile information regarding contributions and expenditure to date under this plan and Council will continue to liaise with SHFA during 2006/07.

## Note 18 – Contingencies

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

### Contingent assets and liabilities

#### Potential claims

Council is currently involved in Federal Court proceedings with a former supplier. The potential liability in these proceedings cannot be quantified at this time.

Council is involved in discussions with a former capital works contractor. The contractor has an outstanding claim in respect of completed works and Council has a counter claim in respect of a refund of overpayments obtained by the contractor in Supreme Court proceedings. The potential claims in these proceedings cannot be quantified at this time although it is anticipated that there will be a net settlement in Council's favour.

#### Self insurance – Workers 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.

As a self-insurer, Council is required to lodge a bank guarantee with the Workcover Authority. At 30 June 2006, bank guarantees of \$13.04 million were held by the Workcover Authority, and the Authority is currently reviewing whether any additional assurance is required.

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

#### Superannuation – Defined Benefits Schemes

Council makes employer contributions to the defined benefits categories of the Scheme at rates determined by the Scheme's Trustee. Employees also make member contributions to the Fund. As such, assets accumulate in the Fund to meet the member's benefit, as defined in the Trust Deed, as they accrue.

Council has an ongoing obligation to share in the future experience of the Scheme. Favourable or unfavourable variations may arise should the experience of the Scheme differ from the assumptions made by the Scheme's actuary in estimating the Scheme's accrued benefits liability.

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

## Note 19 – Investments accounted for using the equity method

Not applicable.

## Note 20 – Reserves

	2006 \$'000	2005 \$'000
<b>(a) Reserves</b>		
Trust assets reserve		
Balance at beginning of reporting period	1,330,360	1,330,360
Add: acquisition of trust assets	–	–
Less: disposal of trust assets	–	–
<b>Balance at end of reporting period</b>	<b>1,330,360</b>	<b>1,330,360</b>
<b>(b) Retained earnings</b>		
Balance at beginning of reporting period	2,118,436	1,996,686
Add: net operating result	107,900	121,750
Add: net adjustment on adoption of AASB132 and AASB139	124	–
Less: transfer to accumulated surplus from asset revaluation reserve	–	–
<b>Balance at end of reporting period</b>	<b>2,226,460</b>	<b>2,118,436</b>

### (c) Nature and purpose of reserves

#### Trust Assets Reserve

The Trust Assets Reserve is used to record the corresponding land value of trust assets, such as Crown Reserve Trusts, as recorded in the City's Infrastructure, Property, Plant and Equipment balances. Whilst these assets are owned by the State, they are effectively controlled by the City as reserve trust manager.

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2006**

**Note 21 – Impacts of International Financial Reporting Standards**

**(1) Reconciliation of Equity Reported Under Previous Australian Generally Accepted Accounting Principles (AGAAP) to Equity under Australian Equivalents to IFRS (AIFRS)**

(a) At the date of transition to AIFRS: 1 July 2004

	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000
<b>Current assets</b>			
Cash and cash equivalents	259,907		259,907
Investment securities	27,000		27,000
Receivables	22,374		22,374
Inventories	78		78
Other	2,713		2,713
<b>Non-current assets</b>			
Investment securities	4,000		4,000
Receivables	258		258
Inventories	287		287
Infrastructure, property, plant and equipment	3,081,598	(86,978)	2,994,620
Investment property	–	115,940	115,940
<b>Total assets</b>	<b>3,398,215</b>	<b>28,962</b>	<b>3,427,177</b>
<b>Current liabilities</b>			
Payables	43,882	–	43,882
Provisions	16,694	–	16,694
<b>Non-current liabilities</b>			
Payables	3,445	–	3,445
Provisions	38,051	(1,941)	36,110
<b>Total liabilities</b>	<b>102,072</b>	<b>(1,941)</b>	<b>100,131</b>
<b>Net assets</b>	<b>3,296,143</b>	<b>30,903</b>	<b>3,327,046</b>
<b>Equity</b>			
Accumulated surplus	1,965,783	30,903	1,996,686
Trust assets reserve	1,330,360	–	1,330,360
<b>Total equity</b>	<b>3,296,143</b>	<b>30,903</b>	<b>3,327,046</b>

**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. Under GAAP these assets were recorded at cost.

**Provisions**

Council had previously recognised the prudential margin in relation to Worker's Compensation claims as part of the provision for Worker's Compensation. This treatment is not allowable under AIFRS. The over-provision was reversed.

**Note 21 – Impacts of International Financial Reporting Standards (continued)**

(b) At the date of transition to AIFRS: 30 June 2005

	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000
<b>Current assets</b>			
Cash and cash equivalents	342,109	–	342,109
Receivables	23,330	–	23,330
Inventories	676	–	676
Other	3,378	–	3,378
<b>Non-current assets</b>			
Receivables	253	–	253
Infrastructure, property, plant and equipment	3,143,185	(85,942)	3,057,243
Investment property	–	125,940	125,940
<b>Total assets</b>	<b>3,512,931</b>	<b>39,998</b>	<b>3,552,929</b>
<b>Current liabilities</b>			
Payables	54,128	–	54,128
Provisions	14,868	13,796	28,664
<b>Non-current liabilities</b>			
Provisions	38,187	(16,846)	21,341
<b>Total liabilities</b>	<b>107,183</b>	<b>(3,050)</b>	<b>104,133</b>
<b>Net assets</b>	<b>3,405,748</b>	<b>43,048</b>	<b>3,448,796</b>
<b>Equity</b>			
Accumulated surplus	2,075,388	43,048	2,118,436
Trust assets reserve	1,330,360	–	1,330,360
<b>Total equity</b>	<b>3,405,748</b>	<b>43,048</b>	<b>3,448,796</b>

**Investment property (AASB 140)**

Consequent on the decision in a) above, the identified investment properties have been removed from Infrastructure, Property, Plant and Equipment and separately disclosed in the Balance Sheet. Subsequent movements include recognition at fair value at 1 July 2004, the reversal of depreciation charged in 2005 under GAAP and the change in fair value during the 2005 reporting period.

**Provisions**

- Provisions were reclassified from Non-Current to current in order to meet the definition of Current and Non-current liabilities under AIFRS.
- Council had previously recognised the prudential margin in relation to Worker's Compensation claims as part of the provision for Worker's Compensation. This treatment is not allowable under AIFRS. The over-provision was reversed.

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2006**

**Note 21 – Impacts of International Financial Reporting Standards (continued)**

**(c) Reconciliation of 2005 Statement of Financial Performance (GAAP) with 2005 comparative Income Statement (AIFRS)**

	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000
<b>Revenues</b>			
Rates and annual charges	192,025		192,025
User charges and fees	59,676		59,676
Investment revenues	19,954		19,954
Other revenues	65,829	10,000	75,829
Grants and contributions – operating	7,707		7,707
Grants and contributions – capital	14,176		14,176
Profit from disposal of assets	8,710	–	8,710
<b>Total revenues</b>	<b>368,077</b>	<b>10,000</b>	<b>378,077</b>
<b>Expenses</b>			
Employee costs	106,032	(1,109)	104,923
Materials and contracts	60,969	–	60,969
Borrowing costs	–	–	–
Depreciation and amortisation	39,067	(1,036)	38,031
Other expenses	52,404	–	52,404
<b>Total expenses</b>	<b>258,472</b>	<b>(2,145)</b>	<b>256,327</b>
<b>Net operating result for year</b>	<b>109,605</b>	<b>12,145</b>	<b>121,750</b>
Attributable to:			
Minority Interests	–		–
City of Sydney	109,605	12,145	121,750
	<b>109,605</b>	<b>12,145</b>	<b>121,750</b>

**Investment property (AASB 140)**

Consequent on the decision in a) above, the AIFRS recognises the net change in fair value of investment properties in the Income Statement (recognised through Asset Revaluation Reserve under GAAP), and does not charge depreciation on Investment Property carried at fair value.

**Employee Costs**

As indicated in a) and b) above, the prudential margin taken up in the Worker's Compensation Provision was reversed due to AIFRS. This resulted in a reversal of Worker's Compensation expense for the 2004/05 year, as the margin had been taken up under previous AGAAP.

**(d) Reconciliation of Statement of Cash Flows**

The adoption of AIFRS has not resulted in any material adjustments to the Statement of Cash Flows.

## Note 21 – Impacts of International Financial Reporting Standards (continued)

### (e) Reconciliation of Equity on adoption of AASB 132 and AASB 139 at 1 July 2005.

	30 June 2005 \$'000	Effect of transition to AIFRS \$'000	1 July 2005 \$'000
<b>Current assets</b>			
Cash and cash equivalents	342,109	(4,883)	337,226
Investment securities	–	5,007	5,007
Receivables	23,330		23,330
Inventories	676		676
Other	3,378		3,378
<b>Non-current assets</b>			
Receivables	253		253
Infrastructure, property, plant and equipment	3,057,243		3,057,243
Investment property	125,940		125,940
<b>Total assets</b>	<b>3,552,929</b>	<b>124</b>	<b>3,553,053</b>
<b>Current liabilities</b>			
Payables	54,128	–	54,128
Provisions	28,664	–	28,664
<b>Non-current liabilities</b>			
Provisions	21,341	–	21,341
<b>Total liabilities</b>	<b>104,133</b>	<b>–</b>	<b>104,133</b>
<b>Net assets</b>	<b>3,448,796</b>	<b>124</b>	<b>3,448,920</b>
<b>Equity</b>			
Accumulated surplus	2,118,436	124	2,118,560
Trust assets reserve	1,330,360	–	1,330,360
<b>Total equity</b>	<b>3,448,796</b>	<b>124</b>	<b>3,448,920</b>

In presenting its 2005 comparative figures, Council has elected to use the exemption in relation to financial instruments set out in AASB 1.36A. In giving effect to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* at 1 July 2005, the following adjustments have been made.

#### Financial Instruments categorised as Fair Value through P & L

Previously recognised at cost, these are now recognised at fair value. The net change in carrying value has been carried to Accumulated Surplus. Some investments previously recognised as cash equivalents have been reclassified to Investment Securities.

## Note 22 – Reinstatement, rehabilitation and restoration liabilities

### Site remediation

Council has implemented a Remediation Action Plan (RAP) in respect of a former Council depot at Fig and Wattle Streets, Pyrmont.

The estimated cost of the remediation in the 2007/08 financial year is \$3 million based on the requirements of the RAP. The amount has been discounted to its present value at 5.79% per annum being the risk-free rate available to Council.

	Actual 2006 \$'000
At beginning of year	–
Amount capitalised to remediation asset:	
– Existing disturbance	2,533
Amortisation of discount-expensed to borrowing costs	147
<b>At end of year</b>	<b>2,680</b>



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 2006:

- The Council of the City of Sydney (the Council) accounting records have been kept in accordance with Division 2, Part 3, Chapter 13 of the *Local Government Act 1993* (the Act).
- The general purpose financial report of the Council -
  - has been prepared in accordance with the requirements of the aforementioned Division
  - is consistent with the Council's accounting records
  - presents fairly in accordance with applicable Accounting Standards and other
  - mandatory professional requirements the Council's financial position as at 30 June 2006 and the results of its operations and cash flows for the year ended on that date.
- All information relevant to the conduct of the audit has been obtained.
- 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.

#### Scope

##### *The Financial Report and the Lord Mayor and Councillors' Responsibility*

The general purpose financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement and accompanying notes to the financial statements for the Council for the year ended 30 June 2006.

The Lord Mayor and Councillors of the Council of the City of Sydney are responsible for the preparation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Audit Approach*

I conducted an independent audit in order to express an opinion on the financial report. My audit provides *reasonable assurance* that the financial report is free of *material* misstatement.

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

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Lord Mayor and Councillors in preparing the financial report, and
- examined a sample of evidence that supports the amounts and disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the 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 it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

#### **Audit Independence**

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



Peter Achterstraat  
Auditor-General

SYDNEY  
23 October 2006



THE AUDIT OFFICE  
OF NEW SOUTH WALES

CONTACT NAME Jack Kheir  
TELEPHONE 9275 7222  
OUR REFERENCE D0635383/0115  
YOUR REFERENCE

Ms Clover Moore  
Lord Mayor  
City of Sydney  
Level 5 Town Hall  
SYDNEY NSW 2000

23 October 2006

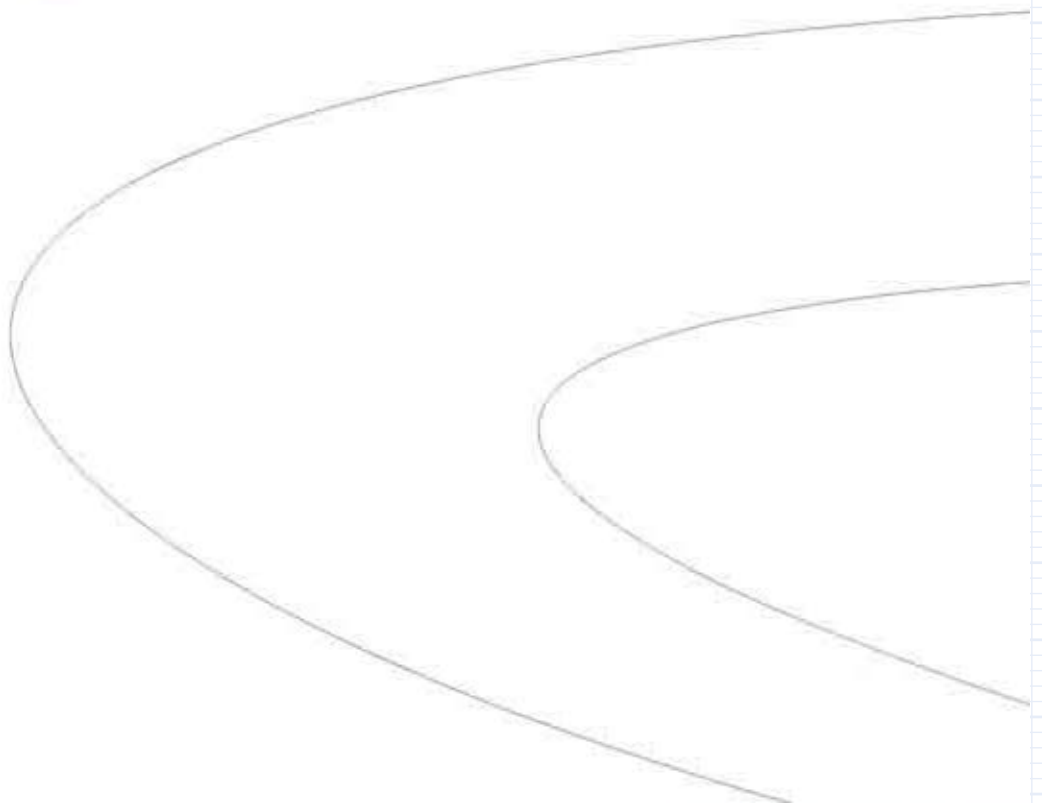
Dear Lord Mayor

**Audit of the Council of the City of Sydney  
for the Year Ended 30 June 2006**

Please find enclosed a copy of the report I am required to submit to you under section 417(4) of the *Local Government Act 1993*.

Yours sincerely

Peter Achterstraat  
Auditor-General



**COUNCIL OF THE CITY OF SYDNEY**  
**REPORT ON THE CONDUCT OF THE AUDIT**  
**FOR THE YEAR ENDED 30 JUNE 2006**

In accordance with section 417 of the *Local Government Act 1993* (the Act), I report on the conduct of the audit of the Council of the City of Sydney (the Council) for the year ended 30 June 2006.

**AUDIT RESULT**

The audits of the Council's General Purpose Financial Report and the Special Purpose Financial Report resulted in unqualified audit opinions. The emphasis of matter reported in the 2004-05 audit opinion, regarding control of Crown reserves, has been removed this year. Further information is provided below.

The Council complied with the legislative requirements in Division 2 of Chapter 13 of the Act. I did not detect any material deficiencies in the accounting records or financial report during the course of the audit.

**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.

**Accounting for Crown Reserves**

The uncertainty as to whether the Council controls Crown reserves, in an accounting sense, has been resolved for 2005-06. After considering Ernst & Young's advice to NSW Treasury on the matter, and discussing the issue with Council management and Treasury, we are of the opinion that:

- each individual trust created under the Crown Lands Act 1989 controls the applicable Crown reserve, and
- the Council in turn controls each of the reserve trusts within its boundary.

Our opinion is based on the requirements of Australian Accounting Standard AASB 127 'Consolidated and Separate Financial Reports'. This accounting standard defines control as "*the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities*". The Council's ability to govern the financial and operating policies of the trusts is evident from its ability to: control access to each reserve; determine the appropriate use of the reserve; determine the level of maintenance and upgrade works for each reserve; and set fees for use of each reserve. Further, as a result of these activities the Council obtains significant benefit by fulfilling key objectives under the Act and its own Corporate Plan.

In normal circumstances, we would expect the Council to prepare consolidated financial statements to separately disclose the assets, liabilities, expenses and revenues of the reserve trusts. However, because this matter was only resolved in late August, we considered that requesting the Council to prepare consolidated financial statements would be an unreasonable burden. In lieu of this, management has disclosed the information it would have reported in the consolidated financial statements by way of notes to the financial statements. This information is contained in Notes 1 and 9. Consolidated financial statements are required when an entity, such as the Council, controls another entity, such as a reserve trust.

While this matter was resolved for 2005-06, the Council should monitor any developments in accounting pronouncements that may change the interpretation of control within AASB 127. For example, the Australian Accounting Standards Board intends placing further guidance in AASB 127 on the interpretation of control in the public sector. This guidance currently exists in Australian Accounting Standard AAS 31 'Financial Reporting by Governments'. Any change to AASB 127 will need to be considered on its merits.

In 2006-07, the Council needs to develop systems and processes to separately track transactions relating to reserve trusts. Not only is this important for preparing accurate consolidated financial statements, but it also ensures the Council complies with the record keeping requirements under the *Crown Lands Act 1989*. Detailed tracking of such revenues and expenses will also provide the Council with valuable information on the net cost to maintain each Crown reserve, which may help it in making key operational/financial decisions.

#### Other significant Audit Issues and Observations

- We examined the internal controls operating within the expenditure, payroll and property, plant and equipment business cycles. We identified some areas for improvement and these have been discussed with management. Shortly, we will issue a management letter that will contain a detailed explanation of these matters.
- The Council successfully managed the transition to the new Australian equivalents to International Financial Reporting Standards (AIFRS). The major impact of AIFRS on the Council's financial report was:
  - reclassifying some assets as investment properties, and subsequently measuring them at fair value, and
  - de-recognising the prudential margin on the provision for workers' compensation, which is no longer allowed for self insurers.
- The Council needs to start preparing for the transition to valuing property, plant and equipment at fair value. The Department of Local Government requires all Councils to progressively measure their property, plant and equipment at fair value from 2006-07. The revaluation of infrastructure assets is a significant exercise that requires proper planning, to ensure appropriate records exist to support the valuation process. In preparing for the move to fair value, the Council should:
  - reconcile existing records in its fixed asset register with other databases/subsidiary systems held within Council
  - decide which records will be used to carry out the valuation
  - start considering who should value these assets and the timing of the valuation, to ensure it is completed by 30 June each year, and
  - start developing appropriate terms of reference for the valuer to follow.

## Financial Results

Overall, the Council has again achieved a positive financial result. The Council recorded an operating surplus from ordinary activities of \$107.9 million (\$121.8 million in 2004-05). The operating surplus was \$43.1 million higher than budget. The Council is forecasting a net surplus of \$62.98 million for 2006-07, with a capital works program of \$188.6 million.

### *Income Statement*

	2006 \$m	%	2005 \$m	%
<b>Revenue Items</b>				
Business Rates	143.1	36.3	141.8	37.5
Residential Rates	36.0	9.1	31.4	8.3
Annual Charges	19.0	4.8	18.8	5.0
Parking fines revenue	32.1	8.1	29.0	7.7
Parking meter revenue	20.7	5.2	16.5	4.4
Grants and Contributions	23.5	6.0	21.9	5.8
Planning & Building Fees	8.9	2.3	10.2	2.7
Commercial property rents	35.5	9.0	33.8	8.9
Investment Revenues	23.1	5.9	20.0	5.3
Other	52.7	13.3	54.7	14.4
<b>TOTAL REVENUE</b>	<b>394.6</b>	<b>100.0</b>	<b>378.1</b>	<b>100.0</b>
<b>Expense Items</b>				
Employee Costs	110.8	38.6	104.9	40.9
Depreciation	44.1	15.4	38.0	14.8
Materials & Contracts	74.1	25.8	61.0	23.8
Other Expenses	57.7	20.2	52.4	20.5
<b>TOTAL EXPENSES</b>	<b>286.7</b>	<b>100.0</b>	<b>256.3</b>	<b>100.0</b>

Revenue from fines and parking meters continues to increase, making up 13.3 per cent (12.1 per cent in 2004-05) of total revenue. The deferrals in the capital works program meant the Council had greater cash on hand to invest during the year, resulting in higher investment income.

The increase in employee costs was mainly due to an increase in salary rates resulting from award increases. Property, plant and equipment additions during the year were the main reason for the increase in depreciation expense. The increase in material and contracts expenditure was mainly due to greater maintenance activity during the year.

### **Balance Sheet**

	2006 \$m	2005 \$m	\$m Increase (Decrease)	% Increase (Decrease)
Net Assets	3,556.8	3,448.8	108.0	3.1
Total Current Assets	405.6	369.5	39.1	10.6
Total Non-Current Assets	3,253.4	3,183.4	70.0	2.2
Total Current Liabilities	78.4	82.8	(4.4)	(5.3)
Total Non-Current Liabilities	23.8	21.3	2.5	11.7

Assets included cash and investments of \$375.0 million (\$342.1 million at 30 June 2005). The unrestricted portion of cash and investments was \$257.8 million (\$213.8 million). The Council will use some of this unrestricted cash to fund the capital works program in 2006-07.

The Council's current ratio, a measure of its liquidity, has increased to 5.18:1 (4.46:1 at 30 June 2005). The written down value of property, plant and equipment was \$3.1 billion (\$3.1 billion) and included Crown reserves valued at \$1.3 billion (\$1.3 billion).

Current liabilities of \$78.4 million (\$82.86 million) included provisions, \$28.6 million (\$28.7 million). The Council had no borrowings at year end.

### **Performance Indicators**

	2006 %	2005 %
Unrestricted Current Ratio	4.7:1	4.0:1
Debt Service Ratio	0	0
Rate & Annual Charges Coverage Ratio	50.2	50.8
Rates & Annual Charges Outstanding Ratio	2.6	4.7

The Council's unrestricted current ratio of 4.7:1 is well above the recommended range of 1:1. The debt service ratio is nil, reflecting the fact that Council has no external debt. The decrease in the rates outstanding ratio reflects continuing improvements to the Council's debt recovery procedures.

The Council's financial position is considered to be sound and stable.

### **Acknowledgement**

I thank the Council's staff for their courtesy and assistance during the course of the audit.

Peter Achterstraat  
Auditor-General

23 October 2006

# City of Sydney

ABN 22 636 550 790

## Special Purpose Financial Reports

For the year ended 30 June 2006

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## Statement by Councillors and Management made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

The attached special purpose Financial Statements have been drawn up in accordance with the Local Government Code of Accounting Practice and Financial Reporting and the:

- NSW Government Policy Statement “*Application of National Competition Policy to Local Government*”;
- Department of Local Government guidelines “*Pricing and Costing for Council Businesses: A Guide to Competitive Neutrality*”; and
- The Department of Energy, Utilities and Sustainability “*Best Practice Management of Water Supply and Sewerage*” guidelines.

To the best of our knowledge and belief, these reports

- Present fairly the financial position and operating result for each of Council’s declared Business Units for the year; and
- Accord with Council’s accounting and other records.

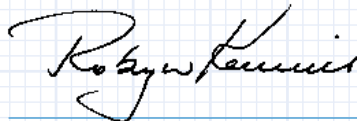
We are not aware of any matter that would render the reports false or misleading in any way.

Signed in accordance with a resolution of Council made on 23 October 2006



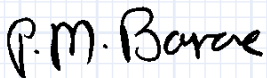
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**Clover Moore**  
Lord Mayor



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**Robyn Kemmis**  
Councillor



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**Monica Barone**  
Chief Executive Officer



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**Bill Carter**  
Finance Manager

**Income statement of business activities  
for the year ended 30 June 2006**

	BUSINESS ACTIVITIES					
	Commercial property \$'000		Parking stations \$'000		Venue management \$'000	
	2006	2005	2006	2005	2006	2005
<b>Revenue from continuing operations</b>						
User charges and fees	476	907	8,541	9,018	2,801	2,448
Grants and contributions – operating	92	–	–	–	–	–
Other operating revenues	35,473	33,821	–	–	–	–
<b>Total</b>	<b>36,041</b>	<b>34,728</b>	<b>8,541</b>	<b>9,018</b>	<b>2,801</b>	<b>2,448</b>
<b>Expenses from continuing operations</b>						
Employee costs	788	761	529	518	1,551	1,544
Materials and contracts	6,261	5,447	529	1,190	170	137
Depreciation and amortisation	2,947	2,913	1,037	1,037	1,359	1,178
Other operating expenses	3,641	2,771	2,152	2,314	376	408
Calculated taxation equivalents	1,699	1,391	35	29	195	171
<b>Total</b>	<b>15,336</b>	<b>13,283</b>	<b>4,282</b>	<b>5,088</b>	<b>3,651</b>	<b>3,438</b>
<b>Continuing operations result before capital amounts</b>	20,705	21,445	4,259	3,930	(850)	(990)
<b>Result from ordinary activities</b>	20,705	21,445	4,259	3,930	(850)	(990)
Corporate taxation equivalent	6,212	6,434	1,278	1,179	–	–
<b>Surplus (deficit) for year</b>	14,493	15,011	2,981	2,751	(850)	(990)
Add: accumulated profits brought forward	110,005	93,603	24,838	22,058	13	832
Calculated taxation equivalents	1,699	1,391	35	29	195	171
<b>Accumulated surplus</b>	<b>126,197</b>	<b>110,005</b>	<b>27,854</b>	<b>24,838</b>	<b>(642)</b>	<b>13</b>
Rate of return on capital	6.82%	7.39%	30.60%	27.83%	Nil	Nil

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

**Balance sheet of business activities  
for the year ended 30 June 2006**

	BUSINESS ACTIVITIES					
	Commercial property \$'000		Parking stations \$'000		Venue management \$'000	
	2006	2005	2006	2005	2006	2005
<b>Current assets</b>						
Receivables	930	243	84	93	17	15
Inventories	–	–	–	–	62	49
Other	106	–	121	–	–	–
<b>Total current assets</b>	<b>1,036</b>	<b>243</b>	<b>205</b>	<b>93</b>	<b>79</b>	<b>64</b>
<b>Non-current assets</b>						
Property, plant and equipment	303,459	290,250	13,920	14,119	83,141	84,500
<b>Total non-current assets</b>	<b>303,459</b>	<b>290,250</b>	<b>13,920</b>	<b>14,119</b>	<b>83,141</b>	<b>84,500</b>
<b>Total assets</b>	<b>304,495</b>	<b>290,493</b>	<b>14,125</b>	<b>14,212</b>	<b>83,220</b>	<b>84,564</b>
<b>Current liabilities</b>						
Payables	3,227	1,750	699	188	572	499
Provisions	181	98	85	62	278	115
<b>Total current liabilities</b>	<b>3,408</b>	<b>1,848</b>	<b>784</b>	<b>250</b>	<b>850</b>	<b>614</b>
<b>Non-current liabilities</b>						
Provisions	95	230	91	131	406	306
<b>Total non current liabilities</b>	<b>95</b>	<b>230</b>	<b>91</b>	<b>131</b>	<b>406</b>	<b>306</b>
<b>Total liabilities</b>	<b>3,503</b>	<b>2,078</b>	<b>875</b>	<b>381</b>	<b>1,256</b>	<b>920</b>
<b>Net assets</b>	<b>300,992</b>	<b>288,415</b>	<b>13,250</b>	<b>13,831</b>	<b>81,964</b>	<b>83,644</b>
<b>Equity</b>						
Accumulated surplus	126,197	110,005	27,854	24,838	(642)	13
Council equity interest	174,795	178,410	(14,604)	(11,007)	82,606	83,631
<b>Total equity</b>	<b>300,992</b>	<b>288,415</b>	<b>13,250</b>	<b>13,831</b>	<b>81,964</b>	<b>83,644</b>

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

## Notes to and forming part of the Special Purpose Financial Reports for the year ended 30 June 2006

### Note 1 – Significant accounting policies

These financial statements are a Special Purpose Financial Report (SPFR) prepared for use by the Council and the Department of Local Government. For the purposes of these statements, the Council is not a reporting entity.

This special purpose financial report, unless otherwise stated, 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 and Regulations, the Local Government Code of Accounting Practice and Financial Reporting and the Local Government Asset Accounting Manual.

The statements are also prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, current values of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

#### National competition policy

Council has adopted the principle of 'competitive neutrality' to its business activities as part of the national competition policy which is being applied throughout Australia at all levels of government. The framework for its application is set out in the June 1996 Government Policy statement on the 'Application of National Competition Policy to Local Government'. The 'Pricing and Costing for Council Businesses A Guide to Competitive Neutrality' issued by the Department of Local Government in July 1997 has also been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide a standard of disclosure requirements. These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents; Council subsidies; return on investments (rate of return); and dividends paid.

#### Declared business activities

In accordance with Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality, Council has declared that the following are to be considered as business activities:

#### Category 1

Name	Brief Description of Activity
Commercial Properties	Commercial Rental Portfolio
Parking Stations	Parking Station Operations
Venue Management	Management of Conference and Events Facilities

### Monetary amounts

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

#### (i) Taxation equivalent charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations (General Purpose Financial Report) just like all other costs. However, where Council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council nominated business activities and are reflected in the SPFR. For the purposes of disclosing comparative information relevant to the private sector equivalent the following taxation equivalents have been applied to all Council nominated business activities (this does not include Council's non-business activities):

	Notional rate applied (%)
Corporate Tax Rate	30% applicable on surplus
Land Tax	2005/06: \$100 for \$352K + 1.7% on >\$352K 2004/05: \$2,200 + 1.4 cents for each \$1 by which the taxable value exceeds \$500,000
Payroll Tax	6.0% (\$600K threshold applied)

#### Income tax

An income tax equivalent has been applied on the profits of the business. Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account of in terms of assessing the rate of return required on capital invested. Accordingly, the return on capital invested is set at a pre-tax level (gain/(loss) from ordinary activities before capital amounts) as would be applied by a private sector competitor – that is, it should include a provision equivalent to the corporate income tax rate, currently 30%.

Income Tax is only applied where a positive gain/(loss) from ordinary activities before capital amounts has been achieved. Since the taxation equivalent is notional, that is, it is payable to the "Council" as the owner of business operations, it represents an internal payment and has no effect on the operations of the Council.

Accordingly, there is no need for disclosure of internal charges in the GPFR. The rate applied of 30% is the equivalent company tax rate prevalent as at balance date. No adjustments have been made for variations that have occurred during the year.

#### Local Government rates and charges

A calculation of the equivalent rates and charges for all Category 1 businesses has been applied to all assets owned or exclusively used by the business activity.

**Notes to and forming part of the Special Purpose Financial Statements  
for the year ended 30 June 2006**

**Note 1 – Significant accounting policies (continued)**

**(ii) Subsidies**

Government policy requires that subsidies provided to customers and the funding of those subsidies must be explicitly disclosed. Subsidies occur where Council provides services on a less than cost recovery basis. This option is exercised on a range of services in order for Council to meet its community service obligations. The overall effect of subsidies is contained within the Income statement of Business Activities.

**(iii) Return on investments (rate of return)**

The Policy statement requires that Councils with Category 1 businesses “would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field”.

Funds are subsequently available for meeting commitments or financing future investment strategies. The rate of return is disclosed for each of Council’s business activities on the Income statement.

The Calculation of Return on Capital is as follows:

$$\frac{\text{Gain/(Loss) from ordinary activities before  
Capital amounts + Interest expense}}{\text{Total Written Down Value of Property, Plant and Equipment}}$$

**(iv) Dividends**

Council is not required to pay dividends to either itself as owner of a range of businesses or to any external entities.



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, the special purpose financial report of the Council of the City of Sydney (the Council) presents fairly the Council's financial position as at 30 June 2006 and its performance for the year ended on that date, in accordance with the accounting policies described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting.

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

#### Scope

##### *The Financial Report and the Lord Mayor and Councillors' Responsibility*

The special purpose financial report comprises the balance sheet, income statement and accompanying notes to the financial statements of the Council for the year ended 30 June 2006. It has been prepared for distribution to the Lord Mayor and Councillors, and the Department of Local Government, to fulfill the financial reporting requirements under the Local Government Code of Accounting Practice and Financial Reporting.

The Lord Mayor and Councillors of the Council of the City of Sydney (the Council) are responsible for the preparation of the special purpose financial report. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the special purpose financial report. They have determined that the accounting policies used and described in Note 1 meet the financial reporting requirements of the Local Government Code of Accounting Practice and Financial Reporting, and the needs of the Department of Local Government. These policies do not require the application of all Accounting Standards and other mandatory financial reporting requirements in Australia.

##### *Audit Approach*

I conducted an independent audit in order to express an opinion on the special purpose financial report. My audit provides *reasonable assurance* that the special purpose financial report is free of *material* misstatement.

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

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Lord Mayor and Councillors in preparing the special purpose financial report, and
- examined a sample of evidence that supports the amounts and disclosures in the special purpose financial report.

An audit does *not* guarantee that every amount and disclosure in the special 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 it has carried out its activities effectively, efficiently and economically,
- about the effectiveness of its internal controls, or
- that the accounting policies used and described in Note 1 are appropriate to the needs of the Lord Mayor and Councillors.

I disclaim any assumption of responsibility for any reliance on this report, or on the special purpose financial report to which it relates to any person other than the Lord Mayor and Councillors, or for any purpose other than that for which it was prepared.

#### **Audit Independence**

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



Peter Achterstraat  
Auditor-General

SYDNEY  
23 October 2006

