

LORD HOWE ISLAND BOARD

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

Pursuant to Section 41C of the *Public Finance and Audit Act, 1983*, and in accordance with a resolution of the members of the Lord Howe Island Board, we declare on behalf of the Board that in our opinion:

1. The accompanying financial statements exhibit a true and fair view of the financial position of the Lord Howe Island Board as at 30 June 2017 and its financial performance for the year then ended.
2. The statements have been prepared in accordance with Australian Accounting Standards (which include Australian Accounting Interpretations), the provisions of the *Public Finance and Audit Act 1983*, and the Public Finance and Audit Regulation 2015.

Further, we are not aware of any circumstances that would render any particulars included in the financial statements to be misleading or inaccurate.



Deputy Chair

Name: Barney Nichols

Dated: 13 October 2017

Lord Howe Island



Elected Member

Name: Lisa Makiiti

## LORD HOWE ISLAND BOARD

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 \$'000	2016 \$'000
<b>REVENUE</b>			
Sales of liquor		1,741	1,678
User charges and fees	2(a)	4,381	4,349
Interest revenue		344	367
Grants revenue	2(b)	2,975	7,532
Other revenue		175	107
<b>Total revenue</b>		<b>9,616</b>	<b>14,033</b>
<b>EXPENSES</b>			
Cost of sales of liquor		(1,265)	(1,183)
Personnel services	3(a)	(3,958)	(3,835)
Depreciation	7	(1,837)	(1,785)
Amortisation	9	(50)	(50)
Project costs expensed		(965)	-
Other expenses	3(b)	(4,532)	(2,904)
<b>Total expenses</b>		<b>(12,607)</b>	<b>(9,757)</b>
Write-off of assets	3(c)	(340)	-
<b>Net result</b>		<b>(3,331)</b>	<b>4,276</b>
<b>Other comprehensive income</b>			
<b>Item that will not be reclassified to net result</b>			
Change in Revaluation Surplus	7	-	157
<b>Total other comprehensive income</b>		<b>-</b>	<b>157</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>(3,331)</b>	<b>4,433</b>

The accompanying notes form part of these financial statements.

## LORD HOWE ISLAND BOARD

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Note	2017 \$'000	2016 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	11,970	14,556
Receivables	5	975	1,190
Inventories	6	530	319
<b>Total Current Assets</b>		<b>13,475</b>	<b>16,065</b>
<b>Non-Current Assets</b>			
Property, plant & equipment	7	51,268	52,096
Intangible assets	9	79	129
<b>Total Non-Current Assets</b>		<b>51,347</b>	<b>52,225</b>
<b>TOTAL ASSETS</b>		<b>64,822</b>	<b>68,290</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	10	1,514	1,599
Provision	11	-	68
Unearned revenue		33	17
<b>Total Current Liabilities</b>		<b>1,547</b>	<b>1,684</b>
<b>TOTAL LIABILITIES</b>		<b>1,547</b>	<b>1,684</b>
<b>NET ASSETS</b>		<b>63,275</b>	<b>66,606</b>
<b>EQUITY</b>			
Accumulated funds		14,021	17,352
Revaluation surplus	12	49,254	49,254
<b>TOTAL EQUITY</b>		<b>63,275</b>	<b>66,606</b>

The accompanying notes form part of these financial statements.

## LORD HOWE ISLAND BOARD

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	Note	Accumulated Funds \$'000	Revaluation Surplus \$'000	Total \$'000
<b>AT 1 JULY 2016</b>		17,352	49,254	66,606
Net result		(3,331)	-	(3,331)
<b>Other comprehensive income</b>		-	-	-
<b>Total comprehensive income for the year</b>		<b>(3,331)</b>	<b>-</b>	<b>(3,331)</b>
<b>AT 30 JUNE 2017</b>		<b>14,021</b>	<b>49,254</b>	<b>63,275</b>

	Note	Accumulated Funds \$'000	Revaluation Surplus \$'000	Total \$'000
<b>AT 1 JULY 2015</b>		13,076	49,097	62,173
Net result		4,276	-	4,276
<b>Other comprehensive income</b>				
Change in Revaluation Surplus		-	157	157
<b>Total comprehensive income for the year</b>		<b>4,276</b>	<b>157</b>	<b>4,433</b>
<b>AT 30 JUNE 2016</b>		<b>17,352</b>	<b>49,254</b>	<b>66,606</b>

The accompanying notes form part of these financial statements.

## LORD HOWE ISLAND BOARD

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 \$'000	2016 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		6,842	7,153
Grants received		2,962	8,015
Other receipts		126	27
Payments to personnel and suppliers		(11,615)	(11,001)
<b>Net cash flows from operating activities</b>	<b>13</b>	<b>(1,685)</b>	<b>4,194</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		16	9
Interest received		359	475
Payments for property, plant and equipment		(1,276)	(6,201)
<b>Net cash flows from investing activities</b>		<b>(901)</b>	<b>(5,717)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(2,586)</b>	<b>(1,523)</b>
<b>Opening cash and cash equivalents</b>		<b>14,556</b>	<b>16,079</b>
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	<b>4</b>	<b>11,970</b>	<b>14,556</b>

The accompanying notes form part of these financial statements.

## LORD HOWE ISLAND BOARD

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

The principal accounting policies adopted in the preparation of the financial statements are set out below.

These policies have been consistently applied to each of the years presented, unless otherwise stated.

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### (A) REPORTING ENTITY

The Lord Howe Island Board (the Board) is a statutory body established under the provisions of the *Lord Howe Island Act 1953*. The Board's primary function is administering the affairs of Lord Howe Island. The Board members have determined that the Board is a not-for-profit entity for financial reporting purposes.

These financial statements were authorised for issue by the Lord Howe Island Board on 13 October 2017.

##### (B) FUNCTIONAL AND PRESENTATION CURRENCY

All amounts have been rounded to the nearest thousand Australian dollars, other than amounts shown within text which are all unrounded.

##### (C) BASIS OF PREPARATION

These general purpose financial statements (other than the Statement of Cash Flows) have been prepared on an accrual accounting basis in accordance with Australian Accounting Standards which include Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Public Finance and Audit Act (1983)* and the *Public Finance and Audit Regulation (2015)*.

These financial statements have been prepared in accordance with the historical cost convention, unless otherwise stated.

The preparation of financial statements requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Board's accounting policies. Estimates and judgements made as part of the preparation of these financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity, and they are believed to be reasonable under the circumstances.

##### (D) REVENUE RECOGNITION

The Board recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria, as detailed in Note 2, have been met for each of the Board's activities.

**(E) LEASES**

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Board as lessee are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

**(F) IMPAIRMENT OF ASSETS**

The Board assesses at each balance date whether there is objective evidence that an asset is impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

**(G) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS**

The Board has not adopted new or revised accounting standards before the respective operative date.

The following amendments to accounting standards became effective during the current reporting period and have affected these financial statements:

- *AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101* – there has been no change in accounting policy as a result of these amendments but significant changes to the presentation of these financial statements (compared with the financial statements for the previous financial period), including rounding of amounts to the nearest \$'000, have been made so the information provided is simpler to understand and more relevant;
- *AASB 2015-6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to not-for-profit public sector entities* – no change in accounting policy was required or made but new disclosures, as required, are now included;
- *AASB 2015-7 Amendments to Australian Accounting Standards – Fair value disclosures of not-for-profit public sector entities* (effective 1 July 2016) – no change in accounting policy was required or made, but these amendments reduced some of the disclosure requirements compared to the corresponding disclosures in the prior year.

All other new or revised accounting standards which became effective during the current period are either not applicable to the Board or have had no effect on these financial statements.

The following new or revised Australian Accounting Standards have been issued but are not yet effective and have not been applied in these financial statements:

- *AASB 9 Financial Instruments* (effective 1 January 2018) - this introduces new requirements for the classification and measurement of financial assets and liabilities, and includes a forward looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting;
- *AASB 15 Revenue from Contracts with Customers* (effective 1 January 2018) – this establishes a new revenue recognition model, changes the basis for deciding whether revenue is to be recognised over time or at a point in time and expands disclosures about revenue;
- *AASB 16 Leases* – this will require all leases to be accounted for 'on balance sheet' by lessees, other than short term and low value leases (effective 1 January 2019);

- AASB 1058 *Income of not-for-profit entities* – this standard guides the application of AASB 15 Revenue from Contracts with Customers in the context of not-for-profit entities and addresses some specific issues relevant to such entities.

The application of AASB 9 is not expected to have a material impact on the Board's financial statements or disclosures, due to the simplicity of the Board's financial assets and liabilities. In particular, the impairment losses from financial instruments are expected to be trivial, if any, regardless of the impairment model being used, and the Board does not enter into hedging arrangements.

The revenue streams currently shown collectively as 'user charges and fees' will need to be separated between those to which AASB 15 applies and those which are not subject to it, with potentially different accounting treatments required in each case.

AASB 15 also requires a specific accounting treatment for revenues generated from selling bundled goods and/or services, but there will be no impact arising from this aspect of AASB 15 as the Board does not sell such bundles.

AASB 15 introduces concepts of 'contract assets' (separately from other receivables) and 'contract liabilities'.

The full nature and magnitude of the impact of applying AASB 15 on the Board's financial statements cannot be reliably determined at this time.

The application of AASB 16 is expected to have minimal impact on the Board's financial statements as there are only two premises for which the Board is a lessee for which right-to-use assets and a lease liability would need to be recognised, with consequential depreciation and separation of lease payments between principal and interest components and potentially other disclosures.

The application of AASB 1058 is unlikely to have any effect on the Board's financial statements in relation to:

- Assets acquired for significantly less than market value, because such circumstances are unusual and, in any event, the Board already accounts for such circumstances in the manner set out in AASB 1058; and
- Volunteer services, because the Board has no volunteers.

The application of AASB 1058 in relation to PPE assets being acquired using funding provided under conditional contracts would require a change of the Board's current accounting policy but the likely impact, if any, of this change cannot be reliably determined at this time.

The effect, if any, of the application of AASB 1058 in relation to income arising from statutory requirements also cannot be reliably determined at this time.

Other new or revised accounting standards currently having a future operative date will not be relevant to the Board.

## **(H) GOODS AND SERVICES TAX (GST)**

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



Receivables and payables are stated inclusive of the amount of GST receivable or payable. Cash flows are presented on a gross basis. GST components of cash flows arising from investing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

## **(I) COMPARATIVE INFORMATION**

Except where an Australian Accounting Standard permits or requires otherwise, comparative information is presented in respect of the previous period for all amounts reported in these financial statements.

## **2. REVENUE**

Revenue is measured at the fair value of the consideration received or receivable, as follows:

### **Sale of liquor**

Revenue from the sale of liquor is recognised when the Board transfers the risks and rewards of ownership of the liquor to customers.

### **Grants**

Grants are recognised as revenue when the Board obtains control over the grant amount, which is usually by receipt of cash.

A liability is recognised in respect of grant revenue that has documented reciprocal arrangements to the extent that the grantor requires a refund for services not provided at balance date.

### **User charges and fees**

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

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

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

### **Interest revenue**

Interest revenue is recognised on an accrual basis using the effective interest rate method.

### **Lease income**

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

**(A) USER CHARGES AND FEES**

	2017 \$'000	2016 \$'000
Electricity user charges	926	900
Waste management fees	332	363
Airport user charges	1,760	1,771
Marine Facilities user fees	328	292
Housing and other building rentals	249	234
Public accommodation fees	300	295
Lease revenue	246	250
Other fees and charges	240	244
<b>TOTAL USER CHARGES AND FEES</b>	<b>4,381</b>	<b>4,349</b>

**(B) GRANTS**

	2017 \$'000	2016 \$'000
Grants from NSW Government	2,771	4,552
Grants from Commonwealth Government	204	2,965
Other grants	-	15
<b>TOTAL GRANTS</b>	<b>2,975</b>	<b>7,532</b>

Certain grants received by the Board include conditions imposed by the donor as to how the grant should be spent. Accordingly, the use of these monies includes external restrictions as to the purposes specified by the respective grantor. Grants received during the year were:

	2017 \$'000	2016 \$'000
Restricted grants	1,188	5,887
Unrestricted grants	1,787	1,645
<b>TOTAL GRANTS</b>	<b>2,975</b>	<b>7,532</b>

### 3. EXPENSES

#### (A) PERSONNEL SERVICES EXPENSE

	2017 \$'000	2016 \$'000
Salaries and wages, including recreation leave	3,410	3,098
Board member fees	39	39
Extended leave	98	108
Superannuation	322	298
Workers' compensation insurance premium	92	60
Fringe benefits tax	28	3
Payroll tax	165	145
Re-measurement of defined benefit superannuation	(196)	84
<b>TOTAL PERSONNEL SERVICES EXPENSE</b>	<b>3,958</b>	<b>3,835</b>

#### (B) OTHER EXPENSES

	2017 \$'000	2016 \$'000
Bad debts	10	2
Coastal erosion protection	229	-
Communication	62	62
Community grants and donations	135	108
Contractors and consultants	2,268	1,010
External audit fee – financial statements	63	59
External audit costs – travel and accommodation	3	5
Fuel and materials	1,159	969
Insurance	80	76
Internal audit	36	48
Minor assets	124	100
Office supplies	60	30
Personnel relocation expenses	24	-
Rent expense	37	37
Training and conferences	39	57
Other human resource costs	29	17
Travel and accommodation	35	30
Other expenses	139	294
<b>TOTAL OTHER EXPENSES</b>	<b>4,532</b>	<b>2,904</b>

**(C) WRITE OFF OF ASSETS**

The major component of this loss is the carrying amount of the airport terminal building which was demolished during June 2017, but is being replaced by a new building which will meet the more stringent security screening and other regulatory requirements applicable now to regional airports in Australia.

**4. CASH AND CASH EQUIVALENTS**

	2017 \$'000	2016 \$'000
Cash on hand	2	2
Cash at bank (at call)	290	2,823
Short term deposit at bank	8,000	9,000
TCorpIM Cash Fund investment	3,678	2,731
<b>TOTAL</b>	<b>11,970</b>	<b>14,556</b>

Cash and cash equivalents subject to external restrictions are:

	2017 \$'000	2016 \$'000
Eradication of rodents from the island	6,940	8,054
Eradication of weeds	270	411
Acquisition or construction of assets	1,613	1,833
<b>TOTAL RESTRICTED CASH AND CASH EQUIVALENTS</b>	<b>8,823</b>	<b>10,298</b>

**5. RECEIVABLES****Receivables accounting policies**

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

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance for doubtful debts is used when there is objective evidence that the Board will not be able to collect all amounts due according to the original terms of the receivable. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

	2017 \$'000	2016 \$'000
Trade receivables	868	1,100
Interest receivable	41	55
Loan receivable	-	5
GST receivable	10	-
Prepayments	56	30
<b>TOTAL</b>	<b>975</b>	<b>1,190</b>

## 6. INVENTORIES

### Inventories accounting policies

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. Costs of liquor inventory include inward freight costs, rebates and discounts.

Diesel fuel stocks held for the generation of electric power on the Island are valued at cost, which includes freight inwards charges. Costs are assigned to closing stocks by using the weighted average cost method.

Other inventories are valued at cost, which includes freight inwards charges. Costs are assigned to closing stocks by using the weighted average cost method.

	2017 \$'000	2016 \$'000
<b>HELD FOR DISTRIBUTION</b>		
Diesel Fuel - Powerhouse	64	56
Building materials	217	46
Uniforms	6	8
<b>Total</b>	<b>287</b>	<b>110</b>
<b>HELD FOR RESALE</b>		
Liquor	243	209
<b>Total</b>	<b>243</b>	<b>209</b>
<b>TOTAL INVENTORIES</b>	<b>530</b>	<b>319</b>

## 7. PROPERTY, PLANT AND EQUIPMENT

### Property, plant and equipment accounting policies

#### Asset classes

The Board has ten asset classes of Property, Plant and Equipment ("PPE") assets which are grouped, for disclosure purposes, under four headings. The asset classes and corresponding headings are:

- Land;
- Buildings;
- Plant and Equipment (comprising motor vehicles, office equipment and other plant and equipment);
- Infrastructure Systems (comprising airport assets, electricity assets, marine facilities, roads and other infrastructure assets).

#### Acquisition and capitalisation

PPE assets are initially recorded at cost for individual PPE items which cost \$5,000 or more.

Cost is the amount of cash or cash equivalents paid, or the fair value of the other consideration given, to acquire the asset at the time of its acquisition or construction. Costs incurred subsequent to initial recording or the most recent valuation are included in the asset's carrying amount or recognised as a separate asset, as appropriate,

#### Subsequent measurement

Subsequent to initial recording, all PPE items are measured at fair value. Asset classes, other than Plant and Equipment, are periodically valued by independent expert valuers.

#### Asset revaluation

Land and Buildings are revalued every three years, while Infrastructure Systems are revalued at least every five years. The last revaluations for each class of PPE assets are:

Valuer	Asset Class	Date of Revaluation
HP Consultants Pty Ltd	Infrastructure systems (electricity assets)	30 June 2013
Valustate Pty Ltd	Land and Buildings	30 June 2015
HP Consultants Pty Ltd	Infrastructure systems (marine facilities, roadworks and other infrastructure)	30 June 2015
HP Consultants Pty Ltd	Infrastructure systems (airport assets)	30 June 2016

The current replacement cost method is used in each valuation of specialised assets. The key inputs to the current replacement cost valuations are mostly unobservable inputs (Level 3), including:

- Estimates of current costs to replace the respective asset; and
- An estimate of the extent of physical deterioration or other obsolescence of the asset in its current condition relative to its condition if new.

Increases in the carrying amounts arising on revaluation are credited to the revaluation surplus. To the extent that the increase reverses an impairment loss previously recognised in net result, the increase is first recognised in the net result in the statement of comprehensive income.

Decreases that reverse previous increases are first charged against revaluation surplus to the extent of the remaining surplus attributable to the respective asset class. Other revaluation decrements are charged to net result in the statement of comprehensive income.

**Depreciation**

Land is not depreciated. Depreciation of other PPE assets is estimated using the straight-line method to allocate its cost or valuation, net of the applicable residual value, over the estimated useful life.

The range of useful lives of individual depreciable assets within each PPE asset class are as follows:

Heading	Asset Class	Range of Useful Lives
Buildings	Buildings	25 years
Plant and Equipment	Motor vehicles	10 years
	Office equipment	3 to 5 years
	Other plant and equipment	5 to 10 years
Infrastructure Systems	Airport assets	10 to 100 years
	Electricity assets	10 to 80 years
	Marine facilities	10 to 60 years
	Roadworks	12 to 25 years
	Other infrastructure	10 to 60 years

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

	Land \$'000	Buildings \$'000	Plant and Equipment \$'000	Infrastructure Systems \$'000	Capital WIP \$'000	TOTAL \$'000
<b>AT 1 JULY 2016 – AT FAIR VALUE</b>						
Gross carrying amount	14,422	9,241	3,240	42,713	2,543	72,159
Accumulated depreciation and impairment	-	(4,330)	(2,298)	(13,435)	-	(20,063)
<b>NET CARRYING AMOUNT</b>	<b>14,422</b>	<b>4,911</b>	<b>942</b>	<b>29,278</b>	<b>2,543</b>	<b>52,096</b>
<b>AT 30 JUNE 2017 – AT FAIR VALUE</b>						
Gross carrying amount	14,422	8,605	2,913	43,847	2,610	72,397
Accumulated depreciation and impairment	-	(4,410)	(1,917)	(14,802)	-	(21,129)
<b>NET CARRYING AMOUNT</b>	<b>14,422</b>	<b>4,195</b>	<b>996</b>	<b>29,045</b>	<b>2,610</b>	<b>51,268</b>

### Reconciliation

A reconciliation of the net carrying amount of each class of property plant and equipment at the beginning and end of the current reporting period is set out below:

	Land \$'000	Buildings \$'000	Plant and Equipment \$'000	Infrastructure Systems \$'000	Capital WIP \$'000	TOTAL \$'000
<b>AT 01 JULY 2016</b>	14,422	4,911	942	29,278	2,543	52,096
Additions	-	-	-	-	1,364	1,364
Disposals	-	(344)	(8)	(3)	-	(355)
Net revaluation increment less revaluation decrements	-	-	-	-	-	-
Depreciation expense	-	(372)	(189)	(1,276)	-	(1,837)
Transfers / adjustments	-	-	251	1,046	(1,297)	-
<b>AT 30 JUNE 2017</b>	<b>14,422</b>	<b>4,195</b>	<b>996</b>	<b>29,045</b>	<b>2,610</b>	<b>51,268</b>



	Land \$'000	Buildings \$'000	Plant and Equipment \$'000	Infrastructure Systems \$'000	Capital WIP \$'000	TOTAL \$'000
<b>AT 1 JULY 2015 – FAIR VALUE</b>						
Gross carrying amount	14,422	9,105	2,849	40,988	5,095	72,459
Accumulated depreciation and impairment	-	(3,961)	(2,328)	(18,685)	-	(24,974)
Net carrying amount	14,422	5,144	521	22,303	5,095	47,485
<b>AT 30 JUNE 2016 – FAIR VALUE</b>						
Gross carrying amount	14,422	9,241	3,240	42,713	2,543	72,159
Accumulated depreciation and impairment	-	(4,330)	(2,298)	(13,435)	-	(20,063)
<b>NET CARRYING AMOUNT</b>	<b>14,422</b>	<b>4,911</b>	<b>942</b>	<b>29,278</b>	<b>2,543</b>	<b>52,096</b>

### Reconciliation

A reconciliation of the net carrying amount of each class of property plant and equipment at the beginning and end of the prior reporting period is set out below:

	Land \$'000	Buildings \$'000	Plant and Equipment \$'000	Infrastructure systems \$'000	Capital WIP \$'000	TOTAL \$'000
<b>AT 01 JULY 2015</b>	14,422	5,144	521	22,303	5,095	47,485
Additions	-	-	605	115	5,527	6,247
Disposals	-	-	-	(9)	-	(9)
Net revaluation increment less revaluation decrements	-	-	-	157	-	157
Depreciation expense	-	(370)	(203)	(1,212)	-	(1,785)
Transfers / adjustments	-	137	19	7,923	(8,079)	-
<b>AT 30 JUNE 2016</b>	<b>14,422</b>	<b>4,911</b>	<b>942</b>	<b>29,278</b>	<b>2,543</b>	<b>52,096</b>

## 8. FAIR VALUE MEASUREMENT

### (A) FAIR VALUE MEASUREMENT ACCOUNTING POLICY

Assets measured at fair value on a recurring basis in the statement of financial position are:

- Certain asset classes within PPE, being Land and Buildings, and Infrastructure Systems; and
- The investment with TCorpIM Cash Fund.

Fair values of PPE assets are determined by reference to local cost structures, which are generally significantly higher than in most other parts of Australia, due to high transport costs arising from the remoteness of the island.

Fair value of financial instruments is determined as follows:

- Cash and cash equivalents – estimated to be the carrying value (except for the investment in TCorpIM Cash Fund, for which TCorp has advised fair value at 30 June 2017, based on the Board's share of the market value of the underlying assets of the fund);
- Receivables and payables – estimated to be the carrying amount of receivables less any impairment provision, and of payables respectively, as a reasonable approximation of fair value due to their short term nature.

These financial instruments arise directly from the Board's operations or are required to finance the Board's operations. The Board does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

### (B) FAIR VALUE COMPARED TO CARRYING AMOUNT

The Board held the following financial instruments at balance date:

	Carrying value		Fair value	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	11,970	14,556	11,970	14,556
Receivables (excluding statutory receivables and prepayments)	908	1,155	908	1,155
<b>FINANCIAL LIABILITIES</b>				
Payables (excluding statutory payables)	1,514	1,599	1,514	1,599

### (C) FAIR VALUE HIERARCHY

The Board uses the following valuation hierarchy for the fair value of its assets:

- Level 1 – derived from quoted prices in active markets for identical assets / liabilities.
- Level 2 – in relation to the TCorpIM Cash Fund, prices are observable, however, no active market exists for the fund as it is only accessible to government agencies.

- Level 3 – derived from valuation techniques that include inputs for the asset / liability not based on observable market data (unobservable inputs).

The fair value hierarchy within which the fair value measurements are categorised, for each respective asset class are:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>FINANCIAL ASSETS</b>				
TCorpIM Cash Fund investment	-	3,678	-	3,678
<b>NON-FINANCIAL ASSETS</b>				
Land	-	-	14,422	14,422
Buildings	-	-	4,195	4,195
Infrastructure systems	-	-	29,054	29,054
<b>TOTAL</b>	<b>-</b>	<b>3,678</b>	<b>47,671</b>	<b>51,349</b>

Comparative amounts at 30 June 2016 were:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>FINANCIAL ASSETS</b>				
TCorp Hour-Glass Investment	-	2,731	-	2,731
<b>NON-FINANCIAL ASSETS</b>				
Land	-	-	14,422	14,422
Buildings	-	-	4,911	4,911
Infrastructure systems	-	-	29,278	29,278
<b>TOTAL</b>	<b>-</b>	<b>2,731</b>	<b>48,611</b>	<b>51,342</b>

There were no transfers of amounts between any levels of the fair value hierarchy during the year, nor during the previous year.

#### (D) VALUATION TECHNIQUES AND SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

##### Land

All land on the island is vested in the Crown. Three categories of land have been recognised, viz:

- Land leased or subject to permissive occupancies (as an operating lease);
- Crown land reserved or dedicated for a public purpose; and
- Lord Howe Island Permanent Park Preserve.

The 'valuation in use' method has been used for leased land, under which the respective lease rentals are an observable (and fixed) input and the capitalisation rate used is an unobservable input.

Perpetual leases are able to be transferred among island residents, albeit such transfers are very infrequent. The Crown land reserved or dedicated for public purposes has been measured by reference to the area involved, in square metres (a fixed and observable input) and valued by applying to it an amount per square metre of land. The rate per square metre of Crown land reserved or dedicated for public purposes has been estimated by using, as a guide, historical transfer values for perpetual leases of as near to similar parcels of land as can be identified (a proxy value per square metre for such land).

The permanent park preserve land is subject to significant restrictions – it may not be leased and has virtually no potential for development. The value of this land has been determined by applying to the land area involved (a fixed and observable input), a value per hectare (an unobservable input). The value per hectare has been estimated based on historic sale values for a range of unimproved land close to coastal population areas within mainland New South Wales.

## **Buildings**

The valuation of each building at replacement cost reflects the size and design of the respective building, as well as the materials used (all of which are observable inputs) but also includes unobservable inputs in the form of estimated replacement costs for such materials and the requisite labour and other services required for construction

## **Infrastructure Systems**

### **Airport assets**

Major individual airport assets were re-constructed during the year ended 30 June 2016, including the runway. The fair value of these assets at 30 June 2016 was \$7,356,000 which represented 57% of the total fair value of all airport assets at 30 June 2016.

### **Electricity assets**

Electricity assets include both electricity generation assets and electricity distribution. Many new electricity generation assets were constructed or acquired during the year ended 30 June 2013.

### **Marine facilities**

The vast majority of the value of these assets is represented by the value of the island's wharf. The fair value of marine facilities is also affected by the estimated total useful life of such assets and by its estimated remaining useful life, the latter of which is assessed by reference to the physical condition of each asset.

## **Roads**

All roads have been classified within three different categories, viz:

- Category 1: sealed primary road;
- Category 2: sealed internal road; and
- Category 3: unsealed road.

The physical composition of each road varies according to its category, and each sealed road comprises both:

- Pavement; and
- Bitumen seal.

The replacement cost of each road has been determined by applying, separately to each of its pavement and bitumen seal components, estimates of current construction costs per square metre (unobservable inputs).

## 9. INTANGIBLE ASSETS

	2017 \$'000	2016 \$'000
Software - at cost	248	248
Accumulated amortisation and impairment	(169)	(119)
<b>TOTAL</b>	<b>79</b>	<b>129</b>

Movements in the carrying amount of software during the year were:

	2017 \$'000	2016 \$'000
Net book amount at 1 July	129	179
Software acquired during the year	-	-
Amortisation during the year	(50)	(50)
<b>NET BOOK AMOUNT AT 30 JUNE</b>	<b>79</b>	<b>129</b>

Costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised. Software costs capitalised are subsequently amortised on a straight-line basis over a five-year period.

## 10. PAYABLES

	2017 \$'000	2016 \$'000
Trade creditors and accrued expenses	459	468
Personnel services liabilities	1,050	1,126
GST payable	-	1
Security deposits	5	4
<b>TOTAL</b>	<b>1,514</b>	<b>1,599</b>

These amounts represent liabilities for goods and services provided to the Board prior to the end of the financial year which are unpaid.

Trade payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest rate method. Short term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial. These amounts are unsecured and are usually paid within 30 days of recognition.

The Board receives personnel services provided through the NSW Office of Local Government.

Personnel services liabilities include:

- Accrued salaries and wages and related costs;
- Liabilities for recreation leave and extended leave; and
- A liability/asset in respect of post-retirement benefits relating to defined benefit superannuation funds.

Liability amounts equivalent to extended leave and recreation leave which is not expected to be settled within twelve months after the end of the period in which the personnel render the related service are measured as the present value of expected future payments to be made. Consideration is given to expected future wage and salary levels, experience of personnel departures and periods of service.

The obligations are presented as current liabilities in the balance sheet as the Board does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

## 11. PROVISION

	2017 \$'000	2016 \$'000
Building demolition and land rehabilitation	-	68
<b>TOTAL - CURRENT</b>	<b>-</b>	<b>68</b>

Details of movements in the provision are:

	2017 \$'000	2016 \$'000
At 1 July 2016	68	150
Payments during the year	(2)	(82)
Increase/(decrease) in provision	(66)	-
<b>AT 30 JUNE 2017</b>	<b>-</b>	<b>68</b>

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

Non-current provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

## 12. REVALUATION SURPLUS

The revaluation surplus represents the net accumulated revaluation increments and decrements arising from revaluation of certain asset classes among the Board's PPE assets since 1986.

	2017 \$'000	2016 \$'000
Land	11,152	11,152
Buildings	6,927	6,927
Plant and Equipment	132	132
Infrastructure Systems	31,043	31,043
<b>TOTAL</b>	<b>49,254</b>	<b>49,254</b>

### 13. RECONCILIATION OF NET RESULT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Notes	2017 \$'000	2016 \$,000
<b>NET RESULT FROM THE STATEMENT OF COMPREHENSIVE INCOME</b>		(3,331)	4,276
<b>Add</b>			
Depreciation	7	1,837	1,785
Amortisation	9	50	50
Decrease in receivables		215	1,026
Increase in unearned revenue		16	-
Non-cash loss on write-off of assets		347	-
Bad debts		10	2
Other non-cash expense amounts		9	-
<b>Less</b>			
Non-cash component of personnel services expense		(196)	-
Non-cash revenue		-	(69)
Increase in inventories		(211)	(24)
Decrease in payables		(85)	(2,422)
Cash component of decrease in provision		(2)	(51)
Decrease in unearned revenue		-	(9)
Interest and investment income		(344)	(367)
Other amounts		-	(3)
<b>NET CASH PROVIDED FROM (OR USED IN) OPERATING ACTIVITIES FROM THE STATEMENT OF CASH FLOWS</b>		<b>(1,685)</b>	<b>4,194</b>

## 14. COMMITMENTS

	2017 \$'000	2016 \$'000
<b>CAPITAL EXPENDITURE COMMITMENTS</b>		
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities are payable as follows:		
Not later than one year	2,732	847
Later than one year and not later than 5 years	-	-
Later than 5 years	-	-
<b>TOTAL</b>	<b>2,732</b>	<b>847</b>

The amounts shown above are GST inclusive.

There were no lease commitment payables, or contingent rentals recognised as at the reporting date.

## 15. RELATED PARTY DISCLOSURES

The Board is not an independently financially sustainable entity as it relies on ongoing financial support from the New South Wales government. The Board has no subsidiaries, associates or joint ventures.

### (A) KEY MANAGEMENT PERSONNEL

The key management personnel of the Board (throughout the year ended 30 June 2016, and since then) are:

- Ms Sonja Stewart (Chair), Mr John King and Mr Rob Pallin (each being a Board member appointed by the NSW Government);
- Ms Lisa Makiiti, Ms Judith Riddle, Mr Barney Nichols and Mr Craig Wilson (each being an islander elected member of the Board); and
- Ms Penny Holloway, Chief Executive Officer of the Board.

### (B) REMUNERATION

The remuneration of key management personnel, whether paid directly or indirectly by the Board was:

	2017 \$'000	2016 \$'000
Short-term benefits	290	276
Post-retirement benefits	4	4
Other long-term benefits	-	-
<b>TOTAL</b>	<b>294</b>	<b>280</b>



Short term benefits include fees paid to Board members and personnel services costs (reflecting salaries and wages, paid recreation leave, paid sick leave and non-monetary benefits, such as subsidised housing) in relation to the Chief Executive Officer.

Post-retirement benefits include superannuation contributions, pension payments and other retirement benefits. Other long-term benefits include paid extended leave.

### **(C) RELATIONSHIPS**

The Board is the sole provider of certain goods and services to residents of Lord Howe Island, so key management personnel (and close members of their respective families) who are resident on the island have no choice but to transact with the Board for such goods and services, such as electricity supply and waste management services.

All transactions entered into during the year with key management personnel (and close members of their respective families) were entered into in the normal course of business on an 'arms-length' basis.

The Board has the following additional relationships with key management personnel and/or close members of their respective families:

#### **Ms Lisa Makiiti**

Perpetual lease of property in Bowker Road, Lord Howe Island (LHI) as lessee from the Board as lessor.

The Board is also a supplier to Bowker Beach House and Lagoon Landing. These businesses are owned by Ms Makiiti and her spouse, Mr Rod Oxley. Mr Oxley is also a carpenter who is engaged by the Board to provide carpentry services from time to time.

#### **Mr Barney Nichols**

Perpetual lease of property in Lagoon Road, LHI as lessee from the Board as lessor.

#### **Ms Judith Riddle**

Perpetual lease of property in Douglass Drive, LHI as lessee from the Board as lessor. Perpetual lease of a property in Skyline Drive, LHI (occupied by her spouse, Mr Peter Riddle) as lessee from the Board as lessor.

The Board is a supplier to, and customer of, Leanda Lei lodge, and a supplier to Marine Adventures and Lulawai businesses, each of which are part-owned by Ms Judith Riddle.

The Board is a supplier to, and customer of, Lord Howe Island Sea Freight Pty Ltd ("LHISF"). Mr and Mrs Riddle are shareholders, and Mr Riddle is a director, of LHISF. LHISF is considered to be a related party of the Board. The Board purchases both diesel fuel (for electricity generation) and sea freight services from LHISF.

The Board employs Ms Amy Hickey, a daughter of Ms Judith Riddle and Ms Emily Riddle, a daughter-in-law of Ms Judith Riddle, on a casual or temporary basis from time to time.

#### **Mr Craig Wilson**

Mr Wilson resides in premises on land which is the subject of a perpetual lease from the Board to his brother, Mr Campbell Wilson.

The Board is also a supplier to and customer of Wilson's Hire Service, which is owned by Mr Campbell Wilson but managed for him by Mr Craig Wilson.

Mr Craig Wilson is an arborist trading as Island Tree Care and his business supplies arborist services to the Board from time to time.

### Ms Penny Holloway

Residential lease of the Government House property as lessee from the Board as lessor (for a below-market rental amount as part of the CEO's remuneration arrangements, in accordance with a Board policy). The amount involved is included in the short-term benefits amount shown in Note 15.(b).

## (D) TRANSACTIONS AND BALANCES

The transactions with related parties during the current (or prior) reporting period, and balances, including commitments, outstanding at 30 June 2017 in relation to related parties, other than amounts already disclosed in Note 15.(b) were:

	Total Transactions		Balances	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Purchases	1,829	1,222	-	-
Payables	-	-	63	-
Purchases commitments	57	98	-	-
Revenue	359	327	-	-
Receivables	-	-	-	-

There are no provisions for doubtful debts related to the outstanding balances owing by related parties at 30 June 2017 (2016: \$nil). The expense recognised during the reporting period in respect of bad or doubtful debts due from related parties was \$nil (2016: \$nil).

## 16. FINANCIAL RISK MANAGEMENT

### (A) OBJECTIVES AND POLICIES

The Board's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risks (price risk and interest rate risk). The Board does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Risk management policies have been established to identify and analyse the risks faced by the Board, to set risk limits and establish controls to monitor risks. Compliance with policies is reviewed by the Board's internal auditors on a periodic basis.

The Board's financial risk management objective is to maximise its return on cash and investments, whilst maintaining an adequate level of liquidity and preserving capital.

## **(B) FINANCIAL INSTRUMENT CATEGORIES**

The Board has only very simple financial assets, comprising:

- Cash and cash equivalents (predominantly bank term deposits and an investment in TCorpIM Cash Fund); and
- Receivables.

TCorpIM Cash Fund invests in Australian cash and fixed interest securities with an investment horizon of up to 1.5 years. The unit price of the fund is equal to the total fair value of the net assets of the fund divided by the total number of units on issue for that fund.

The Board also has only simple financial liabilities, being payables.

The Board's business model in relation to using financial instruments is for investment rather than trading purposes. The Board also does not enter into hedging arrangements.

## **(C) CREDIT RISK**

A key risk associated with cash and cash equivalents and receivables is credit risk – the risk that a contracting entity will not complete its obligations under a financial instrument resulting in a financial loss to the Board.

These risks are mitigated by:

- The major Australian bank with which the Board's short term deposit is lodged has AA-long term credit ratings from major global credit rating agencies;
- TCorp is a managed investment pool. TCorp appoints and monitors fund managers, and establishes and monitors the application of appropriate investment guidelines; and
- Monitoring outstanding debt and employing stringent debt recovery policies in relation to receivables.

The interest rate being earned on the Board's short term deposit is a fixed rate of 3.05% per annum (2015 – 3.5%).

The Board places funds on deposit with one of Australia's 'big four' banks (rated AA-) and/or with TCorp, which is rated "AAA" by Standards and Poor's. These deposits are either "at call" or have short term maturity.

No collateral is held by the Board in relation to its financial assets.

Collectability of receivables is reviewed on an ongoing basis. Procedures established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. This evidence includes past experience, and current and expected changes in economic conditions and debtor credit ratings. No interest is earned on receivables. Liquor sales are made on cash or 30 day credit terms.

The Board is not materially exposed to concentrations of credit risk to a single counterparty or counterparty group within its receivables.

The profile of the Board’s credit risk at 30 June 2017 was:

	Totals \$'000	Past due but not impaired \$'000	Considered impaired \$'000
<b>2017</b>			
Amounts < 3 months overdue	57	57	-
Amounts 3 - 6 months overdue	8	8	-
<b>TOTAL</b>	<b>65</b>	<b>65</b>	<b>-</b>
<b>2016</b>			
Amounts < 3 months overdue	152	152	-
Amounts 3 - 6 months overdue	-	-	-
<b>TOTAL</b>	<b>152</b>	<b>152</b>	<b>-</b>

The ageing analysis excludes statutory receivables and prepayments, as these are not within the scope of AASB 7, and does not include receivables which are neither ‘past due’ nor impaired.

**(D) LIQUIDITY RISK**

Payables are subject to liquidity risk – that is the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due. The Board manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer.

During the current and prior years, there were no defaults or breaches on any loans payable. No assets have been pledged as collateral. The Board’s exposure to liquidity risk is deemed insignificant based on prior periods’ data and current assessment of risk.

The Board has no current stand-by credit arrangements or unused loan facilities in place.

The liabilities are recognised for amounts due to be paid in the future for goods or services, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in NSW TC11/12. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or statement is received. NSW TC 11/12 allows the Minister to award interest for late payment. No interest for late payment was awarded during the year ended 30 June 2017 (2016: \$nil).

The contractual undiscounted cash flows of the Board’s payables are set out below:

	Due within 1 year \$'000	Due between 1 and 5 years \$'000	Total contractual cash flows \$'000	Carrying amount \$'000
<b>30 JUNE 2017</b>				
Financial Liabilities				
<b>PAYABLES</b>	<b>691</b>	<b>-</b>	<b>691</b>	<b>691</b>
<b>30 JUNE 2016</b>				
Financial Liabilities				
<b>PAYABLES</b>	<b>628</b>	<b>-</b>	<b>628</b>	<b>628</b>

**(E) MARKET RISK**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Board’s exposure to market risk is primarily through interest rate risk. The Board has no exposure to foreign currency risk and does not enter into commodity contracts.

**Price risk**

A significant risk associated with the investment in TCorpIM Cash Fund is price risk – the risk that the capital value of investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments or their issuers or factors affecting similar instruments traded in a market.

**Interest rate risk**

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Board has no interest-bearing assets or liabilities other than its investment in TCorpIM Cash Fund and short term bank term deposits. There is no interest rate risk on bank term deposits as the applicable interest rate is fixed for the term of the deposit. TCorp has advised that +/- 1% is the appropriate sensitivity percentage for the TCorpIM Cash Fund. Accordingly, the Board's exposure to interest rate risk is:

	Carrying Amount \$'000	-1%		1%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>30 JUNE 2017</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	11,970	(37)	(37)	37	37
Receivables	975	-	-	-	-
<b>Financial Liabilities</b>					
Payables	1,514	-	-	-	-
<b>TOTAL INCREASE / (DECREASE)</b>		<b>(37)</b>	<b>(37)</b>	<b>37</b>	<b>37</b>
<b>30 JUNE 2016</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	14,556	(27)	(27)	27	27
Receivables	1,190	-	-	-	-
<b>Financial Liabilities</b>					
Payables	1,599	-	-	-	-
<b>TOTAL INCREASE / (DECREASE)</b>		<b>(27)</b>	<b>(27)</b>	<b>27</b>	<b>27</b>

## 17. CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets or contingent liabilities for the financial year ended 30 June 2017 (2016: \$nil).

## 18. EVENTS OCCURRING AFTER BALANCE DATE

The Board is not aware of any matter or circumstance not otherwise dealt with in these financial statements that has or may significantly affect the operations of the Board, the results of those operations or the state of affairs of the Board in subsequent financial years that has occurred after reporting date.

**END OF FINANCIAL STATEMENTS**