



Part C

Financial Reports

Cessnock City Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2011

"...attractive, thriving and welcoming."



Cessnock City Council

General Purpose Financial Statements

for the financial year ended 30 June 2011

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Overview

(i) These financial statements are General Purpose Financial Statements and cover the consolidated operations for Cessnock City Council.

(ii) Cessnock City Council is a body politic of NSW, Australia - being constituted as a Local Government area by proclamation and is duly empowered by the Local Government Act (LGA) 1993 of NSW.

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

- carrying out activities and providing goods, services & facilities appropriate to the current & future needs of the Local community and of the wider public
- responsibility for administering regulatory requirements under the LGA and other applicable legislation, &
- a role in the management, improvement and development of the resources of the local government area.

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

(iii) All figures presented in these financial statements are presented in Australian Currency.

(iv) These financial statements were authorised for issue by the Council on 28/10/11. Council has the power to amend and reissue the financial statements.

Cessnock City Council

General Purpose Financial Statements

for the financial year ended 30 June 2011

Statement by Councillors and Management

made pursuant to Section 413(2)(c) of the Local Government Act 1993 (as amended)

The attached General Purpose Financial Statements have been prepared in accordance with:

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

To the best of our knowledge and belief, these Financial Statements:

- present fairly the Council's operating result and financial position for the year, and
- accords 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.

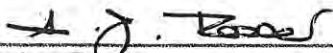
Signed in accordance with a resolution of Council made on 21 September 2011.



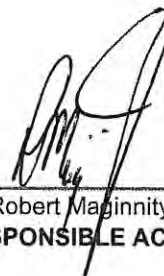
Councillor Alison Davey
MAYOR



Councillor Rachel Main
COUNCILLOR



Ms Lea Rosser
GENERAL MANAGER



Mr Robert Maginnity
RESPONSIBLE ACCOUNTING OFFICER

Cessnock City Council

Income Statement

for the financial year ended 30 June 2011

Budget ⁽¹⁾				Actual	Actual
2011	\$ '000		Notes	2011	2010
Income from Continuing Operations					
Revenue:					
34,103	Rates & Annual Charges		3a	33,901	32,512
6,707	User Charges & Fees		3b	7,760	9,758
956	Interest & Investment Revenue		3c	1,833	2,061
598	Other Revenues		3d	1,267	950
10,287	Grants & Contributions provided for Operating Purposes		3e,f	10,626	10,493
1,406	Grants & Contributions provided for Capital Purposes		3e,f	3,640	3,178
Other Income:					
553	Net gains from the disposal of assets		5	-	683
54,610	Total Income from Continuing Operations			59,027	59,635
Expenses from Continuing Operations					
24,051	Employee Benefits & On-Costs		4a	22,037	22,079
601	Borrowing Costs		4b	602	633
7,641	Materials & Contracts		4c	12,721	14,017
8,193	Depreciation & Amortisation		4d	6,371	8,224
6,685	Other Expenses		4e	9,123	8,212
-	Net Losses from the Disposal of Assets		5	3,054	-
47,171	Total Expenses from Continuing Operations			53,908	53,165
7,439	Operating Result from Continuing Operations			5,119	6,470
Discontinued Operations					
-	Net Profit/(Loss) from Discontinued Operations		24	-	-
7,439	Net Operating Result for the Year			5,119	6,470
7,439	Net Operating Result attributable to Council			5,119	6,470
-	Net Operating Result attributable to Minority Interests			-	-
6,033	Net Operating Result for the year before Grants and Contributions provided for Capital Purposes			1,479	3,292

(1) Original Budget as approved by Council - refer Note 16

Cessnock City Council

Statement of Comprehensive Income for the financial year ended 30 June 2011

\$ '000	Notes	Actual 2011	Actual 2010
Net Operating Result for the year (as per Income statement)		5,119	6,470
Other Comprehensive Income			
Gain (loss) on revaluation of I,PP&E	20b (ii)	14,214	146,294
Other Movements in Reserves (enter details here)	20b (ii)	1,613	-
Total Other Comprehensive Income for the year		15,827	146,294
Total Comprehensive Income for the Year		20,946	152,764
Total Comprehensive Income attributable to Council		20,946	152,764
Total Comprehensive Income attributable to Minority Interests		-	-

Cessnock City Council

Balance Sheet

as at 30 June 2011

\$ '000	Notes	Actual 2011	Actual 2010	Actual 2009
ASSETS				
Current Assets				
Cash & Cash Equivalents	6a	14,512	5,888	7,202
Investments	6b	2,500	10,100	7,700
Receivables	7	5,059	6,451	3,243
Inventories	8	306	793	1,286
Other	8	534	598	485
Total Current Assets		22,911	23,830	19,916
Non-Current Assets				
Investments	6b	1,540	2,870	4,993
Receivables	7	59	81	78
Inventories	8	3,280	3,250	2,492
Infrastructure, Property, Plant & Equipment	9	658,574	636,189	486,403
Total Non-Current Assets		663,453	642,390	493,966
TOTAL ASSETS		686,364	666,220	513,882
LIABILITIES				
Current Liabilities				
Payables	10	7,213	8,203	6,375
Borrowings	10	935	1,261	1,148
Provisions	10	6,459	6,458	6,333
Total Current Liabilities		14,607	15,922	13,856
Non-Current Liabilities				
Payables	10	472	466	431
Borrowings	10	8,119	7,631	8,511
Provisions	10	11,355	11,336	11,303
Total Non-Current Liabilities		19,946	19,433	20,245
TOTAL LIABILITIES		34,553	35,355	34,101
Net Assets		651,811	630,865	479,781
EQUITY				
Retained Earnings	20	424,086	417,354	412,673
Revaluation Reserves	20	227,725	213,511	67,108
Council Equity Interest		651,811	630,865	479,781
Minority Equity Interest		-	-	-
Total Equity		651,811	630,865	479,781

Cessnock City Council

Statement of Changes in Equity
for the financial year ended 30 June 2011

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council Equity Interest	Minority Interest	Total Equity
2011						
Opening Balance (as per Last Year's Audited Accounts)		419,034	213,511	632,545	-	632,545
a. Correction of Prior Period Errors	20 (c)	(1,680)	-	(1,680)	-	(1,680)
Revised Opening Balance (as at 1/7/10)		417,354	213,511	630,865	-	630,865
c. Net Operating Result for the Year		5,119	-	5,119	-	5,119
d. Other Comprehensive Income						
- Revaluations : IPP&E Asset Revaluation Rsve	20b (ii)	1,613	14,214	15,827	-	15,827
Other Comprehensive Income		1,613	14,214	15,827	-	15,827
Total Comprehensive Income (c&d)		6,732	14,214	20,946	-	20,946
Equity - Balance at end of the reporting period		424,086	227,725	651,811	-	651,811

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council Equity Interest	Minority Interest	Total Equity
2010						
Opening Balance (as per Last Year's Audited Accounts)		317,905	67,108	385,013	-	385,013
a. Correction of Prior Period Errors	20 (c)	92,979	109	93,088	-	93,088
Revised Opening Balance (as at 1/7/09)		410,884	67,217	478,101	-	478,101
c. Net Operating Result for the Year		6,470	-	6,470	-	6,470
d. Other Comprehensive Income						
- Revaluations : IPP&E Asset Revaluation Rsve	20b (ii)	-	146,294	146,294	-	146,294
Other Comprehensive Income		-	146,294	146,294	-	146,294
Total Comprehensive Income (c&d)		6,470	146,294	152,764	-	152,764
Equity - Balance at end of the reporting period		417,354	213,511	630,865	-	630,865

Cessnock City Council

Statement of Cash Flows

for the financial year ended 30 June 2011

Budget 2011	\$ '000	Notes	Actual 2011	Actual 2010
Cash Flows from Operating Activities				
Receipts:				
33,800	Rates & Annual Charges		33,624	32,229
9,500	User Charges & Fees		8,443	10,380
845	Investment & Interest Revenue Received		1,017	895
13,300	Grants & Contributions		14,346	14,089
-	Bonds & Deposits Received		14,945	-
3,000	Other		4,594	95
Payments:				
(23,400)	Employee Benefits & On-Costs		(22,094)	(21,848)
(14,100)	Materials & Contracts		(14,823)	(14,134)
(660)	Borrowing Costs		(602)	(633)
-	Bonds & Deposits Refunded		(15,117)	-
(8,500)	Other		(10,289)	(9,669)
13,785	Net Cash provided (or used in) Operating Activities	11b	14,044	11,404
Cash Flows from Investing Activities				
Receipts:				
-	Sale of Investment Securities		15,445	14,700
1,000	Sale of Real Estate Assets		1,070	1,326
1,200	Sale of Infrastructure, Property, Plant & Equipment		637	937
-	Deferred Debtors Receipts		5	1
Payments:				
-	Purchase of Investment Securities		(5,745)	(13,800)
(16,000)	Purchase of Infrastructure, Property, Plant & Equipment		(16,955)	(14,289)
-	Purchase of Real Estate Assets		(39)	(799)
-	Deferred Debtors & Advances Made		-	(27)
(13,800)	Net Cash provided (or used in) Investing Activities		(5,582)	(11,951)
Cash Flows from Financing Activities				
Receipts:				
1,431	Proceeds from Borrowings & Advances		1,431	500
Payments:				
(1,286)	Repayment of Borrowings & Advances		(1,269)	(1,267)
145	Net Cash Flow provided (used in) Financing Activities		162	(767)
130	Net Increase/(Decrease) in Cash & Cash Equivalents		8,624	(1,314)
5,888	plus: Cash & Cash Equivalents - beginning of year	11a	5,888	7,202
6,018	Cash & Cash Equivalents - end of the year	11a	14,512	5,888
	plus: Investments on hand - end of year	6b	4,040	12,970
	Total Cash, Cash Equivalents & Investments		18,552	18,858

Please refer to Note 11 for additional cash flow information.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

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n/a - not applicable

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 1. Summary of Significant Accounting Policies

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

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

(a) Basis of preparation

(i) Background

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

- Australian Accounting Standards,
- Other authoritative pronouncements of the Australian Accounting Standards Board,
- Urgent Issues Australian Accounting Interpretations,
- the Local Government Act (1993) and Regulation, and
- the Local Government Code of Accounting Practice and Financial Reporting.

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

Because Australian Accounting Standards (AASB's) are sector neutral, some standards either:

- (a) have local Australian content and prescription that is specific to the Not-For-Profit sector (including Local Government) which are not in compliance with IFRS's, or
- (b) specifically exclude application by Not for Profit entities.

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

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

(iii) Basis of Accounting

These financial statements have been prepared under the historical cost convention except for (i) financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets and investment properties which are all valued at fair value, (ii) the write down of any Asset on the basis of Impairment (if warranted) and (iii) certain classes of Infrastructure, property, plant & equipment that are accounted for at fair valuation.

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

(iv) Changes in Accounting Policies

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

Unless otherwise stated, there have also been no changes in accounting policies when compared with previous financial statements.

(v) Critical Accounting Estimates

The preparation of these financial statements requires the use of certain critical accounting estimates (in conformity with AASB's).

It also requires Council management to exercise their judgement in the process of applying Council's accounting policies.

(b) Revenue recognition

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

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (continued)

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

Revenue is measured on major income categories as follows:

Rates, Annual Charges, Grants and Contributions

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

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

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

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

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

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

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

The Council has obligations to provide facilities from contribution revenues levied on developers under the provisions of S94 of the Environmental Planning and Assessment Act 1979.

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

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

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

User Charges, Fees and Other Income

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

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

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

Sale of Infrastructure, Property, Plant and Equipment

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

Interest and Rents

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.

Interest Income from Cash & Investments is accounted for using the Effective Interest method in accordance with AASB 139.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (continued)

(c) Principles of Consolidation

These financial statements incorporate (i) the assets and liabilities of Council and any Entities (or operations) that it controls (as at 30/6/11) and (ii) all the related operating results (for the financial year ended the 30th June 2011).

The financial statements also include Council's share of the assets, liabilities, income and expenses of any Jointly Controlled Operations under the appropriate headings.

In the process of reporting on Council's activities as a single unit, all inter-entity year end balances and reporting period transactions have been eliminated in full between Council and its controlled entities.

(i) The Consolidated Fund

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

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

The following entities have been included as part of the Consolidated Fund:

- General Purpose Operations
- Section 355 Committees

(ii) The Trust Fund

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

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

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

(iii) Joint Ventures

Jointly Controlled Assets & Operations

The proportionate interests in the assets, liabilities and expenses of a Joint Venture Activity have been incorporated throughout the financial statements under the appropriate headings.

Jointly Controlled Entities

Any interests in Joint Venture Entities & Partnerships are accounted for using the equity method and is carried at cost.

Under the equity method, the share of the profits or losses of the partnership is recognised in the income statement, and the share of movements in retained earnings & reserves is recognised in the balance sheet.

(iv) Associated Entities

Where Council has the power to participate in the financial and operating decisions (of another entity), ie. where Council is deemed to have "significant influence" over the other entities operations but neither controls nor jointly controls the entity, then Council accounts for such interests using the Equity Method of Accounting – in a similar fashion to Joint Venture Entities & Partnerships.

Such entities are usually termed Associates.

(v) County Councils

Council is not a member of any County Councils.

(vi) Additional Information

Note 19 provides more information in relation to Joint Venture Entities, Associated Entities and Joint Venture Operations where applicable.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (continued)

(d) Leases

All Leases entered into by Council are reviewed and classified on inception date as either a Finance Lease or an Operating Lease.

Finance Leases

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

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

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

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

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

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

Operating Leases

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

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

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

(e) Cash and Cash Equivalents

Cash and cash equivalents includes;

- cash on hand,
- deposits held at call with financial institutions,

- other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and
- bank overdrafts.

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

(f) Investments and Other Financial Assets

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

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

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

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

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

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

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

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (continued)

(ii) Loans and receivables

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

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

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

(iii) Held-to-maturity investments

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

In contrast to the "Loans & Receivables" classification, these investments are generally quoted in an active market.

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

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

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

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

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

Financial Assets – Reclassification

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

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

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

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

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

General Accounting & Measurement of Financial Instruments:

(i) Initial Recognition

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

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

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (continued)

(ii) Subsequent Measurement

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

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

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

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

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

Impairment

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

If there is evidence of impairment for any of Council's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the income statement.

(iii) Types of Investments

Council has an approved Investment Policy in order to undertake its investment of money in accordance with (and to comply with) Section 625 of the Local Government Act and Section S212 of the LG (General) Regulation 2005.

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

Council maintains its investment Policy in compliance with the Act and ensures that it or its representatives exercise care, diligence and skill that a prudent person would exercise in investing Council funds.

Council amended its policy following revisions to the Ministerial Local Government Investment Order arising from the Cole Inquiry recommendations. Certain investments the Council holds are no longer prescribed (eg. managed funds, CDOs, and equity linked notes), however they have been retained under grandfathering provisions of the Order. These will be disposed of when most financially advantageous to Council.

(g) Fair value estimation

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

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

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

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

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

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

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

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (continued)

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

(h) Receivables

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

Receivables (excluding Rates & Annual Charges) are generally due for settlement no more than 30 days from the date of recognition.

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

A provision for impairment (ie. an allowance account) relating to 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 each receivable.

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

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

When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account.

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

(i) Inventories

Raw Materials and Stores, Work in Progress and Finished Goods

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

Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity.

Costs are assigned to individual items of inventory on the basis of weighted average costs.

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

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

Land Held for Resale/Capitalisation of Borrowing Costs

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

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

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

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

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (continued)

(j) Infrastructure, Property, Plant and Equipment (I,PP&E)

Acquisition of assets

Council's non current assets have been progressively revalued to fair value in accordance with a staged implementation as advised by the Division of Local Government.

At reporting date, the following classes of I,PP&E were stated at their Fair Value;

- **Operational Land** (External Valuation)
- **Buildings – Specialised/Non Specialised** (External Valuation)
- **Plant and Equipment** (as approximated by depreciated historical cost)
- **Roads Assets incl. roads, bridges & footpaths** (Internal Valuation)
- **Drainage Assets** (Internal Valuation)
- **Bulk Earthworks** (Internal Valuation)
- **Community Land** (External Valuation)
- **Land Improvements** (as approximated by depreciated historical cost)
- **Other Structures** (as approximated by depreciated historical cost)
- **Other Assets** (as approximated by depreciated historical cost)

Initial Recognition

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

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

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

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

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Council and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Asset Revaluations (including Indexation)

In accounting for Asset Revaluations relating to Infrastructure, Property, Plant & Equipment:

- Increases in the carrying amounts arising on revaluation are credited to the asset revaluation reserve.
- To the extent that the increase reverses a decrease previously recognised via the profit or loss, then increase is first recognised in profit or loss.
- Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset, with all other decreases charged to the Income statement.

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

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

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (continued)

Prior Year Adjustments

As a result of the continued identification and revaluation process, adjustments were made to prior year opening balances. These changes are reflected in retained earnings.

Capitalisation Thresholds

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

Land

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

Plant & Equipment

Office Furniture	> \$1,000
Office Equipment	> \$300
Other Plant & Equipment	> \$3,000

Buildings & Land Improvements

Park Furniture & Equipment	> \$2,000
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Building

- construction	100% Capitalised
- renovations	Capitalised where restoration costs > 20% of Asset WDV

Other Structures	> \$2,000
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Stormwater Assets

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

Transport Assets

Roads	Capitalise if reconstruction is across 1 or more road segments
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Depreciation

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

Land is not depreciated.

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

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

Other Structures

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

Other Assets

- Library Books	5 to 15 years
- Artworks	Indefinite

Buildings

- Floors	75 to 109 years
- Building Envelope	55 to 97 years
- Fitout - Floor	19 to 93 years
- Fitout – Internal Screens	21 to 45 years
- Roof	41 to 72 years
- Mechanical Services	27 to 39 years
- Fire Services	43 years

Stormwater Drainage

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

Transportation Assets

- Sealed Roads : Rigid	80 years
- Sealed Roads : Flexible	50 years
- Unsealed roads	30 years
- Bridge : Concrete	80 years
- Bridge : Other	50 years

- Road Pavements	60 years
- Kerb, Gutter & Paths	40 years

Other Infrastructure Assets

- Bulk earthworks	Infinite
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All asset residual values and useful lives are reviewed and adjusted (where appropriate), at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (continued)

recoverable amount – refer Note 1(s) on Asset Impairment.

Disposal and De-recognition

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

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

(k) Land

Land (other than Land under Roads) is in accordance with Part 2 of Chapter 6 of the Local Government Act (1993) classified as either Operational or Community.

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

(l) Land under roads

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

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

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

The value of land under roads is calculated using an average land value of Valuer General's total valuations over the total area within Cessnock LGA (less roads, National Parks, State Forests and creeks).

(m) Intangible Assets

Council has not classified any assets as Intangible.

(n) Crown Reserves

Crown Reserves under Council's care and control are recognised as assets of the Council.

While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated.

Improvements on Crown Reserves are also recorded as assets, while maintenance costs incurred by Council and revenues relating the reserves are recognised within Council's Income Statement.

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

(o) Rural Fire Service assets

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

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

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

(p) Investment property

Investment property comprises land and/or buildings that are principally held for long-term rental yields, capital gains or both that is not occupied by Council.

Council does not have any investment properties.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (continued)

(q) Provisions for close down, restoration and for environmental clean up costs – including Tips and Quarries

Close down, Restoration and Remediation costs include the dismantling and demolition of infrastructure, the removal of residual materials and the remediation of disturbed areas.

Estimated close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the development or during the operation phase, based on the net present value of estimated future costs.

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

Costs are estimated on the basis of a closure plan.

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

Close down, Restoration and Remediation costs are a normal consequence of tip and quarry operations, and the majority of close down and restoration expenditure is incurred at the end of the life of the operations.

Although the ultimate cost to be incurred is uncertain, Council estimates the respective costs based on feasibility and engineering studies using current restoration standards and techniques.

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

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

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

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

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each reporting 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 reporting date.

These costs are charged to the income statement.

Movements in the environmental clean up provisions are presented as an operating cost, except for the unwind of the discount which is shown as a borrowing cost.

Remediation procedures generally commence soon after the time the damage, remediation process and estimated remediation costs become known, but may continue for many years depending on the nature of the disturbance and the remediation techniques.

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other locations.

The expected timing of expenditure can also change, for example in response to changes in quarry reserves or production rates.

As a result there could be significant adjustments to the provision for close down and restoration and environmental clean up, which would affect future financial results.

Specific Information relating to Council's provisions relating to Close down, Restoration and Remediation costs can be found at Note 26.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (continued)

(r) Non-Current Assets (or Disposal Groups) "Held for Sale" & Discontinued Operations

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

The exception to this is plant and motor vehicles which are turned over on a regular basis. Plant and motor vehicles are retained in Non Current Assets under the classification of Infrastructure, Property, Plant and Equipment - unless the assets are to be traded in after 30 June and the replacement assets were already purchased and accounted for as at 30 June.

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

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

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

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

The results of discontinued operations are presented separately on the face of the income statement.

(s) Impairment of assets

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

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in

circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill & other Intangible Assets that have an indefinite useful life and are not subject to amortisation are tested annually for impairment.

(t) Payables

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

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

(u) Borrowings

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

Borrowings are subsequently measured at amortised cost.

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

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (continued)

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 reporting date.

(v) Borrowing costs

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

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

(w) Provisions

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

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

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date.

The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

The increase in the provision due to the passage of time is recognised as interest expense.

(x) Employee benefits

(i) Short Term Obligations

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

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

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

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

Wages & salaries, annual leave and vesting sick leave are all classified as Current Liabilities.

(ii) Other Long Term Obligations

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

These liabilities are measured at the present value of the expected future payments to be made using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are 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.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (continued)

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

(iii) Retirement benefit obligations

All employees of the Council are entitled to benefits on retirement, disability or death.

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

Defined Benefit Plans

A liability or asset in respect of defined benefit superannuation plans would ordinarily be recognised in the balance sheet, and measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost.

The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

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

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

This Scheme has been deemed to be a "multi employer fund" for the purposes of AASB 119.

Sufficient information is not available to account for the Scheme as a defined benefit plan (in accordance with AASB 119) because the assets to the scheme are pooled together for all Councils.

Accordingly, Council's contributions to the scheme for the current reporting year have been recognised as an expense and disclosed as part of Superannuation Expenses at Note 4(a).

The Local Government Superannuation Scheme has advised member councils that, as a result of the global financial crisis, it has a significant deficiency of assets over liabilities amounting to around \$263 million at 30 June 2011.

As a result, they have asked for significant increases in future contributions to recover that deficiency.

Council's share of that deficiency cannot be accurately calculated as the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils.

For this reason, no liability for the deficiency has been recognised in these financial statements.

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

Defined Contribution Plans

Contributions to Defined Contribution Plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Employee Benefit On-Costs

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

These amounts include Superannuation and Workers Compensation expenses which will be payable upon the future payment of certain Leave Liabilities accrued as at 30/6/11.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (continued)

(y) Self insurance

Council does not self insure.

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

(z) Allocation between current and non-current assets & liabilities

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

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

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

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

Exceptions

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

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

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

(ab) New accounting standards and Australian Accounting Interpretations

Certain new (or amended) accounting standards and interpretations have been published that are not mandatory for reporting periods ending 30 June 2011.

Council has not adopted any of these standards early.

(aa) Taxes

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

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

Council's assessment of the impact of these new standards and interpretations is set out below.

Applicable to Local Government with implications:

AASB 9 Financial Instruments, AASB 2009 11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)

Goods & Services Tax (GST)

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

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities.

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

The standard is not applicable until 1 January 2013 but is available for early adoption.

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

When adopted, the standard will affect in particular the Council's accounting for its available-for-sale financial assets, since AASB 9 only permits the

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (continued)

recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

Applicable to Local Government but no implications for Council;

AASB 2009 14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement (effective from 1 January 2011)

In December 2009, the AASB made an amendment to Interpretation 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme.

It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. Council does not make any such prepayments.

AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets (effective for annual reporting periods beginning on or after 1 July 2011)

Amendments made to AASB 7 Financial Instruments: Disclosures in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets.

The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties.

They are not expected to have any significant impact on Council's disclosures.

Applicable to Local Government but not relevant to Council at this stage;

None

Not applicable to Local Government per se;

Revised AASB 124 Related Party Disclosures and AASB 2009 12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures.

It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively.

The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. This amendment will have no impact on Council.

AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia.

Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements.

Local Government are specifically excluded from adopting the new Australian Accounting Standards – Reduced Disclosure Requirements.

AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (effective from 1 January 2012)

In December 2010, the AASB amended AASB 112 Income Taxes to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model.

AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (continued)

Council is not subject to Income Tax and accordingly this amendment will have no impact on future financial statements.

(ac) Rounding of amounts

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

(ad) Comparative Figures

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

(ae) Disclaimer

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 2(a). Council Functions / Activities - Financial Information

Functions/Activities	Income, Expenses and Assets have been directly attributed to the following Functions / Activities. Details of these Functions/Activities are provided in Note 2(b).												
	Income from Continuing Operations			Expenses from Continuing Operations			Operating Result from Continuing Operations			Grants included in Income from Continuing Operations		Total Assets held (Current & Non-current)	
	Original Budget 2011	Actual 2011	Actual 2010	Original Budget 2011	Actual 2011	Actual 2010	Original Budget 2011	Actual 2011	Actual 2010	Actual 2011	Actual 2010	Actual 2011	Actual 2010
Governance	-	-	-	809	794	667	(809)	(794)	(667)	-	-	55	65
Administration	551	1,583	1,186	9,624	13,588	13,735	(9,073)	(12,005)	(12,549)	-	-	66,029	59,897
Public Order & Safety	993	844	1,290	2,486	1,885	2,336	(1,493)	(1,041)	(1,046)	57	819	5,375	4,876
Health	728	740	776	734	641	756	(6)	99	20	-	5	1,235	1,273
Environment	10,094	10,528	9,698	9,040	10,270	6,864	1,054	258	2,834	343	286	51,753	51,896
Community Services & Education	48	48	59	560	671	853	(512)	(623)	(794)	40	54	5,090	4,357
Housing & Community Amenities	960	1,101	1,145	3,826	4,865	4,356	(2,866)	(3,764)	(3,211)	45	45	2,828	1,521
Recreation & Culture	587	1,523	1,872	6,122	7,134	7,229	(5,535)	(5,611)	(5,357)	527	839	76,266	67,831
Mining, Manufacturing & Construction	492	524	593	916	1,073	934	(424)	(549)	(341)	-	-	323	381
Transport & Communication	5,678	7,623	8,754	12,178	12,619	14,405	(6,500)	(4,996)	(5,651)	1,291	1,658	470,972	467,336
Economic Affairs	720	296	1,001	876	368	1,030	(156)	(72)	(29)	82	70	6,438	6,787
Total Functions & Activities	20,851	24,810	26,374	47,171	53,908	53,165	(26,320)	(29,098)	(26,791)	2,385	3,776	686,364	666,220
General Purpose Income ¹	33,759	34,217	33,261	-	-	-	33,759	34,217	33,261	7,000	6,499	-	-
Operating Result from Continuing Operations	54,610	59,027	59,635	47,171	53,908	53,165	7,439	5,119	6,470	9,385	10,275	686,364	666,220

1. Includes: Rates & Annual Charges (incl. Ex-Gratia), Untied General Purpose Grants & Unrestricted Interest & Investment Income.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 2(b). Council Functions / Activities - Component Descriptions

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

GOVERNANCE

Costs relating to the Council's role as a component of democratic government, including elections, members' fees and expenses, subscriptions to local authority associations, meetings of council and policy making committees, area representation and public disclosure and compliance, together with related administration

ADMINISTRATION

Corporate Support and Other Support Services (not otherwise attributed to the listed functions / activities).

PUBLIC ORDER & SAFETY

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

HEALTH

Inspection, immunisations, food control, other, administration.

ENVIRONMENT

Noxious plants and insect/vermin control, other environmental protection, solid waste management, street cleaning, drainage, stormwater management.

COMMUNITY SERVICES & EDUCATION

Administration, youth services, other family and children, aged and disabled, other community services.

HOUSING & COMMUNITY AMENITIES

Town planning, street lighting, other sanitation and garbage, public cemeteries, public conveniences, other community amenities.

RECREATION & CULTURE

Public libraries, museums, art galleries, community centres, public halls, other cultural services, swimming pools, sporting grounds, parks and gardens, other sport and recreation.

MINING, MANUFACTURING & CONSTRUCTION

Building control and quarries.

TRANSPORT & COMMUNICATION

Urban roads, sealed rural roads, unsealed rural roads, bridges, footpaths, aerodromes, parking areas, bus shelters and services, RTA works, other.

ECONOMIC AFFAIRS

Tourism and area promotion, industrial development promotion, real estate development, other business undertakings.

Cessnock City Council

Notes to the Financial Statements for the financial year ended 30 June 2011

Note 3. Income from Continuing Operations

\$ '000	Notes	Actual 2011	Actual 2010
(a). Rates & Annual Charges			
Ordinary Rates			
Residential		17,564	16,332
Farmland		3,560	3,817
Mining		649	634
Business		4,061	4,275
Total Ordinary Rates		25,834	25,058
Special Rates			
Nil			
Annual Charges (pursuant to s.496, s.501 & s.611)			
Domestic Waste Management Services		6,873	6,324
Stormwater Management Services		456	447
Waste Management Services (non-domestic)		718	663
Section 611 Charges		20	20
Total Annual Charges		8,067	7,454
TOTAL RATES & ANNUAL CHARGES		33,901	32,512

Council has used 2009 year valuations provided by the NSW Valuer General in calculating its rates.

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2011

Note 3. Income from Continuing Operations (continued)

\$ '000	Notes	Actual 2011	Actual 2010
(b). User Charges & Fees			
Specific User Charges (per s.502 - Specific "actual use" charges)			
Nil			
Other User Charges & Fees			
(i) Fees & Charges - Statutory & Regulatory Functions (per s608 & 610A)			
Building Permits & Fees		570	674
Private Works - Section 67		159	82
Regulatory/ Statutory Fees		311	374
Town Planning		786	880
Total Fees & Charges - Statutory/Regulatory		1,826	2,010
(ii) Fees & Charges - Other (incl. General User Charges (per s.610C))			
Cemetery Fees		195	175
Garbage Tipping Fees		1,836	1,673
Onsite Sewerage Management Fees		278	233
RTA Charges (State Roads not controlled by Council)		2,873	4,852
Swimming Pool Fees		155	281
Tourist Association		8	9
Cessnock Performing Arts Centre		234	183
Other		355	342
Total Fees & Charges - Other		5,934	7,748
TOTAL USER CHARGES & FEES		7,760	9,758

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2011

Note 3. Income from Continuing Operations (continued)

\$ '000	Notes	Actual 2011	Actual 2010
(c). Interest & Investment Revenue (incl. losses)			
Interest & Dividends			
- Interest on Overdue Rates & Annual Charges		198	158
- Interest earned on Investments (interest & coupon payment income)		865	726
Fair Value Adjustments			
- Fair Valuation movements in Investments (at FV or Held for Trading)		770	1,177
<u>TOTAL INTEREST & INVESTMENT REVENUE</u>		<u>1,833</u>	<u>2,061</u>
Interest Revenue is attributable to:			
Unrestricted Investments/Financial Assets:			
Overdue Rates & Annual Charges		198	158
General Council Cash & Investments		808	1,300
Restricted Investments/Funds - External:			
Development Contributions			
- Section 94		155	102
Domestic Waste Management operations		40	31
Other Externally Restricted Assets		57	66
Restricted Investments/Funds - Internal:			
Internally Restricted Assets		575	404
<u>Total Interest & Investment Revenue Recognised</u>		<u>1,833</u>	<u>2,061</u>
(d). Other Revenues			
Rental Income - Other Council Properties		216	232
Fines		166	110
Legal Fees Recovery - Rates & Charges (Extra Charges)		326	273
Commissions & Agency Fees		27	25
General Administrative Services		5	1
Insurance Claim Recoveries		263	51
Sales - General		31	27
Section 355 Committees		154	181
Other		79	50
<u>TOTAL OTHER REVENUE</u>		<u>1,267</u>	<u>950</u>

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 3. Income from Continuing Operations (continued)

\$ '000	2011 Operating	2010 Operating	2011 Capital	2010 Capital
(e). Grants				
General Purpose (Untied)				
Financial Assistance - General Component	5,064	4,667	-	-
Financial Assistance - Local Roads Component	1,470	1,363	-	-
Pensioners' Rates Subsidies - General Component	466	469	-	-
Total General Purpose	7,000	6,499	-	-
Specific Purpose				
Pensioners' Rates Subsidies:				
- Domestic Waste Management	192	191	-	-
Bushfire & Emergency Services	-	650	57	169
Community Centres	-	-	2	84
Drainage	-	-	79	61
Library - per capita	94	92	-	-
Library - special projects	6	42	41	-
Noxious Weeds Control	64	34	-	-
Recreation & Culture	-	-	139	160
RLCIP Grant	-	-	232	461
Street Lighting	43	42	-	-
Transport (Roads to Recovery)	759	800	-	-
Transport (Other Roads & Bridges Funding)	117	74	156	784
Welfare Services	40	54	-	-
Transport (Bus Shelters)	-	-	259	-
Other	92	78	13	-
Total Specific Purpose	1,407	2,057	978	1,719
Total Grants	8,407	8,556	978	1,719
Grant Revenue is attributable to:				
- Commonwealth Funding	7,294	6,030	388	2,045
- State Funding	1,113	1,726	590	474
- Other Funding	-	800	-	(800)
	8,407	8,556	978	1,719

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2011

Note 3. Income from Continuing Operations (continued)

\$ '000	2011 Operating	2010 Operating	2011 Capital	2010 Capital
(f). Contributions				
Developer Contributions:				
(s93 & s94 - EP&A Act, s64 of the NSW LG Act):				
S 94 - Contributions towards amenities/services	-	-	731	744
Total Developer Contributions	17 -	-	731	744
Other Contributions:				
Bushfire Protection	484	200	-	-
Dedications (other than by S94)	-	-	294	159
General Admin Services	400	386	-	-
Kerb & Gutter	-	-	79	67
Motor Vehicle Leaseback	141	136	-	-
Road Reinstatements	114	150	-	-
RTA Contributions (Regional/Local, Block Grant)	1,040	1,031	1,530	467
Transport	-	-	21	7
Other	40	34	7	15
Total Other Contributions	2,219	1,937	1,931	715
Total Contributions	2,219	1,937	2,662	1,459
TOTAL GRANTS & CONTRIBUTIONS	10,626	10,493	3,640	3,178

\$ '000	Actual 2011	Actual 2010
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(g). Restrictions relating to Grants and Contributions

Certain grants & contributions are obtained by Council on condition that they be spent in a specified manner:

Unexpended at the Close of the Previous Reporting Period	4,064	5,019
add: Grants & contributions recognised in the current period but not spent:	1,887	1,918
less: Grants & contributions recognised in a previous reporting period & now spent	(1,963)	(2,873)
Net Increase (Decrease) in Restricted Assets	(76)	(955)
Unexpended and held as Restricted Assets	3,988	4,064
Comprising:		
- Specific Purpose Unexpended Grants	1,134	1,195
- Developer Contributions	2,854	2,853
- Other Contributions	-	16
	3,988	4,064

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2011

Note 4. Expenses from Continuing Operations

\$ '000	Notes	Actual 2011	Actual 2010
(a) Employee Benefits & On-Costs			
Salaries and Wages		14,797	14,878
Employee Termination Costs		394	-
Travelling		498	552
Employee Leave Entitlements (ELE)		3,685	3,607
Superannuation		2,737	2,712
Workers' Compensation Insurance		707	1,082
Fringe Benefit Tax (FBT)		135	124
Training Costs (other than Salaries & Wages)		206	248
Other		36	38
Total Employee Costs		23,195	23,241
less: Capitalised Costs		(1,158)	(1,162)
TOTAL EMPLOYEE COSTS EXPENSED		22,037	22,079
Number of "Equivalent Full Time" Employees at year end		267	262
(b) Borrowing Costs			
(i) Interest Bearing Liability Costs			
Interest on Loans		602	633
Total Interest Bearing Liability Costs		602	633
less: Capitalised Costs		-	-
Total Interest Bearing Liability Costs Expensed		602	633
(ii) Other Borrowing Costs			
Nil			
TOTAL BORROWING COSTS EXPENSED		602	633

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 4. Expenses from Continuing Operations (continued)

\$ '000	Notes	Actual 2011	Actual 2010
(c) Materials & Contracts			
Raw Materials & Consumables		8,019	8,779
Contractor & Consultancy Costs		3,637	4,317
Auditors Remuneration			
- Audit Services: Council's Auditor		26	18
Legal Expenses:			
- Legal Expenses: Planning & Development		395	304
- Legal Expenses: Other		77	124
- Legal Expenses: Debt Recovery		308	262
Operating Leases:			
- Operating Lease Rentals: Minimum Lease Payments ⁽¹⁾		259	213
Total Materials & Contracts		12,721	14,017
less: Capitalised Costs		-	-
TOTAL MATERIALS & CONTRACTS		12,721	14,017
1. Operating Lease Payments are attributable to:			
- Computers		249	210
- Other		10	3
		259	213

\$ '000	Notes	Impairment Costs		Depreciation/Amortisation	
		Actual 2011	Actual 2010	Actual 2011	Actual 2010
(d) Depreciation, Amortisation & Impairment					
Plant and Equipment		-	-	1,785	1,568
Office Equipment		-	-	197	108
Furniture & Fittings		-	-	51	56
Buildings - Non Specialised		-	-	762	750
Buildings - Specialised		-	-	50	50
Other Structures		-	-	750	843
Infrastructure:					
- Roads, Bridges & Footpaths		-	-	2,012	4,037
- Stormwater Drainage		-	-	650	687
Other Assets					
- Library Books		-	-	114	125
Total Depreciation & Impairment Costs		-	-	6,371	8,224
less: Capitalised Costs		-	-	-	-
less: Impairments offset in ARR (Equity)	9a	-	-	-	-
TOTAL DEPRECIATION & IMPAIRMENT COSTS EXPENSED		-	-	6,371	8,224

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 4. Expenses from Continuing Operations (continued)

\$ '000	Notes	Actual 2011	Actual 2010
(e) Other Expenses			
Other Expenses for the year include the following:			
Advertising		161	162
Bad & Doubtful Debts		13	178
Bank Charges		32	30
Contributions/Levies to Other Levels of Government			
- Emergency Services Levy		57	53
- NSW Fire Brigade Levy		275	236
- NSW Rural Fire Service Levy		443	380
- Waste Levy		4,366	3,878
Councillor Expenses - Mayoral Fee		35	34
Councillor Expenses - Councillors' Fees		208	202
Councillors' Expenses (incl. Mayor) - Other (excluding fees above)		56	53
Donations, Contributions & Assistance to other organisations (Section 356)		57	95
Electricity & Heating		394	436
Insurance		993	801
Rate Collection Agency Expenses		68	62
Section 355 Committees		163	211
Street Lighting		778	575
Subsidies		21	34
Telephone & Communications		415	366
Tourism Board Contribution		266	266
Valuation Fees		121	115
Other		201	45
Total Other Expenses		9,123	8,212
less: Capitalised Costs		-	-
<u>TOTAL OTHER EXPENSES</u>		<u>9,123</u>	<u>8,212</u>

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2011

Note 5. Gains or Losses from the Disposal of Assets

\$ '000	Notes	Actual 2011	Actual 2010
Property (excl. Investment Property)			
Proceeds from Disposal		4	39
less: Carrying Amount of Property Assets Sold		-	(100)
Net Gain/(Loss) on Disposal		4	(61)
Plant & Equipment			
Proceeds from Disposal		633	898
less: Carrying Amount of P&E Assets Sold		(417)	(952)
Net Gain/(Loss) on Disposal		216	(54)
Infrastructure			
Proceeds from Disposal		-	-
less: Carrying Amount of Infrastructure Assets Sold / Written Off		(3,903)	-
Net Gain/(Loss) on Disposal		(3,903)	-
Real Estate Assets Held For Sale			
Proceeds from Disposal		1,070	1,326
less: Carrying Amount of Real Estate Assets Sold		(441)	(528)
Net Gain/(Loss) on Disposal		629	798
Financial Assets			
Proceeds from Disposal / Redemptions		15,445	14,700
less: Carrying Amount of Financial Assets Sold / Redeemed		(15,445)	(14,700)
Net Gain/(Loss) on Disposal		-	-
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(3,054)	683

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 6a. - Cash Assets and Note 6b. - Investment Securities

\$ '000	Notes	2011 Actual Current	2011 Actual Non Current	2010 Actual Current	2010 Actual Non Current
Cash & Cash Equivalents (Note 6a)					
Cash on Hand and at Bank		1,098	-	625	-
Cash-Equivalent Assets ¹					
- Deposits at Call		3,314	-	2,863	-
- Short Term Deposits		10,100	-	2,400	-
Total Cash & Cash Equivalents		14,512	-	5,888	-
Investment Securities (Note 6b)					
- Long Term Deposits		600	445	7,800	-
- Equity Linked Notes		-	-	-	500
- CDO's		1,900	1,095	2,300	2,370
Total Investment Securities		2,500	1,540	10,100	2,870
TOTAL CASH ASSETS, CASH EQUIVALENTS & INVESTMENTS		17,012	1,540	15,988	2,870

¹ Those Investments where time to maturity (from date of purchase) is < 3 mths.

Cash, Cash Equivalents & Investments were classified at year end in accordance with AASB 139 as follows:

Cash & Cash Equivalents

a. "At Fair Value through the Profit & Loss"	14,512	-	5,888	-
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Investments

a. "At Fair Value through the Profit & Loss"					
- "Held for Trading"	6(b-i)	1,900	1,095	2,300	2,370
b. "Held to Maturity"	6(b-ii)	600	445	7,800	500
Investments		2,500	1,540	10,100	2,870

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 6b. Investments (continued)

\$ '000	2011 Actual Current	2011 Actual Non Current	2010 Actual Current	2010 Actual Non Current
Note 6(b-i)				
Reconciliation of Investments classified as "At Fair Value through the Profit & Loss"				
Balance at the Beginning of the Year	2,300	2,370	-	3,993
Revaluations (through the Income Statement)	145	625	-	1,177
Disposals (sales & redemptions)	(2,445)	-	-	(500)
Transfers between Current/Non Current	1,900	(1,900)	2,300	(2,300)
Balance at End of Year	1,900	1,095	2,300	2,370
Comprising:				
- CDO's	1,900	1,095	2,300	2,370
Total	1,900	1,095	2,300	2,370
Note 6(b-ii)				
Reconciliation of Investments classified as "Held to Maturity"				
Balance at the Beginning of the Year	7,800	500	7,700	1,000
Additions	5,300	445	13,800	-
Disposals (sales & redemptions)	(12,500)	(500)	(13,700)	(500)
Comprising:				
- Long Term Deposits	600	445	7,800	-
- Equity Linked Notes	-	-	-	500
Total	600	445	7,800	500

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 6c. Restricted Cash, Cash Equivalents & Investments - Details

\$ '000	2011	2011	2010	2010
	Actual Current	Actual Non Current	Actual Current	Actual Non Current
Total Cash, Cash Equivalents and Investment Securities	17,012	1,540	15,988	2,870
Attributable to:				
External Restrictions (refer below)	3,292	1,540	2,038	2,870
Internal Restrictions (refer below)	12,208	-	12,316	-
Unrestricted	1,512	-	1,634	-
	17,012	1,540	15,988	2,870

2011 \$ '000	Opening Balance	Transfers to Restrictions	Transfers from Restrictions	Closing Balance
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Details of Restrictions

External Restrictions - Included in Liabilities

Nil

External Restrictions - Other

Developer Contributions - General (A)	2,853	886	(885)	2,854
RTA Contributions (B)	16	-	(16)	-
Specific Purpose Unexpended Grants (C)	1,195	-	(60)	1,134
Domestic Waste Management (D)	782	-	-	782
Other	62	-	-	62
External Restrictions - Other	4,908	886	(961)	4,832
Total External Restrictions	4,908	886	(961)	4,832

- A** Development contributions which are not yet expended for the provision of services and amenities in accordance with contributions plans (refer Note 17).
- B** RTA Contributions which are not yet expended for the provision of services and amenities in accordance with those contributions.
- C** Grants which are not yet expended for the purposes for which the grants were obtained. (refer Note 1)
- D** Domestic Waste Management (DWM) is an externally restricted asset and must be applied for the purpose for which it was raised.

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2011

Note 6c. Restricted Cash, Cash Equivalents & Investments - Details (continued)

2011 \$ '000	Opening Balance	Transfers to Restrictions	Transfers from Restrictions	Closing Balance
Internal Restrictions				
Plant & Vehicle Replacement	1,812	1,364	(810)	2,366
Employees Leave Entitlement	329	934	(973)	290
Bridge Replacement	849	42	(519)	372
Cemetery	183	16	(35)	164
Computer Services	261	346	(238)	369
Impaired Investments	101	20	(56)	65
Insurance Provisions	229	271	(145)	355
Land Purchases	208	264	(14)	458
Other Special Projects	664	599	(801)	462
Rezoning Fees	214	-	(74)	140
Sanitary Operations	83	-	(28)	55
Single Invitation Contracts	1,979	-	(1,518)	461
Special Projects	149	520	(669)	-
Unexpended Loan Funds	6	1,431	(1,437)	-
Waste Depot & Rehabilitation	5,249	9,979	(9,421)	5,807
Residential Land Development	-	1,070	(226)	844
Total Internal Restrictions	12,316	16,856	(16,964)	12,208
TOTAL RESTRICTIONS	17,224	17,742	(17,925)	17,040

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 7. Receivables

\$ '000	Notes	2011		2010	
		Current	Non Current	Current	Non Current
Purpose					
Rates & Annual Charges		2,229	-	1,945	-
Interest & Extra Charges		51	-	8	-
User Charges & Fees		19	-	18	-
- Interest on Investments		110	-	107	-
Bushfire Protection		58	-	25	-
Community Facilities		-	-	27	-
Deferred Debtors		66	59	49	81
Garbage Tipping Fees		185	-	213	-
Government Grants & Subsidies		467	-	171	-
Industrial Development		178	-	172	-
Kerb & Gutter		53	-	59	-
Net GST Receivable		537	-	572	-
Restoration Charges		16	-	41	-
RTA Debtors - State Roads		1,065	-	2,871	-
Other Debtors		367	-	501	-
Total		5,401	59	6,779	81
less: Provision for Impairment					
Rates & Annual Charges		(60)	-	(53)	-
Other Debtors		(282)	-	(275)	-
Total Provision for Impairment - Receivables		(342)	-	(328)	-
<u>TOTAL NET RECEIVABLES</u>		<u>5,059</u>	<u>59</u>	<u>6,451</u>	<u>81</u>
Externally Restricted Receivables					
Domestic Waste Management		549	-	479	-
Stormwater Management		34	-	31	-
Other					
- Other Restricted Receivables		185	-	213	-
Total External Restrictions		768	-	723	-
Unrestricted Receivables		4,291	59	5,728	81
<u>TOTAL NET RECEIVABLES</u>		<u>5,059</u>	<u>59</u>	<u>6,451</u>	<u>81</u>

Notes on Debtors above:

- (i) Rates & Annual Charges Outstanding are secured against the property.
- (ii) Doubtful Rates Debtors are provided for where the value of the property is less than the debt outstanding.
An allowance for other doubtful debts is made when there is objective evidence that a receivable is impaired.
- (iii) Interest was charged on overdue rates & charges at 9.00% (2010 9.00%).
Generally all other receivables are non interest bearing.
- (iv) Please refer to Note 15 for issues concerning Credit Risk and Fair Value disclosures.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 8. Inventories & Other Assets

\$ '000	Notes	2011		2010	
		Current	Non Current	Current	Non Current
Inventories					
Real Estate for resale (refer below)		-	3,280	432	3,250
Stores & Materials		306	-	361	-
Total Inventories		306	3,280	793	3,250
Other Assets					
Prepayments		534	-	598	-
Total Other Assets		534	-	598	-
TOTAL INVENTORIES / OTHER ASSETS		840	3,280	1,391	3,250

Externally Restricted Assets

There are no restrictions applicable to the above assets.

(i) Other Disclosures

(a) Details for Real Estate Development

Residential		-	3,280	432	3,250
Total Real Estate for Resale		-	3,280	432	3,250

(Valued at the lower of cost and net realisable value)

Represented by:

Development Costs		-	3,280	432	3,250
Total Costs		-	3,280	432	3,250
less: Provision for Under Recovery		-	-	-	-
Total Real Estate for Resale		-	3,280	432	3,250

Movements:

Real Estate assets at beginning of the year		432	3,250	919	2,492
- Purchases and other costs		9	30	41	758
- WDV of Sales (exp)	5	(441)	-	(528)	-
Total Real Estate for Resale		-	3,280	432	3,250

Cessnock City Council

Notes to the Financial Statements for the financial year ended 30 June 2011

Note 9a. Infrastructure, Property, Plant & Equipment

\$ '000	as at 30/6/2010				Asset Movements during the Reporting Period					as at 30/6/2011			
	At	At	Accumulated	Carrying	Asset Additions	WDV of Asset Disposals	Depreciation Expense	Adjustments & Transfers	Revaluation Increments to Equity (ARR)	At	At	Accumulated	Carrying
	Cost	Fair Value	Deprec.	Value						Cost	Fair Value	Dep'n	Value
Capital Work in Progress	-	-	-	-	1,272	-	-	-	-	1,272	-	-	1,272
Plant & Equipment	-	17,875	10,801	7,074	2,426	(417)	(1,785)	-	-	-	18,587	11,289	7,298
Office Equipment	-	1,633	1,066	567	625	-	(197)	-	-	-	2,225	1,230	995
Furniture & Fittings	-	1,241	1,018	223	13	-	(51)	-	-	-	1,252	1,067	185
Plant & Equipment (under Finance Lease)	-	281	281	-	-	-	-	-	-	-	-	-	-
Land:													
- Operational Land	-	43,904	-	43,904	210	-	-	-	-	-	44,114	-	44,114
- Community Land	9,589	-	-	9,589	-	-	-	-	14,214	-	23,803	-	23,803
- Land under Roads (post 30/6/08)	-	228	-	228	294	-	-	-	-	-	522	-	522
Buildings - Non Specialised	-	71,962	7,691	64,271	1,389	-	(762)	-	-	-	73,352	8,454	64,898
Buildings - Specialised	-	3,207	1,320	1,887	-	-	(50)	-	-	-	3,207	1,370	1,837
Other Structures	12,132	-	2,745	9,387	1,053	-	(750)	-	-	-	13,185	3,495	9,690
Infrastructure:													
- Roads, Bridges, Footpaths	-	559,576	102,156	457,420	9,504	(3,903)	(2,012)	340	-	-	563,633	102,284	461,349
- Stormwater Drainage	-	51,995	11,185	40,810	228	-	(650)	1,273	-	-	52,846	11,185	41,661
Other Assets:													
- Library Books	4,037	-	3,211	826	235	-	(114)	-	-	-	4,272	3,325	947
- Other	3	-	-	3	-	-	-	-	-	-	3	-	3
Reinstatement, Rehabilitation & Restoration Assets (refer Note 26)													
- Tip Asset	8,400	-	8,400	-	-	-	-	-	-	8,400	-	8,400	-
TOTAL INFRASTRUCTURE, PROPERTY, PLANT & EQUIP.	34,161	751,902	149,874	636,189	17,249	(4,320)	(6,371)	1,613	14,214	9,672	801,001	152,099	658,574

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2011

Note 9b. Externally Restricted Infrastructure, Property, Plant & Equipment

\$ '000 Class of Asset	Actual 2011				Actual 2010			
	At Cost	At Fair Value	A/Dep & Impairm't	Carrying Value	At Cost	At Fair Value	A/Dep & Impairm't	Carrying Value
Domestic Waste Management								
Plant & Equipment	-	1,571	800	771	-	1,526	797	729
Land								
- Operational Land	-	2,682	-	2,682	-	2,862	-	2,862
Buildings	-	69	8	61	-	69	7	62
Other Assets	-	-	-	-	793	-	154	639
Total DWM	-	4,322	808	3,514	793	4,457	958	4,292
TOTAL RESTRICTED I,PP&E	-	4,322	808	3,514	793	4,457	958	4,292

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 10a. Payables, Borrowings & Provisions

\$ '000	Notes	2011		2010	
		Current	Non Current	Current	Non Current
Payables					
Goods & Services - operating expenditure		3,568	-	4,453	-
Payments Received In Advance		1,680	472	1,604	466
Accrued Expenses:					
- Salaries & Wages		477	-	413	-
- Other Expenditure Accruals		666	-	608	-
Security Bonds, Deposits & Retentions		673	-	845	-
Trust Fund		149	-	280	-
Total Payables		7,213	472	8,203	466
Borrowings					
Loans - Secured ¹		935	8,119	1,261	7,631
Total Borrowings		935	8,119	1,261	7,631
Provisions					
Employee Benefits;					
Annual Leave		1,778	-	1,769	-
Sick Leave		604	-	667	-
Long Service Leave		4,077	114	4,022	95
Sub Total - Aggregate Employee Benefit		6,459	114	6,458	95
Asset Remediation/Restoration (Future Works) ²⁶		-	11,241	-	11,241
Total Provisions		6,459	11,355	6,458	11,336
Total Payables, Borrowings & Provisions		14,607	19,946	15,922	19,433
(i) Liabilities relating to Restricted Assets					
		2011		2010	
		Current	Non Current	Current	Non Current
Externally Restricted Assets					
Domestic Waste Management		75	-	90	-
Liabilities relating to externally restricted assets		75	-	90	-
Internally Restricted Assets					
Nil					
Total Liabilities relating to restricted assets		75	-	90	-

¹. Loans are secured over the General Rating Income of Council

Disclosures on Liability Interest Rate Risk Exposures, Fair Value Disclosures & Security can be found in Note 15.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 10a. Payables, Borrowings & Provisions (continued)

\$ '000	2011	2010
(ii) Current Liabilities not anticipated to be settled within the next 12 months		
The following Liabilities, even though classified as current, are not expected to be settled in the next 12 months.		
Provisions - Employees Benefits	4,032	4,108
Payables - Security Bonds, Deposits & Retentions	571	712
Other Liabilities: Trust Fund Deposits	52	-
	4,655	4,820

Note 10b. Description of and movements in Provisions

Class of Provision	Opening Balance as at 1/7/10	Additional Provisions	Decrease due to Payments	Remeasurement effects due to Discounting	Unused amounts reversed	Closing Balance as at 30/6/11
Annual Leave	1,769	1,318	(1,309)	-	-	1,778
Sick Leave	667	737	(800)	-	-	604
Long Service Leave	4,117	688	(614)	-	-	4,191
Asset Remediation	11,241	-	-	-	-	11,241
TOTAL	17,794	2,743	(2,723)	-	-	17,814

a. Employees Leave Entitlements & On-Costs represents those benefits accrued and payable and an estimate of those that will become payable in the future as a result of past service.

b. Asset Remediation, Reinstatement & Restoration Provisions represent the Present Value estimate of future costs Council will incur in order to remove, restore & remediate assets &/or activities as a result of past operations.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 11. Statement of Cash Flows - Additional Information

\$ '000	Notes	Actual 2011	Actual 2010
(a) Reconciliation of Cash Assets			
Total Cash & Cash Equivalent Assets	6a	14,512	5,888
Balance as per the Statement of Cash Flows		14,512	5,888
(b) Reconciliation of Net Operating Result to Cash provided from Operating Activities			
Net Operating Result from Income Statement		5,119	6,470
<i>Adjust for non cash items:</i>			
Depreciation & Amortisation		6,371	8,224
Net Losses/(Gains) on Disposal of Assets		3,054	(683)
Non Cash Capital Grants and Contributions		(294)	(159)
Losses/(Gains) recognised on Fair Value Re-measurements through the P&L:			
- Investments classified as "at Fair Value" or "Held for Trading"		(770)	(1,177)
<i>+/- Movement in Operating Assets and Liabilities & Other Cash Items:</i>			
Decrease/(Increase) in Receivables		1,395	(3,350)
Increase/(Decrease) in Provision for Doubtful Debts		14	165
Decrease/(Increase) in Inventories		55	6
Decrease/(Increase) in Other Assets		64	(113)
Increase/(Decrease) in Payables		(885)	1,279
Increase/(Decrease) in other accrued Expenses Payable		122	345
Increase/(Decrease) in Other Liabilities		(221)	239
Increase/(Decrease) in Employee Leave Entitlements		20	158
NET CASH PROVIDED FROM/(USED IN) OPERATING ACTIVITIES from the STATEMENT of CASH FLOWS		14,044	11,404

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 11. Statement of Cash Flows - Additional Information (continued)

\$ '000	Notes	Actual 2011	Actual 2010
(c) Non-Cash Investing & Financing Activities			
Other Dedications		294	159
Total Non-Cash Investing & Financing Activities		294	159
(d) Financing Arrangements			
(i) Unrestricted access was available at balance date to the following lines of credit:			
Bank Overdraft Facilities ⁽¹⁾		1,000	1,000
Credit Cards / Purchase Cards		100	90
Total Financing Arrangements		1,100	1,090
Amounts utilised as at Balance Date:			
- Bank Overdraft Facilities		-	-
- Credit Cards / Purchase Cards		-	-
Total Financing Arrangements Utilised		-	-

1. The Bank overdraft facility may be drawn at any time and may be terminated by the bank without notice.
Interest rates on overdrafts are Interest Rates on Loans & Other Payables are disclosed in Note 15.

(ii) Secured Loan Liabilities

Loans are secured by a mortgage over future years Rate Revenue only.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 12. Commitments for Expenditure

\$ '000	Notes	Actual 2011	Actual 2010
(a) Capital Commitments (exclusive of GST)			
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:			
Property, Plant & Equipment			
Construction of Whitebridge at Mulbring		-	1
Construction of Cunneens at Wollombi		-	761
Regional Roads Timber Bridge Program		744	-
Total Commitments		744	762
These expenditures are payable as follows:			
Within the next year		744	762
Later than one year and not later than 5 years		-	-
Later than 5 years		-	-
Total Payable		744	762
Sources for Funding of Capital Commitments:			
Unrestricted General Funds		744	-
Internally Restricted Reserves		-	762
Total Sources of Funding		744	762
(b) Other Expenditure Commitments (exclusive of GST)			
Other Non Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:			
Recycling Contract		1,706	2,256
Audit Services		38	56
Total Commitments		1,744	2,312
These expenditures are payable as follows:			
Within the next year		1,212	1,130
Later than one year and not later than 5 years		532	1,182
Later than 5 years		-	-
Total Payable		1,744	2,312

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 12. Commitments for Expenditure (continued)

\$ '000	Notes	Actual 2011	Actual 2010
(c) Finance Lease Commitments			
Nil			
(d) Operating Lease Commitments (Non Cancellable)			
a. Commitments under Non Cancellable Operating Leases at the Reporting date, but not recognised as Liabilities are payable:			
Within the next year		228	372
Later than one year and not later than 5 years		359	255
Later than 5 years		6	-
Total Non Cancellable Operating Lease Commitments		593	627

b. Non Cancellable Operating Leases include the following assets:

Computer & Photocopier Leases

Contingent Rentals may be payable depending on the condition of items or usage during the lease term.

Conditions relating to Operating Leases:

- All Operating Lease Agreements are secured only against the Leased Asset.
- No Lease Agreements impose any financial restrictions on Council regarding future debt etc.

(e) Remuneration Commitments

Commitments for the payment of salaries & other remuneration under long-term employment contracts in existence at reporting date but not recognised as liabilities are payable:

Within the next year		2,097	1,928
Later than one year and not later than 5 years		6,562	4,733
Later than 5 years		-	-
Total Payable		8,659	6,661

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 13a(i). Statement of Performance Measurement - Indicators (Consolidated)

\$ '000	Amounts 2011	Indicator 2011	Prior Periods 2010 2009	
Local Government Industry Indicators				
1. Unrestricted Current Ratio				
Current Assets less all External Restrictions ⁽¹⁾	<u>18,851</u>	1.91 : 1	1.91	2.06
Current Liabilities less Specific Purpose Liabilities ^(2,3)	<u>9,877</u>			
2. Debt Service Ratio				
Debt Service Cost	<u>1,871</u>	3.61%	3.62%	4.27%
Income from Continuing Operations excluding Capital Items & Specific Purpose Grants/Contributions	<u>51,761</u>			
3. Rates & Annual Charges Coverage Ratio				
Rates & Annual Charges	<u>33,901</u>	57.43%	54.48%	53.07%
Income from Continuing Operations	<u>59,027</u>			
4. Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage				
Rates, Annual & Extra Charges Outstanding	<u>2,220</u>	6.11%	5.49%	5.07%
Rates, Annual & Extra Charges Collectible	<u>36,325</u>			
5. Building & Infrastructure Renewals Ratio				
Asset Renewals ⁽⁴⁾ [Buildings & Infrastructure]	<u>10,014</u>	288.26%	212.33%	142.06%
Depreciation, Amortisation & Impairment (Building & Infrastructure Assets)	<u>3,474</u>			

Notes

(1) Refer Notes 6-8 inclusive.

Also excludes any Real Estate & Land for resale not expected to be sold in the next 12 months

(2) Refer to Note 10(a).

(3) Refer to Note 10(a) - excludes all payables & provisions not expected to be paid in the next 12 months (incl. ELE).

(4) Asset Renewals represent the replacement &/or refurbishment of existing assets to an equivalent capacity or performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

Cessnock City Council

Notes to the Financial Statements for the financial year ended 30 June 2011

Note 13a(i). Statement of Performance Measurement - Graphs (Consolidated)

<p>1. Unrestricted Current Ratio</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio : 1</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>1.83</td> </tr> <tr> <td>2009</td> <td>2.06</td> </tr> <tr> <td>2010</td> <td>1.91</td> </tr> <tr> <td>2011</td> <td>1.91</td> </tr> </tbody> </table>	Year	Ratio : 1	2008	1.83	2009	2.06	2010	1.91	2011	1.91	<p>Purpose of Unrestricted Current Ratio</p> <p>To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.</p>	<p>Commentary on 2010/11 Result</p> <p>2010/11 Ratio 1.91 : 1</p> <p>The ratio between current assets and current liabilities has remained unchanged from that in 2009/10. This ratio represents a satisfactory level of working capital.</p>
Year	Ratio : 1											
2008	1.83											
2009	2.06											
2010	1.91											
2011	1.91											
<p>2. Debt Service Ratio</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio %</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>4.50%</td> </tr> <tr> <td>2009</td> <td>4.27%</td> </tr> <tr> <td>2010</td> <td>3.62%</td> </tr> <tr> <td>2011</td> <td>3.61%</td> </tr> </tbody> </table>	Year	Ratio %	2008	4.50%	2009	4.27%	2010	3.62%	2011	3.61%	<p>Purpose of Debt Service Ratio</p> <p>To assess the impact of loan principal & interest repayments on the discretionary revenue of council.</p>	<p>Commentary on 2010/11 Result</p> <p>2010/11 Ratio 3.61%</p> <p>Debt Service Ratio remained similar to 2009/10, highlighting a relatively low level of demand on discretionary revenue for loan repayments. The ratio is considered to be a good result.</p>
Year	Ratio %											
2008	4.50%											
2009	4.27%											
2010	3.62%											
2011	3.61%											
<p>3. Rates & Annual Charges Coverage Ratio</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio %</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>50.50%</td> </tr> <tr> <td>2009</td> <td>53.07%</td> </tr> <tr> <td>2010</td> <td>54.48%</td> </tr> <tr> <td>2011</td> <td>57.43%</td> </tr> </tbody> </table>	Year	Ratio %	2008	50.50%	2009	53.07%	2010	54.48%	2011	57.43%	<p>Purpose of Rates & Annual Charges Coverage Ratio</p> <p>To assess the degree of Council's dependence upon revenue from rates and annual charges and to assess the security of Council's income.</p>	<p>Commentary on 2010/11 Result</p> <p>2010/11 Ratio 57.43%</p> <p>Council's dependence on rates and annual charges for income compared to other sources of income remains relatively high and has increased due mainly to significant drops in RTA charges received for works on State Roads in the last 2 financial years.</p>
Year	Ratio %											
2008	50.50%											
2009	53.07%											
2010	54.48%											
2011	57.43%											
<p>4. Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio %</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>7.07%</td> </tr> <tr> <td>2009</td> <td>5.07%</td> </tr> <tr> <td>2010</td> <td>5.49%</td> </tr> <tr> <td>2011</td> <td>6.11%</td> </tr> </tbody> </table>	Year	Ratio %	2008	7.07%	2009	5.07%	2010	5.49%	2011	6.11%	<p>Purpose of Rates & Annual Charges Outstanding Ratio</p> <p>To assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.</p>	<p>Commentary on 2010/11 Result</p> <p>2010/11 Ratio 6.11%</p> <p>An increase in this ratio occurred in 2010/11, however this ratio is still a good result on Council's continued effort on collection of outstanding monies. A rates debtor existed at 30 June 2011 for \$410k. If this debtor were to be paid the ratio would be reduced to 4.99%.</p>
Year	Ratio %											
2008	7.07%											
2009	5.07%											
2010	5.49%											
2011	6.11%											
<p>5. Building & Infrastructure Renewals Ratio</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio %</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>110.49%</td> </tr> <tr> <td>2009</td> <td>142.06%</td> </tr> <tr> <td>2010</td> <td>212.33%</td> </tr> <tr> <td>2011</td> <td>288.26%</td> </tr> </tbody> </table>	Year	Ratio %	2008	110.49%	2009	142.06%	2010	212.33%	2011	288.26%	<p>Purpose of Bldg & Infrastructure Renewals Ratio</p> <p>To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.</p>	<p>Commentary on Result</p> <p>2010/11 Ratio 288.26%</p> <p>Council's continued effort in asset renewals is reflected in this ratio.</p>
Year	Ratio %											
2008	110.49%											
2009	142.06%											
2010	212.33%											
2011	288.26%											

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 14. Investment Properties

\$ '000

Council has not classified any Land or Buildings as "Investment Properties"

Note 15. Financial Risk Management

Risk Management

Council's activities expose it to a variety of financial risks including **(1)** price risk, **(2)** credit risk, **(3)** liquidity risk and **(4)** interest rate risk.

The Council's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Council.

Council does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by Council's Finance Section under policies approved by the Council.

A comparison by category of the carrying amounts and fair values of Council's Financial Assets & Financial Liabilities recognised in the financial statements is presented below.

	Carrying Value		Fair Value	
	2011	2010	2011	2010
Financial Assets				
Cash and Cash Equivalents	14,512	5,888	14,512	5,888
Investments				
- "Held for Trading"	2,995	4,670	2,995	4,670
- "Held to Maturity"	1,045	8,300	1,045	8,300
Receivables	5,118	6,532	5,118	6,532
Total Financial Assets	23,670	25,390	23,670	25,390
Financial Liabilities				
Payables	5,533	6,599	5,533	6,599
Loans / Advances	9,054	8,892	9,054	8,892
Total Financial Liabilities	14,587	15,491	14,587	15,491

Fair Value is determined as follows:

- Cash & Cash Equivalents, Receivables, Payables - are estimated to be the carrying value which approximates mkt value.
- Borrowings & Held to Maturity Investments - are based upon estimated future cash flows discounted by the current market interest rates applicable to assets & liabilities with similar risk profiles, unless quoted market prices are available.
- Financial Assets classified (i) "at fair value through profit & loss" or (ii) Available for Sale - are based upon quoted market prices (in active markets for identical investments at the reporting date or independent valuation).

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 15. Financial Risk Management (continued)

\$ '000

(a) Cash & Cash Equivalents, Financial assets 'at fair value through the profit & Loss', "Available-for-sale" financial assets & "Held-to-maturity" Investments

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

Council's Finance area manages the Cash & Investments portfolio with the assistance of independent advisors.

Council has an Investment Policy which complies with the Local Government Act & Minister's Investment Order. This Policy is regularly reviewed by Council and its staff and an Investment Report is tabled before Council on a monthly basis setting out the portfolio breakup and its performance.

The major risk associated with Investments is price risk - the risk that the capital value of Investments may fluctuate due to changes in market prices, whether there changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.

Cash & Investments are also subject to interest rate risk - the risk that movements in interest rates could affect returns and income.

A further risk associated with Cash & Investments is credit risk - the risk that the investment counterparty) will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council - be it of a capital or income nature.

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

Council also seeks advice from independent advisers before placing any funds in Cash Equivalents & Investments.

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

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

	Increase of Values/Rates		Decrease of Values/Rates	
	Profit	Equity	Profit	Equity
2011				
Possible impact of a 10% movement in Market Values	300	300	(300)	(300)
Possible impact of a 1% movement in Interest Rates	183	183	(183)	(183)
2010				
Possible impact of a 10% movement in Market Values	467	467	(467)	(467)
Possible impact of a 1% movement in Interest Rates	193	193	(193)	(193)

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 15. Financial Risk Management (continued)

\$ '000

(b) Receivables

Council's major receivables comprise **(i) Rates & Annual charges** and **(ii) User Charges & Fees**.

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

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

Credit risk on rates and annual charges is minimised by the ability of Council to secure a charge over the land relating to the debts - that is, the land can be sold to recover the debt. Council is also able to charge interest on overdue rates & annual charges at higher than market rates which further encourages the payment of debt.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

Council makes suitable provision for doubtful receivables as required and carries out credit checks on most non-rate debtors.

There are no material receivables that have been subjected to a re-negotiation of repayment terms.

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

	2011	2011	2010	2010
	Rates & Annual Charges	Other Receivables	Rates & Annual Charges	Other Receivables
(i) Ageing of Receivables				
Current (not yet overdue)	-	2,026	-	3,973
Overdue	2,229	1,205	1,945	942
	<u>2,229</u>	<u>3,231</u>	<u>1,945</u>	<u>4,915</u>
(ii) Movement in Provision for Impairment of Receivables			2011	2010
Balance at the beginning of the year			328	163
+ new provisions recognised during the year			14	178
- amounts already provided for & written off this year			-	(13)
Balance at the end of the year			<u>342</u>	<u>328</u>

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 15. Financial Risk Management (continued)

\$ '000

(c) Payables & Borrowings

Payables & Borrowings are both subject to liquidity risk - the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due.

Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer.

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

The contractual undiscounted cash outflows (ie. principal and interest) of Council's Payables & Borrowings are set out in the Liquidity Table below:

\$ '000	Subject to no maturity	payable in:						Total Cash Outflows	Actual Carrying Values
		≤ 1 Year	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	> 5 Yrs		
2011									
Trade/Other Payables	673	4,860	-	-	-	-	-	5,533	5,533
Loans & Advances	-	935	794	1,110	762	750	4,703	9,054	9,054
Total Financial Liabilities	673	5,795	794	1,110	762	750	4,703	14,587	14,587
2010									
Trade/Other Payables	845	5,754	-	-	-	-	-	6,599	6,599
Loans & Advances	-	1,261	836	687	995	637	4,476	8,892	8,892
Total Financial Liabilities	845	7,015	836	687	995	637	4,476	15,491	15,491

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

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

	2011		2010	
	Carrying Value	Average Interest Rate	Carrying Value	Average Interest Rate
Trade/Other Payables	5,533	0.0%	6,599	0.0%
Loans & Advances - Fixed Interest Rate	9,054	7.2%	8,892	7.1%
	<u>14,587</u>		<u>15,491</u>	

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 16. Material Budget Variations

\$ '000

Council's Original Financial Budget for 2010/11 was incorporated as part of its Management Plan and was adopted by the Council on 23 June 2010.

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

This Note sets out the details of Material Variations between Council's Original Budget and its Actual results for the year as per the Income Statement - even though such variations may have been adjusted for during each Quarterly Budget Review.

Note that for Variations of Budget to Actual :

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

F = Favourable Budget Variation, **U** = Unfavourable Budget Variation

\$ '000	2011 Budget	2011 Actual	2011 Variance*	-----	-----
REVENUES					
Rates & Annual Charges	34,103	33,901	(202)	(1%)	U
User Charges & Fees	6,707	7,760	1,053	16%	F
RTA Grant Income	594K (F)	Swimming Pool Fees	30K (F)		
Private Works	113K (F)	Building Permits and Fees	25K (F)		
Town Planning Fees	155K (F)	Sewage Management Fees	19K (F)		
Garbage Tipping Fees	136K (F)	Cessnock Performing Arts Ctr	73K (F)		
Cemetery Fees	50K (U)	Aerodrome Income	42K (U)		
Interest & Investment Revenue	956	1,833	877	92%	F
Interest on Overdue Rates and Charges	37K (F)	Interest on Investments	70K (F)		
Fair Value Adjustments on Investments	770K (F)				
Other Revenues	598	1,267	669	112%	F
Income from Fines	50K (F)	Section 355 Committees	154K (F)		
Insurance Claims	260K (F)	Sundry Sales	8K (F)		
Lease Rentals	59K (F)	Wine Int. Ctr Lease Rental	27K (F)		
Legal Fees Recovery	106K (F)	Miscellaneous	5K (F)		
Operating Grants & Contributions	10,287	10,626	339	3%	F

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2011

Note 16. Material Budget Variations (continued)

\$ '000		2011 Budget	2011 Actual	2011 Variance*		
REVENUES (continued)						
Capital Grants & Contributions		1,406	3,640	2,234	159%	F
RLCIP Commonwealth Grant	232K (F)		Dept Sport & Rec Grants	25K (U)		
Bushfire Shed Construction	57K (F)		Great North Rd Heritage Grant	156K (F)		
Bus Shelters Grant	259K (F)		Section 94 Roadworks	731K (F)		
Drainage Works Grant	11K (U)		RTA Contributions	322K (F)		
Library Special Projects Grant	41K (F)		Kerb & Gutter Contributions	43K (F)		
Recreation Services Grant	139K (F)		Miscellaneous	4K (U)		
Land Dedications	294K (F)					
Net Gains from Disposal of Assets		553	-	(553)	(100%)	U
Land Sales	629K (F)		Disposal of Property	4K (F)		
Disposal of Plant and Equipment	216K (F)		Infrastructure	3,903K (U)		
Also, refer to Net Losses from Disposal of Assets.						
<hr/>						
\$ '000		2011 Budget	2011 Actual	2011 Variance*		
EXPENSES						
Employee Benefits & On-Costs		24,051	22,037	2,014	8%	F
Borrowing Costs		601	602	(1)	(0%)	U
Materials & Contracts		7,641	12,721	(5,080)	(66%)	U
Expenses exceeded the original budget primarily due to works undertaken using new grants received after the original budget was approved eg RTA works.						
Depreciation & Amortisation		8,193	6,371	1,822	22%	F
Depreciation Expense was less than original budget due to decreased depreciation on infrastructure assets.						
Other Expenses		6,685	9,123	(2,438)	(36%)	U
Advertising	55K (U)		Street Lighting	178K (U)		
NSW State Emergency Services Levy	53K (U)		Telephone Charges	93K (U)		
Electricity	61K (U)		State Govt Waste Levy Payments	1,566 (U)		
Insurances	138K (U)		Recruitment Expenses	148K (U)		
NSW Fire Brigade Levy	25K (U)		Miscellaneous	42K (F)		
Section 355 Committees (not budgetted)	163K (U)					
Net Losses from Disposal of Assets		-	3,054	(3,054)	0%	U
Land Sales	629K (F)		Disposal of Property	4K (F)		
Disposal of Plant and Equipment	216K (F)		Infrastructure	3,903K (U)		

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2011

Note 16. Material Budget Variations (continued)

\$ '000	2011 Budget	2011 Actual	2011 ----- Variance* -----		
Budget Variations relating to Council's Cash Flow Statement include:					
Cash Flows from Operating Activities	13,785	14,044	259	1.9%	F
Cash Flows from Investing Activities	(13,800)	(5,582)	8,218	(59.6%)	F
Purchase / Sale of Real Estate Assets		31K (F)			
Purchase / Sale of Plant and Equipment		1,812K (U)			
Purchase / Sale of Investment Securities (not budgetted)		9,700K (F)			
Deferred Debtors Receipts (not budgetted)		5K (F)			
Cash Flows from Financing Activities	145	162	17	11.7%	F
Repayment of Borrowings	17K (F)				

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 17. Statement of Developer Contributions

\$ '000

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

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

SUMMARY OF CONTRIBUTIONS & LEVIES

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Drainage	64	-	-	4	-	-	68	500	(568)	-	-
Roads	597	246	-	36	(210)	-	669	40,718	(41,387)	-	-
Traffic Facilities	19	-	-	1	-	-	20	1,490	(1,510)	-	-
Parking	379	-	-	13	(90)	-	302	-	(302)	-	-
Open Space	502	175	-	29	(212)	-	494	19,873	(20,367)	-	-
Community Facilities	475	141	-	12	(330)	-	298	14,887	(15,185)	-	-
Tourist Facilities	327	77	-	34	-	-	438	40	(478)	-	-
Other	148	85	-	10	(43)	-	200	1,457	(1,657)	-	-
S94 Contributions - under a Plan	2,511	724	-	139	(885)	-	2,489	78,965	(81,454)	-	-
S94A Levies - under a Plan	-	-	-	-	-	-	-				
Total S94 Revenue Under Plans	2,511	724	-	139	(885)	-	2,489				
S94 not under Plans	342	7	-	16	-	-	365	-	(365)	-	-
S93F Planning Agreements	-	-	-	-	-	-	-	17,800	(17,800)	-	-
S64 Contributions	-	-	-	-	-	-	-				
Total Contributions	2,853	731	-	155	(885)	-	2,854	96,765	(99,619)	-	-

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 17. Statement of Developer Contributions (continued)

\$ '000

S94 CONTRIBUTIONS - UNDER A PLAN

CONTRIBUTION PLAN NUMBER 1 - RESIDENTIAL DEVELOPMENT

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Roads	9	-	-	1	-	-	10	-	(10)	-	-
Community Facilities	54	-	-	2	-	-	56	-	(56)	-	-
Other	12	-	-	-	-	-	12	-	(12)	-	-
Total	75	-	-	3	-	-	78	-	(78)	-	-

CONTRIBUTION PLAN NUMBER 2 - TOURIST DEVELOPMENT

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Tourist Facilities	118	-	-	12	-	-	130	-	(130)	-	-
Total	118	-	-	12	-	-	130	-	(130)	-	-

CONTRIBUTION PLAN NUMBER 3 - COMMERCIAL, RETAIL & INDUSTRIAL DEVELOPMENT

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Traffic Facilities	19	-	-	1	-	-	20	-	(20)	-	-
Total	19	-	-	1	-	-	20	-	(20)	-	-

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 17. Statement of Developer Contributions (continued)

\$ '000

S94 CONTRIBUTIONS - UNDER A PLAN

CONTRIBUTION PLAN NUMBER 4 - NULKABA FLOOD MITIGATION

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Drainage	29	-	-	2	-	-	31	-	(31)	-	-
Total	29	-	-	2	-	-	31	-	(31)	-	-

CONTRIBUTION PLAN NUMBER 5 - CARPARKING CESSNOCK CBD

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Parking	379	-	-	13	(90)	-	302	-	(302)	-	-
Other	18	-	-	1	(2)	-	17	-	(17)	-	-
Total	397	-	-	14	(92)	-	319	-	(319)	-	-

CONTRIBUTION PLAN NUMBER 6 - RESIDENTIAL CONTRIBUTIONS PLAN

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Drainage	35	-	-	2	-	-	37	-	(37)	-	-
Roads	420	135	-	19	(184)	-	390	70	(460)	-	-
Open Space	502	175	-	29	(212)	-	494	100	(594)	-	-
Community Facilities	421	141	-	10	(330)	-	242	65	(307)	-	-
Other	100	49	-	8	(35)	-	122	29	(151)	-	-
Total	1,478	500	-	68	(761)	-	1,285	264	(1,549)	-	-

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 17. Statement of Developer Contributions (continued)

\$ '000

S94 CONTRIBUTIONS - UNDER A PLAN

CONTRIBUTION PLAN NUMBER 7 - TOURISM CONTRIBUTIONS PLAN

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Roads	141	69	-	12	(26)	-	196	45	(241)	-	-
Tourist Facilities	209	77	-	22	-	-	308	40	(348)	-	-
Other	18	36	-	1	(6)	-	49	4	(53)	-	-
Total	368	182	-	35	(32)	-	553	89	(642)	-	-

CONTRIBUTION PLAN NUMBER 8 - BLACKHILL QUARRY CONTRIBUTION PLAN

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Roads	27	42	-	4	-	-	73	20	(93)	-	-
Total	27	42	-	4	-	-	73	20	(93)	-	-

SITE SPECIFIC CONTRIBUTIONS PLAN NUMBER 9 - BELLBIRD NORTH, KITCHENER, MILLFIELD & GOVERNMENT RD CESSNOCK

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Drainage	-	-	-	-	-	-	-	500	(500)	-	-
Roads	-	-	-	-	-	-	-	40,583	(40,583)	-	-
Traffic Facilities	-	-	-	-	-	-	-	1,490	(1,490)	-	-
Open Space	-	-	-	-	-	-	-	19,773	(19,773)	-	-
Community Facilities	-	-	-	-	-	-	-	14,822	(14,822)	-	-
Other	-	-	-	-	-	-	-	1,424	(1,424)	-	-
Total	-	-	-	-	-	-	-	78,592	(78,592)	-	-

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 17. Statement of Developer Contributions (continued)

\$ '000

S94 CONTRIBUTIONS - NOT UNDER A PLAN

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Drainage	75	-	-	3	-	-	78	-	(78)	-	-
Roads	267	7	-	13	-	-	287	-	(287)	-	-
Total	342	7	-	16	-	-	365	-	(365)	-	-

S93F CONTRIBUTIONS - PLANNING AGREEMENTS

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Roads	-	-	-	-	-	-	-	11,600	(11,600)	-	-
Traffic Facilities	-	-	-	-	-	-	-	2,750	(2,750)	-	-
Open Space	-	-	-	-	-	-	-	1,550	(1,550)	-	-
Community Facilities	-	-	-	-	-	-	-	1,900	(1,900)	-	-
Total	-	-	-	-	-	-	-	17,800	(17,800)	-	-

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 18. Contingencies & Other Assets/Liabilities Not Recognised

\$ '000

The following assets and liabilities do not qualify for recognition in the Balance Sheet, but their knowledge & disclosure is considered relevant to the users of Council's Financial Report.

LIABILITIES NOT RECOGNISED:

1. Guarantees

(i) Defined Benefit Superannuation Contribution Plans

Council participates in an employer sponsored Defined Benefit Superannuation Scheme, and makes contributions as determined by the Superannuation Scheme's Trustees.

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 purposes of AASB119. Sufficient information under AASB119 is not available to account for the Scheme as a defined benefit plan, because the assets to the Scheme are pooled together for all employers.

The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2011 was \$1,491,377. The last valuation of the Scheme was performed by Mr Martin Stevenson BSc, FIA, FIAA on 16th February 2010 and covers the period ended 30 June 2009. However the position is monitored annually and the Actuary has estimated that as at 30th June 2011 a deficit still exists.

Effective from 1 July 2009, employers were required to contribute at twice the "notional" or long term cost for a period of up to ten years in order to rectify this deficit. The share of this deficit that can be broadly attributed to the employer was estimated to be in the order of \$2,516,199 as at 30 June 2011.

(ii) Statewide Limited

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

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

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

(iii) Other Guarantees

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

2. Other Liabilities

(i) Third Party Claims

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

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 18. Contingencies & Other Assets/Liabilities Not Recognised (continued)

\$ '000

LIABILITIES NOT RECOGNISED (continued):

2. Other Liabilities (continued)

(ii) S94 Plans

Council levies Section 94/94A Contributions upon various development across the Council area through the required Contributions Plans.

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

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

These future expenses do not yet qualify as liabilities as of the Reporting Date, but represent Councils intention to spend funds in the manner and timing set out in those Plans.

(iii) Bank Loan Guarantor

Council is a joint guarantor for a loan of \$2.86 million which was drawn down on 1st July, 2003 by Hunter Councils Limited.

The total loan approved was for \$3.4 million and Council's exposure will be \$351,416.

Hunter Councils Limited has been established to improve the quality & efficiency of local government service throughout the Hunter Region. One such service was the establishment & provision of a Record Repository Centre for the use of member councils & to outsource this service to other organisations.

(iv) Bank Overdraft Guarantor

On 20th June, 2007 Council agreed to be the guarantor for a \$100,000 overdraft facility for Hunter Valley Wine Country Tourism Incorporated (HVVCT).

HVVCT requested that Council be the guarantor on the basis that if the bank were to call up the guarantee the monies would be taken from Council's annual contribution to HVVCT.

ASSETS NOT RECOGNISED:

(i) Land Under Roads

As permitted under AASB 1051, Council has elected not to bring to account Land Under Roads that it owned or controlled up to & including 30/6/08.

(ii) Infringement Notices/Fines

Fines & Penalty Income, the result of Council issuing Infringement Notices is followed up and collected by the Infringement Processing Bureau.

Councils Revenue Recognition policy for such income is to account for it as revenue on receipt.

Accordingly, at Year End, there is a potential asset due to Council representing issued but unpaid Infringement Notices.

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 19. Controlled Entities, Associated Entities & Interests in Joint Ventures

\$ '000

Joint Venture Operations

(a) Council is involved in the following Joint Venture Operations

Name of Operation	Principal Activity	Councils Interests in Outputs of JV
Hunter Councils Limited	Record Repository Service	10%

Council has an interest in Hunter Councils Limited, along with other member Councils of Hunter Councils. The activities of this organisation are not controlled by any one Council.

Hunter Council Limited has been established to improve the quality and efficiency of local government service throughout the Hunter Region. One such service is the establishment and provision of a Record Repository Centre for the use of the Member Councils and to outsource this service to other organisations.

This organisation was established in January 2003 after receiving Minister's consent, pursuant to Section 358(1) (a) of the Local Government Act 1993.

(b) Councils share of assets jointly owned with other partners

	2011	2010
Current Assets	29	26
Current Liabilities	(98)	(31)
Other Non Current Assets	350	189
Non Current Liabilities	(207)	(279)
Total Net Assets Employed - Jointly Owned (Council's share)	74	(95)

(c) Share of Joint Venture Operation Revenues, Expenses & Results

	2011			2010		
	Revenues	Expenses	Result	Revenues	Expenses	Result
Hunter Councils Limited	97	80	17	82	72	10
Totals	97	80	17	82	72	10

(d) Share of Joint Venture Operations Expenditure Commitments

	2011	2010
Capital Commitments		
Payable Not Later than 1 Year	-	1
Payable Later than 1 Year but not later than 5 Years	-	-
Payable Later than 5 Years	-	-
Total Capital Commitments	-	1
Operating Expenditure Commitments		
Payable Not Later than 1 Year	2	2
Payable Later than 1 Year but not later than 5 Years	-	2
Payable Later than 5 Years	-	-
Total Operating Expenditure Commitments	2	4

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2011

Note 20. Equity - Retained Earnings and Revaluation Reserves

\$ '000	Notes	Actual 2011	Actual 2010
a. Retained Earnings			
Movements in Retained Earnings were as follows:			
Balance at beginning of Year (from previous years audited accounts)		419,034	317,905
a. Correction of Prior Period Errors	20 (c)	(1,680)	92,979
b. Changes in Accounting Policies (prior period effects)	20 (d)	-	-
c. Other Comprehensive Income (excl. direct to Reserves transactions)		1,613	-
d. Net Operating Result for the Year		5,119	6,470
e. Distributions to/(Contributions from) Minority Interests		-	-
f. Transfers between Equity		-	-
Balance at End of the Reporting Period		<u>424,086</u>	<u>417,354</u>

b. Reserves**(i) Reserves are represented by:**

- Infrastructure, Property, Plant & Equipment Revaluation Reserve	227,725	213,511
Total	<u>227,725</u>	<u>213,511</u>

(ii) Reconciliation of movements in Reserves:**Infrastructure, Property, Plant & Equipment Revaluation Reserve**

- Opening Balance	213,511	67,108
- Revaluations for the year	9(a) 14,214	146,294
- Correction of Prior Period Errors	20(c) -	109
- Balance at End of Year	<u>227,725</u>	<u>213,511</u>

TOTAL VALUE OF RESERVES

<u>227,725</u>	<u>213,511</u>
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(iii) Nature & Purpose of Reserves**Infrastructure, Property, Plant & Equipment Revaluation Reserve**

- The Infrastructure, Property, Plant & Equipment Revaluation Reserve is used to record increments/decrements of Non Current Asset values due to their revaluation.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 20. Equity - Retained Earnings and Revaluation Reserves (continued)

\$ '000	Notes	Actual 2011	Actual 2010
c. Correction of Error/s relating to a Previous Reporting Period			
Correction of errors disclosed in this year's financial statements:			
- Other Structures	decrease to accumulated depreciation	(1,680)	-
Correction of errors disclosed in last year's financial statements:			
Council revalued various asset classes for the 09/10 Year End.			
This reassessment resulted in a material difference as to where some assets actually sat in with respect to their asset life cycle relative to what the value of accumulated depreciation in Council's Financial Reports had previously indicated.			
Council did not have sufficient and reliable information that would allow the restatement of information prior to 30/6/08 (the closing date for the comparative figures in last year's report).			
As a result, Council adjusted the accumulated depreciation for the Asset Classes below as at 30/6/09 to reflect the correct value of accumulated depreciation;			
- Roads, Bridges, Footpaths	decrease to accumulated depreciation		91,278
- Stormwater Drainage	decrease to accumulated depreciation		3,490
- Other Structures	decrease to accumulated depreciation		-
In accordance with AASB 108 - Accounting Policies, Changes in Accounting Estimates and Errors, the above Prior Period Errors have been recognised retrospectively.			
These amounted to the following Equity Adjustments:			
- Adjustments to Opening Equity - 1/7/09	(relating to adjustments for the 30/6/09 reporting year end and prior periods)	-	94,768
- Adjustments to Closing Equity - 30/6/10	(relating to adjustments for the 30/6/10 year end)	(1,680)	-
Total Prior Period Adjustments - Prior Period Errors		(1,680)	94,768

d. Voluntary Changes in Accounting Policies

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 21. Financial Result & Financial Position by Fund

Income Statement by Fund \$ '000	Actual 2011	Actual 2011	Actual 2011	Actual 2011
	DWM	Water	Sewer	General ¹
Continuing Operations				
Income from Continuing Operations				
Rates & Annual Charges	3,233	-	-	30,668
User Charges & Fees	732	-	-	7,028
Interest & Investment Revenue	-	-	-	1,833
Other Revenues	-	-	-	1,267
Grants & Contributions provided for Operating Purposes	192	-	-	10,434
Grants & Contributions provided for Capital Purposes	-	-	-	3,640
Total Income from Continuing Operations	4,157	-	-	54,870
Expenses from Continuing Operations				
Employee Benefits & on-costs	799	-	-	21,238
Borrowing Costs	-	-	-	602
Materials & Contracts	3,879	-	-	8,842
Depreciation & Amortisation	281	-	-	6,090
Impairment	-	-	-	-
Other Expenses	-	-	-	9,123
Interest & Investment Losses	-	-	-	-
Net Losses from the Disposal of Assets	-	-	-	3,054
Total Expenses from Continuing Operations	4,959	-	-	48,949
Operating Result from Continuing Operations	(802)	-	-	5,921
Discontinued Operations				
Net Profit/(Loss) from Discontinued Operations	-	-	-	-
Net Operating Result for the Year	(802)	-	-	5,921
Net Operating Result attributable to each Council Fund	(802)	-	-	5,921
Net Operating Result attributable to Minority Interests	-	-	-	-
Net Operating Result for the year before Grants and Contributions provided for Capital Purposes	(802)	-	-	2,281

¹ General Fund refers to all Council's activities other than Water, Sewer & DWM

* DWM represents Domestic Waste Management

NB. All amounts disclosed above are Gross - that is, they include internal charges & recoveries made between the Funds.

Cessnock City Council

Notes to the Financial Statements

as at 30 June 2011

Note 21. Financial Result & Financial Position by Fund

Balance Sheet by Fund \$ '000	Actual 2011	Actual 2011	Actual 2011	Actual 2011
ASSETS	DWM	Water	Sewer	General¹
Current Assets				
Cash & Cash Equivalents	844	-	-	13,668
Investments	-	-	-	2,500
Receivables	652	-	-	4,407
Inventories	-	-	-	306
Other	-	-	-	534
Total Current Assets	1,496	-	-	21,415
Non-Current Assets				
Investments	-	-	-	1,540
Receivables	-	-	-	59
Inventories	-	-	-	3,280
Infrastructure, Property, Plant & Equipment	3,671	-	-	654,903
Investments Accounted for using the equity method	-	-	-	-
Total Non-Current Assets	3,671	-	-	659,782
TOTAL ASSETS	5,167	-	-	681,197
LIABILITIES				
Current Liabilities				
Payables	-	-	-	7,213
Borrowings	-	-	-	935
Provisions	533	-	-	5,926
Total Current Liabilities	533	-	-	14,074
Non-Current Liabilities				
Payables	-	-	-	472
Borrowings	-	-	-	8,119
Provisions	4,496	-	-	6,859
Total Non-Current Liabilities	4,496	-	-	15,450
TOTAL LIABILITIES	5,029	-	-	29,524
Net Assets	138	-	-	651,673
EQUITY				
Retained Earnings	138	-	-	423,948
Revaluation Reserves	-	-	-	227,725
Council Equity Interest	138	-	-	651,673
Minority Interests	-	-	-	-
Total Equity	138	-	-	651,673

¹ General Fund refers to all Council's activities other than Water, Sewer & DWM

* DWM represents Domestic Waste Management

NB. All amounts disclosed above are Gross - that is, they include internal receivables & payables between the Funds.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 22. "Held for Sale" Non Current Assets & Disposal Groups

\$ '000

Council did not classify any Non Current Assets or Disposal Groups as "Held for Sale".

Note 23. Events occurring after Balance Sheet Date

Events that occur after the reporting date of 30 June 2011, up to and including the date when the financial statements are "authorised for issue" have been taken into account in preparing these statements.

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

Accordingly, the "authorised for issue" date is 28/10/11.

Events that occur after the Reporting Date represent one of two types:

(i) Events that have provided evidence of conditions that existed at the Reporting Date

These financial statements (and the figures therein) incorporate all "adjusting events" that provided evidence of conditions that existed at 30 June 2011.

(ii) Events that have provided evidence of conditions that arose after the Reporting Date

These financial statements (and figures therein) do not incorporate any "non adjusting events" that have occurred after 30 June 2011 and which are only indicative of conditions that arose after 30 June 2011.

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

Note 24. Discontinued Operations

Council has not classified any of its Operations as "Discontinued".

Note 25. Intangible Assets

Intangible Assets represent identifiable non-monetary asset without physical substance.

Council is unaware of any control over Intangible Assets that warrant recognition in the Financial Statements, including either internally generated and developed assets or purchased assets.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 26. Reinstatement, Rehabilitation & Restoration Liabilities

\$ '000

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

Asset/Operation	Estimated year of restoration	NPV of Provision	
		2011	2010
Tip Site - Cessnock	2013	11,241	11,241
Balance at End of the Reporting Period	10	11,241	11,241

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

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

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

Council is required by law to restore the present tip site at Cessnock at the end of its useful life.

The projected cost of restoration is based on feasibility and engineering studies and has been discounted to its present value at 6% per annum being the risk-free cost of borrowing to Council.

Reconciliation of movement in Provision for year:

Balance at beginning of year	11,241	11,241
No movement during year		
Total - Reinstatement, rehabilitation and restoration provision	11,241	11,241

Amount of Expected Reimbursements

Of the above Provisions for Reinstatement, Rehabilitation and Restoration works, those applicable to Garbage Services & Waste Management are able to be funded through future charges incorporated within Council's Annual Domestic Waste Management Charge.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 27. Financial Commentary & Review (continued)

\$ '000

Key Financial Figures of Council over the past 5 years (consolidated)

Financial Performance Figures	2011	2010	2009	2008	2007
Inflows:					
Rates & Annual Charges Revenue	33,901	32,512	30,249	27,511	25,654
User Charges Revenue	7,760	9,758	10,330	10,043	6,689
Interest & Investment Revenue (Losses)	1,833	2,061	507	(1,439)	1,570
Grants Income - Operating & Capital	9,385	10,275	10,436	12,225	9,133
Total Income from Continuing Operations	59,027	59,635	56,993	54,473	48,255
Sale Proceeds from I,PP&E	1,707	2,263	2,368	2,606	3,081
New Loan Borrowings & Advances	1,431	500	500	6,500	500
Outflows:					
Employee Benefits & On-cost Expenses	22,037	22,079	20,686	18,522	17,430
Borrowing Costs	602	633	1,164	912	940
Materials & Contracts Expenses	12,721	14,017	15,923	18,197	14,491
Total Expenses from Continuing Operations	53,908	53,165	53,489	52,981	46,573
Total Cash purchases of I,PP&E	16,955	14,289	15,755	17,645	12,769
Total Loan Repayments (incl. Finance Leases)	1,269	1,267	1,403	1,514	1,346
Operating Surplus/(Deficit) (excl. Capital Income)	1,479	3,292	(674)	(1,951)	(1,060)
Financial Position Figures	2011	2010	2009	2008	2007
Current Assets	22,911	23,830	19,916	18,286	15,474
Current Liabilities	14,607	15,922	13,856	12,918	12,770
Net Current Assets	8,304	7,908	6,060	5,368	2,704
Available Working Capital (Unrestricted Net Current Assets)	(561)	591	2,063	2,921	3,473
Cash & Investments - Unrestricted	1,512	1,634	3,930	575	2,288
Cash & Investments - Internal Restrictions	12,208	12,316	10,102	11,501	4,893
Cash & Investments - Total	18,552	18,858	19,895	17,335	17,680
Total Borrowings Outstanding (Loans, Advances & Finance Leases)	9,054	8,892	9,659	10,562	5,604
Total Value of I,PP&E (excl. Land & Earthworks)	742,234	732,342	432,084	422,711	397,815
Total Accumulated Depreciation	152,099	149,874	120,027	209,625	224,200
Indicative Remaining Useful Life (as a % of GBV)	80%	80%	72%	50%	44%

Source: Published audited financial statements of Council (current year & prior year)

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2011

Note 28. Council Information & Contact Details

Principal Place of Business:

62-78 Vincent St
Cessnock NSW 2325

Contact Details

Mailing Address:

PO Box 152
Cessnock NSW 2325

Opening Hours:

9.00am - 5.00pm
Monday to Friday

Telephone: 02 4993 4100

Facsimile: 02 4993 2500

Internet: www.cessnock.nsw.gov.au

Email: council@cessnock.nsw.gov.au

Officers

GENERAL MANAGER

Ms Lea Rosser

RESPONSIBLE ACCOUNTING OFFICER

Mr Robert Maginnity

PUBLIC OFFICER

Mr Michael Brady

AUDITORS

Prosperity Audit Services
2nd Floor Hunter Mall Chambers
175 Scott St Newcastle NSW 2300

PO Box 234 Newcastle NSW 2300

Elected Members

MAYOR

Councillor Alison Davey

COUNCILLORS

Councillor James Hawkins
Councillor Cordelia Burcham
Councillor Rachel Main
Councillor Ian Olsen
Councillor Bob Pynsent
Councillor Dale Troy
Councillor Jeff Maybury
Councillor Allan McCudden
Councillor Chris Parker
Councillor Graham Smith
Councillor James Ryan
Councillor Neil Gorman

Other Information

ABN: 60 919 148 928

INDEPENDENT AUDITOR'S REPORT TO CESSNOCK CITY COUNCIL

Report on the Financial Report

We have audited the accompanying financial report of Cessnock City Council ("the Council"), which comprises the balance sheet as at 30 June 2011, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the statement by Councillors and Management.

Councillors' Responsibility for the Financial Report

The Councillors of the Council are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Local Government Act 1993*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

Our audit responsibility does not extend to the original budget information disclosed in the Income Statement, Cash Flow Statement, and Note 2 or the budget variation explanations disclosed in Note 16. Nor does our responsibility extend to the projected future developer contributions and costs disclosed in Note 17. Accordingly, no opinion is expressed on these matters.

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

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Prosperity Audit Services
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**INDEPENDENT AUDITOR'S REPORT
TO CESSNOCK CITY COUNCIL (CONT'D)**

Auditor's Responsibility (Cont'd)

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

Independence

In conducting our audit, we have complied with the independence requirements of Australian professional ethical pronouncements.

Auditor's Opinion

In our opinion,

- (a) the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13 part 3 Division 2;
- (b) the financial report:
 - i. has been presented in accordance with the requirements of this Division;
 - ii. is consistent with the Council's accounting records;
 - iii. presents fairly the Council's financial position, the results of its operations and its cash flows; and
 - iv. is in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia;
- (c) all information relevant to the conduct of the audit has been obtained; and
- (d) there are no material deficiencies in the accounting records or financial report that we have become aware of during the course of the audit.

PROSPERITY AUDIT SERVICES



PAUL HORNE
Partner

28 October 2011

Newcastle



CCC 300611: 20-210
PH/AH

28 October 2011

The Mayor
Councillor A Davey
Cessnock City Council
PO Box 152
CESSNOCK NSW 2325

Dear Councillor Davey,

**SUBJECT: SECTION 417(3)
REPORT ON THE CONDUCT OF THE AUDIT
FOR THE YEAR ENDED 30 JUNE 2011**

We have completed the audit of the financial report for Cessnock City Council for the year ended 30 June 2011 in accordance with Section 415 of the *Local Government Act 1993*. Our audit opinion under Section 417(2) has been issued to Council.

The Council is responsible for the preparation and true and fair presentation of the financial report in accordance with the *Local Government Act 1993*. 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.

We have conducted an independent audit of the financial report in order to express an opinion on it to the Council. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. Our audit responsibility does not extend to the Original Budget disclosures in the financial report and accordingly, we express no opinion on them. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material aspects the financial report presents fairly, in accordance with the *Local Government Act 1993*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Council's financial position, and its performance as represented by the results of the its operations and cash flows.

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We formed our opinion on the basis of these procedures, which included:

- Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Council.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not include an analysis of the prudence of business decisions made by Councillors or management.

As a result of our audit there are a number of comments we wish to raise concerning the financial report and trends in the Council's finances. These comments are set out below under the following headings:

1. Income Statement
2. Statement of Comprehensive Income
3. Balance Sheet
4. Performance Indicators
5. Statement of Cash Flows
6. Legislative Requirements
7. Key Audit Issues
8. Management Letter Items

1. Income Statement

The net operating result before capital grants and contributions for the year ended 30 June 2011 was a surplus of \$1.48M compared with a surplus of \$3.29M for the year ended 30 June 2010.

The difference to the prior year result is primarily due to decreases in user charges revenue (down 20.5%) and the net loss on disposal of assets of \$3.05M. These differences have been partially offset by an increase in rates and annual charges revenue (up 4.3%) and decreased depreciation (down 22.5%).

These results and other significant movements, together with their contributing factors, are outlined below:

	Note	2011 \$'000	2010 \$'000
INCOME			
Rates & annual charges	(i)	33,901	32,512
User charges & fees	(ii)	7,760	9,758
Investment revenue		1,833	2,061
Other revenues		1,267	950
Grants & contributions - operating		10,626	10,493
Grants & contributions - capital		3,640	3,178
Gain on disposal of assets		-	683
		59,027	59,635

	Note	2011 \$'000	2010 \$'000
EXPENSES			
Employee costs	(iii)	22,037	22,079
Borrowing costs		602	633
Materials & contracts	(iv)	12,721	14,017
Depreciation & amortisation	(v)	6,371	8,224
Other expenses	(vi)	9,123	8,212
Loss on disposal of assets	(vii)	3,054	-
		53,908	53,165
Net operating result		5,119	6,470

The following comments are made in respect of the income statement:

(i) Rates & Annual Charges

Rates and annual charges increased by \$1.39M (4.3%) from the prior year. This increase was in line with the Council's standard annual rate increases, although the income in 2011 was affected by a significant rate write down of approximately \$300K following the successful land valuation objection by a large ratepayer.

(ii) User Charges & Fees

User charges and fees decreased by \$2.00M (20.5%) from the prior year. This was primarily attributable to the reduced road works conducted for the RTA when compared to the prior year.

(iii) Employee Costs

Anticipated increases in employee costs from redundancies were offset by a number of key positions being vacant during the year. The number of full time equivalent employees increased to 267 at year end (2010: 262).

(iv) Materials & Contracts Expense

The decrease in materials and contracts maintenance expense of \$1.3M (9.2%) is attributable to reduced maintenance activities compared to prior years.

(v) Depreciation

Total depreciation for the year decreased by \$1.9M (22.5%) compared to the prior period. This was due to a full year impact of the reassessment of useful lives for the Council's roads, bridges, footpaths and drainage assets conducted during the revaluation process.

(vi) Other Expenses

Other expenses increased by \$0.9M (11.1%) primarily due to the continued increases in the State Government's waste levies (\$0.7M).

(vii) Loss on Disposal of Assets

During the year, the Council wrote off approximately \$3.9M of road, bridge and footpath assets, primarily relating to assets which have been replaced. This is contrasted to the prior year when a small number of asset disposals produced a minor gain on disposal.

2. Statement of Comprehensive Income

	Note	2011 \$'000	2010 \$'000
COMPREHENSIVE INCOME			
Net operating result		5,119	6,470
Gain on revaluation of I,PP&E	(i)	15,827	146,294
Total comprehensive income		20,946	152,764

The following comments are made in respect of the statement of comprehensive income:

(i) *Gain on Revaluation of Infrastructure, Property, Plant & Equipment*

During the 2011 financial year a revaluation of community land assets was undertaken. The net result of this process was a revaluation increment of \$15.8M which has been processed to other comprehensive income (against the asset revaluation reserve). A similar revaluation was conducted in 2010 for road, bridge and footpath assets which resulted in a revaluation increment of \$146.3M.

3. Balance Sheet

The net asset position of the Council as at 30 June 2011 was \$651.8M compared with \$632.5M in the prior year.

The improvement in the net asset position of the Council is primarily due to the revaluation of other assets and community land conducted by the Council during 2011 resulting in a revaluation increment of \$15.8M.

This result and other significant movements, together with their contributing factors, are outlined below:

	Note	2011 \$'000	2010 \$'000
Current Assets			
Cash & cash equivalents	(i)	14,512	5,888
Investments	(ii)	2,500	10,100
Receivables	(iii)	5,059	6,451
Inventories	(iv)	306	793
Other current assets		534	598
		22,911	23,830
Non-Current Assets			
Investments	(ii)	1,540	2,870
Receivables		59	81
Inventories	(iv)	3,280	3,250
Infrastructure, property, plant & equipment	(v)	658,574	636,189
		663,453	642,390
Total Assets		686,364	666,220

	Note	2011 \$'000	2010 \$'000
Current Liabilities			
Payables	(vi)	7,213	8,203
Borrowings	(vii)	935	1,261
Provisions	(viii)	6,459	6,458
		14,607	15,922
Non-Current Liabilities			
Payables	(vi)	472	466
Borrowings	(vii)	8,119	7,631
Provisions	(viii)	11,355	11,336
		19,946	19,433
Total Liabilities		34,553	35,355
Net Assets		651,811	632,545

The following comments are made in respect of the balance sheet:

(i) Cash & Cash Equivalents

Commentary on the Council's cash performance is located at section 5 of this report.

(ii) Investments

The combined value of investments (current plus non-current) has decreased by \$8.9M (68.9%) to \$4.4M. This was primarily due to the conversion of a number of investments to cash. This was realised by the net movement of investment sales (\$15.4M) against investment purchases (\$5.7M).

(iii) Receivables

The balance of current receivables has decreased by \$1.4M (21.5%) to \$5.1M. This is primarily attributable to the decrease in the Roads & Traffic Authority (RTA) debtor (\$1.8M) for road works as the prior year balance was inflated due to the work carried out at Mulbring during April-June 2010. This decrease has been partially offset by increased rate debtors which is primarily attributable to a single large rate debtor.

(iv) Inventories

Current inventories decreased due to all available developed real estate assets (land) being sold in 2011. Non-current inventories remained consistent with the prior year.

(v) Infrastructure, Property, Plant & Equipment

The carrying amount of property, plant and equipment has increased by \$22.3M (3.4%) to \$658.6M. This increase was attributable to asset additions of \$17.2M, the revaluation increment to community land assets of \$14.2M, and adjustments and transfers of \$1.6M. These increases have been partially offset by depreciation of \$6.4M, as well as disposals of \$4.3M. Further commentary on the revaluation of infrastructure, property, plant and equipment is located at section 6.4 of this report.

(vi) Payables

Current payables decreased by \$1.0M (12.2%) primarily due to reduced road works near year end. In 2010, the year end balance was inflated due to the road works at Mulbring conducted during April-June 2010. Non-current payables remained constant.

(vii) Borrowings

Total interest bearing liabilities have increased by \$0.2M (1.8%) to \$9.1M due to draw-downs and advances of \$1.4M which were offset by repayments of \$1.2M. We also note that the Council has access to a bank overdraft facility totalling \$1.0M, however this was not accessed at year end, and was not used at all during the reporting period.

(viii) Provisions

Provisions remained constant compared to the prior period.

4. Performance Indicators

We have based our comments on the performance of the Council on indicators which we consider meaningful to its operations.

The indicators that we have reviewed are as follows:

4.1 Liquidity / Working Capital

	2011 \$'000	2010 \$'000	2009 \$'000
Current assets	22,911	23,830	19,916
Current liabilities	14,607	15,922	13,856
Current ratio	1.57	1.50	1.44

The current ratio demonstrates that current assets yet to be realised exceed the current liabilities to be met over the next twelve months. This improved result demonstrates that the Council is in a positive position with regards to liquidity.

However, it must be noted that the balance of current assets includes cash and investment items that are restricted in their use, as follows:

	2011 \$'000	2010 \$'000	2009 \$'000
Total cash and investments	17,012	15,988	14,902
Less: externally restricted items	(3,292)	(2,038)	(870)
	13,720	13,950	14,032
Less: internally restricted items	(12,208)	(12,316)	(10,102)
Unrestricted cash and investments	1,512	1,634	3,930
Unrestricted current ratio	1.91	1.91	2.06

As Council's cash and investments (and the income generated by them) are a fundamental component of Council's day to day operations, it remains vitally important that care is exercised in the management of

these assets to minimise risk and maintain appropriate and sustained returns, in order to maintain security of Council funds and income streams.

4.2 Debt Service Ratio

The debt service ratio is calculated as loan and interest repayments as a percentage of operating revenue, and indicates the cost to the Council of meeting its debt obligations.

	2011 \$'000	2010 \$'000	2009 \$'000
Net debt service cost	1,871	1,900	2,096
Operating revenue	51,761	52,463	49,043
Debt Service Ratio	3.6%	3.6%	4.3%

The Council has maintained the ratio from the prior year. The ratio is lower than that of NSW Councils, which averaged 5.0% for the 2010 financial year.

4.3 Rates and Annual Charge Coverage Ratio

The rates and annual charges coverage ratio is a measure of how dependent the Council is upon revenue from these sources.

	2011 \$'000	2010 \$'000	2009 \$'000
Rates and annual charge revenue	33,901	32,492	30,249
Total revenue	59,027	59,635	56,993
Rates & annual charge coverage ratio	57.4%	54.5%	53.1%

Council's dependence on rates has increased from the prior year, and is significantly above the average for NSW Councils (approximately 47% based on recent historical data).

Council should continue to assess alternative revenue streams including land development and user charges in order to reduce reliance on rates and annual charges.

4.4 Rates and Annual Charges Outstanding

The rates and annual charges outstanding percentage is used to determine the effectiveness of debt collection procedures, and highlight the extent of any impact upon liquidity.

	2011 \$'000	2010 \$'000	2009 \$'000
Rates & annual charges outstanding	2,220	1,900	1,661
Rates & annual charges collectible	36,325	34,584	32,761
Percentage of outstanding rates	6.1%	5.5%	5.1%

The percentage of rates outstanding has increased over the past two years; however the current year balance is higher than anticipated due to a significant rate debt owed by a large ratepayer (outstanding debt of \$410K at year end). Excluding this debtor, the Council's ratio would be 4.9%.

4.5 Building & Infrastructure Renewals Ratio

The building and infrastructure renewals ratio is a comparison of the rate at which assets are being renewed against the rate at which they are depreciating. The ratio was introduced by the Department of Local Government in 2008.

	2011 \$'000	2010 \$'000	2009 \$'000
Building & infrastructure renewals	10,014	11,729	7,583
Depreciation & amortisation	3,474	5,524	5,338
Building renewals ratio	288.3%	212.3%	142.1%

A ratio of greater than 100% indicates that assets are being renewed at a greater rate than they are being depreciated. However, care needs to be taken in interpreting this ratio due to the limitations inherent in the scope of its analysis. The Council has continued to invest in building and infrastructure renewals in excess of depreciation during the 2011 financial year.

5. Statement of Cash Flows

The movement in cash is attributable to the following movements:

	2011 \$'000	2010 \$'000
Cash at the beginning of the year	5,888	7,202
Cash provided by operating activities	14,044	11,404
Cash used in investing activities	(5,582)	(11,951)
Cash provided by financing activities	162	(767)
Cash at the end of the year	14,512	5,888

5.1 Cash flows from operating activities

Net cash inflows from operating activities totalled \$14.0M being an increase of \$2.6M (23.1%) on the prior year. This increase was a result of minor improvements across a number of areas including rates income, other income and reduced payments to employees and suppliers.

5.2 Cash flows from investing activities

Net cash outflows from investing activities of \$5.6M represented a decrease of \$6.4M (53.5%) on the prior year. Significant cash flows for the year include the sale of investment securities of \$15.4M, purchase of investment securities for \$5.7M and purchase of infrastructure, property, plant and equipment for \$17.0M.

5.3 Cash flows from financing activities

Net cash inflows from financing activities of \$0.2M represented an improvement \$1.0M from the prior year net outflow of \$0.8M. This was attributable to higher borrowing advances in the 2011 financial year.

6. Key Financial Statement Issues

6.1 Internally Restricted Assets

Council sets aside specific cash and investment amounts to cover future expenditure that is considered necessary for efficient long term operations. This cash is restricted for use only on the specific purposes designated. It does not include restrictions on unexpended grant income or section 94 contributions, as these are provided for separately. Internal restrictions relate to expenditure on such items as leave entitlements and asset replacements.

At year end Council had internally restricted assets totalling \$12.2M which was consistent with the prior year restrictions of \$12.3M.

6.2 Valuation of Investments

In previous years, the Council's audit report included an emphasis of matter paragraph in relation to the significant uncertainty regarding the value, recoverability, liquidity, cash flow and rates of return of Collateralised Debt Obligation (CDO) investments.

During the year, the valuation of the Council's CDO investments improved resulting in an impairment write-back of approximately \$770K. At reporting date, the Council had three CDOs remaining totalling \$2.9M, of which \$1.9M subsequently matured in October 2011 and was recovered at its carrying amount. The two remaining CDOs mature in 2014.

The Council's remaining CDO investments mature in 2012 (\$1.9M) and 2014 (\$1.1M).

6.3 Tip Restoration Liability

A tip restoration liability has been recognised in the financial statements at 30 June 2011 to the value of \$11.2M. This liability will fall due at the end of the useful life of the tip, which has been revised to 2013 with restorations to commence at that time.

It has been determined by management that this liability is reasonable and accurately represents the likely cost to the Council at restoration date, discounted to its present value. It is however noted that the final cost will be determined by the requirements imposed on the Council by the Federal agencies (formerly the Environmental Protection Agency).

We note that the corresponding tip asset was fully depreciated to a zero value as at 30 June 2011. Should the tip restoration be revised beyond 2013, we recommend that management reassess the useful life of the tip asset for the 2012 financial report.

6.4 Asset Recognition

Except for land under roads, infrastructure assets acquired or constructed prior to 1 January 1993 have been capitalised in the accounts on a staged basis since June 1995, in accordance with the transitional provisions of the Local Government Code of Accounting Practice and Financial Reporting.

Under direction from the Department of Local Government, the Council revalued community land and other assets to fair value for the 2011 financial year.

The fair value of community land was ascertained and based on the Valuer-General of NSW values, whilst the fair value of other assets was based on depreciated replacement costs from internal engineering valuations (assisted by external consultants).

The revaluation process necessitated a review of the completeness and accuracy of the Council's asset registers in recognising the assets that they owned and controlled. The revaluation process also necessitated a review of the remaining useful lives of assets by Council staff. The review of remaining useful lives was undertaken by way of physical inspection.

As a consequence, a number of prior year adjustments were required to opening balances. In accordance with Australian Accounting Standards, any asset recognition adjustment arising due to the circumstances outlined above is required to be recognised against retained earnings. The impact on the opening balances of infrastructure, property, plant and equipment (and retained earnings) was \$1.7M.

The revaluation increment has been reflected as an increase in the asset revaluation reserve.

6.5 Land Under Roads

As outlined in the 'Draft Local Government Code of Accounting Practice and Financial Reporting', the Division of Local Government has stated that there are three acceptable methods to value land under roads. The Council has adopted the average land value method which resulted in a \$0.3M addition to property, plant and equipment in the 2011 financial year.

The Council has also elected to not value land under roads acquired prior to 1 July 2008 which is allowable under the code and relevant accounting standards.

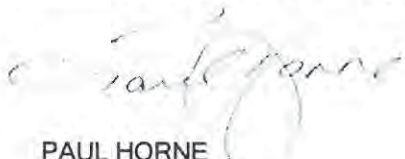
7. Management Letter

A management letter highlighting matters arising from our audit will be prepared and issued in due course. This letter will contain a review of items identified during our 2010 management letter, and include any additional items identified during our audit fieldwork pertaining to internal controls or other accounting matters.

We would like to take this opportunity to acknowledge the courtesy and cooperation extended to us during the audit by Council staff.

Should you have any queries in relation to this matter, please do not hesitate to contact our office.

Yours faithfully
PROSPERITY AUDIT SERVICES



PAUL HORNE
Partner

Cessnock City Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2011

"...attractive, thriving and welcoming."



Cessnock City Council

Special Purpose Financial Statements

for the financial year ended 30 June 2011

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2. Special Purpose Financial Statements:	
- Income Statement of Water Supply Business Activity	n/a
- Income Statement of Sewerage Business Activity	n/a
- Income Statement of Other Business Activities	3
- Balance Sheet of Water Supply Business Activity	n/a
- Balance Sheet of Sewerage Business Activity	n/a
- Balance Sheet of Other Business Activities	5
3. Notes to the Special Purpose Financial Statements	7
4. Auditor's Report	11

Background

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

Cessnock City Council

Special Purpose Financial Statements

for the financial year ended 30 June 2011

Statement by Councillors and Management

made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

The attached Special Purpose Financial Statements have been prepared in accordance with:

- The NSW Government Policy Statement "Application of National Competition Policy to Local Government"
- The Division of Local Government Guidelines "Pricing & Costing for Council Businesses - A Guide to Competitive Neutrality"
- The Local Government Code of Accounting Practice and Financial Reporting.
- The NSW Office of Water (Department of Environment, Climate Change and Water) Guidelines - "Best Practice Management of Water and Sewerage".

To the best of our knowledge and belief, these Financial Statements:

- Present fairly the Operating Result and Financial Position for each of Council's declared Business Activities for the year, and
- Accord with Council's accounting and other records.

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

Signed in accordance with a resolution of Council made on 21 September 2011.



Councillor Alison Davey
MAYOR



Councillor Rachel Main
COUNCILLOR



Ms Lea Rosser
GENERAL MANAGER



Mr Robert Maginnity
RESPONSIBLE ACCOUNTING OFFICER

Cessnock City Council

Income Statement of Council's Other Business Activities

for the financial year ended 30 June 2011

\$ '000	Noxious Weeds		Lawn Cemeteries	
	Actual 2011	Actual 2010	Actual 2011	Actual 2010
Income from continuing operations				
Access charges	-	-	-	-
User charges	32	5	110	126
Fees	-	-	-	-
Interest	-	-	-	-
Grants and contributions provided for non capital purposes	64	34	-	-
Profit from the sale of assets	-	-	-	-
Other income	23	18	-	-
Total income from continuing operations	119	57	110	126
Expenses from continuing operations				
Employee benefits and on-costs	121	109	42	36
Borrowing costs	-	-	-	-
Materials and contracts	68	65	136	81
Depreciation and impairment	17	14	29	21
Loss on sale of assets	-	-	-	-
Calculated taxation equivalents	-	-	-	-
Debt guarantee fee (if applicable)	-	-	-	-
Other expenses	4	3	-	-
Total expenses from continuing operations	210	191	207	138
Surplus (deficit) from Continuing Operations before capital amounts	(91)	(134)	(97)	(12)
Grants and contributions provided for capital purposes	-	-	-	-
Surplus (deficit) from Continuing Operations after capital amounts	(91)	(134)	(97)	(12)
Surplus (deficit) from discontinued operations	-	-	-	-
Surplus (deficit) from ALL Operations before tax	(91)	(134)	(97)	(12)
less: Corporate Taxation Equivalent (30%) [based on result before capital]	-	-	-	-
SURPLUS (DEFICIT) AFTER TAX	(91)	(134)	(97)	(12)
plus Opening Retained Profits	(1,004)	(870)	283	295
plus Adjustments for amounts unpaid:				
- Taxation equivalent payments	-	-	-	-
- Debt guarantee fees	-	-	-	-
- Corporate taxation equivalent	-	-	-	-
add:				
- Subsidy Paid/Contribution To Operations	-	-	-	-
less:				
- TER dividend paid	-	-	-	-
- Dividend paid	-	-	-	-
Closing Retained Profits	(1,095)	(1,004)	186	283
Return on Capital %	-113.8%	-155.8%	-14.4%	-5.8%
Subsidy from Council	95	138	132	23

Cessnock City Council

Income Statement of Council's Other Business Activities

for the financial year ended 30 June 2011

\$ '000	Hunter Councils	
	Actual 2011	Actual 2010
Income from continuing operations		
Access charges	-	-
User charges	85	72
Fees	-	-
Interest	-	-
Grants and contributions provided for non capital purposes	-	-
Profit from the sale of assets	-	1
Other income	12	9
Total income from continuing operations	97	82
Expenses from continuing operations		
Employee benefits and on-costs	27	23
Borrowing costs	15	15
Materials and contracts	22	17
Depreciation and impairment	10	9
Loss on sale of assets	-	-
Calculated taxation equivalents	-	-
Debt guarantee fee (if applicable)	3	4
Other expenses	3	8
Total expenses from continuing operations	80	76
Surplus (deficit) from Continuing Operations before capital amounts	17	6
Grants and contributions provided for capital purposes	-	-
Surplus (deficit) from Continuing Operations after capital amounts	17	6
Surplus (deficit) from discontinued operations	-	-
Surplus (deficit) from ALL Operations before tax	17	6
less: Corporate Taxation Equivalent (30%) [based on result before capital]	(5)	(2)
SURPLUS (DEFICIT) AFTER TAX	12	4
plus Opening Retained Profits	(95)	(105)
plus Adjustments for amounts unpaid:		
- Taxation equivalent payments	-	-
- Debt guarantee fees	3	4
- Corporate taxation equivalent	5	2
add:		
- Subsidy Paid/Contribution To Operations	-	-
less:		
- TER dividend paid	-	-
- Dividend paid	-	-
Closing Retained Profits	(75)	(95)
Return on Capital %	9.1%	11.1%
Subsidy from Council	-	-

Cessnock City Council

Balance Sheet of Council's Other Business Activities

as at 30 June 2011

\$ '000	Noxious Weeds Category 2		Lawn Cemeteries Category 2	
	Actual 2011	Actual 2010	Actual 2011	Actual 2010
ASSETS				
Current Assets				
Cash and cash equivalents	-	-	-	-
Investments	-	-	-	-
Receivables	-	-	-	75
Inventories	-	-	-	-
Other	-	-	-	-
Total Current Assets	-	-	-	75
Non-Current Assets				
Investments	-	-	-	-
Receivables	-	-	-	-
Inventories	-	-	-	-
Infrastructure, property, plant and equipment	80	86	673	208
Investments accounted for using equity method	-	-	-	-
Investment property	-	-	-	-
Other	-	-	-	-
Total Non-Current Assets	80	86	673	208
TOTAL ASSETS	80	86	673	283
LIABILITIES				
Current Liabilities				
Bank Overdraft	-	-	-	-
Payables	1,175	1,090	87	-
Interest bearing liabilities	-	-	-	-
Provisions	-	-	-	-
Total Current Liabilities	1,175	1,090	87	-
Non-Current Liabilities				
Payables	-	-	-	-
Interest bearing liabilities	-	-	-	-
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Total Non-Current Liabilities	-	-	-	-
TOTAL LIABILITIES	1,175	1,090	87	-
NET ASSETS	(1,095)	(1,004)	586	283
EQUITY				
Retained earnings	(1,095)	(1,004)	186	283
Revaluation reserves	-	-	400	-
Council equity interest	(1,095)	(1,004)	586	283
Minority equity interest	-	-	-	-
TOTAL EQUITY	(1,095)	(1,004)	586	283

Cessnock City Council

Balance Sheet of Council's Other Business Activities

as at 30 June 2011

\$ '000	Hunter Councils Category 2	
	Actual 2011	Actual 2010
ASSETS		
Current Assets		
Cash and cash equivalents	12	8
Investments	-	-
Receivables	16	14
Inventories	1	2
Other	-	2
Total Current Assets	29	26
Non-Current Assets		
Investments	-	-
Receivables	-	-
Inventories	-	-
Infrastructure, property, plant and equipment	350	189
Investment property	-	-
Other	-	-
Total Non-Current Assets	350	189
TOTAL ASSETS	379	215
LIABILITIES		
Current Liabilities		
Bank Overdraft	-	-
Payables	11	6
Interest bearing liabilities	78	19
Provisions	2	2
Other Current Liabilities	7	4
Total Current Liabilities	98	31
Non-Current Liabilities		
Payables	-	-
Interest bearing liabilities	206	279
Provisions	1	-
Other Liabilities	-	-
Total Non-Current Liabilities	207	279
TOTAL LIABILITIES	305	310
NET ASSETS	74	(95)
EQUITY		
Retained earnings	(75)	(95)
Revaluation reserves	149	-
Council equity interest	74	(95)
Minority equity interest	-	-
TOTAL EQUITY	74	(95)

Cessnock City Council

Special Purpose Financial Statements

for the financial year ended 30 June 2011

Contents of the Notes accompanying the Financial Statements

Note	Details	Page
1	Summary of Significant Accounting Policies	8
2	Water Supply Business Best Practice Management disclosure requirements	n/a
3	Sewerage Business Best Practice Management disclosure requirements	n/a

Cessnock City Council

Notes to the Special Purpose Financial Statements

for the financial year ended 30 June 2011

Note 1. Significant Accounting Policies

These financial statements are a Special Purpose Financial Statements (SPFS) prepared for use by Council and the Division of Local Government.

For the purposes of these statements, the Council's business activities (reported herein) are not reporting entities.

These special purpose financial statements, unless otherwise stated, have been prepared in accordance with;

- applicable Australian Accounting Standards,
- other authoritative pronouncements of the Australian Accounting Standards Board,
- Australian Accounting Interpretations,
- the Local Government Act and Regulation, and
- the Local Government Code of Accounting Practice and Financial Reporting.

The statements are also prepared on an accruals basis. They are based on historic costs and do not take into account changing money values nor current values of non-current assets (except where specifically stated).

Certain taxes and other costs (appropriately described) have been imputed for the purposes of the National Competition Policy.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' to its business activities as part of the national competition policy which is being applied throughout Australia at all levels of government.

The framework for its application is set out in the June 1996 Government Policy statement on the "Application of National Competition Policy to Local Government".

The "Pricing & Costing for Council Businesses A Guide to Competitive Neutrality" issued by the Division of Local Government in July 1997 has also been adopted.

The pricing & 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 & Costing for Council Businesses - A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

Category 1

(where gross operating turnover is over \$2 million)

Nil

Category 2

(where gross operating turnover is less than \$2 million)

a. Lawn Cemeteries

Provision of Lawn Cemeteries throughout the Cessnock Local Government Area.

b. Noxious Weeds Control

Control & eradication of noxious weeds throughout the Cessnock Local Government Area.

c. Hunter Councils Ltd

The establishment and provision of a Records Repository Centre for the use of the Member Councils and to outsource this service to other organisations.

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 in undertaking its business activities. Where this is the case, they are disclosed in these statements as a cost of operations just like all other costs.

Cessnock City Council

Notes to the Special Purpose Financial Statements

for the financial year ended 30 June 2011

Note 1. Significant Accounting Policies (continued)

However, where Council is exempt from paying taxes which are generally paid by private sector businesses (such as income tax), equivalent tax payments have been applied to all Council nominated business activities and are reflected in these financial statements.

For the purposes of disclosing comparative information relevant to the private sector equivalent, the following taxation equivalents have been applied to all council nominated business activities (this does not include council's non-business activities):

Notional Rate Applied %

Corporate Income Tax Rate – 30%

Land Tax – The first **\$387,000** of combined land values attracts **0%**. From \$387,001 to \$2,366,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$2,366,000, a premium marginal rate of **2.0%** applies.

Payroll Tax – **5.45%** on the value of taxable salaries and wages in excess of \$658,000.

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 this 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 Council's GPFS.

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 & Charges

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

Loan & Debt Guarantee Fees

The debt guarantee fee is designed to ensure that council business activities face "true" commercial borrowing costs in line with private sector competitors.

In order to calculate a debt guarantee fee, council has determined what the differential borrowing rate would have been between the commercial rate and the council's borrowing rate for its business activities.

(ii) Subsidies

Government policy requires that subsidies provided to customers and the funding of those subsidies must be explicitly disclosed.

Subsidies occur 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.

Accordingly, Subsidies disclosed (in relation to National Competition Policy) represents the difference between revenue generated from 'rate of return' pricing and revenue generated from prices set by the council in any given financial year.

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

Cessnock City Council

Notes to the Special Purpose Financial Statements for the financial year ended 30 June 2011

Note 1. Significant Accounting Policies (continued)

comparable to rates of return for private businesses operating in a similar field”.

Such funds are subsequently available for meeting commitments or financing future investment strategies.

The Rate of Return on Capital is calculated as follows:

Operating Result before Capital Income + Interest Expense

Written Down Value of I,PP&E as at 30 June

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 5.21% at 30/6/11.

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

(iv) Dividends

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



INDEPENDENT AUDITOR'S REPORT TO CESSNOCK CITY COUNCIL

Report on the Financial Report

We have audited the accompanying financial report, being a special purpose financial report, of Cessnock City Council, which comprises the balance sheet as at 30 June 2011, and the income statement, a summary of significant accounting policies, other explanatory notes and the Statement by Councillors and Management.

Responsibility of the Councillors for the Financial Report

The Councillors of the Council are responsible for the preparation and fair presentation of the financial report in accordance with the *Local Government Act 1993* and have determined that the accounting policies described in Note 1 to the financial statements, which form part of the financial report, are appropriate to meet the requirements of the Department of Local Government. The Councillors' responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 1, are appropriate to meet the requirements of the Department of Local Government. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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**INDEPENDENT AUDITOR'S REPORT
TO CESSNOCK CITY COUNCIL (CONT'D)**

Auditor's Responsibility (Cont'd)

The financial report has been prepared for distribution to the Council and the Department of Local Government for the purpose of fulfilling the requirements of National Competition Policy reporting. We disclaim any assumption of responsibility for any reliance on this report or on the financial report or on the financial reports which it relates to any person other than the Council or the Department of Local Government, or for any purpose other than that for which it was prepared.

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

Independence

In conducting our audit, we have complied with the independence requirements of Australian professional ethical pronouncements.

Auditor's Opinion

In our opinion the financial report of the Council is presented fairly in accordance with the requirements of those applicable Accounting Standards detailed in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting.

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, attention is drawn to the preparation of the financial report on a special purpose basis. The special purpose financial report does not apply all Australian Accounting Standards which would otherwise be applied in the preparation of a general purpose financial report. The financial report has been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the *Local Government Act 1993*. As a result, they may not be suitable for another purpose.

PROSPERITY AUDIT SERVICES



PAUL HORNE
Partner

28 October 2011

Newcastle



Cessnock City Council

SPECIAL SCHEDULES
for the year ended 30 June 2011

"...attractive, thriving and welcoming."



Cessnock City Council

Special Schedules

for the financial year ended 30 June 2011

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¹ Special Purpose Schedules are not audited.

Background

- (i) These Special Schedules have been designed to meet the requirements of special purpose users such as;
- the NSW Grants Commission
 - the Australian Bureau of Statistics (ABS),
 - the NSW Office of Water,
 - the Department of Environment, Climate Change and Water, and
 - the Division of Local Government (DLG).
- (ii) The financial data is collected for various uses including;
- the allocation of Financial Assistance Grants,
 - the incorporation of Local Government financial figures in national statistics,
 - the monitoring of loan approvals,
 - the allocation of borrowing rights, and
 - the monitoring of the financial activities of specific services.

Cessnock City Council

Special Schedule No. 1 - Net Cost of Services

for the financial year ended 30 June 2011

\$'000

Function or Activity	Expenses from Continuing Operations	Income from continuing operations		Net Cost of Services
		Non Capital	Capital	
Governance	794	-	-	(794)
Administration	13,588	1,498	85	(12,005)
Public Order and Safety				
Fire Service Levy, Fire Protection, Emergency Services	1,155	484	65	(606)
Beach Control	-	-	-	-
Enforcement of Local Govt Regs	507	166	-	(341)
Animal Control	223	129	-	(94)
Other	-	-	-	-
Total Public Order & Safety	1,885	779	65	(1,041)
Health	641	740	-	99
Environment				
Noxious Plants and Insect/Vermin Control	200	96	-	(104)
Other Environmental Protection	361	14	-	(347)
Solid Waste Management	8,509	9,879	-	1,370
Street Cleaning	373	-	-	(373)
Drainage	827	460	79	(288)
Stormwater Management	-	-	-	-
Total Environment	10,270	10,449	79	258
Community Services and Education				
Administration & Education	413	44	-	(369)
Social Protection (Welfare)	232	2	-	(230)
Aged Persons and Disabled	18	1	-	(17)
Childrens Services	8	1	-	(7)
Total Community Services & Education	671	48	-	(623)
Housing and Community Amenities				
Public Cemeteries	243	195	-	(48)
Public Conveniences	272	-	-	(272)
Street Lighting	778	45	-	(733)
Town Planning	3,536	861	-	(2,675)
Other Community Amenities	36	-	-	(36)
Total Housing and Community Amenities	4,865	1,101	-	(3,764)
Water Supplies	-	-	-	-
Sewerage Services	-	-	-	-

Cessnock City Council

Special Schedule No. 1 - Net Cost of Services (continued)

for the financial year ended 30 June 2011

\$'000

Function or Activity	Expenses from Continuing Operations	Income from continuing operations		Net Cost of Services
		Non Capital	Capital	
Recreation and Culture				
Public Libraries	1,239	148	70	(1,021)
Museums	-	-	-	-
Art Galleries	83	-	-	(83)
Community Centres and Halls	386	86	105	(195)
Performing Arts Venues	678	247	-	(431)
Other Performing Arts	-	-	-	-
Other Cultural Services	100	23	-	(77)
Sporting Grounds and Venues	615	37	244	(334)
Swimming Pools	1,216	156	-	(1,060)
Parks & Gardens (Lakes)	2,513	89	314	(2,110)
Other Sport and Recreation	304	4	-	(300)
Total Recreation and Culture	7,134	790	733	(5,611)
Fuel & Energy	-	-	-	-
Agriculture	-	-	-	-
Mining, Manufacturing and Construction				
Building Control	1,073	524	-	(549)
Other Mining, Manufacturing & Construction	-	-	-	-
Total Mining, Manufacturing and Const.	1,073	524	-	(549)
Transport and Communication				
Urban Roads (UR) - Local	4,295	175	467	(3,653)
Urban Roads - Regional	155	176	-	21
Sealed Rural Roads (SRR) - Local	1,159	117	21	(1,021)
Sealed Rural Roads - Regional	619	703	248	332
Unsealed Rural Roads (URR) - Local	1,373	759	316	(298)
Unsealed Rural Roads (URR) - Regional	-	-	-	-
Bridges on UR - Local	330	-	-	(330)
Bridges on SRR - Local	226	-	1,282	1,056
Bridges on URR - Local	111	-	-	(111)
Bridges on Regional Roads	-	-	-	-
Parking Areas	-	-	-	-
Footpaths	217	-	-	(217)
Aerodromes	138	66	-	(72)
Other Transport & Communication	3,996	3,034	259	(703)
Total Transport and Communication	12,619	5,030	2,593	(4,996)
Economic Affairs				
Camping Areas & Caravan Parks	-	-	-	-
Other Economic Affairs	368	211	85	(72)
Total Economic Affairs	368	211	85	(72)
Totals – Functions	53,908	21,170	3,640	(29,098)
General Purpose Revenues⁽²⁾		34,217		34,217
Share of interests - joint ventures & associates using the equity method	-	-		-
NET OPERATING RESULT⁽¹⁾	53,908	55,387	3,640	5,119

(1) As reported in the Income Statement | (2) Includes: Rates & Annual Charges (incl. Ex Gratia, excl. Water & Sewer), Non Capital General Purpose Grants & Interest on Investments (excl. Ext. Restricted Assets)

Cessnock City Council

Special Schedule No. 2(a) - Statement of Long Term Debt (all purpose)
for the financial year ended 30 June 2011

\$'000

Classification of Debt	Principal outstanding at beginning of the year			New Loans raised during the year	Debt redemption during the year		Transfers to Sinking Funds	Interest applicable for Year	Principal outstanding at the end of the year		
	Current	Non Current	Total		From Revenue	Sinking Funds			Current	Non Current	Total
Loans (by Source)											
Commonwealth Government	-	-	-							-	-
Treasury Corporation	-	-	-							-	-
Other State Government	-	-	-							-	-
Public Subscription	-	-	-							-	-
Financial Institutions	1,261	7,631	8,892	1,431	1,269	-	-	602	935	8,119	9,054
Other	-	-	-							-	-
Total Loans	1,261	7,631	8,892	1,431	1,269	-	-	602	935	8,119	9,054
Other Long Term Debt											
Ratepayers Advances	-	-	-							-	-
Government Advances	-	-	-							-	-
Finance Leases	-	-	-							-	-
Deferred Payments	-	-	-							-	-
Total Long Term Debt	-	-	-	-	-	-	-	-	-	-	-
Total Debt	1,261	7,631	8,892	1,431	1,269	-	-	602	935	8,119	9,054

Notes: Excludes (i) Internal Loans & (ii) Principal Inflows/Outflows relating to Loan Re-Financing.

This Schedule is prepared using the **face value** of debt obligations, rather than **fair value** (which are reported in the GPFS).

Cessnock City Council

Special Schedule No. 8 - Financial Projections

as at 30 June 2011

\$'000	Actual ⁽¹⁾ 10/11	Forecast 11/12	Forecast 12/13	Forecast ⁽³⁾ 13/14	Forecast ⁽³⁾ 14/15
(i) RECURRENT BUDGET					
Income from continuing operations	59,027	55,500	57,000	58,000	59,000
Expenses from continuing operations	53,908	52,300	54,000	55,000	56,000
Operating Result from Continuing Operations	<u>5,119</u>	<u>3,200</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>
(ii) CAPITAL BUDGET					
New Capital Works ⁽²⁾	4,851	3,000	3,000	3,000	3,000
Replacement/Refurbishment of Existing Assets	12,398	8,900	9,500	10,000	10,500
Total Capital Budget	<u>17,249</u>	<u>11,900</u>	<u>12,500</u>	<u>13,000</u>	<u>13,500</u>
Funded by:					
– Loans	1,431	1,890	500	500	500
– Asset sales	637	1,000	1,000	1,000	1,000
– Reserves	4,830	4,000	4,000	4,000	4,000
– Grants/Contributions	3,300	1,320	2,000	2,000	2,000
– Recurrent revenue	7,051	3,690	5,000	5,500	6,000
– Other	-	-	-	-	-
	<u>17,249</u>	<u>11,900</u>	<u>12,500</u>	<u>13,000</u>	<u>13,500</u>

Notes:

(1) From 10/11 Income Statement.

(2) New Capital Works are major non-recurrent projects, eg new Leisure Centre, new Library, new Swimming pool etc.

(3) If Council has only adopted 3 years of projections then only show 3 years.