

Cessnock City Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2012

"...attractive, thriving and welcoming."



Cessnock City Council

General Purpose Financial Statements for the financial year ended 30 June 2012

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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 31/10/12.
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 2012

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:

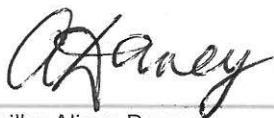
- The Local Government Act 1993 (as amended) and the Regulations made thereunder,
- The Australian Accounting Standards and professional pronouncements, and
- The Local Government Code of Accounting Practice and Financial Reporting.

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

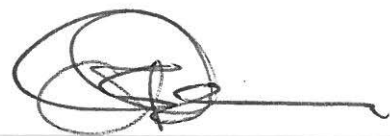
- present fairly the Council's operating result and financial position for the year, and
- accords with Council's accounting and other records.

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 05 September 2012.



Councillor Alison Davey
MAYOR



Councillor Cordelia Burcham
COUNCILLOR



Ms Lea Rosser
GENERAL MANAGER



Mr Michael Brady
RESPONSIBLE ACCOUNTING OFFICER

Cessnock City Council

Income Statement

for the financial year ended 30 June 2012

Budget ⁽¹⁾				Actual	Restated
2012	\$ '000		Notes	2012	2011
Income from Continuing Operations					
Revenue:					
35,678	Rates & Annual Charges		3a	35,833	33,901
7,033	User Charges & Fees		3b	10,390	7,760
985	Interest & Investment Revenue		3c	533	1,833
729	Other Revenues		3d	1,452	1,267
10,397	Grants & Contributions provided for Operating Purposes		3e,f	10,933	10,626
607	Grants & Contributions provided for Capital Purposes		3e,f	2,316	3,640
Other Income:					
120	Net gains from the disposal of assets		5	-	-
-	Net Share of interests in Joint Ventures & Associated Entities using the equity method		19	-	-
55,549	Total Income from Continuing Operations			61,457	59,027
Expenses from Continuing Operations					
24,642	Employee Benefits & On-Costs		4a	22,662	22,037
698	Borrowing Costs		4b	672	602
8,579	Materials & Contracts		4c	14,453	12,721
8,243	Depreciation & Amortisation		4d	14,827	14,388
-	Impairment		4d	-	-
10,183	Other Expenses		4e	11,609	9,123
-	Net Losses from the Disposal of Assets		5	3,060	3,054
52,345	Total Expenses from Continuing Operations			67,283	61,925
3,204	Operating Result from Continuing Operations			(5,826)	(2,898)
Discontinued Operations					
-	Net Profit/(Loss) from Discontinued Operations		24	-	-
3,204	Net Operating Result for the Year			(5,826)	(2,898)
3,204	Net Operating Result attributable to Council			(5,826)	(2,898)
-	Net Operating Result attributable to Minority Interests			-	-
2,597	Net Operating Result for the year before Grants and Contributions provided for Capital Purposes			(8,142)	(6,538)

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

Cessnock City Council

Statement of Comprehensive Income
for the financial year ended 30 June 2012

\$ '000	Notes	Actual 2012	Restated 2011
Net Operating Result for the year (as per Income statement)		(5,826)	(2,898)
Other Comprehensive Income			
Gain (loss) on revaluation of I,PP&E	20b (ii)	-	14,214
Gain (loss) on revaluation of available-for-sale investments	20b (ii)	-	-
Gain (loss) on revaluation of other reserves	20b (ii)	-	-
Realised (gain) loss on available-for-sale investments recognised in P&L	20b (ii)	-	-
Realised (gain) loss from other reserves recognised in P&L	20b (ii)	-	-
Impairment (loss) reversal relating to I,PP&E	20b (ii)	-	-
Other Movements in Reserves	20b (ii)	-	1,613
Total Other Comprehensive Income for the year		-	15,827
Total Comprehensive Income for the Year		(5,826)	12,929
Total Comprehensive Income attributable to Council		(5,826)	12,929
Total Comprehensive Income attributable to Minority Interests		-	-

Cessnock City Council

Balance Sheet

as at 30 June 2012

\$ '000	Notes	Actual 2012	Restated 2011
ASSETS			
Current Assets			
Cash & Cash Equivalents	6a	12,041	14,512
Investments	6b	7,545	2,500
Receivables	7	5,245	5,059
Inventories	8	340	306
Other	8	553	534
Non-current assets classified as "held for sale"	22	-	-
Total Current Assets		25,724	22,911
Non-Current Assets			
Investments	6b	415	1,540
Receivables	7	66	59
Inventories	8	3,286	3,280
Infrastructure, Property, Plant & Equipment	9	637,709	642,319
Investments accounted for using the equity method	19	-	-
Investment Property	14	-	-
Intangible Assets	25	-	-
Total Non-Current Assets		641,476	647,198
TOTAL ASSETS		667,200	670,109
LIABILITIES			
Current Liabilities			
Payables	10	9,049	7,213
Borrowings	10	938	935
Provisions	10	6,618	6,459
Total Current Liabilities		16,605	14,607
Non-Current Liabilities			
Payables	10	484	472
Borrowings	10	9,025	8,119
Provisions	10	11,356	11,355
Total Non-Current Liabilities		20,865	19,946
TOTAL LIABILITIES		37,470	34,553
Net Assets		629,730	635,556
EQUITY			
Retained Earnings	20	402,005	407,831
Revaluation Reserves	20	227,725	227,725
Council Equity Interest		629,730	635,556
Minority Equity Interest		-	-
Total Equity		629,730	635,556

Cessnock City Council

Statement of Changes in Equity
for the financial year ended 30 June 2012

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council Interest	Minority Interest	Total Equity
2012						
Opening Balance (as per Last Year's Audited Accounts)		407,831	227,725	635,556	-	635,556
a. Correction of Prior Period Errors	20 (c)	-	-	-	-	-
b. Changes in Accounting Policies (prior year effects)	20 (d)	-	-	-	-	-
Revised Opening Balance (as at 1/7/11)		407,831	227,725	635,556	-	635,556
c. Net Operating Result for the Year		(5,826)	-	(5,826)	-	(5,826)
d. Other Comprehensive Income						
- Revaluations : IPP&E Asset Revaluation Rsve	20b (ii)	-	-	-	-	-
- Revaluations: Other Reserves	20b (ii)	-	-	-	-	-
- Transfers to Income Statement	20b (ii)	-	-	-	-	-
- Impairment (loss) reversal relating to I,PP&E	20b (ii)	-	-	-	-	-
- Other Movements (enter details here)	20b (ii)	-	-	-	-	-
Other Comprehensive Income		-	-	-	-	-
Total Comprehensive Income (c&d)		(5,826)	-	(5,826)	-	(5,826)
e. Distributions to/(Contributions from) Minority Interests		-	-	-	-	-
f. Transfers between Equity		-	-	-	-	-
Equity - Balance at end of the reporting period		402,005	227,725	629,730	-	629,730

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council 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)	(9,918)	-	(9,918)	-	(9,918)
b. Changes in Accounting Policies (prior year effects)	20 (d)	-	-	-	-	-
Revised Opening Balance (as at 1/7/10)		409,116	213,511	622,627	-	622,627
c. Net Operating Result for the Year - restated		(2,898)	-	(2,898)	-	(2,898)
d. Other Comprehensive Income						
- Revaluations : IPP&E Asset Revaluation Rsve	20a (c) 20b (ii)	1,613	14,214	15,827	-	15,827
- Revaluations: Other Reserves	20b (ii)	-	-	-	-	-
- Transfers to Income Statement	20b (ii)	-	-	-	-	-
- Impairment (loss) reversal relating to I,PP&E	20b (ii)	-	-	-	-	-
- Other Movements (enter details here)	20b (ii)	-	-	-	-	-
Other Comprehensive Income		1,613	14,214	15,827	-	15,827
Total Comprehensive Income (c&d)		(1,285)	14,214	12,929	-	12,929
e. Distributions to/(Contributions from) Minority Interests		-	-	-	-	-
f. Transfers between Equity		-	-	-	-	-
Equity - Balance at end of the reporting period		407,831	227,725	635,556	-	635,556

Cessnock City Council

Statement of Cash Flows

for the financial year ended 30 June 2012

Budget 2012	\$ '000	Notes	Actual 2012	Actual 2011
Cash Flows from Operating Activities				
Receipts:				
35,200	Rates & Annual Charges		36,105	33,624
8,800	User Charges & Fees		13,106	8,443
1,000	Investment & Interest Revenue Received		1,069	1,017
13,700	Grants & Contributions		13,513	14,346
-	Bonds, Deposits & Retention amounts received		-	14,945
4,700	Other		2,881	4,594
Payments:				
(22,700)	Employee Benefits & On-Costs		(22,863)	(22,094)
(15,800)	Materials & Contracts		(15,560)	(14,823)
(700)	Borrowing Costs		(672)	(602)
-	Bonds, Deposits & Retention amounts refunded		(6)	(15,117)
(11,000)	Other		(13,406)	(10,289)
13,200	Net Cash provided (or used in) Operating Activities	11b	14,167	14,044
Cash Flows from Investing Activities				
Receipts:				
-	Sale of Investment Securities		7,900	15,445
-	Sale of Real Estate Assets		-	1,070
700	Sale of Infrastructure, Property, Plant & Equipment		766	637
-	Deferred Debtors Receipts		38	5
Payments:				
-	Purchase of Investment Securities		(12,400)	(5,745)
(17,000)	Purchase of Infrastructure, Property, Plant & Equipment		(13,845)	(16,955)
-	Purchase of Real Estate Assets		(6)	(39)
(16,300)	Net Cash provided (or used in) Investing Activities		(17,547)	(5,582)
Cash Flows from Financing Activities				
Receipts:				
1,890	Proceeds from Borrowings & Advances		1,890	1,431
Payments:				
(981)	Repayment of Borrowings & Advances		(981)	(1,269)
909	Net Cash Flow provided (used in) Financing Activities		909	162
(2,191)	Net Increase/(Decrease) in Cash & Cash Equivalents		(2,471)	8,624
14,512	plus: Cash & Cash Equivalents - beginning of year	11a	14,512	5,888
12,321	Cash & Cash Equivalents - end of the year	11a	12,041	14,512
Additional Information:				
	plus: Investments on hand - end of year	6b	7,960	4,040
Total Cash, Cash Equivalents & Investments			20,001	18,552

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 2012

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n/a - not applicable

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies

The principal accounting policies adopted by Council in the preparation of these consolidated 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 and Interpretations issued by the Australian Accounting Standards Board,
- the Local Government Act (1993) & Regulation, and
- the Local Government Code of Accounting Practice and Financial Reporting.

For the purpose of preparing these financial statements, Council has been deemed to be a not-for-profit entity.

(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) New and amended standards adopted by Council

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(iv) Early adoption of Accounting Standards

Council has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

Refer further to paragraph (ab) relating to a summary of the effects of Standards with future operative dates..

(v) 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.

(vi) Changes in Accounting Policies

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

There have also been no changes in accounting policies when compared with previous financial statements unless otherwise stated [refer Note 20(d)].

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

(vii) Critical Accounting Estimates

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

Accordingly this requires management to exercise its judgement in the process of applying the Council's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.

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

Critical judgements in applying the entity's accounting policies

- (i) Impairment of Receivables - Council has made a significant judgement about the impairment of a number of its receivables in Note 7.
- (ii) Projected Section 94 Commitments - Council has used significant judgement in determining future Section 94 income and expenditure in Note 17.

(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.

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 balance date, the unused grant or contribution is disclosed in Note 3(g).

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

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 EPA 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 balance 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.

(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 30/6/12) and **(ii)** all the related operating results (for the financial year ended the 30th June 2012).

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.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

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.

(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,

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

- 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 balance sheet date.

(ii) Loans and receivables

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

They arise when the Council provides money, goods or services directly to a debtor with no intention (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 balance sheet date or the term to maturity from the reporting date is less than 12 months.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

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.

(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 balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(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 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.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

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 that 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 balance sheet date.

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

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

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

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.

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

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.

(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 balance 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.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

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 other 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.

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

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 balance sheet 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 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 acquired after 1 July 2008 is recognised in accordance with AASB 116 – Property, Plant and Equipment.

(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.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

(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 &/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.

(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 discount is 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 balance sheet date and the cost is charged to the income statement.

Provision is made for the estimated present value of the costs of environmental clean up obligations outstanding at the balance sheet date. These costs are charged to the income statement.

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

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.

(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.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

(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.

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

(v) Borrowing costs

Borrowing costs are expensed

(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.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

(ii) Other Long Term Obligations

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

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 then discounted using market yields at the reporting date based on national government bonds with terms to maturity and currency that match as closely as possible the estimated future cash outflows.

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 \$384 million at 30 June 2012.

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.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

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 30/6/12.

(y) Self insurance

Council does not self insure.

(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.

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.

(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).

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).

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

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

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.

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.

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

(ab) New accounting standards and UIG interpretations

Certain new (or amended) accounting standards and interpretations have been published that are not mandatory for reporting periods ending 30 June 2012.

Council has not adopted any of these standards early.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

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)

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

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

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 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.

There will be no impact on Council's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and Council does not have any such liabilities.

The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed

AASB 10 - Consolidated Financial Statements, AASB 11 - Joint Arrangements, AASB 12 - Disclosure of Interests in Other Entities, revised AASB 127 - Separate Financial Statements and AASB 128 - Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the

accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities.

The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation.

However, the standard introduces a single definition of control that applies to all entities.

It focuses on the need to have both power and rights or exposure to variable returns.

Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns.

There is also new guidance on participating and protective rights and on agent/principal relationships. Council does not expect the new standard to have a significant impact on its composition.

AASB 11 introduces a principles based approach to accounting for joint arrangements.

The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement.

Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture.

Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted.

Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard.

AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

Council's investment in the joint venture partnership will be classified as a joint venture under the new rules.

As Council already applies the equity method in accounting for this investment, AASB 11 will not have any impact on the amounts recognised in its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128.

Application of this standard by Council will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to Council's investments.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. Council is still assessing the impact of these amendments.

Council does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011.

It explains how to measure fair value and aims to enhance fair value disclosures. Council has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance.

It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements.

Council does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

Applicable to Local Government but no implications for Council;

None

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

Revised AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements (effective 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits.

It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset.

This replaces the expected return on plan assets that is currently included in profit or loss.

The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits.

The amendments will have to be implemented retrospectively.

Council does not recognise defined benefit assets and liabilities for the reasons set out in note 1 (s)(iii) and so these changes will not have an impact on its reported results.

Not applicable to Local Government per se;

None

Cessnock City Council

Notes to the Financial Statements for the financial year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(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 2012

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 2012	Actual 2012	Actual 2011	Original Budget 2012	Actual 2012	Actual 2011	Original Budget 2012	Actual 2012	Actual 2011	Actual 2012	Actual 2011	Actual 2012	Actual 2011
Governance	-	-	-	-	799	794	-	(799)	(794)	-	-	44	55
Administration	725	1,646	1,583	13,518	13,143	13,588	(12,793)	(11,497)	(12,005)	-	-	67,626	66,029
Public Order & Safety	585	555	844	2,796	2,812	1,885	(2,211)	(2,257)	(1,041)	-	57	5,051	5,375
Health	737	816	740	589	663	641	148	153	99	-	-	1,224	1,235
Environment	11,016	11,541	10,528	10,944	11,843	10,270	72	(302)	258	318	343	51,219	51,753
Community Services & Education	48	137	48	555	776	671	(507)	(639)	(623)	56	40	5,029	5,090
Housing & Community Amenities	1,038	1,240	1,101	4,186	5,310	4,865	(3,148)	(4,070)	(3,764)	46	45	2,932	2,828
Water Supplies	-	-	-	-	-	-	-	-	-	-	-	-	-
Sewerage Services	-	-	-	-	-	-	-	-	-	-	-	-	-
Recreation & Culture	802	1,980	1,523	6,296	7,734	7,134	(5,494)	(5,754)	(5,611)	499	527	76,434	76,266
Fuel & Energy	-	-	-	-	-	-	-	-	-	-	-	-	-
Agriculture	-	-	-	-	-	-	-	-	-	-	-	-	-
Mining, Manufacturing & Construction	563	545	524	959	1,041	1,073	(396)	(496)	(549)	-	-	386	323
Transport & Communication	4,497	8,182	7,623	11,592	22,136	20,636	(7,095)	(13,954)	(13,013)	913	1,291	450,875	454,717
Economic Affairs	168	280	296	910	1,026	368	(742)	(746)	(72)	71	82	6,380	6,438
Total Functions & Activities	20,179	26,922	24,810	52,345	67,283	61,925	(32,166)	(40,361)	(37,115)	1,903	2,385	667,200	670,109
Share of gains/(losses) in Associates & Joint Ventures (using the Equity Method)	-	-	-	-	-	-	-	-	-	-	-	-	-
General Purpose Income ¹	35,370	34,535	34,217	-	-	-	35,370	34,535	34,217	7,294	7,000	-	-
Operating Result from Continuing Operations	55,549	61,457	59,027	52,345	67,283	61,925	3,204	(5,826)	(2,898)	9,197	9,385	667,200	670,109

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 2012

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.

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 & quarries.

TRANSPORT & COMMUNICATION

Urban roads, sealed rural roads, unsealed rural roads, bridges, footpaths, aerodromes, parking areas, bus shelters and services, RMS 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 2012

Note 3. Income from Continuing Operations

\$ '000	Notes	Actual 2012	Actual 2011
(a). Rates & Annual Charges			
Ordinary Rates			
Residential		19,004	17,564
Farmland		3,236	3,560
Mining		805	649
Business		4,170	4,061
Total Ordinary Rates		27,215	25,834
Special Rates			
Nil			
Annual Charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic Waste Management Services		7,368	6,873
Stormwater Management Services		461	456
Waste Management Services (non-domestic)		767	718
Section 611 Charges		22	20
Total Annual Charges		8,618	8,067
TOTAL RATES & ANNUAL CHARGES		35,833	33,901

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 2012

Note 3. Income from Continuing Operations (continued)

\$ '000	Notes	Actual 2012	Actual 2011
(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 s.608)			
Building Permits & Fees		609	570
Private Works - Section 67		89	159
Regulatory/ Statutory Fees		94	88
Section 149 Certificates (EPA Act)		197	143
Section 603 Certificates		94	80
Town Planning		859	786
Total Fees & Charges - Statutory/Regulatory		1,942	1,826
(ii) Fees & Charges - Other (incl. General User Charges) (per s.608)			
Cemetery Fees		222	195
Cessnock Performing Arts Centre		309	234
Onsite Sewerage Management Fees		278	278
RMS (formerly RTA) Charges (State Roads not controlled by Council)		4,695	2,873
Swimming Pool Fees		148	155
Tourist Association		5	8
Waste Disposal Tipping Fees		2,330	1,836
Other		461	355
Total Fees & Charges - Other		8,448	5,934
TOTAL USER CHARGES & FEES		10,390	7,760

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2012

Note 3. Income from Continuing Operations (continued)

\$ '000	Notes	Actual 2012	Actual 2011
(c). Interest & Investment Revenue (incl. losses)			
Interest & Dividends			
- Interest on Overdue Rates & Annual Charges		218	198
- Interest earned on Investments (interest & coupon payment income)		895	865
Fair Value Adjustments			
- Fair Valuation movements in Investments (at FV or Held for Trading)		(580)	770
<u>TOTAL INTEREST & INVESTMENT REVENUE</u>		<u>533</u>	<u>1,833</u>
Interest Revenue is attributable to:			
Unrestricted Investments/Financial Assets:			
Overdue Rates & Annual Charges (General Fund)		218	198
General Council Cash & Investments		(590)	808
Restricted Investments/Funds - External:			
Development Contributions			
- Section 94		201	155
Domestic Waste Management operations		42	40
Other Externally Restricted Assets		46	57
Restricted Investments/Funds - Internal:			
Internally Restricted Assets		616	575
<u>Total Interest & Investment Revenue Recognised</u>		<u>533</u>	<u>1,833</u>
(d). Other Revenues			
Rental Income - Other Council Properties		310	216
Fines		170	166
Legal Fees Recovery - Rates & Charges (Extra Charges)		233	326
Commissions & Agency Fees		30	27
General Administrative Services		3	5
Insurance Claim Recoveries		421	263
Sales - General		29	31
Section 355 Committees		160	154
Other		96	79
<u>TOTAL OTHER REVENUE</u>		<u>1,452</u>	<u>1,267</u>

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 3. Income from Continuing Operations (continued)

\$ '000	2012 Operating	2011 Operating	2012 Capital	2011 Capital
(e). Grants				
General Purpose (Untied)				
Financial Assistance - General Component	5,322	5,064	-	-
Financial Assistance - Local Roads Component	1,523	1,470	-	-
Pensioners' Rates Subsidies - General Component	449	466	-	-
Total General Purpose	7,294	7,000	-	-
Specific Purpose				
Pensioners' Rates Subsidies:				
- Domestic Waste Management	190	192	-	-
Bushfire & Emergency Services	-	-	-	57
Community Centres	-	-	-	2
Drainage	-	-	58	79
Economic Development	19	-	-	-
Library - per capita	96	94	-	-
Library - special projects	3	6	59	41
Noxious Weeds Control	40	64	-	-
Recreation & Culture	-	-	64	139
RLCIP Grant	-	-	232	232
Street Lighting	44	43	-	-
Transport (Bus Shelters)	-	-	110	259
Transport (Roads to Recovery)	686	759	-	-
Transport (Other Roads & Bridges Funding)	117	117	-	156
Welfare Services	56	40	-	-
Other	129	92	-	13
Total Specific Purpose	1,380	1,407	523	978
Total Grants	8,674	8,407	523	978
Grant Revenue is attributable to:				
- Commonwealth Funding	7,549	7,294	232	388
- State Funding	1,125	1,113	291	590
	8,674	8,407	523	978

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 3. Income from Continuing Operations (continued)

\$ '000	2012 Operating	2011 Operating	2012 Capital	2011 Capital
(f). Contributions				
Developer Contributions:				
(s93 & s94 - EP&A Act, s64 of the NSW LG Act):				
S 93F - Contributions using Planning Agreements	-	-	192	-
S 94 - Contributions towards amenities/services	-	-	1,003	731
Total Developer Contributions	17	-	1,195	731
Other Contributions:				
Bushfire Protection	232	484	-	-
Dedications (other than by S94)	-	-	198	294
General Admin Services	382	400	-	-
Kerb & Gutter	-	-	1	79
Motor Vehicle Leaseback	146	141	-	-
Road Reinstatements	75	114	-	-
RMS Contributions (Regional Roads, Block Grant)	1,410	1,040	185	1,530
Transport	1	-	168	21
Other	13	40	46	7
Total Other Contributions	2,259	2,219	598	1,931
Total Contributions	2,259	2,219	1,793	2,662
TOTAL GRANTS & CONTRIBUTIONS	10,933	10,626	2,316	3,640

\$ '000	Actual 2012	Actual 2011
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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	3,988	4,064
add: Grants & contributions recognised in the current period but not yet spent:	1,982	1,887
less: Grants & contributions recognised in a previous reporting period now spent:	(1,277)	(1,963)
Net Increase (Decrease) in Restricted Assets during the Period	705	(76)
Unexpended and held as Restricted Assets	4,693	3,988
Comprising:		
- Specific Purpose Unexpended Grants	856	1,134
- Developer Contributions	3,837	2,854
	4,693	3,988

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2012

Note 4. Expenses from Continuing Operations

\$ '000	Notes	Actual 2012	Actual 2011
(a) Employee Benefits & On-Costs			
Salaries and Wages		15,927	14,797
Employee Termination Costs		-	394
Travelling		623	498
Employee Leave Entitlements (ELE)		3,586	3,685
Superannuation		2,527	2,737
Workers' Compensation Insurance		551	707
Fringe Benefit Tax (FBT)		176	135
Training Costs (other than Salaries & Wages)		228	206
Other		25	36
Total Employee Costs		23,643	23,195
less: Capitalised Costs		(981)	(1,158)
TOTAL EMPLOYEE COSTS EXPENSED		22,662	22,037
Number of "Equivalent Full Time" Employees at year end		259	267
(b) Borrowing Costs			
(i) Interest Bearing Liability Costs			
Interest on Loans		672	602
Total Interest Bearing Liability Costs		672	602
less: Capitalised Costs		-	-
Total Interest Bearing Liability Costs Expensed		672	602
(ii) Other Borrowing Costs			
Nil			
TOTAL BORROWING COSTS EXPENSED		672	602

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2012

Note 4. Expenses from Continuing Operations (continued)

\$ '000	Notes	Actual 2012	Actual 2011
(c) Materials & Contracts			
Raw Materials & Consumables		8,733	8,004
Contractor & Consultancy Costs		3,750	3,637
Auditors Remuneration ⁽¹⁾		21	26
Infringement Notice Contract Costs (SEINS)		12	15
Legal Expenses:			
- Legal Expenses: Planning & Development		564	395
- Legal Expenses: Other		804	77
- Legal Expenses: Debt Recovery		250	308
Operating Leases:			
- Operating Lease Rentals: Minimum Lease Payments ⁽²⁾		319	259
Total Materials & Contracts		14,453	12,721
less: Capitalised Costs		-	-
TOTAL MATERIALS & CONTRACTS		14,453	12,721
1. Auditor Remuneration			
During the year, the following fees were incurred for services provided by the Council's Auditor (& the Auditors of other Consolidated Entities):			
(i) Audit and Other Assurance Services			
- Audit & review of financial statements: Council's Auditor		21	26
Total Auditor Remuneration		21	26
2. Operating Lease Payments are attributable to:			
Computers		305	249
Other		14	10
		319	259

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2012

Note 4. Expenses from Continuing Operations (continued)

\$ '000	Notes	Impairment Costs		Depreciation/Amortisation	
		Actual 2012	Actual 2011	Actual 2012	Restated 2011
Plant and Equipment		-	-	1,775	1,785
Office Equipment		-	-	249	197
Furniture & Fittings		-	-	50	51
Buildings - Non Specialised		-	-	775	762
Buildings - Specialised		-	-	50	50
Other Structures		-	-	675	750
Infrastructure:					
- Roads, Bridges & Footpaths		-	-	10,448	10,029
- Stormwater Drainage		-	-	666	650
Other Assets					
- Library Books		-	-	139	114
Total Depreciation & Impairment Costs		-	-	14,827	14,388
less: Capitalised Costs		-	-	-	-
less: Impairments (to)/from ARR [Equity]	9a	-	-	-	-
<u>TOTAL DEPRECIATION & IMPAIRMENT COSTS EXPENSED</u>		-	-	<u>14,827</u>	<u>14,388</u>

Cessnock City Council

Notes to the Financial Statements for the financial year ended 30 June 2012

Note 4. Expenses from Continuing Operations (continued)

\$ '000	Notes	Actual 2012	Actual 2011
(e) Other Expenses			
Other Expenses for the year include the following:			
Advertising		167	161
Bad & Doubtful Debts		117	13
Bank Charges		33	32
Contributions/Levies to Other Levels of Government			
- Emergency Services Levy		51	57
- NSW Fire Brigade Levy		299	275
- NSW Rural Fire Service Levy		393	443
- Waste Levy		5,905	4,366
Councillor Expenses - Mayoral Fee		36	35
Councillor Expenses - Councillors' Fees		216	208
Councillors' Expenses (incl. Mayor) - Other (excluding fees above)		59	56
Donations, Contributions & Assistance to other organisations (Section 356)		71	57
Election Expenses		14	-
Electricity & Heating		432	394
Insurance		882	993
Rate Collection Agency Expenses		70	68
Section 355 Committees	14	125	163
Street Lighting		863	778
Subsidies		22	21
Telephone & Communications		342	415
Tourism Board Contribution		266	266
Valuation Fees		135	121
RSCPA Contribution		1,059	-
Other		52	201
Total Other Expenses		11,609	9,123
less: Capitalised Costs		-	-
<u>TOTAL OTHER EXPENSES</u>		<u>11,609</u>	<u>9,123</u>

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2012

Note 5. Gains or Losses from the Disposal of Assets

\$ '000	Notes	Actual 2012	Actual 2011
Property (excl. Investment Property)			
Proceeds from Disposal - Property		-	4
less: Carrying Amount of Property Assets Sold / Written Off		-	-
Net Gain/(Loss) on Disposal		-	4
Plant & Equipment			
Proceeds from Disposal - Plant & Equipment		766	633
less: Carrying Amount of P&E Assets Sold / Written Off		(999)	(417)
Net Gain/(Loss) on Disposal		(233)	216
Infrastructure			
Proceeds from Disposal - Infrastructure		-	-
less: Carrying Amount of Infrastructure Assets Sold / Written Off		(2,827)	(3,903)
Net Gain/(Loss) on Disposal		(2,827)	(3,903)
Real Estate Assets Held For Sale			
Proceeds from Disposal - Real Estate Assets		-	1,070
less: Carrying Amount of Real Estate Assets Sold / Written Off		-	(441)
Net Gain/(Loss) on Disposal		-	629
Financial Assets*			
Proceeds from Disposal / Redemptions / Maturities - Financial Assets		7,900	15,445
less: Carrying Amount of Financial Assets Sold / Redeemed / Matured		(7,900)	(15,445)
Net Gain/(Loss) on Disposal		-	-
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(3,060)	(3,054)

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2012

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

\$ '000	Notes	2012 Actual Current	2012 Actual Non Current	2011 Actual Current	2011 Actual Non Current
Cash & Cash Equivalents (Note 6a)					
Cash on Hand and at Bank		908	-	1,098	-
Cash-Equivalent Assets ¹					
- Deposits at Call		4,433	-	3,314	-
- Short Term Deposits		6,700	-	10,100	-
Total Cash & Cash Equivalents		12,041	-	14,512	-
Investment Securities (Note 6b)					
- Long Term Deposits		7,545	-	600	445
- CDO's		-	415	1,900	1,095
Total Investment Securities		7,545	415	2,500	1,540
TOTAL CASH ASSETS, CASH EQUIVALENTS & INVESTMENTS		19,586	415	17,012	1,540

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"	12,041	-	14,512	-
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Investments

a. "At Fair Value through the Profit & Loss"					
- "Held for Trading"	6(b-i)	-	415	1,900	1,095
b. "Held to Maturity"	6(b-ii)	7,545	-	600	445
Investments		7,545	415	2,500	1,540

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 6b. Investments (continued)

\$ '000	2012 Actual Current	2012 Actual Non Current	2011 Actual Current	2011 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	1,900	1,095	2,300	2,370
Revaluations (through the Income Statement)	100	(680)	145	625
Disposals (sales & redemptions)	(2,000)	-	(2,445)	-
Transfers between Current/Non Current	-	-	1,900	(1,900)
Balance at End of Year	-	415	1,900	1,095
Comprising:				
- CDO's	-	-	1,900	1,095
- Other Long Term Financial Assets	-	415	-	-
Total	-	415	1,900	1,095
Note 6(b-ii)				
Reconciliation of Investments classified as "Held to Maturity"				
Balance at the Beginning of the Year	600	445	7,800	500
Additions	12,400	-	5,300	445
Disposals (sales & redemptions)	(5,900)	-	(12,500)	(500)
Transfers between Current/Non Current	445	(445)	-	-
Balance at End of Year	7,545	-	600	445
Comprising:				
- Long Term Deposits	-	-	600	445
- Other Long Term Financial Assets	7,545	-	-	-
Total	7,545	-	600	445

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2012

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

\$ '000	2012	2012	2011	2011
	Actual Current	Actual Non Current	Actual Current	Actual Non Current
Total Cash, Cash Equivalents and Investment Securities	19,586	415	17,012	1,540
attributable to:				
External Restrictions (refer below)	5,122	415	3,292	1,540
Internal Restrictions (refer below)	13,110	-	12,208	-
Unrestricted	1,354	-	1,512	-
	19,586	415	17,012	1,540

2012 \$ '000	Opening Balance	Transfers to Restrictions	Transfers from Restrictions	Closing Balance
-----------------	--------------------	------------------------------	--------------------------------	--------------------

Details of Restrictions

External Restrictions - Included in Liabilities

Nil

External Restrictions - Other

Developer Contributions - General (A)	2,854	1,396	(413)	3,837
Specific Purpose Unexpended Grants (B)	1,134	-	(278)	856
Domestic Waste Management (C)	782	-	-	782
Other	62	-	-	62
External Restrictions - Other	4,832	1,396	(691)	5,537
Total External Restrictions	4,832	1,396	(691)	5,537

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

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

C Domestic Waste Management (DWM) is an externally restricted asset and must be applied for the purposes for which it was raised.

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2012

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

2012 \$ '000	Opening Balance	Transfers to Restrictions	Transfers from Restrictions	Closing Balance
Internal Restrictions				
Plant & Vehicle Replacement	2,366	667	(795)	2,238
Employees Leave Entitlement	290	1,374	(940)	724
Bridge Replacement	372	170	(294)	248
Cemetery	164	10	(58)	116
Computer Services	369	125	(115)	379
Impaired Investments	65	-	(65)	-
Insurance Provisions	355	315	(219)	451
Land Purchases	458	40	(113)	385
Other Special Projects	462	116	(303)	275
Residential Land Development	844	-	(331)	513
Rezoning Fees	140	-	(89)	51
Sanitary Operations	55	-	(9)	46
Single Invitation Contracts	461	363	(573)	251
Special Projects	-	655	(655)	-
Unexpended Loan Funds	-	1,890	(1,139)	751
Waste Depot & Rehabilitation	5,807	11,068	(10,193)	6,682
Total Internal Restrictions	12,208	16,793	(15,891)	13,110
TOTAL RESTRICTIONS	17,040	18,189	(16,582)	18,647

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2012

Note 7. Receivables

\$ '000	Notes	2012		2011	
		Current	Non Current	Current	Non Current
Purpose					
Rates & Annual Charges		1,736	-	1,986	-
Interest & Extra Charges		330	-	294	-
User Charges & Fees		22	-	19	-
Accrued Revenues					
- Interest on Investments		118	-	110	-
Bushfire Protection		57	-	58	-
Community Facilities		55	-	-	-
Deferred Debtors		21	66	66	59
Garbage Tipping Fees		330	-	185	-
Government Grants & Subsidies		258	-	467	-
Industrial Development		178	-	178	-
Kerb & Gutter		16	-	53	-
Net GST Receivable		420	-	537	-
Restoration Charges		18	-	16	-
Rental Charges		163	-	56	-
RMS Debtors - State Roads		1,389	-	1,065	-
Vehicle Sales		82	-	-	-
Workers Compensation Refunds		120	-	19	-
Other Debtors		283	-	292	-
Total		5,596	66	5,401	59
less: Provision for Impairment					
Rates & Annual Charges		(82)	-	(60)	-
Other Debtors		(269)	-	(282)	-
Total Provision for Impairment - Receivables		(351)	-	(342)	-
<u>TOTAL NET RECEIVABLES</u>		<u>5,245</u>	<u>66</u>	<u>5,059</u>	<u>59</u>
Externally Restricted Receivables					
Domestic Waste Management		591	-	549	-
Stormwater Management		36	-	34	-
Other					
- Other Restricted Receivables		193	-	185	-
Total External Restrictions		820	-	768	-
Internally Restricted Receivables - Nil					
Unrestricted Receivables		4,425	66	4,291	59
<u>TOTAL NET RECEIVABLES</u>		<u>5,245</u>	<u>66</u>	<u>5,059</u>	<u>59</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 10.00% (2011 11.00%).
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 2012

Note 8. Inventories & Other Assets

\$ '000	Notes	2012		2011	
		Current	Non Current	Current	Non Current
Inventories					
Real Estate for resale (refer below)		-	3,286	-	3,280
Stores & Materials		340	-	306	-
Total Inventories		340	3,286	306	3,280
Other Assets					
Prepayments		553	-	534	-
Total Other Assets		553	-	534	-
TOTAL INVENTORIES / OTHER ASSETS		893	3,286	840	3,280

Externally Restricted Assets

There are no restrictions applicable to the above assets.

(i) Other Disclosures

(a) Details for Real Estate Development

Residential		-	3,286	-	3,280
Total Real Estate for Resale		-	3,286	-	3,280

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

Represented by:

Acquisition Costs		-	-	-	-
Development Costs		-	3,286	-	3,280
Total Costs		-	3,286	-	3,280
less: Provision for Under Recovery		-	-	-	-
Total Real Estate for Resale		-	3,286	-	3,280

Movements:

Real Estate assets at beginning of the year		-	3,280	432	3,250
- Purchases and other costs		-	6	9	30
- WDV of Sales (exp)	5	-	-	(441)	-
Total Real Estate for Resale		-	3,286	-	3,280

Notes to the Financial Statements
for the financial year ended 30 June 2012

Note 9a. Infrastructure, Property, Plant & Equipment

\$ '000	Restated as at 30/6/2011					Asset Movements during the Reporting Period				as at 30/6/2012				
	At	At	Accumulated		Carrying	Asset Additions	WDV of Asset Disposals	Depreciation Expense	WIP Transfers	At	At	Accumulated		Carrying
	Cost	Fair Value	Dep'n	Impairment	Value					Cost	Fair Value	Dep'n	Impairment	Value
Capital Work in Progress	1,272	-	-	-	1,272	5,348	-	-	(1,272)	5,348	-	-	-	5,348
Plant & Equipment	-	18,587	11,289	-	7,298	1,763	(999)	(1,775)	-	-	18,812	12,525	-	6,287
Office Equipment	-	2,225	1,230	-	995	292	-	(249)	-	-	2,517	1,479	-	1,038
Furniture & Fittings	-	1,252	1,067	-	185	6	-	(50)	-	-	1,258	1,117	-	141
Plant & Equipment (under Finance Lease)	-	-	-	-	-	-	-	-	-	-	281	281	-	-
Land:														
- Operational Land	-	44,114	-	-	44,114	-	-	-	-	-	44,114	-	-	44,114
- Community Land	-	23,803	-	-	23,803	-	-	-	-	-	23,803	-	-	23,803
- Land under Roads (post 30/6/08)	-	522	-	-	522	198	-	-	-	-	720	-	-	720
Buildings - Non Specialised	-	73,352	8,454	-	64,898	618	-	(775)	-	-	73,970	9,229	-	64,741
Buildings - Specialised	-	3,207	1,370	-	1,837	5	-	(50)	-	-	3,211	1,419	-	1,792
Other Structures	-	13,185	3,495	-	9,690	1,004	-	(675)	-	-	14,189	4,170	-	10,019
Infrastructure:														
- Roads, Bridges, Footpaths	-	563,750	118,656	-	445,094	4,081	(2,827)	(10,448)	1,272	-	565,537	128,365	-	437,172
- Stormwater Drainage	-	52,846	11,185	-	41,661	511	-	(666)	-	-	53,358	11,852	-	41,506
Other Assets:														
- Library Books	-	4,272	3,325	-	947	217	-	(139)	-	-	4,489	3,464	-	1,025
- 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.	1,272	809,518	168,471	-	642,319	14,043	(3,826)	(14,827)	-	5,348	814,662	182,301	-	637,709

Additions to Depreciable Land Improvements, Buildings, Other Structures & Infrastructure Assets are made up of Asset Renewals (\$10,893) and New Assets (\$674). Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2012

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

\$ '000 Class of Asset	Actual 2012				Actual 2011			
	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	1,126	445	-	1,571	800	771
Land								
- Operational Land'	-	2,682	-	2,682	-	2,682	-	2,682
Buildings	-	69	8	61	-	69	8	61
Total DWM	-	4,322	1,134	3,188	-	4,322	808	3,514
TOTAL RESTRICTED I,PP&E	-	4,322	1,134	3,188	-	4,322	808	3,514

Note 9c. Infrastructure, Property, Plant & Equipment - Current Year Impairments

Council has recognised no impairment losses during the reporting period nor reversed any prior period losses.

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2012

Note 10a. Payables, Borrowings & Provisions

\$ '000	Notes	2012		2011	
		Current	Non Current	Current	Non Current
Payables					
Goods & Services - operating expenditure		3,940	-	3,568	-
Payments Received In Advance		3,546	484	1,680	472
Accrued Expenses:					
- Salaries & Wages		259	-	477	-
- Other Expenditure Accruals		503	-	666	-
Security Bonds, Deposits & Retentions		667	-	673	-
Trust Fund		134	-	149	-
Total Payables		9,049	484	7,213	472
Borrowings					
Loans - Secured ¹		938	9,025	935	8,119
Total Borrowings		938	9,025	935	8,119
Provisions					
Employee Benefits;					
Annual Leave		1,846	-	1,778	-
Sick Leave		544	-	604	-
Long Service Leave		4,228	115	4,077	114
Sub Total - Aggregate Employee Benefits		6,618	115	6,459	114
Asset Remediation/Restoration (Future Works) ²⁶		-	11,241	-	11,241
Total Provisions		6,618	11,356	6,459	11,355
Total Payables, Borrowings & Provisions		16,605	20,865	14,607	19,946

(i) Liabilities relating to Restricted Assets

	2012		2011	
	Current	Non Current	Current	Non Current
Externally Restricted Assets				
Domestic Waste Management	80	-	75	-
Liabilities relating to externally restricted assets	80	-	75	-
Internally Restricted Assets				
Nil				
Total Liabilities relating to restricted assets	80	-	75	-

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 2012

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

\$ '000	2012	2011
(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	4,179	4,032
Payables - Security Bonds, Deposits & Retentions	567	571
Other Liabilities: Trust Fund Deposits	52	52
	4,798	4,655

Note 10b. Description of and movements in Provisions

Class of Provision	2011		2012			
	Opening Balance as at 1/7/11	Additional Provisions	Decrease due to Payments	Remeasurement effects due to Discounting	Unused amounts reversed	Closing Balance as at 30/6/12
Annual Leave	1,778	1,344	(1,276)	-	-	1,846
Sick Leave	604	774	(834)	-	-	544
Long Service Leave	4,191	752	(600)	-	-	4,343
Asset Remediation	11,241	-	-	-	-	11,241
TOTAL	17,814	2,870	(2,710)	-	-	17,974

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 2012

Note 11. Statement of Cash Flows - Additional Information

\$ '000	Notes	Actual 2012	Actual 2011
(a) Reconciliation of Cash Assets			
Total Cash & Cash Equivalent Assets	6a	12,041	14,512
Less Bank Overdraft	10	-	-
BALANCE as per the STATEMENT of CASH FLOWS		12,041	14,512
(b) Reconciliation of Net Operating Result to Cash provided from Operating Activities			
Net Operating Result from Income Statement		(5,826)	(2,898)
Adjust for non cash items:			
Depreciation & Amortisation		14,827	14,388
Net Losses/(Gains) on Disposal of Assets		3,060	3,054
Non Cash Capital Grants and Contributions		(198)	(294)
Losses/(Gains) recognised on Fair Value Re-measurements through the P&L:			
- Investments classified as "At Fair Value" or "Held for Trading"		580	(770)
+/- Movement in Operating Assets and Liabilities & Other Cash Items:			
Decrease/(Increase) in Receivables		(240)	1,395
Increase/(Decrease) in Provision for Doubtful Debts		9	14
Decrease/(Increase) in Inventories		(34)	55
Decrease/(Increase) in Other Assets		(19)	64
Increase/(Decrease) in Payables		372	(885)
Increase/(Decrease) in other accrued Expenses Payable		(381)	122
Increase/(Decrease) in Other Liabilities		1,857	(221)
Increase/(Decrease) in Employee Leave Entitlements		160	20
NET CASH PROVIDED FROM/(USED IN) OPERATING ACTIVITIES from the STATEMENT of CASH FLOWS		14,167	14,044

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2012

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

\$ '000	Notes	Actual 2012	Actual 2011
(c) Non-Cash Investing & Financing Activities			
Other Dedications		198	294
Total Non-Cash Investing & Financing Activities		198	294
(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	100
Total Financing Arrangements		1,100	1,100
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 2012

Note 12. Commitments for Expenditure

\$ '000	Notes	Actual 2012	Actual 2011
(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			
Regional Roads Timber Bridge Program		-	744
Kurri Kurri Skate Park		244	-
Kurri Kurri Central Oval Amenities Block		513	-
Total Commitments		757	744
These expenditures are payable as follows:			
Within the next year		757	744
Later than one year and not later than 5 years		-	-
Later than 5 years		-	-
Total Payable		757	744
Sources for Funding of Capital Commitments:			
Unrestricted General Funds		187	744
Sect 64 & 94 Funds/Reserves		437	-
Unexpended Grants		133	-
Total Sources of Funding		757	744

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 12. Commitments for Expenditure (continued)

\$ '000	Notes	Actual 2012	Actual 2011
(b) Finance Lease Commitments			
Nil			
(c) Operating Lease Commitments (Non Cancellable)			
a. Commitments under Non Cancellable Operating Leases at the Reporting date, but not recognised as Liabilities are payable:			
Within the next year		190	228
Later than one year and not later than 5 years		232	359
Later than 5 years		-	6
Total Non Cancellable Operating Lease Commitments		422	593

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.

(d) Investment Property Commitments

Nil

(e) Investment in Associates / Joint Ventures - Commitments

For Capital Commitments and Other Commitments relating to Investments in Associates & Joint Ventures, refer to Note 19 (b)

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2012

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

\$ '000	Amounts 2012	Indicator 2012	Prior Periods 2011 2010	
Local Government Industry Indicators				
1. Unrestricted Current Ratio				
Current Assets less all External Restrictions ⁽¹⁾	<u>19,782</u>	1.69 : 1	1.91	1.91
Current Liabilities less Specific Purpose Liabilities ^(2,3)	<u>11,727</u>			
2. Debt Service Ratio				
Debt Service Cost	<u>1,653</u>	2.98%	3.61%	3.62%
Income from Continuing Operations excluding Capital Items & Specific Purpose Grants/Contributions	<u>55,502</u>			
3. Rates & Annual Charges Coverage Ratio				
Rates & Annual Charges	<u>35,833</u>	58.31%	57.43%	54.48%
Income from Continuing Operations	<u>61,457</u>			
4. Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage				
Rates, Annual & Extra Charges Outstanding	<u>1,984</u>	5.15%	6.11%	5.49%
Rates, Annual & Extra Charges Collectible	<u>38,504</u>			
5. Building & Infrastructure Renewals Ratio				
Asset Renewals ⁽⁴⁾	<u>10,893</u>	91.24%	90.12%	212.33%
Depreciation, Amortisation & Impairment	<u>11,939</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).


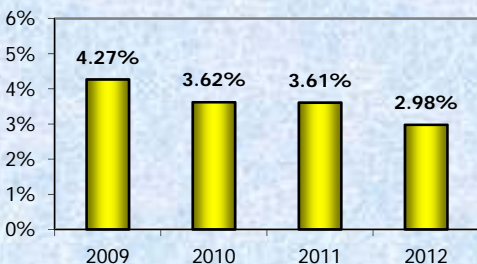
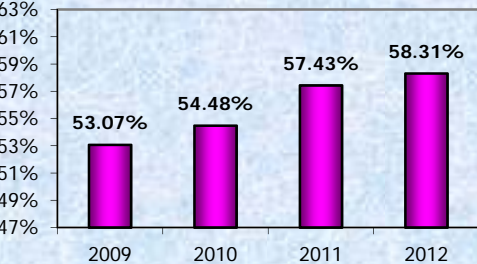
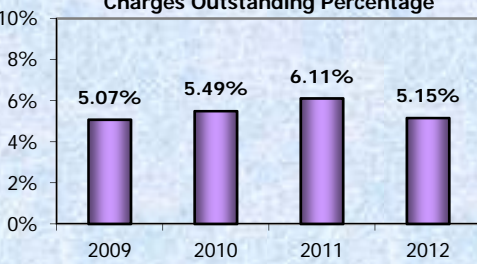
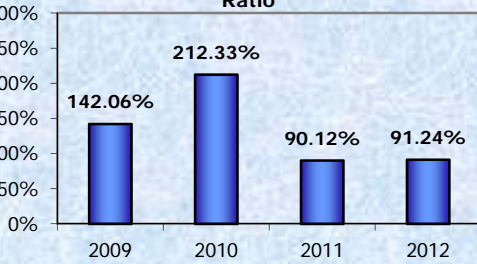
(3) Refer to Note 10(a)(ii) - excludes all payables & provisions not expected to be paid in the next 12 months (incl. ELE).

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

Cessnock City Council

Notes to the Financial Statements for the financial year ended 30 June 2012

Note 13a(ii). 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>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> <tr> <td>2012</td> <td>1.69</td> </tr> </tbody> </table>	Year	Ratio : 1	2009	2.06	2010	1.91	2011	1.91	2012	1.69	<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 2011/12 Result</p> <p>2011/12 Ratio 1.69 : 1</p> <p>The ratio between current assets and current liabilities has decreased slightly from that in 2010/11. This ratio still represents a satisfactory level of working capital.</p>
Year	Ratio : 1											
2009	2.06											
2010	1.91											
2011	1.91											
2012	1.69											
<p>2. Debt Service Ratio</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio %</th> </tr> </thead> <tbody> <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> <tr> <td>2012</td> <td>2.98%</td> </tr> </tbody> </table>	Year	Ratio %	2009	4.27%	2010	3.62%	2011	3.61%	2012	2.98%	<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 2011/12 Result</p> <p>2011/12 Ratio 2.98%</p> <p>Debt Service Ratio has decreased from that in 2010/11, highlighting a relatively low level of demand on discretionary revenue for loan repayments. This ratio is considered to be a good result.</p>
Year	Ratio %											
2009	4.27%											
2010	3.62%											
2011	3.61%											
2012	2.98%											
<p>3. Rates & Annual Charges Coverage Ratio</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio %</th> </tr> </thead> <tbody> <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> <tr> <td>2012</td> <td>58.31%</td> </tr> </tbody> </table>	Year	Ratio %	2009	53.07%	2010	54.48%	2011	57.43%	2012	58.31%	<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 2011/12 Result</p> <p>2011/12 Ratio 58.31%</p> <p>Council's dependence on rates and annual charges for income compared to other sources of income remains relatively high. This ratio has increased due to rates and charges income increasing at a greater rate than total income from operations.</p>
Year	Ratio %											
2009	53.07%											
2010	54.48%											
2011	57.43%											
2012	58.31%											
<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>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> <tr> <td>2012</td> <td>5.15%</td> </tr> </tbody> </table>	Year	Ratio %	2009	5.07%	2010	5.49%	2011	6.11%	2012	5.15%	<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 2011/12 Result</p> <p>2011/12 Ratio 5.15%</p> <p>A decrease in this ratio occurred in 2011/12 which is a good result on Council's continued effort on collection of outstanding monies.</p>
Year	Ratio %											
2009	5.07%											
2010	5.49%											
2011	6.11%											
2012	5.15%											
<p>5. Building & Infrastructure Renewals Ratio</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio %</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>142.06%</td> </tr> <tr> <td>2010</td> <td>212.33%</td> </tr> <tr> <td>2011</td> <td>90.12%</td> </tr> <tr> <td>2012</td> <td>91.24%</td> </tr> </tbody> </table>	Year	Ratio %	2009	142.06%	2010	212.33%	2011	90.12%	2012	91.24%	<p>Purpose of Asset 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>2011/12 Ratio 91.24%</p> <p>Council's continued effort in asset renewals is reflected in this ratio.</p>
Year	Ratio %											
2009	142.06%											
2010	212.33%											
2011	90.12%											
2012	91.24%											

Cessnock City Council

Notes to the Financial Statements for the financial year ended 30 June 2012

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	
	2012	2011	2012	2011
Financial Assets				
Cash and Cash Equivalents	12,041	14,512	12,041	14,512
Investments				
- "Held for Trading"	415	2,995	415	2,995
- "Held to Maturity"	7,545	1,045	7,545	1,045
Receivables	5,311	5,118	5,311	5,118
Total Financial Assets	25,312	23,670	25,312	23,670
Financial Liabilities				
Payables	5,503	5,533	5,503	5,533
Loans / Advances	9,963	9,054	9,963	9,054
Total Financial Liabilities	15,466	14,587	15,466	14,587

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 2012

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 Accumulated Surplus (for the reporting period) due to a change in either the price of a financial asset or the interest rates applicable.

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

	Increase of Values/Rates		Decrease of Values/Rates	
	Profit	Equity	Profit	Equity
2012				
Possible impact of a 10% movement in Market Values	42	42	(42)	(42)
Possible impact of a 1% movement in Interest Rates	180	180	(180)	(180)
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)

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

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.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

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

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

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

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

	2012	2012	2011	2011
	Rates & Annual Charges	Other Receivables	Rates & Annual Charges	Other Receivables
(i) Ageing of Receivables				
Current (not yet overdue)	-	2,478	-	2,026
Overdue	1,736	1,448	1,986	1,448
	<u>1,736</u>	<u>3,926</u>	<u>1,986</u>	<u>3,474</u>
(ii) Movement in Provision for Impairment of Receivables			2012	2011
Balance at the beginning of the year			342	328
+ new provisions recognised during the year			9	14
Balance at the end of the year			<u>351</u>	<u>342</u>

Cessnock City Council

Notes to the Financial Statements for the financial year ended 30 June 2012

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			
2012									
Trade/Other Payables	667	4,836						5,503	5,503
Loans & Advances	-	938	1,264	925	924	923	4,989	9,963	9,963
Total Financial Liabilities	667	5,774	1,264	925	924	923	4,989	15,466	15,466
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

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:

	2012		2011	
	Carrying Value	Average Interest Rate	Carrying Value	Average Interest Rate
Trade/Other Payables	5,503	0.0%	5,533	0.0%
Loans & Advances - Fixed Interest Rate	9,963	7.1%	9,054	7.2%
	<u>15,466</u>		<u>14,587</u>	

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 16. Material Budget Variations

\$ '000

Council's Original Financial Budget for 11/12 was adopted by the Council on 29 June 2011.

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	2012 Budget	2012 Actual	2012 ----- Variance* -----		
REVENUES					
Rates & Annual Charges	35,678	35,833	155	0%	F
User Charges & Fees	7,033	10,390	3,357	48%	F
Regulatory / Statutory Fees	68K (F)	Cemetery Fees		14K (U)	
RMS Income	2,622K (F)	Swimming Pool Fees		23K (F)	
Town Planning Fees	140K (F)	Performing Arts Ctr Income		114K (F)	
Garbage Tipping Fees	361K (F)	Environmental Health		30K (F)	
Aerodrome Income	16K (F)	Public Libraries Income		10K (F)	
Sewage Management Fees	10K (U)				
Interest & Investment Revenue	985	533	(452)	(46%)	U
Interest on Overdue Rates and Charges	57K (F)	Interest on Investments		71K (F)	
Fair Value Adjustments on Investments	580K (U)				
Other Revenues	729	1,452	723	99%	F
Income from Fines	15K (U)	Sundry Sales		11K (F)	
Lease Rentals	144K (F)	Diesel Fuel Rebate		8K (U)	
Legal Fees Recovery	17K (U)	Wine Interpretive Ctr Reimbursements		49K (F)	
Insurance Claims	401K (F)	Section 355 Committees		160K (F)	
Operating Grants & Contributions	10,397	10,933	536	5%	F

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2012

Note 16. Material Budget Variations (continued)

\$ '000	2012 Budget	2012 Actual	2012 Variance*	
REVENUES (continued)				
Capital Grants & Contributions	607	2,316	1,709	282% F
Section 94 Contributions	1,195K (F)	Pacific National Roadworks Greta		164K (F)
RMS Roadworks Contributions	20K (U)	RLCIP Commonwealth Grant		232K (F)
Kerb and Gutter Contributions	49K (U)	CPTIGS Bus Shelters Grant		110K (F)
Community Building Partnership Grant	50K (F)	Library Special Projects Grant		59K (F)
Flood Study Grants	62K (U)	Dept Sport & Rec Grant		14K (F)
Net Gains from Disposal of Assets	120	-	(120)	(100%) U
Sale of Land included in Budget did not proceed 120K (U)				
EXPENSES				
Employee Benefits & On-Costs	24,642	22,662	1,980	8% F
Borrowing Costs	698	672	26	4% F
Materials & Contracts	8,579	14,453	(5,874)	(68%) U
Expenses exceeded the original budget primarily due to works undertaken using new grants received after the original budget was adopted eg RMS works.				
Also:				
Computer Lease / Rentals	30K (U)	Legal Expenses - Planning & Development		489K (U)
Depreciation & Amortisation	8,243	14,827	(6,584)	(80%) U
Depreciation Expense was more than original budget due to a revision being carried out of Council's Asset Management System. The overall increase in the depreciation expense was as a result of the incorrect application of a "condition based adjustment" in the FY10/11. This "condition based adjustment" is an asset management system application only appropriate in a revaluation year (ie FY09/10) and should not have been applied in FY10/11. In FY11/12 useful lives for road assets have been adjusted to reflect actual expected useful lives based on asset age and current condition. Had the FY10/11 depreciation not included the condition based adjustment, the FY11/12 depreciation would have been significantly reduced.				
Other Expenses	10,183	11,609	(1,426)	(14%) U
Motor Auctions Doubtful Debt	82K (U)	Election Expenses		14K (U)
Insurances	70K (F)	NSW Fire Brigade Levy		19K (U)
Street Lighting	63K (U)	NSW Rural Fire Services Levy		102K (F)
Electricity Charges	48K (U)	NSW Govt Waste Levy Payments		1,189K (U)
Telephone Charges	28K (U)	RSPCA Contributions		31K (F)
Advertising	60K (U)	Section 355 Committees (not budgetted)		125K (U)
Net Losses from Disposal of Assets	-	3,060	(3,060)	0% U

Cessnock City Council

Notes to the Financial Statements for the financial year ended 30 June 2012

Note 16. Material Budget Variations (continued)

\$ '000	2012 Budget	2012 Actual	2012 ----- Variance* -----		
Budget Variations relating to Council's Cash Flow Statement include:					
Cash Flows from Operating Activities	13,200	14,167	967	7.3%	F
Cash Flows from Investing Activities	(16,300)	(17,547)	(1,247)	7.7%	U
Cash Flows from Financing Activities	909	909	-	0.0%	F

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

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	68	-	-	4	-	-	72	500	(572)	-	-
Roads	669	346	-	39	(222)	-	832	40,803	(41,635)	-	-
Traffic Facilities	20	-	-	1	-	-	21	1,490	(1,511)	-	-
Parking	302	-	-	12	-	-	314	-	(314)	-	-
Open Space	494	286	-	48	(36)	-	792	19,973	(20,765)	-	-
Community Facilities	298	234	-	17	(95)	-	454	14,972	(15,426)	-	-
Tourist Facilities	438	53	-	49	-	-	540	30	(570)	-	-
Other	200	84	-	11	(60)	-	235	1,489	(1,724)	-	-
S94 Contributions - under a Plan	2,489	1,003	-	181	(413)	-	3,260	79,257	(82,517)	-	-
S94A Levies - under a Plan	-	-	-	-	-	-	-				-
Total S94 Revenue Under Plans	2,489	1,003	-	181	(413)	-	3,260	79,257	(82,517)		-
S94 not under Plans	365	-	-	15	-	-	380	-	(380)	-	-
S93F Planning Agreements	-	192	-	5	-	-	197	12,803	(13,000)		-
Total Contributions	2,854	1,195	-	201	(413)	-	3,837	92,060	(95,897)	-	-

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

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	10	-	-	1	-	-	11	-	(11)	-	-
Community Facilities	56	-	-	2	-	-	58	-	(58)	-	-
Other	12	-	-	-	-	-	12	-	(12)	-	-
Total	78	-	-	3	-	-	81	-	(81)	-	-

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	130	-	-	17	-	-	147	-	(147)	-	-
Total	130	-	-	17	-	-	147	-	(147)	-	-

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	20	-	-	1	-	-	21	-	(21)	-	-
Total	20	-	-	1	-	-	21	-	(21)	-	-

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

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	31	-	-	2	-	-	33	-	(33)	-	-
Total	31	-	-	2	-	-	33	-	(33)	-	-

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	302	-	-	12	-	-	314	-	(314)	-	-
Other	17	-	-	1	(4)	-	14	-	(14)	-	-
Total	319	-	-	13	(4)	-	328	-	(328)	-	-

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	37	-	-	2	-	-	39	-	(39)	-	-
Roads	390	253	-	26	(94)	-	575	150	(725)	-	-
Open Space	494	286	-	48	(36)	-	792	200	(992)	-	-
Community Facilities	242	234	-	15	(95)	-	396	150	(546)	-	-
Other	122	79	-	7	(48)	-	160	60	(220)	-	-
Total	1,285	852	-	98	(273)	-	1,962	560	(2,522)	-	-

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

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	196	70	-	5	(128)	-	143	50	(193)	-	-
Tourist Facilities	308	53	-	32	-	-	393	30	(423)	-	-
Other	49	5	-	3	(8)	-	49	5	(54)	-	-
Total	553	128	-	40	(136)	-	585	85	(670)	-	-

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	73	23	-	7	-	-	103	20	(123)	-	-
Total	73	23	-	7	-	-	103	20	(123)	-	-

Site Specific Contributions Plans 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 2012

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	78	-	-	3	-	-	81	-	(81)	-	-
Roads	287	-	-	12	-	-	299	-	(299)	-	-
Total	365	-	-	15	-	-	380	-	(380)	-	-

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	-	-	-	-	-	-	-	6,800	(6,800)	-	-
Traffic Facilities	-	-	-	-	-	-	-	1,550	(1,550)	-	-
Open Space	-	-	-	-	-	-	-	1,900	(1,900)	-	-
Community Facilities	-	192	-	5	-	-	197	2,553	(2,750)	-	-
Total	-	192	-	5	-	-	197	12,803	(13,000)	-	-

Cessnock City Council

Notes to the Financial Statements for the financial year ended 30 June 2012

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.

The share of this deficit that can be broadly attributed to this organisation was estimated to be in the order of \$3,319,925 as at 30 June 2012.

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 2012 was \$1,173,348. 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 2012 a deficit still exists. Effective from 1 July 2009, employers are required to contribute additional contributions to assist in extinguishing this deficit. The amount of additional contributions included in the total employer contribution advised above is \$428,169.

(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 Councils 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 June 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.

(iv) 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 2012

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 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 2012

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

\$ '000

19 Joint Venture Operations

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

Name of Operation	Principal Activity	Councils Interests in Outputs of JVO's
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) Council Assets employed in the Joint Venture Operations	2012	2011
Council's share of assets jointly owned with other partners		
Current Assets	42	29
Current Liabilities	(41)	(98)
Other Non Current Assets	344	350
Non Current Liabilities	(243)	(207)
Total Net Assets Employed - Council & Jointly Owned	102	74

(e) Share of Joint Ventures Revenues, Expenses & Results

	2012			2011		
	Revenues	Expenses	Result	Revenues	Expenses	Result
Hunter Councils Limited	118	93	25	97	80	17
Totals	118	93	25	97	80	17

(c) Share of Joint Venture Operations Expenditure Commitments	2012	2011
Operating Expenditure Commitments		
Payable Not Later than 1 Year	-	2
Payable Later than 1 Year but not later than 5 Years	-	-
Payable Later than 5 Years	-	-
Total Operating Expenditure Commitments	-	2

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2012

Note 20. Equity - Retained Earnings and Revaluation Reserves

\$ '000	Notes	Actual 2012	Actual 2011
a. Retained Earnings			
Movements in Retained Earnings were as follows:			
Balance at beginning of Year (from previous years audited accounts)		407,831	419,034
a. Correction of Prior Period Errors	20 (c)	-	(9,918)
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		(5,826)	(2,898)
e. Distributions to/(Contributions from) Minority Interests		-	-
f. Transfers between Equity		-	-
Balance at End of the Reporting Period		<u>402,005</u>	<u>407,831</u>
b. Reserves			
(i) Reserves are represented by:			
- Infrastructure, Property, Plant & Equipment Revaluation Reserve		<u>227,725</u>	<u>227,725</u>
Total		<u>227,725</u>	<u>227,725</u>
(ii). Reconciliation of movements in Reserves:			
Infrastructure, Property, Plant & Equipment Revaluation Reserve			
- Opening Balance		227,725	213,511
- Revaluations for the year	9(a)	-	14,214
- Balance at End of Year		<u>227,725</u>	<u>227,725</u>
TOTAL VALUE OF RESERVES		<u>227,725</u>	<u>227,725</u>
(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 2012

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

\$ '000	Notes	Actual 2012	Actual 2011
c. Correction of Error/s relating to a Previous Reporting Period			
Correction of errors as disclosed in last year's financial statements:			
- Other Structures decrease to accumulated depreciation (as a result of reviewing the assets Fair Value)			(1,680)
<p>Council does not have sufficient and reliable information that will allow the restatement of information prior to 30/6/11 (the closing date for the comparative figures in this report).</p> <p>As a result, Council has adjusted the accumulated depreciation for the following asset classes as at 30/6/11 to reflect the correct value of accumulated depreciation;</p>			
Roads, Bridges, Drainage Asset Class (increase) to accumulated depreciation for year ended June 2010 due to resetting useful lives of road surfaces. This also resulted in an adjustment to depreciation in the 2011 financial year of \$8.017m which changed the net operating result from \$5.119m to a loss of \$2.898m. This restatement has been reflected in the 30 June 2011 comparatives.			(8,238)
<p>In accordance with AASB 108 - Accounting Policies, Changes in Accounting Estimates and Errors, the above Prior Period Errors have been recognised retrospectively.</p> <p>These amounted to the following Equity Adjustments:</p>			
- Adjustments to Opening Equity - 1/7/10 (relating to adjustments for the 30/6/10 reporting year end and prior periods) Please note that in the Statement of Changes in Equity for 2011 a. Correction of Prior Period Errors these adjustments being \$1.680m discovered in 2011 and \$8.238m that give rise to an adjustment to opening retained earnings. The adjustments relate to an error with respect to depreciation recognised in relation to roads, bridges and drainage assets.		-	(9,918)
- Adjustments to Closing Equity - 30/6/11 (relating to adjustments for the 30/6/11 year end)		-	-
Total Prior Period Adjustments - Prior Period Errors		-	(9,918)

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 2012

Note 21. Financial Result & Financial Position by Fund

Income Statement by Fund \$ '000	Actual 2012	Actual 2012	Actual 2012	Actual 2012
	DWM	Water	Sewer	General ¹
Continuing Operations				
Income from Continuing Operations				
Rates & Annual Charges	5,293	-	-	30,540
User Charges & Fees	929	-	-	9,461
Interest & Investment Revenue	-	-	-	533
Other Revenues	-	-	-	1,452
Grants & Contributions provided for Operating Purposes	190	-	-	10,743
Grants & Contributions provided for Capital Purposes	-	-	-	2,316
Total Income from Continuing Operations	6,412	-	-	55,045
Expenses from Continuing Operations				
Employee Benefits & on-costs	699	-	-	21,963
Borrowing Costs	-	-	-	672
Materials & Contracts	5,466	-	-	8,987
Depreciation & Amortisation	275	-	-	14,552
Impairment	-	-	-	-
Other Expenses	-	-	-	11,609
Net Losses from the Disposal of Assets	-	-	-	3,060
Share of interests in Joint Ventures & Associates using the Equity Method	-	-	-	-
Total Expenses from Continuing Operations	6,440	-	-	60,843
Operating Result from Continuing Operations	(28)	-	-	(5,798)
Discontinued Operations				
Net Profit/(Loss) from Discontinued Operations	-	-	-	-
Net Operating Result for the Year	(28)	-	-	(5,798)
Net Operating Result attributable to each Council Fund	(28)	-	-	(5,798)
Net Operating Result attributable to Minority Interests	-	-	-	-
Net Operating Result for the year before Grants and Contributions provided for Capital Purposes	(28)	-	-	(8,114)

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

* DWM represents Domestic Waste Management Operations

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 2012

Note 21. Financial Result & Financial Position by Fund

Balance Sheet by Fund \$ '000	Actual 2012	Actual 2012	Actual 2012	Actual 2012
ASSETS	DWM	Water	Sewer	General¹
Current Assets				
Cash & Cash Equivalents	844	-	-	11,197
Investments	-	-	-	7,545
Receivables	826	-	-	4,419
Inventories	-	-	-	340
Other	-	-	-	553
Non-current assets classified as 'held for sale'	-	-	-	-
Total Current Assets	1,670	-	-	24,054
Non-Current Assets				
Investments	-	-	-	415
Receivables	-	-	-	66
Inventories	-	-	-	3,286
Infrastructure, Property, Plant & Equipment	3,381	-	-	634,328
Investment Property	-	-	-	-
Intangible Assets	-	-	-	-
Other	-	-	-	-
Total Non-Current Assets	3,381	-	-	638,095
TOTAL ASSETS	5,051	-	-	662,149
LIABILITIES				
Current Liabilities				
Payables	-	-	-	9,049
Borrowings	-	-	-	938
Provisions	445	-	-	6,173
Total Current Liabilities	445	-	-	16,160
Non-Current Liabilities				
Payables	-	-	-	484
Borrowings	-	-	-	9,025
Provisions	4,496	-	-	6,860
Total Non-Current Liabilities	4,496	-	-	16,369
TOTAL LIABILITIES	4,941	-	-	32,529
Net Assets	110	-	-	629,620
EQUITY				
Retained Earnings	110	-	-	401,895
Revaluation Reserves	-	-	-	227,725
Total Equity	110	-	-	629,620

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

* DWM represents Domestic Waste Management Operations

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 2012

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 2012, 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 31/10/12.

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 2012.

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

These financial statements (& figures therein) do not incorporate any "non adjusting events" that have occurred after 30 June 2012 and which are only indicative of conditions that arose after 30 June 2012.

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".

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2012

Note 25. Intangible Assets

\$ '000

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.

Note 26. Reinstatement, Rehabilitation & Restoration Liabilities

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

Asset/Operation	Estimated year of restoration	NPV of Provision	
		2012	2011
Tip Site - Cessnock		11,241	11,241
Balance at End of the Reporting Period	10(a)	<u>11,241</u>	<u>11,241</u>

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	<u>11,241</u>	<u>11,241</u>

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 2012

Note 27. Financial Review

\$ '000

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

Financial Performance Figures	2012	2011	2010	2009	2008
Inflows:					
Rates & Annual Charges Revenue	35,833	33,901	32,512	30,249	27,511
User Charges Revenue	10,390	7,760	9,758	10,330	10,043
Interest & Investment Revenue (Losses)	533	1,833	2,061	507	(1,439)
Grants Income - Operating & Capital	9,197	9,385	10,275	10,436	12,225
Total Income from Continuing Operations	61,457	59,027	59,635	56,993	54,473
Sale Proceeds from I,PP&E	766	1,707	2,263	2,368	2,606
New Loan Borrowings & Advances	1,890	1,431	500	500	6,500
Outflows:					
Employee Benefits & On-cost Expenses	22,662	22,037	22,079	20,686	18,522
Borrowing Costs	672	602	633	1,164	912
Materials & Contracts Expenses	14,453	12,721	14,017	15,923	18,197
Total Expenses from Continuing Operations	67,283	61,925	53,165	53,489	52,981
Total Cash purchases of I,PP&E	13,845	16,955	14,289	15,755	17,645
Total Loan Repayments (incl. Finance Leases)	981	1,269	1,267	1,403	1,514
Operating Surplus/(Deficit) (excl. Capital Income)	(8,142)	(6,538)	3,292	(674)	(1,951)
Financial Position Figures	2012	2011	2010	2009	2008
Current Assets	25,724	22,911	23,830	19,916	18,286
Current Liabilities	16,605	14,607	15,922	13,856	12,918
Net Current Assets	9,119	8,304	7,908	6,060	5,368
Available Working Capital (Unrestricted Net Current Assets)	(2,318)	(561)	591	2,063	2,921
Cash & Investments - Unrestricted	1,354	1,512	1,634	3,930	575
Cash & Investments - Internal Restrictions	13,110	12,208	12,316	10,102	11,501
Cash & Investments - Total	20,001	18,552	18,858	19,895	17,335
Total Borrowings Outstanding (Loans, Advances & Finance Leases)	9,963	9,054	8,892	9,659	10,562
Total Value of I,PP&E (excl. Land & Earthworks)	751,373	742,351	732,342	432,084	422,711
Total Accumulated Depreciation	182,301	168,471	149,874	120,027	209,625
Indicative Remaining Useful Life (as a % of GBV)	76%	77%	80%	72%	50%

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 2012

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 Michael Brady

PUBLIC OFFICER

Mr Michael Brady

AUDITORS

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

PO Box 234 Newcastle

Other Information

ABN: 60 919 148 928

Elected Members

MAYOR

Councillor Alison Davey

COUNCILLORS

Councillor Cordelia Burcham

Councillor Neil Gorman

Councillor James Hawkins

Councillor Rachel Main

Councillor Jeff Maybury

Councillor Allan McCudden

Councillor Ian Olsen

Councillor Chris Parker

Councillor Bob Pynsent

Councillor James Ryan

Councillor Graham Smith

Councillor Dale Troy (resigned 28/6/2012)



**INDEPENDENT AUDITOR'S REPORT
TO CESSNOCK CITY COUNCIL
S417(2) REPORT ON THE GENERAL PURPOSE FINANCIAL STATEMENTS**

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 2012, 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 in the approved form as required by Section 413(2) of the *Local Government Act 1993*.

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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**INDEPENDENT AUDITOR'S REPORT
TO CESSNOCK CITY COUNCIL
S417(2) REPORT ON THE GENERAL PURPOSE FINANCIAL STATEMENTS**

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.

Basis for Qualified Opinion

The Council and certain councillors are currently subject to an Independent Commission against Corruption (ICAC) investigation. We were unable to obtain sufficient appropriate audit evidence with respect to any potential financial impact as we were unable to access all available information with respect to these matters as the Council was precluded in providing this information to us under the provisions of the *Public Interest Disclosures Act 1994*. Consequently, we were unable to determine whether any adjustments to the financial statements were necessary as at 30 June 2012.

The non disclosure in the financial statements with respect to these matters and any potential contingent liabilities or financial impacts that may arise represents a departure from AASB 137 '*Provisions, Contingent Liabilities and Contingent Assets*.' Paragraph 92 of the standard requires 'In extremely rare cases, disclosure of some or all of the information required by paragraphs 84-89 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.'

Qualified Audit Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph:

- (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 other 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.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Cessnock City Council (the Council) for the year ended 30 June 2012 included on Cessnock City Council's website. The Council's councillors are responsible for the integrity of the Cessnock City Council web site. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from this financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this website.

PROSPERITY AUDIT SERVICES

LUKE MALONE
Partner
31 October 2012
Sydney



CCC 300612: 20-224
LM/GdN

31 October 2012

The Mayor
Councillor B Pynsent
Cessnock City Council
PO Box 152
CESSNOCK NSW 2325

Dear Councillor Pynsent,

**SUBJECT: SECTION 417(3)
REPORT ON THE CONDUCT OF THE AUDIT
FOR THE YEAR ENDED 30 JUNE 2012**

We have completed the audit of the financial report for Cessnock City Council for the year ended 30 June 2012 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 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 2012 was a loss of \$5.8M compared with a loss of \$2.8M for the year ended 30 June 2011.

The difference to the prior year result is primarily due to an increase in materials and contracts expense, depreciation and amortisation expense, legal expenses and raw materials and consumables costs.

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

	Note	2012 \$'000	2011 \$'000
INCOME			
Rates & annual charges	(i)	35,833	33,901
User charges & fees	(ii)	10,390	7,760
Investment revenue	(iii)	533	1,833
Other revenues		1,452	1,267
Grants & contributions - operating		10,933	10,626
Grants & contributions - capital		2,316	3,640
		61,457	59,027

	Note	2012 \$'000	2011 \$'000
EXPENSES			
Employee costs	(iv)	22,662	22,037
Borrowing costs		672	602
Materials & contracts	(v)	14,453	12,721
Depreciation & amortisation	(vi)	14,827	14,388
Other expenses	(vii)	11,609	9,123
Loss on disposal of assets	(viii)	3,060	3,054
		67,823	61,925
Net operating result		(5,826)	(2,898)

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

(i) Rates & Annual Charges

Rates and annual charges increased by \$1.9M (5.7%) from the prior year. This increase was in line with the Council's standard annual rate increases.

(ii) User Charges & Fees

User charges and fees increased by \$2.6M (33.9%) from the prior year. This was primarily attributable to the increased road works conducted for RMS when compared to the prior year.

(iii) Investment revenue

Investment revenues decreased by \$1.3M (70.9%) from the prior year. Interest on investments and interest on overdue rates have remained materially consistent year on year. The majority of the decrease is reflective of the fair value decrement of \$580k on other investments as against a gain of \$770k in the same asset class in the prior year.

(vi) Employee Costs

Employee costs increased by \$625k from the prior year and this is primarily attributable to the CPI increase of 2.15% for all employees during the year.

(v) Materials & Contracts Expense

Materials and contracts expense has increased by \$1.7M (13.6%) from the prior year. This increase is in part attributable to an increase in legal expenses of approximately \$800k. Increased legal fees have been incurred in the current year by the Council as a result of various ongoing legal matters. Further contributing to the increase is an increase in materials and contracts of \$700k.

vi) Depreciation

Total depreciation expense for the year increased by \$439K (3.1%) compared to the prior period. This was primarily attributable to an increase in depreciation for the Council's roads, bridges and footpaths.

(vii) Other Expenses

Other expense increased by \$2.5M (27.2%) from the prior year and this was attributable to an increase in the waste levy charge of \$1.5M and RSPCA Contributions expense of \$1M.

(viii) Loss on Disposal of Assets

During the year, the Council disposed of approximately \$2.8M of road, bridge and footpath assets, mainly in relation to assets which have been replaced. This is materially consistent with the prior year loss on disposal of assets.

2. **Statement of Comprehensive Income**

	Note	2012 \$'000	2011 \$'000
COMPREHENSIVE INCOME			
Net operating result		(5,826)	(2,898)
Gain on revaluation of I,PP&E	(i)	-	14,214
Other movements in revenue		-	1,613
Total comprehensive income		(5,826)	12,929

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 all 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). There was no such revaluation required for the year ended 30 June 2012.

3. Balance Sheet

The net asset position of the Council as at 30 June 2012 was \$629.7M compared with \$635.5M in the prior year.

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

	Note	2012 \$'000	2011 \$'000
Current Assets			
Cash & cash equivalents	(i)	12,041	14,512
Investments	(ii)	7,545	2,500
Receivables	(iii)	5,245	5,059
Inventories	(iv)	340	306
Other current assets		553	534
		25,724	22,911
Non-Current Assets			
Investments	(ii)	415	1,540
Receivables		66	59
Inventories	(iv)	3,286	3,280
Infrastructure, property, plant & equipment	(v)	637,709	642,319
		641,476	647,198
Total Assets		667,200	670,109
Current Liabilities			
Payables	(vi)	9,049	7,213
Borrowings	(vii)	938	935
Provisions	(viii)	6,618	6,459
		16,605	14,607
Non-Current Liabilities			
Payables	(vi)	484	472
Borrowings	(vii)	9,025	8,119
Provisions	(viii)	11,356	11,355
		20,865	19,946
Total Liabilities		37,470	34,553
Net Assets		629,730	635,556

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 increased by \$3.9M (97%) to \$7.9M. This is reflective of the net movement of investment sales (\$7.9M) offset by investment purchases (\$12.4M) and the impairment on investments of \$0.6M.

(iii) Receivables

The balance of current receivables has increased by \$186k (3.7%) from the prior year. This was primarily attributable to an increase in receivables from community facilities, vehicle sales and RMS debtors - state roads.

(iv) Inventories

Inventories have remained materially consistent year on year. The current inventory balances are comprised of fuel, postage and stores held for Council operations. Non current inventory balances is land held for sale at Vineyard Grove and Hebburn Estate and is carried at cost.

(v) Infrastructure, Property, Plant & Equipment

The carrying amount of property, plant and equipment has decreased by \$4.6m (0.7%). The movement is reflective of asset additions of \$14M, offset by depreciation expense of \$14.8M and asset disposals of \$3.8M. Further commentary on the depreciation prior year error is located at section 6.5 of this report, for which an error restatement has been reflected in the financial statements.

(vi) Payables

Current payables increased by \$1.8m (25%) primarily due to payments received in advance which included the payment of the Financial Assistance Grant Funding which was received in June for \$3.5m.

(vii) Borrowings

Total interest bearing liabilities have increased by \$1M (10%) to \$9.9M reflective of additional draw down of non current borrowings during the 2012 financial year.

(viii) Provisions

Provisions have remained materially constant compared to the prior year and are reflective of employee entitlements and the tip restoration liability.

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

	2012 \$'000	2011 \$'000	2010 \$'000
Current assets	25,724	22,911	23,830
Current liabilities	16,605	14,607	15,922
Current ratio	1.55	1.57	1.50

The current ratio demonstrates that current assets yet to be realised exceed the current liabilities to be met over the next twelve months. The current ratio for the Council has remained consistently year on year.

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

	2012 \$'000	2011 \$'000	2010 \$'000
Total cash and investments	19,586	17,012	15,988
Less: externally restricted items	(5,122)	(3,292)	(2,038)
	14,464	13,720	13,950
Less: internally restricted items	(13,110)	(12,208)	(12,316)
Unrestricted cash and investments	1,354	1,512	1,634

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.

	2012 \$'000	2011 \$'000	2010 \$'000
Net debt service cost	1,653	1,871	1,900
Operating revenue	55,502	51,761	52,463
Debt Service Ratio	2.98%	3.6%	3.6%

The debt ratio has decreased from prior year which highlighting a relatively low level of demand on discretionary revenue for loan repayments.

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.

	2012 \$'000	2011 \$'000	2010 \$'000
Rates and annual charge revenue	35,833	33,901	32,492
Total revenue	61,457	59,027	59,635
Rates & annual charge coverage ratio	58.3%	57.4%	54.5%

Council's dependence on rates has increased from the prior year. This ratio has increased due to rates and charges income increasing at a greater rate than total income from operations.

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.

	2012 \$'000	2011 \$'000	2010 \$'000
Rates & annual charges outstanding	1,984	2,220	1,900
Rates & annual charges collectible	38,504	36,325	34,584
Percentage of outstanding rates	5.2%	6.1%	5.5%

The percentage of rates outstanding has is lower than last year which resulted a good result on Council's continued effort on collection of outstanding rates & annual charges during the year as compared to prior years.

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.

	2012 \$'000	2011 \$'000	2010 \$'000
Building & infrastructure renewals	10,893	10,014	11,729
Depreciation & amortisation	11,939	11,111	5,524
Building renewals ratio	91.24%	90.12%	212.3%

A ratio of less than 100% indicates that assets are being renewed at a slower 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 2012 financial year.

5. Statement of Cash Flows

The movement in cash is attributable to the following movements:

	2012 \$'000	2011 \$'000
Cash at the beginning of the year	14,512	5,888
Cash provided by operating activities	14,167	14,044
Cash used in investing activities	(17,547)	(5,582)
Cash provided by financing activities	909	162
Cash at the end of the year	12,041	14,512

5.1 Cash flows from operating activities

Net cash inflows from operating activities totalled \$14.1M being an increase of \$.1M (0.8%) 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 \$17.5M represented an increase of \$11.9M (214%) on the prior year. Significant cash flows for the year include the sale of investment securities of \$7.9M, purchase of investment securities for \$12.4M and purchase of infrastructure, property, plant and equipment for \$13.8M.

5.3 Cash flows from financing activities

Net cash inflows from financing activities of \$0.9M was an increase of \$0.7M from the prior year net inflow of \$0.1M. This was attributable to higher proceeds from borrowings and advances and lower repayments of borrowings and advances in the 2012 financial year.

6. Key Financial Statement Issues

6.1 Litigation and claims - ICAC investigation and legal matters

We understand that ICAC is currently investigating a number of matters at the Council involving both the Councillors and General Manager. At the date of this report the ICAC investigation and associated legal proceedings are ongoing and are yet to be resolved. In conducting our audit we are required under the auditing standards to obtain sufficient and appropriate evidence to determine whether the financial statements are free of material misstatement.

Through our discussions with management at the Council and the conduct of our audit procedures we were unable to completely assess the nature and the impact of the ICAC investigation and legal matters on the 30 June 2012 financial report. This was on the basis that management indicated that they were unable to provide us complete access to all information with respect to the matters that would allow us to form a view as to the impact on the financial statements. Management's basis for this restriction to our access was that this is not allowed under the provisions of the *Public Interest Disclosures Act 1994*.

Further, there is no disclosure included within the financial statements as at 30 June 2012 with respect to the nature of the investigations, any potential impacts on the financial statements or any contingent liabilities which may arise. We understand that the Council's views this is reflective of the requirements of the Act also. However, this represents a departure from the accounting standard AASB 137 '*Provisions, Contingent Liabilities and Contingent Assets*.' Paragraph 92 of the Standard requires 'In extremely rare cases, disclosure of some or all of the information required by paragraphs 84-89 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

We have been unable to obtain sufficient and appropriate audit evidence with respect to these matters in order to determine whether they have a material impact on the financial statements. As such our audit opinion with respect to these matters is qualified to the extent that we have been unable to obtain sufficient and appropriate audit evidence to assess any impact on the financial statements. Further, as there is no disclosure with respect to these matters included in the financial statements this represents a departure from the AASB 137.

6.2 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 \$13.1M which was higher than the prior year restrictions of \$12.2M due employee leave entitlements of approximately \$500k and the addition of unexpended loan funds of \$751k.

6.3 Valuation of Investments

During the prior year, the valuation of the Council's Collateralised Debt Obligation (CDO) investments decreased by \$2.5M. This was primarily due to the CDO of \$1.9m that matured in October 2011.

During the current year the risk rating for these two remaining CDO's, Zircon Finance Ltd - Holding (\$1M) and Corsair (Cayman Island) - Holding (\$500K) were classified as uncertain and near certain loss respectively by Structures Credit Research & Advisory ('SCRA') for June 2012.

Management has applied valuations provided in the June 2012 report from SCRA as a basis to value these CDO's at and impair them accordingly. The impaired value as stated in the financial report is \$400K and \$15k respectively. We are satisfied with the method applied by management to value and impair these investments at 30 June 2012.

The Council's remaining CDO investments mature in 2014 (\$415K).

6.4 Tip Restoration Liability

A tip restoration liability has been recognised in the financial statements at 30 June 2012 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 2016 with restorations at the tip 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 2012. With the tip restoration now revised beyond 2013, we recommend that management reassess the useful life of the tip asset for the 2013 financial report.

6.5 Depreciation prior year error - Roads and Bridges

During the current year audit management has highlighted the fact that there has been an error in the calculation of the depreciation for the Roads and Bridges assets. This error occurred due to the SMEC system incorrectly calculating depreciation for the 2011 and 2010 years. The reports were generated by Council management from the SMEC system on the basis that these assets had been revalued in 2011, which was not the case as the assets were revalued as at 30 June 2010. This increased the asset carrying value to a higher amount which in turn incorrectly calculated the depreciation incorrectly at a lower amount of approximately \$2M. The depreciation expense for 2011 should have been approximately \$10M for this asset class. Further, the depreciation expense related to the 2010 and prior periods should have been \$8M.

Management has recalculated the 2011 asset values in the SMEC system and in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* an error disclosure for an amount of \$8.2M has been recognised in the prior year statement of comprehensive income. An amount of \$8M related to the 2010 and prior financial years has been recognised in retained earnings as at 1 July 2010. An error disclosure in accordance with the requirements of the accounting standard has been included in note 20 to the financial statements.

6.6 Going concern and future expenditure

The net operating result before capital grants and contributions for the year ended 30 June 2012 was a loss of \$5.8M compared with a loss of \$2.8M for the year ended 30 June 2011. The council has net assets of \$629M compared to a net asset position of \$635M in the prior year.

We have performed our audit procedures in relation to assessing the appropriateness of the going concern assumption for the council over the next twelve months. We have reviewed management's operational plan and budget for the 2013 year as well as the assumptions to assess whether the going concern basis is appropriate.

We understand management intends to present to Council in coming months a longer term financial assessment and we will review the outcomes of this assessment in due course in continuing to assess the financial management of the Council.

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



LUKE MALONE
Partner

Cessnock City Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2012

"...attractive, thriving and welcoming."



Cessnock City Council

Special Purpose Financial Statements

for the financial year ended 30 June 2012

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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
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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 2012

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 05 September 2012.



Councillor Alison Davey
MAYOR



Councillor Cordelia Burcham
COUNCILLOR



Ms Lea Rosser
GENERAL MANAGER



Mr Michael Brady
RESPONSIBLE ACCOUNTING OFFICER

Cessnock City Council

Income Statement of Council's Other Business Activities

for the financial year ended 30 June 2012

\$ '000	Noxious Weeds		Lawn Cemeteries	
	Category 2		Category 2	
	Actual 2012	Actual 2011	Actual 2012	Actual 2011
Income from continuing operations				
Access charges	-	-	-	-
User charges	12	32	151	110
Fees	-	-	-	-
Interest	-	-	-	-
Grants and contributions provided for non capital purposes	40	64	-	-
Profit from the sale of assets	-	-	-	-
Other income	22	23	-	-
Total income from continuing operations	74	119	151	110
Expenses from continuing operations				
Employee benefits and on-costs	131	121	62	42
Borrowing costs	-	-	-	-
Materials and contracts	45	68	158	136
Depreciation and impairment	19	17	29	29
Loss on sale of assets	-	-	-	-
Calculated taxation equivalents	-	-	-	-
Debt guarantee fee (if applicable)	-	-	-	-
Other expenses	3	4	-	-
Total expenses from continuing operations	198	210	249	207
Surplus (deficit) from Continuing Operations before capital amounts	(124)	(91)	(98)	(97)
Grants and contributions provided for capital purposes	-	-	-	-
Surplus (deficit) from Continuing Operations after capital amounts	(124)	(91)	(98)	(97)
Surplus (deficit) from discontinued operations	-	-	-	-
Surplus (deficit) from ALL Operations before tax	(124)	(91)	(98)	(97)
less: Corporate Taxation Equivalent (30%) [based on result before capital]	-	-	-	-
SURPLUS (DEFICIT) AFTER TAX	(124)	(91)	(98)	(97)
plus Opening Retained Profits	(1,095)	(1,004)	186	283
plus/less: Prior Period Adjustments	-	-	-	-
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	(1,219)	(1,095)	88	186
Return on Capital %	-203.3%	-113.8%	-14.4%	-14.4%
Subsidy from Council	126	95	119	132

Cessnock City Council

Income Statement of Council's Other Business Activities

for the financial year ended 30 June 2012

Hunter Councils

Category 2

\$ '000	Actual 2012	Actual 2011
Income from continuing operations		
Access charges	-	-
User charges	107	85
Fees	1	-
Interest	-	-
Grants and contributions provided for non capital purposes	-	-
Profit from the sale of assets	-	-
Other income	10	12
Total income from continuing operations	118	97
Expenses from continuing operations		
Employee benefits and on-costs	37	27
Borrowing costs	13	15
Materials and contracts	23	22
Depreciation and impairment	12	10
Loss on sale of assets	-	-
Calculated taxation equivalents	-	-
Debt guarantee fee (if applicable)	3	3
Other expenses	5	3
Total expenses from continuing operations	93	80
Surplus (deficit) from Continuing Operations before capital amounts	25	17
Grants and contributions provided for capital purposes	-	-
Surplus (deficit) from Continuing Operations after capital amounts	25	17
Surplus (deficit) from discontinued operations	-	-
Surplus (deficit) from ALL Operations before tax	25	17
less: Corporate Taxation Equivalent (30%) [based on result before capital]	(8)	(5)
SURPLUS (DEFICIT) AFTER TAX	18	12
plus Opening Retained Profits	(75)	(95)
plus/less: Prior Period Adjustments	-	-
plus Adjustments for amounts unpaid:		
- Taxation equivalent payments	-	-
- Debt guarantee fees	3	3
- Corporate taxation equivalent	8	5
add:		
- Subsidy Paid/Contribution To Operations	-	-
less:		
- TER dividend paid	-	-
- Dividend paid	-	-
Closing Retained Profits	(47)	(75)
Return on Capital %	11.0%	9.1%
Subsidy from Council	-	-

Cessnock City Council

Balance Sheet of Council's Other Business Activities

as at 30 June 2012

\$ '000	Noxious Weeds		Lawn Cemeteries	
	Category 2		Category 2	
	Actual 2012	Actual 2011	Actual 2012	Actual 2011
ASSETS				
Current Assets				
Cash and cash equivalents	-	-	-	-
Investments	-	-	-	-
Receivables	-	-	-	-
Inventories	-	-	-	-
Other	-	-	-	-
Non-current assets classified as held for sale	-	-	-	-
Total Current Assets	-	-	-	-
Non-Current Assets				
Investments	-	-	-	-
Receivables	-	-	-	-
Inventories	-	-	-	-
Infrastructure, property, plant and equipment	61	80	679	673
Investments accounted for using equity method	-	-	-	-
Investment property	-	-	-	-
Other	-	-	-	-
Total Non-Current Assets	61	80	679	673
TOTAL ASSETS	61	80	679	673
LIABILITIES				
Current Liabilities				
Bank Overdraft	-	-	-	-
Payables	1,280	1,175	191	87
Interest bearing liabilities	-	-	-	-
Provisions	-	-	-	-
Total Current Liabilities	1,280	1,175	191	87
Non-Current Liabilities				
Payables	-	-	-	-
Interest bearing liabilities	-	-	-	-
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Total Non-Current Liabilities	-	-	-	-
TOTAL LIABILITIES	1,280	1,175	191	87
NET ASSETS	(1,219)	(1,095)	488	586
EQUITY				
Retained earnings	(1,219)	(1,095)	88	186
Revaluation reserves	-	-	400	400
Council equity interest	(1,219)	(1,095)	488	586
Minority equity interest	-	-	-	-
TOTAL EQUITY	(1,219)	(1,095)	488	586

Cessnock City Council

Balance Sheet of Council's Other Business Activities

as at 30 June 2012

Hunter Councils

Category 2

\$ '000	Actual 2012	Actual 2011
ASSETS		
Current Assets		
Cash and cash equivalents	22	12
Investments	-	-
Receivables	19	16
Inventories	1	1
Other	-	-
Non-current assets classified as held for sale	-	-
Total Current Assets	42	29
Non-Current Assets		
Investments	-	-
Receivables	-	-
Inventories	-	-
Infrastructure, property, plant and equipment	344	350
Investments accounted for using equity method	-	-
Investment property	-	-
Other	-	-
Total Non-Current Assets	344	350
TOTAL ASSETS	386	379
LIABILITIES		
Current Liabilities		
Bank Overdraft	-	-
Payables	10	11
Interest bearing liabilities	20	78
Provisions	5	2
Other Current Liabilities	6	7
Total Current Liabilities	41	98
Non-Current Liabilities		
Payables	-	-
Interest bearing liabilities	241	206
Provisions	2	1
Total Non-Current Liabilities	243	207
TOTAL LIABILITIES	284	305
NET ASSETS	102	74
EQUITY		
Retained earnings	(47)	(75)
Revaluation reserves	149	149
Council equity interest	102	74
Minority equity interest	-	-
TOTAL EQUITY	102	74

Cessnock City Council

Special Purpose Financial Statements

for the financial year ended 30 June 2012

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 2012

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 2012

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 **\$396,000** of combined land values attracts **0%**. From \$396,001 to \$2,421,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$2,421,000, a premium marginal rate of **2.0%** applies.

Payroll Tax – **5.45%** on the value of taxable salaries and wages in excess of \$678,000.

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 2012

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 3.03% at 30/6/12.

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 2012, and the income statement for the year then ended, 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 of the financial report in accordance with the *Local Government Act 1993* and have determined that the basis of preparation described in Note 1 to the financial statements is appropriate to meet the requirements of the Department of Local Government. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We have conducted our audit in accordance with Australian Auditing Standards. Those 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 of the financial report that gives a true and fair view 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.

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

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

Independence

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

Basis for Qualified Opinion

The Council and certain councillors are currently subject to an Independent Commission against Corruption (ICAC) investigation. We were unable to obtain sufficient appropriate audit evidence with respect to any potential financial impact as we were unable to access complete information with respect to these matters as the Council was precluded in providing this information to us under the provisions of the *Public Interest Disclosures Act 1994*. Consequently, we were unable to determine whether any adjustments to the financial statements were necessary as at 30 June 2012.

The non disclosure in the financial statements with respect to these matters and any potential contingent liabilities or financial impacts that may arise represents a departure from AASB 137 '*Provisions, Contingent Liabilities and Contingent Assets*.' Paragraph 92 of the standard requires 'In extremely rare cases, disclosure of some or all of the information required by paragraphs 84-89 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.'

Qualified Audit Opinion

In our opinion the financial report of the Council presents fairly, with the exception of the items outlined in the Basis for Qualified Opinion paragraph, 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 our 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, the special purpose financial report may not be suitable for another purpose.

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

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Cessnock Council (the Council) for the year ended 30 June 2012 included on Cessnock City Council's web site. The Council's councillors are responsible for the integrity of the Cessnock City Council web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from this financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this website.

PROSPERITY AUDIT SERVICES



LUKE MALONE
Partner
31 October 2012
Sydney

Cessnock City Council

SPECIAL SCHEDULES
for the year ended 30 June 2012

"...attractive, thriving and welcoming."



Cessnock City Council

Special Schedules

for the financial year ended 30 June 2012

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Special Schedules¹

- Special Schedule No. 1	Net Cost of Services	2
- Special Schedule No. 2(a)	Statement of Long Term Debt (all purposes)	4
- Special Schedule No. 2(b)	Statement of Internal Loans (Sect. 410(3) LGA 1993)	n/a
- Special Schedule No. 3	Water Supply - Income Statement	n/a
- Special Schedule No. 4	Water Supply - Balance Sheet	n/a
- Special Schedule No. 5	Sewerage Service - Income Statement	n/a
- Special Schedule No. 6	Sewerage Service - Balance Sheet	n/a
- Notes to Special Schedules No. 3 & 5		n/a
- Special Schedule No. 7	Condition of Public Works	5
- Special Schedule No. 8	Financial Projections	7

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 2012

\$'000

Function or Activity	Expenses from Continuing Operations	Income from continuing operations		Net Cost of Services
		Non Capital	Capital	
Governance	799	-	-	(799)
Administration	13,143	1,562	84	(11,497)
Public Order and Safety				
Fire Service Levy, Fire Protection, Emergency Services	998	232	23	(743)
Beach Control	-	-	-	-
Enforcement of Local Govt. Regulations	613	145	-	(468)
Animal Control	1,201	155	-	(1,046)
Other	-	-	-	-
Total Public Order & Safety	2,812	532	23	(2,257)
Health	663	816	-	153
Environment				
Noxious Plants and Insect/Vermin Control	204	55	-	(149)
Other Environmental Protection	379	6	-	(373)
Solid Waste Management	10,167	10,956	-	789
Street Cleaning	323	-	-	(323)
Drainage	770	466	58	(246)
Stormwater Management	-	-	-	-
Total Environment	11,843	11,483	58	(302)
Community Services and Education				
Administration & Education	501	53	-	(448)
Social Protection (Welfare)	258	33	-	(225)
Aged Persons and Disabled	17	1	-	(16)
Children's Services	-	-	50	50
Total Community Services & Education	776	87	50	(639)
Housing and Community Amenities				
Public Cemeteries	329	223	-	(106)
Public Conveniences	364	-	-	(364)
Street Lighting	864	46	-	(818)
Town Planning	3,730	971	-	(2,759)
Other Community Amenities	23	-	-	(23)
Total Housing and Community Amenities	5,310	1,240	-	(4,070)
Water Supplies	-	-	-	-
Sewerage Services	-	-	-	-

Cessnock City Council

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

for the financial year ended 30 June 2012

\$'000

Function or Activity	Expenses from Continuing Operations	Income from continuing operations		Net Cost of Services
		Non Capital	Capital	
Recreation and Culture				
Public Libraries	1,464	148	105	(1,211)
Museums	-	-	-	-
Art Galleries	65	4	-	(61)
Community Centres and Halls	435	108	189	(138)
Performing Arts Venues	767	370	-	(397)
Other Performing Arts	-	-	-	-
Other Cultural Services	104	1	-	(103)
Sporting Grounds and Venues	618	76	270	(272)
Swimming Pools	1,272	148	-	(1,124)
Parks & Gardens (Lakes)	2,646	82	478	(2,086)
Other Sport and Recreation	363	1	-	(362)
Total Recreation and Culture	7,734	938	1,042	(5,754)
Fuel & Energy	-	-	-	-
Agriculture	-	-	-	-
Mining, Manufacturing and Construction				
Building Control	1,041	545	-	(496)
Other Mining, Manufacturing & Construction	-	-	-	-
Total Mining, Manufacturing and Const.	1,041	545	-	(496)
Transport and Communication				
Urban Roads (UR) - Local	8,702	85	559	(8,058)
Urban Roads - Regional	369	178	-	(191)
Sealed Rural Roads (SRR) - Local	3,849	117	2	(3,730)
Sealed Rural Roads (SRR) - Regional	1,477	714	185	(578)
Unsealed Rural Roads (URR) - Local	1,984	687	152	(1,145)
Unsealed Rural Roads (URR) - Regional	-	-	-	-
Bridges on UR - Local	471	-	-	(471)
Bridges on SRR - Local	276	-	-	(276)
Bridges on URR - Local	138	-	-	(138)
Bridges on Regional Roads	-	-	-	-
Parking Areas	-	-	-	-
Footpaths	219	-	-	(219)
Aerodromes	470	180	-	(290)
Other Transport & Communication	4,181	5,215	108	1,142
Total Transport and Communication	22,136	7,176	1,006	(13,954)
Economic Affairs				
Camping Areas & Caravan Parks	-	-	-	-
Other Economic Affairs	1,026	227	53	(746)
Total Economic Affairs	1,026	227	53	(746)
Totals – Functions	67,283	24,606	2,316	(40,361)
General Purpose Revenues⁽²⁾		34,535		34,535
Share of interests - joint ventures & associates using the equity method	-	-		-
NET OPERATING RESULT⁽¹⁾	67,283	59,141	2,316	(5,826)

(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 2012

\$'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	935	8,119	9,054	1,890	981	-	-	672	938	9,025	9,963
Other	-	-	-	-	-	-	-	-	-	-	-
Total Loans	935	8,119	9,054	1,890	981	-	-	672	938	9,025	9,963
Other Long Term Debt											
Ratepayers Advances	-	-	-	-	-	-	-	-	-	-	-
Government Advances	-	-	-	-	-	-	-	-	-	-	-
Finance Leases	-	-	-	-	-	-	-	-	-	-	-
Deferred Payments	-	-	-	-	-	-	-	-	-	-	-
Total Long Term Debt	-	-	-	-	-	-	-	-	-	-	-
Total Debt	935	8,119	9,054	1,890	981	-	-	672	938	9,025	9,963

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 2012

\$'000	Actual ⁽¹⁾ 11/12	Forecast 12/13	Forecast 13/14	Forecast ⁽³⁾ 14/15	Forecast ⁽³⁾ 15/16
(i) OPERATING BUDGET					
Income from continuing operations	61,457	69,244	56,754	58,202	59,694
Expenses from continuing operations	67,283	56,006	54,268	55,285	56,376
Operating Result from Continuing Operations	<u>(5,826)</u>	<u>13,238</u>	<u>2,486</u>	<u>2,917</u>	<u>3,318</u>
(ii) CAPITAL BUDGET					
New Capital Works ⁽²⁾	1,073	2,000	1,986	2,028	2,070
Replacement/Refurbishment of Existing Assets	12,772	24,791	9,390	10,030	10,670
Total Capital Budget	<u>13,845</u>	<u>26,791</u>	<u>11,376</u>	<u>12,058</u>	<u>12,740</u>
Funded by:					
– Loans	1,890	8,625	500	500	500
– Asset sales	-	-	900	900	900
– Reserves	1,387	1,945	-	-	-
– Grants/Contributions	2,316	5,658	1,869	1,872	1,875
– Recurrent revenue	8,252	10,563	8,107	8,786	9,465
– Other	-	-	-	-	-
	<u>13,845</u>	<u>26,791</u>	<u>11,376</u>	<u>12,058</u>	<u>12,740</u>

Notes:

(1) From 11/12 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.

(4) Financial Projections should be in accordance with Council's Integrated Planning & Reporting framework.