

Cessnock City Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2013

"...attractive, thriving and welcoming."



Cessnock City Council

General Purpose Financial Statements for the financial year ended 30 June 2013

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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 detailed in Paragraph 8 of the LGA and includes giving Council;

- the ability to provide goods, services & facilities, and to carry out activities appropriate to the current & future needs of the local community and of the wider public,
- the responsibility for administering regulatory requirements under the LGA and
- a role in the management, improvement and development of the resources in the 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 23 October 2013. Council has the power to amend and reissue these financial statements.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Understanding Council's Financial Statements

Introduction

Each year, individual Local Governments across NSW are required to present a set of audited financial statements to their Council & Community.

What you will find in the Statements

The financial statements set out the financial performance, financial position & cash flows of Council for the financial year ended 30 June 2013.

The format of the financial statements is standard across all NSW Councils and complies with both the accounting & reporting requirements of Australian Accounting Standards and requirements as set down by the NSW Division of Local Government.

About the Councillor/Management Statement

The financial statements must be certified by Senior staff as "presenting fairly" the Council's financial results for the year, and are required to be adopted by Council - ensuring both responsibility for & ownership of the financial statements.

About the Primary Financial Statements

The financial statements incorporate 5 "primary" financial statements:

1. The Income Statement

Summarises Council's financial performance for the year, listing all income & expenses.

This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

2. The Statement of Comprehensive Income

Primarily records changes in the fair values of Council's Infrastructure, Property, Plant & Equipment.

3. The Statement of Financial Position

A 30 June snapshot of Council's financial position indicating its Assets, Liabilities & "Net Wealth".

4. The Statement of Changes in Equity

The overall change for the year (in dollars) of Council's "Net Wealth".

5. The Statement of Cash Flows

Indicates where Council's cash came from and where it was spent.

This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

About the Notes to the Financial Statements

The Notes to the financial statements provide greater detail and additional information on the 5 primary financial statements.

About the Auditor's Reports

Council's financial statements are required to be audited by external accountants (that generally specialize in Local Government).

In NSW, the Auditor provides 2 audit reports:

1. An opinion on whether the financial statements present fairly the Council's financial performance & position.
2. Their observations on the conduct of the Audit including commentary on the Council's financial performance & financial position.

Who uses the Financial Statements ?

The financial statements are publicly available documents & must be presented at a Council meeting between 7 days & 5 weeks after the date of the Audit Report.

Submissions from the public can be made to Council up to 7 days subsequent to the public presentation of the financial statements.

Council is required to forward an audited set of financial statements to the Division of Local Government.

More information

A review of Council's financial performance and position for the 12/13 financial year can be found at Note 27 of the financial statements.

Cessnock City Council

General Purpose Financial Statements

for the financial year ended 30 June 2013

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:

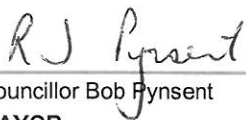
- The Local Government Act 1993 (as amended) and the Regulations made thereunder,
- The Australian Accounting Standards and professional pronouncements, and
- The Local Government Code of Accounting Practice and Financial Reporting.

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 23 October 2013.



Councillor Bob Pynsent
MAYOR



Councillor Allan Stapleford
COUNCILLOR



Mr Stephen Glen
GENERAL MANAGER



Mr Robert Maginnity
RESPONSIBLE ACCOUNTING OFFICER

Cessnock City Council

Income Statement

for the financial year ended 30 June 2013

Budget ⁽¹⁾ 2013	\$ '000	Notes	Actual 2013	Actual 2012
Income from Continuing Operations				
<i>Revenue:</i>				
39,738	Rates & Annual Charges	3a	40,078	35,833
11,227	User Charges & Fees	3b	10,335	10,390
927	Interest & Investment Revenue	3c	1,805	533
866	Other Revenues	3d	1,371	1,452
10,828	Grants & Contributions provided for Operating Purposes	3e,f	12,697	10,933
5,503	Grants & Contributions provided for Capital Purposes	3e,f	3,426	2,316
69,089	Total Income from Continuing Operations		69,712	61,457
Expenses from Continuing Operations				
25,676	Employee Benefits & On-Costs	4a	23,451	22,662
798	Borrowing Costs	4b	671	672
9,581	Materials & Contracts	4c	14,723	14,453
6,436	Depreciation & Amortisation	4d	14,993	14,827
-	Impairment	4d	-	-
13,566	Other Expenses	4e	10,095	11,609
-	Net Losses from the Disposal of Assets	5	2,402	3,060
-	Net Share of interests in Joint Ventures & Associated Entities using the equity method	19	-	-
56,057	Total Expenses from Continuing Operations		66,335	67,283
13,032	Operating Result from Continuing Operations		3,377	(5,826)
Discontinued Operations				
-	Net Profit/(Loss) from Discontinued Operations	24	-	-
13,032	Net Operating Result for the Year		3,377	(5,826)
13,032	Net Operating Result attributable to Council		3,377	(5,826)
-	Net Operating Result attributable to Non-controlling Interests		-	-
7,529	Net Operating Result for the year before Grants and Contributions provided for Capital Purposes		(49)	(8,142)

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

Cessnock City Council

Statement of Comprehensive Income
for the financial year ended 30 June 2013

\$ '000	Notes	Actual 2013	Actual 2012
Net Operating Result for the year (as per Income statement)		3,377	(5,826)
Other Comprehensive Income:			
Amounts which will not be reclassified subsequently to the Operating Result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	1,974	-
Total Items which will not be reclassified subsequently to the Operating Result		1,974	-
Amounts which will be reclassified subsequently to the Operating Result when specific conditions are met			
Nil			
Total Other Comprehensive Income for the year		1,974	-
Total Comprehensive Income for the Year		5,351	(5,826)
Total Comprehensive Income attributable to Council		5,351	(5,826)
Total Comprehensive Income attributable to Non-controlling Interests		-	-

Cessnock City Council

Statement of Financial Position
as at 30 June 2013

\$ '000	Notes	Actual 2013	Actual 2012
ASSETS			
Current Assets			
Cash & Cash Equivalents	6a	10,516	12,041
Investments	6b	12,200	7,545
Receivables	7	4,805	5,245
Inventories	8	294	340
Other	8	474	553
Non-current assets classified as "held for sale"	22	-	-
Total Current Assets		28,289	25,724
Non-Current Assets			
Investments	6b	-	415
Receivables	7	43	66
Inventories	8	3,329	3,286
Infrastructure, Property, Plant & Equipment	9	639,402	637,709
Investments accounted for using the equity method	19	-	-
Investment Property	14	-	-
Intangible Assets	25	-	-
Total Non-Current Assets		642,774	641,476
TOTAL ASSETS		671,063	667,200
LIABILITIES			
Current Liabilities			
Payables	10	8,223	9,049
Borrowings	10	1,264	938
Provisions	10	6,876	6,618
Total Current Liabilities		16,363	16,605
Non-Current Liabilities			
Payables	10	508	484
Borrowings	10	7,761	9,025
Provisions	10	11,350	11,356
Total Non-Current Liabilities		19,619	20,865
TOTAL LIABILITIES		35,982	37,470
Net Assets		635,081	629,730
EQUITY			
Retained Earnings	20	405,382	402,005
Revaluation Reserves	20	229,699	227,725
Council Equity Interest		635,081	629,730
Non-controlling Interests		-	-
Total Equity		635,081	629,730

Cessnock City Council

Statement of Changes in Equity
for the financial year ended 30 June 2013

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council Interest	Non- controlling Interest	Total Equity
2013						
Opening Balance (as per Last Year's Audited Accounts)		402,005	227,725	629,730	-	629,730
a. Correction of Prior Period Errors	20 (c)	-	-	-	-	-
b. Changes in Accounting Policies (prior year effects)	20 (d)	-	-	-	-	-
Revised Opening Balance (as at 1/7/12)		402,005	227,725	629,730	-	629,730
c. Net Operating Result for the Year		3,377	-	3,377	-	3,377
d. Other Comprehensive Income						
- Revaluations : IPP&E Asset Revaluation Rsv	20b (ii)	-	1,974	1,974	-	1,974
- Revaluations: Other Reserves	20b (ii)	-	-	-	-	-
- Transfers to Income Statement	20b (ii)	-	-	-	-	-
- Impairment (loss) reversal relating to I,PP&E	20b (ii)	-	-	-	-	-
- Other Movements	20b (ii)	-	-	-	-	-
Other Comprehensive Income		-	1,974	1,974	-	1,974
Total Comprehensive Income (c&d)		3,377	1,974	5,351	-	5,351
e. Distributions to/(Contributions from) Non-controlling Interests		-	-	-	-	-
f. Transfers between Equity		-	-	-	-	-
Equity - Balance at end of the reporting period		405,382	229,699	635,081	-	635,081

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council Interest	Non- controlling 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 Rsv	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	20b (ii)	-	-	-	-	-
Other Comprehensive Income		-	-	-	-	-
Total Comprehensive Income (c&d)		(5,826)	-	(5,826)	-	(5,826)
e. Distributions to/(Contributions from) Non-controlling Interests		-	-	-	-	-
f. Transfers between Equity		-	-	-	-	-
Equity - Balance at end of the reporting period		402,005	227,725	629,730	-	629,730

Cessnock City Council

Statement of Cash Flows

for the financial year ended 30 June 2013

Budget 2013	\$ '000	Notes	Actual 2013	Actual 2012
Cash Flows from Operating Activities				
Receipts:				
40,200	Rates & Annual Charges		39,485	36,105
13,300	User Charges & Fees		11,278	13,106
1,000	Investment & Interest Revenue Received		951	1,069
15,000	Grants & Contributions		16,639	13,513
-	Bonds, Deposits & Retention amounts received		66	-
3,000	Other		4,624	2,881
Payments:				
(23,900)	Employee Benefits & On-Costs		(23,290)	(22,863)
(16,700)	Materials & Contracts		(17,153)	(15,560)
(800)	Borrowing Costs		(671)	(672)
-	Bonds, Deposits & Retention amounts refunded		-	(6)
(13,800)	Other		(12,033)	(13,406)
17,300	Net Cash provided (or used in) Operating Activities	11b	19,896	14,167
Cash Flows from Investing Activities				
Receipts:				
-	Sale of Investment Securities		4,735	7,900
800	Sale of Infrastructure, Property, Plant & Equipment		898	766
-	Deferred Debtors Receipts		21	38
Payments:				
-	Purchase of Investment Securities		(8,200)	(12,400)
(25,625)	Purchase of Infrastructure, Property, Plant & Equipment		(17,894)	(13,845)
-	Purchase of Real Estate Assets		(43)	(6)
(24,825)	Net Cash provided (or used in) Investing Activities		(20,483)	(17,547)
Cash Flows from Financing Activities				
Receipts:				
8,625	Proceeds from Borrowings & Advances		-	1,890
Payments:				
(1,069)	Repayment of Borrowings & Advances		(938)	(981)
7,556	Net Cash Flow provided (used in) Financing Activities		(938)	909
31	Net Increase/(Decrease) in Cash & Cash Equivalents		(1,525)	(2,471)
14,512	plus: Cash & Cash Equivalents - beginning of year	11a	12,041	14,512
14,543	Cash & Cash Equivalents - end of the year	11a	10,516	12,041
Additional Information:				
	plus: Investments on hand - end of year	6b	12,200	7,960
Total Cash, Cash Equivalents & Investments			22,716	20,001

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 2013

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n/a - not applicable

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Notes to the Financial Statements

for the financial year ended 30 June 2013

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 (AASBs), 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 AASBs 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 AASBs.

(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 2012 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 2012.

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.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

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

(vii) Critical Accounting Estimates

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

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 infrastructure, property, plant and equipment.
- (ii) 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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

unused grant or contribution is disclosed in Note 3(g).

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

The Council has obligations to provide facilities from contribution revenues levied on developers under the provisions of S94 of the 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 June 2013) and (ii) all the related operating results (for the financial year ended the 30th June 2013).

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

account for all money and property received by the Council in trust which must be applied only for the purposes of or in accordance with the trusts relating to those monies.

Trust monies and property subject to Council's control have been included in these statements.

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

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

(iii) Joint Ventures

Jointly Controlled Assets & Operations

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

Jointly Controlled Entities

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

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

(iv) Associated Entities

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

Such entities are usually termed Associates.

(v) County Councils

Council is not a member of any County Councils.

(vi) Additional Information

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

(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.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

(e) Cash and Cash Equivalents

Cash and cash equivalents includes;

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

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

(f) Investments and Other Financial Assets

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

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

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

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

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

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

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

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

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.

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

Government Act and Section 212 of the LG (General) Regulation 2005.

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

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

Council amended its policy following revisions to the Ministerial Local Government Investment Order arising from the Cole Inquiry recommendations. Certain investments 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.

At 30 June 2013 only one (1) such investment remained in Council's portfolio with a March 2014 maturity.

(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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

uncollectible in a subsequent period, it is written off against the allowance account.

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

(i) Inventories

Raw Materials and Stores, Work in Progress and Finished Goods

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

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

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

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

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

Land Held for Resale/Capitalisation of Borrowing Costs

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

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

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

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

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

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

Acquisition of assets

Council's non current assets are continually revalued (over a 5 year period) in accordance with the fair valuation policy as mandated 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 & Internal 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** (Internal Valuation)
- **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.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

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

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

Subsequent costs

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

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

Asset Revaluations (including Indexation)

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

- Increases in the combined carrying amounts of asset classes arising on revaluation are credited to the asset revaluation reserve.
- To the extent that a net asset class increase reverses a decrease previously recognised via the profit or loss, then increase is first recognised in profit or loss.
- Net decreases that reverse previous increases of the same asset class 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:

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

Plant & Equipment	
- Office Equipment	4 to 10 years
- Office furniture	4 to 20 years
- Computer Equipment	4 years
- Vehicles	5 to 8 years
- Heavy Plant/Road Making equip.	5 to 8 years
- Other plant and equipment	5 to 15 years
Other Structures	
- Playground equipment	5 to 15 years
- Benches, seats etc	10 to 20 years
Other Assets	
- Library Books	5 to 15 years
- Artworks	Indefinite
Buildings	
- Floors	75 to 109 years
- Building Envelope	55 to 97 years
- Fitout - Floor	19 to 93 years
- Fitout – Internal Screens	21 to 45 years
- Roof	41 to 72 years
- Mechanical Services	27 to 39 years
- Fire Services	43 years
Stormwater Drainage	
- Drains	50 to 80 years
- Culverts	50 to 80 years
Transportation Assets	
- Sealed Roads : Rigid	80 years
- Sealed Roads : Flexible	50 years
- Unsealed roads	30 years
- Bridge : Concrete	80 years
- Bridge : Other	50 years
- Road Pavements	60 years
- Kerb, Gutter & Paths	40 years
Other Infrastructure Assets	
- Bulk earthworks	Infinite

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.

Community Land includes public reserves, parks and drainage reserves which are intended for use by the general public.

Operational Land includes public land occupied by council chambers, offices, car parks and works depot ie. Land used for operational purposes or which was not intended for general community use.

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

(l) Buildings

Buildings have been classified as either Specialised or Non-specialised.

Specialised buildings are buildings designed for a specific limited purpose. Such buildings include those to house specialised infrastructure, amenities buildings, works depot and some heritage properties.

Non-specialised buildings include commercial and general purpose buildings for which there is a secondary market. Such buildings include preschools, council offices, libraries and art galleries.

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

(m) 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.

(n) Intangible Assets

Council has not classified any assets as Intangible.

(o) 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.

(p) 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

(q) 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.

(r) 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.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

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 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.

(s) 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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

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.

(t) 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.

Where an asset is not held principally for cash generating purposes (for example Infrastructure Assets) and would be replaced if the Council was deprived of it then depreciated replacement cost is used as value in use, otherwise value in use is estimated by using a discounted cash flow model.

Non-financial assets (other than goodwill) that suffered a prior period impairment are reviewed for possible reversal of the impairment at each reporting date.

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

(u) 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.

(v) 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.

(w) Borrowing costs

Borrowing costs are expensed.

(x) 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.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

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.

(y) Employee benefits

(i) Short Term Obligations

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

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

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

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

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

(ii) Other Long Term Obligations

The liability for all long service and annual leave 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.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

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.

The last valuation of the Scheme was performed by Mr Martin Stevenson BSc, FIA, FIAA on 20 February 2013 and covers the period ended 30 June 2013.

However the position is monitored annually and the Actuary has estimated that as at 30 June 2013 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 employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense and disclosed as part of Superannuation Expenses at Note 4(a) for the year ending 30 June 2013 was \$1,094,285.

The annual amount of additional contributions included in the total employer contribution advised above is \$467,093.

The share of this deficit that can be broadly attributed to Council is estimated to be in the order of \$ 2,171,677 as at 30 June 2013.

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

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

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

Defined Contribution Plans

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

(iv) Employee Benefit On-Costs

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

These amounts include Superannuation and Workers Compensation expenses which will be payable upon the future payment of certain Leave Liabilities accrued as at 30/6/13.

(z) Self insurance

Council does not self insure.

(aa) 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.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

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.

(ab) 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.

Carbon Tax Liability for Landfill Emissions

Councils will generally not be financially liable in the first year of the carbon pricing mechanism (i.e. 2012/13) even where they trigger the 25,000 tonne threshold in that year. This is because emissions take twelve months to emerge after waste is

deposited into a landfill and landfill operators are not liable for emissions attributable to legacy waste (i.e. emissions from waste deposited before 1 July 2012).

(ac) New accounting standards and interpretations

Certain new (or amended) accounting standards and interpretations have been published that are not mandatory for reporting periods ending 30 June 2013.

Council has not adopted any of these standards early.

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, associated standards, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and transitional disclosures (effective from 1 January 2015)

AASB 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities.

The standard is not applicable until 1 January 2015 but is available for early adoption.

When adopted, the standard will affect in particular 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 although there is currently a proposal by the IASB to introduce a Fair value through Other Comprehensive Income category for debt instruments.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

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 de-recognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed.

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

AASB 13 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;

AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities [AASB 132 & AASB 7] (effective 1 January 2013)

This Standard amends the required disclosures in AASB 7 to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

This Standard also amends AASB 132 to refer to the additional disclosures added to AASB 7 by this Standard.

The adoption of this standard will not change the reported financial position and performance of the entity, there are no impact on disclosures as there are no offsetting arrangements currently in place.

AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities [AASB 132] (effective 1 January 2014).

This Standard adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

The adoption of this standard will not change the reported financial position and performance of the entity, there are no impact on disclosures as there are no offsetting arrangements currently in place.

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

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)

This suite of five new and amended standards 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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

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.

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.

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)

This revised standard on accounting for employee benefits requires the recognition of all re-measurements 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.

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

The amendments will have to be implemented retrospectively.

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

Not applicable to Local Government per se;

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle (effective 1 January 2013)

AASB 1 - this standard clarifies that an entity can apply AASB 1 more than once. An entity can elect to apply AASB 123 from the transition date or an earlier date.

AASB 101 - clarifies that a third statement of financial position is required when the opening statement of financial position is materially affected by any adjustments.

AASB 116 - clarifies the classification of servicing equipment.

AASB 132 and Interpretation 2 - clarifies that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with AASB 112 Income Taxes

AASB 134 - provides clarification about segment reporting.

The amendments arising from this standard are not expected to change the reported financial position or performance of the Council.

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.

(ad) Rounding of amounts

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

(ae) 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.

(af) 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 2013

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	Actual	Actual	Original Budget	Actual	Actual	Original Budget	Actual	Actual	Actual	Actual	Actual	Actual
	2013	2013	2012	2013	2013	2012	2013	2013	2012	2013	2012	2013	2012
Governance	-	-	-	1,180	1,218	799	(1,180)	(1,218)	(799)	-	-	-	44
Administration	752	1,388	1,646	11,206	12,756	13,143	(10,454)	(11,368)	(11,497)	-	-	79,575	67,626
Public Order & Safety	516	641	555	2,048	2,048	2,812	(1,532)	(1,407)	(2,257)	-	-	7,463	5,051
Health	802	836	816	608	600	663	194	236	153	-	-	169	1,224
Environment	15,512	13,725	11,541	15,166	11,020	11,843	346	2,705	(302)	410	318	47,392	51,219
Community Services & Education	113	103	137	359	548	776	(246)	(445)	(639)	99	56	4,664	5,029
Housing & Community Amenities	1,075	1,360	1,240	4,710	6,040	5,310	(3,635)	(4,680)	(4,070)	73	46	2,877	2,932
Recreation & Culture	685	1,698	1,980	6,799	7,984	7,734	(6,114)	(6,286)	(5,754)	343	499	76,056	76,434
Mining, Manufacturing & Construction	572	525	545	1,016	1,166	1,041	(444)	(641)	(496)	-	-	178	386
Transport & Communication	12,029	11,752	8,182	11,875	21,851	22,136	154	(10,099)	(13,954)	958	913	449,036	450,875
Economic Affairs	220	272	280	1,090	1,104	1,026	(870)	(832)	(746)	69	71	3,653	6,380
Total Functions & Activities	32,276	32,300	26,922	56,057	66,335	67,283	(23,781)	(34,035)	(40,361)	1,952	1,903	671,063	667,200
Share of gains/(losses) in Associates & Joint Ventures (using the Equity Method)	-	-	-	-	-	-	-	-	-	-	-	-	-
General Purpose Income ¹	36,813	37,412	34,535	-	-	-	36,813	37,412	34,535	7,235	7,294	-	-
Operating Result from Continuing Operations	69,089	69,712	61,457	56,057	66,335	67,283	13,032	3,377	(5,826)	9,187	9,197	671,063	667,200

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 2013

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 2013

Note 3. Income from Continuing Operations

\$ '000	Notes	Actual 2013	Actual 2012
(a) Rates & Annual Charges			
Ordinary Rates			
Residential		20,149	19,004
Farmland		3,260	3,236
Mining		912	805
Business		4,298	4,170
Total Ordinary Rates		28,619	27,215
Special Rates			
Nil			
Annual Charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic Waste Management Services		5,998	4,553
Stormwater Management Services		470	461
Waste Management Services (non-domestic)		549	444
Section 611 Charges		24	22
Waste Levy		4,418	3,138
Total Annual Charges		11,459	8,618
TOTAL RATES & ANNUAL CHARGES		40,078	35,833

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 2013

Note 3. Income from Continuing Operations (continued)

\$ '000	Notes	Actual 2013	Actual 2012
(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		606	609
Inspection Services		231	242
Private Works - Section 67		216	89
Regulatory/ Statutory Fees		124	94
Section 149 Certificates (EPA Act)		207	197
Section 603 Certificates		100	94
Town Planning		1,001	859
Total Fees & Charges - Statutory/Regulatory		2,485	2,184
(ii) Fees & Charges - Other (incl. General User Charges) (per s.608)			
Aerodrome		123	69
Cemeteries		235	222
Cessnock Performing Arts Centre		226	309
Onsite Sewerage Management Fees		290	278
RMS (formerly RTA) Charges (State Roads not controlled by Council)		5,165	4,695
Swimming Pool Fees		170	148
Tourist Association		4	5
Waste Disposal Tipping Fees		1,511	2,330
Other		126	150
Total Fees & Charges - Other		7,850	8,206
TOTAL USER CHARGES & FEES		10,335	10,390

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 3. Income from Continuing Operations (continued)

\$ '000	Notes	Actual 2013	Actual 2012
(c) Interest & Investment Revenue (incl. losses)			
Interest & Dividends			
- Interest on Overdue Rates & Annual Charges (incl. Special Purpose Rates)		229	218
- Interest earned on Investments (interest & coupon payment income)		791	895
Fair Value Adjustments			
- Fair Valuation movements in Investments (at FV or Held for Trading)		785	(580)
<u>TOTAL INTEREST & INVESTMENT REVENUE</u>		<u>1,805</u>	<u>533</u>
Interest Revenue is attributable to:			
Unrestricted Investments/Financial Assets:			
Overdue Rates & Annual Charges (General Fund)		229	218
General Council Cash & Investments		715	(590)
Restricted Investments/Funds - External:			
Development Contributions			
- Section 94		179	201
Domestic Waste Management operations		35	42
Other Externally Restricted Assets		33	46
Restricted Investments/Funds - Internal:			
Internally Restricted Assets		614	616
<u>Total Interest & Investment Revenue Recognised</u>		<u>1,805</u>	<u>533</u>
(d) Other Revenues			
Rental Income - Other Council Properties		349	310
Fines		301	170
Legal Fees Recovery - Rates & Charges (Extra Charges)		325	233
Commissions & Agency Fees		21	30
General Administrative Services		8	3
Insurance Claim Recoveries		88	421
Sales - General		35	29
Section 355 Committees		158	160
Other		86	96
<u>TOTAL OTHER REVENUE</u>		<u>1,371</u>	<u>1,452</u>

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 3. Income from Continuing Operations (continued)

\$ '000	2013 Operating	2012 Operating	2013 Capital	2012 Capital
(e) Grants				
General Purpose (Untied)				
Financial Assistance - General Component	5,295	5,322	-	-
Financial Assistance - Local Roads Component	1,515	1,523	-	-
Pensioners' Rates Subsidies - General Component	425	449	-	-
Total General Purpose	7,235	7,294	-	-
Specific Purpose				
Pensioners' Rates Subsidies:				
- Domestic Waste Management	224	190	-	-
Drainage	-	-	138	58
Economic Development	18	19	-	-
Library - per capita	97	96	-	-
Library - special projects	-	3	205	59
Noxious Weeds	45	40	-	-
Recreation & Culture	-	-	41	64
RLCIP Grant	-	-	-	232
Street Lighting	45	44	-	-
Transport (Bus Shelters)	-	-	202	110
Transport (Roads to Recovery)	639	686	-	-
Transport (Other Roads & Bridges Funding)	117	117	-	-
Welfare Services	99	56	-	-
Other	82	129	-	-
Total Specific Purpose	1,366	1,380	586	523
Total Grants	8,601	8,674	586	523
Grant Revenue is attributable to:				
- Commonwealth Funding	7,467	7,549	-	232
- State Funding	1,134	1,125	586	291
	8,601	8,674	586	523

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 3. Income from Continuing Operations (continued)

\$ '000	2013 Operating	2012 Operating	2013 Capital	2012 Capital
(f) Contributions				
Developer Contributions:				
(s93 & s94 - EP&A Act, s64 of the LGA):				
S 93F - Contributions using Planning Agreements	-	-	254	192
S 94 - Contributions towards amenities/services	-	-	832	1,003
Total Developer Contributions	17	-	1,086	1,195
Other Contributions:				
Bushfire Protection	190	232	-	-
Dedications (other than by S94)	-	-	108	198
General Admin Services	412	382	-	-
Kerb & Gutter	-	-	1	1
Motor Vehicle Leaseback	143	146	-	-
Road Reinstatements	270	75	-	-
RMS Contributions (Regional Roads, Block Grant)	2,932	1,410	1,628	185
Transport	12	1	2	168
Hunter Water Corporation Contribution	108	-	-	-
Other	29	13	15	46
Total Other Contributions	4,096	2,259	1,754	598
Total Contributions	4,096	2,259	2,840	1,793
TOTAL GRANTS & CONTRIBUTIONS	12,697	10,933	3,426	2,316

\$ '000	Actual 2013	Actual 2012
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(g) Restrictions relating to Grants and Contributions

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

Unexpended at the Close of the Previous Reporting Period	4,693	3,988
add: Grants & contributions recognised in the current period but not yet spent:	1,800	1,982
less: Grants & contributions recognised in a previous reporting period now spent:	(1,772)	(1,277)
Net Increase (Decrease) in Restricted Assets during the Period	28	705
Unexpended and held as Restricted Assets	4,721	4,693
Comprising:		
- Specific Purpose Unexpended Grants	774	856
- Developer Contributions	3,947	3,837
	4,721	4,693

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2013

Note 4. Expenses from Continuing Operations

\$ '000	Notes	Actual 2013	Actual 2012
(a) Employee Benefits & On-Costs			
Salaries and Wages		16,662	15,927
Travelling		599	623
Employee Leave Entitlements (ELE)		3,628	3,586
Superannuation		2,580	2,527
Workers' Compensation Insurance		550	551
Fringe Benefit Tax (FBT)		252	176
Training Costs (other than Salaries & Wages)		244	228
Other		22	25
Total Employee Costs		24,537	23,643
less: Capitalised Costs		(1,086)	(981)
<u>TOTAL EMPLOYEE COSTS EXPENSED</u>		<u>23,451</u>	<u>22,662</u>
Number of "Equivalent Full Time" Employees at year end		261	259
(b) Borrowing Costs			
(i) Interest Bearing Liability Costs			
Interest on Loans		671	672
Total Interest Bearing Liability Costs Expensed		671	672
(ii) Other Borrowing Costs			
Nil			
<u>TOTAL BORROWING COSTS EXPENSED</u>		<u>671</u>	<u>672</u>

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2013

Note 4. Expenses from Continuing Operations (continued)

\$ '000	Notes	Actual 2013	Actual 2012
(c) Materials & Contracts			
Raw Materials & Consumables		7,112	7,385
Contractor & Consultancy Costs		5,206	5,098
Auditors Remuneration ⁽¹⁾		52	21
Infringement Notice Contract Costs (SEINS)		27	12
Legal Expenses:			
- Legal Expenses: Planning & Development		556	564
- Legal Expenses: Debt Recovery		326	250
- Legal Expenses: Other		1,140	804
Operating Leases:			
- Operating Lease Rentals: Minimum Lease Payments ⁽²⁾		304	319
<u>TOTAL MATERIALS & CONTRACTS</u>		<u>14,723</u>	<u>14,453</u>
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		52	21
Remuneration for audit and other assurance services		<u>52</u>	<u>21</u>
Total Auditor Remuneration		<u>52</u>	<u>21</u>
2. Operating Lease Payments are attributable to:			
Computers		293	305
Other		11	14
		<u>304</u>	<u>319</u>

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2013

Note 4. Expenses from Continuing Operations (continued)

\$ '000	Notes	Impairment Costs		Depreciation/Amortisation	
		Actual 2013	Actual 2012	Actual 2013	Actual 2012
(d) Depreciation, Amortisation & Impairment					
Plant and Equipment		-	-	1,633	1,775
Office Equipment		-	-	317	249
Furniture & Fittings		-	-	47	50
Buildings - Non Specialised		-	-	791	775
Buildings - Specialised		-	-	50	50
Other Structures		-	-	663	675
Infrastructure:					
- Roads, Bridges & Footpaths		-	-	10,667	10,448
- Stormwater Drainage		-	-	664	666
Other Assets					
- Library Books		-	-	161	139
<u>TOTAL DEPRECIATION & IMPAIRMENT COSTS EXPENSED</u>		-	-	14,993	14,827

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 4. Expenses from Continuing Operations (continued)

\$ '000	Notes	Actual 2013	Actual 2012
(e) Other Expenses			
Other Expenses for the year include the following:			
Advertising		169	167
Bad & Doubtful Debts		121	117
Bank Charges		32	33
Contributions/Levies to Other Levels of Government			
- Emergency Services Levy		66	51
- NSW Fire Brigade Levy		294	299
- NSW Rural Fire Service Levy		334	393
- Waste Levy		4,449	5,905
Councillor Expenses - Mayoral Fee		37	36
Councillor Expenses - Councillors' Fees		215	216
Councillors' Expenses (incl. Mayor) - Other (excluding fees above)		67	59
Donations, Contributions & Assistance to other organisations (Section 356)		60	71
Election Expenses		282	14
Electricity & Heating		520	432
Insurance		942	882
Rate Collection Agency Expenses		70	70
Section 355 Committees		120	125
Street Lighting		966	863
Subsidies		38	22
Telephone & Communications		333	342
Tourism Board Contribution		470	266
Valuation Fees		138	135
RSCPA Contribution		294	1,059
Other		78	52
<u>TOTAL OTHER EXPENSES</u>		<u>10,095</u>	<u>11,609</u>

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 5. Gains or Losses from the Disposal of Assets

\$ '000	Notes	Actual 2013	Actual 2012
Property (excl. Investment Property)			
Proceeds from Disposal - Property		58	-
less: Carrying Amount of Property Assets Sold / Written Off		(255)	-
Net Gain/(Loss) on Disposal		(197)	-
Plant & Equipment			
Proceeds from Disposal - Plant & Equipment		840	766
less: Carrying Amount of P&E Assets Sold / Written Off		(1,158)	(999)
Net Gain/(Loss) on Disposal		(318)	(233)
Infrastructure			
Proceeds from Disposal - Infrastructure		-	-
less: Carrying Amount of Infrastructure Assets Sold / Written Off		(1,877)	(2,827)
Net Gain/(Loss) on Disposal		(1,877)	(2,827)
Financial Assets*			
Proceeds from Disposal / Redemptions / Maturities - Financial Assets		4,735	7,900
less: Carrying Amount of Financial Assets Sold / Redeemed / Matured		(4,745)	(7,900)
Net Gain/(Loss) on Disposal		(10)	-
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(2,402)	(3,060)
* Financial Assets disposals / redemptions include:			
- Net Gain/(Loss) from Financial Instruments "At Fair Value through profit & loss"		(10)	-
Net Gain/(Loss) on Disposal of Financial Instruments		(10)	-

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 6a. - Cash Assets and Note 6b. - Investments

\$ '000	Notes	2013	2013	2012	2012
		Actual Current	Actual Non Current	Actual Current	Actual Non Current
Cash & Cash Equivalents (Note 6a)					
Cash on Hand and at Bank		1,220	-	908	-
Cash-Equivalent Assets ¹					
- Deposits at Call		4,196	-	4,433	-
- Short Term Deposits		5,100	-	6,700	-
Total Cash & Cash Equivalents		10,516	-	12,041	-
Investments (Note 6b)					
- Long Term Deposits		12,000	-	7,545	-
- CDO's		200	-	-	415
Total Investments		12,200	-	7,545	415
TOTAL CASH ASSETS, CASH EQUIVALENTS & INVESTMENTS		22,716	-	19,586	415

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"		10,516	-	12,041	-
--	--	---------------	----------	---------------	----------

Investments

a. "At Fair Value through the Profit & Loss"					
- "Held for Trading"	6(b-i)	200	-	-	415
b. "Held to Maturity"	6(b-ii)	12,000	-	7,545	-
Investments		12,200	-	7,545	415

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 6b. Investments (continued)

\$ '000	2013 Actual Current	2013 Actual Non Current	2012 Actual Current	2012 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	-	415	1,900	1,095
Revaluations (through the Income Statement)	785	-	100	(680)
Disposals (sales & redemptions)	(1,000)	-	(2,000)	-
Transfers between Current/Non Current	415	(415)	-	-
Balance at End of Year	200	-	-	415
Comprising:				
- CDO's	200	-	-	415
Total	200	-	-	415
Note 6(b-ii)				
Reconciliation of Investments classified as "Held to Maturity"				
Balance at the Beginning of the Year	7,545	-	600	445
Additions	8,200	-	12,400	-
Disposals (sales & redemptions)	(3,745)	-	(5,900)	-
Transfers between Current/Non Current	-	-	445	(445)
Balance at End of Year	12,000	-	7,545	-
Comprising:				
- Long Term Deposits	12,000	-	7,545	-
Total	12,000	-	7,545	-
Note 6(b-iii)				
Reconciliation of Investments classified as "Loans & Receivables"				
Nil				
Note 6(b-iv)				
Reconciliation of Investments classified as "Available for Sale"				
Nil				

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

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

\$ '000	2013	2013	2012	2012
	Actual Current	Actual Non Current	Actual Current	Actual Non Current
Total Cash, Cash Equivalents and Investments	22,716	-	19,586	415
attributable to:				
External Restrictions (refer below)	5,565	-	5,122	415
Internal Restrictions (refer below)	16,505	-	13,110	-
Unrestricted	646	-	1,354	-
	22,716	-	19,586	415

2013	Opening	Transfers to	Transfers from	Closing
\$ '000	Balance	Restrictions	Restrictions	Balance

Details of Restrictions

External Restrictions - Included in Liabilities

Nil

External Restrictions - Other

Developer Contributions - General (A)	3,837	1,265	(1,155)	3,947
Specific Purpose Unexpended Grants (B)	856	-	(82)	774
Domestic Waste Management (C)	782	-	-	782
Other	62	-	-	62
External Restrictions - Other	5,537	1,265	(1,237)	5,565
Total External Restrictions	5,537	1,265	(1,237)	5,565

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 2013

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

2013 \$ '000	Opening Balance	Transfers to Restrictions	Transfers from Restrictions	Closing Balance
Internal Restrictions				
Plant & Vehicle Replacement	2,238	867	(835)	2,270
Employees Leave Entitlement	724	782	(477)	1,029
Bridge Replacement	248	169	(80)	337
Cemetery	116	10	(78)	48
Computer Services	379	100	(247)	232
Insurance Provisions	451	139	(95)	495
Land Purchases	385	260	(64)	581
Other Special Projects	275	125	(311)	89
Residential Land Development	513	108	(54)	567
Rezoning Fees	51	55	-	106
Sanitary Operations	46	-	(5)	41
Single Invitation Contracts	251	222	(97)	376
Unexpended Loan Funds	751	-	(532)	219
Waste Depot & Rehabilitation	6,682	13,648	(10,280)	10,050
Impaired Investments Reserve	-	65	-	65
Total Internal Restrictions	13,110	16,550	(13,155)	16,505
TOTAL RESTRICTIONS	18,647	17,815	(14,392)	22,070

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 7. Receivables

\$ '000	Notes	2013		2012	
		Current	Non Current	Current	Non Current
Purpose					
Rates & Annual Charges		2,340	-	1,736	-
Interest & Extra Charges		403	-	330	-
User Charges & Fees		25	-	22	-
Accrued Revenues					
- Interest on Investments		114	-	118	-
Bushfire Protection		7	-	57	-
Community Facilities		-	-	55	-
Deferred Debtors		23	43	21	66
Garbage Tipping Fees		81	-	330	-
Government Grants & Subsidies		209	-	258	-
Industrial Development		178	-	178	-
Kerb & Gutter		7	-	16	-
Net GST Receivable		321	-	420	-
Restoration Charges		4	-	18	-
Rental Charges		174	-	163	-
RMS Debtors - State Roads		505	-	1,389	-
Vehicle Sales		82	-	82	-
Workers Compensation Refunds		245	-	120	-
Land Sales		70	-	-	-
Other Debtors		487	-	283	-
Total		5,275	43	5,596	66
less: Provision for Impairment					
Rates & Annual Charges		(93)	-	(82)	-
Other Debtors		(377)	-	(269)	-
Total Provision for Impairment - Receivables		(470)	-	(351)	-
<u>TOTAL NET RECEIVABLES</u>		<u>4,805</u>	<u>43</u>	<u>5,245</u>	<u>66</u>
Externally Restricted Receivables					
Domestic Waste Management		839	-	591	-
Stormwater Management		43	-	36	-
- Other Restricted Receivables		81	-	193	-
Total External Restrictions		963	-	820	-
Internally Restricted Receivables - Nil					
Unrestricted Receivables		3,842	43	4,425	66
TOTAL NET RECEIVABLES		4,805	43	5,245	66

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% (2012 10.00%).
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 2013

Note 8. Inventories & Other Assets

\$ '000	Notes	2013		2012	
		Current	Non Current	Current	Non Current
Inventories					
Real Estate for resale (refer below)		-	3,329	-	3,286
Stores & Materials		294	-	340	-
Total Inventories		294	3,329	340	3,286
Other Assets					
Prepayments		474	-	553	-
Total Other Assets		474	-	553	-
TOTAL INVENTORIES / OTHER ASSETS		768	3,329	893	3,286

Externally Restricted Assets

There are no restrictions applicable to the above assets.

(i) Other Disclosures

(a) Details for Real Estate Development

Residential	-	3,329	-	3,286
Total Real Estate for Resale	-	3,329	-	3,286

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

Represented by:

Development Costs	-	3,329	-	3,286
Total Costs	-	3,329	-	3,286
Total Real Estate for Resale	-	3,329	-	3,286

Movements:

Real Estate assets at beginning of the year	-	3,286	-	3,280
- Purchases and other costs	-	43	-	6
Total Real Estate for Resale	-	3,329	-	3,286

Notes to the Financial Statements
for the financial year ended 30 June 2013

Note 9a. Infrastructure, Property, Plant & Equipment

\$ '000	as at 30/6/2012					Asset Movements during the Reporting Period							as at 30/6/2013				
	At	At	Accumulated		Carrying	Asset Additions	WDV of Asset Disposals	Depreciation Expense	WIP Transfers	Adjustments & Transfers	Revaluation Decrements to Equity (ARR)	Revaluation Increments to Equity (ARR)	At	At	Accumulated		Carrying
	Cost	Fair Value	Dep'n	Impairment	Value								Cost	Fair Value	Dep'n	Impairment	Value
Capital Work in Progress	5,348	-	-	-	5,348	-	-	-	(3,433)	-	-	-	1,915	-	-	-	1,915
Plant & Equipment	-	18,812	12,525	-	6,287	2,934	(1,158)	(1,633)	-	-	-	-	-	18,761	12,331	-	6,430
Office Equipment	-	2,517	1,479	-	1,038	285	-	(317)	-	-	-	-	-	2,802	1,796	-	1,006
Furniture & Fittings	-	1,258	1,117	-	141	2	-	(47)	-	-	-	-	-	1,260	1,164	-	96
Plant & Equipment (under Finance Lease)	-	281	281	-	-	-	-	-	-	-	-	-	-	281	281	-	-
Land:																	
- Operational Land	-	44,114	-	-	44,114	208	(255)	-	-	(6,073)	-	849	-	38,843	-	-	38,843
- Community Land	-	23,803	-	-	23,803	-	-	-	-	6,073	-	-	-	29,876	-	-	29,876
- Land under Roads (post 30/6/08)	-	720	-	-	720	108	-	-	-	-	-	-	-	828	-	-	828
Buildings - Non Specialised	-	73,970	9,229	-	64,741	908	-	(791)	-	(42,854)	(8,416)	-	-	14,834	1,246	-	13,588
Buildings - Specialised	-	3,211	1,419	-	1,792	-	-	(50)	-	42,854	-	9,541	-	66,260	12,123	-	54,137
Other Structures	-	14,189	4,170	-	10,019	1,033	(259)	(663)	-	(4)	-	-	-	14,940	4,814	-	10,126
Infrastructure:																	
- Roads, Bridges, Footpaths	-	565,537	128,365	-	437,172	11,993	(1,618)	(10,667)	3,433	4	-	-	-	577,581	137,264	-	440,317
- Stormwater Drainage	-	53,358	11,852	-	41,506	318	-	(664)	-	-	-	-	-	53,675	12,515	-	41,160
Other Assets:																	
- Library Books	-	4,489	3,464	-	1,025	213	-	(161)	-	-	-	-	-	4,703	3,626	-	1,077
- 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.	5,348	814,662	182,301	-	637,709	18,002	(3,290)	(14,993)	-	-	(8,416)	10,390	1,915	833,047	195,560	-	639,402

Additions to Depreciable Land Improvements, Buildings, Other Structures & Infrastructure Assets are made up of Asset Renewals (\$13,454) and New Assets (\$798). 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 2013

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

\$ '000 Class of Asset	Actual 2013				Actual 2012			
	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	-	1,734	748	986	-	1,571	800	771
Land								
- Operational Land'	-	1,586	-	1,586	-	2,682	-	2,682
Buildings	-	136	45	91	-	69	8	61
Total DWM	-	3,456	793	2,663	-	4,322	808	3,514
TOTAL RESTRICTED I,PP&E	-	3,456	793	2,663	-	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 2013

Note 10a. Payables, Borrowings & Provisions

\$ '000	Notes	2013		2012	
		Current	Non Current	Current	Non Current
Payables					
Goods & Services - operating expenditure		2,921	-	3,940	-
Payments Received In Advance		3,623	508	3,546	484
Accrued Expenses:					
- Salaries & Wages		310	-	259	-
- Other Expenditure Accruals		539	-	503	-
Security Bonds, Deposits & Retentions		733	-	667	-
Trust Fund		97	-	134	-
Total Payables		8,223	508	9,049	484
Borrowings					
Loans - Secured ¹		1,264	7,761	938	9,025
Total Borrowings		1,264	7,761	938	9,025
Provisions					
Employee Benefits;					
Annual Leave		1,942	-	1,846	-
Sick Leave		523	-	544	-
Long Service Leave		4,411	109	4,228	115
Sub Total - Aggregate Employee Benefits		6,876	109	6,618	115
Asset Remediation/Restoration (Future Works) ²⁶		-	11,241	-	11,241
Total Provisions		6,876	11,350	6,618	11,356
Total Payables, Borrowings & Provisions		16,363	19,619	16,605	20,865
 (i) Liabilities relating to Restricted Assets					
		2013		2012	
		Current	Non Current	Current	Non Current
Externally Restricted Assets					
Domestic Waste Management		78	-	80	-
Liabilities relating to externally restricted assets		78	-	80	-
Internally Restricted Assets					
Nil					
Total Liabilities relating to restricted assets		78	-	80	-
Total Liabilities relating to Unrestricted Assets		16,285	19,619	16,525	20,865
TOTAL PAYABLES, BORROWINGS & PROVISIONS		16,363	19,619	16,605	20,865

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 2013

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

\$ '000	Actual 2013	Actual 2012
(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	4,285	4,179
Payables - Security Bonds, Deposits & Retentions	702	567
Other Liabilities: Trust Fund Deposits	52	52
	5,039	4,798

Note 10b. Description of and movements in Provisions

Class of Provision	2012		2013			
	Opening Balance as at 1/7/12	Additional Provisions	Decrease due to Payments	Remeasurement effects due to Discounting	Unused amounts reversed	Closing Balance as at 30/6/13
Annual Leave	1,846	1,404	(1,308)	-	-	1,942
Sick Leave	544	850	(871)	-	-	523
Long Service Leave	4,343	672	(495)	-	-	4,520
Asset Remediation	11,241	-	-	-	-	11,241
TOTAL	17,974	2,926	(2,674)	-	-	18,226

- 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 2013

Note 11. Statement of Cash Flows - Additional Information

\$ '000	Notes	Actual 2013	Actual 2012
(a) Reconciliation of Cash Assets			
Total Cash & Cash Equivalent Assets	6a	10,516	12,041
Less Bank Overdraft	10	-	-
BALANCE as per the STATEMENT of CASH FLOWS		10,516	12,041
(b) Reconciliation of Net Operating Result to Cash provided from Operating Activities			
Net Operating Result from Income Statement		3,377	(5,826)
Adjust for non cash items:			
Depreciation & Amortisation		14,993	14,827
Net Losses/(Gains) on Disposal of Assets		2,402	3,060
Non Cash Capital Grants and Contributions		(108)	(198)
Losses/(Gains) recognised on Fair Value Re-measurements through the P&L:			
- Investments classified as "At Fair Value" or "Held for Trading"		(785)	580
+/- Movement in Operating Assets and Liabilities & Other Cash Items:			
Decrease/(Increase) in Receivables		323	(240)
Increase/(Decrease) in Provision for Doubtful Debts		119	9
Decrease/(Increase) in Inventories		46	(34)
Decrease/(Increase) in Other Assets		79	(19)
Increase/(Decrease) in Payables		(1,019)	372
Increase/(Decrease) in other accrued Expenses Payable		87	(381)
Increase/(Decrease) in Other Liabilities		130	1,857
Increase/(Decrease) in Employee Leave Entitlements		252	160
NET CASH PROVIDED FROM/(USED IN) OPERATING ACTIVITIES from the STATEMENT of CASH FLOWS		19,896	14,167

Cessnock City Council

Notes to the Financial Statements for the financial year ended 30 June 2013

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

\$ '000	Notes	Actual 2013	Actual 2012
(c) Non-Cash Investing & Financing Activities			
Other Dedications		108	198
Total Non-Cash Investing & Financing Activities		108	198
(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

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 2013

Note 12. Commitments for Expenditure

\$ '000	Notes	Actual 2013	Actual 2012
(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			
Kurri Kurri Skate Park		10	244
Kurri Kurri Central Oval Amenities Block		30	513
Total Commitments		40	757
These expenditures are payable as follows:			
Within the next year		40	757
Total Payable		40	757
Sources for Funding of Capital Commitments:			
Unrestricted General Funds		40	187
Sect 64 & 94 Funds/Reserves		-	437
Unexpended Grants		-	133
Total Sources of Funding		40	757

(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	91	190
Later than one year and not later than 5 years	141	232
Later than 5 years	-	-
Total Non Cancellable Operating Lease Commitments	232	422

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

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

\$ '000	Amounts 2013	Indicator 2013	Prior Periods	
			2012	2011
Local Government Industry Indicators - Consolidated				
1. Unrestricted Current Ratio				
Current Assets less all External Restrictions ⁽¹⁾	<u>21,761</u>	1.93 : 1	1.69	1.91
Current Liabilities less Specific Purpose Liabilities ^(2,3)	<u>11,246</u>			
2. Debt Service Ratio				
Debt Service Cost	<u>1,609</u>	2.65%	2.98%	3.61%
Income from Continuing Operations (excl. Capital Items & Specific Purpose Grants/Contributions)	<u>60,824</u>			
3. Rates & Annual Charges Coverage Ratio				
Rates & Annual Charges	<u>40,078</u>	57.49%	58.31%	57.43%
Income from Continuing Operations	<u>69,712</u>			
4. Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage				
Rates, Annual & Extra Charges Outstanding	<u>2,650</u>	6.22%	5.15%	6.11%
Rates, Annual & Extra Charges Collectible	<u>42,616</u>			
5. Building & Infrastructure Renewals Ratio				
Asset Renewals ⁽⁴⁾	<u>13,454</u>	110.53%	91.24%	90.12%
Depreciation, Amortisation & Impairment	<u>12,172</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 2013

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

\$ '000	Amounts 2013	Indicator 2013
TCorp Performance Measures - Consolidated		
a. Operating Performance		
Operating Revenue (excl. Capital Grants & Contributions)		
- Operating Expenses	(834)	
Operating Revenue (excl. Capital Grants & Contributions)	65,501	-1.27%
b. Own Source Operating Revenue		
Rates & Annual Charges + User Charges & Fees	50,413	
Total Operating Revenue (incl. Capital Grants & Contributions)	68,927	73.14%
c. Unrestricted Current Ratio		
Current Assets less all External Restrictions	21,761	
Current Liabilities less Specific Purpose Liabilities	11,246	1.93
d. Debt Service Cover Ratio		
Operating Result before Interest & Depreciation (EBITDA)	14,830	
Principal Repayments (from the Statement of Cash Flows)	1,609	9.22
+ Borrowing Interest Costs (from the Income Statement)		
e. Capital Expenditure Ratio		
Annual Capital Expenditure	14,712	
Annual Depreciation	14,993	0.98
f. Infrastructure Backlog Ratio		
Estimated Cost to bring Assets to a Satisfactory Condition	117,242	
Total value of Infrastructure, Building, Other Structures & Depreciable Land Improvement Assets	559,328	0.21
g. Asset Maintenance Ratio		
Actual Asset Maintenance	7,815	
Required Asset Maintenance	14,812	0.53
h. Building & Infrastructure Renewals Ratio		
Asset Renewals	13,454	
Depreciation of Building and Infrastructure Assets	12,172	1.11
i. Cash Expense Cover Ratio		
Current Year's Cash & Cash Equivalents	10,516	
(Total Expenses - Depreciation - Interest Costs) x12	4,223	2.49
j. Interest Cover Ratio		
Operating Results before Interest & Depreciation (EBITDA)	14,830	
Borrowing Interest Costs (from the income statement)	671	22.10

Cessnock City Council

Notes to the Financial Statements for the financial year ended 30 June 2013

Note 13a(ii). Local Government Industry Indicators - 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>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> <tr> <td>2013</td> <td>1.93</td> </tr> </tbody> </table>	Year	Ratio : 1	2010	1.91	2011	1.91	2012	1.69	2013	1.93	<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 2012/13 Result</p> <p>2012/13 Ratio 1.93 : 1</p> <p>The ratio between current assets and current liabilities has increased slightly from that in 2011/12. This ratio still represents a satisfactory level of working capital.</p>
Year	Ratio : 1											
2010	1.91											
2011	1.91											
2012	1.69											
2013	1.93											
<p>2. Debt Service Ratio</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio %</th> </tr> </thead> <tbody> <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> <tr> <td>2013</td> <td>2.65%</td> </tr> </tbody> </table>	Year	Ratio %	2010	3.62%	2011	3.61%	2012	2.98%	2013	2.65%	<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 2012/13 Result</p> <p>2012/13 Ratio 2.65%</p> <p>Debt Service Ratio has decreased from that in 2011/12, 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 %											
2010	3.62%											
2011	3.61%											
2012	2.98%											
2013	2.65%											
<p>3. Rates & Annual Charges Coverage Ratio</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio %</th> </tr> </thead> <tbody> <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> <tr> <td>2013</td> <td>57.49%</td> </tr> </tbody> </table>	Year	Ratio %	2010	54.48%	2011	57.43%	2012	58.31%	2013	57.49%	<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 2012/13 Result</p> <p>2012/13 Ratio 57.49%</p> <p>Council's dependence on rates and annual charges for income compared to other sources of income remains relatively high. This ratio has decreased slightly due to total income from operations increasing at a greater rate than rates and charges income.</p>
Year	Ratio %											
2010	54.48%											
2011	57.43%											
2012	58.31%											
2013	57.49%											
<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>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> <tr> <td>2013</td> <td>6.22%</td> </tr> </tbody> </table>	Year	Ratio %	2010	5.49%	2011	6.11%	2012	5.15%	2013	6.22%	<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 2012/13 Result</p> <p>2012/13 Ratio 6.22%</p> <p>An increase in this ratio occurred in 2012/13. Additional staff resources for collection of outstanding monies during 2013/14 will result in an expected decrease in this ratio.</p>
Year	Ratio %											
2010	5.49%											
2011	6.11%											
2012	5.15%											
2013	6.22%											
<p>5. Building & Infrastructure Renewals Ratio</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio %</th> </tr> </thead> <tbody> <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> <tr> <td>2013</td> <td>110.53%</td> </tr> </tbody> </table>	Year	Ratio %	2010	212.33%	2011	90.12%	2012	91.24%	2013	110.53%	<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 2012/13 Result</p> <p>2012/13 Ratio 110.53%</p> <p>Council's continued effort in asset renewals is reflected in this ratio.</p>
Year	Ratio %											
2010	212.33%											
2011	90.12%											
2012	91.24%											
2013	110.53%											

Cessnock City Council

Notes to the Financial Statements for the financial year ended 30 June 2013

Note 13a(ii). TCorp Performance Measures - Graphs (Consolidated)

<p>a. Operating Performance</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio %</th> </tr> </thead> <tbody> <tr> <td>2011</td> <td>0.00%</td> </tr> <tr> <td>2012</td> <td>0.00%</td> </tr> <tr> <td>2013</td> <td>-1.27%</td> </tr> </tbody> </table>	Year	Ratio %	2011	0.00%	2012	0.00%	2013	-1.27%	<p>Purpose of Operating Performance Ratio</p> <p>This ratio measures Council's achievement of containing operating expenditure within operating revenue.</p>	<p>Commentary on 2012/13 Result</p> <p>2012/13 Ratio -1.27%</p> <p>This ratio indicates that Council did not contain its operating expenditure within operating revenue by -1.27%.</p>
Year	Ratio %									
2011	0.00%									
2012	0.00%									
2013	-1.27%									
<p>b. Own Source Operating Revenue</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio %</th> </tr> </thead> <tbody> <tr> <td>2011</td> <td>0.00%</td> </tr> <tr> <td>2012</td> <td>0.00%</td> </tr> <tr> <td>2013</td> <td>73.14%</td> </tr> </tbody> </table>	Year	Ratio %	2011	0.00%	2012	0.00%	2013	73.14%	<p>Purpose of Own Source Operating Revenue Ratio</p> <p>This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants & contributions.</p>	<p>Commentary on 2012/13 Result</p> <p>2012/13 Ratio 73.14%</p> <p>Council's dependence on rates, annual charges, user charges and fees compared to other sources of income is relatively high.</p>
Year	Ratio %									
2011	0.00%									
2012	0.00%									
2013	73.14%									
<p>c. Unrestricted Current Ratio</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio (x)</th> </tr> </thead> <tbody> <tr> <td>2011</td> <td>0.00</td> </tr> <tr> <td>2012</td> <td>0.00</td> </tr> <tr> <td>2013</td> <td>1.94</td> </tr> </tbody> </table>	Year	Ratio (x)	2011	0.00	2012	0.00	2013	1.94	<p>Purpose of Unrestricted Current Ratio</p> <p>To assess the adequacy of unrestricted working capital and Council's ability to meet short term obligations as they fall due.</p>	<p>Commentary on 2012/13 Result</p> <p>2012/13 Ratio 1.93</p> <p>The ratio between current assets and current liabilities has increased slightly from that in 2011/12. This ratio still represents a satisfactory level of working capital.</p>
Year	Ratio (x)									
2011	0.00									
2012	0.00									
2013	1.94									
<p>d. Debt Service Cover Ratio</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio (x)</th> </tr> </thead> <tbody> <tr> <td>2011</td> <td>0.00</td> </tr> <tr> <td>2012</td> <td>0.00</td> </tr> <tr> <td>2013</td> <td>9.22</td> </tr> </tbody> </table>	Year	Ratio (x)	2011	0.00	2012	0.00	2013	9.22	<p>Purpose of Debt Service Cover Ratio</p> <p>This ratio measures the availability of operating cash to service debt including interest, principal and lease payments</p>	<p>Commentary on 2012/13 Result</p> <p>2012/13 Ratio 9.22 x</p> <p>Debt Service Cover Ratio has decreased from that in 2011/12, highlighting a relatively low level of demand on discretionary revenue for loan repayments.</p>
Year	Ratio (x)									
2011	0.00									
2012	0.00									
2013	9.22									
<p>e. Capital Expenditure Ratio</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio (x)</th> </tr> </thead> <tbody> <tr> <td>2011</td> <td>0.00</td> </tr> <tr> <td>2012</td> <td>0.00</td> </tr> <tr> <td>2013</td> <td>0.98</td> </tr> </tbody> </table>	Year	Ratio (x)	2011	0.00	2012	0.00	2013	0.98	<p>Purpose of Capital Expenditure Ratio</p> <p>This ratio assesses the extent to which a Council is expanding its asset base with capital expenditure (on new assets, replacement & renewal of existing assets).</p>	<p>Commentary on 2012/13 Result</p> <p>2012/13 Ratio 0.98 x</p> <p>Council is continuing in its effort in capital and renewal expenditure.</p>
Year	Ratio (x)									
2011	0.00									
2012	0.00									
2013	0.98									

Cessnock City Council

Notes to the Financial Statements
for the financial year ended 30 June 2013

Note 13a(ii). TCorp Performance Measures - Graphs (Consolidated) continued

<p>f. Infrastructure Backlog Ratio</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio (x)</th> </tr> </thead> <tbody> <tr> <td>2011</td> <td>0.00</td> </tr> <tr> <td>2012</td> <td>0.00</td> </tr> <tr> <td>2013</td> <td>0.21</td> </tr> </tbody> </table>	Year	Ratio (x)	2011	0.00	2012	0.00	2013	0.21	<p>Purpose of Infrastructure Backlog Ratio</p> <p>This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.</p>	<p>Commentary on 2012/13 Result</p> <p>2012/13 Ratio 0.21 x</p> <p>This ratio represents a high proportion of backlog against the total value of Council's infrastructure.</p>
Year	Ratio (x)									
2011	0.00									
2012	0.00									
2013	0.21									
<p>g. Asset Maintenance Ratio</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio (x)</th> </tr> </thead> <tbody> <tr> <td>2011</td> <td>0.00</td> </tr> <tr> <td>2012</td> <td>0.00</td> </tr> <tr> <td>2013</td> <td>0.53</td> </tr> </tbody> </table>	Year	Ratio (x)	2011	0.00	2012	0.00	2013	0.53	<p>Purpose of Asset Maintenance Ratio</p> <p>Compares actual vs. required annual asset maintenance. A ratio of > 1.0x indicates enough has been spent to stop the Infrastructure Backlog from growing.</p>	<p>Commentary on 2012/13 Result</p> <p>2012/13 Ratio 0.53 x</p> <p>This ratio represents a lower than anticipated result.</p>
Year	Ratio (x)									
2011	0.00									
2012	0.00									
2013	0.53									
<p>h. Building & Infrastructure Renewals Ratio</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio (x)</th> </tr> </thead> <tbody> <tr> <td>2011</td> <td>0.00</td> </tr> <tr> <td>2012</td> <td>0.00</td> </tr> <tr> <td>2013</td> <td>1.11</td> </tr> </tbody> </table>	Year	Ratio (x)	2011	0.00	2012	0.00	2013	1.11	<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 2012/13 Result</p> <p>2012/13 Ratio 1.11 x</p> <p>Council's continued effort in asset renewals is reflected in this ratio.</p>
Year	Ratio (x)									
2011	0.00									
2012	0.00									
2013	1.11									
<p>i. Cash Expense Cover Ratio</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio (mths)</th> </tr> </thead> <tbody> <tr> <td>2011</td> <td>0.00</td> </tr> <tr> <td>2012</td> <td>0.00</td> </tr> <tr> <td>2013</td> <td>2.49</td> </tr> </tbody> </table>	Year	Ratio (mths)	2011	0.00	2012	0.00	2013	2.49	<p>Purpose of Cash Expense Cover Ratio</p> <p>This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.</p>	<p>Commentary on 2012/13 Result</p> <p>2012/13 Ratio 2.49 mths</p> <p>Council's cash flow is monitored on a daily basis. Any surplus funds are invested in term deposits and matured when needed.</p>
Year	Ratio (mths)									
2011	0.00									
2012	0.00									
2013	2.49									
<p>j. Interest Cover Ratio</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio (x)</th> </tr> </thead> <tbody> <tr> <td>2011</td> <td>0.00</td> </tr> <tr> <td>2012</td> <td>0.00</td> </tr> <tr> <td>2013</td> <td>22.10</td> </tr> </tbody> </table>	Year	Ratio (x)	2011	0.00	2012	0.00	2013	22.10	<p>Purpose of Interest Cover Ratio</p> <p>This ratio indicates the extent to which a Council can service (thru operating cash) its interest bearing debt & take on additional borrowings.</p>	<p>Commentary on 2012/13 Result</p> <p>2012/13 Ratio 22.10 x</p> <p>This ratio highlights a relatively low level of demand on discretionary revenue for loan repayments.</p>
Year	Ratio (x)									
2011	0.00									
2012	0.00									
2013	22.10									

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

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	
	2013	2012	2013	2012
Financial Assets				
Cash and Cash Equivalents	10,516	12,041	10,516	12,041
Investments				
- "Held for Trading"	200	415	200	415
- "Held to Maturity"	12,000	7,545	1,200	7,545
Receivables	4,848	5,311	4,848	5,311
Total Financial Assets	27,564	25,312	16,764	25,312
Financial Liabilities				
Payables	4,600	5,503	4,600	5,503
Loans / Advances	9,025	9,963	9,025	9,963
Total Financial Liabilities	13,625	15,466	13,625	15,466

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 2013

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 it's 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.

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
2013				
Possible impact of a 10% movement in Market Values	20	20	(20)	(20)
Possible impact of a 1% movement in Interest Rates	191	191	(191)	(191)
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)

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

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:

	2013	2013	2012	2012
	Rates & Annual Charges	Other Receivables	Rates & Annual Charges	Other Receivables
(i) Ageing of Receivables				
Current (not yet overdue)	-	1,359	-	2,478
Overdue	2,340	1,619	1,736	1,448
	<u>2,340</u>	<u>2,978</u>	<u>1,736</u>	<u>3,926</u>
(ii) Movement in Provision for Impairment of Receivables			2013	2012
Balance at the beginning of the year			351	342
+ new provisions recognised during the year			121	9
- amounts already provided for & written off this year			(2)	
Balance at the end of the year			<u>470</u>	<u>351</u>

Cessnock City Council

Notes to the Financial Statements for the financial year ended 30 June 2013

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		
2013									
Trade/Other Payables	733	3,868	-	-	-	-	-	4,601	4,600
Loans & Advances	-	1,264	925	924	923	937	4,052	9,025	9,025
Total Financial Liabilities	733	5,132	925	924	923	937	4,052	13,626	13,625
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

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:

	2013		2012	
	Carrying Value	Average Interest Rate	Carrying Value	Average Interest Rate
Trade/Other Payables	4,600	0.0%	5,503	0.0%
Loans & Advances - Fixed Interest Rate	9,025	7.1%	9,963	7.1%
	<u>13,625</u>		<u>15,466</u>	

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 16. Material Budget Variations

\$ '000

Council's Original Financial Budget for 12/13 was adopted by the Council on 27 June 2012.

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	2013 Budget	2013 Actual	2013 ----- Variance* -----		
REVENUES					
Rates & Annual Charges	39,738	40,078	340	1%	F
User Charges & Fees	11,227	10,335	(892)	(8%)	U
Interest & Investment Revenue	927	1,805	878	95%	F
Interest on Overdue Rates and Charges	56K (F)	Fair Value Adjustments on Investments	785K (F)		
Interest on Investments	37K (F)				
Other Revenues	866	1,371	505	58%	F
Income from Fines	120K (F)	Section 355 Committees	158K (F)		
Insurance Claims	58K (F)	Sundry Sales	18K (F)		
Lease Rentals	141K (F)	Diesel Fuel Rebate	15K (U)		
Legal Fees Recovery	25K (F)				
Operating Grants & Contributions	10,828	12,697	1,869	17%	F
RMS Contributions	1,838K (F)	Community Crime Prevention Grant	44K (F)		
Road Reinstatements	180K (F)	Road to Recovery Grant	126K (U)		
Financial Assistance Grant	165K (U)	Hunter Water Contribution	108K (F)		
Capital Grants & Contributions	5,503	3,426	(2,077)	(38%)	U
Section 94 Contributions	832K (F)	Kerb and Gutter Contributions	30K (U)		
Section 93 VPA Contributions	254K (F)	CPTIGS Bus Shelter Grant	93K (F)		
RMS Contributions	3,412K (U)	Flood Studies Grants	48K (F)		
Community Buildings Partnership Grant	68K (U)	Library Special Projects Grants	205K (F)		

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 16. Material Budget Variations (continued)

\$ '000	2013 Budget	2013 Actual	2013 Variance*	
EXPENSES				
Employee Benefits & On-Costs	25,676	23,451	2,225	9% F
Borrowing Costs	798	671	127	16% F
Loans included in 2012/13 Budget were not drawn down, resulting in savings on Interest Repayments of \$127K.				
Materials & Contracts	9,581	14,723	(5,142)	(54%) 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:				
Legal Expenses	1,328K (U)	Audit Fees		62K (U)
Depreciation & Amortisation	6,436	14,993	(8,557)	(133%) U
Depreciation expense was more than the original budget due to a revision being carried out of Council's Asset Management System in 2011/12. The original budget amount for 2012/13 was adopted by Council in June 2012, which was before this revision was completed (August 2012). The revision resulted in a depreciation expense in 2011/12 of \$14,827K. Had this amount been known when the 2012/13 budget was adopted, the depreciation budget for 2012/13 would have been adjusted accordingly.				
Other Expenses	13,566	10,095	3,471	26% F
Advertising	59K (U)	NSW Rural Fire Service Levy		92K (F)
Bad and Doubtful Debts	103K (U)	Section 355 Committees (not budgetted)		120K (U)
Carbon Tax - Landfill Site	2,133K (F)	NSW Govt Waste Levy Payments		1,596K (F)
Electricity and Heating	57K (U)			
Net Losses from Disposal of Assets	-	2,402	(2,402)	0% U

Budget Variations relating to Council's Cash Flow Statement include:

Cash Flows from Operating Activities	17,300	19,896	2,596	15.0% F
User Charges and Fees	2,022K (U)	Materials and Contracts		453K (U)
Grants and Contributions	1,639K (F)	Other Payments		1,767K (F)
Other Receipts	1,624K (F)			
Cash Flows from Investing Activities	(24,825)	(20,483)	4,342	(17.5%) F
Purchase of Infrastructure, Property, Plant and Equipment				7,731K (F)
Net Purchase/Sale of Investment Securities				3,465K (U)
Cash Flows from Financing Activities	7,556	(938)	(8,494)	(112.4%) U
Loan Borrowings in budget not taken up in 2012/13				8,625K (U)
Associated loan repayments in budget were not needed				131K (F)

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

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	72	-	-	5	-	-	77	500	(577)	-	-
Roads	832	256	-	31	(395)	-	724	40,803	(41,527)	-	-
Traffic Facilities	21	-	-	-	-	-	21	1,490	(1,511)	-	-
Parking	314	-	-	10	-	-	324	-	(324)	-	-
Open Space	792	228	-	14	(566)	-	468	19,973	(20,441)	-	-
Community Facilities	454	224	-	19	(158)	-	539	14,972	(15,511)	-	-
Tourist Facilities	540	44	-	59	-	-	643	30	(673)	-	-
Other	235	74	-	14	(36)	-	287	1,489	(1,776)	-	-
S94 Contributions - under a Plan	3,260	826	-	152	(1,155)	-	3,083	79,257	(82,340)	-	-
Total S94 Revenue Under Plans	3,260	826	-	152	(1,155)	-	3,083				-
S94 not under Plans	380	5	-	12	-	-	397	-	(397)	-	-
S93F Planning Agreements	197	255	-	15	-	-	467	12,533	(13,000)		
Total Contributions	3,837	1,086	-	179	(1,155)	-	3,947	91,790	(95,737)	-	-

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

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	11	7	-	-	-	-	18	-	(18)	-	-
Community Facilities	58	37	-	3	-	-	98	-	(98)	-	-
Other	12	7	-	1	-	-	20	-	(20)	-	-
Total	81	51	-	4	-	-	136	-	(136)	-	-

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	147	-	-	19	-	-	166	-	(166)	-	-
Total	147	-	-	19	-	-	166	-	(166)	-	-

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	21	-	-	-	-	-	21	-	(21)	-	-
Total	21	-	-	-	-	-	21	-	(21)	-	-

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

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	33	-	-	2	-	-	35	-	(35)	-	-
Total	33	-	-	2	-	-	35	-	(35)	-	-

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	314	-	-	10	-	-	324	-	(324)	-	-
Other	14	-	-	-	-	-	14	-	(14)	-	-
Total	328	-	-	10	-	-	338	-	(338)	-	-

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	39	-	-	3	-	-	42	-	(42)	-	-
Roads	575	199	-	22	(232)	-	564	150	(714)	-	-
Open Space	792	228	-	14	(566)	-	468	200	(668)	-	-
Community Facilities	396	187	-	16	(158)	-	441	150	(591)	-	-
Other	160	63	-	9	(36)	-	196	60	(256)	-	-
Total	1,962	677	-	64	(992)	-	1,711	560	(2,271)	-	-

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

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	143	50	-	-	(163)	-	30	50	(80)	-	-
Tourist Facilities	393	44	-	40	-	-	477	30	(507)	-	-
Other	49	4	-	4	-	-	57	5	(62)	-	-
Total	585	98	-	44	(163)	-	564	85	(649)	-	-

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	103	-	-	9	-	-	112	20	(132)	-	-
Total	103	-	-	9	-	-	112	20	(132)	-	-

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 2013

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	81	-	-	2	-	-	83	-	(83)	-	-
Roads	299	5	-	10	-	-	314	-	(314)	-	-
Total	380	5	-	12	-	-	397	-	(397)	-	-

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	197	255	-	15	-	-	467	2,283	(2,750)	-	-
Total	197	255	-	15	-	-	467	12,533	(13,000)	-	-

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 18. Contingencies & Other Assets/Liabilities Not Recognised

\$ '000

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

LIABILITIES NOT RECOGNISED:

1. Guarantees

(i) Defined Benefit Superannuation Contribution Plans

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

The Local Government Superannuation Scheme - Pool B (the Scheme) is a defined benefit plan that has been deemed to be a "multi-employer fund" for purposes of AASB119. Sufficient information under AASB119 is not available to account for the Scheme as a defined benefit plan, because the assets to the Scheme are pooled together for all employers.

The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2013 was \$1,094,285. The last valuation of the Scheme was performed by Mr Martin Stevenson BSc, FIA, FIAA on 20th February 2013 and covers the period ended 30 June 2013. However the position is monitored annually and the Actuary has estimated that as at 30th June 2013 a deficit still exists. Effective from 1 July 2013, employers are required to contribute additional contributions to assist in extinguishing this deficit. The annual amount of additional contributions payable until the deficit is extinguished is \$467,093. The additional contributions remitted during the year are included in the total employer contributions set out in the beginning of this paragraph.

(i) Defined Benefit Superannuation Contribution Plans (continued)

The share of this deficit that can be broadly attributed to this organisation was estimated to be in the order of \$2,171,677 as at 30 June 2013.

(ii) Statewide Limited

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

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

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

(iii) Other Guarantees

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

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

\$ '000

LIABILITIES NOT RECOGNISED (continued):

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.

(ii) S94 Plans

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

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

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

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

(iii) Bank 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.

Since balance date (30 June 2013), Council has taken over control of operations at the Hunter Wine Country Tourist Centre from HVVCT. The overdraft facility mentioned above was subsequently terminated by the bank on 29 August 2013.

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 2013

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

\$ '000

Council's objectives can and in some cases are best met through the use of separate entities & operations.

These operations and entities range from 100% ownership and control through to lower levels of ownership and control via co-operative arrangements with other Councils, Bodies and other Outside Organisations.

The accounting and reporting for these various entities, operations and arrangements varies in accordance with accounting standards, depending on the level of Councils (i) interest and (ii) control and the type (form) of entity/operation, as follows;

Joint Venture Operations

Note 19(a)

Arrangements that do not comprise an actual individual entity which can deploy the resources of the individual participants. Under JV Operations, Council Jointly Controls the operations with the Other Parties involved.

(a) 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

	2013	2012
Council's share of assets jointly owned with other partners		
Current Assets	35	42
Current Liabilities	(41)	(41)
Other Non Current Assets	353	344
Non Current Liabilities	(227)	(243)
Total Net Assets Employed - Council & Jointly Owned	120	102

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

	2013			2012		
	Revenues	Expenses	Result	Revenues	Expenses	Result
Hunter Councils Limited	119	101	18	118	93	25
Totals	119	101	18	118	93	25

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 20. Equity - Retained Earnings and Revaluation Reserves

\$ '000	Notes	Actual 2013	Actual 2012
(a) Retained Earnings			
Movements in Retained Earnings were as follows:			
Balance at beginning of Year (from previous years audited accounts)		402,005	407,831
a. Net Operating Result for the Year		<u>3,377</u>	<u>(5,826)</u>
Balance at End of the Reporting Period		<u>405,382</u>	<u>402,005</u>
(b) Reserves			
(i) Reserves are represented by:			
- Infrastructure, Property, Plant & Equipment Revaluation Reserve		<u>229,699</u>	<u>227,725</u>
Total		<u>229,699</u>	<u>227,725</u>
(ii) Reconciliation of movements in Reserves:			
Infrastructure, Property, Plant & Equipment Revaluation Reserve			
- Opening Balance		227,725	227,725
- Revaluations for the year	9(a)	<u>1,974</u>	<u>-</u>
- Balance at End of Year		<u>229,699</u>	<u>227,725</u>
TOTAL VALUE OF RESERVES		<u>229,699</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.

(c) Correction of Error/s relating to a Previous Reporting Period

Council made no correction of errors during the current reporting period.

(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 2013

Note 21. Financial Result & Financial Position by Fund

Income Statement by Fund \$ '000	Actual 2013	Actual 2013	Actual 2013	Actual 2013
	DWM	Water	Sewer	General ¹
Continuing Operations				
Income from Continuing Operations				
Rates & Annual Charges	5,998	-	-	34,080
User Charges & Fees	334	-	-	10,001
Interest & Investment Revenue	-	-	-	1,805
Other Revenues	-	-	-	1,371
Grants & Contributions provided for Operating Purposes	224	-	-	12,473
Grants & Contributions provided for Capital Purposes	-	-	-	3,426
Total Income from Continuing Operations	6,556	-	-	63,156
Expenses from Continuing Operations				
Employee Benefits & on-costs	762	-	-	22,689
Borrowing Costs	-	-	-	671
Materials & Contracts	5,154	-	-	9,569
Depreciation & Amortisation	204	-	-	14,789
Impairment	-	-	-	-
Other Expenses	-	-	-	10,095
Net Losses from the Disposal of Assets	-	-	-	2,402
Share of interests in Joint Ventures & Associates using the Equity Method	-	-	-	-
Total Expenses from Continuing Operations	6,120	-	-	60,215
Operating Result from Continuing Operations	436	-	-	2,941
Discontinued Operations				
Net Profit/(Loss) from Discontinued Operations	-	-	-	-
Net Operating Result for the Year	436	-	-	2,941
Net Operating Result attributable to each Council Fund	436	-	-	2,941
Net Operating Result attributable to Non-controlling Interests	-	-	-	-
Net Operating Result for the year before Grants and Contributions provided for Capital Purposes	436	-	-	(485)

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 2013

Note 21. Financial Result & Financial Position by Fund (continued)

Statement of Financial Position by Fund \$ '000	Actual 2013	Actual 2013	Actual 2013	Actual 2013
	DWM	Water	Sewer	General ¹
ASSETS				
Current Assets				
Cash & Cash Equivalents	4,864	-	-	5,652
Investments	-	-	-	12,200
Receivables	828	-	-	3,977
Inventories	-	-	-	294
Other	-	-	-	474
Non-current assets classified as 'held for sale'	-	-	-	-
Total Current Assets	5,692	-	-	22,597
Non-Current Assets				
Investments	-	-	-	-
Receivables	-	-	-	43
Inventories	-	-	-	3,329
Infrastructure, Property, Plant & Equipment	2,663	-	-	636,739
Investments Accounted for using the equity method	-	-	-	-
Investment Property	-	-	-	-
Other	-	-	-	-
Total Non-Current Assets	2,663	-	-	640,111
TOTAL ASSETS	8,355	-	-	662,708
LIABILITIES				
Current Liabilities				
Payables	-	-	-	8,223
Borrowings	-	-	-	1,264
Provisions	473	-	-	6,403
Total Current Liabilities	473	-	-	15,890
Non-Current Liabilities				
Payables	-	-	-	508
Borrowings	-	-	-	7,761
Provisions	4,496	-	-	6,854
Total Non-Current Liabilities	4,496	-	-	15,123
TOTAL LIABILITIES	4,969	-	-	31,013
Net Assets	3,386	-	-	631,695
EQUITY				
Retained Earnings	3,386	-	-	401,996
Revaluation Reserves	-	-	-	229,699
Total Equity	3,386	-	-	631,695

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 2013

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 the Reporting Period

Events that occur between the end of the reporting period (ending 30 June 2013) and 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 applicable "authorised for issue" date relating to these General Purpose Financial Statements.

Accordingly, the "authorised for issue" date is 23/10/13.

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

(i) Events that provide evidence of conditions that existed at the Reporting Period

These financial statements (and the figures therein) incorporate all "adjusting events" that provided evidence of conditions that existed at 30 June 2013.

(ii) Events that provide evidence of conditions that arose after the Reporting Period

These financial statements (& figures therein) do not incorporate any "non-adjusting events" that have occurred after 30 June 2013 and which are only indicative of conditions that arose after 30 June 2013.

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

Note 24. Discontinued Operations

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

Note 25. Intangible Assets

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

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

Cessnock City Council

Notes to the Financial Statements for the financial year ended 30 June 2013

Note 26. Reinstatement, Rehabilitation & Restoration Liabilities

\$ '000

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

Asset/Operation	Estimated year of restoration	NPV of Provision	
		2013	2012
Tip Site - Cessnock	2016	11,241	11,241
Balance at End of the Reporting Period		11,241	11,241

10(a)

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
Total - Reinstatement, rehabilitation and restoration provision	11,241	11,241

Amount of Expected Reimbursements

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

Cessnock City Council

Notes to the Financial Statements

for the financial year ended 30 June 2013

Note 27. Financial Review

\$ '000

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

Financial Performance Figures	2013	2012	2011	2010	2009
Inflows:					
Rates & Annual Charges Revenue	40,078	35,833	33,901	32,512	30,249
User Charges Revenue	10,335	10,390	7,760	9,758	10,330
Interest & Investment Revenue (Losses)	1,805	533	1,833	2,061	507
Grants Income - Operating & Capital	9,187	9,197	9,385	10,275	10,436
Total Income from Continuing Operations	69,712	61,457	59,027	59,635	56,993
Sale Proceeds from I,PP&E	898	766	1,707	2,263	2,368
New Loan Borrowings & Advances	-	1,890	1,431	500	500
Outflows:					
Employee Benefits & On-cost Expenses	23,451	22,662	22,037	22,079	20,686
Borrowing Costs	671	672	602	633	1,164
Materials & Contracts Expenses	14,723	14,453	12,721	14,017	15,923
Total Expenses from Continuing Operations	66,335	67,283	61,925	53,165	53,489
Total Cash purchases of I,PP&E	17,894	13,845	16,955	14,289	15,755
Total Loan Repayments (incl. Finance Leases)	938	981	1,269	1,267	1,403
Operating Surplus/(Deficit) (excl. Capital Income)	(49)	(8,142)	(6,538)	3,292	(674)
Financial Position Figures	2013	2012	2011	2010	2009
Current Assets	28,289	25,724	22,911	23,830	19,916
Current Liabilities	16,363	16,605	14,607	15,922	13,856
Net Current Assets	11,926	9,119	8,304	7,908	6,060
Available Working Capital (Unrestricted Net Current Assets)	(2,912)	(2,318)	(561)	591	2,063
Cash & Investments - Unrestricted	646	1,354	1,512	1,634	3,930
Cash & Investments - Internal Restrictions	16,505	13,110	12,208	12,316	10,102
Cash & Investments - Total	22,716	20,001	18,552	18,858	19,895
Total Borrowings Outstanding (Loans, Advances & Finance Leases)	9,025	9,963	9,054	8,892	9,659
Total Value of I,PP&E (excl. Land & Earthworks)	765,415	751,373	742,351	732,342	432,084
Total Accumulated Depreciation	195,560	182,301	168,471	149,874	120,027
Indicative Remaining Useful Life (as a % of GBV)	74%	76%	77%	80%	72%

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 2013

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

Mr Stephen Glen

RESPONSIBLE ACCOUNTING OFFICER

Mr Robert Maginnity

PUBLIC OFFICER

Mr Robert Maginnity

AUDITORS

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

PO Box 234 Newcastle 2300

Elected Members

MAYOR

Councillor Bob Pynsent

COUNCILLORS

Councillor Morgan Campbell
Councillor Rod Doherty
Councillor Bryce Gibson
Councillor James Hawkins
Councillor Jeff Maybury
Councillor Ian Olsen
Councillor Catherine Parsons
Councillor James Ryan
Councillor Allan Stapleford
Councillor Graham Smith
Councillor Cordelia Troy
Councillor Suellen Wrightson

Other Information

ABN: 60 919 148 928

**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 2013, 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.

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

Independence

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

Audit Opinion

In our opinion:

- (a) the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13 Part 3 Division 2;
- (b) the financial report:
 - i. has been presented in accordance with the requirements of this Division;
 - ii. is consistent with the Council's accounting records;
 - iii. presents fairly the Council's financial position as at 30 June 2013, 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 the Council for the year ended 30 June 2013 included on the Council's website. The Councillors are responsible for the integrity of the website. 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
23 October 2013
Sydney

CCC 300613: 20-210
LM/AH

23 October 2013

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 2013**

We have completed the audit of the financial report for Cessnock City Council for the year ended 30 June 2013 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.

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.

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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 2013 was a loss of \$49K compared with a loss of \$8.14M for the year ended 30 June 2012.

The difference to the prior year result is primarily due to increased rates & annual charges income and grants & contributions which have been partially offset by increases in materials & contracts expense, depreciation & amortisation expense and legal expenses.

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

	Note	2013 \$'000	2012 \$'000
INCOME			
Rates & annual charges	(i)	40,078	35,833
User charges & fees	(ii)	10,335	10,390
Investment revenue	(iii)	1,805	533
Other revenues		1,371	1,452
Grants & contributions - operating		12,697	10,933
Grants & contributions - capital		3,426	2,316
		69,712	61,457
EXPENSES			
Employee costs	(iv)	23,451	22,662
Borrowing costs		671	672
Materials & contracts	(v)	14,723	14,453
Depreciation & amortisation	(vi)	14,993	14,827
Other expenses	(vii)	10,095	11,609
Loss on disposal of assets	(viii)	2,402	3,060
		66,335	67,283
Net operating result		3,377	(5,826)

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

(i) Rates & Annual Charges

Rates and annual charges increased by \$4.25M (11.8%) from the prior year. This increase was primarily attributable to the introduction of a new Waste Levy charge of \$75.50 per service to fund future carbon tax payments, with the remaining increase attributable to the Council's approved annual rate increase of 3.6%.

(ii) User Charges & Fees

User charges and fees decreased by \$55K (0.5%) from the prior year. The volume of the Council's road work program was consistent when compared to the prior year.

(iii) Investment revenue

Investment revenues increased by \$1.27M (239%) from the prior year. Interest on investments and interest on overdue rates have remained materially consistent year on year. The primary factor resulting in the increase is the gain on sale of a previously impaired financial asset which was realised during the year.

(vi) Employee Costs

Employee costs increased by \$0.79M (3.5%) from the prior year and this is primarily attributable to the award increase of 3.25% for all employees during the year. Full time equivalent staff employed in 2013 were 261 (2012: 259).

(v) Materials & Contracts Expense

Materials and contracts expense has increased by \$0.27M (1.9%) from the prior year. This modest increase is the result of increased legal costs being partially offset by reductions in contracted services for the Council's road works program.

vi) Depreciation & Amortisation

Total depreciation expense for the year increased by \$166K (1.1%) compared to the prior period. This was primarily attributable to the stability of the Council's infrastructure, property, plant and equipment asset values during the year.

(vii) Other Expenses

Other expenses decreased by \$1.51M (13.0%) from the prior year and this was primarily attributable to a decrease in the NSW Government Waste Levy charge of \$1.46M based on a reduction in tonnage entering the Council's tip site.

(viii) Loss on Disposal of Assets

During the year, the Council wrote-off \$1.88M of road, bridge and footpath assets (2012: \$2.83M), mainly in relation to assets that had been replaced.

2. Statement of Comprehensive Income

	Note	2013 \$'000	2012 \$'000
COMPREHENSIVE INCOME			
Net operating result	(i)	3,377	(5,826)
Gain on revaluation of I,PP&E	(ii)	1,974	-
Total comprehensive income		5,351	(5,826)

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

(i) Net Operating Result

Please refer to comments made at section 1 of this report.

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

During the 2013 financial year a revaluation of operational land and buildings (specialised and non-specialised) assets was undertaken. The net result of this process was a revaluation increment of \$1.97M 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 2013 was \$635.1M compared with \$629.7M in the prior year. This result and other significant movements, together with their contributing factors, are outlined below:

	Note	2013 \$'000	2012 \$'000
Current Assets			
Cash & cash equivalents	(i)	10,516	12,041
Investments	(ii)	12,200	7,545
Receivables	(iii)	4,805	5,245
Inventories	(iv)	294	340
Other current assets		474	553
		28,289	25,724
Non-Current Assets			
Investments	(ii)	-	415
Receivables		43	66
Inventories	(iv)	3,329	3,286
Infrastructure, property, plant & equipment	(v)	639,402	637,709
		642,774	641,476
Total Assets		671,063	667,200
Current Liabilities			
Payables	(vi)	8,223	9,049
Borrowings	(vii)	1,264	938
Provisions	(viii)	6,876	6,618
		16,363	16,605
Non-Current Liabilities			
Payables	(vi)	508	484
Borrowings	(vii)	7,761	9,025
Provisions	(viii)	11,350	11,356
		19,619	20,865
Total Liabilities		35,982	37,470
Net Assets		635,081	629,730

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 \$4.24M (53.3%) to \$12.20M. This is reflective of the net movement of investment sales (\$4.74M) offset by investment purchases (\$8.20M).

(iii) Receivables

The balance of current receivables has decreased by \$0.44M (8.4%) from the prior year. This was primarily attributable to a decrease in receivables from the Roads and Maritime Services (RMS) State Roads of \$0.88M which has been partially offset by an increase in Rates and Annual Charges debtors of \$0.60M.

(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 increased by \$1.69M (0.3%). The movement is reflective of asset additions of \$18.00M, a revaluation increment of \$1.97M, offset by depreciation expense of \$14.99M and asset disposals of \$3.29M.

(vi) Payables

Current payables decreased by \$0.83M (9.1%) primarily due to a decrease in the year end balance of the State Government Section 88 Levy to \$0.23M (2012: \$0.43M). This was due to a higher volume of tonnage over the tip weighbridge in June 2012 than in June 2013. The remaining difference is attributable to the timing of contractor invoices for the Council's road works program.

(vii) Borrowings

Total interest bearing liabilities have decreased by \$0.94M (9.4%) to \$9.03M reflective of loan repayments made during the 2013 financial year including interest costs of \$0.67M (2012: \$0.67M). There were no new loan agreements entered into in the current year.

(viii) Provisions

Provisions have remained materially consistent to the prior year and are reflective of employee entitlements and the forecasted restoration costs for tip assets.

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

	2013 \$'000	2012 \$'000	2011 \$'000
Current assets	28,289	25,724	22,911
Current liabilities	16,363	16,605	14,607
Current ratio	1.73	1.55	1.57

The current ratio demonstrates that current assets yet to be realised exceed the current liabilities to be met over the next twelve months. The Council has improved its liquidity position from the prior year primarily due to an increase in funds held as investments at year end of \$12.2M (2012: \$7.5M).

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

	2013 \$'000	2012 \$'000	2011 \$'000
Total cash and investments	22,716	19,586	17,012
Less: externally restricted items	(5,565)	(5,122)	(3,292)
	17,151	14,464	13,720
Less: internally restricted items	(16,505)	(13,110)	(12,208)
Unrestricted cash and investments	646	1,354	1,512

The Council's unrestricted cash and investments balance has been deteriorating over the past few years. 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.

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.

	2013 \$'000	2012 \$'000	2011 \$'000
Net debt service cost	1,609	1,653	1,871
Operating revenue	60,824	55,502	51,761
Debt Service Ratio	2.65%	2.98%	3.61%

The debt ratio has continued to decrease year on year which highlights the decreasing 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.

	2013 \$'000	2012 \$'000	2011 \$'000
Rates and annual charges revenue	40,078	35,833	33,901
Total revenue	69,712	61,457	59,027
Rates & annual charge coverage ratio	57.49%	58.31%	57.43%

Council's dependence on rates remains relatively consistent, however the ratio has decreased from the prior year due to higher grant income received in the 2013 financial year.

The Council should continue to assess alternative revenue streams including land development and user charges in order to reduce its high levels of 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.

	2013 \$'000	2012 \$'000	2011 \$'000
Rates & annual charges outstanding	2,650	1,984	2,220
Rates & annual charges collectible	42,616	38,504	36,325
Percentage of outstanding rates	6.22%	5.15%	6.11%

The percentage of rates outstanding has historically fluctuated between 5.0-6.5%. The ratio is higher than last year which is reflective of the strong management effort made on rate collections in the 2012 financial year. There has been a deterioration in this ratio in the current year which has been impacted by the overall increase in rates and charges levied (an increase of \$4.11M) and the collectability of those higher rate notices.

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.

	2013 \$'000	2012 \$'000	2011 \$'000
Building & infrastructure renewals	13,454	10,893	10,014
Depreciation & amortisation	12,172	11,939	11,111
Building renewals ratio	110.53%	91.24%	90.12%

A ratio of less than 100% indicates that assets are being renewed at a slower rate than they are being depreciated. The Council has invested in building and infrastructure renewals in excess of depreciation during the 2013 financial year.

5. Statement of Cash Flows

The movement in cash is attributable to the following movements:

	2013 \$'000	2012 \$'000
Cash at the beginning of the year	12,041	14,512
Cash provided by operating activities	19,896	14,167
Cash used in investing activities	(20,483)	(17,547)
Cash provided by/(used in) financing activities	(938)	909
Cash at the end of the year	10,516	12,041

5.1 Cash flows from operating activities

Net cash inflows from operating activities totalled \$19.90M being an increase of \$5.73M (40.4%) on the prior year. This increase was a result of improvements in cash flows from Rates & Annual Charges (\$3.38M) and Grants & Contributions (\$3.13M).

5.2 Cash flows from investing activities

Net cash outflows from investing activities of \$20.48M represented an increase of \$2.94M (16.7%) on the prior year. Significant cash flows for the year include the sale of investment securities of \$4.74M, purchase of investment securities for \$8.20M and the purchase of infrastructure, property, plant and equipment for \$17.89M.

5.3 Cash flows from financing activities

Net cash outflows from financing activities of \$0.94M was a variance of \$1.85M from the prior year. This was attributable to no new borrowings in the current year (2012: \$1.89M) and the repayment of existing debt of \$0.94M (2012: \$0.98M).

6. Key Financial Statement Issues

6.1 ICAC Investigation and Legal Matters

The ICAC investigation and related legal matters that commenced in previous financial years has concluded with the final report of findings released in August 2013. ICAC decided that there should be no public inquiry as there was no clear evidence to substantiate the allegations made against staff and Councillors. However, ICAC did identify eight matters for improvement in the Council's governance procedures. Council has indicated to us that they will undertake to implement these recommendations.

As the outcome of the investigation has now been finalised and the impact on the Council can be accurately assessed, the uncertainty of the impact on the financial statements has been removed. Accordingly, the qualification included in the prior year audit opinion has also been removed.

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 \$16.51M (2012: \$13.11M) which increased due to an additional \$3.37M being held for future waste depot and rehabilitation services. The major component of this amount is the increase in the waste levy to fund the future payment of the carbon tax.

6.3 Valuation of Investments (Collateralised Debt Obligations - CDOs)

During the prior year, the valuation of the Council's Collateralised Debt Obligation (CDO) investments increased by \$0.79M. This was primarily due to the finalisation and winding up of a CDO that had been previously impaired to return 40% of the original capital based on the economic data available at the time. The return of capital of approximately 98% was received during the current year and resulted in a profit on sale of approximately \$0.59M.

The Council's last remaining CDO investment matures in the 2014 financial year and is currently recognised at a fair value of \$0.20M (2012: \$0.02M). We are satisfied with the method applied by management to value this investment at 30 June 2013.

6.4 Tip Restoration Liability

A tip restoration liability has been recognised in the financial statements at 30 June 2013 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 the 2015 financial year with restorations at the tip to commence at that time.

Management have determined that this liability is reasonable and accurately represents the likely cost to the Council at restoration date, discounted to its present value. This estimate included consultation with local councils on tip restoration costs incurred in previous years and input from the Tip Site Management on the remaining useful life of the tip. However, we note that the final cost will be determined by the requirements imposed on the Council by the Federal Government (as formerly administered by the Environmental Protection Agency).

We note that the corresponding tip asset was fully depreciated to a zero value as at 30 June 2013. With the tip restoration now revised beyond 2014, we recommend that management reassess the useful life of the tip asset for the 2014 financial report.

6.5 Revaluation of Infrastructure, Property, Plant and Equipment

During the year, the Council has revalued the following asset classes:

- Operational Land;
- Specialised Buildings; and
- Non-Specialised Buildings.

The fair value of operational land and non-specialised buildings was ascertained and based on market value by properly qualified independent valuers, whilst the fair value of specialised buildings was based on depreciated replacement cost from internal engineering valuations (assisted by external consultants).

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

As a consequence, a number of adjustments were identified to asset balances including the reclassification of certain assets between asset classes i.e. certain non-specialised buildings were reclassified as specialised buildings. The reclassification of these assets had a nil impact on the profit recognised for the 2013 financial year.

The resulting revaluation increment of \$1.97M has been appropriately reflected as an increase in the asset revaluation reserve.

6.6 Going Concern and Sustainability

The net operating result before capital grants and contributions for the year ended 30 June 2013 was a loss of \$49K compared with a loss of \$8.14M for the year ended 30 June 2012. The council has net assets of \$635.08M compared to a net asset position of \$629.73M in the prior year.

As required under Australian Auditing Standards, we assessed the appropriateness of the going concern assumption for the Council for the next twelve months. We have reviewed management's operational plan and financial budgets for the 2014 year as well as the critical assumptions of these plans, to assess whether the going concern basis is appropriate.

We are comfortable with the going concern assumption and the Councillor's conclusion that the Council is able to pay its debts as and when they fall due over the next 12 months. We draw attention to the financial sustainability assessment performed by TCorp (NSW Treasury Corporation) in October 2012 which indicated a concern regarding some significant future expenditure requirements. In light of this independent assessment, we recommend that the Council continue to consider future sustainability and medium to long term cash flows as a key objective moving forward.

7. Acknowledgements

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 report, 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 2013

"...attractive, thriving and welcoming."



Cessnock City Council

Special Purpose Financial Statements

for the financial year ended 30 June 2013

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

Background

(i) These Special Purpose Financial Statements have been prepared for the use by both Council and the Division of Local Government in fulfilling their requirements under National Competition Policy.

(ii) The principle of competitive neutrality is based on the concept of a "level playing field" between persons/entities competing in a market place, particularly between private and public sector competitors.

Essentially, the principle is that government businesses, whether Commonwealth, State or Local, should operate without net competitive advantages over other businesses as a result of their public ownership.

(iii) For Council, the principle of competitive neutrality & public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation and **(b)** those activities with a turnover of over \$2 million that Council has formally declared as a Business Activity (defined as Category 1 activities).

(iv) In preparing these financial statements for Council's self classified Category 1 businesses and ABS defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax equivalent regime payments & debt guarantee fees (where the business benefits from councils borrowing position by comparison with commercial rates).

Cessnock City Council

Special Purpose Financial Statements

for the financial year ended 30 June 2013

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 23 October 2013.



Councillor Bob Pynsent
MAYOR



Councillor Allan Stapleford
COUNCILLOR



Mr Stephen Glen
GENERAL MANAGER



Mr Robert Maginnity
RESPONSIBLE ACCOUNTING OFFICER

Cessnock City Council

Income Statement of Council's Other Business Activities

for the financial year ended 30 June 2013

\$ '000	Noxious Weeds		Lawn Cemeteries	
	Category 2		Category 2	
	Actual 2013	Actual 2012	Actual 2013	Actual 2012
Income from continuing operations				
Access charges	-	-	-	-
User charges	19	12	146	151
Fees	-	-	-	-
Interest	-	-	-	-
Grants and contributions provided for non capital purposes	45	40	-	-
Profit from the sale of assets	-	-	-	-
Other income	12	22	-	-
Total income from continuing operations	76	74	146	151
Expenses from continuing operations				
Employee benefits and on-costs	121	131	56	62
Borrowing costs	-	-	-	-
Materials and contracts	61	45	102	158
Depreciation and impairment	19	19	19	29
Loss on sale of assets	-	-	-	-
Calculated taxation equivalents	-	-	-	-
Debt guarantee fee (if applicable)	-	-	-	-
Other expenses	3	3	-	-
Total expenses from continuing operations	204	198	177	249
Surplus (deficit) from Continuing Operations before capital amounts	(128)	(124)	(31)	(98)
Grants and contributions provided for capital purposes	-	-	-	-
Surplus (deficit) from Continuing Operations after capital amounts	(128)	(124)	(31)	(98)
Surplus (deficit) from discontinued operations	-	-	-	-
Surplus (deficit) from ALL Operations before tax	(128)	(124)	(31)	(98)
less: Corporate Taxation Equivalent (30%) [based on result before capital]	-	-	-	-
SURPLUS (DEFICIT) AFTER TAX	(128)	(124)	(31)	(98)
plus Opening Retained Profits	(1,219)	(1,095)	88	186
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	(1,347)	(1,219)	57	88
Return on Capital %	-297.7%	-203.3%	-4.7%	-14.4%
Subsidy from Council	130	126	56	119

Cessnock City Council

Income Statement of Council's Other Business Activities

for the financial year ended 30 June 2013

Hunter Councils

Category 2

\$ '000	Actual 2013	Actual 2012
Income from continuing operations		
Access charges	-	-
User charges	107	107
Fees	-	1
Interest	2	-
Grants and contributions provided for non capital purposes	-	-
Profit from the sale of assets	-	-
Other income	10	10
Total income from continuing operations	119	118
Expenses from continuing operations		
Employee benefits and on-costs	-	37
Borrowing costs	12	13
Materials and contracts	68	23
Depreciation and impairment	13	12
Loss on sale of assets	-	-
Calculated taxation equivalents	-	-
Debt guarantee fee (if applicable)	3	3
Other expenses	5	5
Total expenses from continuing operations	101	93
Surplus (deficit) from Continuing Operations before capital amounts	18	25
Grants and contributions provided for capital purposes	-	-
Surplus (deficit) from Continuing Operations after capital amounts	18	25
Surplus (deficit) from discontinued operations	-	-
Surplus (deficit) from ALL Operations before tax	18	25
less: Corporate Taxation Equivalent (30%) [based on result before capital]	(5)	(8)
SURPLUS (DEFICIT) AFTER TAX	13	18
plus Opening Retained Profits	(47)	(75)
plus/less: Prior Period Adjustments	-	-
plus Adjustments for amounts unpaid:		
- Taxation equivalent payments	-	-
- Debt guarantee fees	3	3
- Corporate taxation equivalent	5	8
add:		
- Subsidy Paid/Contribution To Operations	-	-
less:		
- TER dividend paid	-	-
- Dividend paid	-	-
Closing Retained Profits	(26)	(47)
Return on Capital %	8.5%	11.0%
Subsidy from Council	-	-

Cessnock City Council

Statement of Financial Position - Council's Other Business Activities

as at 30 June 2013

\$ '000	Noxious Weeds		Lawn Cemeteries	
	Category 2		Category 2	
	Actual 2013	Actual 2012	Actual 2013	Actual 2012
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	43	61	660	679
Investments accounted for using equity method	-	-	-	-
Investment property	-	-	-	-
Other	-	-	-	-
Total Non-Current Assets	43	61	660	679
TOTAL ASSETS	43	61	660	679
LIABILITIES				
Current Liabilities				
Bank Overdraft	-	-	-	-
Payables	1,390	1,280	203	191
Interest bearing liabilities	-	-	-	-
Provisions	-	-	-	-
Total Current Liabilities	1,390	1,280	203	191
Non-Current Liabilities				
Payables	-	-	-	-
Interest bearing liabilities	-	-	-	-
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Total Non-Current Liabilities	-	-	-	-
TOTAL LIABILITIES	1,390	1,280	203	191
NET ASSETS	(1,347)	(1,219)	457	488
EQUITY				
Retained earnings	(1,347)	(1,219)	57	88
Revaluation reserves	-	-	400	400
Council equity interest	(1,347)	(1,219)	457	488
Non-controlling equity interest	-	-	-	-
TOTAL EQUITY	(1,347)	(1,219)	457	488

Cessnock City Council

Statement of Financial Position - Council's Other Business Activities

as at 30 June 2013

Hunter Councils

Category 2

\$ '000	Actual 2013	Actual 2012
ASSETS		
Current Assets		
Cash and cash equivalents	15	22
Investments	-	-
Receivables	19	19
Inventories	1	1
Other	-	-
Non-current assets classified as held for sale	-	-
Total Current Assets	35	42
Non-Current Assets		
Investments	-	-
Receivables	-	-
Inventories	-	-
Infrastructure, property, plant and equipment	353	344
Investment property	-	-
Other	-	-
Total Non-Current Assets	353	344
TOTAL ASSETS	388	386
LIABILITIES		
Current Liabilities		
Bank Overdraft	-	-
Payables	10	10
Interest bearing liabilities	7	20
Other Current Liabilities	5	6
Provisions	19	5
Total Current Liabilities	41	41
Non-Current Liabilities		
Payables	-	-
Interest bearing liabilities	226	241
Provisions	1	2
Other Liabilities	-	-
Total Non-Current Liabilities	227	243
TOTAL LIABILITIES	268	284
NET ASSETS	120	102
EQUITY		
Retained earnings	(26)	(47)
Revaluation reserves	146	149
Council equity interest	120	102
Non-controlling equity interest	-	-
TOTAL EQUITY	120	102

Cessnock City Council

Special Purpose Financial Statements

for the financial year ended 30 June 2013

Contents of the Notes accompanying the Financial Statements

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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 2013

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 is not a reporting not-for-profit entity.

The figures presented in these special purpose financial statements, unless otherwise stated, have been prepared in accordance with:

- the recognition and measurement criteria of relevant Australian Accounting Standards,
- other authoritative pronouncements of the Australian Accounting Standards Board (AASB) &
- Australian Accounting Interpretations.

The disclosures in these special purpose financial statements have been prepared in accordance with:

- 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, 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

Cessnock City Council

Notes to the Special Purpose Financial Statements for the financial year ended 30 June 2013

Note 1. Significant Accounting Policies

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

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 **\$406,000** of combined land values attracts **0%**. From \$406,001 to \$2,482,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$2,482,000, a premium marginal rate of **2.0%** applies.

Payroll Tax – **5.45%** on the value of taxable salaries and wages in excess of \$689,000.

Income Tax

An income tax equivalent has been applied on the profits of each reported Business Activity.

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 General Purpose Financial Statements.

The rate applied of 30% is the equivalent company tax rate prevalent as at balance date.

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 each reported Business Activity.

Cessnock City Council

Notes to the Special Purpose Financial Statements for the financial year ended 30 June 2013

Note 1. Significant Accounting Policies

(iii) Return on Investments (Rate of Return)

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

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 3.77% at 30/6/13.

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 2013, 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.

Independence

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

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

Audit Opinion

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

Emphasis of Matter - Basis of Accounting

Without modifying 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.

Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of the Council for the year ended 30 June 2013 included on the Council's website. The Councillors are responsible for the integrity of the website. 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 original certified 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
23 October 2013
Sydney

Cessnock City Council

SPECIAL SCHEDULES
for the year ended 30 June 2013

"...attractive, thriving and welcoming."



Cessnock City Council

Special Schedules

for the financial year ended 30 June 2013

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- 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 - Statement of Financial Position	n/a
- Special Schedule No. 5	Sewerage Service - Income Statement	n/a
- Special Schedule No. 6	Sewerage Service - Statement of Financial Position	n/a
- Notes to Special Schedules No. 3 & 5		n/a
- Special Schedule No. 7	Condition of Public Works	5
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¹ Special Purpose Schedules are not audited.

Background

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

Cessnock City Council

Special Schedule No. 1 - Net Cost of Services
for the financial year ended 30 June 2013

\$'000

Function or Activity	Expenses from. Continuing. Operations.	Income from continuing operations		Net Cost. of Services.
		Non Capital.	Capital.	
Governance	1,218	-	-	(1,218)
Administration	12,756	1,315	73	(11,368)
Public Order and Safety				
Fire Service Levy, Fire Protection, Emergency Services	913	191	17	(705)
Beach Control	-	-	-	-
Enforcement of Local Govt. Regulations	612	290	-	(322)
Animal Control	523	143	-	(380)
Other	-	-	-	-
Total Public Order & Safety	2,048	624	17	(1,407)
Health	600	836	-	236
Environment				
Noxious Plants and Insect/Vermin Control	219	66	-	(153)
Other Environmental Protection	364	5	-	(359)
Solid Waste Management	9,237	13,041	-	3,804
Street Cleaning	414	-	-	(414)
Drainage	786	475	138	(173)
Stormwater Management	-	-	-	-
Total Environment	11,020	13,587	138	2,705
Community Services and Education				
Administration & Education	297	96	-	(201)
Social Protection (Welfare)	235	7	-	(228)
Aged Persons and Disabled	16	-	-	(16)
Children's Services	-	-	-	-
Total Community Services & Education	548	103	-	(445)
Housing and Community Amenities				
Public Cemeteries	326	235	-	(91)
Public Conveniences	296	-	-	(296)
Street Lighting	966	47	-	(919)
Town Planning	4,445	1,078	-	(3,367)
Other Community Amenities	7	-	-	(7)
Total Housing and Community Amenities	6,040	1,360	-	(4,680)
Water Supplies	-	-	-	-
Sewerage Services	-	-	-	-

Cessnock City Council

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

for the financial year ended 30 June 2013

\$'000

Function or Activity	Expenses from Continuing Operations.	Income from continuing operations		Net Cost. of Services.
		Non Capital.	Capital.	
Recreation and Culture				
Public Libraries	1,587	154	265	(1,168)
Museums	-	-	-	-
Art Galleries	62	-	-	(62)
Community Centres and Halls	373	92	244	(37)
Performing Arts Venues	822	245	-	(577)
Other Performing Arts	-	-	-	-
Other Cultural Services	126	8	-	(118)
Sporting Grounds and Venues	673	-	-	(673)
Swimming Pools	1,311	171	-	(1,140)
Parks & Gardens (Lakes)	2,364	74	445	(1,845)
Other Sport and Recreation	666	-	-	(666)
Total Recreation and Culture	7,984	744	954	(6,286)
Fuel & Energy	-	-	-	-
Agriculture	-	-	-	-
Mining, Manufacturing and Construction				
Building Control	1,166	525	-	(641)
Other Mining, Manufacturing & Construction	-	-	-	-
Total Mining, Manufacturing and Const.	1,166	525	-	(641)
Transport and Communication				
Urban Roads (UR) - Local	9,004	404	365	(8,235)
Urban Roads - Regional	350	189	-	(161)
Sealed Rural Roads (SRR) - Local	3,947	128	1	(3,818)
Sealed Rural Roads (SRR) - Regional	1,198	758	1,628	1,188
Unsealed Rural Roads (URR) - Local	2,140	640	5	(1,495)
Unsealed Rural Roads (URR) - Regional	-	-	-	-
Bridges on UR - Local	537	-	-	(537)
Bridges on SRR - Local	334	-	-	(334)
Bridges on URR - Local	215	-	-	(215)
Bridges on Regional Roads	-	-	-	-
Parking Areas	7	-	-	(7)
Footpaths	219	-	-	(219)
Aerodromes	1,036	282	-	(754)
Other Transport & Communication	2,864	7,150	202	4,488
Total Transport and Communication	21,851	9,551	2,201	(10,099)
Economic Affairs				
Camping Areas & Caravan Parks	-	-	-	-
Other Economic Affairs	1,104	229	43	(832)
Total Economic Affairs	1,104	229	43	(832)
Totals – Functions	66,335	28,874	3,426	(34,035)
General Purpose Revenues⁽²⁾		37,412		37,412
Share of interests - joint ventures & associates using the equity method	-	-		-
NET OPERATING RESULT⁽¹⁾	66,335	66,286	3,426	3,377

(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) & Interest on overdue Rates & Annual Charges

Cessnock City Council

Special Schedule No. 2(a) - Statement of Long Term Debt (all purpose)

for the financial year ended 30 June 2013

\$'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	938	9,025	9,963	-	938	-	-	671	1,264	7,761	9,025
Other	-	-	-	-	-	-	-	-	-	-	-
Total Loans	938	9,025	9,963	-	938	-	-	671	1,264	7,761	9,025
Other Long Term Debt											
Ratepayers Advances	-	-	-	-	-	-	-	-	-	-	-
Government Advances	-	-	-	-	-	-	-	-	-	-	-
Finance Leases	-	-	-	-	-	-	-	-	-	-	-
Deferred Payments	-	-	-	-	-	-	-	-	-	-	-
Total Long Term Debt	-	-	-	-	-	-	-	-	-	-	-
Total Debt	938	9,025	9,963	-	938	-	-	671	1,264	7,761	9,025

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. 7 - Condition of Public Works

as at 30 June 2013

\$'000

ASSET CLASS	Asset Category	Dep'n. Rate (%)	Dep'n Expense (\$)	Cost	Valuation	Accum. Depreciation Amortisation & Impairment	Carrying Amount (WDV)	Asset Condition#	Estimated cost to bring up to a satisfactory condition / standard (1)	Required Annual Maintenance (2)	Current Annual Maintenance (3)	Current Annual Asset Replacement (4)
		per Note 1	per Note 4	<<<<<<<<< per Note 9 >>>>>>>>>								
Buildings	Council Offices	2.5 - 6.7%	100	-	6,500	330	6,170	3	106	138	194	13
	Council Works Depot	2.5 - 5%	23	-	4,410	770	3,640	2	196	61	52	59
	Community Centres & Halls	2 - 10%	207	-	12,464	1,872	10,592	3	869	376	375	304
	Council Houses	2.50%	1	-	360	64	296	3	10	3	1	-
	Museum	1.3 - 2.5%	52	-	8,150	1,805	6,345	3	1,043	179	18	-
	Library	2.5 - 3.3%	73	-	1,840	370	1,470	3	72	121	-	-
	Art Gallery	1.7 - 3.3%	9	-	340	63	277	3	9	17	3	-
	Amenities/Toilets	2 - 10%	325	-	39,054	6,837	32,217	3	1,085	621	246	-
	Fire Control Buildings	2 - 10%	25	-	5,824	943	4,881	3	25	59	14	-
	Pre-Schools	2 - 10%	26	-	2,152	315	1,837	3	2	29	-	-
	sub total			841	-	81,094	13,369	67,725		3,417	1,604	903
Other Structures	Cemeteries	3.3 - 10%	40	-	1,248	473	775	3	559	23	144	112
	Parks / Playgrounds	2 - 20%	129	-	6,483	1,792	4,691	3	2,659	134	1,132	-
	Swimming Pools	2 - 20%	95	-	446	140	306	3	33	1	44	141
	Sporting Facilities	2 - 20%	339	-	6,568	2,343	4,225	3	1,513	120	-	1,294
	Miscellaneous	2 - 20%	60	-	195	66	129	3	67	21	-	-
	sub total			663	-	14,940	4,814	10,126		4,831	299	1,320
Public Roads	All Council Roads	1.25 - 3.3%	8,074	-	407,867	116,844	291,023	3	88,666	8,297	4,871	11,488
	Bridges	1.25 - 2%	433	-	33,016	6,302	26,714	3	4,785	659	654	80
	Footpaths	2 - 3.3%	219	-	10,893	1,228	9,665	2	512	224	9	76
	Kerb and Gutter	1.25%	1,450	-	115,987	8,838	107,149	2	4,924	2,430	-	-
	Road Furniture	6.67%	392	-	7,770	3,235	4,535	3	6,946	161	53	18
	Public Transport Stops	5.00%	99	-	2,048	817	1,231	3	1,660	35	5	95
	sub total			10,667	-	577,581	137,264	440,317		107,493	11,806	5,592

Cessnock City Council

Special Schedule No. 8 - Financial Projections

as at 30 June 2013

\$'000	Actual ⁽¹⁾ 12/13	Forecast ⁽³⁾ 13/14	Forecast ⁽³⁾ 14/15	Forecast ⁽³⁾ 15/16	Forecast ⁽³⁾ 16/17	Forecast ⁽³⁾ 17/18	Forecast ⁽³⁾ 18/19	Forecast ⁽³⁾ 19/20	Forecast ⁽³⁾ 20/21	Forecast ⁽³⁾ 21/22	Forecast ⁽³⁾ 22/23
(i) OPERATING BUDGET											
Income from continuing operations	69,712	65,738	66,779	68,371	65,010	-	-	-	-	-	-
Expenses from continuing operations	66,335	62,487	63,715	64,916	66,446	-	-	-	-	-	-
Operating Result from Continuing Operations	3,377	3,251	3,064	3,455	(1,436)	-	-	-	-	-	-
(ii) CAPITAL BUDGET											
New Capital Works ⁽²⁾	1,704	1,376	932	932	932	-	-	-	-	-	-
Replacement/Refurbishment of Existing Assets	16,297	20,995	18,880	18,970	14,060	-	-	-	-	-	-
Total Capital Budget	18,001	22,371	19,812	19,902	14,992	-	-	-	-	-	-
Funded by:											
– Loans	-	500	500	500	500	-	-	-	-	-	-
– Asset sales	-	133	-	-	-	-	-	-	-	-	-
– Reserves	1,102	1,200	1,200	1,200	1,200	-	-	-	-	-	-
– Grants/Contributions	3,586	5,292	5,292	5,292	292	-	-	-	-	-	-
– Recurrent revenue	13,313	15,246	12,820	12,910	13,000	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-	-	-	-
	18,001	22,371	19,812	19,902	14,992	-	-	-	-	-	-

Notes:

(1) From 12/13 Income Statement.

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

(3) Financial projections should be in accordance with Council's Integrated Planning and Reporting framework.