

# Cessnock City Council

GENERAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2014

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**"...thriving, attractive and welcoming."**



# Cessnock City Council

## General Purpose Financial Statements

for the financial year ended 30 June 2014

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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 27 October 2014. Council has the power to amend and reissue these financial statements.

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## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

## Understanding Council's Financial Statements

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### 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 2014.

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 Office 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 Office of Local Government.

### More information...

A review of Council's financial performance and position for the 13/14 financial year can be found at Note 28 of the financial statements.

Cessnock City Council

General Purpose Financial Statements  
for the financial year ended 30 June 2014

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:

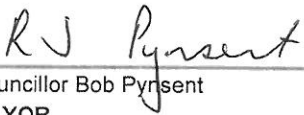
- The Local Government Act 1993 (as amended) and the Regulations made thereunder,
- The Australian Accounting Standards and professional pronouncements, and
- The Local Government Code of Accounting Practice and Financial Reporting.

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


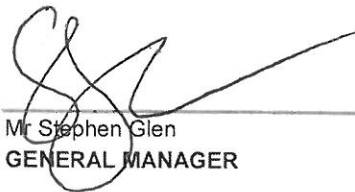
- present fairly the Council's operating result and financial position for the year, and
- accords with Council's accounting and other records.

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

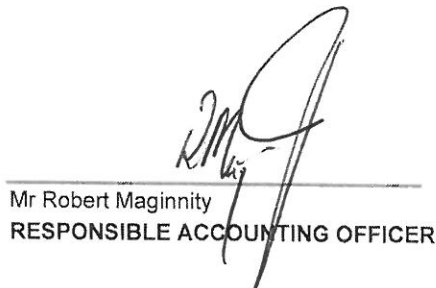
Signed in accordance with a resolution of Council made on 17 September 2014.



Councillor Bob Pyrsent  
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 2014

Budget <sup>1</sup> 2014	\$ '000	Notes	Actual 2014	Actual 2013
<b>Income from Continuing Operations</b>				
<b>Revenue:</b>				
41,132	Rates & Annual Charges	3a	41,263	40,078
7,009	User Charges & Fees	3b	8,767	10,335
871	Interest & Investment Revenue	3c	1,359	1,805
946	Other Revenues	3d	1,668	1,371
10,570	Grants & Contributions provided for Operating Purposes	3e,f	11,779 <sup>2</sup>	12,697
5,504	Grants & Contributions provided for Capital Purposes	3e,f	8,336	3,426
<b>Other Income:</b>				
-	Net gains from the disposal of assets	5	-	-
-	Net Share of interests in Joint Ventures & Associated Entities using the equity method	19	-	-
<b>66,032</b>	<b>Total Income from Continuing Operations</b>		<b>73,172</b>	<b>69,712</b>
<b>Expenses from Continuing Operations</b>				
26,720	Employee Benefits & On-Costs	4a	25,078	23,451
792	Borrowing Costs	4b	607	671
9,937	Materials & Contracts	4c	16,120	14,723
14,872	Depreciation & Amortisation	4d	12,848	14,993
-	Impairment	4d	-	-
12,195	Other Expenses	4e	10,974	10,095
-	Net Losses from the Disposal of Assets	5	3,712	2,402
<b>64,516</b>	<b>Total Expenses from Continuing Operations</b>		<b>69,339</b>	<b>66,335</b>
<b>1,516</b>	<b>Operating Result from Continuing Operations</b>		<b>3,833</b>	<b>3,377</b>
<b>Discontinued Operations</b>				
-	Net Profit/(Loss) from Discontinued Operations	24	-	-
<b>1,516</b>	<b>Net Operating Result for the Year</b>		<b>3,833</b>	<b>3,377</b>
1,516	Net Operating Result attributable to Council		3,833	3,377
-	Net Operating Result attributable to Non-controlling Interests		-	-
<b>(3,988)</b>	<b>Net Operating Result for the year before Grants and Contributions provided for Capital Purposes</b>		<b>(4,503)</b>	<b>(49)</b>

<sup>1</sup> Original Budget as approved by Council - refer Note 16

<sup>2</sup> Financial Assistance Grants for 13/14 are lower, reflecting a timing difference due to a change in how the grant is paid - refer Note 3 (e)

## Cessnock City Council

## Statement of Comprehensive Income

for the financial year ended 30 June 2014

\$ '000	Notes	Actual 2014	Actual 2013
<b>Net Operating Result for the year</b> (as per Income statement)		<b>3,833</b>	<b>3,377</b>
<b>Other Comprehensive Income:</b>			
Amounts which will not be reclassified subsequently to the Operating Result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	72,874	1,974
<b>Total Items which will not be reclassified subsequently to the Operating Result</b>		<b>72,874</b>	<b>1,974</b>
Amounts which will be reclassified subsequently to the Operating Result when specific conditions are met			
Nil			
<b>Total Other Comprehensive Income for the year</b>		<b>72,874</b>	<b>1,974</b>
<b>Total Comprehensive Income for the Year</b>		<b>76,707</b>	<b>5,351</b>
<b>Total Comprehensive Income attributable to Council</b>		<b>76,707</b>	<b>5,351</b>
<b>Total Comprehensive Income attributable to Non-controlling Interests</b>		<b>-</b>	<b>-</b>

## Cessnock City Council

Statement of Financial Position  
as at 30 June 2014

\$ '000	Notes	Actual 2014	Actual 2013
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash & Cash Equivalents	6a	13,723	10,516
Investments	6b	16,100	12,200
Receivables	7	3,172	4,805
Inventories	8	343	294
Other	8	80	474
Non-current assets classified as "held for sale"	22	-	-
<b>Total Current Assets</b>		<b>33,418</b>	<b>28,289</b>
<b>Non-Current Assets</b>			
Investments	6b	1,000	-
Receivables	7	21	43
Inventories	8	1,270	3,329
Infrastructure, Property, Plant & Equipment	9	712,416	639,402
Investments accounted for using the equity method	19	-	-
Investment Property	14	-	-
Intangible Assets	25	-	-
<b>Total Non-Current Assets</b>		<b>714,707</b>	<b>642,774</b>
<b>TOTAL ASSETS</b>		<b>748,125</b>	<b>671,063</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	10	7,121	8,223
Borrowings	10	1,133	1,264
Provisions	10	7,219	6,876
<b>Total Current Liabilities</b>		<b>15,473</b>	<b>16,363</b>
<b>Non-Current Liabilities</b>			
Payables	10	603	508
Borrowings	10	8,893	7,761
Provisions	10	11,368	11,350
<b>Total Non-Current Liabilities</b>		<b>20,864</b>	<b>19,619</b>
<b>TOTAL LIABILITIES</b>		<b>36,337</b>	<b>35,982</b>
<b>Net Assets</b>		<b>711,788</b>	<b>635,081</b>
<b>EQUITY</b>			
Retained Earnings	20	409,215	405,382
Revaluation Reserves	20	302,573	229,699
Council Equity Interest		711,788	635,081
Non-controlling Interests		-	-
<b>Total Equity</b>		<b>711,788</b>	<b>635,081</b>

## Cessnock City Council

Statement of Changes in Equity  
for the financial year ended 30 June 2014

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council Interest	Non- controlling Interest	Total Equity
<b>2014</b>						
<b>Opening Balance</b> (as per Last Year's Audited Accounts)		405,382	229,699	<b>635,081</b>	-	<b>635,081</b>
a. Correction of Prior Period Errors	20 (c)	-	-	-	-	-
b. Changes in Accounting Policies (prior year effects)	20 (d)	-	-	-	-	-
<b>Revised Opening Balance (as at 1/7/13)</b>		<b>405,382</b>	<b>229,699</b>	<b>635,081</b>	-	<b>635,081</b>
<b>c. Net Operating Result for the Year</b>		<b>3,833</b>	-	<b>3,833</b>	-	<b>3,833</b>
d. Other Comprehensive Income						
- Revaluations : IPP&E Asset Revaluation Rsve	20b (ii)	-	72,874	<b>72,874</b>	-	<b>72,874</b>
- Revaluations: Other Reserves	20b (ii)	-	-	-	-	-
- Transfers to Income Statement	20b (ii)	-	-	-	-	-
- Impairment (loss) reversal relating to I,PP&E	20b (ii)	-	-	-	-	-
<b>Other Comprehensive Income</b>		-	<b>72,874</b>	<b>72,874</b>	-	<b>72,874</b>
<b>Total Comprehensive Income (c&amp;d)</b>		<b>3,833</b>	<b>72,874</b>	<b>76,707</b>	-	<b>76,707</b>
e. Distributions to/(Contributions from) Non-controlling Interests		-	-	-	-	-
f. Transfers between Equity		-	-	-	-	-
<b>Equity - Balance at end of the reporting period</b>		<b>409,215</b>	<b>302,573</b>	<b>711,788</b>	-	<b>711,788</b>

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



## Cessnock City Council

## Statement of Cash Flows

for the financial year ended 30 June 2014

Budget 2014	\$ '000	Notes	Actual 2014	Actual 2013
<b>Cash Flows from Operating Activities</b>				
<b>Receipts:</b>				
41,132	Rates & Annual Charges		42,150	39,485
7,100	User Charges & Fees		5,931	11,278
900	Investment & Interest Revenue Received		1,047	951
16,400	Grants & Contributions		21,014	16,639
-	Bonds, Deposits & Retention amounts received		32	66
4,700	Other		3,978	4,624
<b>Payments:</b>				
(24,300)	Employee Benefits & On-Costs		(24,881)	(23,290)
(17,500)	Materials & Contracts		(15,398)	(17,153)
(700)	Borrowing Costs		(607)	(671)
-	Bonds, Deposits & Retention amounts refunded		(134)	-
(10,700)	Other		(11,743)	(12,033)
<b>17,032</b>	<b>Net Cash provided (or used in) Operating Activities</b>	11b	<b>21,389</b>	<b>19,896</b>
<b>Cash Flows from Investing Activities</b>				
<b>Receipts:</b>				
-	Sale of Investment Securities		5,757	4,735
800	Sale of Infrastructure, Property, Plant & Equipment		807	898
-	Deferred Debtors Receipts		24	21
<b>Payments:</b>				
-	Purchase of Investment Securities		(10,400)	(8,200)
(22,400)	Purchase of Infrastructure, Property, Plant & Equipment		(15,371)	(17,894)
-	Purchase of Real Estate Assets		-	(43)
<b>(21,600)</b>	<b>Net Cash provided (or used in) Investing Activities</b>		<b>(19,183)</b>	<b>(20,483)</b>
<b>Cash Flows from Financing Activities</b>				
<b>Receipts:</b>				
500	Proceeds from Borrowings & Advances		2,000	-
<b>Payments:</b>				
(1,204)	Repayment of Borrowings & Advances		(999)	(938)
<b>(704)</b>	<b>Net Cash Flow provided (used in) Financing Activities</b>		<b>1,001</b>	<b>(938)</b>
<b>(5,272)</b>	<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>		<b>3,207</b>	<b>(1,525)</b>
10,516	plus: Cash & Cash Equivalents - beginning of year	11a	10,516	12,041
<b>5,244</b>	<b>Cash &amp; Cash Equivalents - end of the year</b>	11a	<b>13,723</b>	<b>10,516</b>
Additional Information:				
	plus: Investments on hand - end of year	6b	17,100	12,200
<b>Total Cash, Cash Equivalents &amp; Investments</b>			<b>30,823</b>	<b>22,716</b>

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 2014

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n/a - not applicable

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### 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 Australian Accounting 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

During the current year, the following relevant standards became mandatory for Council and have been adopted:

- AASB 13 Fair Value Measurement
- AASB 119 Employee Benefits

AASB 13 Fair Value Measurement has not affected the assets or liabilities which are to be measured at fair value, however it provides detailed guidance on how to measure fair value in accordance with the accounting standards.

It introduces the concept of highest and best use for non-financial assets and has caused the Council to review their valuation methodology.

The level of disclosures regarding fair value have increased significantly and have been included in the financial statements at Note 27.

AASB 119 Employee Benefits introduced revised definitions for short-term employee benefits.

Whilst the Council has reviewed the annual leave liability to determine the level of annual leave which is expected to be paid more than 12 months after the end of the reporting period, there has been no effect on the amounts disclosed as leave liabilities since Council's existing valuation policy was to discount annual leave payable more than 12 months after the end of the reporting period to present values.

###### (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 2013.

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

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

##### (v) Basis of Accounting

These financial statements have been prepared under the **historical cost convention** except for:

- (i) certain financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets 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 non current assets (eg. Infrastructure, Property, Plant & Equipment and Investment Property) that are accounted for at fair valuation.

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

##### (vi) Changes in Accounting Policies

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

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

##### (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 Council 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 remediation provisions.

##### **Critical judgements in applying Council'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 it 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.

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

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

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

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

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

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

Rental income is accounted for on a straight-line basis over the lease term.

Interest Income from Cash & Investments is accounted for using the effective interest rate at the date that interest is earned.

#### Other Income

Other income is recorded when the payment is due, the value of the payment is notified or the payment is received, whichever occurs first.

#### (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 2014) and **(ii)** all the related operating results (for the financial year ended the 30th June 2014).

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.

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

##### (i) The Consolidated Fund

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

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

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

- General Purpose Operations
- Section 355 Committees

##### (ii) The Trust Fund

In accordance with the provisions of Section 411 of the Local Government Act 1993 (as amended), a separate and distinct Trust Fund is maintained to account for all money and property received by the Council in trust which must be applied only for the purposes of or in accordance with the trusts relating to those monies.

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

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

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

##### (iii) Joint Ventures

###### Jointly Controlled Assets & Operations

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

###### Jointly Controlled Entities

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

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

##### (iv) Associated Entities

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

Such entities are usually termed Associates.

##### (v) County Councils

Council is not a member of any County Councils.

##### (vi) Additional Information

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

##### (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.



## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

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

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

##### Operating Leases

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

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

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

##### (e) Cash and Cash Equivalents

For Statement of Cash Flows (and Statement of Financial Position) presentation purposes, 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.

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

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

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

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

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

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

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

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

##### 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



## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

adjustments are included in the income statement as gains and losses from investment securities.

##### Impairment

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

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

##### (iii) Types of Investments

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

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

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.

##### (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

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

collect all amounts due according to the original terms of each receivable.

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

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

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

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

#### (i) Inventories

##### Raw Materials and Stores, Work in Progress and Finished Goods

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

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

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

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

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

##### Land Held for Resale/Capitalisation of Borrowing Costs

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

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

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

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

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

#### (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 Office 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)

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

##### Initial Recognition

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

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

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

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

##### Subsequent costs

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

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

##### Asset Revaluations (including Indexation)

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

- Increases in the 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;

<b>Land</b>	
- 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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<b>Building</b>	
- 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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## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

##### 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:

<b>Plant &amp; Equipment</b>	
- 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
<b>Other Structures</b>	
- Playground equipment	5 to 15 years
- Benches, seats etc	10 to 20 years
<b>Other Assets</b>	
- Library Books	5 to 15 years
- Artworks	Indefinite
<b>Buildings</b>	
- 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
<b>Stormwater Drainage</b>	
- Drains	50 to 80 years
- Culverts	50 to 80 years
<b>Transportation Assets</b>	
- Sealed Roads : Rigid	80 years
- Sealed Roads : Flexible	50 years
- Unsealed roads	30 years
- Bridge : Concrete	80 years
- Bridge : Other	50 years
- Road Pavements	50 years
- Kerb, Gutter & Paths	80 years

##### Other Infrastructure Assets

- Bulk earthworks Infinite

All asset residual values and useful lives are reviewed and adjusted (if appropriate), at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount – refer Note 1(s) on Asset Impairment.

##### Disposal and De-recognition

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

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

##### (k) Land

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

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

##### (l) Land under roads

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

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

Land under roads acquired after 1 July 2008 is recognised in accordance with AASB 116 – Property, Plant and Equipment.

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

##### **(m) Intangible Assets**

Council has not classified any assets as Intangible.

##### **(n) Crown Reserves**

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

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

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

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

##### **(o) Rural Fire Service assets**

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

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

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

##### **(p) Investment property**

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

Council does not have any Investment Properties.

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

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

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

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

Costs are estimated on the basis of a closure plan.

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

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

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

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



## Cessnock City Council

### Notes to the Financial Statements for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

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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.

#### **(r) Non-Current Assets (or Disposal Groups) “Held for Sale” & Discontinued Operations**

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

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

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

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

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

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

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

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

##### (s) Impairment of assets

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

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

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.

##### (t) Payables

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

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

##### (u) Borrowings

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

Borrowings are subsequently measured at amortised cost.

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

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

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

##### (v) Borrowing costs

Borrowing costs are expensed

##### (w) Provisions

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

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

Provisions are not recognised for future operating losses.

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

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

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

The discount rate used to determine the present value reflects current market assessments of the

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

time value of money and the risks specific to the liability.

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

#### **(x) Employee benefits**

##### **(i) Short Term Obligations**

Short term employee benefit obligations include liabilities for wages and salaries (including non-monetary benefits), annual leave and vesting sick leave expected to be wholly 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.

All other short-term employee benefit obligations are presented as payables.

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 wholly settled within the 12 months after the reporting period) are recognised in the provision for employee benefits.

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

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

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

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

##### **(iii) Retirement benefit obligations**

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

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

##### **Defined Benefit Plans**

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

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

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

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation



## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

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 Richard Boyfield, Representative of Mercer Consulting (Australia) Pty Ltd, on 30 June 2014 and covers the period ended 30 June 2014.

However the position is monitored annually and the Actuary has estimated that as at 30 June 2014 the prior period 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 2014 was \$ 1,040,746.

The 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 \$ 1,868,372 as at 30 June 2014.

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 30/6/14.

#### (y) Self insurance

Council does not self insure.

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

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

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

#### Exceptions

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

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

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

##### (aa) Taxes

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

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

##### Goods & Services Tax (GST)

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

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

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

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

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

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

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

##### (ab) New accounting standards and interpretations

Certain new (or amended) accounting standards and interpretations have been published that are not mandatory for reporting periods ending 30 June 2014.

**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 and AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (effective from 1 January 2017)***

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.

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.

Council has not yet fully assessed the impact on the reporting financial position and performance on adoption of AASB 9.

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

##### **Applicable to Local Government but no implications for Council;**

**AASB 2013-3 Amendments to AASB 136 Recoverable Amount Disclosures for Non-Financial Assets** (effective for 30 June 2015 Financial Statements)

There are no changes to reported financial position or performance from AASB 2013 – 3, however additional disclosures may be required.

##### **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 for 30 June 2015 Financial Statements for not-for-profit entities)

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 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.

## Cessnock City Council

### Notes to the Financial Statements for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

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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 2015.

#### **Not applicable to Local Government per se;**

None

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

#### **(ac) Rounding of amounts**

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

#### **(ad) Comparative Figures**

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

#### **(ae) Disclaimer**

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

# Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

### 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
	2014	2014	2013	2014	2014	2013	2014	2014	2013	2014	2013	2014	2013
Governance	-	-	-	923	1,002	1,218	(923)	(1,002)	(1,218)	-	-	545	-
Administration	690	1,806	1,388	16,994	10,570	12,756	(16,304)	(8,764)	(11,368)	-	-	85,832	79,575
Public Order & Safety	480	537	641	1,973	2,135	2,048	(1,493)	(1,598)	(1,407)	-	-	7,141	7,463
Health	1,006	926	836	732	742	600	274	184	236	-	-	189	169
Environment	13,224	13,037	13,725	12,884	12,229	11,020	340	808	2,705	319	410	46,909	47,392
Community Services & Education	44	67	103	336	483	548	(292)	(416)	(445)	63	99	4,155	4,664
Housing & Community Amenities	980	1,470	1,360	4,782	5,381	6,040	(3,802)	(3,911)	(4,680)	109	73	2,945	2,877
Recreation & Culture	622	1,430	1,698	6,931	8,952	7,984	(6,309)	(7,522)	(6,286)	294	343	75,273	76,056
Mining, Manufacturing & Construction	519	552	525	1,090	1,254	1,166	(571)	(702)	(641)	-	-	188	178
Transport & Communication	9,930	14,485	11,752	17,146	25,594	21,851	(7,216)	(11,109)	(10,099)	1,417	958	521,265	449,036
Economic Affairs	214	249	272	725	997	1,104	(511)	(748)	(832)	61	69	3,683	3,653
<b>Total Functions &amp; Activities</b>	<b>27,709</b>	<b>34,559</b>	<b>32,300</b>	<b>64,516</b>	<b>69,339</b>	<b>66,335</b>	<b>(36,807)</b>	<b>(34,780)</b>	<b>(34,035)</b>	<b>2,263</b>	<b>1,952</b>	<b>748,125</b>	<b>671,063</b>
Share of gains/(losses) in Associates & Joint Ventures (using the Equity Method)	-	-	-	-	-	-	-	-	-	-	-	-	-
General Purpose Income <sup>1</sup>	38,323	38,613	37,412	-	-	-	38,323	38,613	37,412	7,496	7,235	-	-
<b>Operating Result from Continuing Operations</b>	<b>66,032</b>	<b>73,172</b>	<b>69,712</b>	<b>64,516</b>	<b>69,339</b>	<b>66,335</b>	<b>1,516</b>	<b>3,833</b>	<b>3,377</b>	<b>9,759</b>	<b>9,187</b>	<b>748,125</b>	<b>671,063</b>

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 2014

#### 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, 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 2014

## Note 3. Income from Continuing Operations

\$ '000	Notes	Actual 2014	Actual 2013
<b>(a) Rates &amp; Annual Charges</b>			
<b>Ordinary Rates</b>			
Residential		21,262	20,149
Farmland		3,376	3,260
Mining		928	912
Business		4,339	4,298
<b>Total Ordinary Rates</b>		<b>29,905</b>	<b>28,619</b>
<b>Special Rates</b>			
Nil			
<b>Annual Charges</b> (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic Waste Management Services		10,008	10,125
Stormwater Management Services		478	470
Waste Management Services (non-domestic)		848	840
Section 611 Charges		24	24
<b>Total Annual Charges</b>		<b>11,358</b>	<b>11,459</b>
<b>TOTAL RATES &amp; ANNUAL CHARGES</b>		<b>41,263</b>	<b>40,078</b>

Council has used 2012 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 2014

## Note 3. Income from Continuing Operations (continued)

\$ '000	Notes	Actual 2014	Actual 2013
<b>(b) User Charges &amp; Fees</b>			
<b>Specific User Charges</b> (per s.502 - Specific "actual use" charges)			
Nil			
<b>Other User Charges &amp; Fees</b>			
<b>(i) Fees &amp; Charges - Statutory &amp; Regulatory Functions</b> (per s.608)			
Building Permits & Fees		636	606
Inspection Services		348	231
Private Works - Section 67		92	216
Regulatory/ Statutory Fees		95	124
Section 149 Certificates (EPA Act)		165	207
Section 603 Certificates		102	100
Town Planning		1,084	1,001
<b>Total Fees &amp; Charges - Statutory/Regulatory</b>		<b>2,522</b>	<b>2,485</b>
<b>(ii) Fees &amp; Charges - Other (incl. General User Charges)</b> (per s.608)			
Aerodrome		120	123
Cemeteries		166	235
Cessnock Performing Arts Centre		256	226
Onsite Sewerage Management Fees		309	290
RMS (formerly RTA) Charges (State Roads not controlled by Council)		3,916	5,165
Swimming Pool Fees		175	170
Tourist Association		-	4
Waste Disposal Tipping Fees		1,157	1,511
Other		146	126
<b>Total Fees &amp; Charges - Other</b>		<b>6,245</b>	<b>7,850</b>
<b>TOTAL USER CHARGES &amp; FEES</b>		<b>8,767</b>	<b>10,335</b>



## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 3. Income from Continuing Operations (continued)

\$ '000	Notes	Actual 2014	Actual 2013
<b>(c) Interest &amp; Investment Revenue (incl. losses)</b>			
<b>Interest &amp; Dividends</b>			
- Interest on Overdue Rates & Annual Charges (incl. Special Purpose Rates)		197	229
- Interest earned on Investments (interest & coupon payment income)		862	791
<b>Fair Value Adjustments</b>			
- Fair Valuation movements in Investments (at FV or Held for Trading)		300	785
<b>TOTAL INTEREST &amp; INVESTMENT REVENUE</b>		<u>1,359</u>	<u>1,805</u>
<b>Interest Revenue is attributable to:</b>			
<b>Unrestricted Investments/Financial Assets:</b>			
Overdue Rates & Annual Charges (General Fund)		197	229
General Council Cash & Investments		290	715
<b>Restricted Investments/Funds - External:</b>			
Development Contributions			
- Section 94		93	179
Domestic Waste Management operations		29	35
Other Externally Restricted Assets		25	33
<b>Restricted Investments/Funds - Internal:</b>			
Internally Restricted Assets		725	614
<b>Total Interest &amp; Investment Revenue Recognised</b>		<u>1,359</u>	<u>1,805</u>
<b>(d) Other Revenues</b>			
Rental Income - Other Council Properties		319	349
Fines		302	301
Legal Fees Recovery - Rates & Charges (Extra Charges)		473	315
Legal Fees Recovery - Other		71	10
Commissions & Agency Fees		19	21
General Administrative Services		17	8
Insurance Claim Recoveries		249	88
Sales - General		40	35
Section 355 Committees		128	158
Other		50	86
<b>TOTAL OTHER REVENUE</b>		<u>1,668</u>	<u>1,371</u>

## Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 3. Income from Continuing Operations (continued)

\$ '000	2014 Operating	2013 Operating	2014 Capital	2013 Capital
<b>(e) Grants</b>				
<b>General Purpose (Untied)</b>				
Financial Assistance - General Component	5,445	5,295	-	-
Financial Assistance - Local Roads Component	1,598	1,515	-	-
Pensioners' Rates Subsidies - General Component	453	425	-	-
<b>Total General Purpose</b>	<b>7,496</b>	<b>7,235</b>	<b>-</b>	<b>-</b>
<b>Specific Purpose</b>				
Pensioners' Rates Subsidies:				
- Domestic Waste Management	220	224	-	-
Drainage	-	-	-	138
Economic Development	52	18	-	-
Library - per capita	99	97	-	-
Library - special projects	23	-	29	205
Noxious Weeds	56	45	-	-
Recreation & Culture	-	-	140	41
Street Lighting	45	45	-	-
Transport (Bus Shelters)	-	-	-	202
Transport (Roads to Recovery)	941	639	-	-
Transport (Other Roads & Bridges Funding)	445	117	2	-
Welfare Services	63	99	-	-
Transport (Road Safety)	57	-	-	-
Tourism	9	-	-	-
Other	82	82	-	-
<b>Total Specific Purpose</b>	<b>2,092</b>	<b>1,366</b>	<b>171</b>	<b>586</b>
<b>Total Grants</b>	<b>9,588</b>	<b>8,601</b>	<b>171</b>	<b>586</b>
<b>Grant Revenue is attributable to:</b>				
- Commonwealth Funding	7,993	7,467	-	-
- State Funding	1,595	1,134	171	586
	<b>9,588</b>	<b>8,601</b>	<b>171</b>	<b>586</b>

## Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 3. Income from Continuing Operations (continued)

\$ '000	2014 Operating	2013 Operating	2014 Capital	2013 Capital
<b>(f) Contributions</b>				
<b>Developer Contributions:</b>				
<b>(s93 &amp; s94 - EP&amp;A Act, s64 of the LGA):</b>				
S 93F - Contributions using Planning Agreements	-	-	-	254
S 94 - Contributions towards amenities/services	-	-	888	832
<b>Total Developer Contributions</b> 17	<b>-</b>	<b>-</b>	<b>888</b>	<b>1,086</b>
<b>Other Contributions:</b>				
Bushfire Protection	175	190	-	-
Dedications (other than by S94)	-	-	34	108
General Admin Services	419	412	-	-
Kerb & Gutter	-	-	-	1
Motor Vehicle Leaseback	180	143	-	-
Road Reinstatements	120	270	-	-
RMS Contributions (Regional Roads, Block Grant)	1,149	2,932	7,204	1,628
Tourism	54	-	-	-
Transport	2	12	1	2
Hunter Water Corporation Contribution	75	108	-	-
Other	17	29	38	15
<b>Total Other Contributions</b>	<b>2,191</b>	<b>4,096</b>	<b>7,277</b>	<b>1,754</b>
<b>Total Contributions</b>	<b>2,191</b>	<b>4,096</b>	<b>8,165</b>	<b>2,840</b>
<b>TOTAL GRANTS &amp; CONTRIBUTIONS</b>	<b>11,779</b>	<b>12,697</b>	<b>8,336</b>	<b>3,426</b>

\$ '000	Actual 2014	Actual 2013
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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	4,721	4,693
<b>add:</b> Grants & contributions recognised in the current period but not yet spent:	1,264	1,800
<b>less:</b> Grants & contributions recognised in a previous reporting period now spent:	(1,228)	(1,772)
<b>Net Increase (Decrease) in Restricted Assets during the Period</b>	<b>36</b>	<b>28</b>
<b>Unexpended and held as Restricted Assets</b>	<b>4,757</b>	<b>4,721</b>
<b>Comprising:</b>		
- Specific Purpose Unexpended Grants	587	774
- Developer Contributions	4,170	3,947
	<b>4,757</b>	<b>4,721</b>

## Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 4. Expenses from Continuing Operations

\$ '000	Notes	Actual 2014	Actual 2013
<b>(a) Employee Benefits &amp; On-Costs</b>			
Salaries and Wages		18,109	16,662
Travelling		636	599
Employee Leave Entitlements (ELE)		3,853	3,628
Superannuation		2,673	2,580
Workers' Compensation Insurance		463	550
Fringe Benefit Tax (FBT)		326	252
Training Costs (other than Salaries & Wages)		257	244
Other		46	22
<b>Total Employee Costs</b>		<b>26,363</b>	<b>24,537</b>
less: Capitalised Costs		(1,285)	(1,086)
<b>TOTAL EMPLOYEE COSTS EXPENSED</b>		<b>25,078</b>	<b>23,451</b>
Number of "Equivalent Full Time" Employees at year end		268	261
<b>(b) Borrowing Costs</b>			
<b>(i) Interest Bearing Liability Costs</b>			
Interest on Loans		607	671
<b>Total Interest Bearing Liability Costs Expensed</b>		<b>607</b>	<b>671</b>
<b>(ii) Other Borrowing Costs</b>			
Nil			
<b>TOTAL BORROWING COSTS EXPENSED</b>		<b>607</b>	<b>671</b>
<b>(c) Materials &amp; Contracts</b>			
Raw Materials & Consumables		8,535	7,112
Contractor & Consultancy Costs		6,531	5,206
Auditors Remuneration <sup>(1)</sup>		34	52
Infringement Notice Contract Costs (SEINS)		23	27
Legal Expenses:			
- Legal Expenses: Planning & Development		84	556
- Legal Expenses: Debt Recovery		495	326
- Legal Expenses: Other		157	1,140
Operating Leases:			
- Operating Lease Rentals: Minimum Lease Payments <sup>(2)</sup>		261	304
<b>TOTAL MATERIALS &amp; CONTRACTS</b>		<b>16,120</b>	<b>14,723</b>

## Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 4. Expenses from Continuing Operations (continued)

\$ '000	Notes	Actual 2014	Actual 2013
<b>(c) Materials &amp; Contracts (continued)</b>			
<b>1. Auditor Remuneration</b>			
During the year, the following fees were incurred for services provided by the Council's Auditor (& the Auditors of other Consolidated Entities):			
<b>(i) Audit and Other Assurance Services</b>			
- Audit & review of financial statements: Council's Auditor		34	52
<b>Remuneration for audit and other assurance services</b>		<b>34</b>	<b>52</b>
<b>Total Auditor Remuneration</b>		<b>34</b>	<b>52</b>
<b>2. Operating Lease Payments are attributable to:</b>			
Computers		243	293
Other		18	11
		<b>261</b>	<b>304</b>

\$ '000	Notes	Impairment Costs		Depreciation/Amortisation	
		Actual 2014	Actual 2013	Actual 2014	Actual 2013
<b>(d) Depreciation, Amortisation &amp; Impairment</b>					
Plant and Equipment		-	-	1,850	1,633
Office Equipment		-	-	358	317
Furniture & Fittings		-	-	34	47
Buildings - Non Specialised		-	-	148	791
Buildings - Specialised		-	-	1,280	50
Other Structures		-	-	56	100
Infrastructure:					
- Roads		-	-	6,984	10,015
- Bridges		-	-	424	433
- Footpaths		-	-	222	219
- Stormwater Drainage		-	-	665	664
- Swimming Pools		-	-	27	95
- Other Open Space/Recreational Assets		-	-	622	468
Other Assets					
- Library Books		-	-	178	161
<b>TOTAL DEPRECIATION &amp; IMPAIRMENT COSTS EXPENSED</b>		<b>-</b>	<b>-</b>	<b>12,848</b>	<b>14,993</b>

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 4. Expenses from Continuing Operations (continued)

\$ '000	Notes	Actual 2014	Actual 2013
<b>(e) Other Expenses</b>			
Other Expenses for the year include the following:			
Advertising		205	169
Bad & Doubtful Debts		146	121
Bank Charges		34	32
Contributions/Levies to Other Levels of Government			
- Emergency Services Levy (includes FRNSW, SES, and RFS Levies)		71	66
- NSW Fire Brigade Levy		301	294
- NSW Rural Fire Service Levy		368	334
- Waste Levy		5,934	4,449
Councillor Expenses - Mayoral Fee		38	37
Councillor Expenses - Councillors' Fees		227	215
Councillors' Expenses (incl. Mayor) - Other (excluding fees above)		91	67
Donations, Contributions & Assistance to other organisations (Section 356)		68	60
Election Expenses		-	282
Electricity & Heating		540	520
Insurance		892	942
Rate Collection Agency Expenses		74	70
RSCPA Contribution		294	294
Section 355 Committees		86	120
Street Lighting		963	966
Subsidies		28	38
Telephone & Communications		368	333
Tourism Board Contribution		13	470
Valuation Fees		146	138
Other		87	78
<b><u>TOTAL OTHER EXPENSES</u></b>		<b><u>10,974</u></b>	<b><u>10,095</u></b>

## Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 5. Gains or Losses from the Disposal of Assets

\$ '000	Notes	Actual 2014	Actual 2013
<b>Property</b> (excl. Investment Property)			
Proceeds from Disposal - Property		73	58
less: Carrying Amount of Property Assets Sold / Written Off		-	(255)
<b>Net Gain/(Loss) on Disposal</b>		<b>73</b>	<b>(197)</b>
<b>Plant &amp; Equipment</b>			
Proceeds from Disposal - Plant & Equipment		734	840
less: Carrying Amount of P&E Assets Sold / Written Off		(774)	(1,158)
<b>Net Gain/(Loss) on Disposal</b>		<b>(40)</b>	<b>(318)</b>
<b>Infrastructure</b>			
Proceeds from Disposal - Infrastructure		-	-
less: Carrying Amount of Infrastructure Assets Sold / Written Off		(3,702)	(1,877)
<b>Net Gain/(Loss) on Disposal</b>		<b>(3,702)</b>	<b>(1,877)</b>
<b>Financial Assets*</b>			
Proceeds from Disposal / Redemptions / Maturities - Financial Assets		5,757	4,735
less: Carrying Amount of Financial Assets Sold / Redeemed / Matured		(5,800)	(4,745)
<b>Net Gain/(Loss) on Disposal</b>		<b>(43)</b>	<b>(10)</b>
<b>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</b>		<b>(3,712)</b>	<b>(2,402)</b>
<b>* Financial Assets disposals / redemptions include:</b>			
- Net Gain/(Loss) from Financial Instruments "At Fair Value through profit & loss"		(43)	(10)
<b>Net Gain/(Loss) on Disposal of Financial Instruments</b>		<b>(43)</b>	<b>(10)</b>

## Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

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

\$ '000	Notes	2014	2014	2013	2013
		Actual Current	Actual Non Current	Actual Current	Actual Non Current
<b>Cash &amp; Cash Equivalents (Note 6a)</b>					
Cash on Hand and at Bank		656	-	1,220	-
Cash-Equivalent Assets <sup>1</sup>					
- Deposits at Call		5,167	-	4,196	-
- Short Term Deposits		7,900	-	5,100	-
<b>Total Cash &amp; Cash Equivalents</b>		<b>13,723</b>	<b>-</b>	<b>10,516</b>	<b>-</b>
<b>Investments (Note 6b)</b>					
- Long Term Deposits		16,100	-	12,000	-
- NCD's, FRN's (with Maturities > 3 months)		-	1,000	-	-
- CDO's		-	-	200	-
<b>Total Investments</b>		<b>16,100</b>	<b>1,000</b>	<b>12,200</b>	<b>-</b>
<b>TOTAL CASH ASSETS, CASH EQUIVALENTS &amp; INVESTMENTS</b>		<b>29,823</b>	<b>1,000</b>	<b>22,716</b>	<b>-</b>

<sup>1</sup> 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**

<b>b. "Held to Maturity"</b>		<b>13,723</b>	<b>-</b>	<b>10,516</b>	<b>-</b>
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**Investments****a. "At Fair Value through the Profit & Loss"**

- "Held for Trading"	6(b-i)	-	-	200	-
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<b>b. "Held to Maturity"</b>	6(b-ii)	<b>16,100</b>	<b>1,000</b>	<b>12,000</b>	<b>-</b>
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<b>Investments</b>		<b>16,100</b>	<b>1,000</b>	<b>12,200</b>	<b>-</b>
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Refer to Note 27 - Fair Value Measurement for information regarding the fair value of investments held.



## Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 6b. Investments (continued)

\$ '000	2014 Actual Current	2014 Actual Non Current	2013 Actual Current	2013 Actual Non Current
<b>Note 6(b-i)</b>				
<b>Reconciliation of Investments classified as "At Fair Value through the Profit &amp; Loss"</b>				
Balance at the Beginning of the Year	200	-	-	415
Revaluations (through the Income Statement)	300	-	785	-
Disposals (sales & redemptions)	(500)	-	(1,000)	-
Transfers between Current/Non Current	-	-	415	(415)
<b>Balance at End of Year</b>	<b>-</b>	<b>-</b>	<b>200</b>	<b>-</b>
<b>Comprising:</b>				
- CDO's	-	-	200	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>200</b>	<b>-</b>
<b>Note 6(b-ii)</b>				
<b>Reconciliation of Investments classified as "Held to Maturity"</b>				
Balance at the Beginning of the Year	12,000	-	7,545	-
Additions	9,400	1,000	8,200	-
Disposals (sales & redemptions)	(5,300)	-	(3,745)	-
<b>Balance at End of Year</b>	<b>16,100</b>	<b>1,000</b>	<b>12,000</b>	<b>-</b>
<b>Comprising:</b>				
- Long Term Deposits	16,100	-	12,000	-
- NCD's, FRN's (with Maturities > 3 months)	-	1,000	-	-
<b>Total</b>	<b>16,100</b>	<b>1,000</b>	<b>12,000</b>	<b>-</b>
<b>Note 6(b-iii)</b>				
<b>Reconciliation of Investments classified as "Loans &amp; Receivables"</b>				
Nil				
<b>Note 6(b-iv)</b>				
<b>Reconciliation of Investments classified as "Available for Sale"</b>				
Nil				

## Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

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

\$ '000	2014	2014	2013	2013
	Actual Current	Actual Non Current	Actual Current	Actual Non Current
Total Cash, Cash Equivalents and Investments	29,823	1,000	22,716	-
<b>attributable to:</b>				
External Restrictions (refer below)	4,601	1,000	5,565	-
Internal Restrictions (refer below)	23,889	-	16,506	-
Unrestricted	1,333	-	645	-
	<b>29,823</b>	<b>1,000</b>	<b>22,716</b>	<b>-</b>

2014 \$ '000	Opening Balance	Transfers to Restrictions	Transfers from Restrictions	Closing Balance
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## Details of Restrictions

## External Restrictions - Included in Liabilities

Nil

## External Restrictions - Other

Developer Contributions - General	(D)	3,947	981	(758)	4,170
Specific Purpose Unexpended Grants	(F)	774	-	(187)	587
Domestic Waste Management	(G)	782	-	-	782
Other		62	-	-	62
<b>External Restrictions - Other</b>		<b>5,565</b>	<b>981</b>	<b>(945)</b>	<b>5,601</b>
<b>Total External Restrictions</b>		<b>5,565</b>	<b>981</b>	<b>(945)</b>	<b>5,601</b>

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

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

**G** Domestic Waste Management (DWM) is an externally restricted assets 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 2014

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

2014 \$ '000	Opening Balance	Transfers to Restrictions	Transfers from Restrictions	Closing Balance
<b>Internal Restrictions</b>				
Plant & Vehicle Replacement	2,270	1,078	(717)	2,631
Employees Leave Entitlement	1,029	1,126	(580)	1,575
Carry Over Works	-	1,096	-	1,096
Bridge Replacement	337	164	(293)	208
Cemetery	48	11	(53)	6
Computer Services	233	178	(168)	243
Insurance Provisions	495	80	(72)	503
Miscellaneous and Property	581	1,561	(247)	1,895
Other Special Projects	89	308	(13)	384
Residential Land Development	567	75	(8)	634
Rezoning Fees	106	-	(106)	-
Sanitary Operations	41	-	(6)	35
Single Invitation Contracts	376	340	(62)	654
Unexpended Loan Funds	219	2,000	(840)	1,379
Waste Depot & Rehabilitation	10,050	12,814	(10,218)	12,646
Impaired Investments Reserve	65	-	(65)	-
<b>Total Internal Restrictions</b>	<b>16,506</b>	<b>20,831</b>	<b>(13,448)</b>	<b>23,889</b>
<b>TOTAL RESTRICTIONS</b>	<b>22,071</b>	<b>21,812</b>	<b>(14,393)</b>	<b>29,490</b>

## Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 7. Receivables

\$ '000	Notes	2014		2013	
		Current	Non Current	Current	Non Current
<b>Purpose</b>					
Rates & Annual Charges		1,463	-	2,340	-
Interest & Extra Charges		399	-	403	-
User Charges & Fees		17	-	25	-
Accrued Revenues					
- Interest on Investments		130	-	114	-
Bushfire Protection		32	-	7	-
Garbage Tipping Fees		31	-	81	-
Government Grants & Subsidies		237	-	209	-
Deferred Debtors		21	21	23	43
Industrial Development		119	-	178	-
Kerb & Gutter		-	-	7	-
Net GST Receivable		335	-	321	-
Restoration Charges		7	-	4	-
Rental Charges		223	-	174	-
RMS Debtors - State Roads		141	-	505	-
Vehicle Sales		34	-	82	-
Workers Compensation Refunds		-	-	245	-
Land Sales		-	-	70	-
Planning Proposals		38	-	-	-
Other Debtors		299	-	487	-
<b>Total</b>		<b>3,526</b>	<b>21</b>	<b>5,275</b>	<b>43</b>
<b>less: Provision for Impairment</b>					
Rates & Annual Charges		(103)	-	(93)	-
Other Debtors		(251)	-	(377)	-
<b>Total Provision for Impairment - Receivables</b>		<b>(354)</b>	<b>-</b>	<b>(470)</b>	<b>-</b>
<b><u>TOTAL NET RECEIVABLES</u></b>		<b><u>3,172</u></b>	<b><u>21</u></b>	<b><u>4,805</u></b>	<b><u>43</u></b>
<b>Externally Restricted Receivables</b>					
Domestic Waste Management		587	-	839	-
Stormwater Management		25	-	43	-
- Other Restricted Receivables		31	-	81	-
<b>Total External Restrictions</b>		<b>643</b>	<b>-</b>	<b>963</b>	<b>-</b>
<b>Internally Restricted Receivables - Nil</b>					
<b>Unrestricted Receivables</b>		<b>2,529</b>	<b>21</b>	<b>3,842</b>	<b>43</b>
<b><u>TOTAL NET RECEIVABLES</u></b>		<b><u>3,172</u></b>	<b><u>21</u></b>	<b><u>4,805</u></b>	<b><u>43</u></b>

**Notes on Debtors above:**

- (i) Rates & Annual Charges Outstanding are secured against the property.
- (ii) Doubtful Rates Debtors are provided for where the value of the property is less than the debt outstanding.  
An allowance for other doubtful debts is made when there is objective evidence that a receivable is impaired.
- (iii) Interest was charged on overdue rates & charges at 9.00% (2013 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 2014

## Note 8. Inventories &amp; Other Assets

\$ '000	Notes	2014		2013	
		Current	Non Current	Current	Non Current
<b>Inventories</b>					
Real Estate for resale (refer below)		-	1,270	-	3,329
Stores & Materials		343	-	294	-
<b>Total Inventories</b>		<b>343</b>	<b>1,270</b>	<b>294</b>	<b>3,329</b>
<b>Other Assets</b>					
Prepayments		80	-	474	-
<b>Total Other Assets</b>		<b>80</b>	<b>-</b>	<b>474</b>	<b>-</b>
<b>TOTAL INVENTORIES/ OTHER ASSETS</b>		<b>423</b>	<b>1,270</b>	<b>768</b>	<b>3,329</b>

**Externally Restricted Assets**

There are no restrictions applicable to the above assets.

**Other Disclosures****(a) Details for Real Estate Development**

Residential	-	1,270	-	3,329
<b>Total Real Estate for Resale</b>	<b>-</b>	<b>1,270</b>	<b>-</b>	<b>3,329</b>

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

**Represented by:**

Development Costs	-	1,270	-	3,329
<b>Total Costs</b>	<b>-</b>	<b>1,270</b>	<b>-</b>	<b>3,329</b>
<b>Total Real Estate for Resale</b>	<b>-</b>	<b>1,270</b>	<b>-</b>	<b>3,329</b>

**Movements:**

Real Estate assets at beginning of the year	-	3,329	-	3,286
- Purchases and other costs	-	-	-	43
- Transfers in from (out to) Note 9	-	(2,059)	-	-
<b>Total Real Estate for Resale</b>	<b>-</b>	<b>1,270</b>	<b>-</b>	<b>3,329</b>

**(b) Inventory Write Downs**

There were no amounts recognised as an expense relating to the write down of Inventory balances held during the year.

Refer to Note 27 - Fair Value Measurement for information regarding the fair value of other assets held.

Notes to the Financial Statements  
for the financial year ended 30 June 2014

Note 9a. Infrastructure, Property, Plant & Equipment

\$ '000	as at 30/6/2013				Asset Movements during the Reporting Period						as at 30/6/2014			
	At	At	Accumulated	Carrying	Asset Additions	WDV of Asset Disposals	Depreciation Expense	WIP Transfers	Tfrs from/(to) Real Estate Assets (Note 8)	Revaluation Increments to Equity (ARR)	At	At	Accumulated	Carrying
	Cost	Fair Value	Dep'n	Value							Cost	Fair Value	Dep'n	Value
Capital Work in Progress	1,915	-	-	1,915	1,355	-	-	(1,835)	-	-	1,435	-	-	1,435
Plant & Equipment	-	18,761	12,331	6,430	1,834	(774)	(1,850)	-	-	-	-	18,678	13,038	5,640
Office Equipment	-	2,802	1,796	1,006	291	-	(358)	-	-	-	-	3,026	2,087	939
Furniture & Fittings	-	1,260	1,164	96	27	-	(34)	-	-	-	-	1,287	1,198	89
Plant & Equipment (under Finance Lease)	-	281	281	-	-	-	-	-	-	-	-	281	281	-
<b>Land:</b>														
- Operational Land	-	38,843	-	38,843	-	-	-	-	2,059	-	-	40,902	-	40,902
- Community Land	-	29,876	-	29,876	-	-	-	-	-	-	-	29,876	-	29,876
- Land under Roads (post 30/6/08)	-	828	-	828	34	-	-	-	-	-	-	862	-	862
Buildings - Non Specialised	-	14,834	1,246	13,588	-	-	(148)	-	-	-	-	14,834	1,394	13,440
Buildings - Specialised	-	66,260	12,123	54,137	112	(16)	(1,280)	-	-	-	-	66,355	13,402	52,953
Other Structures	-	1,443	539	904	-	-	(56)	-	-	-	-	1,444	596	848
<b>Infrastructure:</b>														
- Roads	-	533,672	129,734	403,938	10,682	(3,685)	(6,984)	1,835	-	72,874	-	541,672	63,012	478,660
- Bridges	-	33,016	6,302	26,714	37	-	(424)	-	-	-	-	33,053	6,726	26,327
- Footpaths	-	10,893	1,228	9,665	209	-	(222)	-	-	-	-	11,102	1,450	9,652
- Stormwater Drainage	-	53,675	12,515	41,160	350	(1)	(665)	-	-	-	-	54,024	13,180	40,844
- Swimming Pools	-	446	140	306	64	-	(27)	-	-	-	-	510	167	343
- Other Open Space/Recreational Assets	-	13,051	4,135	8,916	174	-	(622)	-	-	-	-	13,225	4,757	8,468
<b>Other Assets:</b>														
- Library Books	-	4,703	3,626	1,077	236	-	(178)	-	-	-	-	4,939	3,804	1,135
- Other	-	3	-	3	-	-	-	-	-	-	-	3	-	3
<b>Reinstatement, Rehabilitation &amp; Restoration Assets</b> (refer Note 26):														
- Tip Assets	-	8,400	8,400	-	-	-	-	-	-	-	-	8,400	8,400	-
<b>TOTAL INFRASTRUCTURE, PROPERTY, PLANT &amp; EQUIP.</b>	<b>1,915</b>	<b>833,047</b>	<b>195,560</b>	<b>639,402</b>	<b>15,405</b>	<b>(4,476)</b>	<b>(12,848)</b>	<b>-</b>	<b>2,059</b>	<b>72,874</b>	<b>1,435</b>	<b>844,473</b>	<b>133,492</b>	<b>712,416</b>

Additions to Buildings & Infrastructure Assets are made up of Asset Renewals (\$12,333) and New Assets (\$532). Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

Refer to Note 27 - Fair Value Measurement for information regarding the fair value of other Infrastructure, Property, Plant & Equipment.

## Cessnock City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

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

\$ '000 Class of Asset	Actual 2014				Actual 2013			
	At Cost	At Fair Value	A/Dep & Impairm't	Carrying Value	At Cost	At Fair Value	A/Dep & Impairm't	Carrying Value
<b>Domestic Waste Management</b>								
Plant & Equipment	-	1,734	1,066	<b>668</b>	-	1,734	748	<b>986</b>
Land								
- Operational Land	-	1,586	-	<b>1,586</b>	-	1,586	-	<b>1,586</b>
Buildings	-	339	119	<b>220</b>	-	136	45	<b>91</b>
<b>Total DWM</b>	-	<b>3,659</b>	<b>1,185</b>	<b>2,474</b>	-	<b>3,456</b>	<b>793</b>	<b>2,663</b>
<b>TOTAL RESTRICTED I,PP&amp;E</b>	-	<b>3,659</b>	<b>1,185</b>	<b>2,474</b>	-	<b>3,456</b>	<b>793</b>	<b>2,663</b>

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

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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 2014

## Note 10a. Payables, Borrowings &amp; Provisions

\$ '000	Notes	2014		2013	
		Current	Non Current	Current	Non Current
<b>Payables</b>					
Goods & Services - operating expenditure		5,304	-	2,921	-
Payments Received In Advance		-	603	3,623	508
Accrued Expenses:					
- Salaries & Wages		286	-	310	-
- Other Expenditure Accruals		730	-	539	-
Security Bonds, Deposits & Retentions		631	-	733	-
Trust Fund		170	-	97	-
<b>Total Payables</b>		<b>7,121</b>	<b>603</b>	<b>8,223</b>	<b>508</b>
<b>Borrowings</b>					
Loans - Secured <sup>1</sup>		1,133	8,893	1,264	7,761
<b>Total Borrowings</b>		<b>1,133</b>	<b>8,893</b>	<b>1,264</b>	<b>7,761</b>
<b>Provisions</b>					
<b>Employee Benefits;</b>					
Annual Leave		1,978	-	1,942	-
Sick Leave		491	-	523	-
Long Service Leave		4,750	127	4,411	109
Sub Total - Aggregate Employee Benefits		7,219	127	6,876	109
Asset Remediation/Restoration (Future Works) <sup>26</sup>		-	11,241	-	11,241
<b>Total Provisions</b>		<b>7,219</b>	<b>11,368</b>	<b>6,876</b>	<b>11,350</b>
<b>Total Payables, Borrowings &amp; Provisions</b>		<b>15,473</b>	<b>20,864</b>	<b>16,363</b>	<b>19,619</b>
<b>(i) Liabilities relating to Restricted Assets</b>					
		2014		2013	
		Current	Non Current	Current	Non Current
<b>Externally Restricted Assets</b>					
Domestic Waste Management		82	-	78	-
Liabilities relating to externally restricted assets		82	-	78	-
<b>Internally Restricted Assets</b>					
Nil					
<b>Total Liabilities relating to restricted assets</b>		82	-	78	-
<b>Total Liabilities relating to Unrestricted Assets</b>		15,391	20,864	16,285	19,619
<b>TOTAL PAYABLES, BORROWINGS &amp; PROVISIONS</b>		<b>15,473</b>	<b>20,864</b>	<b>16,363</b>	<b>19,619</b>

<sup>1</sup>. 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 2014

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

\$ '000	Actual 2014	Actual 2013
<b>(ii) Current Liabilities not anticipated to be settled within the next 12 months</b>		
The following Liabilities, even though classified as current, are not expected to be settled in the next 12 months.		
Provisions - Employees Benefits	4,443	4,285
Payables - Security Bonds, Deposits & Retentions	609	702
Other Liabilities: Trust Fund Deposits	52	52
	<b>5,104</b>	<b>5,039</b>

#### Note 10b. Description of and movements in Provisions

Class of Provision	2013		2014			
	Opening Balance as at 1/7/13	Additional Provisions	Decrease due to Payments	Remeasurement effects due to Discounting	Unused amounts reversed	Closing Balance as at 30/6/14
Annual Leave	1,942	1,513	(1,477)	-	-	1,978
Sick Leave	523	803	(835)	-	-	491
Long Service Leave	4,520	908	(551)	-	-	4,877
Asset Remediation	11,241	-	-	-	-	11,241
<b>TOTAL</b>	<b>18,226</b>	<b>3,224</b>	<b>(2,863)</b>	<b>-</b>	<b>-</b>	<b>18,587</b>

- 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.

## Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 11. Statement of Cash Flows - Additional Information

\$ '000	Notes	Actual 2014	Actual 2013
<b>(a) Reconciliation of Cash Assets</b>			
Total Cash & Cash Equivalent Assets	6a	13,723	10,516
Less Bank Overdraft	10	-	-
<b>BALANCE as per the STATEMENT of CASH FLOWS</b>		<b>13,723</b>	<b>10,516</b>
<b>(b) Reconciliation of Net Operating Result to Cash provided from Operating Activities</b>			
<b>Net Operating Result from Income Statement</b>		<b>3,833</b>	<b>3,377</b>
<b>Adjust for non cash items:</b>			
Depreciation & Amortisation		12,848	14,993
Net Losses/(Gains) on Disposal of Assets		3,712	2,402
Non Cash Capital Grants and Contributions		(34)	(108)
Losses/(Gains) recognised on Fair Value Re-measurements through the P&L:			
- Investments classified as "At Fair Value" or "Held for Trading"		(300)	(785)
<b>+/- Movement in Operating Assets and Liabilities &amp; Other Cash Items:</b>			
Decrease/(Increase) in Receivables		1,747	323
Increase/(Decrease) in Provision for Doubtful Debts		(116)	119
Decrease/(Increase) in Inventories		(49)	46
Decrease/(Increase) in Other Assets		394	79
Increase/(Decrease) in Payables		2,383	(1,019)
Increase/(Decrease) in other accrued Expenses Payable		167	87
Increase/(Decrease) in Other Liabilities		(3,557)	130
Increase/(Decrease) in Employee Leave Entitlements		361	252
<b>NET CASH PROVIDED FROM/(USED IN) OPERATING ACTIVITIES from the STATEMENT of CASH FLOWS</b>		<b>21,389</b>	<b>19,896</b>
<b>(c) Non-Cash Investing &amp; Financing Activities</b>			
Other Dedications		34	108
<b>Total Non-Cash Investing &amp; Financing Activities</b>		<b>34</b>	<b>108</b>
<b>(d) Financing Arrangements</b>			
<b>(i) Unrestricted access was available at balance date to the following lines of credit:</b>			
Bank Overdraft Facilities <sup>(1)</sup>		1,000	1,000
Credit Cards / Purchase Cards		100	100
<b>Total Financing Arrangements</b>		<b>1,100</b>	<b>1,100</b>

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 2014

#### Note 12. Commitments for Expenditure

\$ '000	Notes	Actual 2014	Actual 2013
<b>(a) Capital Commitments (exclusive of GST)</b>			
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:			
<b>Property, Plant &amp; Equipment</b>			
Kurri Kurri Skate Park		-	10
Kurri Kurri Central Oval Amenities Block		-	30
Millgang Bridge Replacement		415	-
Bob Wells Fourth St Weston Bridge Replacement		284	-
Crawfords Bridge Replacement		123	-
<b>Total Commitments</b>		<b>822</b>	<b>40</b>
<b>These expenditures are payable as follows:</b>			
Within the next year		822	40
<b>Total Payable</b>		<b>822</b>	<b>40</b>
<b>Sources for Funding of Capital Commitments:</b>			
Unrestricted General Funds		284	40
Internally Restricted Reserves		123	-
Unexpended Loans		415	-
<b>Total Sources of Funding</b>		<b>822</b>	<b>40</b>
<b>Details of Capital Commitments</b>			
Contractual commitments for capital works currently being undertaken.			
<b>(b) Finance Lease Commitments</b>			
Nil			
<b>(c) Operating Lease Commitments (Non Cancellable)</b>			
<b>a. Commitments under Non Cancellable Operating Leases at the Reporting date, but not recognised as Liabilities are payable:</b>			
Within the next year		163	91
Later than one year and not later than 5 years		177	141
Later than 5 years		-	-
<b>Total Non Cancellable Operating Lease Commitments</b>		<b>340</b>	<b>232</b>
<b>b. Non Cancellable Operating Leases include the following assets:</b>			
Computer & Photocopier Leases			
Contingent Rentals may be payable depending on the condition of items or usage during the lease term.			
<b>Conditions relating to Operating Leases:</b>			
- All Operating Lease Agreements are secured only against the Leased Asset.			
- No Lease Agreements impose any financial restrictions on Council regarding future debt etc.			

## Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

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

\$ '000	Amounts 2014	Indicator 2014	Prior Periods 2013      2012	
<b>Local Government Industry Indicators - Consolidated</b>				
<b>1. Operating Performance Ratio</b>				
Total continuing operating revenue <sup>(1)</sup>				
<u>(excl. Capital Grants &amp; Contributions) - Operating Expenses</u>	<u>(1,091)</u>	-1.69%	2.39%	-7.54%
Total continuing operating revenue <sup>(1)</sup> (excl. Capital Grants & Contributions)	64,536			
<b>2. Own Source Operating Revenue Ratio</b>				
Total continuing operating revenue <sup>(1)</sup>				
<u>(less ALL Grants &amp; Contributions)</u>	<u>52,757</u>	72.40%	76.61%	78.65%
Total continuing operating revenue <sup>(1)</sup>	72,872			
<b>3. Unrestricted Current Ratio</b>				
Current Assets less all External Restrictions <sup>(2)</sup>	<u>28,174</u>	2.74 : 1	1.93	1.69
Current Liabilities less Specific Purpose Liabilities <sup>(3, 4)</sup>	<u>10,287</u>			
<b>4. Debt Service Cover Ratio</b>				
Operating Result <sup>(1)</sup> before capital excluding interest and depreciation / impairment / amortisation (EBITDA)	<u>12,364</u>	7.70	10.71	6.67
Principal Repayments (from the Statement of Cash Flows) + Borrowing Interest Costs (from the Income Statement)	<u>1,606</u>			
<b>5. Rates, Annual Charges, Interest &amp; Extra Charges Outstanding Percentage</b>				
Rates, Annual and Extra Charges Outstanding	<u>1,759</u>	3.95%	6.22%	5.15%
Rates, Annual and Extra Charges Collectible	<u>44,583</u>			
<b>6. Cash Expense Cover Ratio</b>				
Current Year's Cash and Cash Equivalents including All Term Deposits	<u>29,823</u>	6.66	5.00	4.40
Payments from cash flow of operating and financing activities	<u>4,480</u>			

## Notes

<sup>(1)</sup> Excludes fair value adjustments and reversal of revaluation decrements, net gain/(loss) on sale of assets and net share of interests in joint ventures.

<sup>(2)</sup> Refer Notes 6-8 inclusive.

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

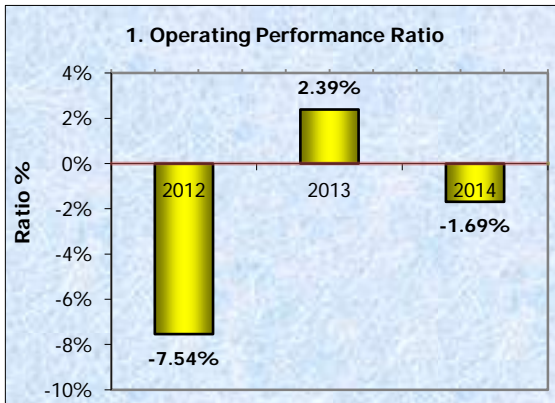
<sup>(3)</sup> Refer to Note 10(a).

<sup>(4)</sup> Refer to Note 10(a)(ii) - excludes all payables & provisions not expected to be paid in the next 12 months (incl. ELE).

# Cessnock City Council

## Notes to the Financial Statements for the financial year ended 30 June 2014

### Note 13a(ii). Local Government Industry Indicators - Graphs (Consolidated)



**Purpose of Operating Performance Ratio**

This ratio measures Council's achievement of containing operating expenditure within operating revenue.

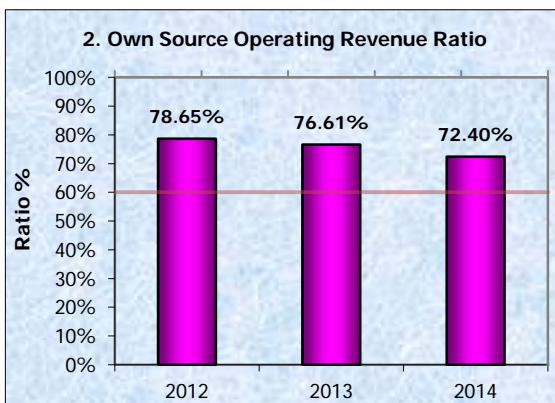
**Commentary on 2013/14 Result**

**2013/14 Ratio -1.69%**

This ratio indicates an improvement is needed to contain operating expenditure within operating revenue. During 2014/15 Council will be undertaking a Financial Sustainability Initiative Program. Part of this program is to review all expenditures, incomes and service levels with an aim to improve Council's financial position.

— Minimum 0.00%

Source for Benchmark: Code of Accounting Practice and Financial Reporting



**Purpose of Own Source Operating Revenue Ratio**

This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants & contributions.

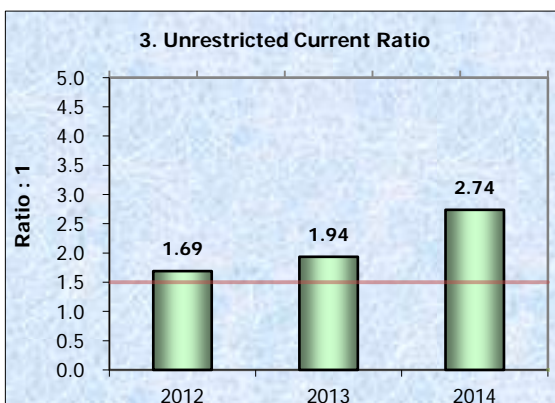
**Commentary on 2013/14 Result**

**2013/14 Ratio 72.40%**

Council's dependance on rates, annual charges, user charges and fees compared to other sources of income is relatively high.

— Minimum 60.00%

Source for Benchmark: Code of Accounting Practice and Financial Reporting



**Purpose of Unrestricted Current Ratio**

To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.

**Commentary on 2013/14 Result**

**2013/14 Ratio 2.74 : 1**

This ratio has increased from that in 2012/13. This ratio represents a satisfactory level of working capital.

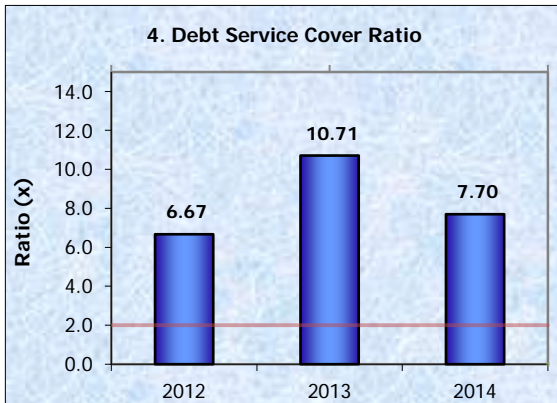
— Minimum 1.50

Source for Benchmark: Code of Accounting Practice and Financial Reporting

# Cessnock City Council

## Notes to the Financial Statements for the financial year ended 30 June 2014

### Note 13a(ii). Local Government Industry Indicators - Graphs (Consolidated)



— Minimum 2.00

Source for Benchmark: NSW Treasury Corporation

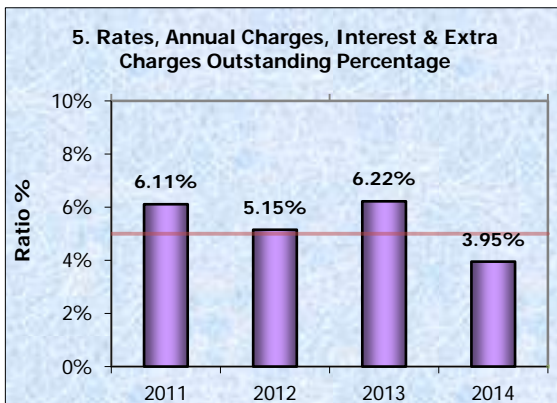
#### Purpose of Debt Service Cover Ratio

This ratio measures the availability of operating cash to service debt including interest, principal and lease payments

#### Commentary on 2013/14 Result

**2013/14 Ratio 0.08**

This ratio highlights a relatively low level of demand on discretionary revenue for loan repayments. This ratio is considered to be a good result.



— Maximum 5.00%

Source for Benchmark: Office of Local Govt - Comparative Information (10/11)

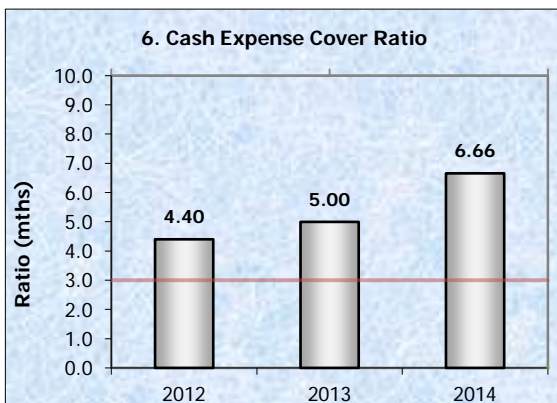
#### Purpose of Rates & Annual Charges Outstanding Ratio

To assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.

#### Commentary on 2013/14 Result

**2013/14 Ratio 3.95%**

A decrease in this ratio occurred in 2013/14. Additional staff resources for collection of outstanding monies has resulted in the decrease.



— Minimum 3.00

Source for Benchmark: Code of Accounting Practice and Financial Reporting

#### Purpose of Cash Expense Cover Ratio

This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.

#### Commentary on Result

**2013/14 Ratio 6.66**

This ratio is considered to be a good result as expenses can be paid without a demand on additional cash inflows.



## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### 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	
	2014	2013	2014	2013
<b>Financial Assets</b>				
Cash and Cash Equivalents	13,723	10,516	13,723	10,516
Investments				
- "Held for Trading"	-	200	-	-
- "Held to Maturity"	17,100	12,000	17,100	1,200
Receivables	3,193	4,848	3,193	4,848
<b>Total Financial Assets</b>	<b>34,016</b>	<b>27,564</b>	<b>34,016</b>	<b>16,564</b>
<b>Financial Liabilities</b>				
Payables	7,121	4,600	7,121	4,600
Loans / Advances	10,026	9,025	10,026	9,025
<b>Total Financial Liabilities</b>	<b>17,147</b>	<b>13,625</b>	<b>17,147</b>	<b>13,625</b>

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.

Refer to Note 27 - Fair Value Measurement for information regarding the fair value of financial assets & liabilities

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### 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 risks associated with the investments held are:

- **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.
- **Interest Rate Risk** - the risk that movements in interest rates could affect returns and income.
- **Credit Risk** - the risk that the investment counterparty) will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council - be it of a capital or income nature.

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

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

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

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

	Increase of Values/Rates		Decrease of Values/Rates	
	Profit	Equity	Profit	Equity
<b>2014</b>				
Possible impact of a 10% movement in Market Values	-	-	-	-
Possible impact of a 1% movement in Interest Rates	246	246	(246)	(246)
<b>2013</b>				
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)

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### 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:

	2014 Rates & Annual Charges	2014 Other Receivables	2013 Rates & Annual Charges	2013 Other Receivables
<b>(i) Ageing of Receivables - %</b>				
Current (not yet overdue)	0%	10%	0%	46%
Overdue	100%	90%	100%	54%
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

##### (ii) Ageing of Receivables - value

Current (not yet overdue)	-	210	-	1,359
Past due by up to 30 days	1,463	1,620	-	-
Past due between 31 and 60 days	-	15	-	-
Past due between 61 and 90 days	-	3	-	-
Past due by more than 90 days	-	236	2,340	1,619
	<b>1,463</b>	<b>2,084</b>	<b>2,340</b>	<b>2,978</b>

##### (iii) Movement in Provision for Impairment of Receivables

	2014	2013
Balance at the beginning of the year	470	351
+ new provisions recognised during the year	142	121
- amounts already provided for & written off this year	(258)	(2)
<b>Balance at the end of the year</b>	<b>354</b>	<b>470</b>

## Cessnock City Council

### Notes to the Financial Statements for the financial year ended 30 June 2014

#### 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 maturity 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		
<b>2014</b>									
Trade/Other Payables	631	6,490	-	-	-	-	-	7,121	7,121
Loans & Advances	-	1,133	1,143	1,152	1,179	1,132	4,287	10,026	10,026
<b>Total Financial Liabilities</b>	<b>631</b>	<b>7,623</b>	<b>1,143</b>	<b>1,152</b>	<b>1,179</b>	<b>1,132</b>	<b>4,287</b>	<b>17,147</b>	<b>17,147</b>
<b>2013</b>									
Trade/Other Payables	733	3,868	-	-	-	-	-	4,601	4,600
Loans & Advances	-	1,264	925	924	923	937	4,052	9,025	9,025
<b>Total Financial Liabilities</b>	<b>733</b>	<b>5,132</b>	<b>925</b>	<b>924</b>	<b>923</b>	<b>937</b>	<b>4,052</b>	<b>13,626</b>	<b>13,625</b>

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:

	2014		2013	
	Carrying Value	Average Interest Rate	Carrying Value	Average Interest Rate
Trade/Other Payables	7,121	0.0%	4,600	0.0%
Loans & Advances - Fixed Interest Rate	10,026	6.6%	9,025	7.1%
	<u>17,147</u>		<u>13,625</u>	

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 16. Material Budget Variations

\$ '000

Council's Original Financial Budget for 13/14 was adopted by the Council on 19 June 2013.

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	2014 Budget	2014 Actual	2014 ----- Variance* -----		
<b>REVENUES</b>					
<b>Rates &amp; Annual Charges</b>	<b>41,132</b>	<b>41,263</b>	<b>131</b>	<b>0%</b>	<b>F</b>
<b>User Charges &amp; Fees</b>	<b>7,009</b>	<b>8,767</b>	<b>1,758</b>	<b>25%</b>	<b>F</b>
RMS Charges	1,837K (F)	Garbage Tipping Fees	506K (U)	Cessnock Performing Arts Centre	26K(F)
Private Works	81K (F)	Building Permit Fees	50K (F)		
Town Planning Fees	323K (F)	Inspection Fees	62K (U)		
<b>Interest &amp; Investment Revenue</b>	<b>871</b>	<b>1,359</b>	<b>488</b>	<b>56%</b>	<b>F</b>
Interest in Overdue Rates and Charges	16K (F)				
Interest on Investments	23K (F)				
Fair Vale Adjustments on Investments	257K (F)				
<b>Other Revenues</b>	<b>946</b>	<b>1,668</b>	<b>722</b>	<b>76%</b>	<b>F</b>
Fines	106K (F)	Insurance Claim	219K (F)		
Lease Rental	32K (F)				
Legal Fees Recovery	243K (F)				
<b>Operating Grants &amp; Contributions</b>	<b>10,570</b>	<b>11,779</b>	<b>1,209</b>	<b>11%</b>	<b>F</b>
Financial Assistance Grant	141K (F)	Roads to Recovery Grant	126K (F)	Pensior Subsidy	28K (F)
Specific Purpose - Transport	328K (F)	RMS Contributions	55K (F)	Library Special Project	23K (F)
General Administration Services	280K (F)	Bush Fire Protection	35K (F)	Road Safety	18K (F)
<b>Capital Grants &amp; Contributions</b>	<b>5,504</b>	<b>8,336</b>	<b>2,832</b>	<b>51%</b>	<b>F</b>
Traffic Facilities	202K (U)	Recreation & Culture	140K (F)		
Drainage Works	100K (U)	Section 94 Contributions	888K (F)		
Library Special Projects	28K (F)	RMS Contributions	2,004K (F)		

## Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 16. Material Budget Variations (continued)

\$ '000	2014 Budget	2014 Actual	2014 Variance*	
<b>EXPENSES</b>				
<b>Employee Benefits &amp; On-Costs</b>	<b>26,720</b>	<b>25,078</b>	<b>1,642</b>	6% <b>F</b>
<b>Borrowing Costs</b>	<b>792</b>	<b>607</b>	<b>185</b>	23% <b>F</b>
Interest on Loans 185K (F)				
<b>Materials &amp; Contracts</b>	<b>9,937</b>	<b>16,120</b>	<b>(6,183)</b>	(62%) <b>U</b>
Expenses exceeded the original budget primarily due to extra works not forecasted being undertaken as a result of additional grant funds being received after the budget was adopted. e.g RMS works Also: Legal Fees 45K (U)				
<b>Depreciation &amp; Amortisation</b>	<b>14,872</b>	<b>12,848</b>	<b>2,024</b>	14% <b>F</b>
Actual Depreciation Expense less than Budgetted amount				
<b>Other Expenses</b>	<b>12,195</b>	<b>10,974</b>	<b>1,221</b>	10% <b>F</b>
Carbon Tax on Landfill Site 1,767K (F)	Street Lighting 67K (F)	Members Expenses 30K (U)		
NSW Govt. Waste Levy 316K (U)	Advertising 69K (U)	NSW RFS Levy 17K (U)		
Insurances 90K (F)	Telephone 24K (U)	Heating & Electricity 16K (U)		
<b>Net Losses from Disposal of Assets</b>	<b>-</b>	<b>3,712</b>	<b>(3,712)</b>	0% <b>U</b>
<b>Budget Variations relating to Council's Cash Flow Statement include:</b>				
<b>Cash Flows from Operating Activities</b>	<b>17,032</b>	<b>21,389</b>	<b>4,357</b>	25.6% <b>F</b>
Rates and Annual Charges 1,018 (F)	Other Receipts 722 (U)	Other Payments 1,043 (U)		
User Charges and Fees 1,169 (U)	Employee Benefits & On-Costs 581 (U)			
Grants and Contributions 4,614 (F)	Materials & Contracts 2,102 (F)			
<b>Cash Flows from Investing Activities</b>	<b>(21,600)</b>	<b>(19,183)</b>	<b>2,417</b>	(11.2%) <b>F</b>
Purchase of Infrastructure, Property, Plant and Equipment 7,029 (F)				
Net Purchase/Sale of Investment Securities 4,643 (U)				
<b>Cash Flows from Financing Activities</b>	<b>(704)</b>	<b>1,001</b>	<b>1,705</b>	(242.2%) <b>F</b>
Additional Loan Borrowings for LIRS Bridge Program not originally budgetted. 1,500 (F)				
Savings in Loan Repayments 205 (F)				

# Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

### 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	77	1	-	2	-	-	80	2	(82)	-	-
Roads	724	316	-	12	(412)	-	640	1,821	(2,461)	-	-
Traffic Facilities	21	-	-	1	-	-	22	-	(22)	-	-
Parking	324	-	-	8	-	-	332	-	(332)	-	-
Open Space	468	261	-	10	(175)	-	564	1,092	(1,656)	-	-
Community Facilities	539	214	-	13	(132)	-	634	848	(1,482)	-	-
Tourist Facilities	643	20	-	16	-	-	679	20	(699)	-	-
Wetland	-	-	-	-	-	-	-	2	(2)	-	-
Administration	-	-	-	-	-	-	-	41	(41)	-	-
Other	287	76	-	9	(39)	-	333	84	(417)	-	-
<b>S94 Contributions - under a Plan</b>	<b>3,083</b>	<b>888</b>	<b>-</b>	<b>71</b>	<b>(758)</b>	<b>-</b>	<b>3,284</b>	<b>3,910</b>	<b>(7,194)</b>	<b>-</b>	<b>-</b>
<b>Total S94 Revenue Under Plans</b>	<b>3,083</b>	<b>888</b>	<b>-</b>	<b>71</b>	<b>(758)</b>	<b>-</b>	<b>3,284</b>				
S94 not under Plans	397	-	-	10	-	-	407	-	(407)	-	-
S93F Planning Agreements	467	-	-	12	-	-	479				
<b>Total Contributions</b>	<b>3,947</b>	<b>888</b>	<b>-</b>	<b>93</b>	<b>(758)</b>	<b>-</b>	<b>4,170</b>	<b>3,910</b>	<b>(7,601)</b>	<b>-</b>	<b>-</b>



Notes to the Financial Statements

for the financial year ended 30 June 2014

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	18	-	-	-	-	-	18	-	(18)	-	-
Community Facilities	98	-	-	3	-	-	101	-	(101)	-	-
Other	20	-	-	1	-	-	21	-	(21)	-	-
<b>Total</b>	<b>136</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>140</b>	<b>-</b>	<b>(140)</b>	<b>-</b>	<b>-</b>

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	166	-	-	4	-	-	170	-	(170)	-	-
<b>Total</b>	<b>166</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>170</b>	<b>-</b>	<b>(170)</b>	<b>-</b>	<b>-</b>

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	-	-	1	-	-	22	-	(22)	-	-
<b>Total</b>	<b>21</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>22</b>	<b>-</b>	<b>(22)</b>	<b>-</b>	<b>-</b>

Notes to the Financial Statements

for the financial year ended 30 June 2014

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	35	-	-	1	-	-	36	-	(36)	-	-
<b>Total</b>	<b>35</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>36</b>	<b>-</b>	<b>(36)</b>	<b>-</b>	<b>-</b>

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	324	-	-	8	-	-	332	-	(332)	-	-
Other	14	-	-	1	-	-	15	-	(15)	-	-
<b>Total</b>	<b>338</b>	<b>-</b>	<b>-</b>	<b>9</b>	<b>-</b>	<b>-</b>	<b>347</b>	<b>-</b>	<b>(347)</b>	<b>-</b>	<b>-</b>

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	42	1	-	1	-	-	44	2	(46)	-	-
Roads	564	255	-	8	(412)	-	415	280	(695)	-	-
Open Space	468	261	-	10	(175)	-	564	287	(851)	-	-
Community Facilities	441	214	-	10	(132)	-	533	236	(769)	-	-
Other	196	74	-	5	(39)	-	236	82	(318)	-	-
<b>Total</b>	<b>1,711</b>	<b>805</b>	<b>-</b>	<b>34</b>	<b>(758)</b>	<b>-</b>	<b>1,792</b>	<b>887</b>	<b>(2,679)</b>	<b>-</b>	<b>-</b>

# Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

### 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	30	19	-	1	-	-	50	19	(69)	-	-
Tourist Facilities	477	20	-	12	-	-	509	20	(529)	-	-
Other	57	2	-	2	-	-	61	2	(63)	-	-
<b>Total</b>	<b>564</b>	<b>41</b>	<b>-</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>620</b>	<b>41</b>	<b>(661)</b>	<b>-</b>	<b>-</b>

##### 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	112	42	-	3	-	-	157	42	(199)	-	-
<b>Total</b>	<b>112</b>	<b>42</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>157</b>	<b>42</b>	<b>(199)</b>	<b>-</b>	<b>-</b>

##### Site Specific Contributions Plan - Bellbird North

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	-	-	-	-	-	-	-	763	(763)	-	-
Open Space	-	-	-	-	-	-	-	337	(337)	-	-
Community Facilities	-	-	-	-	-	-	-	287	(287)	-	-
Wetland	-	-	-	-	-	-	-	2	(2)	-	-
Administration	-	-	-	-	-	-	-	24	(24)	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,413</b>	<b>(1,413)</b>	<b>-</b>	<b>-</b>

# Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

### Note 17. Statement of Developer Contributions (continued)

\$ '000

#### S94 CONTRIBUTIONS - UNDER A PLAN

Site Specific Contributions Plan - Heddon Greta - Averys Village Precinct

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	-	-	-	-	-	-	-	717	(717)	-	-
Open Space	-	-	-	-	-	-	-	468	(468)	-	-
Community Facilities	-	-	-	-	-	-	-	325	(325)	-	-
Administration	-	-	-	-	-	-	-	17	(17)	-	-
<b>Total</b>	-	-	-	-	-	-	-	<b>1,527</b>	<b>(1,527)</b>	-	-

#### 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	83	-	-	2	-	-	85	-	(85)	-	-
Roads	314	-	-	8	-	-	322	-	(322)	-	-
<b>Total</b>	<b>397</b>	-	-	<b>10</b>	-	-	<b>407</b>	-	<b>(407)</b>	-	-

Cessnock City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

Note 17. Statement of Developer Contributions (continued)

\$ '000

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	-	-	-	-	-	-	-	375	(375)	-	-
Open Space	-	-	-	-	-	-	-	160	(160)	-	-
Community Facilities	467	-	-	12	-	-	479	205	(205)	479	-
Wetland	-	-	-	-	-	-	-	168	(168)	-	-
Land Dedication	-	-	-	-	-	-	-	152	(152)	-	-
<b>Total</b>	<b>467</b>	<b>-</b>	<b>-</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>479</b>	<b>1,060</b>	<b>(1,060)</b>	<b>479</b>	<b>-</b>

## Cessnock City Council

### Notes to the Financial Statements for the financial year ended 30 June 2014

#### 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 2014 was \$1,040,746.

The scheme is monitored annually and the Actuary has estimated that as at 30th June 2014 a deficit still exists in the scheme. Effective from 1 July 2014, 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.

###### (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 June this year may result in future liabilities or benefits as a result of past events that Council will be required to fund or share in respectively.

###### (iii) Other Guarantees

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

##### 2. Other Liabilities

###### (i) Third Party Claims

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

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

## Cessnock City Council

### Notes to the Financial Statements for the financial year ended 30 June 2014

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

\$ '000

##### **LIABILITIES NOT RECOGNISED (continued):**

##### **(ii) S94 Plans**

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

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

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

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

##### **(iii) Rehabilitation Works**

Council owns two properties that may be subject to rehabilitation works due to possible contamination. This may result in future liabilities, but until an investigation of these sites is carried out, Council is unable to determine the value of this liability.

##### **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 2014

#### 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.

##### (b) Council Assets employed in the Joint Venture Operations

2014

2013

##### Council's own assets employed in the Operations

##### Council's share of assets jointly owned with other partners

Current Assets	49	35
Current Liabilities	(58)	(41)
Other Non Current Assets	466	353
Non Current Liabilities	(313)	(227)

##### Total Net Assets Employed - Council & Jointly Owned

144

120

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

	2014			2013		
	Revenues	Expenses	Result	Revenues	Expenses	Result
Hunter Councils Limited	151	120	31	119	101	18
<b>Totals</b>	<b>151</b>	<b>120</b>	<b>31</b>	<b>119</b>	<b>101</b>	<b>18</b>

## Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 20. Equity - Retained Earnings and Revaluation Reserves

\$ '000	Notes	Actual 2014	Actual 2013
<b>(a) Retained Earnings</b>			
<b>Movements in Retained Earnings were as follows:</b>			
Balance at beginning of Year (from previous years audited accounts)		405,382	402,005
a. Correction of Prior Period Errors	20 (c)	-	-
b. Net Operating Result for the Year		3,833	3,377
<b>Balance at End of the Reporting Period</b>		<b>409,215</b>	<b>405,382</b>
<b>(b) Reserves</b>			
<b>(i) Reserves are represented by:</b>			
- Infrastructure, Property, Plant & Equipment Revaluation Reserve		302,573	229,699
<b>Total</b>		<b>302,573</b>	<b>229,699</b>
<b>(ii) Reconciliation of movements in Reserves:</b>			
<b>Infrastructure, Property, Plant &amp; Equipment Revaluation Reserve</b>			
- Opening Balance		229,699	227,725
- Revaluations for the year	9(a)	72,874	1,974
<b>- Balance at End of Year</b>		<b>302,573</b>	<b>229,699</b>
<b>TOTAL VALUE OF RESERVES</b>		<b>302,573</b>	<b>229,699</b>
<b>(iii) Nature &amp; Purpose of Reserves</b>			
<b>Infrastructure, Property, Plant &amp; Equipment Revaluation Reserve</b>			
- The Infrastructure, Property, Plant & Equipment Revaluation Reserve is used to record increments/decrements of Non Current Asset values due to their revaluation.			

## Cessnock City Council

### Notes to the Financial Statements for the financial year ended 30 June 2014

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

\$ '000	Notes	Actual 2014	Actual 2013
<b>(c) Correction of Error/s relating to a Previous Reporting Period</b>			
<b>Correction of errors disclosed in this year's financial statements:</b>			
<ul style="list-style-type: none"> <li>- Roads Assets decrease to Accumulated Depreciation</li> <li>- Residual Values are now applied to Road Sub-Base and Base</li> <li>- Road Sub-Base has a Residual Value = 100%</li> <li>- Road Base has a Residual Value = 75% balance of equity</li> </ul>			
<b>In accordance with AASB 108 - Accounting Policies, Changes in Accounting Estimates and Errors, the above Prior Period Errors have been recognised retrospectively.</b>			
<b>These amounted to the following Equity Adjustments:</b>			
- Adjustments to Opening Equity - 1/7/12 (relating to adjustments for the 30/6/12 reporting year end and prior periods)		-	-
- Adjustments to Closing Equity - 30/6/13 (relating to adjustments for the 30/6/13 year end)		-	-
<b>Total Prior Period Adjustments - Prior Period Errors</b>		<b>-</b>	<b>-</b>

#### (d) Voluntary Changes in Accounting Policies

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

#### Note 21. Financial Result & Financial Position by Fund

Council utilises only a General Fund for its operations.

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

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\$ '000

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

#### Note 23. Events occurring after the Reporting Date

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Events that occur between the end of the reporting period (ending 30 June 2014) 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 27/10/14.

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 2014.

##### **(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 2014 and which are only indicative of conditions that arose after 30 June 2014.

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

#### Note 24. Discontinued Operations

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

#### Note 25. Intangible Assets

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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 2014

#### 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	
		2014	2013
Tip Site - Cessnock	2016	11,241	11,241
<b>Balance at End of the Reporting Period</b>		<b>11,241</b>	<b>11,241</b>

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.

Specific uncertainties relating to the final costs and the assumptions made in determining the amounts of provisions include:

- 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.
- list details of any assumptions or uncertainties, including timing issues, cost issues etc

#### Reconciliation of movement in Provision for year:

Balance at beginning of year	11,241	11,241
<b>Total - Reinstatement, rehabilitation and restoration provision</b>	<b>11,241</b>	<b>11,241</b>

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 27. Fair Value Measurement

\$ '000

The Council measures the following asset and liability classes at fair value on a recurring basis:

- Infrastructure, Property, Plant and Equipment

The fair value of assets and liabilities must be estimated in accordance with various Accounting Standards for either recognition and measurement requirements or for disclosure purposes.

AASB 13 Fair Value Measurement requires all assets and liabilities measured at fair value to be assigned to a "level" in the fair value hierarchy as follows:

**Level 1:** Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

**Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

**Level 3:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(1) The following table presents all assets and liabilities that have been measured & recognised at fair values:

2014	Date of latest Valuation	Fair Value Measurement Hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
<b>Recurring Fair Value Measurements</b>					
<b>Infrastructure, Property, Plant &amp; Equipment</b>					
Plant and Equipment	30/06/2014			5,640	5,640
Office Equipment	30/06/2014			939	939
Furniture and Fittings	30/06/2014			89	89
Operational Land	30/06/2013			40,902	40,902
Community Land	30/06/2011			29,876	29,876
Land Under Roads (post 30/6/08)	30/06/2014			862	862
Buildings - Non Specialised	30/06/2013			13,440	13,440
Buildings - Specialised	30/06/2013			52,953	52,953
Other Structures	30/06/2011			848	848
Roads	30/06/2010			478,660	478,660
Bridges	30/06/2010			26,327	26,327
Footpaths	30/06/2010			9,652	9,652
Stormwater Drainage	30/06/2010			40,844	40,844
Swimming Pools	30/06/2011			343	343
Other Open Space / Recreational Assets	30/06/2011			8,468	8,468
Library Books	30/06/2014			1,135	1,135
Other Assets	30/06/2014			3	3
<b>Total Infrastructure, Property, Plant &amp; Equipment</b>		<b>-</b>	<b>-</b>	<b>710,981</b>	<b>710,981</b>

#### (2) Transfers between Level 1 & Level 2 Fair Value Hierarchies

During the year, there were no transfers between Level 1 and Level 2 Fair Value hierarchies for recurring fair value measurements.

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 27. Fair Value Measurement (continued)

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\$ '000

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##### (3) Valuation techniques used to derive Level 2 and Level 3 Fair Values

Where Council is unable to derive Fair Valuations using quoted market prices of identical assets (ie. Level 1 inputs), Council instead utilises a spread of both observable inputs (Level 2 inputs) and unobservable inputs (Level 3 inputs).

The Fair Valuation techniques Council has employed while utilising Level 2 and Level 3 inputs are as follows:

##### Infrastructure, Property, Plant & Equipment

###### Plant & Equipment, Office Equipment and Furniture & Fittings

Plant & Equipment, Office Equipment and Furniture & Fittings are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items i.e. generally having shorter useful lives and a more frequent turnover. The key unobservable inputs to the valuations are useful lives and residual values. There have been no changes in the valuation technique during the reporting period.

###### Operational Land

This asset class comprises all of Council's land classified as Operational Land under the NSW Local Government Act 1993. The last valuation was undertaken at 30 June 2013 by APV Valuers and Asset Management.

Generally, fair value is the most advantageous price reasonably obtainable by the seller and the most advantageous price reasonably obtained by the buyer. This is not necessarily the market selling price of the asset, rather, it is regarded as the maximum value that Council would rationally pay to acquire the asset if it did not hold it, taking into account quoted market price in an active and liquid market, the current market price of the same or similar asset, the cost of replacing the asset, if management intend to replace the asset, the remaining useful life and condition of the asset and cash flows from the future use and disposal. The key unobservable input to the valuations is the price per square metre. There have been no changes in the valuation technique during the reporting period.

###### Community Land

The last valuation of community land was performed as at 30 June 2011. The valuations were based on either the land values provided by the Valuer General or, where these values were not available, an average unit rate based on the land values for similar assets taking into account the highest and best use of the assets. There have been no changes in the valuation technique during the reporting period.

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 27. Fair Value Measurement (continued)

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\$ '000

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##### **Land Under Roads**

Council has elected to recognise Land Under Roads where the road was acquired on or after 1 July 2008. Land Under Roads have been valued using the square metre rates applicable to the Local Government area having regard to the highest and best use for this land. There has been no change to the valuation process during the reporting period.

##### **Buildings - Non Specialised and Specialised**

Council's buildings were valued utilising the cost approach by APV Valuers and Asset Management in June 2013. The approach estimated the replacement cost of each building and componentising of significant parts with different useful lives and taking into account a range of factors. The unit rates could be supported by market evidence (Level 2 inputs), other inputs (such as estimates of residual value, useful life and asset condition) required extensive professional judgement and impacted significantly on the final determination of fair value. As such, these assets have been valued using Level 3 inputs. There has been no change to the valuation techniques during the reporting period.

##### **Other Structures**

The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors. Inputs such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were all classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

##### **Roads, Bridges and Footpaths**

The roads asset class includes roads, defined as the trafficable portion of a road, between but not including the kerb and gutter. It also includes "other roads" assets including Bridges, Kerb and Gutter, Traffic facilities and Footpaths.

The 'Cost Approach' using Level 3 inputs was used to value the road carriageway and other road infrastructure. Valuations for the road carriageway, comprising surface, pavement and formation were based primarily on unit rates derived from the Councils schedule of rates tender. Other inputs (such as estimates pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived assets there is some uncertainty regarding the actual design, specifications and dimensions of some assets. There has been no change to the valuation process during the reporting period.



## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 27. Fair Value Measurement (continued)

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\$ '000

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##### **Stormwater Drainage**

Assets within this class comprise pits, pipes, open channels, headwalls and various types of water quality devices.

The 'Cost Approach' estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per pit or similar could be supported from market evidence (Level 2) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets. There has been no change to the valuation process during the reporting period.

##### **Swimming Pools**

Assets within this class comprise Council's aquatic centre and outdoor pools. All assets in this class were valued in-house by experienced engineering & asset management staff. While some elements of gross replacement values could be supported from market evidence (Level 2 input) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. There has been no change to the valuation process during the reporting period.

##### **Other Open Space / Recreational Assets**

Assets within this class comprise tennis courts, synthetic surfaces, BBQs, sporting facilities and playgrounds. All assets in this class were valued in-house by experienced engineering & asset management staff. While some elements of gross replacement values could be supported from market evidence (Level 2 input) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. There has been no change to the valuation process during the reporting period.

##### **Library Books**

Library Books are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items.

Council reviews the value of these assets against quoted prices for the gross current replacement cost of similar assets and by taking account of the pattern of consumption, estimated remaining useful life and the residual value. There has been no change to the valuation process during the reporting period.

## Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 27. Fair Value Measurement (continued)

\$ '000

**(4). Fair value measurements using significant unobservable inputs (Level 3)****a. The following tables present the changes in Level 3 Fair Value Asset Classes.**

	Plant and Other Equipment	Land	Buildings and Other Structures	Infra- structure	Other Assets	Total
Adoption of AASB 13	7,532	69,547	68,629	490,699	1,080	637,487
<b>Closing Balance - 30/6/13</b>	<b>7,532</b>	<b>69,547</b>	<b>68,629</b>	<b>490,699</b>	<b>1,080</b>	<b>637,487</b>
Transfers from/(to) another asset class	-	2,059	-	-	-	2,059
Purchases (GBV)	2,152	34	112	13,351	236	15,885
Disposals (WDV)	(774)	-	(16)	(3,686)	-	(4,476)
Depreciation & Impairment	(2,242)	-	(1,484)	(8,944)	(178)	(12,848)
Revaluation Increments	-	-	-	72,874	-	72,874
<b>Closing Balance - 30/6/14</b>	<b>6,668</b>	<b>71,640</b>	<b>67,241</b>	<b>564,294</b>	<b>1,138</b>	<b>710,981</b>

**b. Information relating to the transfers into and out of the Level 3 Fair Valuation hierarchy (as disclosed in the Table above) includes:**

There are no transfers identified in the table above.

## Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 27. Fair Value Measurement (continued)

\$ '000

## (4). Fair value measurements using significant unobservable inputs (Level 3) (continued)

## c. Significant unobservable valuation inputs used (for Level 3 asset classes) and their relationship to fair value.

The following table summarises the quantitative information relating to the significant unobservable inputs used in deriving the various Level 3 Asset Class fair values.

Class	Fair Value (30/6/14) \$'000	Unobservable Inputs	Range of Inputs (incl. probable)	Relationship of unobservable inputs to Fair Value
<b>I,PP&amp;E</b>				
Plant and Equipment	5,640	~ Gross Replacement Cost ~ Remaining Useful Life ~ Residual Value	~ Varies significantly from asset to asset ~ 5 to 15 years ~ 0% - 40%	Significant changes in the gross replacement cost, useful lives and residual values estimations would result in significant changes to the fair value measurement.
Office Equipment	939	~ Gross Replacement Cost ~ Remaining Useful Life ~ Residual Value	~ Varies significantly from asset to asset ~ 4 to 10 years ~ 0%	Significant changes in the gross replacement cost, useful lives and residual values estimations would result in significant changes to the fair value measurement.
Furniture and Fittings	89	~ Gross Replacement Cost ~ Remaining Useful Life ~ Residual Value	~ Varies significantly from asset to asset ~ 4 to 20 years ~ 0%	Significant changes in the gross replacement cost, useful lives and residual values estimations would result in significant changes to the fair value measurement.
Operational Land	40,902	~ Price per Square Metre	~ Varies significantly from asset to asset	Significant changes in the price per square metre would result in significant changes to the fair value measurement.

## Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 27. Fair Value Measurement (continued)

\$ '000

Class	Fair Value (30/6/14) \$'000	Unobservable Inputs	Range of Inputs (incl. probable)	Relationship of unobservable inputs to Fair Value
Community Land	29,876	~ VG Value (price per square metre)	~ Unimproved capital value can vary up or down from asset to asset	Significant changes in the price per square metre based on the unimproved capital value would result in significant changes to the fair value measurement.
Land Under Roads (post 30/6/08)	862	~ VG Value (price per square metre)	~ Unimproved capital value can vary up or down from asset to asset	Significant changes in the price per square metre would result in significant changes to the fair value measurement.
Buildings - Non Specialised	13,440	~ Gross Replacement Cost ~ Asset Condition ~ Remaining Useful Life ~ Residual Value	~ Varies significantly from asset to asset ~ Average to Excellent ~ 20 to 100 years ~ 0%	Significant changes in the gross replacement cost, asset condition, useful lives and residual values estimations would result in significant changes to the fair value measurement.
Buildings - Specialised	52,953	~ Gross Replacement Cost ~ Asset Condition ~ Remaining Useful Life ~ Residual Value	~ Varies significantly from asset to asset ~ Average to Excellent ~ 20 to 100 years ~ 0%	Significant changes in the gross replacement cost, asset condition, useful lives and residual values estimations would result in significant changes to the fair value measurement.
Other Structures	848	~ Gross Replacement Cost ~ Asset Condition ~ Remaining Useful Life ~ Residual Value	~ Varies significantly from asset to asset ~ Average to Excellent ~ 5 to 20 years ~ 0%	Significant changes in the gross replacement cost, asset condition, useful lives and residual values estimations would result in significant changes to the fair value measurement.

## Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 27. Fair Value Measurement (continued)

\$ '000

Class	Fair Value (30/6/14) \$'000	Unobservable Inputs	Range of Inputs (incl. probable)	Relationship of unobservable inputs to Fair Value
Roads	478,660	~ Gross Replacement Cost ~ Asset Condition ~ Remaining Useful Life ~ Residual Value	~ Varies significantly from asset to asset ~ Very Poor to Excellent ~ 20 to 80 years ~ 0% - 30%	Significant changes in the gross replacement cost, asset condition, useful lives and residual values estimations would result in significant changes to the fair value measurement.
Bridges	26,327	~ Gross Replacement Cost ~ Asset Condition ~ Remaining Useful Life ~ Residual Value	~ Varies significantly from asset to asset ~ Very Poor to Excellent ~ 20 to 80 years ~ 0% - 30%	Significant changes in the gross replacement cost, asset condition, useful lives and residual values estimations would result in significant changes to the fair value measurement.
Footpaths	9,652	~ Gross Replacement Cost ~ Asset Condition ~ Remaining Useful Life ~ Residual Value	~ Varies significantly from asset to asset ~ Average to Excellent ~ 0 to 10 years ~ 0% - 10%	Significant changes in the gross replacement cost, asset condition, useful lives and residual values estimations would result in significant changes to the fair value measurement.
Stormwater Drainage	40,844	~ Gross Replacement Cost ~ Asset Condition ~ Remaining Useful Life ~ Residual Value	~ Varies significantly from asset to asset ~ Average to Excellent ~ 50 to 80 years ~ 0% - 50%	Significant changes in the gross replacement cost, asset condition, useful lives and residual values estimations would result in significant changes to the fair value measurement.
Swimming Pools	343	~ Gross Replacement Cost ~ Asset Condition ~ Remaining Useful Life ~ Residual Value	~ Varies significantly from asset to asset ~ Average to Excellent ~ 60 to 100 years ~ 0% - 100%	Significant changes in the gross replacement cost, asset condition, useful lives and residual values estimations would result in significant changes to the fair value measurement.

## Cessnock City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 27. Fair Value Measurement (continued)

\$ '000

Class	Fair Value (30/6/14) \$'000	Unobservable Inputs	Range of Inputs (incl. probable)	Relationship of unobservable inputs to Fair Value
Other Open Space / Recreational Assets	8,468	~ Gross Replacement Cost ~ Asset Condition ~ Remaining Useful Life ~ Residual Value	~ Varies significantly from asset to asset ~ Poor to Excellent ~ 5 to 100 years ~ 0% - 100%	Significant changes in the gross replacement cost, asset condition, useful lives and residual values estimations would result in significant changes to the fair value measurement.
Library Books	1,135	~ Gross Replacement Cost ~ Remaining Useful Life	~ Varies significantly from asset to asset ~ 5 to 15 years	Significant changes in the gross replacement cost, useful lives and residual values estimations would result in significant changes to the fair value measurement.
Other Assets	3	~ Gross Replacement Cost	~ Varies significantly from asset to asset	Significant changes in the gross replacement cost, asset condition, useful lives and residual values estimations would result in significant changes to the fair value measurement.

**(5). Highest and best use**

All of Council's non financial assets are considered to being utilised for their highest and best use.

## Cessnock City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 28. Financial Review

\$ '000

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

<b>Financial Performance Figures</b>	<b>2014</b>	<b>2013</b>	2012	2011	2010
<b>Inflows:</b>					
Rates & Annual Charges Revenue	<b>41,263</b>	40,078	35,833	33,901	32,512
User Charges Revenue	<b>8,767</b>	10,335	10,390	7,760	9,758
Interest & Investment Revenue (Losses)	<b>1,359</b>	1,805	533	1,833	2,061
Grants Income - Operating & Capital	<b>9,759</b>	9,187	9,197	9,385	10,275
Total Income from Continuing Operations	<b>73,172</b>	69,712	61,457	59,027	59,635
Sale Proceeds from I,PP&E	<b>807</b>	898	766	1,707	2,263
New Loan Borrowings & Advances	<b>2,000</b>	-	1,890	1,431	500
<b>Outflows:</b>					
Employee Benefits & On-cost Expenses	<b>25,078</b>	23,451	22,662	22,037	22,079
Borrowing Costs	<b>607</b>	671	672	602	633
Materials & Contracts Expenses	<b>16,120</b>	14,723	14,453	12,721	14,017
Total Expenses from Continuing Operations	<b>69,339</b>	66,335	67,283	61,925	53,165
Total Cash purchases of I,PP&E	<b>15,371</b>	17,894	13,845	16,955	14,289
Total Loan Repayments (incl. Finance Leases)	<b>999</b>	938	981	1,269	1,267
Operating Surplus/(Deficit) (excl. Capital Income)	<b>(4,503)</b>	(49)	(8,142)	(6,538)	3,292
<b>Financial Position Figures</b>	<b>2014</b>	<b>2013</b>	2012	2011	2010
Current Assets	<b>33,418</b>	28,289	25,724	22,911	23,830
Current Liabilities	<b>15,473</b>	16,363	16,605	14,607	15,922
Net Current Assets	<b>17,945</b>	11,926	9,119	8,304	7,908
Available Working Capital (Unrestricted Net Current Assets)	<b>(2,775)</b>	(2,913)	(2,318)	(561)	591
Cash & Investments - Unrestricted	<b>1,333</b>	645	1,354	1,512	1,634
Cash & Investments - Internal Restrictions	<b>23,889</b>	16,506	13,110	12,208	12,316
Cash & Investments - Total	<b>30,823</b>	22,716	20,001	18,552	18,858
Total Borrowings Outstanding (Loans, Advances & Finance Leases)	<b>10,026</b>	9,025	9,963	9,054	8,892
Total Value of I,PP&E (excl. Land & Earthworks)	<b>774,268</b>	765,415	751,373	742,351	732,342
Total Accumulated Depreciation	<b>133,492</b>	195,560	182,301	168,471	149,874
Indicative Remaining Useful Life (as a % of GBV)	83%	74%	76%	77%	80%

**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 2014

#### Note 29. Council Information & Contact Details

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**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](http://www.cessnock.nsw.gov.au)

**Email:** [council@cessnock.nsw.gov.au](mailto:council@cessnock.nsw.gov.au)

**Officers**

**GENERAL MANAGER**

Mr Stephen Glen

**RESPONSIBLE ACCOUNTING OFFICER**

Mr Robert Maginnity

**PUBLIC OFFICER**

Mr Robert Maginnity

**AUDITORS**

Forsyths Chartered Accountants  
92 Rusden Street  
Armidale NSW 2350

PO Box 114 Armidale NSW 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



**Armidale**

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Forsyths Business Services Pty Ltd  
ABN 66 182 781 401

**INDEPENDENT AUDIT REPORT**  
**Report on the general purpose financial statements**

**To Council**

**SCOPE**

The financial statements comprise the income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes to the financial statements, and the Statement by Councillors and Management in the approved form as required by Section 413(2)(C) of the *Local Government Act 1993* for Cessnock City Council (the Council), for the year ended 30<sup>th</sup> June 2014.

***Councils' responsibility for the financial statements***

The Council is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the *Local Government Act 1993* and regulations and the Local Government Code of Accounting Practice and Financial Reporting. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free of 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 statements to the Council based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Audit 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 statements are free from material misstatement. Our audit responsibility does not extend to the Original Budget figures included in the Income Statement and Statement of Cash Flows and the Original Budget disclosures in Notes 2 and 16 and accordingly, we express no opinion on them.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the financial statements 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 Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Council, as well as evaluating the overall presentation of the financial statements.

**Knowledge with integrity**

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 followed applicable independence requirements of Australian professional ethical pronouncements.

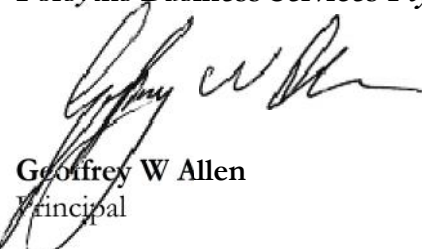
## **AUDIT OPINION**

In our opinion:

- (a) the accounting records of the Council have been kept in accordance with the requirements of Division 2 of Part 3 of the *Local Government Act 1993*;
- (b) the general purpose financial statements:
  - (i) have been prepared in accordance with the requirements of Division 2 of Part 3 of the *Local Government Act 1993*;
  - (ii) are consistent with the Council's accounting records; and
  - (iii) presents fairly, in all material respects, the Council's financial position as at 30<sup>th</sup> June 2014 and the results of its operations for the year then ended;
- (c) we have been able to obtain all information relevant to the conduct of our audit; and
- (d) no material deficiencies in the records or the financial statements were detected in the course of the audit.

*Forsyths*

***Forsyths Business Services Pty Ltd***



**Geoffrey W Allen**  
Principal

27<sup>th</sup> October 2014  
92 Rusden Street Armidale

27 October 2014

The Mayor  
Cessnock City Council  
PO Box 152  
CESSNOCK 2325

**Armidale**

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Forsyth's Business Services Pty Ltd  
ABN 66 182 781 401

Dear Sir

**AUDIT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2014**

We are pleased to report that we have completed the audit of Council's financial statements and records for the year ended 30<sup>th</sup> June 2014 and have reported on the general purpose financial statements and underlying accounting records as required by the provisions of Section 417(2) of the *Local Government Act 1993*.

Under Section 417(3) of the *Local Government Act 1993* we are also required to report on the conduct of the audit.

***Councils Responsibilities***

The Council is responsible for preparing financial statements that give a true and fair view of the financial position and performance of the Council and that complies with Accounting Standards in Australia, 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 statements.

***Audit Objectives***

We have conducted an independent audit of the financial statements in order to express an opinion on them to the Council. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our audit responsibility does not extend to the Original Budget figures included in the Income Statement and Statement of Cash Flows and the Original Budget disclosures in Notes 2 and 16 to the financial statements and accordingly, we express no opinion on them.

The nature of an audit is influenced by factors such as the use of professional judgement, 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 respects the financial statements 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 audit 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 statements, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Council.

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

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial statements. These and other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the Council.

We have issued our audit opinion on the basis of foregoing comments.

#### **Matters Relating to the Electronic Presentation of the Audited Financial Statements**

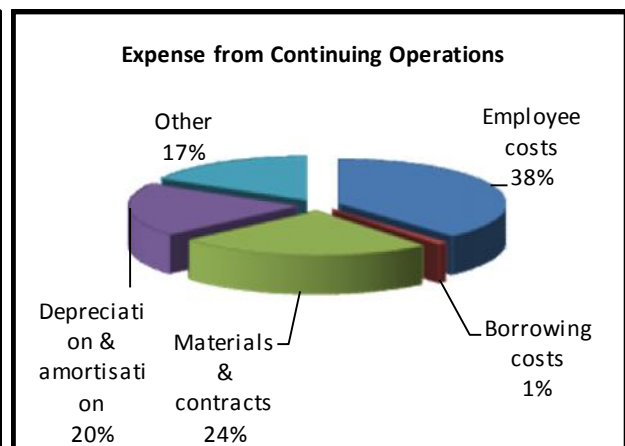
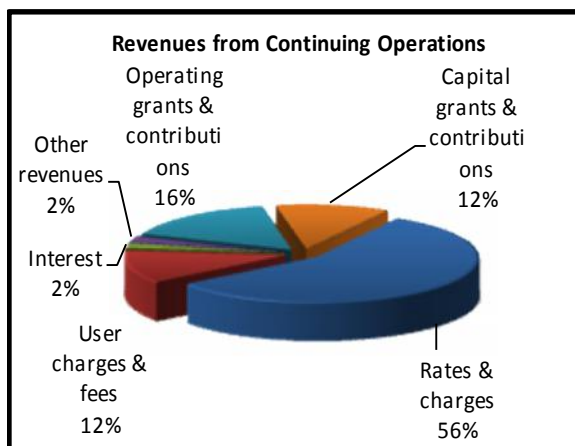
This auditor's report relates to the financial statements of Cessnock City Council for the year ended 30<sup>th</sup> June 2014 included on Cessnock City Council's web site. The Council is responsible for the integrity of its web site. We have not been engaged to report on the integrity of the Council's web site. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. 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 statements to confirm the information included in the audited financial statements presented on this web site.

**Additional Reporting Requirements:**

In accordance with Section 417(3) of the *Local Government Act 1993* we make the following comments in relation to the results and financial trends.

The combined Income Statement for the year ended 30<sup>th</sup> June 2014 discloses the following result:

INCOME STATEMENT	Budget	Actual	Actual	Variance	
	2014	2014	2013	Actual	Budget
	\$'000	\$'000	\$'000	%	
<b>INCOME FROM CONTINUING OPERATIONS</b>					
Rates & annual charges	41,132	41,263	40,078	3.0%	0.3%
User charges & fees	7,009	8,767	10,335	-15.2%	25.1%
Interest income	871	1,359	1,805	-24.7%	56.0%
Other revenues from ordinary activities	946	1,668	1,371	21.7%	76.3%
Grants & contributions for operating purposes	10,570	11,779	12,697	-7.2%	11.4%
Grants & contributions for capital purposes	5,504	8,336	3,426	143.3%	51.5%
<b>Total income from continuing operations</b>	<b>66,032</b>	<b>73,172</b>	<b>69,712</b>	<b>5.0%</b>	<b>10.8%</b>
<b>EXPENSES FROM CONTINUING OPERATIONS</b>					
Employee benefits & oncosts	26,720	25,078	23,451	6.9%	-6.1%
Borrowing costs	792	607	671	-9.5%	-23.4%
Materials and contracts	9,937	16,120	14,723	9.5%	62.2%
Depreciation & amortisation	14,872	12,848	14,993	8.7%	-13.6%
Other expenses from ordinary activities	12,195	10,974	10,095	-14.3%	-10.0%
Loss on sale of assets	0	3,712	2,402	54.5%	0.0%
<b>Total Expenses from continuing operations</b>	<b>64,516</b>	<b>69,339</b>	<b>66,335</b>	<b>4.5%</b>	<b>7.5%</b>
<b>OPERATING RESULT FROM CONTINUING OPERATIONS</b>	<b>1,516</b>	<b>3,833</b>	<b>3,377</b>	<b>13.5%</b>	<b>152.8%</b>
<b>OPERATING RESULT FROM DISCONTINUED OPERATIONS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>	<b>0.0%</b>
<b>NET OPERATING RESULT FOR THE YEAR</b>	<b>1,516</b>	<b>3,833</b>	<b>3,377</b>	<b>13.5%</b>	<b>152.8%</b>
<b>NET OPERATING RESULT BEFORE CAPITAL GRANTS AND CONTRIBUTIONS</b>	<b>(3,988)</b>	<b>(4,503)</b>	<b>(49)</b>	<b>9089.8%</b>	<b>12.9%</b>



Council achieved a surplus of \$3.8m after recognising an inflow of grants and contributions for capital expenditure purposes of \$8.3m. The expenditure of such grants is not recorded in the Income Statement but in the Statement of Financial Position. If these grants are excluded council had a deficit of \$4.5m.

Revenue increased by 5% compared to 2013 due to an increase in rates and annual charges mainly as a result of rate pegging increases, increase in capital grants & contributions mainly due to increased RMS regional roads capital contributions and other revenue mainly due to insurance recoveries. These increases were partially offset by decreases in operational grants and contributions due to a reduction in RMS contributions, user charges & fees mainly due to a reduction in RMS state road charges and a decrease in interest income due to lower fair value adjustments on investments this year.

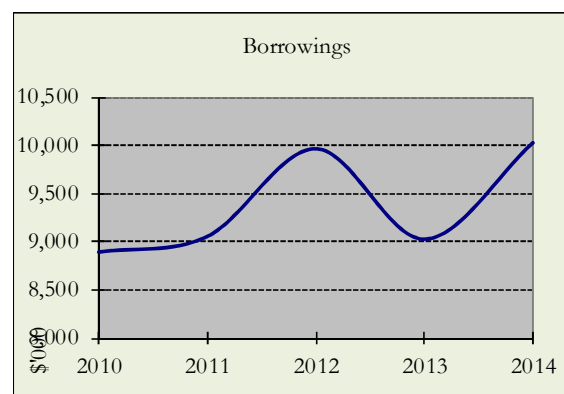
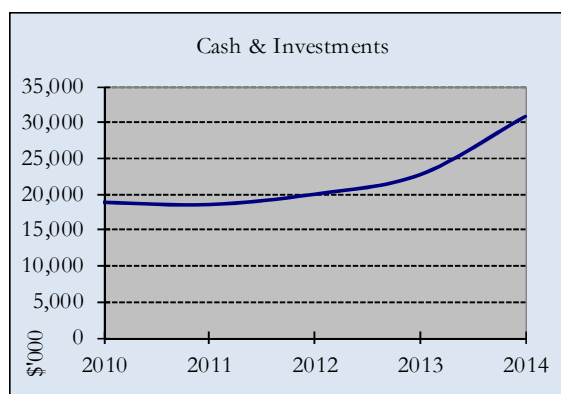
Expenses increased by 4.5% compared to 2013 due to increases in Employee benefits & on-costs as a result of award wage increases and an increase in employees, materials and contracts mainly due to an increase in RMS maintenance program as opposed to capital projects, and other expenses which was mainly due to Section 88 waste levy price increases per tonne. These increases were partially offset by a decrease in depreciation expense due to the revaluation of roads during the year.

The actual operating surplus from continuing operations for the year of \$3.8m compares with the original budget surplus (excluding re-votes) of \$1.5m. The \$2.3m favourable variance between the actual results and the original budget is primarily due to the following:

Budget Variations > than 10% and > \$0.5m		Comment
User charges & fees	\$ 1,758,000	Favourable variance to budget mainly due to RMS contract revenue for the construction of State Highway and additional maintenance funding.
Interest income	\$ 488,000	Favourable variance to budget due to better than expected fair value adjustments on investments during the year.
Other revenues from ordinary activities	\$ 722,000	Favourable to budget due to higher than expected legal fee and insurance recoveries .
Grants & contributions for operating purposes	\$ 1,209,000	Favourable variance to budget mainly due to higher than expected transport grants, financial assistance grants, general administration services grants and roads to recovery grants.
Grants & contributions for capital purposes	\$ 2,832,000	Capital grants were favourable to budget mainly due to higher than expected RMS capital contributions and Section 94 contributions.
Borrowing costs	\$ 185,000	Favourable to budget mainly due to lower than expected interest costs.
Materials and contracts	\$ (6,183,000)	Unfavourable to budget mainly due to higher than expected RMS grants which resulted in additional works being undertaken during the year
Depreciation & amortisation	\$ 2,024,000	Favourable to budget as the budget had not allowed for the impact of the revaluation of roads.
Other expenses from ordinary activities	\$ 1,221,000	Favourable to budget mainly due to less than expected carbon tax on landfill.

The following schedule of assets and liabilities has been extracted from the Statement of Financial Position as at 30<sup>th</sup> June 2014. This schedule discloses the consolidated assets and liabilities of all functions.

SCHEDULE OF ASSETS & LIABILITIES	2014 \$'000	2013 \$'000	Variance %
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	13,723	10,516	30.5%
Investments	16,100	12,200	32.0%
Receivables	3,172	4,805	-34.0%
Inventories	343	294	16.7%
Other	80	474	-83.1%
<b>TOTAL CURRENT ASSETS</b>	<b>33,418</b>	<b>28,289</b>	<b>18.1%</b>
<b>CURRENT LIABILITIES</b>			
Payables	7,121	8,223	-13.4%
Borrowings	1,133	1,264	-10.4%
Provisions	7,219	6,876	5.0%
<b>TOTAL CURRENT LIABILITIES</b>	<b>15,473</b>	<b>16,363</b>	<b>-5.4%</b>
<b>NET CURRENT ASSETS</b>	<b>17,945</b>	<b>11,926</b>	<b>50.5%</b>
<b>NON-CURRENT ASSETS</b>			
Investments	1,000	-	0.0%
Receivables	21	43	-51.2%
Inventories	1,270	3,329	-61.9%
Infrastructure, Property Plant & Equipment	712,416	639,402	11.4%
<b>TOTAL NON-CURRENT ASSETS</b>	<b>714,707</b>	<b>642,774</b>	<b>11.2%</b>
<b>NON-CURRENT LIABILITIES</b>			
Payables	603	508	18.7%
Provisions	11,368	11,350	0.2%
Borrowings	8,893	7,761	14.6%
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>20,864</b>	<b>19,619</b>	<b>6.3%</b>
<b>NET ASSETS</b>	<b>711,788</b>	<b>635,081</b>	<b>12.1%</b>



Net current assets increased by \$6.0m mainly due to the increase in cash and investments due to borrowings and operational cash flows, a decrease in payables due to a reduction in income in advance, and a decrease in receivables mainly due to the collection of rates and annual charges during the year. Total cash assets and investments currently stand at \$29.8m compared with \$22.7m as at 30<sup>th</sup> June 2013.



The increase in Infrastructure, Property Plant & Equipment of \$73.0m is due to asset additions of \$15.4m, reclassification of property from real estate for sale to operational land of \$2.1m and the revaluation of roads of \$72.9m offset by depreciation and disposals of \$12.8m and \$4.5m respectively for the year.

The decrease of non-current inventories is due to the reclassification of property to operational land to better reflect the nature of the property and its availability for sale.

Payables decreased as the prepaid Financial Assistance Grant of approx. \$3.6m was deferred as a liability in the prior year this was offset by an increase in trade creditors of \$2.3m.

The loan liabilities total \$10.0m as at 30<sup>th</sup> June 2014 after borrowing \$2m during the year and making loan repayments of \$1.0m.

### NET CURRENT ASSETS

The Net Current Asset position at year end is an important financial indicator as it discloses the working capital available to Council to fund day to day operations and finance infrastructure and new community projects. However, included in Current Assets are assets which are “Restricted” by regulation or other externally imposed requirements and therefore are not available other than their restricted purpose. The table below shows the net current asset position adjusted for restricted assets.

	Dom Waste \$'000	General \$'000	Total \$'000
Current Assets	1,369	32,049	33,418
Current Liabilities	82	15,391	15,473
<b>Net Current Assets</b>	<b>1,287</b>	<b>16,658</b>	<b>17,945</b>
<b>Plus: Non-Current Investments</b>	-	1,000	1,000
<b>Plus: Current Liabilities Payable &gt;12mths</b>	-	5,104	5,104
<b>Total Funds before Restrictions</b>	<b>1,287</b>	<b>22,762</b>	<b>24,049</b>
<b>LESS: Restricted Cash &amp; Investments</b> (Included in Revenue)			
Developer Contributions	-	4,170	4,170
Specific Purpose Unexpended Grants	-	649	649
	-	4,819	4,819
<b>NET FUNDS AVAILABLE</b>	<b>1,287</b>	<b>17,943</b>	<b>19,230</b>
<b>LESS Internal Restrictions</b>	-	<b>23,889</b>	<b>23,889</b>
<b>Net Funds After All Restrictions</b>	<b>1,287</b>	<b>(5,946)</b>	<b>(4,659)</b>

After funding all restrictions, Council has a net funds deficit in the general fund of \$5.9m. This means that council does not currently have sufficient funds to fund the internal restrictions it has made.

Council has set aside \$1.5m to fund employee entitlements within the general function. This restriction represents 20% of the total employee leave provision entitlements and is considered low given the existing staff levels, age profiles and that Council has estimated that \$4.4m of employee entitlements as at 30<sup>th</sup> June 2014 are not due within the coming 12 months.



INTERNAL RESTRICTIONS	Opening \$'000	Transfer to \$'000	Transfer from \$'000	Closing \$'000
Employee leave entitlements	1,029	1,126	580	1,575
Plant & Vehicle replacement	2,270	1,078	717	2,631
Carry over works	-	1,096	-	1,096
Bridge replacement	337	164	293	208
Cemetery	48	11	53	6
Computer Services	233	178	168	243
Insurance Provision	495	80	72	503
Land Purchases	581	1,561	247	1,895
Other Special Projects	89	308	13	384
Residential Land Development	567	75	8	634
Rezoning fees	106	-	106	-
Sanitary Operations	41	-	6	35
Single Invitations Contracts	376	340	62	654
Unexpended Loan Funds	219	2,000	840	1,379
Waste Depot & Rehabilitation	10,050	12,814	10,218	12,646
Other restrictions	65	-	65	-
	16,506	20,831	13,448	23,889

**Local Government Industry Performance Indicators**

The Code of Accounting Practice requires the mandatory disclosure of certain performance indicators. These financial indicators are useful in assessing performance, financial position and the likely financial burden to be placed on ratepayers.

The key financial indicators disclosed in the Financial Statements are:

RATIO	PURPOSE	2014	2013	2012	Tcorp
OPERATING PERFORMANCE RATIO	To assess councils ability to meet operating expenditure within operating revenue.	-1.7%	2.4%	-7.5%	>-4%
OWN SOURCE OPERATING REVENUE	To assess the degree of reliance on external funding sources.	72.4%	76.6%	78.7%	>60%
UNRESTRICTED CURRENT RATIO	To assess the adequacy of working capital after excluding all restricted assets and liabilities.	2.74	1.93	1.69	>1.5
DEBT SERVICE COVER RATIO	To assess the availability of operating cash to service debt including interest, principle and lease payments.	7.70	10.71	6.67	>2.0
OUTSTANDING RATES	To assess the impact of uncollected rates and charges on liquidity and the adequacy of recovery efforts.	4.0%	6.2%	5.2%	<10%
CASH EXPENSE COVER RATIO	To assess the number of months council can pay its expenses without additional cash inflow.	6.66	5.00	4.40	>3

#### *Operating performance*

An operating performance deficit of 1.7% compares to a surplus in 2013 of 2.4% and means that Councils operating revenue, excluding capital grants and contributions does not quite cover operating expenditure. This compares to the Group 4 Councils average deficit of 6.4% and a state average deficit of 5.0% for 2013. The TCorps benchmark for this ratio is to have a deficit of less than 4.0% each year. The “fit for the future” benchmark is that councils should have a breakeven or better operating performance ratio over a three year period.

#### *Owned source operating revenue*

A ratio of 72.4% (2013: 76.6%) for the 2014 year highlights Council’s low dependence on grants and contributions and compares to a Group 4 average of 55.0% for 2013 and a State average of 58.6% for 2013. The TCorp benchmark for sustainability is to have a ratio of greater than 60%. The “fit for the future” benchmark is that councils should have an own source operating revenue of greater than 60% over a three year period which council has achieved.

#### *Unrestricted Ratio*

The unrestricted ratio excludes all current assets and liabilities that are restricted to specific purposes such as domestic waste management functions and specific purpose unexpended grants and contributions and adjusting for employee entitlements not expected to be settled within 12 months. This ratio is before setting aside cash to fund internal restrictions relative to the general function. The ratio of 2.74 as at 30 June 2014 indicates that there is \$2.74 of unrestricted current assets for every \$1.00 of current liabilities. Council’s ratio of 2.74 compares to the average of 4.8 for the Group 4 Councils and is lower than the State average of 4.0 for 2013. However, the ratio is higher than the TCorp benchmark of greater than 1.5.

#### *Debt service cover ratio*

The debt service cover ratio of 7.7 times indicates that council has \$7.70 before interest and depreciation to pay interest and principal repayments on current borrowings. This compares to the Group 4 2013 average of 13.8 and the state average of 29.2. The TCorp benchmark for sustainability is to have a ratio of greater than 2.0.

#### *Outstanding rate ratio*

The outstanding rate ratio of 4.0% compares favourably to the average of 7.4% for Group 4 Councils and the State average of 7.0% for 2013. This ratio is an indicator of Councils activity to collect outstanding rate revenues.

#### *Cash expense ratio*

The ratio indicates that Council can pay 6.66 months of its expenses without additional cash inflows. This compares to the Group 4 2013 average of 6.0 and the state average of 5.4. The TCorp benchmark is to have reserves to meet at least 3 months of operating expenditure. Since Council also has significant long term deposits not included in this ratio, it has maintained strong cash reserves and per this ratio maintains a healthy short term financial position.

**Infrastructure Asset Performance Indicators**

With the emphasis on “Fit for the Future” we have included comments on unaudited infrastructure asset performance measures disclosed in the Special Schedule 7 are as follows:

RATIO	PURPOSE	2014	2013	2012	Tcorp
BUILDING AND INFRASTRUCTURE RENEWALS RATIO	To assess the proportion spent on infrastructure renewals vs infrastructure deterioration.	118.91 %	105.65 %	85.32%	>100%
INFRASTRUCTURE BACKLOG RATIO	To assess the infrastructure backlog against the total value of councils infrastructure.	2.0%	21.0%	21.0%	<20%
ASSET MAINTENANCE RATIO	To assess the actual vs required annual maintenance expenditure.	99.0%	53.0%	50.0%	>100%
CAPITAL EXPENDITURE RATIO	To assess the extent to which council is forecasting to expand its asset base with capital expenditure.	0.85	0.98	0.68	>1.1

*Building and Infrastructure renewals ratio*

The building and infrastructure renewals ratio outlines Council’s performance with renewing its infrastructure assets against the level of estimated infrastructure asset deterioration (as represented by depreciation expense). For 2014 Council spent \$1.18 for every \$1 in estimated asset deterioration. The Group 4 average for the asset renewal ratio was \$0.76 and the state average of \$0.81 for 2013. The “fit for the future” benchmark is that councils should have a Building and infrastructure renewals ratio of greater than one over a three year period which council has achieved.

*Infrastructure backlog ratio*

An infrastructure backlog ratio 2.0% indicates that the infrastructure backlog represents 2.0% of the value of Councils infrastructure and compares to a Group 4 average of 10.6% and State average of 10.0% for 2013. The TCorp benchmark is a ratio less than 20% and the “fit for the future” benchmark is less than 2% which council is achieving.

*Asset maintenance ratio*

The Asset Maintenance ratio of 0.96 indicates that Council has been undertaking insufficient maintenance to keep pace with required maintenance requirements as determine by council’s engineers and maintenance staff. This compares to a Group 4 average of 0.8 and State average of 0.7 for 2013. A ratio of greater than 1.0 is considered acceptable by TCorp.

*Capital expenditure ratio*

The capital expenditure ratio of 0.85 indicates that Council has expended \$0.85 on capital expenditure for every dollar of depreciation. The TCorp benchmark is for a Council to have a capital expenditure ratio of greater than 1.1.

The increase in cash and investments reflected in the Statement of Financial Position is also evident in the following table extracted from the Cash Flows Statement.

CASH MOVEMENTS	Actual 2014	Actual 2013	Variance
	\$'000	\$'000	%
<b>CASH INFLOWS</b>			
Operating Receipts	74,152	73,043	1.5%
Proceeds from Assets Sales	807	898	-10.1%
Other receipts	24	21	14.3%
Proceeds form sale of investments	5,757	4,735	21.6%
Proceeds from Borrowings	2,000	0	0.0%
<b>TOTAL RECEIPTS</b>	<b>82,740</b>	<b>78,697</b>	<b>5.1%</b>
<b>CASH OUTFLOWS</b>			
Operating Payments	52,763	53,147	-0.7%
Purchase of investments	10,400	8,200	26.8%
Purchase of Assets	15,371	17,894	-14.1%
Repayment of Loans	999	938	6.5%
Other Payments	0	43	0.0%
<b>TOTAL PAYMENTS</b>	<b>79,533</b>	<b>80,222</b>	<b>-0.9%</b>
<b>TOTAL CASH MOVEMENT</b>	<b>3,207</b>	<b>-1,525</b>	<b>-310.3%</b>
Cash	13,723	10,516	30.5%
Investments	17,100	12,200	40.2%
<b>Total Cash &amp; Investments on Hand</b>	<b>30,823</b>	<b>22,716</b>	<b>35.7%</b>

Council’s cash and investments have increased by \$8.1m after expending \$15.4m on infrastructure and assets and \$1.0m on scheduled repayments of borrowings. This has been funded by new borrowings of \$2.0m, proceeds from asset sales and continued strong cash flows from operations.

Cash Outflows for Purchase of Assets included road and bridge construction totalling \$10.7m. This compares with the \$7.0m annual rate of depreciation of these assets. In assessing the replacement rate of depreciating assets it is also important to note that Special Schedule No 7, which is an unaudited statement prepared in conjunction with the financial report, discloses that the estimated cost to bring roads and bridges to a satisfactory standard is \$8.6m and the estimated annual maintenance expense required is \$10.8m.

Council’s enviable cash position provides a strong footing from which to address infrastructure improvements and complete internally restricted projects.

**FINANCIAL SUSTAINABILITY**

Over the recent past there have been a number of reviews into local government financial sustainability and management (such as local government review panel report, local government Acts taskforce report, NSW Treasury Corporation (“TCorp”) report and the Infrastructure management audit) the outcomes from these reviews provide insight into the NSW Government expectations of councils and how they are assessing the viability and structure of local government in the future.

During the 2013 year all councils had an external assessment by NSW Treasury Corporation (“TCorp”) of their financial sustainability. TCorp has defined financial sustainability as follows:

*“A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community”*

Based on TCorps assessment of Council's financial results from 2009 to 2012, the unaudited Special Schedules 7, ten year financial forecasts and other factors (e.g. Population growth, workforce demographics and skills, environmental and natural disaster factors) it has assessed Councils financial sustainability as Moderate and its outlook as Negative.

It should be noted that the audit of the financial statements is an audit of Council at a point in time whereas the TCorp report evaluation is for the future sustainability of Council and:

- Did not take into account the financial results from 2013 and 2014 have not been considered;
- It includes unaudited data from Special Schedule 7 as well as the ten year financial forecast; and
- Is based upon future data, which includes assumptions and judgements regarding the future operations of Council, including what revenue and expenses will be incurred in the future, as well as significant judgement with regard to other non-financial information.

Based on our review of the TCorp report, for Council to maintain its financial sustainability position it will need to consider the following:

- Monitor rating and user charge revenue increases in order to match or exceed future increases in operational expenditure;
- Continue to improve its asset management plans and processes in order to understand future infrastructure replacement and maintenance needs;
- Prudent use of borrowings to support long term infrastructure improvements;
- Continue to review its long term financial forecast modelling and assumptions in order to provide an accurate picture of long term financial issues; and
- Continued community consultation to identify acceptable service levels including acceptable condition of its infrastructure assets.

During 2013 an audit of Local Government infrastructure across all councils in NSW was conducted using a survey of councils' infrastructure management processes and practices, historical financial information and through a number of visits to councils. As a result of the audit councils asset management practices were graded as either Very Strong, Strong, Moderate, Weak, Very Weak or Distressed. Cessnock City Council was graded a "Moderate".

The audit identified the following focus areas for councils to achieve sustainable infrastructure service levels:

- Skilled People – develop asset management skills and capacity within councils;
- Appropriate Processes – implement appropriate asset management practices focusing on community service level negotiations, risk management and infrastructure vulnerability assessments, and identification of critical infrastructure;
- Reliable data – development of specific asset management measurement parameters, improved reporting of asset management and progress on achieving the delivery program; and
- Adequate resources – adequately fund asset management through the use of debt, local Government Renewal Scheme funding, special rate variations and grant funds.

Subsequent to the report from the local government review panel and local government Acts taskforce, the NSW Government response is outlined in its "fit for the future" blueprint. This will require councils to assess their current financial position and submit a fit for the future proposal by 30 June 2015. Presently there has been no guidelines issued on the form of the response but indicators are they will use the above reports (TCorp and OLG infrastructure management report) along with the local government review panel recommendations.

Should councils be deemed “unfit” then the NSW Government will strongly encourage councils to consider the following options:

- Seek voluntary merger with other councils in order to meet a sustainable “threshold”;
- Develop regional joint organisations with separate governance structures to manage critical elements for a number of councils (e.g. finance and IT, economic development, engineering, etc.);
- Accepting the offer for cheaper finance to build and maintain facilities; and
- Utilising the innovation fund to help smaller councils explore new ways to working with other councils.

## GENERAL

### *Reporting obligations under the Local Government Act*

It is pleasing to report that Council’s systems and records have been well maintained during the year and the audited accounts will be submitted to the Division of Local Government within the prescribed time provide for in Division 2 of the *Local Government Act 1993*.

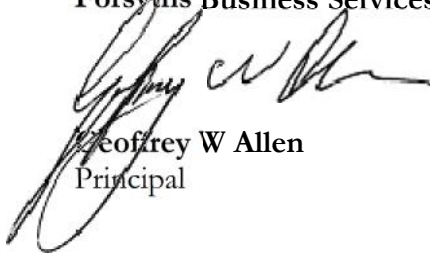
Matters of a technical nature have been documented in a management letter to the General Manager.

We take this opportunity of thanking the General Manager and his staff for their co-operation and assistance during the course of the audit.

Under section 419 of the *Local Government Act 1993*, Council is required to give public notice of a Council meeting for the purpose of presenting the audited financial statements and the auditor's report. A Principal of this firm is available to attend this meeting to address any questions in respect of the audit report or the conduct of the audit.

Yours faithfully

**Forsyths Business Services Pty Ltd**



Geoffrey W Allen  
Principal

# Cessnock City Council

SPECIAL SCHEDULES  
for the year ended 30 June 2014

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**"...thriving, attractive and welcoming."**





# Cessnock City Council

## Special Schedules

for the financial year ended 30 June 2014

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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 Operations - incl. Income Statement	n/a
- Special Schedule No. 4	Water Supply - Statement of Financial Position	n/a
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<sup>1</sup> Special Schedules are not audited (with the exception of Special Schedule 9).

#### 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 (NOW), and
  - the Office of Local Government (OLG).
- (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 2014

\$'000

Function or Activity	Expenses from Continuing Operations	Income from continuing operations		Net Cost of Services
		Non Capital	Capital	
<b>Governance</b>	<b>1,002</b>	-	-	<b>(1,002)</b>
<b>Administration</b>	<b>10,570</b>	<b>1,730</b>	<b>76</b>	<b>(8,764)</b>
<b>Public Order and Safety</b>				
Fire Service Levy, Fire Protection, Emergency Services	1,024	175	13	<b>(836)</b>
Beach Control	-	-	-	-
Enforcement of Local Govt. Regulations	641	232	-	<b>(409)</b>
Animal Control	470	117	-	<b>(353)</b>
Other	-	-	-	-
<b>Total Public Order &amp; Safety</b>	<b>2,135</b>	<b>524</b>	<b>13</b>	<b>(1,598)</b>
<b>Health</b>	<b>742</b>	<b>926</b>	-	<b>184</b>
<b>Environment</b>				
Noxious Plants and Insect/Vermin Control	230	88	-	<b>(142)</b>
Other Environmental Protection	400	19	-	<b>(381)</b>
Solid Waste Management	10,157	12,446	-	<b>2,289</b>
Street Cleaning	527	-	-	<b>(527)</b>
Drainage	915	483	1	<b>(431)</b>
Stormwater Management	-	-	-	-
<b>Total Environment</b>	<b>12,229</b>	<b>13,036</b>	<b>1</b>	<b>808</b>
<b>Community Services and Education</b>				
Administration & Education	237	61	-	<b>(176)</b>
Social Protection (Welfare)	242	6	-	<b>(236)</b>
Aged Persons and Disabled	4	-	-	<b>(4)</b>
Children's Services	-	-	-	-
<b>Total Community Services &amp; Education</b>	<b>483</b>	<b>67</b>	-	<b>(416)</b>
<b>Housing and Community Amenities</b>				
Public Cemeteries	353	166	-	<b>(187)</b>
Public Conveniences	347	-	-	<b>(347)</b>
Street Lighting	963	47	-	<b>(916)</b>
Town Planning	3,711	1,257	-	<b>(2,454)</b>
Other Community Amenities	7	-	-	<b>(7)</b>
<b>Total Housing and Community Amenities</b>	<b>5,381</b>	<b>1,470</b>	-	<b>(3,911)</b>

## Cessnock City Council

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

for the financial year ended 30 June 2014

\$'000

Function or Activity	Expenses from Continuing Operations	Income from continuing operations		Net Cost of Services
		Non Capital	Capital	
<b>Recreation and Culture</b>				
Public Libraries	1,518	170	72	(1,276)
Museums	145	-	-	(145)
Art Galleries	101	-	-	(101)
Community Centres and Halls	590	91	169	(330)
Performing Arts Venues	790	286	-	(504)
Other Performing Arts	-	-	-	-
Other Cultural Services	61	9	-	(52)
Sporting Grounds and Venues	852	-	2	(850)
Swimming Pools	1,405	175	-	(1,230)
Parks & Gardens (Lakes)	2,774	56	400	(2,318)
Other Sport and Recreation	716	-	-	(716)
<b>Total Recreation and Culture</b>	<b>8,952</b>	<b>787</b>	<b>643</b>	<b>(7,522)</b>
<b>Fuel &amp; Energy</b>	-	-	-	-
<b>Agriculture</b>	-	-	-	-
<b>Mining, Manufacturing and Construction</b>				
Building Control	1,254	552	-	(702)
Other Mining, Manufacturing & Construction	-	-	-	-
<b>Total Mining, Manufacturing and Const.</b>	<b>1,254</b>	<b>552</b>	-	<b>(702)</b>
<b>Transport and Communication</b>				
Urban Roads (UR) - Local	11,381	417	1,766	(9,198)
Urban Roads - Regional	362	195	-	(167)
Sealed Rural Roads (SRR) - Local	4,136	165	1	(3,970)
Sealed Rural Roads (SRR) - Regional	1,446	781	5,659	4,994
Unsealed Rural Roads (URR) - Local	1,879	942	130	(807)
Unsealed Rural Roads (URR) - Regional	-	-	-	-
Bridges on UR - Local	564	-	-	(564)
Bridges on SRR - Local	355	-	-	(355)
Bridges on URR - Local	222	-	-	(222)
Bridges on Regional Roads	-	-	-	-
Parking Areas	-	-	-	-
Footpaths	222	-	-	(222)
Aerodromes	506	272	-	(234)
Other Transport & Communication	4,521	4,147	10	(364)
<b>Total Transport and Communication</b>	<b>25,594</b>	<b>6,919</b>	<b>7,566</b>	<b>(11,109)</b>
<b>Economic Affairs</b>				
Camping Areas & Caravan Parks	-	-	-	-
Other Economic Affairs	997	212	37	(748)
<b>Total Economic Affairs</b>	<b>997</b>	<b>212</b>	<b>37</b>	<b>(748)</b>
<b>Totals – Functions</b>	<b>69,339</b>	<b>26,223</b>	<b>8,336</b>	<b>(34,780)</b>
<b>General Purpose Revenues</b> <sup>(2)</sup>		<b>38,613</b>		<b>38,613</b>
<b>Share of interests - joint ventures &amp; associates using the equity method</b>	-	-		-
<b>NET OPERATING RESULT</b> <sup>(1)</sup>	<b>69,339</b>	<b>64,836</b>	<b>8,336</b>	<b>3,833</b>

(1) As reported in the Income Statement

(2) Includes: Rates &amp; Annual Charges (incl. Ex Gratia, excl. Water &amp; Sewer), Non Capital General Purpose Grants, Interest on Investments (excl. Ext. Restricted Assets) &amp; Interest on overdue Rates &amp; Annual Charges

Cessnock City Council

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

for the financial year ended 30 June 2014

\$'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
<b>Loans (by Source)</b>											
Commonwealth Government	-	-	-	-	-	-	-	-	-	-	-
Treasury Corporation	-	-	-	-	-	-	-	-	-	-	-
Other State Government	-	-	-	-	-	-	-	-	-	-	-
Public Subscription	-	-	-	-	-	-	-	-	-	-	-
Financial Institutions	1,264	7,761	9,025	2,000	999	-	-	607	1,133	8,893	10,026
Other	-	-	-	-	-	-	-	-	-	-	-
<b>Total Loans</b>	<b>1,264</b>	<b>7,761</b>	<b>9,025</b>	<b>2,000</b>	<b>999</b>	<b>-</b>	<b>-</b>	<b>607</b>	<b>1,133</b>	<b>8,893</b>	<b>10,026</b>
<b>Other Long Term Debt</b>											
Ratepayers Advances	-	-	-	-	-	-	-	-	-	-	-
Government Advances	-	-	-	-	-	-	-	-	-	-	-
Finance Leases	-	-	-	-	-	-	-	-	-	-	-
Deferred Payments	-	-	-	-	-	-	-	-	-	-	-
<b>Total Long Term Debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Debt</b>	<b>1,264</b>	<b>7,761</b>	<b>9,025</b>	<b>2,000</b>	<b>999</b>	<b>-</b>	<b>-</b>	<b>607</b>	<b>1,133</b>	<b>8,893</b>	<b>10,026</b>

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 - Report on Infrastructure Assets

as at 30 June 2014

\$'000

Asset Class	Asset Category	Estimated cost to bring up to a satisfactory standard <sup>(1)</sup>	Required <sup>(2)</sup> Annual Maintenance	Actual <sup>(3)</sup> Maintenance 2013/14	Replacement Cost	Assets in Condition as a % of Replacement Cost <sup>(4), (5)</sup>				
						1	2	3	4	5
<b>Buildings</b>	Council Offices / Administration Centres	-	130	184	6,500	0%	0%	100%	0%	0%
	Council Works Depot	3	90	59	4,495	0%	17%	80%	3%	0%
	Council Public Halls	281	174	252	8,718	0%	25%	72%	3%	0%
	Cultural Facilities	1,006	177	92	8,826	0%	15%	55%	30%	0%
	Libraries	-	36	79	1,840	0%	0%	100%	0%	0%
	Other Buildings	1,422	1,016	1,358	50,810	2%	44%	48%	6%	0%
	<b>sub total</b>	<b>2,712</b>	<b>1,623</b>	<b>2,024</b>	<b>81,189</b>	<b>1.3%</b>	<b>32.8%</b>	<b>58.5%</b>	<b>7.5%</b>	<b>0.0%</b>
<b>Other Structures</b>	Other Structures	-	23	25	1,444	100%	0%	0%	0%	0%
	<b>sub total</b>	<b>-</b>	<b>23</b>	<b>25</b>	<b>1,444</b>	<b>100.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Roads</b>	All Council Roads	6,400	9,546	8,897	415,760	10%	42%	41%	6%	1%
	Bridges	1,831	656	712	33,053	17%	57%	20%	4%	2%
	Footpaths	111	85	17	11,102	13%	54%	26%	6%	1%
	Kerb and Gutter	1,160	180	36	115,987	13%	54%	26%	6%	1%
	Other Road Assets	-	290	795	9,925	18%	19%	63%	0%	0%
	<b>sub total</b>	<b>9,502</b>	<b>10,757</b>	<b>10,457</b>	<b>585,827</b>	<b>11.2%</b>	<b>45.1%</b>	<b>36.9%</b>	<b>5.8%</b>	<b>1.0%</b>
<b>Stormwater Drainage</b>	Pipes and Box Culverts	207	266	266	44,711	32%	66%	2%	0%	0%
	Pits and Headwalls	44	292	292	9,313	75%	21%	4%	0%	0%
	<b>sub total</b>	<b>251</b>	<b>558</b>	<b>558</b>	<b>54,024</b>	<b>39.4%</b>	<b>58.2%</b>	<b>2.3%</b>	<b>0.0%</b>	<b>0.0%</b>

Special Schedule No. 7 - Report on Infrastructure Assets (continued)

as at 30 June 2014

\$'000

Asset Class	Asset Category	Estimated cost to bring up to a satisfactory standard <sup>(1)</sup>	Required Annual Maintenance <sup>(2)</sup>	Actual Maintenance 2013/14 <sup>(3)</sup>	Replacement Cost	Assets in Condition as a % of Replacement Cost <sup>(4), (5)</sup>				
						1	2	3	4	5
Open Space/ Recreational Assets	Swimming Pools	11	370	217	510	10%	0%	83%	7%	0%
	Open Space	612	1,252	1,218	13,225	22%	51%	23%	4%	0%
	<b>sub total</b>	<b>623</b>	<b>1,622</b>	<b>1,435</b>	<b>13,735</b>	<b>21.6%</b>	<b>49.1%</b>	<b>25.2%</b>	<b>4.1%</b>	<b>0.0%</b>
	<b>TOTAL - ALL ASSETS</b>	<b>13,088</b>	<b>14,583</b>	<b>14,499</b>	<b>736,219</b>	<b>12.5%</b>	<b>44.7%</b>	<b>36.5%</b>	<b>5.5%</b>	<b>0.8%</b>

Notes:

- (1). The estimated cost to bring up to a satisfactory standard refers to the estimated cost to bring the asset up to a standard as deemed suitable by Council to meet the needs of the community. This varies between asset classes as shown. Buildings have been calculated using component replacement costs for components which are in condition 4 or 5 i.e. roof replacement cost rather than the entire structure replacement cost. Roads have been calculated using various condition ratings and different treatment methods as outlined in the "Road Network Asset Management Plan". The following assets have been calculated using the total replacement cost of assets in condition 4 & 5 - Bridges, Stormwater Pits, Stormwater Pipes, Swimming Pools and Open Space. Footpaths have been calculated using a standard replacement cost of \$95/m<sup>2</sup> for assets in condition 5 only (the breakdown of percentages in each condition is based on Kerb and Gutter data as no footpath condition data is available). Kerb and Gutter has been calculated using a standard rate of \$80/lm for assets in condition 5 only. This does not include any planned enhancements or upgrades.
- (2). Required Annual Maintenance is "what should be spent" to maintain assets in a satisfactory standard. This includes maintenance and renewal activities. Calculated using the lower end of an industry standard of 2-3% of building general replacement value. For other asset classes an estimated figure has been based on the actual maintenance spent and the percentage of assets in an unsatisfactory standard - which varies between asset classes.
- (3). Actual Maintenance is what has been spent in the current year to maintain the assets, this includes maintenance and renewal activities. Actual Maintenance may be higher or lower than the required annual maintenance due to the timing of when the maintenance actually occurs.
- (4). Asset condition as a percentage of Replacement Cost has been calculated using the known condition rating from the asset database and the Replacement Cost of the asset. Tables attached with calculate Asset category "Other Road Assets" has been calculated using a numerical value based on an asset inventory only, no accurate replacement values for these assets are known.
- (5). **Infrastructure Asset Condition Assessment "Key"**

1	<b>Excellent</b>	No work required (normal maintenance)
2	<b>Good</b>	Only minor maintenance work required
3	<b>Average</b>	Maintenance work required
4	<b>Poor</b>	Renewal required
5	<b>Very Poor</b>	Urgent renewal/upgrading required

## Cessnock City Council

Special Schedule No. 7 - Report on Infrastructure Assets (continued)  
for the financial year ended 30 June 2014

\$ '000	Amounts	Indicator	Prior Periods	
	2014	2014	2013	2012
<b>Infrastructure Asset Performance Indicators Consolidated</b>				
<b>1. Building and Infrastructure Renewals Ratio</b>				
Asset Renewals (Building and Infrastructure) <sup>(1)</sup>	<u>12,333</u>	118.91%	105.65%	85.32%
Depreciation, Amortisation & Impairment	<u>10,372</u>			
<b>2. Infrastructure Backlog Ratio</b>				
Estimated Cost to bring Assets to a Satisfactory Condition	<u>13,088</u>	0.02	0.21	0.21
Total value <sup>(2)</sup> of Infrastructure, Building, Other Structures & depreciable Land Improvement Assets	<u>631,535</u>			
<b>3. Asset Maintenance Ratio</b>				
Actual Asset Maintenance	<u>14,499</u>	0.99	0.53	0.50
Required Asset Maintenance	<u>14,583</u>			
<b>4. Capital Expenditure Ratio</b>				
Annual Capital Expenditure	<u>10,929</u>	0.85	0.98	0.68
Annual Depreciation	<u>12,848</u>			

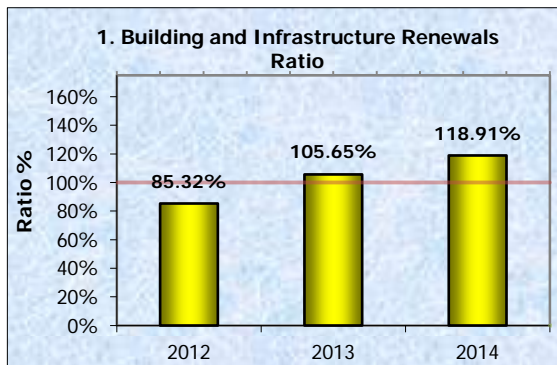
## Notes

<sup>(1)</sup> 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.

<sup>(2)</sup> Written down value

# Cessnock City Council

## Special Schedule No. 7 - Report on Infrastructure Assets (continued) for the financial year ended 30 June 2014



— Minimum 100.00%

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

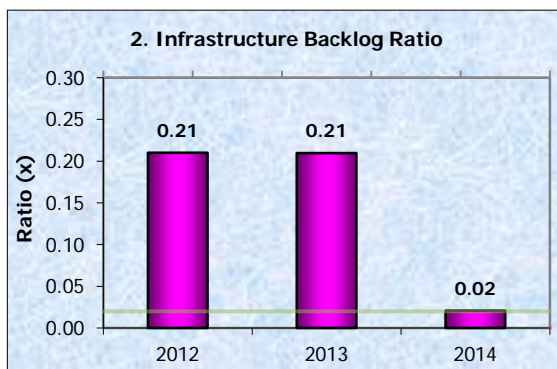
**Purpose of Asset Renewals Ratio**

To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

**Commentary on 2013/14 Result**

**2013/14 Ratio 118.91%**

The result from 2013/14 is positive. This shows that Council is investing in renewing the current Building and Infrastructure assets to ensure the sustainability of the assets.



— Maximum .02

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

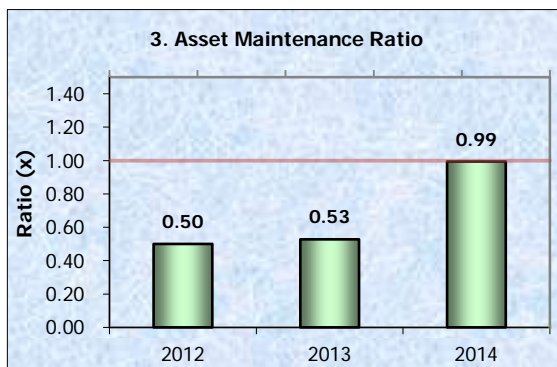
**Purpose of Infrastructure Backlog Ratio**

This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.

**Commentary on 2013/14 Result**

**2013/14 Ratio 0.02 x**

Council has reviewed the total Infrastructure network. There has been an emphasis on the road network throughout the Council LGA. This has resulted in new remedial methods being applied to each segment of road to enhance the roads condition to achieve a satisfactory level of service.



— Minimum 1.00

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

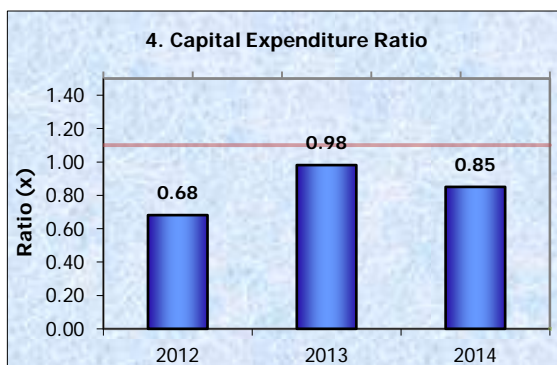
**Purpose of Asset Maintenance Ratio**

Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the Infrastructure Backlog growing.

**Commentary on 2013/14 Result**

**2013/14 Ratio 0.99 x**

This result shows that Council has made a significant improvement in this area, through applying an enhanced knowledge of maintenance requirements. Council has identified the need for increasing the maintenance budgets to prevent the backlog of maintenance from growing.



— Minimum 1.10

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

**Purpose of Capital Expenditure Ratio**

To assess the extent to which a Council is expanding its asset base thru capital expenditure on both new assets and the replacement and renewal of existing assets.

**Commentary on 2013/14 Result**

**2013/14 Ratio 0.85 x**

The result shows that Council is focusing on maintaining its current asset base, as well as expanding, when cost effective and required by the community. Although Council is still committed to expanding, the operational sustainability of Council is at the forefront of expenditure.

## Cessnock City Council

## Special Schedule No. 8 - Financial Projections

as at 30 June 2014

\$'000	Actual <sup>(1)</sup> 13/14	Forecast <sup>(3)</sup> 14/15	Forecast <sup>(3)</sup> 15/16	Forecast <sup>(3)</sup> 16/17	Forecast <sup>(3)</sup> 17/18	Forecast <sup>(3)</sup> 18/19
<b>(i) OPERATING BUDGET</b>						
Income from continuing operations	73,172	67,022	68,775	65,588	67,464	69,405
Expenses from continuing operations	69,339	63,938	65,429	67,255	68,502	70,103
<b>Operating Result from Continuing Operations</b>	<b>3,833</b>	<b>3,084</b>	<b>3,346</b>	<b>(1,667)</b>	<b>(1,038)</b>	<b>(698)</b>
<b>(ii) CAPITAL BUDGET</b>						
New Capital Works <sup>(2)</sup>	1,211	932	932	932	932	932
Replacement/Refurbishment of Existing Assets	14,194	18,793	18,885	14,975	15,465	15,955
<b>Total Capital Budget</b>	<b>15,405</b>	<b>19,725</b>	<b>19,817</b>	<b>15,907</b>	<b>16,397</b>	<b>16,887</b>
<b>Funded by:</b>						
– Loans	840	500	500	500	500	500
– Asset sales	-	-	-	-	-	-
– Reserves	1,076	1,200	1,200	1,200	1,200	1,200
– Grants/Contributions	8,297	5,302	5,302	302	302	302
– Recurrent revenue	5,192	12,723	12,815	13,905	14,395	14,885
– Other	-	-	-	-	-	-
	<b>15,405</b>	<b>19,725</b>	<b>19,817</b>	<b>15,907</b>	<b>16,397</b>	<b>16,887</b>

**Notes:**

(1) From 13/14 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.



## Cessnock City Council

## Special Schedule No. 9 - Permissible Income Calculation

for the financial year ended 30 June 2015

\$'000		Calculation 2013/14	Calculation 2014/15
<b>Notional General Income Calculation <sup>(1)</sup></b>			
Last Year Notional General Income Yield	a	29,936	31,413
Plus or minus Adjustments <sup>(2)</sup>	b	412	239
<b>Notional General Income</b>	c	<b>30,348</b>	<b>31,652</b>
<b>Permissible Income Calculation</b>			
Special variation percentage <sup>(3)</sup>	d	9.45%	9.55%
or Rate peg percentage	e		
or Crown land adjustment incl. rate peg percentage	f		
less expiring Special variation amount	g	(1,635)	(1,725)
plus Special variation amount	h = (c+g) x d	2,713	2,858
or plus Rate peg amount	i = c x e	-	-
or plus Crown land adjustment and rate peg amount	j = c x f	-	-
<b>sub-total</b>	k = (c+g+h+i+j)	<b>31,426</b>	<b>32,785</b>
plus (or minus) last year's Carry Forward Total	l	(1)	12
less Valuation Objections claimed in the previous year	m	-	-
<b>sub-total</b>	n = (l + m)	<b>(1)</b>	<b>12</b>
<b>Total Permissible income</b>	o = k + n	<b>31,425</b>	<b>32,797</b>
less Notional General Income Yield	p	31,413	32,889
<b>Catch-up or (excess) result</b>	q = o - p	<b>12</b>	<b>(92)</b>
plus Income lost due to valuation objections claimed <sup>(4)</sup>	r	-	98
less Unused catch-up <sup>(5)</sup>	s	-	-
<b>Carry forward to next year</b>	t = q + r - s	<b>12</b>	<b>6</b>

### Notes

- <sup>1</sup> The Notional General Income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include amounts that relate to prior years' rates income.
- <sup>2</sup> Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called "supplementary valuations" as defined in the Valuation of Land Act 1916.
- <sup>3</sup> The Special Variation Percentage is inclusive of the Rate Peg percentage and where applicable crown land adjustment.
- <sup>4</sup> Valuation objections are unexpected changes in land values as a result of land owners successfully objecting to the land value issued by the Valuer-General. Councils can claim the value of the income lost due to valuation objections in any single year.
- <sup>5</sup> Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.

**Armidale**

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ABN 66 182 781 401

## **CESSNOCK CITY COUNCIL INDEPENDENT AUDITORS' REPORT - SPECIAL SCHEDULE No. 9**

We have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule No. 9) of Cessnock City Council for the year ending 30 June 2015.

### **Responsibility of Council for Special Schedule No. 9**

The Council is responsible for preparation and fair presentation of Special No. 9 in accordance with the Local Government Code of Accounting Practice and Financial Reporting (Guidelines) Update No. 22. This responsibility includes the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error; designing, implementing and maintaining internal controls relevant preparation and fair presentation of Special Schedule No. 9 that is free from material mistreatment, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's Responsibilities**

Our responsibility is to express an opinion on Special Schedule No. 9 based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Audit Standard require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether Special Schedule No. 9 and is free from material misstatement.

An audit involves performing procedures to obtain audit evidences about the amounts and disclosures in Special Schedule No. 9. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement on Special Schedule No. 9, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of Special Schedule No. 9.

Because of the inherent limitation of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.

## **Knowledge with integrity**

Liability limited by a scheme approved under the Professional Standards Legislation

**ARMIDALE | COONABARABRAN | GUNNEDAH |  
TAMWORTH**

In making our risk assessments, we consider internal controls relevant to the entity's preparation of Special Schedule No. 9 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of the expressing an opinion on the effectiveness of the entity's internal control.

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 followed applicable independence requirements of Australian professional ethical pronouncements.

### **Audit Opinion**

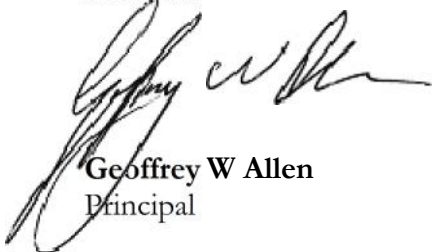
In our opinion Special Schedule No. 9 of Cessnock City Council for the year ending 30 June 2015 is properly drawn up in all material respects, in accordance with the requirements of the Office of Local Government and in accordance with the books and records of the Council.

### **Basis of Accounting**

Without modifying our opinion, we advise that the Special Schedule No. 9 has been prepared for distribution to the Office of Local Government for the purposes of confirming the Council's reconciliation of Council's total permissible general income is presented fairly. As a result, the Special Schedule No. 9 may not be suitable for another purpose

*Forsyths*

**Forsyths Business Services Pty Ltd**



**Geoffrey W Allen**  
Principal

27<sup>th</sup> October 2014  
92 Rusden Street Armidale