



# GENERAL PURPOSE FINANCIAL STATEMENTS

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FOR THE YEAR ENDED 30 JUNE 2016



# Cessnock City Council

## General Purpose Financial Statements

for the year ended 30 June 2016

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### Overview

- (i) These financial statements are General Purpose Financial Statements and cover the 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 1993* (LGA).

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

- the ability to provide goods, services and facilities, and to carry out activities appropriate to the current and 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 26 October 2016. Council has the power to amend and reissue these financial statements.
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## Cessnock City Council

### General Purpose Financial Statements for the year ended 30 June 2016

#### Understanding Council's financial statements

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##### Introduction

Each year, individual local governments across New South Wales are required to present a set of audited financial statements to their council and community.

##### What you will find in the statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2016.

The format of the financial statements is standard across all NSW Councils and complies with both the accounting and 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 and ownership of the financial statements.

##### About the primary financial statements

The financial statements incorporate five 'primary' financial statements:

##### 1. The Income Statement

This statement summarises Council's financial performance for the year, listing all income and 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

This statement primarily records changes in the fair values of Council's infrastructure, property, plant and equipment.

##### 3. The Statement of Financial Position

An end of year snapshot of Council's financial position indicating its assets, liabilities and equity ('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

This statement 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 five primary financial statements.

##### About the Auditor's Reports

Council's financial statements are required to be audited by external accountants (that generally specialise 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 and position, and
2. Their observations on the conduct of the audit, including commentary on the Council's financial performance and financial position.

##### Who uses the financial statements?

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

The public can make submissions to Council up to seven 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 2015-16 financial year can be found at Note 28 of the financial statements.

# Cessnock City Council

## General Purpose Financial Statements for the year ended 30 June 2016

### Statement by Councillors and Management made pursuant to Section 413(2)(c) of the *Local Government Act 1993 (NSW)* (as amended)

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

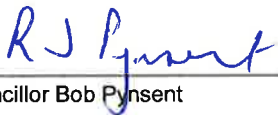
- the *Local Government Act 1993 (NSW)* (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and professional pronouncements, and
- the Local Government Code of Accounting Practice and Financial Reporting.

**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
- accord with Council's accounting and other records.

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

**Signed in accordance with a resolution of Council made on 07 September 2016.**



Councillor Bob Pynsent  
Mayor



Councillor Allan Stapleford  
Councillor



Mr Stephen Glen  
General Manager



Mr John Oliver  
Responsible Accounting Officer

## Cessnock City Council

## Income Statement

for the year ended 30 June 2016

Budget <sup>1</sup> 2016	\$ '000	Notes	Actual 2016	Actual 2015
<b>Income from continuing operations</b>				
<b>Revenue:</b>				
43,225	Rates and annual charges	3a	44,020	42,162
7,232	User charges and fees	3b	8,057	7,510
729	Interest and investment revenue	3c	1,515	1,098
1,058	Other revenues	3d	1,830	1,557
12,775	Grants and contributions provided for operating purposes	3e,f	14,000	16,209
5,952	Grants and contributions provided for capital purposes	3e,f	16,895	10,930
<b>70,971</b>	<b>Total income from continuing operations</b>		<b>86,317</b>	<b>79,466</b>
<b>Expenses from continuing operations</b>				
28,633	Employee benefits and on-costs	4a	29,186	27,084
567	Borrowing costs	4b	552	627
10,955	Materials and contracts	4c	19,841	15,734
13,015	Depreciation and amortisation	4d	9,608	12,688
–	Impairment	4d	361	251
11,638	Other expenses	4e	11,606	11,775
–	Net losses from the disposal of assets	5	3,536	3,845
–	Net share of interests in joint ventures and associates using the equity method	19	–	–
<b>64,808</b>	<b>Total expenses from continuing operations</b>		<b>74,690</b>	<b>72,004</b>
<b>6,163</b>	<b>Operating result from continuing operations</b>		<b>11,627</b>	<b>7,462</b>
<b>Discontinued operations</b>				
–	Net profit/(loss) from discontinued operations	24	–	–
<b>6,163</b>	<b>Net operating result for the year</b>		<b>11,627</b>	<b>7,462</b>
6,163	Net operating result attributable to Council		11,627	7,462
–	Net operating result attributable to non-controlling interests		–	–
<b>211</b>	<b>Net operating result for the year before grants and contributions provided for capital purposes</b>		<b>(5,268)</b>	<b>(3,468)</b>

<sup>1</sup> Original budget as approved by Council – refer Note 16

## Cessnock City Council

Statement of Comprehensive Income  
for the year ended 30 June 2016

\$ '000	Notes	Actual 2016	Actual 2015
<b>Net operating result for the year</b> (as per Income Statement)		<b>11,627</b>	<b>7,462</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)	5,927	9,798
<b>Total items which will not be reclassified subsequently to the operating result</b>		<b>5,927</b>	<b>9,798</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>5,927</b>	<b>9,798</b>
<b>Total comprehensive income for the year</b>		<b>17,554</b>	<b>17,260</b>
<b>Total comprehensive income attributable to Council</b>		<b>17,554</b>	<b>17,260</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 2016

\$ '000	Notes	Actual 2016	Actual 2015
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6a	8,610	11,253
Investments	6b	28,100	24,000
Receivables	7	3,110	3,562
Inventories	8	323	343
Other	8	206	54
Non-current assets classified as 'held for sale'	22	–	–
<b>Total current assets</b>		<b>40,349</b>	<b>39,212</b>
<b>Non-current assets</b>			
Investments	6b	1,300	2,400
Receivables	7	–	–
Inventories	8	1,270	1,270
Infrastructure, property, plant and equipment	9	725,765	709,657
Investments accounted for using the equity method	19	–	–
Investment property	14	–	–
Intangible assets	25	–	–
<b>Total non-current assets</b>		<b>728,335</b>	<b>713,327</b>
<b>TOTAL ASSETS</b>		<b>768,684</b>	<b>752,539</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	10	6,756	8,037
Borrowings	10	1,152	1,143
Provisions	10	8,661	8,004
<b>Total current liabilities</b>		<b>16,569</b>	<b>17,184</b>
<b>Non-current liabilities</b>			
Payables	10	2,444	2,103
Borrowings	10	6,598	7,750
Provisions	10	11,398	11,381
<b>Total non-current liabilities</b>		<b>20,440</b>	<b>21,234</b>
<b>TOTAL LIABILITIES</b>		<b>37,009</b>	<b>38,418</b>
<b>Net assets</b>		<b>731,675</b>	<b>714,121</b>
<b>EQUITY</b>			
Retained earnings	20	413,377	401,750
Revaluation reserves	20	318,298	312,371
<b>Council equity interest</b>		<b>731,675</b>	<b>714,121</b>
<b>Non-controlling equity interests</b>		<b>–</b>	<b>–</b>
<b>Total equity</b>		<b>731,675</b>	<b>714,121</b>

## Cessnock City Council

Statement of Changes in Equity  
for the year ended 30 June 2016

\$ '000	Notes	Retained earnings	Reserves (Refer 20b)	Council interest	Non-controlling Interest	Total equity
<b>2016</b>						
<b>Opening balance</b> (as per last year's audited accounts)		401,750	312,371	<b>714,121</b>	–	<b>714,121</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 1/7/15)</b>		<b>401,750</b>	<b>312,371</b>	<b>714,121</b>	–	<b>714,121</b>
<b>c. Net operating result for the year</b>		<b>11,627</b>	–	<b>11,627</b>	–	<b>11,627</b>
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	–	5,927	<b>5,927</b>	–	<b>5,927</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>–</b>	<b>5,927</b>	<b>5,927</b>	–	<b>5,927</b>
<b>Total comprehensive income (c&amp;d)</b>		<b>11,627</b>	<b>5,927</b>	<b>17,554</b>	–	<b>17,554</b>
e. Distributions to/(contributions from) non-controlling Interests		–	–	–	–	–
f. Transfers between equity		–	–	–	–	–
<b>Equity – balance at end of the reporting period</b>		<b>413,377</b>	<b>318,298</b>	<b>731,675</b>	–	<b>731,675</b>

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council Interest	Non-controlling Interest	Total Equity
<b>2015</b>						
<b>Opening balance</b> (as per last year's audited accounts)		409,215	302,573	<b>711,788</b>	–	<b>711,788</b>
a. Correction of prior period errors	20 (c)	(14,927)	–	<b>(14,927)</b>	–	<b>(14,927)</b>
b. Changes in accounting policies (prior year effects)	20 (d)	–	–	–	–	–
<b>Revised opening balance (as at 1/7/14)</b>		<b>394,288</b>	<b>302,573</b>	<b>696,861</b>	–	<b>696,861</b>
<b>c. Net operating result for the year</b>		<b>7,462</b>	–	<b>7,462</b>	–	<b>7,462</b>
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	–	9,798	<b>9,798</b>	–	<b>9,798</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>–</b>	<b>9,798</b>	<b>9,798</b>	–	<b>9,798</b>
<b>Total comprehensive income (c&amp;d)</b>		<b>7,462</b>	<b>9,798</b>	<b>17,260</b>	–	<b>17,260</b>
e. Distributions to/(contributions from) non-controlling Interests		–	–	–	–	–
f. Transfers between equity		–	–	–	–	–
<b>Equity – balance at end of the reporting period</b>		<b>401,750</b>	<b>312,371</b>	<b>714,121</b>	–	<b>714,121</b>



## Cessnock City Council

## Statement of Cash Flows

for the year ended 30 June 2016

Budget 2016	\$ '000	Notes	Actual 2016	Actual 2015
<b>Cash flows from operating activities</b>				
<b>Receipts:</b>				
42,900	Rates and annual charges		44,186	42,746
8,400	User charges and fees		8,585	7,906
1,000	Investment and interest revenue received		1,143	1,124
25,700	Grants and contributions		21,820	26,655
–	Bonds, deposits and retention amounts received		311	1,722
4,100	Other		5,109	4,030
<b>Payments:</b>				
(27,700)	Employee benefits and on-costs		(28,577)	(26,475)
(16,800)	Materials and contracts		(22,653)	(16,960)
(400)	Borrowing costs		(552)	(627)
–	Bonds, deposits and retention amounts refunded		(323)	–
(14,100)	Other		(13,583)	(13,571)
<b>23,100</b>	<b>Net cash provided (or used in) operating activities</b>	11b	<b>15,466</b>	<b>26,550</b>
<b>Cash flows from investing activities</b>				
<b>Receipts:</b>				
–	Sale of investment securities		9,100	6,900
800	Sale of infrastructure, property, plant and equipment		1,259	692
–	Deferred debtors receipts		–	42
<b>Payments:</b>				
–	Purchase of investment securities		(11,799)	(3,000)
(25,506)	Purchase of infrastructure, property, plant and equipment		(15,526)	(19,321)
<b>(24,706)</b>	<b>Net cash provided (or used in) investing activities</b>		<b>(16,966)</b>	<b>(14,687)</b>
<b>Cash flows from financing activities</b>				
<b>Receipts:</b>				
Nil				
<b>Payments:</b>				
(1,143)	Repayment of borrowings and advances		(1,143)	(1,133)
<b>(1,143)</b>	<b>Net cash flow provided (used in) financing activities</b>		<b>(1,143)</b>	<b>(1,133)</b>
<b>(2,749)</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(2,643)</b>	<b>10,730</b>
24,453	Plus: <b>cash and cash equivalents – beginning of year</b>	11a	11,253	523
<b>21,704</b>	<b>Cash and cash equivalents – end of the year</b>	11a	<b>8,610</b>	<b>11,253</b>
Additional Information:				
	plus: <b>Investments on hand – end of year</b>	6b	29,400	26,400
	<b>Total cash, cash equivalents and investments</b>		<b>38,010</b>	<b>37,653</b>

Please refer to Note 11 for information on the following:

- Non-cash financing and investing activities
- Financing arrangements
- Net cash flow disclosures relating to any discontinued operations

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

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n/a – not applicable

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### 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)* and 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 IFRSs, 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)*, Regulation and Local Government Code of Accounting Practice and 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

There have been no new accounting standards adopted in this year's financial statements which have had any material impact on reported financial position, performance or cash flows.

###### (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 2015, except for AASB2015-7 Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities, which has reduced the fair value disclosures for Level 3 assets.

For summary information relating to the effects of standards with future operative dates refer further to paragraph (ab).

###### (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 and 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.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

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

Significant judgements in applying Council's accounting policies include the impairment of receivables – Council has made significant judgements about the impairment of a number of its receivables in Note 7.

##### (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.

Control over granted assets/contributed 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 section 94 of the *Environmental Protection Authority Act 1979*.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

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 payment has been received, 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 and investments is accounted for using the effective interest rate at the date that interest is earned.

#### Dividend income

Revenue is recognised when the Council's right to receive the payment is established, which is generally when shareholders approve the dividend.

#### 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 consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

#### (i) The Consolidated Fund

In accordance with the provisions of section 409(1) of the *Local Government Act (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 that 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.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

##### (iii) Interests in other entities

###### Subsidiaries

Council has no interest in any subsidiaries.

###### Joint arrangements

###### Joint operations (controlled assets and operations)

Joint operations represent operational arrangements where the joint control parties have rights to specific assets and obligations for specific liabilities relating to the arrangement rather than a right to the net assets of the arrangement.

The proportionate interests of Council in the assets, liabilities, income and expenses of all Joint Operation activities have been incorporated throughout the financial statements under the appropriate notes and line items.

Detailed information relating to Council's joint operations can be found at Note 19 (c).

###### Associates

Where Council has the power to participate in the financial and operating decisions of another entity, (i.e. where Council is deemed to have 'significant influence' over another 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 ventures.

Such entities are usually termed associates.

Any interests in Associates are accounted for using the equity method and are carried at cost.

Detailed information relating to Council's interest in associates can be found at Note 19 (b).

###### County councils

Council is not a member of any county council.

###### Unconsolidated structured entities

Council has no interest in any unconsolidated structured entities.

##### (d) Leases

All leases entered into by Council are reviewed and classified on inception date as either a finance lease or an operating lease.

###### Finance leases

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

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

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

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

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

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

###### Operating Leases

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

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

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

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

For Statement of Cash Flows (and Statement of Financial Position) presentation purposes, cash and cash equivalents includes;

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

- 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 that 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 and 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 or intention for which the investment was acquired and 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 and/or are expected to be realised within 12 months of the balance sheet date.

#### (ii) Loans and receivables

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

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

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

#### (iii) Held-to-maturity investments

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

In contrast to the 'loans and receivables' classification, these investments are generally quoted in an active market.

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

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

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

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

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

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

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

##### Financial assets – reclassification

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

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

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

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

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

##### General accounting and measurement of financial instruments:

###### (i) Initial recognition

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

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

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

###### (ii) Subsequent measurement

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

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

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

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

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

###### Impairment

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

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

###### (iii) Types of investments

Council has an approved Investment Policy in order to invest in accordance with (and to comply with) Section 625 of the *Local Government Act (1993)* and section 212 of the *Local Government (General) Regulation (2005)*.

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



## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

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

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

#### **(g) Fair value estimation – financial instruments**

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 and 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 that are known to be uncollectible are written off in accordance with Council's policy.

A provision for impairment (i.e. an allowance account) relating to receivables is established when objective evidence shows that Council will not be able to collect all amounts due according to the original terms of each receivable.

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

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

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

Subsequent recoveries of amounts previously written off are credited against other expenses in the Income Statement.

#### **(i) Inventories**

##### **(i) 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.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

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.

#### (ii) 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:

- **Plant and equipment**  
(as approximated by depreciated historical cost)
- **Operational land** (external valuation)
- **Community land** (external valuation)

- **Land improvements** (internal valuation)
- **Buildings – specialised/non-specialised**  
(external & internal valuation)
- **Roads assets including roads, bridges and footpaths** (external & internal valuation)
- **Bulk earthworks** (external & internal valuation)
- **Stormwater drainage** (external valuation)
- **Swimming pools** (internal valuation)
- **Runways and Taxiways** (internal valuation)
- **Other open space/recreational assets**  
(internal valuation)
- **Other assets**  
(as approximated by depreciated historical cost)

##### Initial recognition

On initial recognition, an asset's 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 (i.e. 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

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

to Council and the cost of the item can be measured reliably.

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

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

#### Buildings & Land Improvements

Building	
- new construction or upgrade	100% Capitalised
- renewal	Capitalised where restoration costs ≥ \$2000 or a complete component replacement

#### Asset revaluations (including indexation)

In accounting for asset revaluations relating to infrastructure, property, plant and 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.

#### Stormwater Assets

Drains & Culverts	Capitalise if reconstruction is ≥ \$5,000 and / or more than 20% of asset
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#### Transport Assets

Roads	Capitalise if pavement renewal to same standard, resurfacing with same standard, reconstruction is ≥ \$10,000 and / or more than 20% of a segment area
Bridges	Capitalise if reconstruction is ≥ \$10,000 and / or more than 20% of a component
Traffic facilities	≥ \$3,000

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.

#### Other Infrastructure Assets

Swimming Pools and pool plant	Capitalise if complete component is replaced or ≥ \$2,000
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If any such indication exists, Council determines the asset's fair value and revalues the asset to that amount.

Other Open Space/Recreational Assets	Capitalise if complete component is replaced or ≥ \$2,000
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Full revaluations are undertaken for all assets on a 5-year cycle.

Runways and Taxiways	Capitalise if pavement renewal to same standard, resurfacing with same standard, reconstruction is ≥ \$10,000 and / or more than 20% of a segment area
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#### Capitalisation thresholds

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

#### Land

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

#### Depreciation

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

#### Plant & Equipment

Office Furniture	> \$300
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Land is not depreciated.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

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

-Runways and Taxiways Sub-Base 1,000 years

##### Plant & Equipment

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

##### Other Assets

- Library Books	7 to 10 years
- Artworks	Indefinite

##### Buildings

- Sub-Structure	50-100yrs
- Superstructure	50-100yrs
- Roof	25-50yrs
- Electrical	25-50yrs
- Hydraulic	25-50yrs
- Mechanical	10-25yrs
- Fit-outs Fittings	10-25yrs
- Fit-outs Floor Coverings	10-25yrs

##### Drainage Assets

- Culverts	120 years
- Stormwater Pipes	120 years
- Stormwater Pits	120 years

##### Transportation Assets

- Sealed Roads Spray Seal Surface	24 years
- Sealed Roads Asphalt Surface	34 years
- Sealed Road Base	80 years
- Sealed Road Sub Base	1,000 years
- Sealed Road Formation	1,000 years
- Unsealed Roads Gravel Surface	25 years
- Unsealed Roads Gravel Base	80 years
- Unsealed Roads Gravel Formation	1,000 years
- Concrete Bridge - Sub Structure	120 years
- Concrete Bridge - Super Structure	120 years
- Concrete Bridge - Rails	50 years
- Timber Bridge - Sub Structure	120 years
- Timber Bridge - Super Structure	120 years
- Timber Bridge - Surface	60 years
- Timber Bridge - Rails	60 years
- Kerb and Gutter	120 years
- Footpaths and Cycleways	120 years

##### Other Infrastructure Assets

- Bulk earthworks	Infinite
- Swimming Pools	91 years
- Open Space/ Recreational Assets	11 -120 years
-Playgrounds	23 years
-Runways and Taxiways Surface	20 years
-Runways and Taxiways Base	80 years

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 derecognition

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 year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

##### **(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 to the reserves are recognised within Council's Income Statement.

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

##### **(o) Rural fire service assets**

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

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

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

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

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

Council does not have any investment properties.

##### **(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 that are expected to arise from future disturbance.

Costs are estimated on the basis of a closure plan.

The cost estimates are calculated by experienced consultants at various intervals during the life of the operation to reflect known developments, e.g. 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.

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.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

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.

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 about 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' and 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.

#### **(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

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

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 and 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 that are unpaid.

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

#### (u) Borrowings

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

Borrowings are subsequently measured at amortised cost.

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

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

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

#### (v) Borrowing costs

Borrowing costs are expensed.

#### (w) Provisions

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

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

Provisions are not recognised for future operating losses.

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

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

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

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

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

#### (x) Employee benefits

##### (i) Short-term obligations

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

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

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 and 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 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, FIAA on 24/02/16 and covers the period ended 30/06/15.

However the position is monitored annually and the actuary has estimated that as at 30 June 2016 the prior period deficit still exists.

Effective from 1 July 2009, employers are required to contribute additional contributions to assist in extinguishing this deficit.



## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

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 2016 was \$999,044.

The share of this deficit that can be broadly attributed to Council is estimated to be in the order of \$780,546 as at 30 June 2016.

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.

#### (y) Self-insurance

Council does not self-insure.

#### (z) Allocation between current and non-current assets and 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 it is not expected to be settled within the next 12 months. In the case of inventories that are 'held for trading', these are also classified as current even if not expected to be realised in the next 12 months.

#### (aa) Taxes

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

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

#### Goods and 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, i.e. they are inclusive of GST where applicable.

Investing and financing cash flows are treated on a net basis (where recoverable from the ATO), i.e. they are exclusive of GST. Instead, the GST component of investing and financing activity cash flows that 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 issued (not yet effective)

Certain new (or amended) accounting standards and interpretations have been published that are not

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

mandatory for reporting periods ending 30 June 2016.

Council has not adopted any of these standards early.

Apart from the AASB disclosures below, there are no other standards that are 'not yet effective' that are expected to have a material impact on Council in the current or future reporting periods and on foreseeable future transactions.

Council's assessment of the impact of upcoming new standards and interpretations that are likely to have an effect are set out below.

##### **AASB 9 – Financial Instruments**

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement and has an effective date for reporting periods beginning on or after 1 January 2018 (and must be applied retrospectively).

The overriding impact of AASB 9 is to change the requirements for the classification, measurement and disclosures associated with financial assets and financial liabilities.

These requirements are designed to improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

Under the new requirements the four current categories of financial assets stipulated in AASB 139 will be replaced with two measurement categories:

- fair value, and
- amortised cost (where financial assets will only be able to be measured at amortised cost when very specific conditions are met).

Council is yet to undertake a detailed assessment of the impact of AASB 9.

##### **AASB 15 – Revenue from Contracts with Customers and associated amending standards**

AASB 15 will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.

AASB 15 will introduce a 5-step process for revenue recognition with the core principle of the new standard being that entities recognise revenue so as to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

The changes in revenue recognition requirements in AASB 15 may cause changes to accounting policies relating to the timing and amount of revenue recorded in the financial statements, as well as additional disclosures.

The effective date of this standard is for annual reporting periods beginning on or after 1 January 2018.

Council is yet to undertake a detailed assessment of the impact of AASB 15.

##### **AASB ED 260 Income of Not-for-Profit Entities**

The AASB previously issued exposure draft AASB ED 260 on Income of Not-for-Profit Entities in April 2015.

The exposure draft proposed specific not-for-profit entity requirements and guidance when applying the principles of AASB 15 to income from certain transactions.

Much of the material in AASB 1004 is expected to be replaced by material included in AASB ED 260.

Specific revenue items that may considerably change are Grants and Contributions.

The most likely financial statement impact is the deferred recognition of Grants and Contributions (i.e. recognition as unearned revenue [liability]) until Council has met the associated performance obligation/s relating to the Grants or Contribution.

At this stage there is no specific date of release for a standard or a date of applicability.

##### **AASB16 – Leases**

AASB 116 Leases replaces AASB 117 Leases and some associated lease-related Interpretations.

AASB 16 introduces a single lease accounting model (for lessees) that will require all leases to be

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of significant accounting policies (continued)

accounted for on the balance sheet (ie. recognition of both a right-of-use asset and a corresponding lease) for all leases with a term of more than 12 months unless the underlying assets are determined to be of 'low value'. There will also be detailed disclosure requirements for all lessees.

The effective date of this standard is for annual reporting periods beginning on or after 1 January 2019.

Council is yet to undertake a detailed assessment of the accounting impacts from AASB 16. However, based on preliminary assessments, impacts from the first time adoption of the standard are likely to include:

- a significant increase in lease assets and financial liabilities recognised on the balance sheet,
- a reduction in reported equity as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities,
- lower operating cash outflows and higher financing cash flows in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities.

#### **AASB2015-6 – Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities**

From 1 July 2016, AASB 124 Related Party Disclosures will apply to Council. This means that Council will be required to disclose information about related parties and Council transactions with those related parties.

Related parties will more than likely include the Mayor, Councillors and certain Council staff. In addition, the close family members of those people and any organisations that they control or are associated with will be classified as related parties (and fall under the related party reporting requirements).

#### **AASB 2014 – 3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 and AASB 11]**

This Standard amends AASB 11 to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business.

The amendments require:

- (a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 Business Combinations, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11, and
- (b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.

The effective date of this standard is for annual reporting periods beginning on or after 1 January 2016.

If a joint operation is acquired during the reporting period, then this standard clarifies the accounting for the acquisition to be in accordance with AASB 3, i.e. assets and liabilities acquired to be measured at fair value.

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

Unless otherwise indicated, amounts in the financial statements have been rounded 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 year ended 30 June 2016

## 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
	2016	2016	2015	2016	2016	2015	2016	2016	2015	2016	2015	2016	2015
Governance	–	–	–	1,100	1,021	967	(1,100)	(1,021)	(967)	–	–	41	46
Administration	808	1,504	1,356	23,188	12,491	10,861	(22,380)	(10,987)	(9,505)	–	–	92,219	94,246
Public order and safety	557	429	513	1,832	2,312	2,144	(1,275)	(1,883)	(1,631)	7	–	6,961	6,966
Health	1,172	1,158	1,050	987	964	896	185	194	154	–	–	247	268
Environment	13,184	16,800	13,320	12,319	13,570	12,762	865	3,230	558	1,281	1,208	64,497	96,693
Community services and education	48	56	51	348	514	476	(300)	(458)	(425)	51	48	4,139	4,154
Housing and community amenities	1,127	1,487	1,586	4,419	6,417	5,526	(3,292)	(4,930)	(3,940)	225	130	2,838	2,850
Recreation and culture	697	3,156	1,790	5,771	11,704	9,144	(5,074)	(8,548)	(7,354)	365	327	74,477	74,805
Mining, manufacturing and construction	936	897	482	1,165	1,235	1,290	(229)	(338)	(808)	–	–	198	217
Transport and communication	11,501	19,423	19,110	12,596	23,175	26,708	(1,095)	(3,752)	(7,598)	5,140	1,426	521,536	470,747
Economic affairs	288	329	376	1,083	1,287	1,230	(795)	(958)	(854)	–	–	1,531	1,547
<b>Total functions and activities</b>	<b>30,318</b>	<b>45,239</b>	<b>39,634</b>	<b>64,808</b>	<b>74,690</b>	<b>72,004</b>	<b>(34,490)</b>	<b>(29,451)</b>	<b>(32,370)</b>	<b>7,069</b>	<b>3,139</b>	<b>768,684</b>	<b>752,539</b>
Share of gains/(losses) in associates and joint ventures (using the equity method)	–	–	–	–	–	–	–	–	–	–	–	–	–
General purpose income <sup>1</sup>	40,653	41,078	39,832	–	–	–	40,653	41,078	39,832	7,342	7,471	–	–
<b>Operating result from continuing operations</b>	<b>70,971</b>	<b>86,317</b>	<b>79,466</b>	<b>64,808</b>	<b>74,690</b>	<b>72,004</b>	<b>6,163</b>	<b>11,627</b>	<b>7,462</b>	<b>14,411</b>	<b>10,610</b>	<b>768,684</b>	<b>752,539</b>

1. Includes: rates and annual charges (incl. ex-gratia), untied general purpose grants and unrestricted interest and investment income.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### 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 AND 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 AND EDUCATION**

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

##### **HOUSING AND COMMUNITY AMENITIES**

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

##### **RECREATION AND 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 AND CONSTRUCTION**

Building control, quarries.

##### **TRANSPORT AND COMMUNICATION**

Urban roads, sealed rural roads, unsealed rural roads, bridges, footpaths, aerodrome, 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 year ended 30 June 2016

#### Note 3. Income from continuing operations

\$ '000	Notes	Actual 2016	Actual 2015
<b>(a) Rates and annual charges</b>			
<b>Ordinary rates</b>			
Residential		23,262	22,332
Farmland		3,469	3,526
Mining		1,095	1,014
Business		4,642	4,566
<b>Total ordinary rates</b>		<b>32,468</b>	<b>31,438</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		10,207	9,423
Stormwater management services		493	488
Waste management services (non-domestic)		824	789
Section 611 charges		28	24
<b>Total annual charges</b>		<b>11,552</b>	<b>10,724</b>
<b>TOTAL RATES AND ANNUAL CHARGES</b>		<b>44,020</b>	<b>42,162</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 year ended 30 June 2016

## Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
<b>(b) User charges and fees</b>			
<b>Specific user charges</b> (per s.502 – specific 'actual use' charges)			
Nil			
<b>Other user charges and fees</b>			
<b>(i) Fees and charges – statutory and regulatory functions (per s.608)</b>			
Building permits and fees		667	566
Inspection services		402	372
Private works – section 67		49	16
Regulatory/ statutory fees		84	78
Section 149 certificates (EPA Act)		201	158
Section 603 certificates		122	101
Town planning		1,073	1,197
<b>Total fees and charges – statutory/regulatory</b>		<b>2,598</b>	<b>2,488</b>
<b>(ii) Fees and charges – other (incl. general user charges (per s.608))</b>			
Aerodrome		163	159
Cemeteries		187	183
Cessnock performing arts centre		254	238
Onsite sewerage management fees		419	407
RMS charges (state roads not controlled by Council)		2,302	2,502
Swimming pool fees		204	192
Waste disposal tipping fees		1,813	1,246
Other		117	95
<b>Total fees and charges – other</b>		<b>5,459</b>	<b>5,022</b>
<b>TOTAL USER CHARGES AND FEES</b>		<b>8,057</b>	<b>7,510</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
<b>(c) Interest and investment revenue (including losses)</b>			
<b>Interest</b>			
– Interest on overdue rates and annual charges (incl. special purpose rates)		145	135
– Interest earned on investments (interest and coupon payment income)		1,069	963
<b>Fair value adjustments</b>			
– Fair valuation movements in investments (other)		301	–
<b>TOTAL INTEREST AND INVESTMENT REVENUE</b>		<u>1,515</u>	<u>1,098</u>
<b>Interest revenue is attributable to:</b>			
<b>Unrestricted investments/financial assets:</b>			
Overdue rates and annual charges (general fund)		145	135
General Council cash and investments		625	288
<b>Restricted investments/funds – external:</b>			
Development contributions			
– Section 94		114	91
Domestic waste management operations		15	16
Other externally restricted assets		118	68
<b>Restricted investments/funds – internal:</b>			
Internally restricted assets		498	500
<b>Total interest and investment revenue recognised</b>		<u>1,515</u>	<u>1,098</u>
<b>(d) Other revenues</b>			
Rental income – other council properties		292	342
Fines		287	221
General administrative services		9	13
Legal fees recovery – rates and charges (extra charges)		417	355
Legal fees recovery – other		219	–
Commissions and agency fees		32	45
Insurance claim recoveries		200	265
Sales – general		35	32
Section 355 committees		176	150
Other		163	134
<b>TOTAL OTHER REVENUE</b>		<u>1,830</u>	<u>1,557</u>



## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 3. Income from continuing operations (continued)

\$ '000	2016 Operating	2015 Operating	2016 Capital	2015 Capital
<b>(e) Grants</b>				
<b>General purpose (untied)</b>				
Financial assistance – general component	5,300	5,415	–	–
Financial assistance – local roads component	1,594	1,611	–	–
Pensioners' rates subsidies – general component	448	445	–	–
<b>Total general purpose</b>	<b>7,342</b>	<b>7,471</b>	<b>–</b>	<b>–</b>
<b>Specific purpose</b>				
Pensioners' rates subsidies:				
– Domestic waste management	205	212	–	–
Community centres	–	–	10	16
Drainage	64	66	326	–
Library – per capita	102	100	–	–
Library – special projects	5	20	45	30
LIRS subsidy	53	53	–	–
Noxious weeds	76	66	–	–
Recreation and culture	15	–	185	158
Street lighting	102	100	–	–
Transport (roads to recovery)	2,170	700	–	–
Transport (road safety)	67	69	–	–
Transport (flood works, other roads and bridges funding)	1,259	604	–	–
Transport (resources for regions)	–	–	1,591	–
Waste levy programs	337	864	190	–
Welfare services	50	48	–	–
Other	217	33	–	–
<b>Total specific purpose</b>	<b>4,722</b>	<b>2,935</b>	<b>2,347</b>	<b>204</b>
<b>Total grants</b>	<b>12,064</b>	<b>10,406</b>	<b>2,347</b>	<b>204</b>
<b>Grant revenue is attributable to:</b>				
– Commonwealth funding	9,063	7,726	1,591	–
– State funding	3,001	2,680	756	204
	<b>12,064</b>	<b>10,406</b>	<b>2,347</b>	<b>204</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 3. Income from continuing operations (continued)

\$ '000	2016 Operating	2015 Operating	2016 Capital	2015 Capital
<b>(f) Contributions</b>				
<b>Developer contributions:</b>				
<b>(s93F &amp; s94 – EP&amp;A Act, s64 of the LGA):</b>				
S 93F – contributions using planning agreements	–	–	1,668	335
S 94 – contributions towards amenities/services	–	–	762	891
<b>Total developer contributions</b>	<b>–</b>	<b>–</b>	<b>2,430</b>	<b>1,226</b>
<b>Other contributions:</b>				
Bushfire protection	16	187	–	–
Dedications (other than by S94)	–	–	9,419	525
General admin services	105	58	–	–
Kerb and gutter	–	–	51	–
Motor vehicle leaseback	242	209	–	–
Recreation and culture	–	–	54	–
Road reinstatements	92	120	–	–
RMS contributions (regional roads, block grant)	1,195	1,290	2,549	8,973
RMS Road classification – Hunter Expressway Project	–	3,610	–	–
Tourism	228	260	–	–
Transport	4	1	2	2
Other	54	68	43	–
<b>Total other contributions</b>	<b>1,936</b>	<b>5,803</b>	<b>12,118</b>	<b>9,500</b>
<b>Total contributions</b>	<b>1,936</b>	<b>5,803</b>	<b>14,548</b>	<b>10,726</b>
<b>TOTAL GRANTS AND CONTRIBUTIONS</b>	<b>14,000</b>	<b>16,209</b>	<b>16,895</b>	<b>10,930</b>

\$ '000	Actual 2016	Actual 2015
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## (g) Restrictions relating to grants and contributions

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

Unexpended at the close of the previous reporting period	10,624	4,757
<b>Add:</b> grants and contributions recognised in the current period but not yet spent:	3,788	6,813
<b>Less:</b> grants and contributions recognised in a previous reporting period now spent:	(1,414)	(946)
<b>Net increase (decrease) in restricted assets during the period</b>	<b>2,374</b>	<b>5,867</b>
<b>Unexpended and held as restricted assets</b>	<b>12,998</b>	<b>10,624</b>
<b>Comprising:</b>		
– Specific purpose unexpended grants	2,869	2,303
– Developer contributions	6,854	4,711
– Other contributions	3,275	3,610
	<b>12,998</b>	<b>10,624</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 4. Expenses from continuing operations

\$ '000	Notes	Actual 2016	Actual 2015
<b>(a) Employee benefits and on-costs</b>			
Salaries and wages		20,937	19,285
Travel expenses		567	555
Employee leave entitlements (ELE)		4,722	4,255
Superannuation		3,159	2,895
Workers' compensation insurance		546	599
Fringe benefit tax (FBT)		375	455
Training costs (other than salaries and wages)		429	372
Other		33	15
<b>Total employee costs</b>		<b>30,768</b>	<b>28,431</b>
Less: capitalised costs		(1,582)	(1,347)
<b>TOTAL EMPLOYEE COSTS EXPENSED</b>		<b>29,186</b>	<b>27,084</b>
Number of 'full-time equivalent' employees (FTE) at year end		291	280
<b>(b) Borrowing costs</b>			
<b>(i) Interest bearing liability costs</b>			
Interest on loans		552	627
<b>Total interest bearing liability costs expensed</b>		<b>552</b>	<b>627</b>
<b>(ii) Other borrowing costs</b>			
Nil			
<b>TOTAL BORROWING COSTS EXPENSED</b>		<b>552</b>	<b>627</b>
<b>(c) Materials and contracts</b>			
Raw materials and consumables		13,462	9,812
Contractor and consultancy costs		4,949	5,009
Auditors remuneration <sup>(1)</sup>		48	52
Infringement notice contract costs (SEINS)		29	24
Legal expenses:			
– Legal expenses: planning and development		700	294
– Legal expenses: debt recovery		420	366
– Legal expenses: other		66	10
Operating leases:			
– Operating lease rentals: minimum lease payments <sup>(2)</sup>		167	167
<b>TOTAL MATERIALS AND CONTRACTS</b>		<b>19,841</b>	<b>15,734</b>

(continued on the next page...)

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
<b>(c) Materials and contracts (continued)</b>			
<b>1. Auditor remuneration</b>			
During the year, the following fees were incurred for services provided by the Council's Auditor:			
<b>(i) Audit and other assurance services</b>			
– Audit and review of financial statements: Council's Auditor		48	52
<b>Remuneration for audit and other assurance services</b>		<b>48</b>	<b>52</b>
<b>Total Auditor remuneration</b>		<b>48</b>	<b>52</b>
<b>2. Operating lease payments are attributable to:</b>			
Computers		132	152
Other		35	15
		<b>167</b>	<b>167</b>

\$ '000	Notes	Impairment costs		Depreciation/amortisation	
		Actual 2016	Actual 2015	Actual 2016	Actual 2015
<b>(d) Depreciation, amortisation and impairment</b>					
Plant and equipment		–	–	1,471	1,521
Office equipment		–	–	315	360
Furniture and fittings		–	–	24	34
Infrastructure:					
– Buildings – non-specialised		–	–	153	148
– Buildings – specialised		–	–	1,323	1,283
– Other structures		–	–	52	98
– Roads		–	–	4,290	7,063
– Bridges		357	251	354	441
– Footpaths		–	–	177	226
– Stormwater drainage		–	–	588	672
– Swimming pools		–	–	2	19
– Other open space/recreational assets		4	–	637	620
Other assets					
– Library books		–	–	222	203
<b>TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED</b>		<b>361</b>	<b>251</b>	<b>9,608</b>	<b>12,688</b>

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2016	Actual 2015
<b>(e) Other expenses</b>			
Other expenses for the year include the following:			
Advertising		147	162
Bad and doubtful debts		41	60
Bank charges		37	41
Contributions/levies to other levels of government			
– Emergency Services levy (includes FRNSW, SES, and RFS levies)		89	76
– NSW Fire Brigade levy		311	300
– NSW Rural Fire Service levy		410	323
– Waste levy		6,534	6,678
Councillor expenses – mayoral fee		40	39
Councillor expenses – councillors' fees		220	233
Councillors' expenses (incl. mayor) – other (excluding fees above)		47	64
Donations, contributions and assistance to other organisations (Section 356)		80	78
Electricity and heating		453	538
Insurance		1,132	1,120
Rate collection agency expenses		77	86
Section 355 committees		183	137
Street lighting		896	926
Subsidies		28	29
Telephone and communications		358	387
Valuation fees		151	141
RSCPA contribution		294	294
Other		78	63
<b><u>TOTAL OTHER EXPENSES</u></b>		<b><u>11,606</u></b>	<b><u>11,775</u></b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 5. Gains or losses from the disposal of assets

\$ '000	Notes	Actual 2016	Actual 2015
<b>Property</b> (excl. investment property)			
Proceeds from disposal – property		70	–
Less: carrying amount of property assets sold/written off		(9)	–
<b>Net gain/(loss) on disposal</b>		<b>61</b>	<b>–</b>
<b>Plant and equipment</b>			
Proceeds from disposal – plant and equipment		1,189	692
Less: carrying amount of plant and equipment assets sold/written off		(788)	(706)
<b>Net gain/(loss) on disposal</b>		<b>401</b>	<b>(14)</b>
<b>Infrastructure</b>			
Less: carrying amount of infrastructure assets sold/written off		(3,998)	(3,831)
<b>Net gain/(loss) on disposal</b>		<b>(3,998)</b>	<b>(3,831)</b>
<b>Financial assets</b>			
Proceeds from disposal/redemptions/maturities – financial assets		9,100	6,900
Less: carrying amount of financial assets sold/redeemed/matured		(9,100)	(6,900)
<b>Net gain/(loss) on disposal</b>		<b>–</b>	<b>–</b>
<b>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</b>		<b>(3,536)</b>	<b>(3,845)</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 6a. – Cash assets and Note 6b. – investments

\$ '000	Notes	2016	2016	2015	2015
		Actual Current	Actual Non-current	Actual Current	Actual Non-current
<b>Cash and cash equivalents (Note 6a)</b>					
Cash on hand and at bank		7,419	–	10,356	–
Cash-equivalent assets <sup>1</sup>					
– Deposits at call		1,191	–	897	–
<b>Total cash and cash equivalents</b>		<b>8,610</b>	<b>–</b>	<b>11,253</b>	<b>–</b>
<b>Investments (Note 6b)</b>					
– Long term deposits		27,600	800	24,000	1,400
– NCD's, FRN's (with maturities > 3 months)		500	500	–	1,000
<b>Total investments</b>		<b>28,100</b>	<b>1,300</b>	<b>24,000</b>	<b>2,400</b>
<b>TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS</b>		<b>36,710</b>	<b>1,300</b>	<b>35,253</b>	<b>2,400</b>

<sup>1</sup> Those investments where time to maturity (from date of purchase) is < 3 mths.

**Cash, cash equivalents and investments were classified at year end in accordance with AASB 139 as follows:**

**Cash and cash equivalents**

a. 'At fair value through the profit and loss'		<b>8,610</b>	<b>–</b>	<b>11,253</b>	<b>–</b>
--	--	--------------	----------	---------------	----------

**Investments**

a. 'Held to maturity'	6(b-i)	28,100	1,300	24,000	2,400
<b>Investments</b>		<b>28,100</b>	<b>1,300</b>	<b>24,000</b>	<b>2,400</b>

**Note 6(b-i)****Reconciliation of investments classified as 'held to maturity'**

Balance at the beginning of the year		24,000	2,400	29,300	1,000
Additions		11,300	800	1,600	1,400
Disposals (sales and redemptions)		(9,100)	–	(6,900)	–
Transfers between current/non-current		1,900	(1,900)	–	–
<b>Balance at end of year</b>		<b>28,100</b>	<b>1,300</b>	<b>24,000</b>	<b>2,400</b>

**Comprising:**

– Long term deposits		27,600	800	24,000	1,400
– NCD's, FRN's (with maturities > 3 months)		500	500	–	1,000
<b>Total</b>		<b>28,100</b>	<b>1,300</b>	<b>24,000</b>	<b>2,400</b>

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 year ended 30 June 2016

## Note 6c. Restricted cash, cash equivalents and investments – details

\$ '000	2016	2016	2015	2015
	Actual Current	Actual Non-current	Actual Current	Actual Non-current
Total cash, cash equivalents and investments	36,710	1,300	35,253	2,400
<b>attributable to:</b>				
External restrictions (refer below)	12,192	1,300	9,068	2,400
Internal restrictions (refer below)	24,485	–	24,909	–
Unrestricted	33	–	1,276	–
	<b>36,710</b>	<b>1,300</b>	<b>35,253</b>	<b>2,400</b>

2016 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
-----------------	--------------------	------------------------------	--------------------------------	--------------------

## Details of restrictions

## External restrictions – included in liabilities

Nil

## External restrictions – other

Developer contributions – general	(D)	4,711	2,544	(401)	6,854
RMS contributions	(E)	3,610	–	(335)	3,275
Specific purpose unexpended grants	(F)	2,303	566	–	2,869
Domestic waste management	(G)	782	–	(350)	432
Other		62	–	–	62
<b>External restrictions – other</b>		<b>11,468</b>	<b>3,110</b>	<b>(1,086)</b>	<b>13,492</b>
<b>Total external restrictions</b>		<b>11,468</b>	<b>3,110</b>	<b>(1,086)</b>	<b>13,492</b>

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

**E** RMS contributions which are not yet expended for the provision of services and amenities in accordance with those contributions.

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

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



## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 6c. Restricted cash, cash equivalents and investments – details (continued)

2016 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
<b>Internal restrictions</b>				
Plant and vehicle replacement	3,288	1,109	(1,479)	2,918
Employees leave entitlement	2,096	589	(681)	2,004
Carry over works	971	1,346	(971)	1,346
Bridge replacement	452	184	(330)	306
Cemetery	5	–	–	5
Computer services	242	214	(123)	333
Insurance provisions	349	24	(71)	302
Miscellaneous and property	2,762	963	(1,515)	2,210
Operations and programs	715	195	(222)	688
Property investment fund	625	38	(17)	646
Rezoning fees	235	–	(150)	85
Sanitary operations	27	–	(6)	21
Single invitation contracts	917	230	(478)	669
Unexpended loan funds	296	–	(296)	–
Waste depot and rehabilitation	11,729	13,220	(12,197)	12,752
Energy efficiency reserve	200	–	–	200
<b>Total internal restrictions</b>	<b>24,909</b>	<b>18,112</b>	<b>(18,536)</b>	<b>24,485</b>
<b>TOTAL RESTRICTIONS</b>	<b>36,377</b>	<b>21,222</b>	<b>(19,622)</b>	<b>37,977</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 7. Receivables

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
<b>Purpose</b>					
Rates and annual charges		875	–	968	–
Interest and extra charges		358	–	302	–
User charges and fees		12	–	13	–
Accrued revenues					
– Interest on investments		216	–	201	–
Bushfire protection		–	–	16	–
Community Facilities		30	–	–	–
Garbage tipping fees		36	–	56	–
Government grants and subsidies		86	–	308	–
Industrial development		–	–	20	–
Insurance Claim - Recreation Facilities		106	–	–	–
Kerb & Gutter		35	–	–	–
Net GST receivable		491	–	507	–
Planning proposals		200	–	–	–
Premises inspections		71	–	95	–
Rental charges		46	–	195	–
Restoration charges		32	–	3	–
RMS debtors – state roads		114	–	927	–
Roadworks		304	–	–	–
Workers compensation refunds		–	–	6	–
Other debtors		256	–	299	–
<b>Total</b>		<b>3,268</b>	<b>–</b>	<b>3,916</b>	<b>–</b>
<b>Less: provision for impairment</b>					
Rates and annual charges		(106)	–	(115)	–
Other debtors		(52)	–	(239)	–
<b>Total provision for impairment – receivables</b>		<b>(158)</b>	<b>–</b>	<b>(354)</b>	<b>–</b>
<b>TOTAL NET RECEIVABLES</b>		<b>3,110</b>	<b>–</b>	<b>3,562</b>	<b>–</b>
<b>Externally restricted receivables</b>					
Domestic waste management		457	–	474	–
Stormwater management		19	–	20	–
– Other restricted receivables		36	–	56	–
<b>Total external restrictions</b>		<b>512</b>	<b>–</b>	<b>550</b>	<b>–</b>
<b>Internally restricted receivables - Nil</b>					
<b>Unrestricted receivables</b>		<b>2,598</b>	<b>–</b>	<b>3,012</b>	<b>–</b>
<b>TOTAL NET RECEIVABLES</b>		<b>3,110</b>	<b>–</b>	<b>3,562</b>	<b>–</b>

**Notes on debtors above:**

- (i) Rates and 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 and charges at 8.50% (2015 8.50%). 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 year ended 30 June 2016

## Note 8. Inventories and other assets

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
<b>(a) Inventories</b>					
<b>(i) Inventories at cost</b>					
Real estate for resale (refer below)		–	1,270	–	1,270
Stores and materials		323	–	343	–
<b>Total inventories at cost</b>		<b>323</b>	<b>1,270</b>	<b>343</b>	<b>1,270</b>
<b>(ii) Inventories at net realisable value (NRV)</b>					
Nil					
<b>TOTAL INVENTORIES</b>		<b>323</b>	<b>1,270</b>	<b>343</b>	<b>1,270</b>
<b>(b) Other assets</b>					
Prepayments		206	–	54	–
<b>TOTAL OTHER ASSETS</b>		<b>206</b>	<b>–</b>	<b>54</b>	<b>–</b>

**Externally restricted assets**

There are no restrictions applicable to the above assets.

**(i) Other disclosures****(a) Details for real estate development**

Residential		–	1,270	–	1,270
<b>Total real estate for resale</b>		<b>–</b>	<b>1,270</b>	<b>–</b>	<b>1,270</b>
(Valued at the lower of cost and net realisable value)					
<b>Represented by:</b>					
Development costs		–	1,270	–	1,270
<b>Total costs</b>		<b>–</b>	<b>1,270</b>	<b>–</b>	<b>1,270</b>
<b>Total real estate for resale</b>		<b>–</b>	<b>1,270</b>	<b>–</b>	<b>1,270</b>
<b>Movements:</b>					
Real estate assets at beginning of the year		–	1,270	–	1,270
<b>Total real estate for resale</b>		<b>–</b>	<b>1,270</b>	<b>–</b>	<b>1,270</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.

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 9a. Infrastructure, property, plant and equipment

\$ '000	as at 30/6/2015					Asset movements during the reporting period								as at 30/6/2016				
	At cost	At fair value	Accumulated		Carrying value	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	Impairment loss (recognised in P/L)	WIP transfers	Adjustments and transfers	Revaluation increments to equity (ARR)	At cost	At fair value	Accumulated		Carrying value
			depreciation	impairment												depreciation	impairment	
Capital work in progress	8,922	–	–	–	8,922	4,666	53	–	–	–	(7,436)	–	–	6,205	–	–	–	6,205
Plant and equipment	–	19,809	13,913	–	5,896	3,005	171	(788)	(1,471)	–	84	–	–	–	19,862	12,965	–	6,897
Office equipment	–	3,334	2,447	–	887	–	74	–	(315)	–	–	–	–	–	3,408	2,762	–	646
Furniture and fittings	–	1,323	1,232	–	91	–	70	–	(24)	–	–	–	–	–	1,393	1,256	–	137
Plant and equipment (under finance lease)	–	281	281	–	–	–	–	–	–	–	–	–	–	–	281	281	–	–
<b>Land:</b>																		
– Operational land	–	41,098	–	–	41,098	–	–	(6)	–	–	–	–	–	–	41,092	–	–	41,092
– Community land	–	29,876	–	–	29,876	–	–	(3)	–	–	–	–	(5,578)	–	24,295	–	–	24,295
– Land under roads (post 30/6/08)	–	1,386	–	–	1,386	–	482	–	–	–	–	–	–	–	1,868	–	–	1,868
<b>Infrastructure:</b>																		
– Buildings – non-specialised	–	14,950	1,542	–	13,408	–	–	–	(153)	–	–	35	–	–	14,998	1,708	–	13,290
– Buildings – specialised	–	67,395	14,752	–	52,643	69	2,095	(198)	(1,323)	–	2	–	–	–	69,876	16,588	–	53,288
– Other structures	–	3,449	948	–	2,501	–	–	–	(52)	–	–	(787)	3,207	–	5,571	702	–	4,869
– Roads	–	497,817	79,963	–	417,854	2,640	5,458	(1,851)	(4,290)	–	7,079	35,983	1,455	–	563,684	99,356	–	464,328
– Bridges	–	37,969	11,836	251	25,882	975	–	(357)	(354)	(357)	271	–	–	–	38,300	12,240	–	26,060
– Footpaths	–	12,286	3,052	–	9,234	1,204	–	(24)	(177)	–	–	361	152	–	14,224	3,474	–	10,750
– Stormwater drainage	–	121,662	31,353	–	90,309	63	3,412	(18)	(588)	–	–	(35,760)	39	–	73,827	16,370	–	57,457
– Swimming pools	–	551	194	–	357	–	–	(385)	(2)	–	–	85	2,755	–	4,561	1,394	357	2,810
– Other open space/recreational assets	–	13,474	5,321	–	8,153	140	122	(1,165)	(637)	(4)	–	83	3,897	–	17,278	6,689	–	10,589
<b>Other assets:</b>																		
– Library books	–	5,164	4,007	–	1,157	–	246	–	(222)	–	–	–	–	–	5,410	4,229	–	1,181
– Other	–	3	–	–	3	–	–	–	–	–	–	–	–	–	3	–	–	3
<b>Reinstatement, rehabilitation and restoration assets (refer Note 26):</b>																		
– Tip assets	–	8,400	8,400	–	–	–	–	–	–	–	–	–	–	–	8,400	8,400	–	–
<b>TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.</b>	<b>8,922</b>	<b>880,227</b>	<b>179,241</b>	<b>251</b>	<b>709,657</b>	<b>12,762</b>	<b>12,183</b>	<b>(4,795)</b>	<b>(9,608)</b>	<b>(361)</b>	<b>–</b>	<b>–</b>	<b>5,927</b>	<b>6,205</b>	<b>908,331</b>	<b>188,414</b>	<b>357</b>	<b>725,765</b>

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 and equipment.

## Cessnock City Council

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 9b. Externally restricted infrastructure, property, plant and equipment

\$ '000	Actual 2016				Actual 2015			
	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 and equipment	–	2,236	861	<b>1,375</b>	–	2,333	1,002	<b>1,331</b>
Land								
– Operational land	–	1,586	–	<b>1,586</b>	–	1,586	–	<b>1,586</b>
Buildings	–	339	133	<b>206</b>	–	339	126	<b>213</b>
<b>Total DWM</b>	<b>–</b>	<b>4,161</b>	<b>994</b>	<b>3,167</b>	<b>–</b>	<b>4,258</b>	<b>1,128</b>	<b>3,130</b>
<b>TOTAL RESTRICTED I,PP&amp;E</b>	<b>–</b>	<b>4,161</b>	<b>994</b>	<b>3,167</b>	<b>–</b>	<b>4,258</b>	<b>1,128</b>	<b>3,130</b>

Note 9c. Infrastructure, property, plant and equipment – current year  
impairments

\$ '000	Notes	Actual 2016	Actual 2015
<b>(i) Impairment losses recognised in the Income Statement:</b>			
– Frame Drive Bridge damaged in extreme weather event		(152)	(251)
– Cunneens Bridge - structurally unsound		(205)	–
– Kitchener Poppethead Park Jetty - structurally unsound		(4)	–
<b>Total impairment losses</b>		<b>(361)</b>	<b>(251)</b>
<b><u>IMPAIRMENT OF ASSETS – GAINS/(LOSSES) in P/L</u></b>	4(d)	<b><u>(361)</u></b>	<b><u>(251)</u></b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 10a. Payables, borrowings and provisions

\$ '000	Notes	2016		2015	
		Current	Non-current	Current	Non-current
<b>Payables</b>					
Goods and services—operating expenditure		4,760	—	5,608	—
Payments received in advance		—	815	7	668
Accrued expenses:					
– Salaries and wages		419	—	311	—
– Other expenditure accruals		714	—	1,067	—
Security bonds, deposits and retentions		712	1,629	918	1,435
Trust fund		138	—	126	—
Other		13	—	—	—
<b>Total payables</b>		<b>6,756</b>	<b>2,444</b>	<b>8,037</b>	<b>2,103</b>
<b>Borrowings</b>					
Loans – secured <sup>1</sup>		1,152	6,598	1,143	7,750
<b>Total borrowings</b>		<b>1,152</b>	<b>6,598</b>	<b>1,143</b>	<b>7,750</b>
<b>Provisions</b>					
<b>Employee benefits:</b>					
Annual leave		2,580	—	2,477	—
Sick leave		527	—	511	—
Long service leave		5,554	157	5,016	140
<b>Sub-total – aggregate employee benefits</b>		<b>8,661</b>	<b>157</b>	<b>8,004</b>	<b>140</b>
Asset remediation/restoration (future works)	26	—	11,241	—	11,241
<b>Total provisions</b>		<b>8,661</b>	<b>11,398</b>	<b>8,004</b>	<b>11,381</b>
<b>TOTAL PAYABLES, BORROWINGS AND PROVISIONS</b>		<b>16,569</b>	<b>20,440</b>	<b>17,184</b>	<b>21,234</b>
<b>(i) Liabilities relating to restricted assets</b>					
		2016		2015	
		Current	Non-current	Current	Non-current
<b>Externally restricted assets</b>					
Domestic waste management		85	—	75	—
Liabilities relating to externally restricted assets		85	—	75	—
<b>Internally restricted assets</b>					
Nil		—	—	—	—
<b>Total liabilities relating to restricted assets</b>		<b>85</b>	<b>—</b>	<b>75</b>	<b>—</b>
<b>Total liabilities relating to unrestricted assets</b>		<b>16,484</b>	<b>20,440</b>	<b>17,109</b>	<b>21,234</b>
<b>TOTAL PAYABLES, BORROWINGS AND PROVISIONS</b>		<b>16,569</b>	<b>20,440</b>	<b>17,184</b>	<b>21,234</b>

<sup>1</sup>. Loans are secured over the general rating income of Council

Disclosures on liability interest rate risk exposures, fair value disclosures and security can be found in Note 15.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 10a. Payables, borrowings and provisions (continued)

\$ '000	Actual 2016	Actual 2015
<b>(ii) Current liabilities not anticipated to be settled within the next twelve months</b>		
The following liabilities, even though classified as current, are not expected to be settled in the next 12 months.		
Provisions – employees benefits	5,380	4,658
Payables – security bonds, deposits and retentions	2,333	2,337
Other Liabilities: Trust Fund Deposits	48	52
	<b>7,761</b>	<b>7,047</b>

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

Class of provision	2015		2016			
	Opening balance as at 1/7/15	Additional provisions	Decrease due to payments	Remeasurement effects due to discounting	Unused amounts reversed	Closing balance as at 30/6/16
Annual leave	2,477	1,789	(1,686)	–	–	2,580
Sick leave	511	896	(880)	–	–	527
Long service leave	5,156	964	(409)	–	–	5,711
Asset remediation	11,241	–	–	–	–	11,241
<b>TOTAL</b>	<b>19,385</b>	<b>3,649</b>	<b>(2,975)</b>	<b>–</b>	<b>–</b>	<b>20,059</b>

- a. Employees leave entitlements and on-costs represents those benefits accrued and payable and an estimate of those that will become payable in the future as a result of past service.
- b. Asset remediation, reinstatement and restoration provisions represent the present value estimate of future costs Council will incur in order to remove, restore and remediate assets and/or activities as a result of past operations.

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 11. Statement of cash flows – additional information

\$ '000	Notes	Actual 2016	Actual 2015
<b>(a) Reconciliation of cash assets</b>			
Total cash and cash equivalent assets	6a	8,610	11,253
Less bank overdraft	10	–	–
<b>Balance as per the Statement of Cash Flows</b>		<b>8,610</b>	<b>11,253</b>
<b>(b) Reconciliation of net operating result to cash provided from operating activities</b>			
<b>Net operating result from Income Statement</b>		<b>11,627</b>	<b>7,462</b>
<b>Adjust for non-cash items:</b>			
Depreciation and amortisation		9,608	12,688
Net losses/(gains) on disposal of assets		3,536	3,845
Non-cash capital grants and contributions		(9,419)	(525)
Impairment losses recognition – I,PP&E		361	251
Losses/(gains) recognised on fair value re-measurements through the P&L: – Investments classified as 'at fair value' or 'held for trading'		(301)	–
<b>+/- Movement in operating assets and liabilities and other cash items:</b>			
Decrease/(increase) in receivables		648	(411)
Increase/(decrease) in provision for doubtful debts		(196)	–
Decrease/(increase) in inventories		20	–
Decrease/(increase) in other assets		(152)	26
Increase/(decrease) in payables		(848)	304
Increase/(decrease) in accrued interest payable		–	362
Increase/(decrease) in other accrued expenses payable		(245)	–
Increase/(decrease) in other liabilities		153	1,750
Increase/(decrease) in employee leave entitlements		674	798
<b>Net cash provided from/(used in) operating activities from the Statement of Cash Flows</b>		<b>15,466</b>	<b>26,550</b>
<b>(c) Non-cash investing and financing activities</b>			
Other dedications		9,419	525
<b>Total non-cash investing and financing activities</b>		<b>9,419</b>	<b>525</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 and 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 year ended 30 June 2016

## Note 12. Commitments for expenditure

\$ '000	Notes	Actual 2016	Actual 2015
<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 and equipment</b>			
Williams bridge		67	–
Lomas Lane bridge		318	–
Frame Drive bridge		809	–
Deasys Road Rehabilitation		432	–
Birralee Seniors Amenities Building		793	–
Vermont bridge		–	12
Watagan Creek Road bridge		–	24
Dairy Arm bridge		–	20
Murrays Run bridge		–	20
<b>Total commitments</b>		<b>2,419</b>	<b>76</b>
<b>These expenditures are payable as follows:</b>			
Within the next year		2,419	76
<b>Total payable</b>		<b>2,419</b>	<b>76</b>
<b>Sources for funding of capital commitments:</b>			
Unrestricted general funds		432	–
Future grants and contributions		404	–
Sect 94 funds/reserves		600	–
Unexpended grants		512	–
Internally restricted reserves		66	76
New loans (to be raised)		405	–
<b>Total sources of funding</b>		<b>2,419</b>	<b>76</b>

**(b) Finance lease commitments**

Nil

**(c) Operating lease commitments (non-cancellable)****a. Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable:**

Within the next year	18	159
Later than one year and not later than 5 years	–	18
Later than 5 years	–	–
<b>Total non-cancellable operating lease commitments</b>	<b>18</b>	<b>177</b>

**b. Non-cancellable operating leases include the following assets:**

Computer and Photocopier Leases

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

**Conditions relating to operating leases:**

- All operating lease agreements are secured only against the leased asset.
- No lease agreements impose any financial restrictions on Council regarding future debt etc.

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 13a(i). Statement of performance measurement – indicators (consolidated)

\$ '000	Amounts 2016	Indicator 2016	Prior periods	
			2015	2014
<b>Local government industry indicators – consolidated</b>				
<b>1. Operating performance ratio</b>				
Total continuing operating revenue <sup>(1)</sup> excluding capital grants and contributions less operating expenses	<u>(2,033)</u>	<b>-2.94%</b>	0.55%	-1.69%
Total continuing operating revenue <sup>(1)</sup> excluding capital grants and contributions	<b>69,121</b>			
<b>2. Own source operating revenue ratio</b>				
Total continuing operating revenue <sup>(1)</sup> excluding all grants and contributions	<u>55,121</u>	<b>64.08%</b>	65.85%	72.40%
Total continuing operating revenue <sup>(1)</sup>	<b>86,016</b>			
<b>3. Unrestricted current ratio</b>				
Current assets less all external restrictions <sup>(2)</sup>	<u>27,645</u>	<b>3.17x</b>	2.94x	2.74x
Current liabilities less specific purpose liabilities <sup>(3, 4)</sup>	<b>8,723</b>			
<b>4. Debt service cover ratio</b>				
Operating result <sup>(1)</sup> before capital excluding interest and depreciation/impairment/amortisation	<u>8,488</u>	<b>5.01x</b>	7.92x	7.70x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	<b>1,695</b>			
<b>5. Rates, annual charges, interest and extra charges outstanding percentage</b>				
Rates, annual and extra charges outstanding	<u>1,127</u>	<b>2.46%</b>	2.71%	3.95%
Rates, annual and extra charges collectible	<b>45,737</b>			
<b>6. Cash expense cover ratio</b>				
Current year's cash and cash equivalents plus all term deposits	<u>37,010</u>	<b>6.65 mths</b>	7.5 mths	6.7 mths
Payments from cash flow of operating and financing activities	<b>5,569</b>			

## Notes

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

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

Also excludes any real estate and 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 and provisions not expected to be paid in the next 12 months (incl. ELE).

# Cessnock City Council

## Notes to the Financial Statements for the year ended 30 June 2016

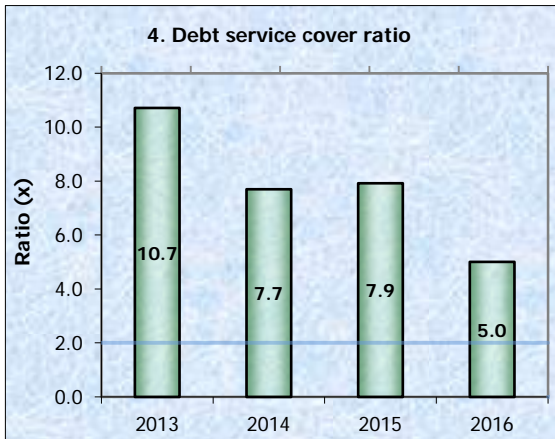
### Note 13a(ii). Local government industry indicators – graphs (consolidated)

<p><b>1. Operating performance ratio</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio %</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>2%</td> </tr> <tr> <td>2014</td> <td>-2%</td> </tr> <tr> <td>2015</td> <td>1%</td> </tr> <tr> <td>2016</td> <td>-3%</td> </tr> </tbody> </table>	Year	Ratio %	2013	2%	2014	-2%	2015	1%	2016	-3%	<p><b>Purpose of operating performance ratio</b></p> <p>This ratio measures Council's achievement of containing operating expenditure within operating revenue.</p>	<p><b>Commentary on 2015/16 result</b></p> <p><b>2015/16 ratio -2.94%</b></p> <p>During 2015/16 Council commenced a Financial Sustainability Initiative Program. This program will continue through 2016/17 to review all expenditures, incomes and service levels with an aim to improve Council's financial position.</p>
Year	Ratio %											
2013	2%											
2014	-2%											
2015	1%											
2016	-3%											
<p>Benchmark:  Minimum <math>\geq 0.00\%</math> Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>		<p> Ratio achieves benchmark  Ratio is outside benchmark</p>										
<p><b>2. Own source operating revenue ratio</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio %</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>77%</td> </tr> <tr> <td>2014</td> <td>72%</td> </tr> <tr> <td>2015</td> <td>66%</td> </tr> <tr> <td>2016</td> <td>64%</td> </tr> </tbody> </table>	Year	Ratio %	2013	77%	2014	72%	2015	66%	2016	64%	<p><b>Purpose of own source operating revenue ratio</b></p> <p>This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.</p>	<p><b>Commentary on 2015/16 result</b></p> <p><b>2015/16 ratio 64.08%</b></p> <p>Council's dependance on rates, annual charges, user charges and fees compared to other sources of income is relatively high, and within the benchmark level.</p>
Year	Ratio %											
2013	77%											
2014	72%											
2015	66%											
2016	64%											
<p>Benchmark:  Minimum <math>\geq 60.00\%</math> Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>		<p> Ratio achieves benchmark  Ratio is outside benchmark</p>										
<p><b>3. Unrestricted current ratio</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio (x)</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>1.9</td> </tr> <tr> <td>2014</td> <td>2.7</td> </tr> <tr> <td>2015</td> <td>2.9</td> </tr> <tr> <td>2016</td> <td>3.2</td> </tr> </tbody> </table>	Year	Ratio (x)	2013	1.9	2014	2.7	2015	2.9	2016	3.2	<p><b>Purpose of unrestricted current ratio</b></p> <p>To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.</p>	<p><b>Commentary on 2015/16 result</b></p> <p><b>2015/16 ratio 3.17x</b></p> <p>This ratio has increased slightly from that in 2014/15. This ratio represents a satisfactory level of working capital.</p>
Year	Ratio (x)											
2013	1.9											
2014	2.7											
2015	2.9											
2016	3.2											
<p>Benchmark:  Minimum <math>\geq 1.50</math> Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>		<p> Ratio achieves benchmark  Ratio is outside benchmark</p>										

# Cessnock City Council

## Notes to the Financial Statements for the year ended 30 June 2016

### Note 13a(ii). Local government industry indicators – graphs (consolidated)



**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 2015/16 result**

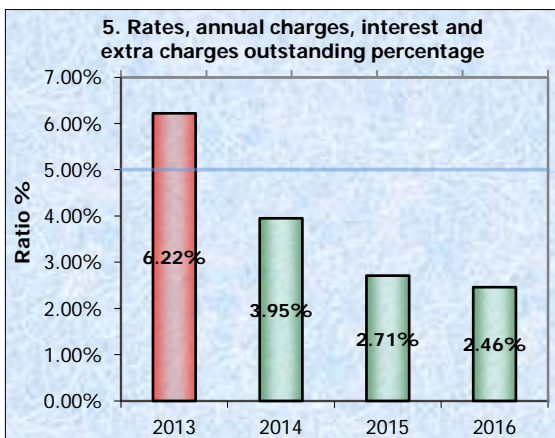
**2015/16 ratio 5.01x**

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

Benchmark: ——— Minimum >=2.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Ratio achieves benchmark  
 Ratio is outside benchmark



**Purpose of rates and 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 2015/16 result**

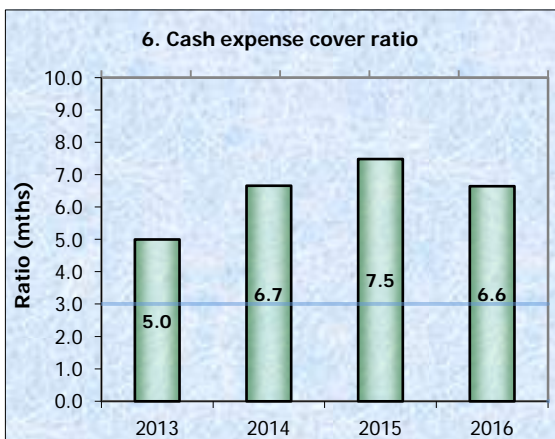
**2015/16 ratio 2.46%**

A decrease in this ratio in 2015/16 is the result of continued effort in the collection of outstanding monies. This ratio is considered to be a good result.

Benchmark: ——— Maximum <5.00%

Source for Benchmark: Code of Accounting Practice and Financial Reporting #24

Ratio is within Benchmark  
 Ratio is outside Benchmark



**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 2015/16 result**

**2015/16 ratio 6.65 mths**

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

Benchmark: ——— Minimum >=3.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Ratio achieves benchmark  
 Ratio is outside benchmark

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### 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.

The fair value of Council's financial assets and financial liabilities approximates their carrying amount.

	Carrying value		Fair value	
	2016	2015	2016	2015
<b>Financial assets</b>				
Cash and cash equivalents	8,610	11,253	8,610	24,453
Investments				
– 'Held to maturity'	29,400	26,400	29,400	13,200
Receivables	3,110	3,562	3,110	3,562
<b>Total financial assets</b>	<b>41,120</b>	<b>41,215</b>	<b>41,120</b>	<b>41,215</b>
<b>Financial liabilities</b>				
Payables	8,385	9,465	8,385	9,465
Loans/advances	7,750	8,893	7,750	8,893
<b>Total financial liabilities</b>	<b>16,135</b>	<b>18,358</b>	<b>16,135</b>	<b>18,358</b>

Fair value is determined as follows:

- **Cash** and **cash equivalents**, **receivables**, **payables** – are estimated to be the carrying value that approximates market value.
- **Borrowings** and **held-to-maturity** investments – are based upon estimated future cash flows discounted by the current mkt interest rates applicable to assets and liabilities with similar risk profiles, unless quoted market prices are available.
- Financial assets classified (i) '**at fair value through profit and 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 and liabilities.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 15. Financial risk management (continued)

\$ '000

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

Council has an investment policy which complies with the *Local Government Act 1993* and Minister's investment order. This policy is regularly reviewed by Council and its staff and an investment report is tabled before Council on a monthly basis setting out the portfolio breakup and its performance.

The 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.

#### (a) Market risk – price risk and interest rate risk

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>2016</b>				
Possible impact of a 1% movement in interest rates	387	387	(387)	(387)
<b>2015</b>				
Possible impact of a 1% movement in interest rates	300	300	(300)	(300)

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 15. Financial risk management (continued)

\$ '000

##### (b) Credit risk

Council's major receivables comprise (i) rates and annual charges and (ii) user charges and 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.

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 and 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.

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:

	2016 Rates and annual charges	2016 Other receivables	2015 Rates and annual charges	2015 Other receivables
<b>(i) Ageing of receivables – %</b>				
Current (not yet overdue)	0%	20%	0%	10%
Overdue	100%	80%	100%	90%
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

		2016 Rates and annual charges	2016 Other receivables	2015 Rates and annual charges	2015 Other receivables
<b>(ii) Ageing of receivables – value</b>					
Rates and annual charges	Other receivables				
Current	Current	–	366	–	295
< 1 year overdue	0 – 30 days overdue	875	1,799	968	2,337
1 – 2 years overdue	30 – 60 days overdue	–	20	–	11
2 – 5 years overdue	60 – 90 days overdue	–	124	–	27
> 5 years overdue	> 90 days overdue	–	84	–	278
		<b>875</b>	<b>2,393</b>	<b>968</b>	<b>2,948</b>

Rates and annual charges cannot be aged reliably, therefore are reported as < 1 year overdue.

<b>(iii) Movement in provision for impairment of receivables</b>	2016	2015
Balance at the beginning of the year	354	354
+ new provisions recognised during the year	43	60
– amounts already provided for and written off this year	(239)	(60)
<b>Balance at the end of the year</b>	<b>158</b>	<b>354</b>

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 15. Financial risk management (continued)

\$ '000

##### (c) Liquidity risk

Payables and 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 and overdraft facilities utilised as required.

The contractual undiscounted cash outflows (ie. principal and interest) of Council's payables and 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>2016</b>									
Trade/other payables	2,341	6,044	–	–	–	–	–	8,385	<b>8,385</b>
Loans and advances	–	51	136	163	248	841	6,311	7,750	<b>7,750</b>
<b>Total financial liabilities</b>	<b>2,341</b>	<b>6,095</b>	<b>136</b>	<b>163</b>	<b>248</b>	<b>841</b>	<b>6,311</b>	<b>16,135</b>	<b>16,135</b>
<b>2015</b>									
Trade/other payables	2,353	7,112	–	–	–	–	–	9,465	<b>9,465</b>
Loans and advances	–	49	114	196	215	299	8,020	8,893	<b>8,893</b>
<b>Total financial liabilities</b>	<b>2,353</b>	<b>7,161</b>	<b>114</b>	<b>196</b>	<b>215</b>	<b>299</b>	<b>8,020</b>	<b>18,358</b>	<b>18,358</b>

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

	2016		2015	
	Carrying value	Average interest rate	Carrying value	Average interest rate
Trade/other payables	8,385	0.00%	9,465	0.00%
Loans and advances – fixed interest rate	7,750	6.60%	8,893	6.60%
	<b>16,135</b>		<b>18,358</b>	



## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 16. Material budget variations

\$ '000

Council's original financial budget for 2015/16 was adopted by the Council on 03 June 2015.

While the Income Statement included in this General Purpose Financial Report must disclose the original budget adopted by Council, the *Local Government Act 1993* 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	2016 Budget	2016 Actual	2016 ----- Variance* -----	
<b>REVENUES</b>				
<b>Rates and annual charges</b>	<b>43,225</b>	<b>44,020</b>	<b>795</b>	2% <b>F</b>
<b>User charges and fees</b>	<b>7,232</b>	<b>8,057</b>	<b>825</b>	11% <b>F</b>
RMS Charges 99K (F)		Planning Certificates	26K (F)	
Garbage Tipping Fees 673K (F)		Aerodrome Fees & charges	18K (F)	
Building Permits & Fees 39K (U)		Private Works	28K (F)	
<b>Interest and investment revenue</b>	<b>729</b>	<b>1,515</b>	<b>786</b>	108% <b>F</b>
Interest on Investments 419K (F)				
Interest on overdue rates & charges 34K (U)				
Investment Fair Value Adjustment 301K (F)				
<b>Other revenues</b>	<b>1,058</b>	<b>1,830</b>	<b>772</b>	73% <b>F</b>
Insurance Claims 130K (F)		Section 355 Committees	164K (F)	
Lease / Rentals 40K (F)		Other	105K (F)	
Legal Fees Recovery Rates & Charges 286K (F)				
<b>Operating grants and contributions</b>	<b>12,775</b>	<b>14,000</b>	<b>1,225</b>	10% <b>F</b>
Road to Recovery Grant 651K (F)		RFS Reimbursement	125K (U)	
Natural Disaster (Floods) Grant 1,142K (F)				
<b>Capital grants and contributions</b>	<b>5,952</b>	<b>16,895</b>	<b>10,943</b>	184% <b>F</b>
Voluntary Planning Agreements 1,668K (F)		Dedications	9,419K (F)	
Section 94 Contributions 762K (F)		Kerb & Gutter Contributions	51K (F)	
RMS Contributions 1,279K (F)		Resources for Regions	3,089K (U)	
Waste Levy Grant Programs 190K (F)		Recreation & Culture Grants	185K (F)	
Drainage Works Grant 326K (F)		Library Special Projects Grant	45K (F)	

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 16. Material budget variations (continued)

\$ '000	2016 Budget	2016 Actual	2016 ----- Variance* -----	
<b>EXPENSES</b>				
<b>Employee benefits and on-costs</b>	<b>28,633</b>	<b>29,186</b>	<b>(553)</b>	(2%) <b>U</b>
<b>Borrowing costs</b>	<b>567</b>	<b>552</b>	<b>15</b>	3% <b>F</b>
<b>Materials and contracts</b>	<b>10,955</b>	<b>19,841</b>	<b>(8,886)</b>	(81%) <b>U</b>
Expenses exceeded the original budget primarily due to extra works not forecast being undertaken as a result of additional grant funds and reserve funds being utilised after the budget was adopted. E.g. RMS works and additional expenditure resulting from Natural Disaster (Floods) in April 2015.				
<b>Depreciation and amortisation</b>	<b>13,015</b>	<b>9,608</b>	<b>3,407</b>	26% <b>F</b>
Original Budget amount of \$13,015K was based on the 2014-15 actual amount, then reduced in March 2016 Quarterly Budget Review to \$10,045K to reflect expected expense.				
<b>Impairment expenses</b>	-	<b>361</b>	<b>(361)</b>	0% <b>U</b>
Impairment Expense not budgeted for in the 2015-16 original budget.				
<b>Other expenses</b>	<b>11,638</b>	<b>11,606</b>	<b>32</b>	0% <b>F</b>
<b>Net losses from disposal of assets</b>	-	<b>3,536</b>	<b>(3,536)</b>	0% <b>U</b>
Disposal of Assets not budgeted for in the 2015-16 original budget.				

**Budget variations relating to Council's Cash Flow Statement include:**

<b>Cash flows from operating activities</b>	<b>23,100</b>	<b>15,466</b>	<b>(7,634)</b>	(33.0%) <b>U</b>
Rates and Annual Charges	1,286K (F)	Employee Benefits and on-costs	877K (U)	
Grants and Contributions	3,852K (U)	Materials and Contracts	5,853K (U)	
Other Receipts	1,009K (F)	Other Payments	517K (F)	
User Charges and Fees	185K (F)			
<b>Cash flows from investing activities</b>	<b>(24,706)</b>	<b>(16,966)</b>	<b>7,740</b>	(31.3%) <b>F</b>
Purchase of Infrastructure, Property, Plant and Equipment	9,979K (F)			
Net Purchase / Sale of Investment Securities	2,799K (U)			
<b>Cash flows from financing activities</b>	<b>(1,143)</b>	<b>(1,143)</b>	<b>-</b>	0.0% <b>F</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 17. Statement of developer contributions

\$ '000

Council recovers contributions, raises levies and 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 and levies and the value of all remaining funds which are 'restricted' in their future use.

## SUMMARY OF CONTRIBUTIONS AND LEVIES

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	170	7	–	4	–	–	181	–
Roads	990	248	–	19	(207)	–	1,050	–
Traffic facilities	22	–	–	1	–	–	23	–
Parking	340	–	–	7	–	–	347	–
Open space	402	205	–	10	(20)	–	597	–
Community facilities	830	169	–	16	(136)	–	879	–
Tourist facilities	712	28	–	15	–	–	755	–
Transport	20	17	–	–	–	–	37	–
Other	398	57	–	7	(38)	–	424	–
<b>S94 contributions – under a plan</b>	<b>3,884</b>	<b>731</b>	<b>–</b>	<b>79</b>	<b>(401)</b>	<b>–</b>	<b>4,293</b>	<b>–</b>
<b>Total S94 revenue under plans</b>	<b>3,884</b>	<b>731</b>	<b>–</b>	<b>79</b>	<b>(401)</b>	<b>–</b>	<b>4,293</b>	<b>–</b>
S93F planning agreements	827	1,699	–	35	–	–	2,561	–
<b>Total contributions</b>	<b>4,711</b>	<b>2,430</b>	<b>–</b>	<b>114</b>	<b>(401)</b>	<b>–</b>	<b>6,854</b>	<b>–</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## 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	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Roads	18	–	–	–	(15)	–	3	–
Community facilities	104	–	–	–	(86)	–	18	–
Other	21	–	–	–	(17)	–	4	–
<b>Total</b>	<b>143</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(118)</b>	<b>–</b>	<b>25</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	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Tourist facilities	174	–	–	4	–	–	178	–
<b>Total</b>	<b>174</b>	<b>–</b>	<b>–</b>	<b>4</b>	<b>–</b>	<b>–</b>	<b>178</b>	<b>–</b>

## CONTRIBUTION PLAN NUMBER 3 - COMMERCIAL, RETAIL &amp; 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	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Traffic facilities	22	–	–	1	–	–	23	–
<b>Total</b>	<b>22</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>23</b>	<b>–</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## 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	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	37	–	–	1	–	–	38	–
<b>Total</b>	<b>37</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>38</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	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Parking	340	–	–	7	–	–	347	–
Other	15	–	–	–	–	–	15	–
<b>Total</b>	<b>355</b>	<b>–</b>	<b>–</b>	<b>7</b>	<b>–</b>	<b>–</b>	<b>362</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	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	133	7	–	3	–	–	143	–
Roads	737	191	–	13	(192)	–	749	–
Open space	398	201	–	10	(20)	–	589	–
Community facilities	721	165	–	16	(50)	–	852	–
Other	292	56	–	6	(21)	–	333	–
<b>Total</b>	<b>2,281</b>	<b>620</b>	<b>–</b>	<b>48</b>	<b>(283)</b>	<b>–</b>	<b>2,666</b>	<b>–</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## 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	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Roads	74	19	–	2	–	–	95	–
Tourist facilities	538	28	–	11	–	–	577	–
Other	70	1	–	1	–	–	72	–
<b>Total</b>	<b>682</b>	<b>48</b>	<b>–</b>	<b>14</b>	<b>–</b>	<b>–</b>	<b>744</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	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Roads	161	38	–	4	–	–	203	–
<b>Total</b>	<b>161</b>	<b>38</b>	<b>–</b>	<b>4</b>	<b>–</b>	<b>–</b>	<b>203</b>	<b>–</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 17. Statement of developer contributions (continued)

\$ '000

**S94 CONTRIBUTIONS – UNDER A PLAN**

## Site Specific Contributions Plan - Nulkaba

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Open space	4	4	–	–	–	–	8	–
Community facilities	5	4	–	–	–	–	9	–
Transport	20	17	–	–	–	–	37	–
<b>Total</b>	<b>29</b>	<b>25</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>54</b>	<b>–</b>

**S93F 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	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Community facilities	827	1,699	–	35	–	–	2,561	–
<b>Total</b>	<b>827</b>	<b>1,699</b>	<b>–</b>	<b>35</b>	<b>–</b>	<b>–</b>	<b>2,561</b>	<b>–</b>

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 18. Contingencies and 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 and 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.

Member councils bear responsibility of ensuring there are sufficient funds available to pay out the required benefits as they fall due.

The Local Government Superannuation Scheme - Pool B (the Fund) 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 Fund as a defined benefit plan, because the assets to the Fund are pooled together for all employers.

The amount of employer contributions to the defined benefit section of the Fund and recognised as an expense for the year ending 30 June 2016 was \$999,044. The last valuation of the Fund was performed by Mr Richard Boyfield, FIAA on the 24th February 2016, relating to the period ending 30 June 2015. However the position is monitored annually and the Actuary has estimated that as at 30 June 2016 a deficit still exists, with member Councils required to maintain additional contributions to 30 June 2020.

The share of this deficit that can be broadly attributed to this organisation was estimated to be in the order of \$780,546 as at 30 June 2016.

###### (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 year ended 30 June 2016

#### Note 18. Contingencies and other assets/liabilities not recognised (continued)

\$ '000

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

##### 2. Other liabilities

##### (ii) Section 94 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 Council's 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 and including 30 June 2008.

##### (ii) Infringement notices/fines

Fines and penalty income, the result of Council issuing infringement notices is followed up and collected by the Infringement Processing Bureau.

Council's 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 year ended 30 June 2016

#### Note 19. Interests in other entities

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\$ '000

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Council's objectives can and in some cases are best met through the use of separate entities and 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 council's (i) interest and (ii) control and the type (form) of entity/operation, as follows;

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#### **Controlled entities (subsidiaries)**

**Note 19(a)**

Operational arrangements where Council's control (but not necessarily interest) exceeds 50%.

#### **Joint ventures and associates**

**Note 19(b)**

Joint ventures are operational arrangements where the parties that have joint control have rights to the net assets of the arrangement.

Associates are separate entities where Council has significant influence over the operations (but neither controls nor jointly controls them).

#### **Joint operations**

**Note 19(c)**

Operational arrangements where the parties that have joint control have rights to specific assets and obligations for specific liabilities relating to the arrangement rather than a right to the net assets of the arrangement.

#### **Unconsolidated structured entities**

**Note 19(d)**

Unconsolidated structured entities represent "special vehicles" that Council has an interest in but which are not controlled by Council and therefore not consolidated as a subsidiary, joint arrangement or associate. Attributes of structured entities include restricted activities, a narrow and well-defined objective and insufficient equity to finance its activities without financial support.

#### **Subsidiaries, joint arrangements and associates not recognised**

**Note 19(e)**

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#### **Accounting recognition:**

**(i) Subsidiaries disclosed under Note 19(a) and joint operations disclosed at Note 19(c) are accounted for on a 'line by line' consolidation basis within the Income Statement and Statement of Financial Position.**

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## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 19. Interests in other entities (continued)

\$ '000

##### (a) Controlled entities (subsidiaries) – being entities and operations controlled by Council

Council has no interest in any controlled entities (subsidiaries).

##### (b) Joint ventures and associates

Council has no interest in any joint ventures or associates.

##### (c) Joint operations

###### (a) Council is involved in the following joint operations (JO's)

Name of joint operation	Principal activity	Place of business	Interest in ownership		Interest in voting	
			2016	2015	2016	2015
Strategic Services Australia Ltd	Local Government Services	Thornton	10%	10%	8%	8%

Council has an interest in Strategic Services Australia Ltd, along with other member Councils of Strategic Services Australia Ltd.

The activities of this organisation are not controlled by any one Council.

Strategic Services Ltd 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 operations

	2016	2015
<b>Council's share of assets jointly owned with other partners</b>		
Current assets	131	85
Current liabilities	(372)	(153)
Property, plant and equipment	495	481
Non-current liabilities	(36)	(239)
<b>Total net assets employed – Council and jointly owned</b>	<b>218</b>	<b>174</b>

##### (d) Unconsolidated structured entities

Council has no unconsolidated structured entities

##### (e) Subsidiaries, joint arrangements and associates not recognised

None.

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 20. Retained earnings, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

\$ '000	Notes	Actual 2016	Actual 2015
<b>(a) Retained earnings</b>			
<b>Movements in retained earnings were as follows:</b>			
Balance at beginning of year (from previous years audited accounts)		401,750	409,215
a. Correction of prior period errors	20 (c)	–	(14,927)
b. Net operating result for the year		11,627	7,462
<b>Balance at end of the reporting period</b>		<b>413,377</b>	<b>401,750</b>
<b>(b) Revaluation reserves</b>			
<b>(i) Reserves are represented by:</b>			
– Infrastructure, property, plant and equipment revaluation reserve		318,298	312,371
<b>Total</b>		<b>318,298</b>	<b>312,371</b>
<b>(ii) Reconciliation of movements in reserves:</b>			
<b>Infrastructure, property, plant and equipment revaluation reserve</b>			
– Opening balance		312,371	302,573
– Revaluations for the year	9(a)	5,927	9,798
– <b>Balance at end of year</b>		<b>318,298</b>	<b>312,371</b>
<b>TOTAL VALUE OF RESERVES</b>		<b>318,298</b>	<b>312,371</b>
<b>(iii) Nature and purpose of reserves</b>			
<b>Infrastructure, property, plant and equipment revaluation reserve</b>			
– The infrastructure, property, plant and 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 year ended 30 June 2016

#### Note 20. Retained earnings, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

\$ '000	Notes	Actual 2016	Actual 2015
<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>			
As part of Council's revaluation of measuring all its I,PP&E at Fair Values, Council this year reviewed and brought to account Fair Values for the following Asset Classes:			
<ul style="list-style-type: none"> <li>- Roads Asset Class</li> <li>- Bridges Asset Class</li> <li>- Footpaths Asset Class</li> <li>- Stormwater Drainage Asset Class</li> </ul>			
As part of that revaluation & measurement process, the remaining useful life of each asset has been reassessed to actual.			
This reassessment has resulted in a material difference as to where some assets actually sit in relation to their asset life cycle relative to what the value of accumulated depreciation in Council's Financial Reports had previously indicated.			
Also, as a result of the reassessment additional assets (pipes & pits) were identified and are now recognised in the financial statements.			
Council does not have sufficient and reliable information that will allow the restatement of information prior to 30/6/14.			
As a result, Council has adjusted the accumulated depreciation and fair value of the following asset classes as at 30/6/14 to reflect the correct value;			
Stormwater (Kerb & Gutter) (increase)/decrease to accumulated depreciation		(23,440)	
Stormwater (Pipes & Pitts) (increase)/decrease to accumulated depreciation		(354)	
Stormwater (Pipes & Pitts) increase/(decrease) to fair value		8,867	
This adjustment resulted in a net increase/(decrease) in Council's accumulated surplus as at 30/6/14.			
<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 closing equity – 30/6/15 (relating to adjustments for the 30/6/15 year end)		–	(14,927)
<b>Total prior period adjustments – prior period errors</b>		<b>–</b>	<b>(14,927)</b>

#### (d) Voluntary changes in accounting policies

Council's asset capitalisation threshold policies have been amended during 2015/16 to align with the adopted Asset Management Plans and are reflected in Note 1 of these statements.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 21. Financial result and financial position by fund

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\$ '000

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Council utilises only a general fund for its operations.

#### Note 22. 'Held for sale' non-current assets and disposal groups

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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

---

Events that occur between the end of the reporting period (30 June 2016) 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 26/10/16.

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 2016.

**(ii) Events that provide evidence of conditions that arose after the reporting period**

These financial statements (and figures therein) do not incorporate any 'non-adjusting events' that have occurred after 30 June 2016 and which are only indicative of conditions that arose after 30 June 2016.

**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 assets 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 year ended 30 June 2016

#### Note 26. Reinstatement, rehabilitation and 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	
		2016	2015
Tip site - Cessnock	2018	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 and 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.

#### 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 year ended 30 June 2016

#### 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 and recognised at fair values:

2016	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 and equipment</b>					
Plant and Equipment	30/06/14	–	–	6,897	6,897
Office Equipment	30/06/14	–	–	646	646
Furniture and Fittings	30/06/14	–	–	137	137
Operational Land	30/06/13	–	–	41,092	41,092
Community Land	30/06/16	–	–	24,295	24,295
Land Under Roads (post 30/6/08)	30/06/14	–	–	1,868	1,868
Buildings - Non Specialised	30/06/13	–	–	13,290	13,290
Buildings - Specialised	30/06/13	–	–	53,288	53,288
Other Structures	30/06/16	–	–	4,869	4,869
Roads	30/06/15	–	–	464,328	464,328
Bridges	30/06/15	–	–	26,060	26,060
Footpaths	30/06/15	–	–	10,750	10,750
Stormwater Drainage	30/06/15	–	–	57,457	57,457
Swimming Pools	30/06/16	–	–	2,810	2,810
Other Open Space / Recreational Assets	30/06/16	–	–	10,589	10,589
Library Books	30/06/14	–	–	1,181	1,181
Other Assets	30/06/16	–	–	3	3
<b>Total infrastructure, property, plant and equipment</b>		<b>–</b>	<b>–</b>	<b>719,560</b>	<b>719,560</b>



## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 27. Fair value measurement (continued)

\$ '000

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

2015	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 and equipment</b>					
Plant and Equipment	30/06/14	—	—	5,896	5,896
Office Equipment	30/06/14	—	—	887	887
Furniture and Fittings	30/06/14	—	—	91	91
Operational Land	30/06/13	—	—	41,098	41,098
Community Land	30/06/11	—	—	29,876	29,876
Land Under Roads (post 30/6/08)	30/06/14	—	—	1,386	1,386
Buildings - Non Specialised	30/06/13	—	—	13,408	13,408
Buildings - Specialised	30/06/13	—	—	52,643	52,643
Other Structures	30/06/11	—	—	2,501	2,501
Roads	30/06/15	—	—	417,854	417,854
Bridges	30/06/15	—	—	25,882	25,882
Footpaths	30/06/15	—	—	9,234	9,234
Stormwater Drainage	30/06/15	—	—	90,309	90,309
Swimming Pools	30/06/11	—	—	357	357
Other Open Space / Recreational Assets	30/06/11	—	—	8,153	8,153
Library Books	30/06/14	—	—	1,157	1,157
Other Assets	30/06/14	—	—	3	3
<b>Total infrastructure, property, plant and equipment</b>		<b>—</b>	<b>—</b>	<b>700,735</b>	<b>700,735</b>

## (2) Transfers between level 1 and 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 year ended 30 June 2016

#### 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

###### Infrastructure, property, plant and 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 2016. 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.

###### 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.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2016

#### 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 (continued)

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

Council's buildings were valued utilising the cost approach by APV Valuers and experienced engineering and asset management staff in June 2013.

For non-specialised buildings a market value has been provided by an external agency through level 2 inputs.

For specialised buildings the replacement cost of each building / building component with different useful lives has been established.

The unit rates are supported by market evidence, and professional judgement of inputs including;

estimated pattern of consumption, useful lives and asset condition, which impact 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, Carparks, Bridges, Kerb and Gutter and Footpaths**

The roads asset class includes roads, defined as the trafficable portion of a road. It also includes "other roads" assets including Carparks, Bridges and Major Culverts, 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 base, subbase, and formation were based primarily on unit rates derived from the Council's schedule of rates tender. Other inputs (such as estimates pattern of consumption, 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 year ended 30 June 2016

#### Note 27. Fair value measurement (continued)

\$ '000

#### (3) Valuation techniques used to derive level 2 and level 3 fair values (continued)

##### **Stormwater Drainage**

Assets within this class comprise pits, pipes, minor culverts, and various types of water quality devices.

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, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value.

Therefore the 'Cost Approach' using Level 3 inputs is used to value stormwater assets, estimating the replacement cost for each asset by componentising it into significant parts with different useful lives and taking into account a range of factors.

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 pool shells at their aquatic centre and outdoor swimming centres.

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, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value.

Therefore, the 'Cost Approach' using Level 3 inputs is used to value swimming pools.

There has been no change to the valuation process during the reporting period.

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

Assets within this class include, but are not limited to; runways and taxiways, tennis courts/basketball courts, cricket wickets, BBQs, picnic shelters/settings, seats, benches, fencing, retaining walls, memorials and playgrounds.

All assets in this class were valued in-house by experienced engineering 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, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Therefore, the 'Cost Approach' using Level 3 inputs is used to value open space assets.

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 year ended 30 June 2016

#### 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- strucutre	Other assets	Total
<b>Opening balance – 1/7/14</b>	6,668	71,640	67,241	564,294	1,138	710,981
Purchases (GBV)	2,812	701	691	6,679	225	11,108
Disposals (WDV)	(706)	–	(252)	(3,579)	–	(4,537)
Depreciation and impairment	(1,915)	–	(1,529)	(9,292)	(203)	(12,939)
Transfers from WIP	15	19	93	1,124	–	1,251
Revaluation increments	–	–	572	9,226	–	9,798
Adjustments	–	–	1,736	(16,663)	–	(14,927)
<b>Closing balance – 30/6/15</b>	<b>6,874</b>	<b>72,360</b>	<b>68,552</b>	<b>551,789</b>	<b>1,160</b>	<b>700,735</b>
Purchases (GBV)	3,320	482	487	8,858	246	13,393
Disposals (WDV)	(788)	(9)	(198)	(3,800)	–	(4,795)
Depreciation and impairment	(1,810)	–	(1,528)	(6,409)	(222)	(9,969)
Transfers from WIP	84	–	2	7,350	–	7,436
Revaluation increments	–	(5,578)	3,396	13,454	–	11,272
Adjustments	–	–	(941)	752	–	(189)
<b>Closing balance – 30/6/16</b>	<b>7,680</b>	<b>67,255</b>	<b>69,770</b>	<b>571,994</b>	<b>1,184</b>	<b>717,883</b>

#### b. The valuation process for level 3 fair value measurements

The financial valuations for Cessnock City Council's infrastructure assets for 2016 have been carried out internally by experienced engineering and asset management staff. This process and outcomes has been tested by various Council staff members to assess the integrity of the valuations that were developed.

#### (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 year ended 30 June 2016

#### Note 28. Financial review

\$ '000

#### Key financial figures of Council over the past 5 years

<b>Financial performance figures</b>	<b>2016</b>	<b>2015</b>	2014	2013	2012
<b>Inflows:</b>					
Rates and annual charges revenue	<b>44,020</b>	42,162	41,263	40,078	35,833
User charges revenue	<b>8,057</b>	7,510	8,767	10,335	10,390
Interest and investment revenue (losses)	<b>1,515</b>	1,098	1,359	1,805	533
Grants income – operating and capital	<b>14,411</b>	10,610	9,759	9,187	9,197
Total income from continuing operations	<b>86,317</b>	79,466	73,172	69,712	61,457
Sale proceeds from I,PP&E	<b>1,259</b>	692	807	898	766
New loan borrowings and advances	<b>–</b>	–	2,000	–	1,890
<b>Outflows:</b>					
Employee benefits and on-cost expenses	<b>29,186</b>	27,084	25,078	23,451	22,662
Borrowing costs	<b>552</b>	627	607	671	672
Materials and contracts expenses	<b>19,841</b>	15,734	16,120	14,723	14,453
Total expenses from continuing operations	<b>74,690</b>	72,004	69,339	66,335	67,283
Total cash purchases of I,PP&E	<b>15,526</b>	19,321	15,371	17,894	13,845
Total loan repayments (incl. finance leases)	<b>1,143</b>	1,133	999	938	981
Operating surplus/(deficit) (excl. capital income)	<b>(5,268)</b>	(3,468)	(4,503)	(49)	(8,142)
<b>Financial position figures</b>	<b>2016</b>	<b>2015</b>	2014	2013	2012
Current assets	<b>40,349</b>	39,212	33,418	28,289	25,724
Current liabilities	<b>16,569</b>	17,184	15,473	16,363	16,605
Net current assets	<b>23,780</b>	22,028	17,945	11,926	9,119
Available working capital (Unrestricted net current assets)	<b>(3,511)</b>	(3,277)	(2,775)	(2,913)	(2,318)
Cash and investments – unrestricted	<b>33</b>	1,276	1,333	645	1,354
Cash and investments – internal restrictions	<b>24,485</b>	24,909	23,889	16,506	13,110
Cash and investments – total	<b>38,010</b>	37,653	30,823	22,716	20,001
Total borrowings outstanding (Loans, advances and finance leases)	<b>7,750</b>	8,893	10,026	9,025	9,963
Total value of I,PP&E (excl. land and earthworks)	<b>847,281</b>	816,789	774,268	765,415	751,373
Total accumulated depreciation	<b>188,771</b>	179,492	133,492	195,560	182,301
Indicative remaining useful life (as a % of GBV)	78%	78%	83%	74%	76%

**Source:** published audited financial statements of Council (current year and prior year)

## Cessnock City Council

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 29. Council information and contact details

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**Principal place of business:**

62 - 78 Vincent Street  
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 John Oliver

**PUBLIC OFFICER**

Mrs Kim Appleby

**AUDITORS**

Forsyths Chartered Accountants  
92 Rusden Street  
Armidale NSW 2350

PO Box 114 Armidale NSW 2350

**Other information**

**ABN:** 60 919 148 928

**Elected members**

**MAYOR**

Councillor Bob Pynsent

**COUNCILLORS**

Councillor Morgan Campbell  
Councillor Rod Doherty  
Councillor Bryce Gibson  
Councillor James Hawkins  
Councillor Ian Olsen  
Councillor Catherine Parsons  
Councillor James Ryan  
Councillor Allan Stapleford  
Councillor Graham Smith  
Councillor Cordelia Troy  
Councillor Suellen Wrightson (resigned 6 June 2016)  
Councillor Jeff Maybury (deceased 6 July 2015)

**Armidale**

92 Rusden Street  
PO Box 114  
Armidale NSW 2350

**p** +61 2 6773 8400

**f** +61 2 6772 9957

**e** [armidale@forsyths.com.au](mailto:armidale@forsyths.com.au)

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 2016.

***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**

Liability limited by a scheme approved under the Professional Standards Legislation



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.

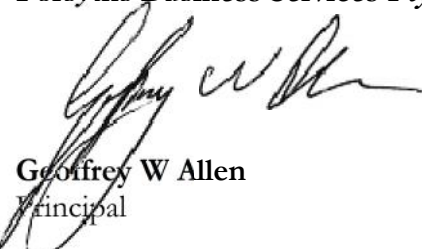
## **AUDIT OPINION**

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 2016 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

26<sup>th</sup> October 2016  
92 Rusden Street Armidale

26 October 2016

The Mayor  
Cessnock City Council  
PO Box 152  
CESSNOCK 2325

**Armidale**

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PO Box 114  
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*e* [armidale@forsyths.com.au](mailto:armidale@forsyths.com.au)

Forsyths 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 2016**

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 2016 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 comply 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.

**Knowledge with integrity**

Liability limited by a scheme approved under the Professional Standards Legislation

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**

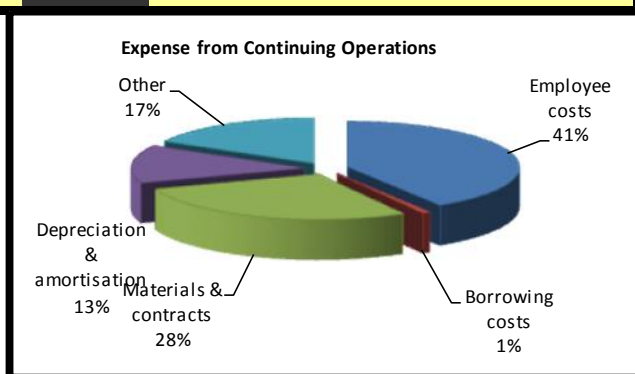
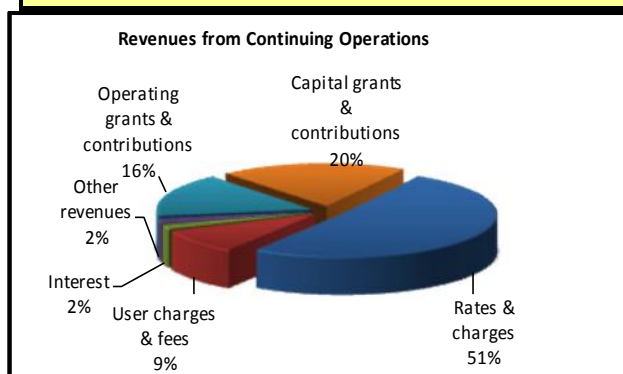
This auditor's report relates to the financial statements of Cessnock City Council for the year ended 30<sup>th</sup> June 2016 included on Cessnock City Council's web site. The Council is responsible for the integrity of its web site. We have not been engaged to report on the integrity of the Council's 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 Council's 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 2016 discloses the following result:

INCOME STATEMENT	Budget	Actual	Actual	Variance	
	2016	2016	2015	Actual	Budget
	\$'000	\$'000	\$'000		%
<b>INCOME FROM CONTINUING OPERATIONS</b>					
Rates & annual charges	43,225	44,020	42,162	4.4%	1.8%
User charges & fees	7,232	8,057	7,510	7.3%	11.4%
Interest income	729	1,515	1,098	38.0%	107.8%
Other revenues from ordinary activities	1,058	1,830	1,557	17.5%	73.0%
Grants & contributions for operating purposes	12,775	14,000	16,209	-13.6%	9.6%
Grants & contributions for capital purposes	5,952	16,895	10,930	54.6%	183.9%
<b>Total income from continuing operations</b>	<b>70,971</b>	<b>86,317</b>	<b>79,466</b>	<b>8.6%</b>	<b>21.6%</b>
<b>EXPENSES FROM CONTINUING OPERATIONS</b>					
Employee benefits & oncosts	28,633	29,186	27,084	7.8%	-1.9%
Borrowing costs	567	552	627	-12.0%	2.7%
Materials and contracts	10,955	19,841	15,734	26.1%	-44.8%
Depreciation & amortisation	13,015	9,608	12,688	-24.3%	35.5%
Other expenses from ordinary activities	11,638	11,606	11,775	-1.4%	0.3%
Impairment adjustment	0	361	251	43.8%	0.0%
Loss on sale of assets	0	3,536	3,845	-8.0%	0.0%
<b>Total Expenses from continuing operations</b>	<b>64,808</b>	<b>74,690</b>	<b>72,004</b>	<b>3.7%</b>	<b>-13.2%</b>
<b>NET OPERATING RESULT FOR THE YEAR</b>	<b>6,163</b>	<b>11,627</b>	<b>7,462</b>	<b>55.8%</b>	<b>88.7%</b>
<b>NET OPERATING RESULT BEFORE CAPITAL GRANTS AND CONTRIBUTIONS</b>	<b>211</b>	<b>(5,268)</b>	<b>(3,468)</b>	<b>51.9%</b>	<b>-2596.7%</b>



Council achieved a surplus of \$11.6m after recognising an inflow of grants and contributions for capital expenditure purposes of \$16.9m. 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 \$5.3m.

Revenue increased by 8.6% due to an increases in rates & annual charges, user charges & fees, interest, grants & contributions for capital purposes and other revenue which were partially offset by decreases in grants & contributions operating. The major movement are explained as follows:

- Rates & annual charges increased mainly due to rate pegging increases and an increase in the rate base due to new subdivisions and increased charges for waste management services.

- User charges & fees increased mainly due to the new subdivisions increasing the number of users.
- Interest & investment income increased mainly as a result of the partial recovery of a failed investment during the Global Financial Crisis.
- Capital grants & contributions increased mainly due to increases in road dedications in relation to new estates, Resources for Regions capital grant for Hermitage and Broke roads works which were partially offset by a decrease in RMS contributions in relation to regional road works.
- Other revenue increased mainly as a result of the recovery of legal fees in relation to the Huntlee subdivision voluntary planning agreement.
- Operating grants & contributions decreased mainly due to the one off contribution in relation to the Hunter Expressway project in the 2015 year, partially offset by increases in Roads to Recovery and flood works funding.

Expenses increased by 3.7% due to increases in employee benefits & on-costs, materials and contract and impairment losses which were partially offset by decrease in borrowing costs, depreciation & amortisation, other expenses and losses on disposal of assets. The major movements were as follows:

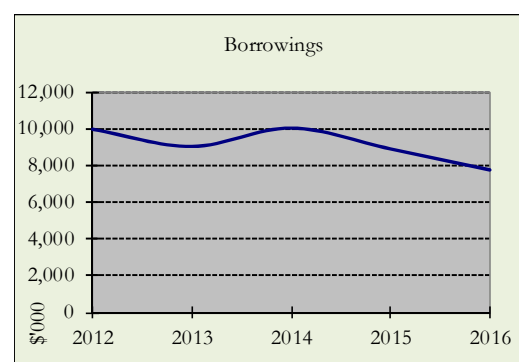
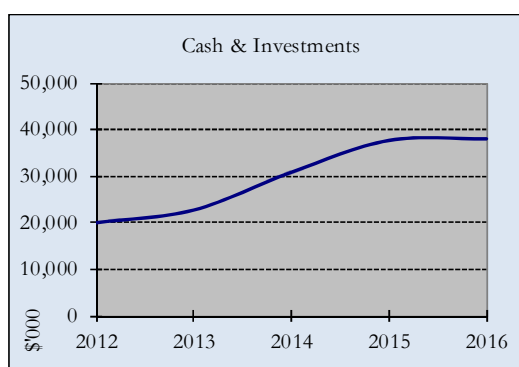
- Employee benefits & on costs increased as a result of award wage increases and an increase in employees during the year.
- Borrowing costs have decreased due to the repayment loans during the year.
- Other expenses decreased mainly as a result of the Council being able to obtain more favourable electricity contracts.
- Materials and contracts increased mainly due and increase in the maintenance works as a reflection of the change in Councils asset management philosophy and an increase in legal expenses in relation the Huntlee subdivision voluntary planning agreement.
- Depreciation and amortisation decreased mainly as a result of the revaluation of roads and other infrastructure in the 2015 year.

The actual operating surplus from continuing operations for the year of \$11.6m compares with the original budget surplus (excluding re-votes) of \$6.1m. The \$5.5m 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	\$ 825,000	Favourable variance to budget mainly due to additional RMS charges and higher than expected garbage tipping fees.
Other revenues from ordinary activities	\$ 772,000	Favourable to budget due to higher than expected insurance recoveries, waste management revenue and section 355 committees contributions.
Grants & contributions for operating purposes	\$ 1,225,000	Favourable variance to budget mainly due to higher than expected flood damage funding and roads to recovery funding.
Grants & contributions for capital purposes	\$ 10,943,000	Capital grants were favourable to budget mainly due to higher than expected section 94 contributions, RMS capital contributions, dedications and voluntary planning agreements.
Materials and contracts	\$ (8,886,000)	Unfavourable to budget mainly due to higher than expected RMS and flood damage grants which resulted in additional works being undertaken during the year.
Depreciation & amortisation	\$ 3,407,000	Favourable to budget as the budget had not allowed for the impact of the revaluation of roads and related infrastructure.

The following schedule of assets and liabilities has been extracted from the Statement of Financial Position as at 30<sup>th</sup> June 2016. This schedule discloses the consolidated assets and liabilities of all functions.

SCHEDULE OF ASSETS & LIABILITIES	2016 \$'000	2015 \$'000	Variance %
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8,610	11,253	-23.5%
Investments	28,100	24,000	17.1%
Receivables	3,110	3,562	-12.7%
Inventories	323	343	-5.8%
Other	206	54	281.5%
<b>TOTAL CURRENT ASSETS</b>	<b>40,349</b>	<b>39,212</b>	<b>2.9%</b>
<b>CURRENT LIABILITIES</b>			
Payables	6,756	8,037	-15.9%
Borrowings	1,152	1,143	0.8%
Provisions	8,661	8,004	8.2%
<b>TOTAL CURRENT LIABILITIES</b>	<b>16,569</b>	<b>17,184</b>	<b>-3.6%</b>
<b>NET CURRENT ASSETS</b>	<b>23,780</b>	<b>22,028</b>	<b>8.0%</b>
<b>NON-CURRENT ASSETS</b>			
Investments	1,300	2,400	-45.8%
Receivables	-	-	0.0%
Inventories	1,270	1,270	0.0%
Infrastructure, Property Plant & Equipment	725,765	709,657	2.3%
<b>TOTAL NON-CURRENT ASSETS</b>	<b>728,335</b>	<b>713,327</b>	<b>2.1%</b>
<b>NON-CURRENT LIABILITIES</b>			
Payables	2,444	2,103	16.2%
Provisions	11,398	11,381	0.1%
Borrowings	6,598	7,750	-14.9%
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>20,440</b>	<b>21,234</b>	<b>-3.7%</b>
<b>NET ASSETS</b>	<b>731,675</b>	<b>714,121</b>	<b>2.5%</b>



Net current assets increased by \$1.7m mainly due to the increase in cash and investments due to strong operational cash flows and an increase in receivables as a result of increased RMS debtors at year end. Cash assets and investments currently total \$38.0m compared with \$37.7m as at 30<sup>th</sup> June 2015.

The increase in Infrastructure, Property Plant & Equipment of \$16.1m is due to the revaluation community land, other structures, roads, swimming pool and other open space assets net increase of

\$5.9m, additions of \$24.9 which were partially offset by depreciation, impairment and disposals of \$9.6m, \$0.4m and \$4.8m respectively for the year.

Payables decreased mainly due to major projects and roadworks being completed before 30 June 2016.

Provisions increased due to an increase in staff leave entitlements at year end relating to wages increases and staffing increases.

The loan liabilities total \$7.7m as at 30<sup>th</sup> June 2016 a reduction of \$1.2m on prior year due to scheduled loan repayments.

### 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 for 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	889	39,460	40,349
Current Liabilities	85	16,484	16,569
<b>Net Current Assets</b>	<b>804</b>	<b>22,976</b>	<b>23,780</b>
<b>Plus: Non-Current Investments</b>	-	1,300	1,300
<b>Plus: Current Liabilities Payable &gt;12mths</b>	-	7,761	7,761
<b>Total Funds before Restrictions</b>	<b>804</b>	<b>32,037</b>	<b>32,841</b>
<b>LESS: Restricted Cash &amp; Investments</b> (Included in Revenue)			
Developer Contributions	-	6,854	6,854
Specific Purpose Unexpended Grants	-	2,869	2,869
RMS Contributions	-	3,275	3,275
Other contributions	-	62	62
	-	13,060	13,060
<b>NET FUNDS AVAILABLE</b>	<b>804</b>	<b>18,977</b>	<b>19,781</b>
<b>LESS Internal Restrictions</b>	-	24,485	24,485
<b>Net Funds After All Restrictions</b>	<b>804</b>	<b>(5,508)</b>	<b>(4,704)</b>

INTERNAL RESTRICTIONS	Opening \$'000	Transfer to \$'000	Transfer from \$'000	Closing \$'000
Employee leave entitlements	2,096	589	681	2,004
Plant & Vehicle replacement	3,288	1,109	1,479	2,918
Carry over works	971	1,346	971	1,346
Bridge replacement	452	184	330	306
Cemetery	5	-	-	5
Computer Services	242	214	123	333
Insurance Provision	349	24	71	302
Land Purchases	2,762	963	1,515	2,210
Other Special Projects	715	195	222	688
Residential Land Development	625	38	17	646
Rezoning fees	235	-	150	85
Sanitary Operations	27	-	6	21
Single Invitations Contracts	917	230	478	669
Unexpended Loan Funds	296	-	296	-
Waste Depot & Rehabilitation	11,729	13,220	12,197	12,752
Energy Efficiency Reserve	200	-	-	200
	24,909	18,112	18,536	24,485

After funding all restrictions, Council has a net funds deficit in the general fund of \$5.5m (2015: deficit \$5.0m). This means that council does not currently have sufficient funds to fund the internal restrictions it has made.

Council has set aside \$2.0m to fund employee entitlements within the general fund. This restriction represents 23% of the total employee leave provision entitlements and is considered satisfactory given the existing staff levels, age profiles and that Council has estimated that \$5.4m of employee entitlements as at 30<sup>th</sup> June 2016 are not due within the coming 12 months.

***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	2016	2015	2014	2013	Benchmark
OPERATING PERFORMANCE RATIO	To assess councils ability to meet operating expenditure within operating revenue.	-2.7%	0.6%	-1.7%	2.4%	>-4%
OWN SOURCE OPERATING REVENUE	To assess the degree of reliance on external funding sources.	64.1%	65.9%	72.4%	76.6%	>60%
UNRESTRICTED CURRENT RATIO	To assess the adequacy of working capital after excluding all restricted assets and liabilities.	3.19	2.94	2.74	1.93	>1.5
DEBT SERVICE COVER RATIO	To assess the availability of operating cash to service debt including interest, principle and lease payments.	5.10	7.92	7.70	10.71	>2.0
OUTSTANDING RATES	To assess the impact of uncollected rates and charges on liquidity and the adequacy of recovery efforts.	2.5%	2.6%	4.0%	6.2%	<10%
CASH EXPENSE COVER RATIO	To assess the number of months council can pay its expenses without additional cash inflow.	6.65	7.48	6.66	5.00	>3

*Operating performance*

An operating performance deficit of 2.7% indicates that Councils operating revenue, excluding capital grants and contributions covers operating expenditure. This compares to the Group 4 average deficit of 1.01% and a State average deficit of 0.58% for 2015. The 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 64.1 % highlights Council’s low dependence on grants and contributions and compares to the Group 4 average of 71.6% and a State average of 66.97% for 2015. The benchmark for sustainability is for councils to 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 fund. The ratio of 3.19 as at 30 June 2016 indicates that there is \$3.19 of unrestricted current assets for every \$1.00 of current liabilities. Council’s ratio of 3.19 compares to the average of 3.02 for the Group 4s and is lower than the State average of 3.92 for 2015. However, the ratio is higher than the benchmark of greater than 1.5.

*Debt service cover ratio*

The debt service cover ratio of 5.10 times indicates that council has \$5.10 before interest and depreciation to pay interest and principal repayments on current borrowings. This compares to the Group 4s 2015 average of 4.8 and the State average of 104.13. The benchmark for sustainability is to have a ratio of greater than 2.0.

*Outstanding rate ratio*

The outstanding rate ratio of 2.5% compares favourably to the average of 5.73% for the Group 4s and the State average of 5.85% for 2015. This ratio is an indicator of Councils activity to collect outstanding rate revenues.

*Cash expense ratio*

The ratio indicates that Council can pay 6.65 months of its expenses without additional cash inflows. This compares to the Group 4s 2015 average of 11.0 and the state average of 13.36. The 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	2016	2015	2014	2013	Benchmark
BUILDING AND INFRASTRUCTURE RENEWALS RATIO	To assess the proportion spent on infrastructure renewals vs infrastructure deterioration.	160.8%	142.0%	118.9%	105.65%	>100%
INFRASTRUCTURE BACKLOG RATIO	To assess the infrastructure backlog against the total value of councils infrastructure.	2.0%	0.5%	2.0%	21.0%	<20%
ASSET MAINTENANCE RATIO	To assess the actual vs required annual maintenance expenditure.	141.0%	71.0%	99.0%	53.0%	>100%

*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 2016 Council spent \$1.61 for every \$1 in estimated asset deterioration. The Group 4s average for the asset renewal ratio was \$0.66 and the State average of \$0.92 for 2015. The 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 the Group 4s average of 4.7% and State average of 4.69% for 2015. The benchmark is a ratio between 20% and 2% which council is achieving.

*Asset maintenance ratio*

The Asset Maintenance ratio of 71% indicates that Council has been undertaking insufficient maintenance to keep pace with required maintenance requirements as determined by council's engineers and maintenance staff. This compares to the Group 4s average of 0.90 and State average of 1.01 for 2015. A ratio of greater than 1.0 is considered acceptable.

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 2016 \$'000	Actual 2015 \$'000	Variance %
<b>CASH INFLOWS</b>			
Operating Receipts	81,154	84,183	-3.6%
Proceeds from Assets Sales	1,259	692	81.9%
Other receipts	0	42	0.0%
Proceeds from sale of investments	9,100	6,900	31.9%
Proceeds from Borrowings	0	0	0.0%
<b>TOTAL RECEIPTS</b>	<b>91,513</b>	<b>91,817</b>	<b>-0.3%</b>
<b>CASH OUTFLOWS</b>			
Operating Payments	65,688	57,633	14.0%
Purchase of investments	11,799	3,000	293.3%
Purchase of Assets	15,526	19,321	-19.6%
Repayment of Loans	1,143	1,133	0.9%
Other Payments	0	0	0.0%
<b>TOTAL PAYMENTS</b>	<b>94,156</b>	<b>81,087</b>	<b>16.1%</b>
<b>TOTAL CASH MOVEMENT</b>	<b>-2,643</b>	<b>10,730</b>	<b>-124.6%</b>
Cash	8,610	11,253	-23.5%
Investments	29,400	26,400	11.4%
<b>Total Cash &amp; Investments on Hand</b>	<b>38,010</b>	<b>37,653</b>	<b>0.9%</b>

Council's cash and investments have increased by \$0.4m after expending \$15.5m on infrastructure and assets and \$1.1m on scheduled repayments of borrowings. This has been funded by proceeds from asset sales and continued strong cash flows from operations.

Cash Outflows for Purchase of Assets included road and bridge construction totalling \$9.1m. This compares with the \$4.6m 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 \$8.9m and the estimated annual maintenance expense required is \$5.9m.

**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*.

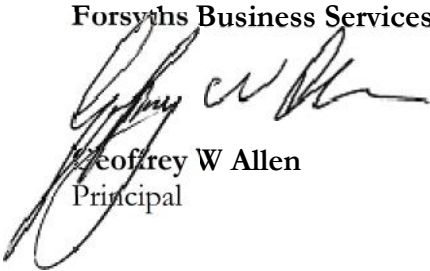
Matters of a technical nature have been documented in a governance letter to the General Manager.

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



# SPECIAL PURPOSE FINANCIAL STATEMENTS

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FOR THE YEAR ENDED 30 JUNE 2016

## Cessnock City Council

### Special Purpose Financial Statements

for the year ended 30 June 2016

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<b>1. Statement by Councillors and Management</b>	2
<b>2. Special Purpose Financial Statements:</b>	
Income Statement – Water Supply Business Activity	n/a
Income Statement – Sewerage Business Activity	n/a
Income Statement – Other Business Activities	3
Statement of Financial Position – Water Supply Business Activity	n/a
Statement of Financial Position – Sewerage Business Activity	n/a
Statement of Financial Position – Other Business Activities	4
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#### Background

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

### Special Purpose Financial Statements

for the year ended 30 June 2016

### Statement by Councillors and Management

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

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

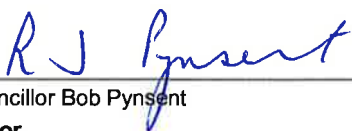
- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government',
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,
- the NSW Office of Water Best-Practice Management of Water and Sewerage Guidelines.

**To the best of our knowledge and belief, these financial statements:**

- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.

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

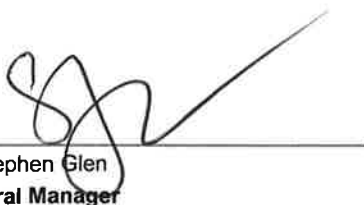
**Signed in accordance with a resolution of Council made on 07 September 2016.**



Councillor Bob Pynsent  
**Mayor**



Councillor Allan Stapleford  
**Councillor**



Mr Stephen Glen  
**General Manager**



Mr John Oliver  
**Responsible Accounting Officer**

## Cessnock City Council

## Income Statement of Council's Other Business Activities

for the year ended 30 June 2016

Strategic Services  
Australia Limited

Category 2

\$ '000	Actual 2016	Actual 2015
<b>Income from continuing operations</b>		
Access charges	–	–
User charges	715	234
Fees	–	–
Interest	–	2
Grants and contributions provided for non-capital purposes	62	–
Profit from the sale of assets	–	–
Other income	3	11
<b>Total income from continuing operations</b>	<b>780</b>	<b>247</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	486	–
Borrowing costs	12	14
Materials and contracts	132	143
Depreciation and impairment	38	21
Loss on sale of assets	–	–
Calculated taxation equivalents	–	–
Debt guarantee fee (if applicable)	3	3
Other expenses	65	6
<b>Total expenses from continuing operations</b>	<b>736</b>	<b>187</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>44</b>	<b>60</b>
Grants and contributions provided for capital purposes	–	–
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>44</b>	<b>60</b>
Surplus (deficit) from discontinued operations	–	–
<b>Surplus (deficit) from all operations before tax</b>	<b>44</b>	<b>60</b>
Less: corporate taxation equivalent (30%) [based on result before capital]	(13)	(18)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>31</b>	<b>42</b>
<b>Plus opening retained profits</b>	13	5
<b>Plus/less: prior period adjustments</b>	–	(55)
<b>Plus adjustments for amounts unpaid:</b>		
– Taxation equivalent payments	–	–
– Debt guarantee fees	3	3
– Corporate taxation equivalent	13	18
<b>Add:</b>		
– Subsidy paid/contribution to operations	–	–
<b>Less:</b>		
– TER dividend paid	–	–
– Dividend paid	–	–
<b>Closing retained profits</b>	<b>60</b>	<b>13</b>
<b>Return on capital %</b>	<b>11.3%</b>	<b>15.4%</b>
<b>Subsidy from Council</b>	–	–



## Cessnock City Council

## Statement of Financial Position – Council's Other Business Activities

as at 30 June 2016

Strategic Services Australia  
Limited

Category 2

\$ '000	Actual 2016	Actual 2015
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	22	13
Investments	–	–
Receivables	104	67
Inventories	1	1
Other	4	4
Non-current assets classified as held for sale	–	–
<b>Total Current Assets</b>	<b>131</b>	<b>85</b>
<b>Non-current assets</b>		
Investments	–	–
Receivables	–	–
Inventories	–	–
Infrastructure, property, plant and equipment	495	481
Investments accounted for using equity method	–	–
Investment property	–	–
<b>Total non-current assets</b>	<b>495</b>	<b>481</b>
<b>TOTAL ASSETS</b>	<b>626</b>	<b>566</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank overdraft	–	–
Payables	78	20
Borrowings	197	102
Provisions	66	24
Other Current Liabilities	31	7
<b>Total current liabilities</b>	<b>372</b>	<b>153</b>
<b>Non-current liabilities</b>		
Payables	–	–
Borrowings	25	227
Provisions	11	12
Other Liabilities	–	–
<b>Total non-current liabilities</b>	<b>36</b>	<b>239</b>
<b>TOTAL LIABILITIES</b>	<b>408</b>	<b>392</b>
<b>NET ASSETS</b>	<b>218</b>	<b>174</b>
<b>EQUITY</b>		
Retained earnings	60	13
Revaluation reserves	158	161
Council equity interest	<b>218</b>	<b>174</b>
Non-controlling equity interest	–	–
<b>TOTAL EQUITY</b>	<b>218</b>	<b>174</b>

## Cessnock City Council

### Special Purpose Financial Statements

for the year ended 30 June 2016

#### Contents of the notes accompanying the financial statements

Note	Details	Page
1	Summary of significant accounting policies	6
2	Water Supply Business Best-Practice Management disclosure requirements	n/a
3	Sewerage Business Best-Practice Management disclosure requirements	n/a

## Cessnock City Council

### Notes to the Special Purpose Financial Statements for the year ended 30 June 2016

#### Note 1. Significant accounting policies

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

For the purposes of these statements, the Council is not a reporting not-for-profit entity.

The figures presented in the SPFS, unless otherwise stated, have been prepared in accordance with:

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

The disclosures in the SPFS have been prepared in accordance with:

- the Local Government Act (1993) NSW,
- the Local Government (General) Regulation, and
- the Local Government Code of Accounting Practice and Financial Reporting.

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

In previous years, the financials for Strategic Services Australia Ltd (SSA Ltd) only included the activities of the Records Repository Centre. These statements now incorporate the financials of all trading activities of SSA Ltd including the Environment Division, Screen Hunter, Regional Procurement, Records, Local Government Training Institute, Administration and Hunter Councils Legal Services. As a result, comparative figures in the Balance Sheet have also been adjusted to include all the activities of SSA Ltd.

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

#### National Competition Policy

Council has adopted the principle of 'competitive neutrality' to its business activities as part of the

national competition policy which is being applied throughout Australia at all levels of government.

The framework for its application is set out in the June 1996 government policy statement, *Application of National Competition Policy to Local Government*.

The *Pricing and Costing for Council Businesses, A Guide to Competitive Neutrality*, issued by the Office of Local Government in July 1997, has also been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide standards for disclosure. These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies, return on investments (rate of return), and dividends paid.

#### Declared business activities

In accordance with *Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

##### Category 1

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

Nil

##### Category 2

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

##### a. Strategic Services Australia Ltd

Activities include Environment Division, Screen Hunter, Regional Procurement, Records Repository Centre, Local Government Training Institute, Administration Services and Hunter Councils Legal Services.

#### Monetary amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest thousand dollars.

#### (i) Taxation-equivalent charges

Council is liable to pay various taxes and financial duties in undertaking its business activities. Where this is the case, they are disclosed in these

## Cessnock City Council

### Notes to the Special Purpose Financial Statements for the year ended 30 June 2016

#### Note 1. Significant accounting policies (continued)

statements as a cost of operations just like all other costs.

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

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

#### Notional rate applied (%)

Corporate income tax rate – **30%**

Land tax – the first **\$482,000** of combined land values attracts **0%**. For that valued from \$482,001 to \$2,947,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$2,947,000, a premium marginal rate of **2.0%** applies.

Payroll tax – **5.45%** on the value of taxable salaries and wages in excess of \$750,000.

#### Income tax

An income tax equivalent has been applied on the profits of each reported business activity.

While income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested.

Accordingly, the return on capital invested is set at a pre-tax level (gain or loss from ordinary activities before capital amounts) as would be applied by a private sector competitor – that is, it should include a provision equivalent to the corporate income tax rate, currently 30%.

Income tax is only applied where a positive gain/(loss) from ordinary activities before capital amounts has been achieved.

Since this taxation equivalent is notional – that is, it is payable to Council as the 'owner' of business operations, it represents an internal payment and

has no effect on the operations of the Council. Accordingly, there is no need for disclosure of internal charges in Council's General Purpose Financial Statements.

The 30% rate applied is the equivalent company tax rate prevalent as at balance date. No adjustments have been made for variations that have occurred during the year.

#### Local government rates and charges

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

#### Loan and debt guarantee fees

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

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

#### (ii) Subsidies

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

Subsidies occur when Council provides services on a less-than-cost-recovery basis. This option is exercised on a range of services in order for Council to meet its community service obligations.

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

The overall effect of subsidies is contained within the Income Statement of each reported business activity.

## Cessnock City Council

### Notes to the Special Purpose Financial Statements for the year ended 30 June 2016

#### Note 1. Significant accounting policies (continued)

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##### **(iii) Return on investments (rate of return)**

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

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

The rate of return on capital is calculated as follows:

**Operating result before capital income + interest expense**

---

**Written down value of I,PP&E as at 30 June**

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 1.99% at 30/6/16.

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

##### **(iv) Dividends**

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

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Forsyths Business Services Pty Ltd  
ABN 66 182 781 401

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

**To Cessnock City Council**

**SCOPE**

We have audited the special purpose financial statements of Cessnock City Council for the year ended 30<sup>th</sup> June 2016 comprising the Statement by Councillors and Management, Income Statement of Business Activities, Balance Sheet by Business Activities, and Note 1 to the Financial Statements. The financial statements include the financial results of the business activities of the Council and the entities it controlled at the year's end or from time to time during the year.

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

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

***Auditor's responsibility***

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

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 judgment, 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 the Council, as well as evaluating the overall presentation of the financial statements.

**Knowledge with integrity**

Liability limited by a scheme approved under the Professional Standards Legislation

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

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

## **INDEPENDENCE**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

## **AUDIT OPINION**

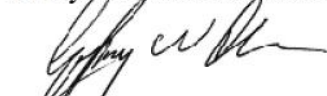
In our opinion, the Special Purpose Financial Statements of the Cessnock City Council for the year ended 30<sup>th</sup> June 2016 are presented fairly, in all material respects, in accordance with the requirements of those applicable Accounting Standards detailed in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting.

## **BASIS OF ACCOUNTING**

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describe the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the financial reporting requirements of the Office of Local Government. As a result, the financial statements may not be suitable for another purpose.

*Forsyths*

***Forsyths Business Services Pty Ltd***



**Geoffrey W Allen**

Principal

26<sup>th</sup> October 2016  
92 Rusden Street Armidale



## SPECIAL SCHEDULES

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FOR THE YEAR ENDED 30 JUNE 2016





# Cessnock City Council

## Special Schedules

for the year ended 30 June 2016

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<b>Special Schedule 2(b)</b>	Statement of Internal Loans (Sect. 410(3) LGA 1993)	n/a
<b>Special Schedule 3</b>	Water Supply Operations – incl. Income Statement	n/a
<b>Special Schedule 4</b>	Water Supply – Statement of Financial Position	n/a
<b>Special Schedule 5</b>	Sewerage Service Operations – incl. Income Statement	n/a
<b>Special Schedule 6</b>	Sewerage Service – Statement of Financial Position	n/a
<b>Notes to Special Schedules 3 and 5</b>		n/a
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<sup>1</sup> Special Schedules are not audited (with the exception of Special Schedule 8).

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#### 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 1 – Net Cost of Services

for the year ended 30 June 2016

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
<b>Governance</b>	<b>1,021</b>	–	–	<b>(1,021)</b>
<b>Administration</b>	<b>12,491</b>	<b>1,504</b>	–	<b>(10,987)</b>
<b>Public order and safety</b>				
Fire service levy, fire protection, emergency services	1,055	16	10	<b>(1,029)</b>
Beach control	–	–	–	–
Enforcement of local govt. regulations	812	290	–	<b>(522)</b>
Animal control	445	113	–	<b>(332)</b>
Other	–	–	–	–
<b>Total public order and safety</b>	<b>2,312</b>	<b>419</b>	<b>10</b>	<b>(1,883)</b>
<b>Health</b>	<b>964</b>	<b>1,158</b>	–	<b>194</b>
<b>Environment</b>				
Noxious plants and insect/vermin control	223	101	–	<b>(122)</b>
Other environmental protection	493	83	–	<b>(410)</b>
Solid waste management	11,494	13,477	190	<b>2,173</b>
Street cleaning	594	–	–	<b>(594)</b>
Drainage	766	563	2,386	<b>2,183</b>
Stormwater management	–	–	–	–
<b>Total environment</b>	<b>13,570</b>	<b>14,224</b>	<b>2,576</b>	<b>3,230</b>
<b>Community services and education</b>				
Administration and education	253	48	–	<b>(205)</b>
Social protection (welfare)	1	–	–	<b>(1)</b>
Aged persons and disabled	9	3	–	<b>(6)</b>
Children's services	251	5	–	<b>(246)</b>
<b>Total community services and education</b>	<b>514</b>	<b>56</b>	–	<b>(458)</b>
<b>Housing and community amenities</b>				
Public cemeteries	339	187	–	<b>(152)</b>
Public conveniences	375	–	–	<b>(375)</b>
Street lighting	896	104	–	<b>(792)</b>
Town planning	4,804	1,129	67	<b>(3,608)</b>
Other community amenities	3	–	–	<b>(3)</b>
<b>Total housing and community amenities</b>	<b>6,417</b>	<b>1,420</b>	<b>67</b>	<b>(4,930)</b>

## Cessnock City Council

Special Schedule 1 – Net Cost of Services (continued)  
for the year ended 30 June 2016

\$'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	1,805	159	82	(1,564)
Museums	145	–	–	(145)
Art galleries	44	–	–	(44)
Community centres and halls	617	79	913	375
Performing arts venues	894	275	26	(593)
Other performing arts	–	–	–	–
Other cultural services	52	8	–	(44)
Sporting grounds and venues	1,231	106	27	(1,098)
Swimming pools	2,074	204	20	(1,850)
Parks and gardens (lakes)	3,967	32	1,215	(2,720)
Other sport and recreation	875	–	10	(865)
<b>Total recreation and culture</b>	<b>11,704</b>	<b>863</b>	<b>2,293</b>	<b>(8,548)</b>
<b>Fuel and energy</b>	–	–	–	–
<b>Agriculture</b>	–	–	–	–
<b>Mining, manufacturing and construction</b>				
Building control	1,235	897	–	(338)
Other mining, manufacturing and const.	–	–	–	–
<b>Total mining, manufacturing and const.</b>	<b>1,235</b>	<b>897</b>	–	<b>(338)</b>
<b>Transport and communication</b>				
Urban roads (UR) – local	9,686	1,284	5,980	(2,422)
Urban roads – regional	268	203	–	(65)
Sealed rural roads (SRR) – local	2,947	117	1,824	(1,006)
Sealed rural roads (SRR) – regional	1,523	812	2,433	1,722
Unsealed rural roads (URR) – local	1,945	2,174	–	229
Unsealed rural roads (URR) – regional	–	–	–	–
Bridges on UR – local	886	53	–	(833)
Bridges on SRR – local	535	–	–	(535)
Bridges on URR – local	199	–	–	(199)
Bridges on regional roads	–	–	–	–
Parking areas	58	–	–	(58)
Footpaths	202	–	–	(202)
Aerodromes	570	310	1,677	1,417
Other transport and communication	4,356	2,549	7	(1,800)
<b>Total transport and communication</b>	<b>23,175</b>	<b>7,502</b>	<b>11,921</b>	<b>(3,752)</b>
<b>Economic affairs</b>				
Camping areas and caravan parks	–	–	–	–
Other economic affairs	1,287	301	28	(958)
<b>Total economic affairs</b>	<b>1,287</b>	<b>301</b>	<b>28</b>	<b>(958)</b>
<b>Totals – functions</b>	<b>74,690</b>	<b>28,344</b>	<b>16,895</b>	<b>(29,451)</b>
<b>General purpose revenues <sup>(1)</sup></b>		<b>41,078</b>		<b>41,078</b>
<b>Share of interests – joint ventures and associates using the equity method</b>	–	–		–
<b>NET OPERATING RESULT <sup>(2)</sup></b>	<b>74,690</b>	<b>69,422</b>	<b>16,895</b>	<b>11,627</b>

(1) Includes: rates and annual charges (including ex gratia, excluding water and sewer), non-capital general purpose grants, interest on investments (excluding externally restricted assets) and interest on overdue rates and annual charges (2) As reported in the Income Statement

## Cessnock City Council

## Special Schedule 2(a) – Statement of Long Term Debt (all purpose)

for the year ended 30 June 2016

\$'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	1,143	7,750	<b>8,893</b>	–	1,143	–	–	552	1,152	6,598	<b>7,750</b>
Other	–	–	–	–	–	–	–	–	–	–	–
<b>Total loans</b>	<b>1,143</b>	<b>7,750</b>	<b>8,893</b>	–	<b>1,143</b>	–	–	<b>552</b>	<b>1,152</b>	<b>6,598</b>	<b>7,750</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>1,143</b>	<b>7,750</b>	<b>8,893</b>	<b>–</b>	<b>1,143</b>	<b>–</b>	<b>–</b>	<b>552</b>	<b>1,152</b>	<b>6,598</b>	<b>7,750</b>

Notes: excludes (i) internal loans and (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 7 – Report on Infrastructure Assets as at 30 June 2016

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2015/16 Required maintenance <sup>a</sup>	2015/16 Actual maintenance	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
<b>Buildings</b>	Buildings – non-specialised	–	–	498	512	13,290	14,998	22%	51%	27%	0%	0%
	Buildings – specialised	3,608	–	932	927	53,288	69,876	4%	30%	55%	8%	3%
	<b>Sub-total</b>	<b>3,608</b>	<b>–</b>	<b>1,430</b>	<b>1,439</b>	<b>66,578</b>	<b>84,874</b>	<b>7.2%</b>	<b>33.7%</b>	<b>50.1%</b>	<b>6.6%</b>	<b>2.5%</b>
<b>Other structures</b>	Other structures	103	–	–	–	4,869	5,571	68%	25%	2%	0%	5%
	<b>Sub-total</b>	<b>103</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>4,869</b>	<b>5,571</b>	<b>68.0%</b>	<b>25.0%</b>	<b>2.0%</b>	<b>0.0%</b>	<b>5.0%</b>
<b>Roads</b>	Sealed roads	6,797	–	2,971	4,756	367,766	444,364	68%	10%	14%	5%	3%
	Unsealed roads	798	–	1,726	2,764	57,986	63,988	85%	5%	5%	3%	2%
	Bridges	487	–	612	625	26,060	38,300	28%	53%	14%	2%	3%
	Footpaths	4	–	57	92	10,750	14,224	28%	57%	14%	1%	0%
	Other road assets	–	–	387	619	2,672	3,440	40%	42%	15%	2%	1%
	Kerb and Gutter	837	–	206	329	35,904	51,892	11%	65%	19%	4%	1%
	<b>Sub-total</b>	<b>8,923</b>	<b>–</b>	<b>5,959</b>	<b>9,185</b>	<b>501,138</b>	<b>616,208</b>	<b>61.4%</b>	<b>18.0%</b>	<b>13.5%</b>	<b>4.4%</b>	<b>2.6%</b>

## Cessnock City Council

## Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2016 (continued)

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2015/16 Required maintenance <sup>a</sup>	2015/16 Actual maintenance	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Stormwater drainage	Stormwater Pits	71	–	176	282	13,738	16,913	39%	54%	6%	1%	0%
	Pipes and Culverts	–	–	560	896	43,719	56,914	24%	61%	14%	1%	0%
	<b>Sub-total</b>	<b>71</b>	<b>–</b>	<b>736</b>	<b>1,178</b>	<b>57,457</b>	<b>73,827</b>	<b>27.4%</b>	<b>59.4%</b>	<b>12.2%</b>	<b>1.0%</b>	<b>0.0%</b>
Open space/recreational assets	Swimming pools	–	–	63	94	2,809	4,561	0%	47%	53%	0%	0%
	Open Space	164	–	1,820	2,258	10,590	17,278	5%	46%	35%	9%	5%
	<b>Sub-total</b>	<b>164</b>	<b>–</b>	<b>1,883</b>	<b>2,352</b>	<b>13,399</b>	<b>21,839</b>	<b>4.0%</b>	<b>46.2%</b>	<b>38.8%</b>	<b>7.1%</b>	<b>4.0%</b>
<b>TOTAL – ALL ASSETS</b>		<b>12,869</b>	<b>–</b>	<b>10,008</b>	<b>14,154</b>	<b>643,441</b>	<b>802,319</b>	<b>51.0%</b>	<b>24.3%</b>	<b>17.8%</b>	<b>4.4%</b>	<b>2.4%</b>

## Notes:

a Required maintenance is the amount identified in Council's asset management plans.

## Infrastructure asset condition assessment 'key' except Bridges

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

## Infrastructure asset condition assessment 'key' for Bridges

1	<b>Good</b>	No work required (normal maintenance)
2	<b>Minor Decay</b>	Only minor maintenance work required
3	<b>Medium Decay</b>	Maintenance work required
4	<b>Advanced Decay</b>	Renewal required
5	<b>Excessive Decay</b>	Urgent Renewal required

## Cessnock City Council

Special Schedule 7 – Report on Infrastructure Assets (continued)  
for the year ended 30 June 2016

\$ '000	Amounts 2016	Indicator 2016	Prior periods	
			2015	2014
<b>Infrastructure asset performance indicators * consolidated</b>				
<b>1. Infrastructure renewals ratio</b>				
Asset renewals <sup>(1)</sup>	<u>12,762</u>	<b>160.79%</b>	141.95%	118.27%
Depreciation, amortisation and impairment	<u>7,937</u>			
<b>2. Infrastructure backlog ratio</b>				
Estimated cost to bring assets to a satisfactory standard	<u>12,869</u>	<b>2.00%</b>	0.49%	2.07%
Carrying value of infrastructure assets	<u>643,441</u>			
<b>3. Asset maintenance ratio</b>				
Actual asset maintenance	<u>14,154</u>	<b>1.41</b>	0.71	0.99
Required asset maintenance	<u>10,008</u>			
<b>4. Capital expenditure ratio</b>				
Annual capital expenditure	<u>20,150</u>	<b>2.10</b>	1.21	0.85
Annual depreciation	<u>9,608</u>			

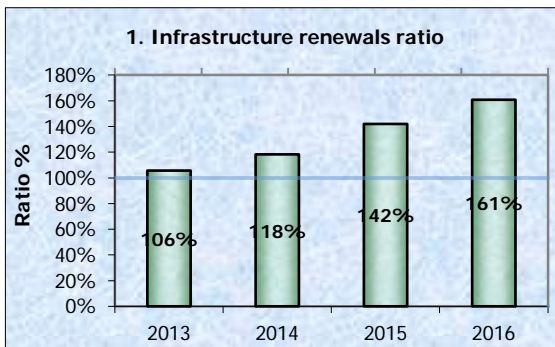
## Notes

\* All asset performance indicators are calculated using the asset classes identified in the previous table.

(1) Asset renewals represent the replacement and/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.

# Cessnock City Council

## Special Schedule 7 – Report on Infrastructure Assets (continued) for the year ended 30 June 2016



**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.

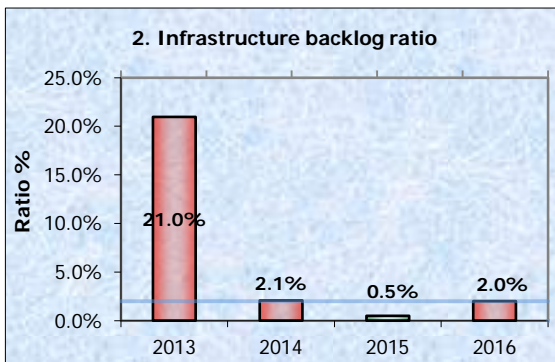
**Commentary on 2015/16 result**

**2015/16 Ratio 160.79%**

This is a positive result for Council. This shows that Council is investing in renewing the current building and infrastructure assets to ensure sustainability of the assets.

Benchmark: ——— Minimum  $\geq 100.00\%$   
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Ratio achieves benchmark  
 Ratio is outside benchmark



**Purpose of infrastructure backlog ratio**

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

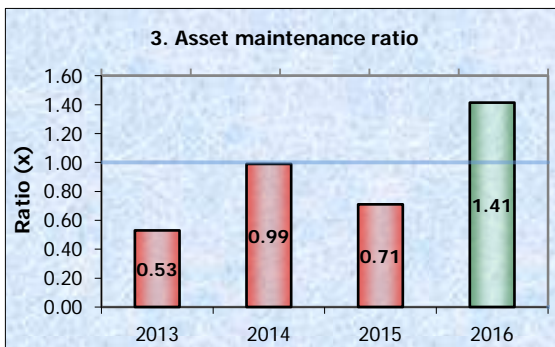
**Commentary on 2015/16 result**

**2015/16 Ratio 2.00%**

Council has reviewed the current infrastructure data to identify assets with a condition rating of less than satisfactory. This ratio represents the cost to bring those identified assets back to a satisfactory condition, where work is not already planned for the coming financial year.

Benchmark: ——— Maximum  $< 2.00\%$   
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Ratio achieves benchmark  
 Ratio is outside benchmark



**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.

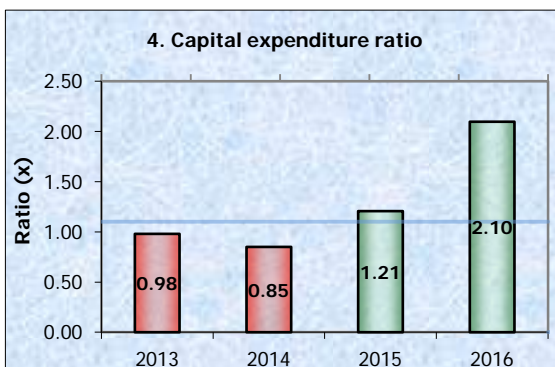
**Commentary on 2015/16 result**

**2015/16 Ratio 1.41 x**

This is a positive result for Council. This shows that Council is increasing the funds for asset maintenance.

Benchmark: ——— Minimum  $> 1.00$   
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Ratio achieves benchmark  
 Ratio is outside benchmark



**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 2015/16 result**

**2015/16 Ratio 2.10 x**

This is a result of Council's commitment to increase spending on capital projects.

Benchmark: ——— Minimum  $> 1.10$   
Source for benchmark: Code of Accounting Practice and Financial Reporting #24

Ratio achieves benchmark  
 Ratio is outside benchmark



## Cessnock City Council

## Special Schedule 8 – Permissible Income Calculation

for the year ended 30 June 2017

\$'000		Calculation 2015/16	Calculation 2016/17
<b>Notional general income calculation <sup>(1)</sup></b>			
Last year notional general income yield	a	32,889	33,841
Plus or minus adjustments <sup>(2)</sup>	b	261	462
<b>Notional general income</b>	c = (a + b)	<b>33,150</b>	<b>34,303</b>
<b>Permissible income calculation</b>			
Special variation percentage <sup>(3)</sup>	d	0.00%	0.00%
Or rate peg percentage	e	2.40%	1.80%
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%
Less expiring special variation amount	g	–	–
Plus special variation amount	h = d x (c – g)	–	–
Or plus rate peg amount	i = c x e	796	617
Or plus Crown land adjustment and rate peg amount	j = c x f	–	–
<b>Sub-total</b>	k = (c + g + h + i + j)	<b>33,946</b>	<b>34,920</b>
Plus (or minus) last year's carry forward total	l	6	7
Less valuation objections claimed in the previous year	m	(98)	–
<b>Sub-total</b>	n = (l + m)	<b>(92)</b>	<b>7</b>
<b>Total permissible income</b>	o = k + n	<b>33,854</b>	<b>34,927</b>
Less notional general income yield	p	33,841	34,920
<b>Catch-up or (excess) result</b>	q = o – p	<b>13</b>	<b>7</b>
Plus income lost due to valuation objections claimed <sup>(4)</sup>	r	–	–
Less unused catch-up <sup>(5)</sup>	s	(6)	–
<b>Carry forward to next year</b>	t = q + r – s	<b>7</b>	<b>7</b>

### Notes

- (1) 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.
- (2) 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*.
- (3) The 'special variation percentage' is inclusive of the rate peg percentage and where applicable Crown land adjustment.
- (4) 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.
- (5) 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.
- (6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require ministerial approval by order published in the *NSW Government Gazette* in accordance with section 512 of the *Local Government Act 1993*. The OLG will extract these amounts from Council's Special Schedule 8 in the financial data return (FDR) to administer this process.

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ABN 66 182 781 401

## **CESSNOCK CITY COUNCIL INDEPENDENT AUDITORS' REPORT - SPECIAL SCHEDULE No. 8**

We have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule No. 8) of Cessnock City Council for the year ending 30 June 2017.

### **Responsibility of Council for Special Schedule No. 8**

The Council is responsible for preparation and fair presentation of Special No. 8 in accordance with the Local Government Code of Accounting Practice and Financial Reporting (Guidelines) Update No. 23. 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. 8 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. 8 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. 8 is free from material misstatement.

An audit involves performing procedures to obtain audit evidences about the amounts and disclosures in Special Schedule No. 8. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement on Special Schedule No. 8, 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. 8.

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

In making our risk assessments, we consider internal controls relevant to the entity's preparation of Special Schedule No. 8 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**

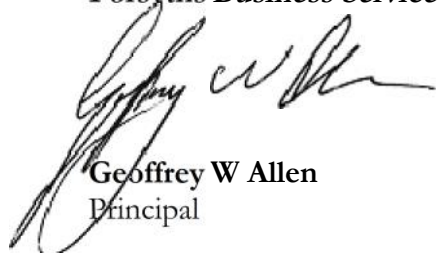
In our opinion Special Schedule No. 8 of Cessnock City Council for the year ending 30 June 2017 is properly drawn up in all material respects, in accordance with the requirements of the Office of Local Government and in accordance with the books and records of the Council.

### **Basis of Accounting**

Without modifying our opinion, we advise that the Special Schedule No. 8 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. 8 may not be suitable for another purpose

*Forsyths*

***Forsyths Business Services Pty Ltd***



**Geoffrey W Allen**  
Principal

26<sup>th</sup> October 2016  
92 Rusden Street Armidale