



**PORT STEPHENS**  
COUNCIL

## **FINANCIAL STATEMENTS**

ANNUAL REPORT

2015 – 2016

VOLUME 2



# Port Stephens

GENERAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2016

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**"A great lifestyle in a  
treasured environment"**



## Port Stephens

### 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 consolidated operations for Port Stephens.

(ii) Port Stephens 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 24 October 2016. Council has the power to amend and reissue these financial statements.

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## Port Stephens

### 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.

## Port Stephens

### General Purpose Financial Statements

for the financial year ended 30 June 2016

### Statement by Councillors and Management

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

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

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

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

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

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

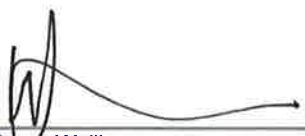
Signed in accordance with a resolution of Council made on 26 July 2016.



Bruce MacKenzie  
MAYOR



COUNCILLOR



Wayne Wallis  
GENERAL MANAGER



Tim Hazell  
RESPONSIBLE ACCOUNTING OFFICER

## Port Stephens

### 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>				
51,389	Rates and annual charges	3a	51,749	49,674
37,471	User charges and fees	3b	41,103	33,092
1,785	Interest and investment revenue	3c	1,138	1,597
7,991	Other revenues	3d	12,332	7,783
12,892	Grants and contributions provided for operating purposes	3e,f	13,729	12,093
8,288	Grants and contributions provided for capital purposes	3e,f	11,984	10,494
<b>Other income:</b>				
1,750	Net gains from the disposal of assets	5	2,659	183
–	Net share of interests in joint ventures and associates using the equity method	19	–	–
<b>121,566</b>	<b>Total income from continuing operations</b>		<b>134,694</b>	<b>114,916</b>
<b>Expenses from continuing operations</b>				
37,394	Employee benefits and on-costs	4a	40,673	39,009
915	Borrowing costs	4b	893	1,054
39,532	Materials and contracts	4c	43,960	39,615
16,573	Depreciation and amortisation	4d	14,637	13,628
–	Impairment	4d	–	–
12,297	Other expenses	4e	14,515	13,863
<b>106,711</b>	<b>Total expenses from continuing operations</b>		<b>114,678</b>	<b>107,169</b>
<b>14,855</b>	<b>Operating result from continuing operations</b>		<b>20,016</b>	<b>7,747</b>
<b>Discontinued operations</b>				
–	Net profit/(loss) from discontinued operations	24	–	–
<b>14,855</b>	<b>Net operating result for the year</b>		<b>20,016</b>	<b>7,747</b>
14,855	Net operating result attributable to Council		20,016	7,747
–	Net operating result attributable to non-controlling interests		–	–
<b>6,567</b>	<b>Net operating result for the year before grants and contributions provided for capital purposes</b>		<b>8,032</b>	<b>(2,747)</b>

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

## Port Stephens

### 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>20,016</b>	<b>7,747</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)	(8,654)	130,411
<b>Total items which will not be reclassified subsequently to the operating result</b>		<b>(8,654)</b>	<b>130,411</b>
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Gain (loss) on revaluation of available-for-sale investments	20b (ii)	19	40
<b>Total items which will be reclassified subsequently to the operating result when specific conditions are met</b>		<b>19</b>	<b>40</b>
<b>Total other comprehensive income for the year</b>		<b>(8,635)</b>	<b>130,451</b>
<b>Total comprehensive income for the year</b>		<b>11,381</b>	<b>138,198</b>
<b>Total comprehensive income attributable to Council</b>		<b>11,381</b>	<b>138,198</b>
<b>Total comprehensive income attributable to non-controlling interests</b>		<b>—</b>	<b>—</b>

## Port Stephens

### 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	7,735	13,168
Investments	6b	25,911	24,000
Receivables	7	12,761	10,235
Inventories	8	12,277	3,314
Other	8	513	201
Non-current assets classified as 'held for sale'	22	—	—
<b>Total current assets</b>		<b>59,197</b>	<b>50,918</b>
<b>Non-current assets</b>			
Investments	6b	244	1,176
Receivables	7	199	228
Inventories	8	8,077	15,153
Infrastructure, property, plant and equipment	9	854,616	850,683
Investments accounted for using the equity method	19	—	—
Investment property	14	21,500	20,835
Intangible assets	25	1,398	1,989
<b>Total non-current assets</b>		<b>886,034</b>	<b>890,064</b>
<b>TOTAL ASSETS</b>		<b>945,231</b>	<b>940,982</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	10	7,178	10,295
Borrowings	10	3,014	3,439
Provisions	10	14,797	15,204
<b>Total current liabilities</b>		<b>24,989</b>	<b>28,938</b>
<b>Non-current liabilities</b>			
Payables	10	5,152	5,454
Borrowings	10	16,698	19,694
Provisions	10	562	447
<b>Total non-current liabilities</b>		<b>22,412</b>	<b>25,595</b>
<b>TOTAL LIABILITIES</b>		<b>47,401</b>	<b>54,533</b>
<b>Net assets</b>		<b>897,830</b>	<b>886,449</b>
<b>EQUITY</b>			
Retained earnings	20	544,250	524,234
Revaluation reserves	20	353,580	362,215
<b>Total equity</b>		<b>897,830</b>	<b>886,449</b>



## Port Stephens

### 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)		524,234	362,215	<b>886,449</b>	—	<b>886,449</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>524,234</b>	<b>362,215</b>	<b>886,449</b>	<b>—</b>	<b>886,449</b>
<b>c. Net operating result for the year</b>		<b>20,016</b>	—	<b>20,016</b>	—	<b>20,016</b>
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	—	(8,654)	<b>(8,654)</b>	—	<b>(8,654)</b>
– Revaluations: other reserves	20b (ii)	—	19	<b>19</b>	—	<b>19</b>
– Transfers to Income Statement	20b (ii)	—	—	—	—	—
– Impairment (loss) reversal relating to I,PP&E	20b (ii)	—	—	—	—	—
– Joint ventures and associates	19b	—	—	—	—	—
<b>Other comprehensive income</b>		<b>—</b>	<b>(8,635)</b>	<b>(8,635)</b>	<b>—</b>	<b>(8,635)</b>
<b>Total comprehensive income (c&amp;d)</b>		<b>20,016</b>	<b>(8,635)</b>	<b>11,381</b>	<b>—</b>	<b>11,381</b>
e. Distributions to/(contributions from) non-controlling Interests		—	—	—	—	—
f. Transfers between equity		—	—	—	—	—
<b>Equity – balance at end of the reporting period</b>		<b>544,250</b>	<b>353,580</b>	<b>897,830</b>	<b>—</b>	<b>897,830</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)		516,487	231,764	<b>748,251</b>	—	<b>748,251</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 1/7/14)</b>		<b>516,487</b>	<b>231,764</b>	<b>748,251</b>	<b>—</b>	<b>748,251</b>
<b>c. Net operating result for the year</b>		<b>7,747</b>	—	<b>7,747</b>	—	<b>7,747</b>
d. Other comprehensive income						
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	—	130,411	<b>130,411</b>	—	<b>130,411</b>
– Revaluations: other reserves	20b (ii)	—	40	<b>40</b>	—	<b>40</b>
– Transfers to Income Statement	20b (ii)	—	—	—	—	—
– Impairment (loss) reversal relating to I,PP&E	20b (ii)	—	—	—	—	—
– Joint ventures and associates	19b	—	—	—	—	—
<b>Other comprehensive income</b>		<b>—</b>	<b>130,451</b>	<b>130,451</b>	<b>—</b>	<b>130,451</b>
<b>Total comprehensive income (c&amp;d)</b>		<b>7,747</b>	<b>130,451</b>	<b>138,198</b>	<b>—</b>	<b>138,198</b>
e. Distributions to/(contributions from) non-controlling Interests		—	—	—	—	—
f. Transfers between equity		—	—	—	—	—
<b>Equity – balance at end of the reporting period</b>		<b>524,234</b>	<b>362,215</b>	<b>886,449</b>	<b>—</b>	<b>886,449</b>

## Port Stephens

### 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>				
49,350	Rates and annual charges		52,372	49,413
35,759	User charges and fees		43,322	33,785
1,642	Investment and interest revenue received		1,437	1,634
21,383	Grants and contributions		23,092	28,485
–	Bonds, deposits and retention amounts received		–	101
6,090	Other		12,781	7,620
<b>Payments:</b>				
(35,946)	Employee benefits and on-costs		(41,056)	(38,623)
(35,060)	Materials and contracts		(53,769)	(41,408)
(589)	Borrowing costs		(841)	(974)
–	Bonds, deposits and retention amounts refunded		(527)	–
(15,294)	Other		(15,622)	(16,408)
<b>27,335</b>	<b>Net cash provided (or used in) operating activities</b>	11b	<b>21,188</b>	<b>23,625</b>
<b>Cash flows from investing activities</b>				
<b>Receipts:</b>				
–	Sale of investment securities		44,000	50,919
1,500	Sale of investment property		–	–
–	Sale of real estate assets		6,149	–
250	Sale of infrastructure, property, plant and equipment		1,072	2,562
–	Deferred debtors receipts		14	16
<b>Payments:</b>				
–	Purchase of investment securities		(44,960)	(46,512)
–	Purchase of investment property		(179)	(55)
(20,000)	Purchase of infrastructure, property, plant and equipment		(25,904)	(23,222)
–	Purchase of real estate assets		(3,302)	15
–	Purchase of intangible assets		(70)	(1,326)
<b>(18,250)</b>	<b>Net cash provided (or used in) investing activities</b>		<b>(23,180)</b>	<b>(17,603)</b>
<b>Cash flows from financing activities</b>				
<b>Receipts:</b>				
Nil				
<b>Payments:</b>				
(4,335)	Repayment of borrowings and advances		(3,366)	(3,760)
–	Repayment of finance lease liabilities		(75)	(183)
<b>(4,335)</b>	<b>Net cash flow provided (used in) financing activities</b>		<b>(3,441)</b>	<b>(3,943)</b>
<b>4,750</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(5,433)</b>	<b>2,079</b>
13,168	Plus: cash and cash equivalents – beginning of year	11a	13,168	11,089
<b>17,918</b>	<b>Cash and cash equivalents – end of the year</b>	11a	<b>7,735</b>	<b>13,168</b>
Additional Information:				
25,229	plus: Investments on hand – end of year	6b	26,155	25,176
<b>43,147</b>	<b>Total cash, cash equivalents and investments</b>		<b>33,890</b>	<b>38,344</b>

Please refer to Note 11 for additional cash flow information

## Port Stephens

### Notes to the Financial Statements

for the year ended 30 June 2016

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n/a – not applicable

## Port Stephens

### 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.

## Port Stephens

### 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.

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

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

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

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

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

## Port Stephens

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

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

The Council has obligations to provide facilities from contribution revenues levied on developers under the provisions of s94 of the *EPA Act 1979*.

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

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

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

#### User charges, fees and other income

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

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

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

#### Sale of infrastructure, property, plant and equipment

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

#### Interest and rents

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

Interest income from cash 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 *LGA 1993*, all money and property received by Council is held in the Council's consolidated fund unless it is required to be held in the Council's trust fund.

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

The following entities have been included as part of the consolidated fund:

- *General Purpose Operations*
- *Newcastle Airport Partnership & Newcastle Airport Pty Limited*
- *Section 355 Committees*

Strategic Services Australia Limited has not been consolidated as it is immaterial to The Consolidated Fund. All interest in Strategic Services Australia Limited has been disclosed in Note 19.

##### (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



## Port Stephens

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

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

purposes of or in accordance with the trusts relating to those monies.

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

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

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

#### (iii) Joint 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).

##### **Joint ventures**

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

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

Under the equity method, Council's share of the operation's profits/(losses) are recognised in the income statement, and its share of movements in retained earnings and reserves are recognised in the balance sheet.

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

#### (iv) 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).

#### (v) County councils

Council is not a member of any county councils.

#### (vi) 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

## Port Stephens

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

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

to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

##### Operating Leases

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

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

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

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

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

- cash on hand,
- deposits held at call with financial institutions,
- other short-term, highly liquid investments with **original maturities of three months or less** that are readily convertible to known amounts of cash and 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.

Derivatives are classified as held for trading unless they are designated as hedges.

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.



## Port Stephens

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

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

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.

Council has sold other than an insignificant amount of Collateralised Debt Obligations and Floating Rate Equities which were classified as held-to-maturity financial assets, the whole category has been tainted and reclassified as available-for-sale.

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

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

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

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

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

#### Financial assets – reclassification

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

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

Council may also choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if it has the intention and ability to

hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

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

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

#### General accounting 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

## Port Stephens

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

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

'**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.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

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

The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any

impairment loss is the current effective interest rate determined under the contract.

As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

#### (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* and s212 of the LG (General) Regulation 2005.

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

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

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

#### (g) Fair value estimation – 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.

## Port Stephens

### Notes to the Financial Statements

for the year ended 30 June 2016

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

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.

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) Inventory held for distribution**

Inventory held for distribution is held at cost, adjusted where applicable for any loss of service potential.

###### **(iii) 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.

## Port Stephens

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

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

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.

#### (iv) Bio Banking

Bio banking is a scheme whereby land which contains a certain level of biodiversity can be isolated and biodiversity credits sold to developers as an offset for new land development.

Any land held in a biodiversity agreement is shown in Property Plant and Equipment at a fair value equal to the Valuer General's land value with any impairment loss expensed through the P&L statement.

An inventor of future biodiversity credits is then created based upon the number of credits available and expected future sales prices. The value of this inventory is then reassessed annually. Credits are carried at the lower of cost or net realisable value.

#### (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**  
(as approximated by depreciated historical cost)
- **Buildings – specialised/non-specialised**  
(internal valuation)

- **Other structures**  
(as approximated by depreciated historical cost)
- **Roads assets including roads, bridges and footpaths** (internal valuation)
- **Bulk earthworks** (internal valuation)
- **Drainage Assets** (internal valuation)
- **Other assets**  
(as approximated by depreciated historical cost)
- **Investment properties** – refer Note 1(p),

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

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

## Port Stephens

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

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

##### 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.

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

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

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

##### Capitalisation thresholds

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

##### Land

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

##### Plant & Equipment

Office Furniture	> \$5,000
Office Equipment	> \$5,000
Other Plant & Equipment	> \$5,000

##### Buildings & Land Improvements

Park Furniture & Equipment	> \$5,000
Building	
- construction/extensions	100% Capitalised

- renovations	> \$5,000
Other Structures	> \$5,000

##### Stormwater Assets

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

##### Transport Assets

Road construction & reconstruction	> \$5,000
Reseal/Re-sheet & major repairs:	> \$5,000

Bridge construction & reconstruction	> \$5,000
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##### Other Infrastructure Assets

Swimming Pools	> \$10,000
Other Open Space/Recreational Assets	> \$10,000

Other Infrastructure	> \$10,000
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##### Depreciation

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

Land is not depreciated.

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

##### Plant & Equipment

- Office Equipment	5 to 10 years
- Office furniture	10 to 20 years
- Vehicles	1 to 5 years
- Heavy Plant/Road Making equip.	5 to 20 years
- Other plant and equipment	5 to 50 years

##### Other Equipment

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

##### Buildings

- Buildings : Masonry	40 to 50 years
- Buildings : Other	10 to 100 years

##### Stormwater Drainage

- Drains	80 to 100 years
- Culverts	50 years



## Port Stephens

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

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

##### Transportation Assets

- Sealed Roads : Surface	10 to 20 years
- Sealed Roads : Structure	50 to 60 years
- Unsealed roads	5 to 10 years
- Bridge : Concrete	80 to 100 years
- Kerb, Gutter & Paths	40 to 50 years

##### Other Infrastructure Assets

- Bulk earthworks	Infinite
- Swimming Pools	25 years
- Other Open Space/ Recreational Assets	5 to 25 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.

##### (m) Intangible assets

##### IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems.

Costs capitalised include external direct costs of materials and service.

Amortisation is calculated on a straight line bases over periods generally ranging from 3 to 5 years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where Council has an intention and ability to use the asset.

##### (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.

## Port Stephens

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

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

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

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

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

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

##### (p) Investment property

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

Investment property is carried at fair value, representing an in-house valuation (performed by a licensed valuer) based on market capitalisation rates.

Annual changes in the fair value of investment properties are recorded in the Income Statement as part of 'other income'.

Full revaluations are carried out every year.

The last full revaluation for Council's investment properties was dated 30/06/2016.

##### (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 annually 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.

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

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

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

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

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each balance sheet date and the cost is charged to the Income Statement.

Provision is made for the estimated present value of the costs of environmental clean-up obligations

## Port Stephens

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

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

outstanding at the balance sheet date. These costs are charged to the Income Statement.

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

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

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

The expected timing of expenditure can also change.

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 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



## Port Stephens

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

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

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 except to the extent that they are incurred during the construction of qualifying assets.

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

##### (w) Provisions

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

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

Provisions are not recognised for future operating losses.

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

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

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

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

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

##### (x) Employee benefits

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

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

## Port Stephens

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

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

employee benefit obligations disclosed under payables.

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

All other short-term employee benefit obligations such as Flex Time and Rostered Days Off are recognised as a current liability in the provision for employee benefits.

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. The obligations are presented as current liabilities if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

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.

## Port Stephens

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

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

The last valuation of the Fund was performed by Mr Richard Boyfield, FIAA on 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 the prior period deficit still exists.

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

The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense and disclosed as part of superannuation expenses at Note 4 (a) for the year ending 30 June 2016 was \$855,670.69.

The amount of additional contributions included in the total employer contribution advised above is \$397,481.

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

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

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

#### Defined contribution plans

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

#### (iv) Employee benefit on-costs

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

These amounts include superannuation and workers compensation expenses which will be payable upon the future payment of certain leave liabilities accrued as at 30/06/16.

#### (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).

## Port Stephens

### Notes to the Financial Statements

for the year ended 30 June 2016

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

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 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.

## Port Stephens

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

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

##### **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 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.

## Port Stephens

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

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

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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 off to the nearest thousand dollars.

##### **(ad) Comparative figures**

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

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

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



## Port Stephens

### 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 2016	Actual 2016	Actual 2015	Original budget 2016	Actual 2016	Actual 2015	Original budget 2016	Actual 2016	Actual 2015	Actual 2016	Actual 2015		
Governance	–	–	–	–	–	–	–	–	–	–	–	9,414	10,519
Administration	4,408	6,744	2,442	23,119	26,601	24,349	(18,711)	(19,857)	(21,907)	32	33	84,669	83,207
Public order and safety	1,893	1,801	1,660	4,357	5,908	8,638	(2,464)	(4,107)	(6,978)	998	1,024	5,760	5,891
Health	189	383	346	356	417	496	(167)	(34)	(150)	–	–	–	–
Environment	20,795	23,350	19,296	23,398	20,088	18,894	(2,603)	3,262	402	927	537	–	–
Community services and education	2,091	2,076	2,396	2,954	2,982	3,278	(863)	(906)	(882)	351	962	10,786	11,061
Housing and community amenities	749	1,080	866	4,404	4,254	4,036	(3,655)	(3,174)	(3,170)	–	237	195,624	191,867
Recreation and culture	3,419	5,253	4,769	8,532	8,737	8,047	(5,113)	(3,484)	(3,278)	811	500	102,115	103,881
Mining, manufacturing and construction	1,438	1,692	1,563	1,282	1,817	1,211	156	(125)	352	–	–	–	–
Transport and communication	23,010	30,175	23,656	24,470	29,930	25,294	(1,460)	245	(1,638)	5,312	4,842	437,640	436,604
Economic affairs	18,131	16,980	13,945	13,841	13,944	12,926	4,290	3,036	1,019	142	–	99,223	97,952
Total functions and activities	76,123	89,534	70,939	106,713	114,678	107,169	(30,590)	(25,144)	(36,230)	8,573	8,135	945,231	940,982
Share of gains/(losses) in associates and joint ventures (using the equity method)	–	–	–	–	–	–	–	–	–	–	–	–	–
General purpose income <sup>1</sup>	45,446	45,160	43,977	–	–	–	45,446	45,160	43,977	6,943	6,731	–	–
Operating result from continuing operations	121,569	134,694	114,916	106,713	114,678	107,169	14,856	20,016	7,747	15,516	14,866	945,231	940,982

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

## Port Stephens

### 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**

Includes costs relating to 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, public disclosure (e.g. GIPA), and legislative compliance.

##### **ADMINISTRATION**

Includes corporate support and other support services, engineering works, and any Council policy compliance.

##### **PUBLIC ORDER AND SAFETY**

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

##### **HEALTH**

Includes immunisation, food control, health centres etc.

##### **ENVIRONMENT**

Includes noxious plants and insect/vermin control; other environmental protection; solid waste management, including domestic waste; other waste management; other sanitation; and garbage, street cleaning, drainage and stormwater management.

##### **COMMUNITY SERVICES AND EDUCATION**

Includes administration and education; social protection (welfare); migrant, Aboriginal and other community services and administration (excluding accommodation – as it is covered under 'housing and community amenities'); youth services; aged and disabled persons services; children's services, including family day care; child care; and other family and children services.

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

Includes public cemeteries; public conveniences; street lighting; town planning; other community amenities, including housing development and accommodation for families and children, aged persons, disabled persons, migrants and Indigenous persons.

##### **RECREATION AND CULTURE**

Includes public libraries; museums; art galleries; community centres and halls, including public halls and performing arts venues; sporting grounds and venues; swimming pools; parks; gardens; lakes; and other sporting, recreational and cultural services.

##### **MINING, MANUFACTURING AND CONSTRUCTION**

Includes building control, quarries and pits, mineral resources, and abattoirs.

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

Urban local, urban regional, includes sealed and unsealed roads, bridges, footpaths, parking areas, and aerodromes.

##### **ECONOMIC AFFAIRS**

Includes camping areas and caravan parks; tourism and area promotion; industrial development promotion; sale yards and markets; real estate development; commercial nurseries; and other business undertakings.



## Port Stephens

### 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		29,265	28,110
Farmland		832	815
Business		7,203	6,981
<b>Total ordinary rates</b>		<b>37,300</b>	<b>35,906</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		11,744	11,079
Waste management services (non-domestic)		2,697	2,689
Section 611 charges		8	—
<b>Total annual charges</b>		<b>14,449</b>	<b>13,768</b>
<b>TOTAL RATES AND ANNUAL CHARGES</b>		<b>51,749</b>	<b>49,674</b>

Council has used 2013 year valuations provided by the NSW Valuer General in calculating its rates.

## Port Stephens

### 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)			
Waste management services (non-domestic)		2,029	1,565
<b>Total user charges</b>		<b>2,029</b>	<b>1,565</b>
<b>Other user charges and fees</b>			
<b>(i) Fees and charges – statutory and regulatory functions (per s.608)</b>			
Building inspection fees		409	362
Building services		995	846
Private works – section 67		571	631
Section 149 certificates (EPA Act)		245	229
Section 603 certificates		173	150
Subdivision fees		344	290
Shop inspection fees		161	178
<b>Total fees and charges – statutory/regulatory</b>		<b>2,898</b>	<b>2,686</b>
<b>(ii) Fees and charges – other (incl. general user charges (per s.608))</b>			
Animal control		63	134
Cemeteries		162	159
Child care		1,397	1,247
Community care centres		–	10
Holiday parks		10,296	9,633
Leaseback fees – Council vehicles		4	107
Leisure centre		96	87
Library		115	110
Newcastle Airport partnership		12,277	11,508
Parking meters		531	504
Parks, gardens and other community services		8	9
RMS (formerly RTA) charges (state roads not controlled by Council)		9,070	3,385
Sewerage management fees		547	395
Telecentre		56	28
Waste disposal tipping fees		320	413
Other		1,234	1,112
<b>Total fees and charges – other</b>		<b>36,176</b>	<b>28,841</b>
<b>TOTAL USER CHARGES AND FEES</b>		<b>41,103</b>	<b>33,092</b>

## Port Stephens

### 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)		160	174
– Interest earned on investments (interest and coupon payment income)		689	1,082
– Interest (Newcastle Airport partnership)		287	340
<b>Other</b>		2	1
<b><u>TOTAL INTEREST AND INVESTMENT REVENUE</u></b>		<b><u>1,138</u></b>	<b><u>1,597</u></b>
<b>Interest revenue is attributable to:</b>			
<b>Unrestricted investments/financial assets:</b>			
Overdue rates and annual charges (general fund)		160	174
General Council cash and investments		457	894
<b>Restricted investments/funds – external:</b>			
Development contributions			
– Section 94		234	189
Newcastle Airport partnership		287	340
<b>Total interest and investment revenue recognised</b>		<b><u>1,138</u></b>	<b><u>1,597</u></b>
<b>(d) Other revenues</b>			
Fair value increments – investment properties	14	486	869
Rental income – investment properties	14	2,242	2,203
Rental income – other council properties		1,004	881
Ex gratia rates		71	63
Fines – parking		286	241
Fines – other		255	150
Legal fees recovery – rates and charges (extra charges)		178	150
Legal fees recovery – other		33	16
Commissions and agency fees		304	259
Emergency relief		2,200	1,404
Events and promotions		166	132
Insurance claim recoveries		3,584	809
Long service leave receipts		11	83
Private works		3	20
Other		1,509	503
<b><u>TOTAL OTHER REVENUE</u></b>		<b><u>12,332</u></b>	<b><u>7,783</u></b>

## Port Stephens

### 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	6,356	6,153	–	–
Pensioners' rates subsidies – general component	587	578	–	–
<b>Total general purpose</b>	<b>6,943</b>	<b>6,731</b>	<b>–</b>	<b>–</b>
<b>Specific purpose</b>				
Pensioners' rates subsidies:				
– Domestic waste management	245	236	–	–
Aged care	14	386	–	–
Bushfire and emergency services	1,093	1,034	–	–
Child care	174	194	–	–
Environmental protection	346	340	144	–
Family day care	59	238	–	–
Flood restoration	–	–	125	–
Heritage and cultural	–	18	–	–
Horticultural heritage trust	40	42	–	–
Library	187	185	–	–
Library – special projects	–	–	30	–
LIRS subsidy	86	93	–	–
Recreation and culture	–	–	593	147
Street lighting	69	68	–	–
Transport (roads to recovery)	1,582	534	–	–
Transport	844	20	2,465	3,984
Weed control	23	53	–	–
Youth development	68	65	–	–
Parks and gardens	–	–	–	50
Newcastle Airport Partnership	–	–	300	–
Other	82	186	4	262
<b>Total specific purpose</b>	<b>4,912</b>	<b>3,692</b>	<b>3,661</b>	<b>4,443</b>
<b>Total grants</b>	<b>11,855</b>	<b>10,423</b>	<b>3,661</b>	<b>4,443</b>
<b>Grant revenue is attributable to:</b>				
– Commonwealth funding	8,038	7,449	–	–
– State funding	3,817	2,909	3,761	4,443
– Other funding	–	65	(100)	–
	<b>11,855</b>	<b>10,423</b>	<b>3,661</b>	<b>4,443</b>

## Port Stephens

### 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>(s93 &amp; s94 – EP&amp;A Act, s64 of the LGA):</b>				
S 94 – contributions towards amenities/services	634	408	3,926	4,115
<b>Total developer contributions</b>	<b>634</b>	<b>408</b>	<b>3,926</b>	<b>4,115</b>
<b>Other contributions:</b>				
Aged services	–	1	–	–
Bushfire services	–	–	50	–
Dedications (other than by S94)	–	–	3,781	1,860
Drainage	–	–	34	–
Economic development and tourism	20	13	–	–
Environmental projects	233	307	–	–
Kerb and gutter	–	–	6	–
Paving	–	–	–	68
Recreation and culture	–	–	116	–
Risk management	100	50	–	–
Roads and bridges	–	–	400	–
RMS contributions (regional roads, block grant)	887	870	–	–
Parking	–	–	10	–
Other	–	21	–	8
<b>Total other contributions</b>	<b>1,240</b>	<b>1,262</b>	<b>4,397</b>	<b>1,936</b>
<b>Total contributions</b>	<b>1,874</b>	<b>1,670</b>	<b>8,323</b>	<b>6,051</b>
<b>TOTAL GRANTS AND CONTRIBUTIONS</b>	<b>13,729</b>	<b>12,093</b>	<b>11,984</b>	<b>10,494</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	12,391	9,093
Add: grants and contributions recognised in the current period but not yet spent:	5,040	4,831
Less: grants and contributions recognised in a previous reporting period now spent:	(2,863)	(1,533)
<b>Net increase (decrease) in restricted assets during the period</b>	<b>2,177</b>	<b>3,298</b>
<b>Unexpended and held as restricted assets</b>	<b>14,568</b>	<b>12,391</b>
<b>Comprising:</b>		
– Specific purpose unexpended grants	635	909
– Developer contributions	13,933	11,482
	<b>14,568</b>	<b>12,391</b>

## Port Stephens

### 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		28,764	27,044
Salaries and wages – Newcastle Airport partnership		2,236	2,145
Travel expenses		1,500	1,191
Employee leave entitlements (ELE)		6,626	6,410
Superannuation		3,681	3,445
Workers' compensation insurance		428	549
Fringe benefit tax (FBT)		32	75
Training costs (other than salaries and wages)		441	498
Protective clothing		136	146
Conferences		97	132
Occupational health and safety		26	28
Corporate uniform		2	–
Other		20	23
<b>Total employee costs</b>		<b>43,989</b>	<b>41,686</b>
Less: capitalised costs		(3,316)	(2,677)
<b>TOTAL EMPLOYEE COSTS EXPENSED</b>		<b>40,673</b>	<b>39,009</b>
Number of 'full-time equivalent' employees (FTE) at year end		<b>419</b>	<b>419</b>
Number of 'full-time equivalent' employees (FTE) at year end (incl. vacancies)		<b>477</b>	<b>467</b>
<b>(b) Borrowing costs</b>			
<b>(i) Interest bearing liability costs</b>			
Interest on overdraft		2	–
Interest on loans		550	707
Charges relating to finance leases		2	–
Interest – Newcastle Airport partnership		286	267
Other debts		2	–
<b>Total interest bearing liability costs expensed</b>		<b>842</b>	<b>974</b>
<b>(ii) Other borrowing costs</b>			
Discount adjustments relating to movements in provisions (other than ELE)			
– Remediation liabilities	26	31	49
Interest applicable on interest free (and favourable) loans to Council		20	31
<b>Total other borrowing costs</b>		<b>51</b>	<b>80</b>
<b>TOTAL BORROWING COSTS EXPENSED</b>		<b>893</b>	<b>1,054</b>

## Port Stephens

### 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</b>			
Raw materials and consumables		8,245	7,221
Contractor and consultancy costs			
– Waste collection and disposal contract		11,241	10,804
– Other contractor and consultancy costs		23,222	19,470
Auditors remuneration <sup>(1)</sup>		93	117
Legal expenses:			
– Legal expenses: other		633	1,483
Operating leases:			
– Operating lease rentals: minimum lease payments <sup>(2)</sup>		450	425
Other		76	95
<b><u>TOTAL MATERIALS AND CONTRACTS</u></b>		<b><u>43,960</u></b>	<b><u>39,615</u></b>
<b>1. Auditor remuneration</b>			
During the year, the following fees were incurred for services provided by the Council's Auditor (and the Auditors of other consolidated entities):			
<b>Audit and other assurance services</b>			
– Audit and review of financial statements: Pitcher Partners		55	63
– Internal audit services: PKF Lawler		28	52
– Other audit and assurance services		10	2
<b>Remuneration for audit and other assurance services</b>		<b><u>93</u></b>	<b><u>117</u></b>
<b>Total Auditor remuneration</b>		<b><u>93</u></b>	<b><u>117</u></b>
<b>2. Operating lease payments are attributable to:</b>			
Computers		450	422
Other		–	3
		<b><u>450</u></b>	<b><u>425</u></b>

## Port Stephens

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

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

\$ '000	Notes	Impairment costs		Depreciation/amortisation	
		Actual 2016	Actual 2015	Actual 2016	Actual 2015
Plant and equipment		–	–	1,476	1,271
Office equipment		–	–	144	145
Furniture and fittings		–	–	22	10
Land improvements (depreciable)		–	–	32	114
Infrastructure:					
– Buildings – specialised		–	–	5,185	2,735
– Other structures		–	–	152	242
– Roads		–	–	2,710	2,666
– Bridges		–	–	12	12
– Footpaths		–	–	118	118
– Stormwater drainage		–	–	185	188
– Swimming pools		–	–	251	–
– Other open space/recreational assets		–	–	806	3,431
– Other infrastructure		–	–	227	–
Other assets					
– Heritage collections		–	–	2	2
– Library books		–	–	127	127
– Car parks		–	–	486	326
– Other infrastructure		–	–	–	37
– Newcastle Airport partnership		–	–	1,797	1,997
– Other		–	–	206	117
Intangible assets	25	–	–	697	90
<b><u>TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED</u></b>		<b><u>–</u></b>	<b><u>–</u></b>	<b><u>14,637</u></b>	<b><u>13,628</u></b>



## Port Stephens

### 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:			
Bad and doubtful debts		23	(3)
Bank charges		237	240
Contributions/levies to other levels of government			
– Lands Department levy (holiday parks)		430	412
– NSW Rural Fire service levy		416	336
– Waste levy		1,704	1,515
Councillor expenses – mayoral fee		58	57
Councillor expenses – councillors' fees		165	161
Councillors' expenses (incl. mayor) – other (excluding fees above)		77	113
Donations, contributions and assistance to other organisations (Section 356)		944	1,044
Electricity and heating		1,143	1,317
Insurance		1,614	1,728
Memberships		69	92
Newcastle Airport partnership		5,777	5,200
Street lighting		1,282	1,097
Telephone and communications		340	419
Other		236	135
<b><u>TOTAL OTHER EXPENSES</u></b>		<b><u>14,515</u></b>	<b><u>13,863</u></b>

## Port Stephens

### 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		–	875
Less: carrying amount of property assets sold/written off		(491)	(710)
<b>Net gain/(loss) on disposal</b>		<b>(491)</b>	<b>165</b>
<b>Plant and equipment</b>			
Proceeds from disposal – plant and equipment		1,050	1,687
Less: carrying amount of plant and equipment assets sold/written off		(578)	(1,669)
<b>Net gain/(loss) on disposal</b>		<b>472</b>	<b>18</b>
<b>Newcastle Airport Partnership</b>			
Proceeds from disposal – Infrastructure		22	–
Less: carrying amount of Infrastructure assets sold/written off		(23)	–
<b>Net gain/(loss) on disposal</b>		<b>(1)</b>	<b>–</b>
<b>Real estate assets held for sale</b>			
Proceeds from disposal – real estate assets		6,149	–
Less: carrying amount of real estate assets sold/written off		(3,470)	–
<b>Net gain/(loss) on disposal</b>		<b>2,679</b>	<b>–</b>
<b>Financial assets</b>			
Proceeds from disposal/redemptions/maturities – financial assets		44,000	50,919
Less: carrying amount of financial assets sold/redeemed/matured		(44,000)	(50,919)
<b>Net gain/(loss) on disposal</b>		<b>–</b>	<b>–</b>
<b>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</b>		<b>2,659</b>	<b>183</b>

## Port Stephens

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

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

		2016	2016	2015	2015
\$ '000	Notes	Actual Current	Actual Non-current	Actual Current	Actual Non-current
Cash and cash equivalents (Note 6a)					
Cash on hand and at bank		7,735	–	13,168	–
<b>Total cash and cash equivalents</b>		<b>7,735</b>	<b>–</b>	<b>13,168</b>	<b>–</b>
Investments (Note 6b)					
– Term deposits		24,914	244	24,000	262
– NCD's, FRN's (with maturities > 3 months)		997	–	–	914
<b>Total investments</b>		<b>25,911</b>	<b>244</b>	<b>24,000</b>	<b>1,176</b>
<b>TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS</b>		<b>33,646</b>	<b>244</b>	<b>37,168</b>	<b>1,176</b>

**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>7,735</b>	<b>–</b>	<b>13,168</b>	<b>–</b>
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#### **Investments**

**a. 'Held to maturity'**

6(b-i)	24,914	244	24,000	262
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**b. 'Available for sale'**

6(b-ii)	997	–	–	914
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**Investments**

	<b>25,911</b>	<b>244</b>	<b>24,000</b>	<b>1,176</b>
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Refer to Note 27. Fair value measurement for information regarding the fair value of investments held.

## Port Stephens

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

#### Note 6b. investments (continued)

	2016 Actual Current	2016 Actual Non-current	2015 Actual Current	2015 Actual Non-current
\$ '000				
<b>Note 6(b-i)</b>				
<b>Reconciliation of investments classified as 'held to maturity'</b>				
Balance at the beginning of the year	24,000	262	27,006	292
Additions	44,914	(18)	46,500	(30)
Disposals (sales and redemptions)	(44,000)	–	(49,506)	–
<b>Balance at end of year</b>	<b>24,914</b>	<b>244</b>	<b>24,000</b>	<b>262</b>
<b>Comprising:</b>				
– Term deposits	24,914	–	24,000	262
– Other long term financial assets	–	244	–	–
<b>Total</b>	<b>24,914</b>	<b>244</b>	<b>24,000</b>	<b>262</b>
<b>Note 6(b-ii)</b>				
<b>Reconciliation of investments classified as 'available for sale'</b>				
Balance at the beginning of the year	–	914	1,373	872
Amortisation of premiums and discounts	1	–	–	–
Revaluation – transfer gain/(loss) to ARR in equity	19	–	40	–
Additions	63	–	–	–
Disposals (sales and redemptions)	–	–	(1,413)	42
Transfers between current/non-current	914	(914)	–	–
<b>Balance at end of year</b>	<b>997</b>	<b>–</b>	<b>–</b>	<b>914</b>
<b>Comprising:</b>				
– CDO's	1,041	–	–	914
– Other long term maturity financial assets	(44)	–	–	–
<b>Total</b>	<b>997</b>	<b>–</b>	<b>–</b>	<b>914</b>

## Port Stephens

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

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

	2016 Actual Current	2016 Actual Non-current	2015 Actual Current	2015 Actual Non-current
\$ '000				
Total cash, cash equivalents and investments	33,646	244	37,168	1,176
attributable to:				
External restrictions (refer below)	21,668	244	20,145	1,176
Internal restrictions (refer below)	11,978	–	17,023	–
Unrestricted	–	–	–	–
	33,646	244	37,168	1,176

2016 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
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#### Details of restrictions

##### External restrictions – included in liabilities

Deposits, retentions and bonds	1,216	–	(84)	1,132
Bonds held for developer's works	464	–	(464)	–
<b>External restrictions – included in liabilities</b>	<b>1,680</b>	<b>–</b>	<b>(548)</b>	<b>1,132</b>

##### External restrictions – other

Developer contributions – general (D)	11,482	4,795	(2,344)	13,933
Specific purpose unexpended grants (F)	909	–	(274)	635
Domestic waste management (G)	3,529	15,290	(14,077)	4,742
Carparking meters Crown lands	320	332	(232)	420
Crown holiday parks	3,401	1,842	(4,193)	1,050
<b>External restrictions – other</b>	<b>19,641</b>	<b>22,259</b>	<b>(21,120)</b>	<b>20,780</b>
<b>Total external restrictions</b>	<b>21,321</b>	<b>22,259</b>	<b>(21,668)</b>	<b>21,912</b>

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

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

G Water, sewerage, domestic waste management (DWM) and other special rates/levies/charges are externally restricted assets and must be applied for the purposes for which they were raised.

## Port Stephens

### 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>				
Administration building reserve	239	500	(739)	–
Commercial properties reserve	92	7,931	(8,023)	–
Community loans reserve	160	26	(186)	–
Drainage reserve	1,213	1,185	(2,398)	–
Election reserve	200	100	(300)	–
IT reserve	216	400	(616)	–
Newcastle Airport partnership	9,331	1,721	–	11,052
Other waste services reserve	301	2,948	(3,249)	–
Parking meters	260	199	(459)	–
Asset rehabilitation	1,500	2,000	(3,500)	–
Roads / environmental	107	917	(1,024)	–
Section 355C committees	888	38	–	926
Sustainable energy and water reserve	157	93	(250)	–
Unexpended loan funds	2,193	–	(2,193)	–
Fleet	166	4,774	(4,940)	–
<b>Total internal restrictions</b>	<b>17,023</b>	<b>22,832</b>	<b>(27,877)</b>	<b>11,978</b>
<b>TOTAL RESTRICTIONS</b>	<b>38,344</b>	<b>45,091</b>	<b>(49,545)</b>	<b>33,890</b>

## Port Stephens

### 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		1,243	—	1,866	—
Interest and extra charges		220	—	353	—
User charges and fees		458	—	755	—
Private works		519	—	435	—
Contributions to works		74	—	20	—
Accrued revenues					
– Interest on investments		81	—	247	—
Deferred debtors		25	—	39	—
Government grants and subsidies		4	—	158	—
Net GST receivable		527	—	1,179	—
Newcastle Airport partnership		1,780	5	1,950	—
RMS contributions		3,196	—	1,436	—
Other debtors		4,634	242	1,797	269
<b>Total</b>		<b>12,761</b>	<b>247</b>	<b>10,235</b>	<b>269</b>
<b>Less: provision for impairment</b>					
Other debtors		—	(48)	—	(41)
<b>Total provision for impairment – receivables</b>		<b>—</b>	<b>(48)</b>	<b>—</b>	<b>(41)</b>
<b>TOTAL NET RECEIVABLES</b>		<b>12,761</b>	<b>199</b>	<b>10,235</b>	<b>228</b>
<b>Externally restricted receivables</b>					
Domestic waste management		471	—	—	—
Crown holiday parks		1,323	—	—	—
<b>Total external restrictions</b>		<b>1,794</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Internally restricted receivables</b>					
Community Loans		200	—	39	—
Receivables - Newcastle Airport Partnership		1,780	5	1,950	—
Asset Rehab		277	—	492	—
Fleet		—	—	334	—
Parking meters		401	—	—	—
Commercial properties		3,418	—	1,108	—
Other Waste Reserve		1,203	—	374	—
Sustainable Energy & Water Reserve		250	—	93	—
Roads / environmental		93	—	—	—
IT reserve		359	—	—	—
Drainage reserve		408	—	—	—
Administration building reserve		411	—	—	—
Election reserve		300	—	—	—
Ward Funds		104	—	—	—
<b>Internally restricted receivables</b>		<b>9,204</b>	<b>5</b>	<b>4,390</b>	<b>—</b>
<b>Unrestricted receivables</b>		<b>1,763</b>	<b>194</b>	<b>5,845</b>	<b>228</b>
<b>TOTAL NET RECEIVABLES</b>		<b>12,761</b>	<b>199</b>	<b>10,235</b>	<b>228</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.



## Port Stephens

### 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
(a) Inventories					
(i) Inventories at cost					
Real estate for resale (refer below)		12,060	4,557	3,122	11,632
Stores and materials		217	–	192	–
Bio banking credits		–	3,520	–	3,521
Total inventories at cost		12,277	8,077	3,314	15,153
(ii) Inventories at net realisable value (NRV)					
Nil					
TOTAL INVENTORIES		12,277	8,077	3,314	15,153

#### (b) Other assets

Prepayments	513	–	201	–
<b>TOTAL OTHER ASSETS</b>	<b>513</b>	<b>–</b>	<b>201</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	851	2,421	1,097	2,811
Industrial/commercial	11,209	2,136	2,025	8,821
<b>Total real estate for resale</b>	<b>12,060</b>	<b>4,557</b>	<b>3,122</b>	<b>11,632</b>

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

##### Represented by:

Acquisition costs	11,774	1,542	3,019	11,481
Development costs	286	3,015	103	151
<b>Total costs</b>	<b>12,060</b>	<b>4,557</b>	<b>3,122</b>	<b>11,632</b>
<b>Total real estate for resale</b>	<b>12,060</b>	<b>4,557</b>	<b>3,122</b>	<b>11,632</b>

##### Movements:

Real estate assets at beginning of the year	3,122	11,632	1,827	12,673
– Purchases and other costs	286	3,016	103	151
– Transfers in from (out to) Note 9	2,031	–	–	–
– WDV of sales (expense)	(3,470)	–	–	–
– Transfer between current/non-current	10,091	(10,091)	1,192	(1,192)
<b>Total real estate for resale</b>	<b>12,060</b>	<b>4,557</b>	<b>3,122</b>	<b>11,632</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.

## Port Stephens

## 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 depreciation	Impairment	Carrying value	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	Adjustments and transfers	TfIs from/(to) intangible assets (Note 25)	TfIs from/(to) real estate assets (Note 8)	Revaluation decrements to equity (ARR)	At cost	At fair value	Accumulated depreciation	Impairment	Carrying value
Capital work in progress	742	–	6	–	736	90 (29)	138	–	–	(584)	–	–	–	379	–	–	–	379
Plant and equipment	–	16,834	8,536	–	8,298	–	4,064	(561)	(1,476)	653	–	–	–	–	20,961	10,012	–	10,949
Office equipment	–	1,202	502	–	700	–	60	–	(144)	29	(36)	–	–	–	1,255	646	–	608
Furniture and fittings	–	656	609	–	48	–	46	–	(22)	48	–	–	–	–	745	631	–	114
Land:																		
– Operational land	–	37,966	–	–	37,966	2	–	–	–	2,772	–	(1,623)	(3,109)	–	36,007	–	–	36,007
– Community land	–	47,637	–	–	47,637	–	386	–	–	(2,463)	–	–	(4,299)	–	41,259	–	–	41,259
– Land held for bio banking	–	1,143	–	–	1,143	–	–	–	–	–	–	–	–	–	1,143	–	–	1,143
– Land under roads (post 30/6/08)	–	1,922	–	–	1,922	–	–	–	–	–	–	–	–	–	1,922	–	–	1,922
Land improvements – depreciable	–	5,521	1,996	–	3,525	12	19	–	(32)	(2,865)	–	–	–	–	2,688	2,029	–	659
Infrastructure:																		
– Buildings – specialised	–	81,378	33,507	–	47,871	2,284	2,180	(492)	(5,185)	40,186	–	–	(100)	–	125,436	38,692	–	86,743
– Other structures	–	5,797	2,081	–	3,716	35	299	(17)	(152)	(1,690)	–	(46)	–	–	4,378	2,233	–	2,145
– Roads	–	426,433	46,872	–	379,561	7,310	2,902	–	(2,710)	13	–	–	–	–	436,645	49,582	–	387,063
– Bridges	–	11,432	270	–	11,162	–	–	–	(12)	(13)	–	–	–	–	11,432	296	–	11,137
– Footpaths	–	29,649	3,124	–	26,525	201	249	–	(118)	–	–	–	–	–	30,099	3,244	–	26,855
– Stormwater drainage	–	185,314	5,421	–	179,893	2,701	1,381	–	(185)	–	–	–	–	–	189,396	5,606	–	183,790
– Swimming pools	–	–	–	–	–	184	32	–	(251)	3,470	–	–	–	–	3,687	251	–	3,437
– Open space/recreational assets	–	106,066	43,841	–	62,225	1,163	672	–	(806)	(46,205)	–	–	–	–	61,696	44,647	–	17,049
– Other infrastructure	–	–	–	–	–	1,175	–	–	(227)	4,237	–	–	–	–	5,413	227	–	5,185
Other assets:																		
– Heritage collections	–	230	66	–	165	–	–	–	(2)	–	–	–	–	–	230	68	–	163
– Library books	–	4,491	2,737	–	1,754	237	–	–	(127)	–	–	–	–	–	4,728	2,864	–	1,864
– Car parks	–	6,221	3,894	–	2,327	42	25	–	(486)	3,502	–	(323)	(1,146)	–	8,321	4,380	–	3,941
– Other infrastructure	–	3,688	1,990	–	1,697	–	–	–	–	(1,697)	–	–	–	–	1,990	1,990	–	–
– Newcastle Airport partnership	40,364	–	11,133	–	29,231	1,770	–	(23)	(1,797)	–	–	–	–	41,974	–	12,793	–	29,181
– Other	–	4,202	1,621	–	2,582	–	80	–	(206)	608	–	(39)	–	–	4,850	1,826	–	3,024
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	41,106	977,782	168,205	–	850,683	17,177	12,532	(1,092)	(13,940)	–	(36)	(2,031)	(8,654)	42,353	994,279	182,017	–	854,616

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.

## Port Stephens

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

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

\$ '000 Class of asset	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>								
Buildings	–	2,418	832	<b>1,586</b>	–	2,046	755	<b>1,291</b>
<b>Total DWM</b>	<b>–</b>	<b>2,418</b>	<b>832</b>	<b>1,586</b>	<b>–</b>	<b>2,046</b>	<b>755</b>	<b>1,291</b>
<b>TOTAL RESTRICTED I,PP&amp;E</b>	<b>–</b>	<b>2,418</b>	<b>832</b>	<b>1,586</b>	<b>–</b>	<b>2,046</b>	<b>755</b>	<b>1,291</b>

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

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

## Port Stephens

### 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		4,160	–	7,271	–
Payments received In advance		245	–	–	–
Accrued expenses:					
– Other expenditure accruals		1,572	7	1,420	9
Security bonds, deposits and retentions		655	–	1,182	–
Unclaimed monies		2	–	115	–
Deferred income – Newcastle Airport partnership		–	5,145	–	5,445
Other		544	–	307	–
<b>Total payables</b>		<b>7,178</b>	<b>5,152</b>	<b>10,295</b>	<b>5,454</b>
<b>Borrowings</b>					
Loans – secured <sup>1</sup>		2,996	10,426	3,379	13,389
Finance lease liabilities		18	22	60	55
Other – Newcastle Airport partnership		–	6,250	–	6,250
<b>Total borrowings</b>		<b>3,014</b>	<b>16,698</b>	<b>3,439</b>	<b>19,694</b>
<b>Provisions</b>					
<b>Employee benefits:</b>					
Annual leave		3,340	–	3,272	–
Sick leave		3,320	–	3,799	–
Long service leave		6,344	562	6,384	447
Flexi time / RDO leave		193	–	180	–
Sub-total – aggregate employee benefits		<b>13,197</b>	<b>562</b>	<b>13,635</b>	<b>447</b>
Asset remediation/restoration (future works)	26	1,600	–	1,569	–
<b>Total provisions</b>		<b>14,797</b>	<b>562</b>	<b>15,204</b>	<b>447</b>
<b>TOTAL PAYABLES, BORROWINGS AND PROVISIONS</b>		<b>24,989</b>	<b>22,412</b>	<b>28,938</b>	<b>25,595</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		670	2,819	649	3,489
Other		1,132	–	1,680	–
Tip remediation		1,600	–	1,569	–
Crown holiday park reserve		400	222	–	–
Liabilities relating to externally restricted assets		<b>3,802</b>	<b>3,041</b>	<b>3,898</b>	<b>3,489</b>
<b>Internally restricted assets</b>					
Drainage reserve		547	708	–	–
Newcastle Airport Partnership		2,056	11,458	–	–
Liabilities relating to internally restricted assets		<b>2,603</b>	<b>12,166</b>	<b>–</b>	<b>–</b>
<b>Total liabilities relating to restricted assets</b>		<b>6,405</b>	<b>15,207</b>	<b>3,898</b>	<b>3,489</b>
<b>Total liabilities relating to unrestricted assets</b>		<b>18,584</b>	<b>7,205</b>	<b>25,040</b>	<b>22,106</b>
<b>TOTAL PAYABLES, BORROWINGS AND PROVISIONS</b>		<b>24,989</b>	<b>22,412</b>	<b>28,938</b>	<b>25,595</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.

## Port Stephens

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

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

	Actual 2016	Actual 2015
\$ '000		
<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	9,762	10,966
Payables – security bonds, deposits and retentions	378	150
	<b>10,140</b>	<b>11,116</b>

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

Class of provision	2015	2016				Closing balance as at 30/6/16
	Opening balance as at 1/7/15	Additional provisions	Decrease due to payments	Remeasurement effects due to discounting	Unused amounts reversed	
Asset remediation	1,569	31	–	–	–	1,600
<b>TOTAL</b>	<b>1,569</b>	<b>31</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,600</b>

- a. 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.

## Port Stephens

### 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	7,735	13,168
Less bank overdraft	10	–	–
<b>Balance as per the Statement of Cash Flows</b>		<b>7,735</b>	<b>13,168</b>
<b>(b) Reconciliation of net operating result to cash provided from operating activities</b>			
<b>Net operating result from Income Statement</b>		<b>20,016</b>	<b>7,747</b>
<b>Adjust for non-cash items:</b>			
Depreciation and amortisation		14,637	13,628
Net losses/(gains) on disposal of assets		(2,659)	(183)
Non-cash capital grants and contributions		(3,781)	(1,860)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investment properties		(486)	(869)
Amortisation of premiums, discounts and prior period fair valuations			
– Interest exp. on interest-free loans received by Council (previously fair valued)		20	31
Unwinding of discount rates on reinstatement provisions		32	49
<b>+/- Movement in operating assets and liabilities and other cash items:</b>			
Decrease/(increase) in receivables		(2,518)	(2,257)
Increase/(decrease) in provision for doubtful debts		7	(27)
Decrease/(increase) in inventories		(24)	22
Decrease/(increase) in other assets		(312)	(109)
Increase/(decrease) in payables		(3,111)	2,272
Increase/(decrease) in other accrued expenses payable		150	(286)
Increase/(decrease) in other liabilities		(458)	5,025
Increase/(decrease) in employee leave entitlements		(323)	441
Increase/(decrease) in other provisions		(1)	1
<b>Net cash provided from/(used in) operating activities from the Statement of Cash Flows</b>		<b>21,188</b>	<b>23,625</b>

## Port Stephens

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 11. Statement of cash flows – additional information (continued)

\$ '000	Notes	Actual 2016	Actual 2015
<b>(c) Non-cash investing and financing activities</b>			
Dedicated subdivisions		3,781	1,860
<b>Total non-cash investing and financing activities</b>		<b>3,781</b>	<b>1,860</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>		2,000	2,000
Credit cards/purchase cards		1,582	1,508
Master lease facilities		1,000	1,000
<b>Total financing arrangements</b>		<b>4,582</b>	<b>4,508</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.

#### Note 12. Commitments for expenditure

##### **(a) Capital commitments (exclusive of GST)**

Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:

##### **Property, plant and equipment**

Buildings	293	283
Plant and equipment	21	1,589
Newcastle airport	56	2,195
Other	759	223
<b>Total commitments</b>	<b>1,129</b>	<b>4,290</b>

##### **These expenditures are payable as follows:**

Within the next year	1,129	4,290
<b>Total payable</b>	<b>1,129</b>	<b>4,290</b>

##### **Sources for funding of capital commitments:**

Unrestricted general funds	1,129	4,290
<b>Total sources of funding</b>	<b>1,129</b>	<b>4,290</b>



## Port Stephens

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 12. Commitments for expenditure (continued)

\$ '000	Notes	Actual 2016	Actual 2015
<b>(b) Finance lease commitments</b>			
<b>(i) Commitments under finance leases at the reporting date are payable as follows:</b>			
Within the next year		19	64
Later than one year and not later than 5 years		22	57
Later than 5 years		—	—
<b>Total minimum lease payments</b>		<b>41</b>	<b>121</b>
Less: future finance charges		(2)	(7)
<b>Amount recognised as a liability</b>		<b>39</b>	<b>114</b>
<b>(ii) Finance lease liability recognised represent;</b>			
Current liabilities		18	60
Non-current liabilities		22	55
<b>Total finance lease liabilities disclosed</b>		<b>40</b>	<b>115</b>
<b>(iii) General details</b>			
Council leases the following property, plant and equipment under finance leases:			
Other equipment/assets		40	115
<b>Total carrying value at year end</b>		<b>40</b>	<b>115</b>

#### **Additional details**

Finance leases in place relate to the Newcastle Airport Partnership, they are for property, plant and equipment with terms ranging from 3-10 years in length. No debt covenants or other such agreements are in place.

#### **(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	503	442
Later than one year and not later than 5 years	55	467
Later than 5 years	—	—
<b>Total non-cancellable operating lease commitments</b>	<b>558</b>	<b>909</b>

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

Computer Equipment

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

##### **Conditions relating to finance and operating leases:**

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

## Port Stephens

### 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
Local government industry indicators – consolidated				
1. Operating performance ratio				
Total continuing operating revenue <sup>(1)</sup> excluding capital grants and contributions less operating expenses	4,887	4.09%	-3.68%	-1.22%
Total continuing operating revenue <sup>(1)</sup> excluding capital grants and contributions	119,565			
2. Own source operating revenue ratio				
Total continuing operating revenue <sup>(1)</sup> excluding all grants and contributions	105,836	80.45%	80.16%	80.56%
Total continuing operating revenue <sup>(1)</sup>	131,549			
3. Unrestricted current ratio				
Current assets less all external restrictions <sup>(2)</sup>	35,735	3.23x	2.21x	1.84x
Current liabilities less specific purpose liabilities <sup>(3, 4)</sup>	11,047			
4. Debt service cover ratio				
Operating result <sup>(1)</sup> before capital excluding interest and depreciation/impairment/amortisation	20,416	4.71x	2.18x	1.69x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	4,334			
5. Rates, annual charges, interest and extra charges outstanding percentage				
Rates, annual and extra charges outstanding	1,463	2.69%	4.27%	3.99%
Rates, annual and extra charges collectible	54,306			
6. Cash expense cover ratio				
Current year's cash and cash equivalents plus all term deposits	32,893	3.42 mths	4.4 mths	4.7 mths
Payments from cash flow of operating and financing activities	9,605			

#### 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.

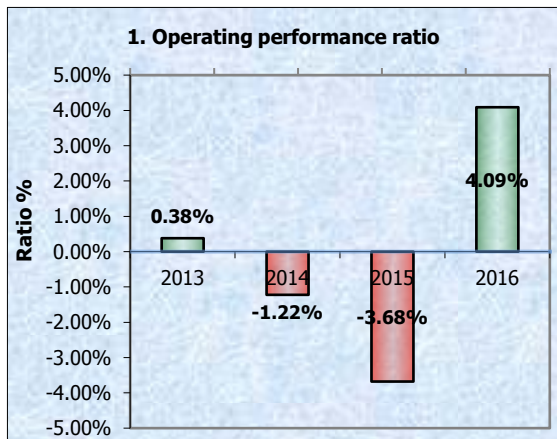
<sup>(3)</sup> Refer to Note 10(a).

<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).

## Port Stephens

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

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



Benchmark: — Minimum  $\geq 0.00\%$

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

#### Purpose of operating performance ratio

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

#### Commentary on 2015/16 result

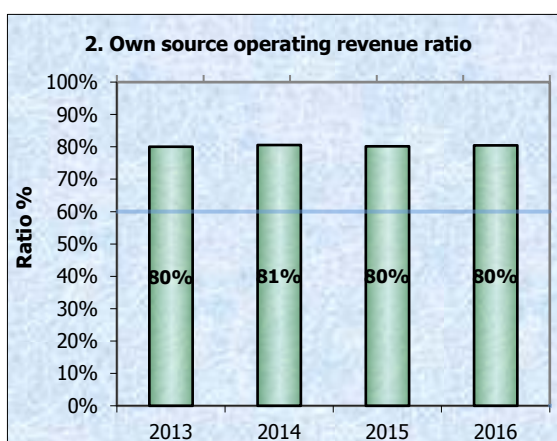
**2015/16 ratio 4.09%**

Council's operating result is higher than expected as it has been affected by insurance and natural disaster claims from the April 2015 Storm. Without the income and expenditure from this event, Council's adjusted operating performance ratio would be still be positive at approx 2%.



Ratio achieves benchmark

Ratio is outside benchmark



Benchmark: — Minimum  $\geq 60.00\%$

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

#### Purpose of own source operating revenue ratio

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

#### Commentary on 2015/16 result

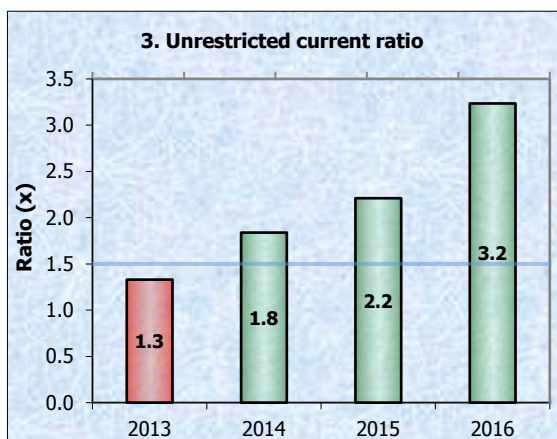
**2015/16 ratio 80.45%**

Council continues to have strong flexibility with its revenue mix not being heavily reliant on external funding sources.



Ratio achieves benchmark

Ratio is outside benchmark



Benchmark: — Minimum  $\geq 1.50$

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

#### Purpose of unrestricted current ratio

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

#### Commentary on 2015/16 result

**2015/16 ratio 3.23x**

Council's unrestricted ratio has increased due to the impending sale of real estate over the next 12 months.



Ratio achieves benchmark

Ratio is outside benchmark

## Port Stephens

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

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

<p><b>4. Debt service cover ratio</b></p> <p>Benchmark: — Minimum <math>\geq 2.00</math></p> <p>Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>	<p><b>Purpose of debt service cover ratio</b></p> <p>This ratio measures the availability of operating cash to service debt including interest, principal and lease payments</p>	<p><b>Commentary on 2015/16 result</b></p> <p><b>2015/16 ratio 4.71x</b></p> <p>Council has continued to pay off existing debt before introducing any new debt. This has created capacity to use borrowings as a funding source for future capital projects.</p>
<p><b>5. Rates, annual charges, interest and extra charges outstanding percentage</b></p> <p>Benchmark: — Maximum <math>&lt; 10.00\%</math></p> <p>Source for Benchmark: Code of Accounting Practice and Financial Reporting #24</p>	<p><b>Purpose of rates and annual charges outstanding ratio</b></p> <p>To assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.</p>	<p><b>Commentary on 2015/16 result</b></p> <p><b>2015/16 ratio 2.69%</b></p> <p>A strong performance by Council in its effort to collect outstanding debtors within the required benchmarks despite CPI increases in rates.</p>
<p><b>6. Cash expense cover ratio</b></p> <p>Benchmark: — Minimum <math>\geq 3.00</math></p> <p>Source for benchmark: Code of Accounting Practice and Financial Reporting #24</p>	<p><b>Purpose of cash expense cover ratio</b></p> <p>This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.</p>	<p><b>Commentary on 2015/16 result</b></p> <p><b>2015/16 ratio 3.42 mths</b></p> <p>Council's liquidity position is still within the benchmarks but has declined due to outstanding debtors at year end in relation to private works and natural disaster claims.</p>

## Port Stephens

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 14. Investment properties

\$ '000	Notes	Actual 2016	Actual 2015
<b>(a) Investment properties at fair value</b>			
<u>Investment properties on hand</u>		<u>21,500</u>	<u>20,835</u>
<b>Reconciliation of annual movement:</b>			
Opening balance		20,835	19,911
– Capitalised expenditure – this year		179	55
– Net gain/(loss) from fair value adjustments		486	869
<b>CLOSING BALANCE – INVESTMENT PROPERTIES</b>		<b><u>21,500</u></b>	<b><u>20,835</u></b>

#### (b) Valuation basis

The basis of valuation of investment properties is fair value, being the amounts for which the properties could be exchanged between willing parties in arms length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

The 2016 revaluations are not based on an independent assessment and valuation.

The basis for the value was used by determining the market evidence of recent sales and returns. The valuation was performed by Mr S. Fox who is a council employee and Certified Practising Valuer (without limitation). No. 2847

#### (c) Leasing arrangements

Details of leased investment properties are as follows;

Future minimum lease payments receivable under non-cancellable investment property operating leases not recognised in the financial statements are receivable as follows:

Within 1 year	2,125	1,277
Later than 1 year but less than 5 years	4,701	3,405
Later than 5 years	56	1,240
<b>Total minimum lease payments receivable</b>	<b><u>6,882</u></b>	<b><u>5,922</u></b>

Lease arrangements range from 1 to 5 years for commercial office space. Rent is paid in advance on a monthly or quarterly basis and is subject to an annual review or CPI increase.

#### (d) Investment property income and expenditure – summary

<b>Rental income from investment properties:</b>		
– Minimum lease payments	2,242	2,203
<b>Direct operating expenses on investment properties:</b>		
– that generated rental income	(489)	(507)
<b>Net revenue contribution from investment properties</b>	<b><u>1,753</u></b>	<b><u>1,696</u></b>
plus:		
<b>Fair value movement for year</b>	<b><u>486</u></b>	<b><u>869</u></b>
<b>Total income attributable to investment properties</b>	<b><u>2,239</u></b>	<b><u>2,565</u></b>

Refer to Note 27. Fair value measurement for information regarding the fair value of investment properties held.

## Port Stephens

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

#### Note 15. Financial risk management

\$ '000

##### 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. Financial liabilities exclude any outflows that are not considered contractual outflows for example payments received in advance.

A comparison by category of the carrying amounts and fair values of Council's financial assets and financial liabilities recognised in the financial statements is presented below.

	Carrying value		Fair value	
	2016	2015	2016	2015
<b>Financial assets</b>				
Cash and cash equivalents	7,735	13,168	7,735	13,168
Investments				
– 'Held to maturity'	25,158	24,262	25,158	24,262
– 'Available for sale'	997	914	997	914
Receivables	12,960	10,463	12,960	10,463
<b>Total financial assets</b>	<b>46,850</b>	<b>48,807</b>	<b>46,850</b>	<b>48,807</b>
<b>Financial liabilities</b>				
Payables	6,940	10,304	6,940	10,304
Loans/advances	19,672	23,018	19,672	23,018
Lease liabilities	40	115	40	115
<b>Total financial liabilities</b>	<b>26,652</b>	<b>33,437</b>	<b>26,652</b>	<b>33,437</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.



## Port Stephens

### 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.

Council also seeks advice from independent advisers before placing any funds in cash equivalents and investments.

#### (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 10% movement in market values	–	97	–	(97)
Possible impact of a 1% movement in interest rates	150	–	(150)	–
<b>2015</b>				
Possible impact of a 10% movement in market values	–	91	–	(91)
Possible impact of a 1% movement in interest rates	240	–	(240)	–



## Port Stephens

### 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. It also encourages ratepayers to pay their rates by the due date through incentives.

Credit risk on rates and annual charges is minimised by the ability of Council to secure a charge over the land relating to the debts – that is, the land can be sold to recover the debt. Council is also able to charge interest on overdue rates 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.

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

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

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

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

		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%	85%	7%	100%
Overdue		100%	15%	93%	0%
		<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>(ii) Ageing of receivables – value</b>					
Rates and annual charges	Other receivables	Rates and annual charges	Other receivables	Rates and annual charges	Other receivables
Current	Current	–	9,963	133	8,638
< 1 year overdue	0 – 30 days overdue	467	–	556	–
1 – 2 years overdue	30 – 60 days overdue	319	–	274	–
2 – 5 years overdue	60 – 90 days overdue	303	–	322	–
> 5 years overdue	> 90 days overdue	154	1,802	581	–
		<b>1,243</b>	<b>11,765</b>	<b>1,866</b>	<b>8,638</b>
<b>(iii) Movement in provision for impairment of receivables</b>					
				2016	2015
Balance at the beginning of the year				41	68
+ new provisions recognised during the year				12	–
– amounts already provided for and written off this year				(3)	(19)
– amounts provided for but recovered during the year				(2)	(8)
<b>Balance at the end of the year</b>				<b>48</b>	<b>41</b>

## Port Stephens

### 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		
2016									
Trade/other payables	657	6,276	7	—	—	—	—	6,940	6,940
Loans and advances	—	3,449	3,184	8,873	1,932	1,582	2,146	21,166	19,672
Lease liabilities	—	19	23	—	—	—	—	42	40
Total financial liabilities	657	9,744	3,214	8,873	1,932	1,582	2,146	28,148	26,652
2015									
Trade/other payables	1,297	8,998	9	—	—	—	—	10,304	10,304
Loans and advances	—	3,988	9,738	3,223	2,662	1,902	3,622	25,135	23,018
Lease liabilities	—	77	20	24	—	—	—	121	115
Total financial liabilities	1,297	13,063	9,767	3,247	2,662	1,902	3,622	35,560	33,437

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

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	6,940	0.00%	10,304	0.00%
Loans and advances – fixed interest rate	19,072	3.56%	21,555	3.62%
Loans and advances – variable interest rate	600	4.62%	1,463	4.61%
Lease liabilities	40	5.20%	115	5.20%
	<b>26,652</b>		<b>33,437</b>	

## Port Stephens

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

#### Note 16. Material budget variations

\$ '000

Council's original financial budget for 15/16 was adopted by the Council on 26 May 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>51,389</b>	<b>51,749</b>	<b>360</b>	<b>1%</b>	<b>F</b>
<b>User charges and fees</b>	<b>37,471</b>	<b>41,103</b>	<b>3,632</b>	<b>10%</b>	<b>F</b>
User fees & charges are higher than the original budget due to additional fee for service work performed on behalf of the Roads and Maritime Services Department. This increase in income was met with additional expenditure required to perform the service.					
<b>Interest and investment revenue</b>	<b>1,785</b>	<b>1,138</b>	<b>(647)</b>	<b>(36%)</b>	<b>U</b>
Interest revenue has declined due to falling interest rates as well as the cash base being lower than expected due to the outstanding insurance and natural disaster claims. Interest from Newcastle Airport was also lower than expected predominately due to interest rates.					
<b>Other revenues</b>	<b>7,991</b>	<b>12,332</b>	<b>4,341</b>	<b>54%</b>	<b>F</b>
Other revenues were higher than the original budget due to the receipt of insurance claims for property damaged during the April 2015 storm event as well as the accrual of natural disaster funding.					
<b>Operating grants and contributions</b>	<b>12,892</b>	<b>13,729</b>	<b>837</b>	<b>6%</b>	<b>F</b>
<b>Capital grants and contributions</b>	<b>8,288</b>	<b>11,984</b>	<b>3,696</b>	<b>45%</b>	<b>F</b>
Capital grants and contributions were higher than the original budget due to additional grant funding attracted during the year.					
<b>Net gains from disposal of assets</b>	<b>1,750</b>	<b>2,659</b>	<b>909</b>	<b>52%</b>	<b>F</b>
Net gain on disposal of assets is higher than budget due to the higher sale value of land assets sold during the year.					

## Port Stephens

### 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>37,394</b>	<b>40,673</b>	<b>(3,279)</b>	<b>(9%) U</b>
<b>Borrowing costs</b>	<b>915</b>	<b>893</b>	<b>22</b>	<b>2% F</b>
<b>Materials and contracts</b>	<b>39,532</b>	<b>43,960</b>	<b>(4,428)</b>	<b>(11%) U</b>
Materials and contracts was higher than the original budget due to additional fee for service works performed on behalf of the Roads and Maritime Services Department. This increased expenditure was met with increased revenue.				
<b>Depreciation and amortisation</b>	<b>16,573</b>	<b>14,637</b>	<b>1,936</b>	<b>12% F</b>
Depreciation was lower than the original budget due to the roads and drains revaluation process last financial year. The outcome of the revaluation and its impact on depreciation was not known until after the 2016 budget was set.				
<b>Other expenses</b>	<b>12,297</b>	<b>14,515</b>	<b>(2,218)</b>	<b>(18%) U</b>
Other expenditure is higher than the original budget due to the consolidation of Newcastle Airport Pty Ltd operating expenditure which was higher than expected. If Newcastle Airport Pty Ltd was excluded actuals would in line with budget.				
<b>Budget variations relating to Council's Cash Flow Statement include:</b>				
<b>Cash flows from operating activities</b>	<b>27,335</b>	<b>21,188</b>	<b>(6,147)</b>	<b>(22.5%) U</b>
Cash flows from operating activities are down on budget due to unpaid natural disaster claims and private works contracts at 30 June with the Roads and Maritime Services Department.				
<b>Cash flows from investing activities</b>	<b>(18,250)</b>	<b>(23,180)</b>	<b>(4,930)</b>	<b>27.0% U</b>
Cash flows from investing activities increased due to additional capital grants being received during the year which was used to construct and repair public infrastructure.				
<b>Cash flows from financing activities</b>	<b>(4,335)</b>	<b>(3,441)</b>	<b>894</b>	<b>(20.6%) F</b>
Cash flows from financing activities are favourable as it was expected Newcastle Airport Pty Limited would start to make principal reductions on its loan portfolio.				

## Port Stephens

### 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	4	(5)	–	–	–	–	(1)	–
Roads	1,111	437	51	24	(247)	–	1,376	–
Traffic facilities	32	5	–	1	–	–	38	–
Parking	(8)	–	–	–	–	–	(8)	–
Open space	1,325	685	76	26	(232)	–	1,880	–
Community facilities	1,834	792	90	38	(321)	–	2,433	–
Recreation	2,426	1,271	178	49	(30)	–	3,894	–
Fire Fighting Facilities	266	161	7	5	–	–	439	–
Haulage	3,042	817	–	62	(1,303)	–	2,618	–
Civic Administration	211	235	14	4	(176)	–	288	–
<b>S94 contributions – under a plan</b>	<b>10,244</b>	<b>4,398</b>	<b>416</b>	<b>209</b>	<b>(2,309)</b>	<b>–</b>	<b>12,958</b>	<b>–</b>
<b>S94A levies – under a plan</b>	<b>975</b>	<b>163</b>	<b>–</b>	<b>20</b>	<b>(373)</b>	<b>–</b>	<b>785</b>	<b>–</b>
<b>Total S94 revenue under plans</b>	<b>11,219</b>	<b>4,561</b>	<b>416</b>	<b>229</b>	<b>(2,682)</b>	<b>–</b>	<b>13,743</b>	<b>–</b>
Repeated Funds	263	–	–	5	(78)	–	190	–
<b>Total contributions</b>	<b>11,482</b>	<b>4,561</b>	<b>416</b>	<b>234</b>	<b>(2,760)</b>	<b>–</b>	<b>13,933</b>	<b>–</b>

## Port Stephens

### 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 - WESTERN SHIRE

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	56	7	–	1	–	–	64	–
Open space	108	58	–	2	(37)	–	131	–
Community facilities	74	44	–	2	–	–	120	–
Recreation	149	25	–	3	(9)	–	168	–
<b>Total</b>	<b>387</b>	<b>134</b>	<b>–</b>	<b>8</b>	<b>(46)</b>	<b>–</b>	<b>483</b>	<b>–</b>

##### CONTRIBUTION PLAN NUMBER 2 - RAYMOND TERRACE

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	(68)	68	–	(1)	–	–	(1)	–
Parking	(11)	–	–	–	–	–	(11)	–
Open space	347	61	–	7	(95)	–	320	–
Community facilities	58	113	–	1	–	–	172	–
Recreation	260	237	–	5	–	–	502	–
<b>Total</b>	<b>586</b>	<b>479</b>	<b>–</b>	<b>12</b>	<b>(95)</b>	<b>–</b>	<b>982</b>	<b>–</b>

## Port Stephens

### 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 3 - MEDOWIE

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)
Roads	239	33	–	5	–	–	277	–
Open space	164	145	–	3	–	–	312	–
Community facilities	393	172	–	8	(290)	–	283	–
Recreation	934	342	–	19	–	–	1,295	–
<b>Total</b>	<b>1,730</b>	<b>692</b>	<b>–</b>	<b>35</b>	<b>(290)</b>	<b>–</b>	<b>2,167</b>	<b>–</b>

###### CONTRIBUTION PLAN NUMBER 4 - KARUAH / SWAN BAY

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)
Roads	33	9	–	1	–	–	43	–
Open space	9	27	–	–	–	–	36	–
Community facilities	(137)	9	–	(3)	–	–	(131)	–
Recreation	127	5	–	3	–	–	135	–
<b>Total</b>	<b>32</b>	<b>50</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>83</b>	<b>–</b>



## Port Stephens

### 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 5 - TILIGERRY PENINSULA

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)
Roads	310	8	–	6	–	–	324	–
Open space	(70)	12	–	(1)	–	–	(59)	–
Community facilities	30	14	–	1	–	–	45	–
Recreation	254	28	–	5	(21)	–	266	–
<b>Total</b>	<b>524</b>	<b>62</b>	<b>–</b>	<b>11</b>	<b>(21)</b>	<b>–</b>	<b>576</b>	<b>–</b>

###### CONTRIBUTION PLAN NUMBER 6 - TOMAREE PENINSULA

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)
Drainage	4	(5)	–	–	–	–	(1)	–
Roads	(10)	26	51	–	–	–	67	–
Parking	3	–	–	–	–	–	3	–
Open space	108	64	76	2	–	–	250	–
Community facilities	660	96	90	13	–	–	859	–
Recreation	(169)	153	178	(3)	–	(300)	(141)	–
<b>Total</b>	<b>596</b>	<b>334</b>	<b>395</b>	<b>12</b>	<b>–</b>	<b>(300)</b>	<b>1,037</b>	<b>–</b>

## Port Stephens

### 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 - RURAL BALANCE

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)
Roads	25	2	–	1	–	–	28	–
Open space	15	4	–	–	–	–	19	–
Community facilities	(7)	5	–	–	–	–	(2)	–
Recreation	21	9	–	–	–	–	30	–
<b>Total</b>	<b>54</b>	<b>20</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>75</b>	<b>–</b>

###### CONTRIBUTION PLAN NUMBER 8 - FERN BAY

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)
Roads	526	284	–	11	(247)	–	574	–
Traffic facilities	32	5	–	1	–	–	38	–
Open space	644	314	–	13	(100)	–	871	–
Community facilities	763	339	–	16	(31)	–	1,087	–
Recreation	850	472	–	17	–	300	1,639	–
<b>Total</b>	<b>2,815</b>	<b>1,414</b>	<b>–</b>	<b>58</b>	<b>(378)</b>	<b>300</b>	<b>4,209</b>	<b>–</b>

## Port Stephens

### 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 - SHIRE WIDE

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					
Haulage	3,042	817	–	62	(1,303)	–	2,618	–
Fire Fighting Facilities	266	161	7	5	–	–	439	–
Civic Administration	211	235	14	4	(176)	–	288	–
<b>Total</b>	<b>3,519</b>	<b>1,213</b>	<b>21</b>	<b>71</b>	<b>(1,479)</b>	<b>–</b>	<b>3,345</b>	<b>–</b>

##### S94A LEVIES – UNDER A PLAN

###### CONTRIBUTION PLAN NUMBER XX

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					
Other	975	163	–	20	(373)	–	785	–
<b>Total</b>	<b>975</b>	<b>163</b>	<b>–</b>	<b>20</b>	<b>(373)</b>	<b>–</b>	<b>785</b>	<b>–</b>

## Port Stephens

### 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 schemes most recent full actuarial review indicated that the net assets of the scheme were not sufficient to meet the accrued benefits of the schemes defined benefit member category with member councils required to make significantly higher contributions in future years.

The Local Government Superannuation Scheme however is unable to provide Council with an accurate estimate of its share of the net deficit and accordingly Council has not recorded any net liability from its defined benefit scheme obligations in accordance with AASB 119.

Future contributions made to the defined benefit scheme to rectify the net deficit position will be recognised as an expense when they become payable – similar to the accounting for defined contributions plans.

##### (ii) Statewide Limited

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

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

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

##### (iii) StateCover Limited

Council is a member of StateCover Mutual Limited and holds a partly paid share in the entity.

StateCover is a company providing workers compensation insurance cover to the NSW local government industry and specifically Council.

Council has a contingent liability to contribute further equity in the event of the erosion of the company's capital base as a result of the company's past performance and/or claims experience or as a result of any increased prudential requirements from APRA.

These future equity contributions would be required to maintain the company's minimum level of net assets in accordance with its licence requirements.

##### (iv) Other guarantees

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

## Port Stephens

### 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

##### (i) Third party claims

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

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

##### (ii) S94 plans

Council levies section 94/94A contributions upon various development across the Council area through the required contributions plans.

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

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

These future expenses do not yet qualify as liabilities as of the reporting date, but represent Council's intention to spend funds in the manner and timing set out in those plans.

##### (iii) Potential Land Acquisitions due to Planning Restrictions imposed by Council

Council has classified a number of privately owned land parcels as Local Open Space or Bushland.

##### (iii) Potential land acquisitions due to planning restrictions imposed by Council (continued)

As a result, where notified in writing by the various owners, Council will be required to purchase these land parcels.

At reporting date, reliable estimates as to the value of any potential liability (and subsequent land asset) from such potential acquisitions has not been possible.

##### 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 30/6/08.

##### (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.

##### (iii) Legal Matters

Council is dealing with general legal matters as part of normal operations. No specific disclosure is made as these matters do not represent a significant and probable outflow of resources.

## Port Stephens

### 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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#### **(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.

## Port Stephens

### Notes to the Financial Statements

for the year ended 30 June 2016

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

\$ '000

##### (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
Newcastle Airport Partnership and Newcastle Airport Pty Ltd	Domestic Airport Operation	Williamstown	50%	50%	50%	50%

###### (b) Council assets employed in the joint operations

	2016	2015
<b>Council's share of assets jointly owned with other partners</b>		
Current assets	12,833	11,272
Current liabilities	(2,057)	(1,899)
Property, plant and equipment	29,181	29,231
Other non-current assets	5	9
Non-current liabilities	(11,458)	(11,798)
<b>Total net assets employed – Council and jointly owned</b>	<b>28,504</b>	<b>26,815</b>

###### (c) Share of joint operations expenditure commitments

	2016	2015
<b>Capital commitments</b>		
Payable not later than 1 year	56	1,097
<b>Total capital commitments</b>	<b>56</b>	<b>1,097</b>
<b>Operating expenditure commitments</b>		
Payable not later than 1 year	18	60
Payable later than 1 year but not later than 5 years	22	55
<b>Total operating expenditure commitments</b>	<b>40</b>	<b>115</b>

###### (d) Contingent liabilities of joint operations

	2016	2015
Share of contingent liabilities incurred jointly with other participants	100%	100%
Share of contingent liabilities for which Council is severally liable	100%	100%

##### (d) Unconsolidated structured entities

Council has no unconsolidated structured entities

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

The following subsidiaries, joint arrangements and associates have not been recognised in this financial report.

Name of entity/operation	Principal activity/type of entity	2016	2016
		Net profit	Net assets
<b>Strategic Services Australia Limited</b>	Council Support Services	55	249
(formerly known as Hunter Councils Limited)	Joint Venture		

##### Reasons for non-recognition

The Joint Venture has not been recognised as part of Council's financial performance or financial position as it has been deemed immaterial for the purposes of consolidation.

## Port Stephens

### 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)		524,234	516,487
a. Net operating result for the year		20,016	7,747
Balance at end of the reporting period		<u>544,250</u>	<u>524,234</u>
<b>(b) Revaluation reserves</b>			
<b>(i) Reserves are represented by:</b>			
– Infrastructure, property, plant and equipment revaluation reserve		353,628	362,282
– ‘Available for sale’ financial investments revaluation reserve		(48)	(67)
<b>Total</b>		<u><b>353,580</b></u>	<u><b>362,215</b></u>
<b>(ii) Reconciliation of movements in reserves:</b>			
<b>Infrastructure, property, plant and equipment revaluation reserve</b>			
– Opening balance		362,282	231,871
– Revaluations for the year	9(a)	(8,654)	130,411
<b>– Balance at end of year</b>		<u><b>353,628</b></u>	<u><b>362,282</b></u>
<b>‘Available for sale’ financial investments revaluation reserve</b>			
– Opening balance		(67)	(107)
– Unrealised gain (loss) in value for the year		19	40
<b>– Balance at end of year</b>		<u><b>(48)</b></u>	<u><b>(67)</b></u>
<b>TOTAL VALUE OF RESERVES</b>		<u><b>353,580</b></u>	<u><b>362,215</b></u>

#### **(iii) Nature and purpose of reserves**

##### **Infrastructure, property, plant and equipment revaluation reserve**

– The infrastructure, property, plant and equipment revaluation reserve is used to record increments/decrements of non-current asset values due to their revaluation.

##### **‘Available for sale’ financial investments revaluation reserve**

– The ‘available for sale’ financial investments revaluation reserve is used to account for the fair value movements in all financial assets so classified that remain on hand at year end.

Upon sale, amounts in reserves are recognised in the Income Statement (in full) by way of transfer from the reserve.



## Port Stephens

### 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>			
– Community Land discovered not previously brought to account		(453)	–
– Operational Land discovered not previously brought to account		(631)	–
– Community Land disposed of in prior periods not reflected in assets register		15	–
– Operating Land disposed off in 2014, not adjusted against revaluation reserve		(158)	–
– Overstatement of the AFS reserve		53	–
– Newcastle Airport Partnership adjustment to retained earnings due to incorrect asset capitalisation in prior years		318	–
<b>In accordance with AASB 108 – Accounting Policies, Changes in Accounting Estimates and Errors, the above prior period errors have been recognised retrospectively.</b>			
<b>These amounted to the following equity adjustments:</b>			
– Adjustments to opening equity – 1/7/14 (relating to adjustments for the 30/6/14 reporting year end and prior periods)		698	–
– Adjustments to closing equity – 30/6/15 (relating to adjustments for the 30/6/15 year end)		–	–
<b>Total prior period adjustments – prior period errors</b>		<b>698</b>	<b>–</b>

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

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

#### (e) Changes in accounting estimates

Council made no changes in accounting estimates during the year.

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

Council utilises only a general fund for its operations.

## Port Stephens

### Notes to the Financial Statements

for the year ended 30 June 2016

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

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\$ '000

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Council did not classify any non-current assets or disposal groups as 'held for sale'.

#### Note 23. Events occurring after the reporting date

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Events that occur between the end of the reporting period (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 24/10/16.

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'.

## Port Stephens

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

#### Note 25. Intangible assets

	Actual 2016	Actual 2015
\$ '000		
Intangible assets represent identifiable non-monetary assets without physical substance.		
Intangible assets are as follows:		
<b>Opening values:</b>		
Gross book value (1/7)	2,079	394
Accumulated amortisation (1/7)	(90)	–
<b>Net book value – opening balance</b>	<b>1,989</b>	<b>394</b>
<b>Movements for the year</b>		
– Purchases	70	1,416
– Transfers from IPP&E	36	269
– Amortisation charges	(697)	(90)
<b>Closing values:</b>		
Gross book value (30/6)	2,185	2,079
Accumulated amortisation (30/6)	(787)	(90)
<b><u>TOTAL INTANGIBLE ASSETS – NET BOOK VALUE</u></b> <sup>1</sup>	<b><u>1,398</u></b>	<b><u>1,989</u></b>
<sup>1.</sup> <b>The net book value of intangible assets represent:</b>		
– Software	1,398	1,989
	<b>1,398</b>	<b>1,989</b>

## Port Stephens

### 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 - Raymond Terrace	2017	1,600	1,569
<b>Balance at end of the reporting period</b>	10(a)	<b>1,600</b>	<b>1,569</b>

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.

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

Balance at beginning of year	1,568	1,519
Amounts capitalised to new or existing assets:		
Effect of a change in discount rates used in PV calculations	6	19
Amortisation of discount (expensed to borrowing costs)	26	30
<b>Total – reinstatement, rehabilitation and restoration provision</b>	<b>1,600</b>	<b>1,568</b>

#### Amount of expected reimbursements

Of the above provisions for reinstatement, rehabilitation and restoration works, those applicable to garbage services and waste management are able to be funded through future charges incorporated within Council's annual domestic waste management charge.

## Port Stephens

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

#### Note 26. Reinstatement, rehabilitation and restoration liabilities (continued)

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\$ '000

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##### **Provisions for close down and restoration and for environmental clean up costs – tips and quarries**

###### ***Rehabilitation***

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

Provision is made for the estimated present value of the costs of environmental clean up obligations outstanding at the reporting date. These costs are charged to the Income Statement. Movements in the environmental clean up provisions are presented as an operating cost, except for the unwinding of the discount which is shown as a borrowing cost.

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

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other locations. The expected timing of expenditure can also change, for example in response to changes in quarry reserves or production rates. As a result there could be significant adjustments to the provision for close down and restoration and environmental clean up, which would affect future financial results.

## Port Stephens

### 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
- Investment property
- Financial assets and liabilities

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	Fair value measurement hierarchy			Total
	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements				
Financial assets				
Investments				
– ‘Available for sale’	997	–	–	997
Other financial assets	–	–	3,520	3,520
Total financial assets	997	–	3,520	4,517
Investment properties				
Investment Properties held	–	–	21,500	21,500
Total investment properties	–	–	21,500	21,500
Infrastructure, property, plant and equipment				
Plant & Equipment	–	–	10,949	10,949
Office Equipment	–	–	608	608
Furniture & Fittings	–	–	114	114
Land	–	36,007	44,324	80,331
Land Improvements	–	–	659	659
Buildings - Specialised	–	–	86,743	86,743
Other Structures	–	–	2,145	2,145
Infrastructure (Roads, Bridges, Stormwater drains)	–	–	634,515	634,515
Other Assets	–	–	8,992	8,992
Total infrastructure, property, plant and equipment	–	36,007	789,049	825,056

## Port Stephens

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):

Fair value measurement hierarchy				
Level 1	Level 2	Level 3		
Quoted prices in active mkts	Significant observable inputs	Significant unobservable inputs		
Total				
2015				
Recurring fair value measurements				
Financial assets				
Investments				
– ‘Available for sale’	914	–	914	
Other financial assets	–	3,520	3,520	
Total financial assets	914	3,520	4,434	
Investment properties				
Investment Properties held	30/06/15	–	20,835	20,835
Total investment properties	–	–	20,835	20,835
Infrastructure, property, plant and equipment				
Plant & Equipment	–	–	8,297	8,297
Office Equipment	–	–	700	700
Furniture & Fittings	–	–	48	48
Land	–	37,966	50,702	88,668
Land Improvements	–	–	3,526	3,526
Buildings - Specialised	–	–	47,871	47,871
Other Structures	–	–	3,716	3,716
Infrastructure (Roads, Bridges, Stormwater drains)	–	–	659,366	659,366
Other Assets	–	–	8,525	8,525
Total infrastructure, property, plant and equipment	–	37,966	782,751	820,717

## (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.

## Port Stephens

### 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

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

The fair valuation techniques Council has employed while utilising level 2 and level 3 inputs are as follows:

##### Financial assets

The main components of Other Assets include Bio Banking Credits.

Bio Banking credits have been valued at market value, having regard to the “highest and best use”, after identifying all elements that would be taken into account by a knowledgeable buyers and willing sellers in settling the price, including but not limited to:

1. The land's description and/or dimensions relating to the credits being offered;
2. Planning and other constraints on the credits; and
3. The potential for alternative use.

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##### Investment properties

Council obtains valuations of its investment properties every year or when there are indicators of a change in the carrying value of the asset.

The best evidence of Fair Value is the current price in an active market for similar assets. The following information is used where necessary:

The investment property held by Council has been valued by the valuer using valuation techniques that are appropriate and for which sufficient data was available to measure fair value, maximising the use of observable inputs namely Level 3 inputs (based on per square metres). The income approach is used to value the investment properties and has not changed from prior years.

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##### Plant & Equipment, Office Equipment, 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. Examples of assets within these classes are as follows:

- Plant and Equipment - Graders, trucks, rollers, tractors and motor vehicles.
  - Office Equipment - Computers, photocopiers, calculators etc.
  - Furniture & Fittings - Chairs, desks and display boards.
-



## Port Stephens

### 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)

###### Land

The main components of Land include Community Land, Operational Land & Land Under Roads

Community Land is based on either the Land Value provided by the Valuer-General or an average unit rate based on the Land Value for similar properties where the Valuer-General did not provide a Land Value having regard to the highest and best use for the land.

Operational land has been valued at market value, having regard to the "highest and best use", after identifying all elements that would be taken into account by buyers and sellers in settling the price, including but not limited to:

1. The land's description and/or dimensions;
2. Planning and other constraints on development; and
3. The potential for alternative use.

Sale prices of comparable land parcels in close proximity were adjusted for differences in key attributes such as size and configuration. The most significant inputs into this valuation approach are price per square metre. Since extensive professional judgements were required to determine the inputs these assets were classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation techniques during the reporting period.

Land Under Roads acquired post 1 July 2008 have been valued using the square meter rates of adjacent Community Land having regard to the highest and best use for the land. There has been no change to the valuation techniques during the reporting period.

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###### Buildings - Specialised & Other Structures

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

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## Port Stephens

### 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)

##### Infrastructure

The main components of infrastructure include Roads, Bridges, Footpaths, Stormwater Drainage, Recreational and open areas

Roads bridges and footpaths are valued using the cost replacement approach. Valuations for these asset classes were undertaken in-house based on actual costs and assumptions from Council's Engineering Department. No market based evidence (Level 2) inputs are available therefore Level 3 valuation inputs were used for this asset class. There has been no change to the valuation process during the reporting period.

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

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

Councils recreational areas and swimming pools have been valued in house by experienced engineering and asset management staff using the cost approach. The approach estimated the replacement cost for each pool by componentising its significant parts.

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##### Other Assets

Other Assets include Other assets in this class includes heritage collections library books, carparks and joint venture operations.

Councils recreational swimming pools have been valued in house by experienced engineering and asset management staff using the cost approach. The approach estimated the replacement cost for each pool by componentising its significant parts.

All other asset classes have also been recorded at replacement cost.

While some elements of gross replacement values could be supported from market evidence (Level 2 input) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. There has been no change to the valuation process during the reporting period. There has been no change to the valuation process during the reporting period.

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## Port Stephens

### 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.

	Investment Property	Plant & Office Equipment	Furniture & Fittings	Land & Land Improvements	Total
<b>Opening balance – 1/7/14</b>	19,911	9,793	58	92,235	121,997
Purchases (GBV)	55	2,229	–	69	2,353
Disposals (WDV)	–	(1,608)	–	–	(1,608)
Depreciation and impairment	–	(1,416)	(10)	(114)	(1,540)
FV gains – Income Statement <sup>1</sup>	869	–	–	–	869
<b>Closing balance – 30/6/15</b>	<b>20,835</b>	<b>8,998</b>	<b>48</b>	<b>92,190</b>	<b>122,071</b>
Transfers from/(to) another asset class	–	646	42	(11,587)	(10,899)
Purchases (GBV)	179	4,094	46	419	4,738
Disposals (WDV)	–	(561)	–	–	(561)
Depreciation and impairment	–	(1,620)	(22)	(32)	(1,674)
FV gains – Income Statement <sup>1</sup>	486	–	–	–	486
<b>Closing balance – 30/6/16</b>	<b>21,500</b>	<b>11,557</b>	<b>114</b>	<b>80,990</b>	<b>114,161</b>
<sup>1</sup> FV gains recognised in the Income Statement relating to assets still on hand at year end total:					
YE 14/15	869	–	–	–	869
YE 15/16	486	–	–	–	486

	Buildings	Other Structures	Infrastructure	Other Assets	Total
<b>Opening balance – 1/7/14</b>	49,190	3,615	468,493	8,799	530,097
Purchases (GBV)	1,910	343	12,117	335	14,705
Disposals (WDV)	(495)	–	–	–	(495)
Depreciation and impairment	(2,735)	(242)	(6,415)	(609)	(10,001)
FV gains – other comprehensive income	–	–	185,156	–	185,156
<b>Closing balance – 30/6/15</b>	<b>47,870</b>	<b>3,716</b>	<b>659,351</b>	<b>8,525</b>	<b>719,462</b>
Transfers from/(to) another asset class	40,087	(1,736)	(38,497)	904	758
Purchases (GBV)	4,464	334	17,971	384	23,153
Disposals (WDV)	(492)	(17)	(23)	–	(532)
Depreciation and impairment	(5,185)	(152)	(4,287)	(821)	(10,445)
<b>Closing balance – 30/6/16</b>	<b>86,744</b>	<b>2,145</b>	<b>634,515</b>	<b>8,992</b>	<b>732,396</b>

## Port Stephens

### 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) (continued)

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

The following table summarises the quantitative information relating to the significant unobservable inputs used in deriving the various level 3 asset class fair values.

Class	Fair value (30/6/16) \$'000	Valuation technique/s	Unobservable inputs
<b>Investment properties</b>			
Investment properties		Refer 27(3) above	* Market value (price per square metre)
<b>I,PP&amp;E</b>			
Plant & Office Equipment		Refer 27(3) above	* Gross replacement cost * Remaining useful life * Residual value
Furniture & Fittings		Refer 27(3) above	* Gross replacement cost * Remaining useful life * Residual value
Land & Land Improvements		Refer 27(3) above	* VG value (price per square metre) * Market value (price per square metre)
Buildings - Specialised		Refer 27(3) above	* Gross replacement cost * Remaining useful life * Residual value
Other Structures		Refer 27(3) above	* Gross replacement cost * Remaining useful life * Residual value
Infrastructure		Refer 27(3) above	* Gross replacement cost * Remaining useful life * Residual value
Other Assets		Refer 27(3) above	* Gross replacement cost * Remaining useful life * Residual value

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

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

## Port Stephens

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 28. Council information and contact details

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##### **Principal place of business:**

116 Adelaide Street  
Raymond Terrace NSW 2324

##### **Contact details**

##### **Mailing address:**

PO Box 42  
Raymond Terrace NSW 2324

##### **Opening hours:**

8:30am to 5:00pm  
Monday to Friday

**Telephone:** 02 4980 0255

**Facsimile:** 02 4987 3612

**Internet:** [www.portstephens.nsw.gov.au](http://www.portstephens.nsw.gov.au)

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

##### **Officers**

##### **GENERAL MANAGER**

Wayne Wallis

##### **RESPONSIBLE ACCOUNTING OFFICER**

Tim Hazell

##### **PUBLIC OFFICER**

Tony Wickham

##### **AUDITORS**

Pitcher Partners  
The Glass House, Suite 4, Level 1  
101 Hannell St.  
Wickham, NSW, 2293

##### **Elected members**

##### **MAYOR**

Bruce Mackenzie

##### **COUNCILLORS**

Cr Sally Dover  
Cr John Morello  
Cr John Nell  
Cr Chris Doohan  
Cr Geoff Dingle  
Cr Steve Tucker  
Cr Peter Kafer  
Cr Ken Jordan  
Cr Paul Le Mottee

##### **Other information**

**ABN:** 16 744 377 876



## PITCHER PARTNERS

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### Port Stephens Council

#### Independent auditor's report to the Council – s417(2) Report on the general purpose financial statements

##### Report on the financial statements

We have audited the accompanying financial statements of Port Stephens Council (the Council), which comprise the Statement of Financial Position as at 30 June 2016, and the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, accompanying Notes to the Financial Statements, and the Statement by Councillors and Management in the approved form as required by Section 413 (2) of the Local Government Act 1993.

##### *Councillor's responsibility for the financial statements*

The councillors of the Council are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Local Government Act 1993. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are 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. 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 about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Councillors or management, as well as evaluating the overall presentation of the financial statements.



When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial statements.

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

Our audit responsibility does not extend to the Original Budget Figures included in the Income Statement, Statement of Cash Flows and the Original Budget disclosures in Notes 2(a) and 16 to the financial statements, nor the attached Special Schedules (1, 2 & 7) and accordingly, we express no opinion on them.

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

*Auditor's opinion*

- a) the Council's accounting records have been kept in accordance with the requirements of the Local Government Act 1993, Chapter 13 Part 3 Division 2; and
- b) the financial statements:
  - i. have been presented in accordance with the requirements of this Division;
  - ii. are consistent with the Council's accounting records;
  - iii. present fairly the Council's financial position as at 30 June 2016 and the results of operations and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations); and
- c) all information relevant to the conduct of the audit has been obtained; and
- d) there are no material deficiencies in the accounting records or financial statements that have come to light during the course of the audit.



Pitcher Partners Newcastle & Hunter



Wayne Russell  
Partner

Newcastle  
24 October 2016



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### Port Stephens Council

#### Independent Audit Report S417(3) - Report on the conduct of the audit

#### REPORT ON THE CONDUCT OF THE AUDIT FOR THE YEAR ENDED 30 JUNE 2016 - SECTION 417(3)

We have completed our audit of the financial statements for Port Stephens Council for the year ended 30 June 2016, in accordance with Section 415 of the Local Government Act 1993 (the Act). This report should be read in conjunction with our audit opinion under Section 417(2) of the Act on the General Purpose Financial Reports of Council.

The Council is responsible for the preparation and fair presentation of the financial statements 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.

We 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, Statement of Cash Flows and the Original Budget disclosures in Notes 2(a) and 16 to the financial statements, nor the attached Special Schedules (1, 2 & 7) and accordingly, we express no opinion on them. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

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

We formed our 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 report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Council.



When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial statements.

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

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

As a result of our audit there are a number of comments we wish to raise concerning the trends in Council's finances. These comments are set out below.

### **Income Statement**

These financial statements incorporate Council's consolidated accounts for the year ended 30 June 2016.

#### **a) Net Operating Result for the year before Capital Grants and Contributions**

Council's Net Operating Result before capital grants and contributions for the year ended 30 June 2016 shows a surplus of \$8,032,000 compared with a deficit of \$2,747,000 for the year ended 30 June 2015.

The movement in the result is largely attributable to increases in rates & annual charges revenue of \$2,075,000, an increase in user charges & fees of \$8,011,000, an increase in other revenues of \$4,549,000, an increase in gains from the disposal of assets of \$2,476,000 offset by an increase in employee benefits & on-costs expenses of \$1,664,000, an increase in materials & contracts expenses of \$4,345,000, and an increase in depreciation and amortisation of \$1,009,000.

#### **b) Net Operating Result for the Year**

After allowing for items of a capital nature, Council's net operating result for the year ended 30 June 2016 was a surplus of \$20,016,000 compared to a surplus of \$7,747,000 for the year ended 30 June 2015.

The movement in the result is largely attributable to increases in capital grants and contributions of \$1,490,000 and the movements described above.

### **Asset Recognition**

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

In July 2006, the Office of Local Government (OLG) (previously the Division of Local Government) determined that all infrastructure, property, plant and equipment would be valued at fair value on a staged approach recognising water and sewerage assets (where applicable) in the year ended 30 June 2007; plant and equipment, land and buildings, and other assets in the year ended 30 June 2008; roads, bridges, footpaths and drainage in the year ending 30 June 2009 (which was subsequently deferred to 30 June 2010), and Community land, land improvements, other structures and other assets by 30 June 2010 (subsequently deferred to 30 June 2011).

The OLG requires that Councils undertake a revaluation of those asset classes at every five years (unless there have been material changes to the valuation beforehand). Under this framework Community land, land improvements, other structures and other assets were required to be revalued in the current year. Roads (including bulk earthworks), bridges, footpaths and drainage were required to be revalued in the prior year.

The fair value of plant and equipment, land and buildings and other assets was ascertained and based on the following methods:

- plant and equipment - approximated by depreciated historical cost
- buildings - fair value as determined by independent external and internal valuations
- operational land - fair value as determined by external valuations
- roads, bridges, footpaths and drainage assets was based on the method of written down replacement cost
- community land, land improvements and other structures was based on the following methods:
  - land improvements and other structures - approximated by depreciated historical cost
  - community land - on the following bases
    - the NSW Valuer General's valuations may be used to initially recognise community land acquired at no cost or nominal cost. It is considered that the valuations represent the fair value of such land in lieu of actual cost.
    - Community land acquired at market price should be recorded initially at cost.
    - the NSW Valuer General's valuations may be used under the revaluation model to represent fair value for the revaluation of community land.

The revaluation process in respect of infrastructure, property, plant and equipment in the current year resulted in an overall net revaluation decrement of \$8,654,000. This compared to a revaluation increment of \$130,411,000 in the prior year.

## **Performance Indicators**

Our comments in regard to Council's performance for the 2016 year are based on those performance indicators and areas that are considered meaningful.

The indicators we have reviewed are as follows:

### **a) Liquidity**

At 30 June 2016, Council's net current assets stood at \$34,208,000 compared to \$21,980,000 at 30 June 2015. In other words, the total current assets that Council is expected to realise in the coming year exceeded the total current liabilities that will need to be met by this amount. This is referred to as the current asset ratio and is a measure of the liquidity of Council. The unrestricted current ratio is also a measure of liquidity (being Council's ability to meet short term obligations as they fall due), with unrestricted current assets (current assets less external restrictions) exceeding current liabilities (excluding specific purpose liabilities) by 3.23:1 (the benchmark is greater than 1.5). Prima facie these ratios place Council in a sound financial position, however it must be remembered that included are items which Council has determined are restricted in their use. This is best illustrated in the following table.

Council has total cash and investments of \$33,890,000 which are subject to restrictions as follows:

	30 June 2016 \$'000	30 June 2015 \$'000
Total cash and investments	33,890	38,344
Less: Items specifically restricted by external regulation	<u>(21,912)</u>	<u>(21,321)</u>
	11,978	17,023
Less: Amounts subject to restrictions made by Council to cover long term projects and commitments - Internal restrictions	<u>(11,978)</u>	<u>(17,023)</u>
Unrestricted cash and investments	<u>\$NIL</u>	<u>\$NIL</u>

#### *Unrestricted Current Ratio*

The unrestricted current ratio for the last three years is as follows:

2016	2015	2014
3.23	2.21	1.84

#### **b) Debt Service Cover Ratio**

At 30 June 2016 Council had outstanding loans and borrowings of \$19,712,000 compared with \$23,133,000 at 30 June 2015. The debt service cover ratio has been used to give an indication of the availability of operating cash to service debt including principal, interest and lease repayments. The ratio is 4.71 for the year ended 30 June 2016 compared to 2.18 for the year ended 30 June 2015 and 1.69 for the year ended 30 June 2014. The benchmark is a ratio greater than 2.

#### **c) Own Source Operating Revenue**

This ratio (expressed as a percentage) is essentially a measure of the extent to which Council is dependent upon revenue from grants and contributions as compared to its total revenue. Put another way the less reliant Council is on grants and contributions the higher the percentage. For the year ended 30 June 2016, Council's own source operating revenue ratio was approximately 80.45% compared to 80.16% in 2015 and 80.56% in 2014. The benchmark is 60%, however care needs to be taken in interpreting the result as fluctuations in grant and contribution income between years can have a material impact on the calculation.

#### **d) Rates and Annual Charges Outstanding**

The rates and annual charges outstanding percentage is used to assess the impact of uncollected rates and annual charges on liquidity and the adequacy of debt recovery efforts. The percentage of rates and annual charges outstanding is 2.69% in 2016 compared to 4.27% in 2015 and 3.99% in 2014. The benchmark is less than 5% for metropolitan councils and less than 10% for rural councils.

#### **Internally Restricted Assets**

Council sets aside in the form of specific cash or investments amounts to cover future expenditure that is considered necessary for efficient long term operations. This cash is restricted for use on the specific purposes designated. It does not include restrictions on unexpended grant income or section 94 contributions, as these are provided for separately in external restrictions. At 30 June 2016, Council had

internally restricted assets totalling \$11,978,000 compared to \$17,023,000 at 30 June 2015. Internal restrictions at 30 June 2016 relate to the Newcastle Airport Partnership of \$11,052,000 and Section 355 Committees of \$926,000. It is prudent for Council to regularly consider and assess whether the level of cash and investments it has set aside for future projects and operations is appropriate compared to the desired level and timing of the expenditure at any given point in time.

## **Statement of Cash Flows**

### *Cash flows from operating activities*

Net cash provided from operating activities amounted to \$21,188,000 in 2016 compared to \$23,625,000 for the previous year.

The cash flows from operating activities has decreased from the prior year as a result of an increase in receipts from rates & annual charges of \$2,959,000, an increase in user charges & fees of \$9,537,000, an increase in other receipts of \$5,161,000 offset by a decrease in receipts from grants & contributions of \$5,393,000, an increase in payments for employee benefits & on-costs of \$2,433,000, and an increase in payments for materials & contracts of \$12,361,000.

### *Cash flows from investing activities*

Net cash used in investing activities amounted to \$23,180,000 for the year ended 30 June 2016, compared to \$17,603,000 for the previous year.

The movement is primarily attributable to a decrease in receipts from the sale of investments of \$6,919,000 offset by an increase in the sales of real estate assets of \$6,149,000, a decrease in the purchase investments of \$1,552,000 and an increase in the purchase of infrastructure, property, plant & equipment of \$2,682,000 over the prior year.

### *Cash flows from financing activities*

Net cash used in financing activities amounted to \$3,441,000 for the year ended 30 June 2016 compared to net cash used of \$3,943,000 in the previous year and is attributable to repayments of borrowings.

The movement is largely consistent with the previous year.

## **General**

A management letter highlighting matters arising from our audit covering internal controls and other accounting matters will be prepared where it is considered necessary or appropriate and issued to the Financial Services Section Manager in due course. Should a letter be issued any matters raised are not of a nature that is significant in arriving at our audit opinion.

We thank the General Manager, Financial Services Section Manager and their staff for the co-operation and courtesy extended to us during the course of our visit to Council's office.



Pitcher Partners Newcastle & Hunter



Wayne Russell  
Partner

Newcastle  
24 October 2016

# Port Stephens

SPECIAL SCHEDULES  
for the year ended 30 June 2016

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**"A great lifestyle in a  
treasured environment"**



## Port Stephens

### Special Schedules

for the year ended 30 June 2016

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<sup>1</sup> Special Schedules are not audited (with the exception of Special Schedule 8).

### 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.

# Port Stephens

## 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>Administration</b>	26,607	6,745	–	(19,862)
<b>Public order and safety</b>				
Fire service levy, fire protection, emergency services	2,567	996	50	(1,521)
Beach control	618	–	–	(618)
Enforcement of local government regulations	2,724	664	–	(2,060)
Animal control	–	93	–	93
Other	–	–	–	–
<b>Total public order and safety</b>	<b>5,909</b>	<b>1,753</b>	<b>50</b>	<b>(4,106)</b>
<b>Health</b>	<b>417</b>	<b>383</b>	–	<b>(34)</b>
<b>Environment</b>				
Noxious plants and insect/vermin control	195	194	–	(1)
Other environmental protection	1,569	990	4,412	3,833
Solid waste management	14,035	17,754	–	3,719
Street cleaning	65	–	–	(65)
Drainage	4,224	–	–	(4,224)
Stormwater management	–	–	–	–
<b>Total environment</b>	<b>20,088</b>	<b>18,938</b>	<b>4,412</b>	<b>3,262</b>
<b>Community services and education</b>				
Administration and education	53	21	–	(32)
Social protection (welfare)	1,565	343	–	(1,222)
Aged persons and disabled	15	10	–	(5)
Children's services	1,349	1,702	–	353
<b>Total community services and education</b>	<b>2,982</b>	<b>2,076</b>	–	<b>(906)</b>
<b>Housing and community amenities</b>				
Public cemeteries	108	162	–	54
Public conveniences	–	–	–	–
Street lighting	1,291	–	–	(1,291)
Town planning	2,855	918	–	(1,937)
Other community amenities	–	–	–	–
<b>Total housing and community amenities</b>	<b>4,254</b>	<b>1,080</b>	–	<b>(3,174)</b>

# Port Stephens

## 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	1,748	372	—	(1,376)
Museums	—	—	—	—
Art galleries	—	—	—	—
Community centres and halls	370	153	—	(217)
Performing arts venues	—	—	—	—
Other performing arts	—	—	—	—
Other cultural services	319	—	—	(319)
Sporting grounds and venues	35	—	—	(35)
Swimming pools	1,587	—	—	(1,587)
Parks and gardens (lakes)	633	118	210	(305)
Other sport and recreation	4,045	492	3,908	355
<b>Total recreation and culture</b>	<b>8,737</b>	<b>1,135</b>	<b>4,118</b>	<b>(3,484)</b>
<b>Fuel and energy</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Agriculture</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Mining, manufacturing and construction</b>				
Building control	1,817	1,692	—	(125)
Other mining, manufacturing and construction	—	—	—	—
<b>Total mining, manufacturing and const.</b>	<b>1,817</b>	<b>1,692</b>	<b>—</b>	<b>(125)</b>
<b>Transport and communication</b>				
Urban roads (UR) – local	4,694	3,626	3,223	2,155
Urban roads – regional	7,083	9,989	—	2,906
Sealed rural roads (SRR) – local	956	—	—	(956)
Sealed rural roads (SRR) – regional	—	—	—	—
Unsealed rural roads (URR) – local	669	—	—	(669)
Unsealed rural roads (URR) – regional	—	—	—	—
Bridges on UR – local	—	—	—	—
Bridges on SRR – local	134	—	—	(134)
Bridges on URR – local	—	—	—	—
Bridges on regional roads	—	—	—	—
Parking areas	446	287	—	(159)
Footpaths	—	—	—	—
Aerodromes	10,097	12,277	—	2,180
Other transport and communication	5,851	773	—	(5,078)
<b>Total transport and communication</b>	<b>29,930</b>	<b>26,952</b>	<b>3,223</b>	<b>245</b>
<b>Economic affairs</b>				
Camping areas and caravan parks	9,139	10,433	—	1,294
Other economic affairs	4,805	6,366	181	1,742
<b>Total economic affairs</b>	<b>13,944</b>	<b>16,799</b>	<b>181</b>	<b>3,036</b>
<b>Totals – functions</b>	<b>114,685</b>	<b>77,553</b>	<b>11,984</b>	<b>(25,148)</b>
<b>General purpose revenues <sup>(1)</sup></b>		<b>45,165</b>		<b>45,165</b>
<b>Share of interests – joint ventures and associates using the equity method</b>	<b>—</b>	<b>—</b>		<b>—</b>
<b>NET OPERATING RESULT <sup>(2)</sup></b>	<b>114,685</b>	<b>122,718</b>	<b>11,984</b>	<b>20,017</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



## Port Stephens

### 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	565	622	1,187	—	565	—	—	44	400	222	622
Public subscription	2,814	12,810	15,624	—	2,801	—	—	506	2,597	10,226	12,823
Financial institutions	—	—	—							—	—
Other	—	6,250	6,250	—	—	—	—	—	—	6,250	6,250
<b>Total loans</b>	<b>3,379</b>	<b>19,682</b>	<b>23,061</b>	<b>—</b>	<b>3,366</b>	<b>—</b>	<b>—</b>	<b>550</b>	<b>2,997</b>	<b>16,698</b>	<b>19,695</b>
<b>Other long term debt</b>											
Ratepayers advances	—	—	—							—	—
Government advances	—	—	—							—	—
Finance leases	60	55	115	—	—	—	—	—	—	115	115
Deferred payments	—	—	—							—	—
<b>Total long term debt</b>	<b>60</b>	<b>55</b>	<b>115</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>115</b>	<b>115</b>
<b>Total debt</b>	<b>3,439</b>	<b>19,737</b>	<b>23,176</b>	<b>—</b>	<b>3,366</b>	<b>—</b>	<b>—</b>	<b>550</b>	<b>2,997</b>	<b>16,813</b>	<b>19,810</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).

## Port Stephens

## 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	676	676	1,513	1,754	86,743	172,796	11%	31%	51%	7%	1%
	<b>Sub-total</b>	<b>676</b>	<b>676</b>	<b>1,513</b>	<b>1,754</b>	<b>86,743</b>	<b>172,796</b>	<b>11.2%</b>	<b>30.7%</b>	<b>50.9%</b>	<b>6.5%</b>	<b>0.7%</b>
<b>Other structures</b>	Other structures	3	3	209	280	2,145	3,141	8%	10%	82%	0%	0%
	<b>Sub-total</b>	<b>3</b>	<b>3</b>	<b>209</b>	<b>280</b>	<b>2,145</b>	<b>3,141</b>	<b>7.7%</b>	<b>9.8%</b>	<b>82.4%</b>	<b>0.1%</b>	<b>0.0%</b>
<b>Roads</b>	Sealed roads	7,282	7,282	3,307	2,513	314,497	352,677	10%	51%	24%	9%	6%
	Unsealed roads	2,854	2,854	166	580	8,266	11,818	6%	0%	18%	25%	51%
	Bridges	80	80	30	18	11,108	11,432	21%	79%			0%
	Footpaths	65	65	109	212	26,883	24,430	7%	21%	67%	5%	0%
	Other road assets	936	936	452	556	64,300	76,597	10%	23%	63%	4%	0%
	<b>Sub-total</b>	<b>11,217</b>	<b>11,217</b>	<b>4,064</b>	<b>3,879</b>	<b>425,054</b>	<b>476,954</b>	<b>10.0%</b>	<b>44.4%</b>	<b>31.8%</b>	<b>8.1%</b>	<b>5.7%</b>

## Port Stephens

## 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
<b>Stormwater drainage</b>	Stormwater drainage	1,006	1,006	1,220	1,514	183,790	185,314	19%	78%	2%	1%	0%
	<b>Sub-total</b>	<b>1,006</b>	<b>1,006</b>	<b>1,220</b>	<b>1,514</b>	<b>183,790</b>	<b>185,314</b>	<b>19.0%</b>	<b>78.0%</b>	<b>2.0%</b>	<b>1.0%</b>	<b>0.0%</b>
<b>Open space/recreational assets</b>	Swimming pools	–	–	291	245	3,436	7,167	0%	75%	25%		0%
	Open Space	377	377	465	3,214	17,049	35,146	7%	25%	52%	12%	4%
	<b>Sub-total</b>	<b>377</b>	<b>377</b>	<b>756</b>	<b>3,459</b>	<b>20,485</b>	<b>42,313</b>	<b>6.1%</b>	<b>33.2%</b>	<b>47.3%</b>	<b>10.3%</b>	<b>3.1%</b>
<b>Other infrastructure assets</b>	Other	2,278	2,278	36	156	5,185	13,038	21%	33%	30%	14%	2%
	<b>Sub-total</b>	<b>2,278</b>	<b>2,278</b>	<b>36</b>	<b>156</b>	<b>5,185</b>	<b>13,038</b>	<b>21.0%</b>	<b>33.0%</b>	<b>30.0%</b>	<b>14.0%</b>	<b>2.0%</b>
	<b>TOTAL – ALL ASSETS</b>	<b>15,557</b>	<b>15,557</b>	<b>7,798</b>	<b>11,042</b>	<b>723,404</b>	<b>893,556</b>	<b>12.0%</b>	<b>47.9%</b>	<b>30.2%</b>	<b>6.5%</b>	<b>3.4%</b>

## Notes:

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

## Infrastructure asset condition assessment 'key'

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

## Port Stephens

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

\$ '000	Amounts 2016	Indicator 2016	Prior periods 20152014	
Infrastructure asset performance indicators * consolidated				
1. Infrastructure renewals ratio				
Asset renewals <sup>(1)</sup>	15,054	156.05%	112.74%	114.20%
Depreciation, amortisation and impairment	9,647			
2. Infrastructure backlog ratio				
Estimated cost to bring assets to a satisfactory standard	15,557	2.15%	2.57%	5.57%
Carrying value of infrastructure assets	724,063			
3. Asset maintenance ratio				
Actual asset maintenance	11,042	1.42	0.95	0.55
Required asset maintenance	7,798			
4. Cost to bring assets to agreed service level				
Estimated cost to bring assets to an agreed service level set by Council	15,557	1.74%	0.00%	
Gross replacement cost	893,556			
5. Capital expenditure ratio				
Annual capital expenditure	28,616	1.96	1.64	1.71
Annual depreciation	14,637			

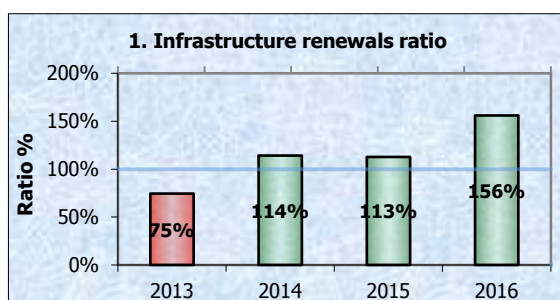
#### Notes

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

<sup>(1)</sup> 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.

## Port Stephens

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



Benchmark: — Minimum  $\geq 100.00\%$

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

**Purpose of asset renewals ratio**

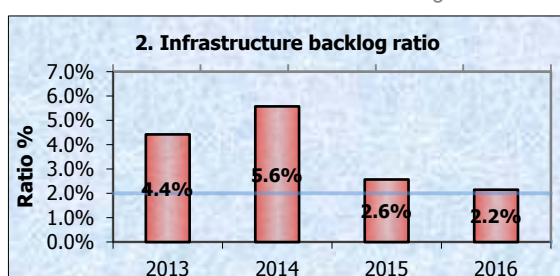
To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

**Commentary on 2015/16 result**

**2015/16 Ratio 156.05%**

The renewal ratio continues to grow as a result of Council's constant effort to renew existing infrastructure to ensure satisfaction standards are maintained..

Ratio achieves benchmark  
 Ratio is outside benchmark



Benchmark: — Maximum  $< 2.00\%$

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

**Purpose of infrastructure backlog ratio**

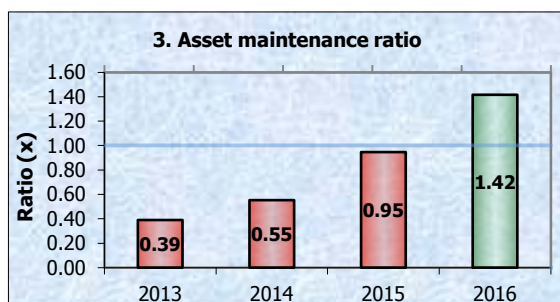
This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.

**Commentary on 2015/16 result**

**2015/16 Ratio 2.15%**

Council has continued in its efforts to reduce the infrastructure backlog with the current figure better than the projected position.

Ratio achieves benchmark  
 Ratio is outside benchmark



Benchmark: — Minimum  $> 1.00$

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

**Purpose of asset maintenance ratio**

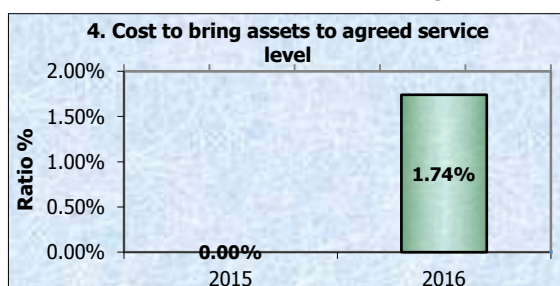
Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing.

**Commentary on 2015/16 result**

**2015/16 Ratio 1.42 x**

Council's maintenance program has exceeded targets this year

Ratio achieves benchmark  
 Ratio is outside benchmark



**Purpose of agreed service level ratio**

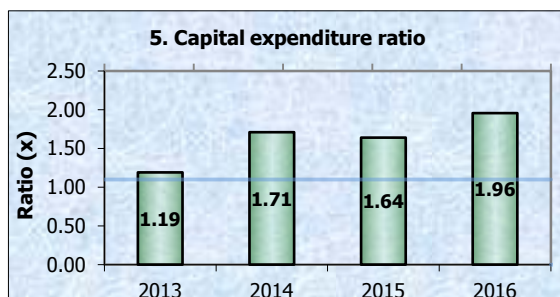
This ratio provides a snapshot of the proportion of outstanding renewal works compared to the total value of assets under Council's care and stewardship.

**Commentary on 2015/16 result**

**2015/16 Ratio 1.74%**

This ratio is new and shows Council's commitment to renewing existing infrastructure.

Ratio achieves benchmark  
 Ratio is outside benchmark



Benchmark: — Minimum  $> 1.10$

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

**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 1.96 x**

Council has expanded its asset base via new subdivisions, construction of buildings and plant purchases.

## Port Stephens

### 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	37,307	38,490
Plus or minus adjustments <sup>(2)</sup>	b	312	487
<b>Notional general income</b>	c = (a + b)	<b>37,619</b>	<b>38,977</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	2.44%	1.83%
Less expiring special variation amount	g	—	—
Plus special variation amount	h = d x (c - g)	—	—
Or plus rate peg amount	i = c x e	—	—
Or plus Crown land adjustment and rate peg amount	j = c x f	918	713
<b>Sub-total</b>	k = (c + g + h + i + j)	<b>38,537</b>	<b>39,690</b>
Plus (or minus) last year's carry forward total	l	3	11
Less valuation objections claimed in the previous year	m	(39)	—
<b>Sub-total</b>	n = (l + m)	<b>(36)</b>	<b>11</b>
<b>Total permissible income</b>	o = k + n	<b>38,501</b>	<b>39,701</b>
Less notional general income yield	p	38,490	39,685
<b>Catch-up or (excess) result</b>	q = o - p	<b>11</b>	<b>16</b>
Plus income lost due to valuation objections claimed <sup>(4)</sup>	r	—	—
Less unused catch-up <sup>(5)</sup>	s	—	—
<b>Carry forward to next year</b>	t = q + r - s	<b>11</b>	<b>16</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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### Independent Auditor's Report to Port Stephens Council

#### Report on 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 Port Stephens Council for the year ending 30 June 2016.

#### *Councillor's responsibility for the Statement*

The councillors are responsible for the preparation of Special Schedule No.8 in accordance with the Local Government Code of Accounting Practice and Financial Reporting (Guidelines) Update No.24, and for such internal controls as the councillors determine is necessary to enable the preparation and fair presentation of Special Schedule No.8 that is free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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 Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether Special Schedule No.8 is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in Special Schedule No.8. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of Special Schedule No.8, 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 Special Schedule No. 8 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 Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the councillors, as well as evaluating the overall presentation of Special Schedule No.8.

Because of the inherent limitations of our 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 performance in accordance with Australian Auditing Standards.

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



*Auditor's opinion*

In our opinion, the accompanying Special Schedule No.8 of Port Stephens Council for 2016/17 is prepared, 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 and Restriction on Distribution and Use*

Without modifying our opinion, we draw attention that Special Schedule No.8 has been prepared for distribution to the Office of Local Government for the purposes of confirming that Port Stephens Council's reconciliation of total permissible general income is presented fairly. As a result, the schedule may not be suitable for another purpose.



Pitcher Partners Newcastle & Hunter



Wayne Russell  
Partner

24 October 2016



**Port Stephens Council**  
**Holiday Parks & Investment Property Report**  
**Financial Year 2015/2016**

<b>Holiday Parks</b>		<b>Income</b>	<b>Expenditure</b>	<b>EBITDA (5)</b>	<b>Net Yield % (3)</b>	<b>Notes</b>
Fingal Bay	Crown	4,071,988	2,894,965	1,177,023	16%	<b>1</b>
Halifax	Crown	2,807,350	2,343,114	464,235	15%	<b>1</b>
Shoal Bay	Crown	1,015,089	776,924	238,165		
	Council	<u>1,885,166</u>	<u>1,442,859</u>	<u>442,307</u>	8%	
		<u>2,900,255</u>	<u>2,219,783</u>	<u>680,472</u>		<b>1</b>
Thou Walla	Council	673,066	824,771	(151,706)	0%	<b>1 &amp; 4</b>
TreEscape	Council	505,823	596,185	(90,362)	0%	<b>1 &amp; 4</b>

<b>Investment Property</b>		<b>Income</b>	<b>Expenditure</b>	<b>Profit / (Loss)</b>	<b>Net Yield % (3)</b>	
	Total	2,742,349	1,024,800	1,717,549	8%	<b>2</b>

<b>Newcastle Airport</b>		<b>Income</b>	<b>Expenditure</b>	<b>Profit / (Loss)</b>	<b>Net Yield % (3)</b>	
	Total	12,864,302	10,096,757	2,767,545	9%	

**Notes**

- 1** Yield returns were affected by the April Storm
- 2** Councils policy on the required return on capital in commercial property investments is between 7-9%
- 3** Net Yield = EBITDA / capital
- 4** Returns are in line with the business case for these parks which are in startup phase of their business lifecycle
- 5** EBITDA used as the numerator for Return on Investment calculation in accordance with Crown Lands reporting



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