

Port Stephens

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2017

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



Port Stephens

General Purpose Financial Statements

for the year ended 30 June 2017

| Contents | Page |
|--|------|
| 1. Understanding Council's Financial Statements | 2 |
| 2. Statement by Councillors and Management | 3 |
| 3. Primary Financial Statements: | |
| – Income Statement | 4 |
| – Statement of Comprehensive Income | 5 |
| – Statement of Financial Position | 6 |
| – Statement of Changes in Equity | 7 |
| – Statement of Cash Flows | 8 |
| 4. Notes to the Financial Statements | 9 |
| 5. Independent Auditor's Reports: | |
| – On the Financial Statements (Sect 417 [2]) | 89 |
| – On the Conduct of the Audit (Sect 417 [3]) | 92 |

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 guiding principles are detailed in Chapter 3 of the LGA and includes:

- principles applying to the exercise of functions generally by council,
- principles to be applied when making decisions,
- principles of community participation,
- principles of sound financial management, and
- principles for strategic planning relating to the development of an integrated planning and reporting framework.

A description of the nature of Council's operations and its principal activities are provided in Note 2(b).

(iii) All figures presented in these financial statements are presented in Australian currency.

(iv) These financial statements were authorised for issue by the Council on 27 October 2017. Council has the power to amend and reissue these financial statements.

Port Stephens

General Purpose Financial Statements for the year ended 30 June 2017

Understanding Council's financial statements

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 2017.

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

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

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

3. The Statement of Financial Position

A 30 June snapshot of Council's financial position indicating its assets, liabilities and "net wealth".

4. The Statement of Changes in Equity

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

5. The Statement of Cash Flows

Indicates where Council's cash came from and where it was spent. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

About the Notes to the Financial Statements

The Notes to the Financial Statements provide greater detail and additional information on the five primary financial statements.

About the Auditor's Reports

Council's annual financial statements are required to be audited by the NSW Audit Office. 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 year ended 30 June 2017

Statement by Councillors and Management

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

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

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

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

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

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

Signed in accordance with a resolution of Council made on 26 September 2017.

Ryan Palmer
Mayor

Councillor

Wayne Wallis
General manager

Tim Hazell
Responsible accounting officer

Port Stephens

Income Statement

for the year ended 30 June 2017

| Budget 2017 | ¹ \$ '000 | Notes | Actual 2017 | Actual 2016 |
|----------------|--|-------|----------------|----------------|
| | Income from continuing operations | | | |
| | Revenue: | | | |
| 52,778 | Rates and annual charges | 3a | 53,415 | 51,749 |
| 37,702 | User charges and fees | 3b | 37,971 | 41,103 |
| 1,680 | Interest and investment revenue | 3c | 1,192 | 1,138 |
| 5,909 | Other revenues | 3d | 8,593 | 12,332 |
| 12,814 | Grants and contributions provided for operating purposes | 3e,f | 16,488 | 13,729 |
| 8,003 | Grants and contributions provided for capital purposes | 3e,f | 14,309 | 11,984 |
| | Other income: | | | |
| 250 | Net gains from the disposal of assets | 5 | 259 | 2,659 |
| 119,136 | Total income from continuing operations | | 132,227 | 134,694 |
| | Expenses from continuing operations | | | |
| 40,822 | Employee benefits and on-costs | 4a | 41,795 | 40,673 |
| 841 | Borrowing costs | 4b | 714 | 893 |
| 39,064 | Materials and contracts | 4c | 36,275 | 43,960 |
| 14,713 | Depreciation and amortisation | 4d | 14,985 | 14,637 |
| – | Impairment | 4d | 696 | – |
| 12,616 | Other expenses | 4e | 15,046 | 14,515 |
| 108,056 | Total expenses from continuing operations | | 109,511 | 114,678 |
| 11,080 | Operating result from continuing operations | | 22,716 | 20,016 |
| | | | | |
| 11,080 | Net operating result for the year | | 22,716 | 20,016 |
| 11,080 | Net operating result attributable to Council | | 22,716 | 20,016 |
| | | | | |
| 3,077 | Net operating result for the year before grants and contributions provided for capital purposes | | 8,407 | 8,032 |

¹ Original budget as approved by Council – refer Note 16

Port Stephens

Statement of Comprehensive Income for the year ended 30 June 2017

| \$ '000 | Notes | Actual 2017 | Actual 2016 |
|---|----------|----------------|----------------|
| Net operating result for the year (as per Income Statement) | | 22,716 | 20,016 |
| Other comprehensive income: | | | |
| Amounts which will not be reclassified subsequently to the operating result | | | |
| Gain (loss) on revaluation of I,PP&E | 20b (ii) | (2,270) | (8,654) |
| Impairment (loss) reversal relating to I,PP&E | 20b (ii) | 352 | – |
| Total items which will not be reclassified subsequently to the operating result | | (1,918) | (8,654) |
| 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) | 48 | 19 |
| Total items which will be reclassified subsequently to the operating result when specific conditions are met | | 48 | 19 |
| Total other comprehensive income for the year | | (1,870) | (8,635) |
| Total comprehensive income for the year | | 20,846 | 11,381 |
| Total comprehensive income attributable to Council | | 20,846 | 11,381 |

Port Stephens

Statement of Financial Position as at 30 June 2017

| \$ '000 | Notes | Actual 2017 | Actual 2016 |
|---|-------|----------------|----------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 6a | 8,093 | 7,735 |
| Investments | 6b | 40,402 | 25,911 |
| Receivables | 7 | 8,815 | 12,761 |
| Inventories | 8 | 14,313 | 12,277 |
| Other | 8 | 435 | 513 |
| Total current assets | | 72,058 | 59,197 |
| Non-current assets | | | |
| Investments | 6b | 231 | 244 |
| Receivables | 7 | 177 | 199 |
| Inventories | 8 | 9,241 | 8,077 |
| Infrastructure, property, plant and equipment | 9 | 860,726 | 854,614 |
| Investment property | 14 | 26,000 | 21,500 |
| Intangible assets | 25 | 1,196 | 1,398 |
| Other | 8 | 10 | – |
| Total non-current assets | | 897,581 | 886,032 |
| TOTAL ASSETS | | 969,639 | 945,229 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Payables | 10 | 8,478 | 6,931 |
| Income received in advance | 10 | 605 | 245 |
| Borrowings | 10 | 2,837 | 3,014 |
| Provisions | 10 | 15,409 | 14,797 |
| Total current liabilities | | 27,329 | 24,987 |
| Non-current liabilities | | | |
| Payables | 10 | 8 | 7 |
| Income received in advance | 10 | 4,884 | 5,145 |
| Borrowings | 10 | 18,721 | 16,698 |
| Provisions | 10 | 532 | 562 |
| Total non-current liabilities | | 24,145 | 22,412 |
| TOTAL LIABILITIES | | 51,474 | 47,399 |
| Net assets | | 918,164 | 897,830 |
| EQUITY | | | |
| Retained earnings | 20 | 567,409 | 544,250 |
| Revaluation reserves | 20 | 350,755 | 353,628 |
| Other reserves | 20 | – | (48) |
| Council equity interest | | 918,164 | 897,830 |
| Total equity | | 918,164 | 897,830 |

Port Stephens

Statement of Changes in Equity
for the year ended 30 June 2017

| \$ '000 | Notes | 2017 | | | | | 2016 | | | | |
|--|----------|-------------------|--|-------------------------------|------------------|--------------------------|-------------------|--|-------------------------------|------------------|--------------------------|
| | | Retained earnings | Asset revaluation reserve (Refer 20b) | Other reserves (Refer 20b) | Council interest | Non-controlling interest | Retained earnings | Asset revaluation reserve (Refer 20b) | Other reserves (Refer 20b) | Council interest | Non-controlling interest |
| | | | | | | Total equity | | | | | Total equity |
| Opening balance (as per last year's audited accounts) | | 544,250 | 353,628 | (48) | 897,830 | – | 524,234 | 362,215 | – | 886,449 | – |
| a. Correction of prior period errors | 20 (c) | (512) | – | – | (512) | – | – | – | – | – | – |
| b. Changes in accounting policies (prior year effects) | 20 (d) | – | – | – | – | – | – | – | – | – | – |
| Revised opening balance | | 543,738 | 353,628 | (48) | 897,318 | – | 524,234 | 362,215 | – | 886,449 | – |
| c. Net operating result for the year | | 22,716 | – | – | 22,716 | – | 20,016 | – | – | 20,016 | – |
| d. Other comprehensive income | | | | | | | | | | | |
| – Revaluations: IPP&E asset revaluation rsve | 20b (ii) | – | (2,270) | – | (2,270) | – | – | (8,654) | – | (8,654) | – |
| – Revaluations: other reserves | 20b (ii) | – | – | 48 | 48 | – | – | – | 19 | 19 | – |
| – Transfers to Income Statement | 20b (ii) | – | – | – | – | – | – | – | – | – | – |
| – Impairment (loss) reversal relating to I,PP&E | 20b (ii) | – | 352 | – | 352 | – | – | – | – | – | – |
| – Joint ventures and associates | 19b | – | – | – | – | – | – | – | – | – | – |
| Other comprehensive income | | – | (1,918) | 48 | (1,870) | – | – | (8,654) | 19 | (8,635) | – |
| Total comprehensive income (c&d) | | 22,716 | (1,918) | 48 | 20,846 | – | 20,016 | (8,654) | 19 | 11,381 | – |
| e. Distributions to/(contributions from) non-controlling interests | | – | – | – | – | – | – | – | – | – | – |
| f. Transfers between equity | | 955 | (955) | – | – | – | – | 67 | (67) | – | – |
| Equity – balance at end of the reporting period | | 567,409 | 350,755 | – | 918,164 | – | 544,250 | 353,628 | (48) | 897,830 | – |

Port Stephens

Statement of Cash Flows

for the year ended 30 June 2017

| Budget 2017 | \$ '000 | Notes | Actual 2017 | Actual 2016 |
|---|--|-------|-----------------|-----------------|
| Cash flows from operating activities | | | | |
| Receipts: | | | | |
| 52,066 | Rates and annual charges | | 53,302 | 52,372 |
| 36,430 | User charges and fees | | 41,215 | 43,321 |
| 1,680 | Investment and interest revenue received | | 1,137 | 1,437 |
| 21,366 | Grants and contributions | | 24,940 | 23,092 |
| – | Bonds, deposits and retention amounts received | | 101 | – |
| 5,827 | Other | | 14,395 | 12,781 |
| Payments: | | | | |
| (41,124) | Employee benefits and on-costs | | (41,789) | (41,056) |
| (36,568) | Materials and contracts | | (39,809) | (53,769) |
| (841) | Borrowing costs | | (669) | (841) |
| – | Bonds, deposits and retention amounts refunded | | – | (527) |
| (14,479) | Other | | (16,282) | (15,622) |
| 24,357 | Net cash provided (or used in) operating activities | 11b | 36,540 | 21,188 |
| Cash flows from investing activities | | | | |
| Receipts: | | | | |
| – | Sale of investment securities | | 85,152 | 44,000 |
| – | Sale of real estate assets | | – | 6,149 |
| 250 | Sale of infrastructure, property, plant and equipment | | 1,565 | 1,072 |
| – | Deferred debtors receipts | | 11 | 14 |
| Payments: | | | | |
| – | Purchase of investment securities | | (99,582) | (44,960) |
| – | Purchase of investment property | | (115) | (179) |
| (20,000) | Purchase of infrastructure, property, plant and equipment | | (22,408) | (25,904) |
| – | Purchase of real estate assets | | (2,249) | (3,302) |
| – | Purchase of intangible assets | | (357) | (70) |
| (19,750) | Net cash provided (or used in) investing activities | | (37,983) | (23,180) |
| Cash flows from financing activities | | | | |
| Receipts: | | | | |
| – | Proceeds from borrowings and advances | | 4,870 | – |
| Payments: | | | | |
| (3,767) | Repayment of borrowings and advances | | (3,029) | (3,366) |
| – | Repayment of finance lease liabilities | | (39) | (75) |
| (3,767) | Net cash flow provided (used in) financing activities | | 1,801 | (3,441) |
| 840 | Net increase/(decrease) in cash and cash equivalents | | 358 | (5,433) |
| 15,547 | Plus: cash and cash equivalents – beginning of year | 11a | 7,735 | 13,168 |
| 16,387 | Cash and cash equivalents – end of the year | 11a | 8,093 | 7,735 |
| Additional Information: | | | | |
| 25,229 | plus: Investments on hand – end of year | 6b | 40,633 | 26,155 |
| 41,616 | Total cash, cash equivalents and investments | | 48,726 | 33,890 |

Please refer to Note 11 for additional cash flow information

This statement should be read in conjunction with the accompanying notes.

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Contents of the notes accompanying the financial statements

| Note | Details | Page |
|---------------------------------------|---|--------|
| 1 | Summary of significant accounting policies | 10 |
| 2(a) | Council functions/activities – financial information | 28 |
| 2(b) | Council functions/activities – component descriptions | 29 |
| 3 | Income from continuing operations | 30 |
| 4 | Expenses from continuing operations | 35 |
| 5 | Gains or losses from the disposal of assets | 38 |
| 6(a) | Cash and cash equivalent assets | 39 |
| 6(b) | Investments | 39 |
| 6(c) | Restricted cash, cash equivalents and investments – details | 40 |
| 7 | Receivables | 42 |
| 8 | Inventories and other assets | 43 |
| 9(a) | Infrastructure, property, plant and equipment | 45 |
| 9(b) | Externally restricted infrastructure, property, plant and equipment | 46 |
| 9(c) | Infrastructure, property, plant and equipment – current year impairments | 46 n/a |
| 10(a) | Payables, borrowings and provisions | 47 |
| 10(b) | Description of (and movements in) provisions | 48 |
| 11 | Statement of cash flows – additional information | 49 |
| 12 | Commitments for expenditure | 50 |
| 13 | Statement of performance measures: | |
| 13a (i) | Local government industry indicators (consolidated) | 52 |
| 13a (ii) | Local government industry graphs (consolidated) | 53 |
| 14 | Investment properties | 55 |
| 15 | Financial risk management | 56 |
| 16 | Material budget variations | 60 |
| 17 | Statement of developer contributions | 62 |
| 18 | Contingencies and other liabilities/assets not recognised | 68 |
| 19 | Interests in other entities | 70 |
| 20 | Retained earnings, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors | 72 |
| 21 | Financial result and financial position by fund | 73 n/a |
| 22 | 'Held for sale' non-current assets and disposal groups | 74 n/a |
| 23 | Events occurring after the reporting date | 74 n/a |
| 24 | Discontinued operations | 74 n/a |
| 25 | Intangible assets | 75 |
| 26 | Reinstatement, rehabilitation and restoration liabilities | 76 |
| 27 | Fair value measurement | 78 |
| 28 | Related party disclosures | 85 |
| Additional council disclosures | | |
| 29 | Council information and contact details | 88 |

n/a – not applicable

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

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

AASB 124 Related Party Disclosures was adopted during the year, the impact of this standard had no impact on reporting financial position or performance, however note 28 has been added.

(iv) Early adoption of accounting standards

Council has elected to early adopt AASB 15 *Revenue from Contracts with Customers*. The effect of this standard has been to defer the recognition of grant income as a liability in Note 10 until such times as the performance obligations attached to the revenue are satisfied.

(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.

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

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(vii) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates (in conformity with 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 the 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 its 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 revenue 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 un-discharged at reporting date, the unused grant or contribution is disclosed in Note 3(g).

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

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

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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

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

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

User charges, fees and other income

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

Interest income from cash and investments is accounted for using the effective interest rate at the date that interest is earned.

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

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 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.

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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 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.

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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 Statement of Financial Position but are incorporated into cash and cash equivalents for presentation of the Cash Flow Statement.

(f) Investments and other financial assets

Classification

Council classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets

classified as held-to-maturity, 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 reporting 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 reporting date which that are classified as non-current assets.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days.

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

(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 2017

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 reporting date or the term to maturity from the reporting date is less than 12 months.

Recognition & de-recognition

Regular purchases and sales of financial assets are recognised on trade date: the date on which Council commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the Income Statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred, and Council has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the Income Statement as gains and losses from investment securities.

Subsequent Measurement

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

Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Impairment

Council assesses at the end of each reporting period 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 investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(i) Assets carried at amortised cost

For 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 council may measure impairment on the basis of an instrument's fair value using an observable market price.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that Council will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The amount of the impairment loss is 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

Investment Policy

Council has an approved investment policy complying with Section 625 of the Local Government Act 1993 (NSW) and Clause 212 of the Local Government (General) Regulation 2005 (NSW). Investments are placed and managed in accordance with that policy, having particular regard to authorised investments prescribed under the Ministerial Local Government Investment Order. Council maintains an investment policy that complies with the Act and ensures that it, or its representatives, exercise the 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 (the Order) arising from the Cole Inquiry recommendations. Certain investments the council holds are no longer prescribed; 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 reporting 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 reporting date.

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

If the market for a financial asset is not active (and for unlisted securities), the Council establishes fair value by using valuation techniques.

These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Council for similar financial instruments.

(h) Receivables

Receivables are initially recognised at fair value and subsequently measured at amortised cost, less any provision for impairment.

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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 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. 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 Generals 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

Port Stephens

Notes to the Financial Statements for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

valuation policy as mandated in accordance by the Office of Local Government.

At reporting 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.

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;

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

| | |
|--|------------------|
| 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 Building | > \$5,000 |
| - 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 |

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

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 |

| | |
|------------------------------|-----------------|
| 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.

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(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 using the Englobo method.

(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 basis 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.

(o) Rural fire service assets

Under section 119 of the *Rural Fires Act 1997*, 'all firefighting 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 firefighting equipment has been purchased or constructed'.

At present Council records all firefighting buildings and equipment, purchased or constructed within the statement of financial position.

(p) Investment property

Investment property comprising land and/or buildings that are principally held for long-term rental yields, capital gains or both, that is not occupied by the 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 30/06/2017.

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(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 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 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

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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 Statement of Financial Position.

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 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 is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Borrowings are removed from the Statement of Financial Position 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 reporting date.

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(v) Borrowing costs

Borrowing costs are expensed except to the extent that they are incurred for the construction of any 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 than not likely that an outflow of resources will be required to settle the obligation, and
- the amount has been reliably estimated.

Provisions are not recognised for future operating losses.

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

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

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

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

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

(x) Employee benefits

(i) Short-term obligations

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

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

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 benefit obligations

The liability for all long service leave and annual leave in respect of services provided by employees up to the reporting date (which is not expected to be wholly settled within 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.

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

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 Statement of Financial Position, 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 that 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.

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 30/06/17.

(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.

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(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 recognised net of the amount of associated GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO).

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

Receivables and payables within the Statement of Financial Position 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 Statement of Financial Position.

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) Rounding of amounts

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

(ac) 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.

(ad) 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 2017. Port Stephens Council's assessment of the impact of these new standards and interpretations relevant to them is set out below.

- (i) AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107

This standard amends AASB 107 Statement of Cash Flows to require entities who are preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The effective date is annual reporting periods beginning on or after 1 January 2017, i.e. 30 June 2018 financial statements.

- (ii) AASB 9 Financial Instruments and Associated Amending Standards

Significant revisions to the classification and measurement of financial assets, reducing the number of categories and simplifying the measurement choices, including the removal of impairment testing of assets measured at fair value. The amortised cost model is available for debt assets meeting both business model and cash flow characteristics tests. All investments in equity instruments using AASB 9 are to be measured at fair value.

Amends measurement rules for financial liabilities that the entity elects to measure at fair value through profit and loss. Changes in fair value attributable to

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

changes in the entity's own credit risk are presented in other comprehensive income.

Impairment of assets is now based on expected losses in AASB 9 which requires councils to measure:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) of full lifetime
- expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

The effective date is annual reporting periods beginning on or after 1 January 2018.

The model for determining impairment losses in relation to receivables will be amended. The impact of the new model has not yet been quantified, although some impairment may be recognised earlier.

Other impacts on the reported financial position and performance have not yet been determined.

- (iii) AASB2014-10 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture & AASB2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128.

The amendments address an acknowledged inconsistency between the requirements in AASB10, and those in AASB128 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

AASB2015-10 has delayed the effective date of this standard.

The effective date is annual reporting periods beginning on or after 1 January 2018.

There is no known impact on Council's financial position at this time.

(iv) AASB 16 Leases

AASB 16 will result in most of the operating leases of an entity being brought onto the statement of financial position. There are limited exceptions relating to short-term leases and low-value assets which may remain off the balance sheet.

The calculation of the lease liability will take into account appropriate discount rates, assumptions about the lease term, and increases in lease payments.

A corresponding right to use assets will be recognised, which will be amortised over the term of the lease.

Rent expense will no longer be shown. The profit and loss impact of the leases will be through amortisation and interest charges.

The effective date is annual reporting periods beginning on or after 1 January 2019.

Whilst the impact of AASB16 has not yet been fully determined, Council currently has a number of operating leases which are likely to be brought to account.

Rental expense will decrease and interest and depreciation will increase.

(v) AASB 15 Revenue from Contracts with Customers, and associated amending standards.

AASB15 introduces a five-step process for revenue recognition, with the core principle of the new standard being for entities to recognise revenue 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.

Accounting policy changes will arise in the timing of revenue recognition, treatment of contracts costs, and contracts which contain a financing element.

AASB15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

example, service revenue and contract modifications), and improve guidance for multiple-element arrangements.

The effective date is annual reporting periods beginning on or after 1 January 2019.

The changes in revenue recognition requirements in AASB15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures. The impact of AASB15 has not yet been quantified.

(vi) AASB 1058 Income of NFP Entities

AASB 1058 supersedes all the income recognition requirements relating to councils, previously in AASB 1004 Contribution. The timing of income recognition depends on whether such a transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service), or a contribution by owners, related to an asset (such as cash or another asset) received by an entity.

AASB 1058 applies when a council receives volunteer services or enters into other transactions in which the consideration to acquire an asset is significantly less than the fair value of the asset, and where the council's objective is principally to enable the asset to further the council's objectives". In cases where the council enters into other transactions, the council recognises and measures the asset at fair value in accordance with the applicable Australian Accounting Standard (e.g. AASB 116 Property, Plant and Equipment). Upon initial recognition of the asset, this Standard requires Council to consider whether any other financial statement elements (called 'related amounts') should be recognised in accordance with the applicable Accounting Standard, such as:

- (a) contributions by owners
- (b) revenue, or a contract liability arising from a contract with a customer
- (c) a lease liability
- (d) a financial instrument
- (e) a provision.

If the transaction is a transfer of a financial asset to enable Council to acquire or construct a recognisable non-financial asset to be controlled by Council (i.e. an in-substance acquisition of a non-financial asset), the council recognises a liability for

the excess of the fair value of the transfer over any related amounts recognised.

Council will recognise income as it satisfies its obligations under the transfer similarly to income recognition in relation to performance obligations under AASB 15.

If the transaction does not enable Council to acquire or construct a recognisable non-financial asset to be controlled by Council, then any excess of the initial carrying amount of the recognised asset over the related amounts is recognised as income.

All revenue streams, including grant agreements, are currently being reviewed to determine the impact of AASB 1058.

Prepaid rates received prior to the beginning of a rating period will now be recognised as a financial liability until the commencement of the rating period.

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

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 and non-current) | |
| | Original budget | Actual | Actual | Original budget | Actual | Actual | Original budget | Actual | Actual | Actual | Actual | Actual | Actual |
| | 2017 | 2017 | 2016 | 2017 | 2017 | 2016 | 2017 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Governance | 225 | 233 | 211 | 3,019 | 2,796 | 3,009 | (2,794) | (2,563) | (2,798) | – | – | 9,071 | 9,412 |
| Administration | 1,813 | 4,041 | 6,533 | 20,770 | 21,774 | 23,613 | (18,957) | (17,733) | (17,080) | 25 | 32 | 97,263 | 84,669 |
| Public order and safety | 1,576 | 2,577 | 1,801 | 3,991 | 4,497 | 5,908 | (2,415) | (1,920) | (4,107) | 1,055 | 998 | 6,736 | 5,760 |
| Health | 308 | 645 | 383 | 383 | 588 | 417 | (75) | 57 | (34) | – | – | – | – |
| Environment | 18,603 | 18,742 | 19,569 | 22,262 | 20,411 | 20,080 | (3,659) | (1,669) | (511) | 1,378 | 927 | – | – |
| Community services and education | 1,956 | 2,199 | 2,076 | 2,981 | 2,877 | 2,983 | (1,025) | (678) | (907) | 417 | 351 | 10,303 | 10,786 |
| Housing and community amenities | 986 | 936 | 1,080 | 4,486 | 4,309 | 4,254 | (3,500) | (3,373) | (3,174) | – | – | 199,646 | 195,624 |
| Recreation and culture | 4,683 | 4,355 | 5,253 | 9,284 | 8,556 | 8,729 | (4,601) | (4,201) | (3,476) | 442 | 811 | 101,868 | 102,115 |
| Mining, manufacturing and construction | 1,635 | 1,911 | 1,692 | 1,648 | 1,895 | 1,817 | (13) | 16 | (125) | – | – | – | – |
| Transport and communication | 23,809 | 31,754 | 33,956 | 24,545 | 27,046 | 29,927 | (736) | 4,708 | 4,029 | 4,035 | 5,312 | 447,424 | 437,640 |
| Economic affairs | 17,105 | 15,415 | 16,980 | 14,687 | 14,762 | 13,941 | 2,418 | 653 | 3,039 | 631 | 142 | 97,328 | 99,223 |
| Total functions and activities | 72,699 | 82,808 | 89,534 | 108,056 | 109,511 | 114,678 | (35,357) | (26,703) | (25,144) | 7,983 | 8,573 | 969,639 | 945,229 |
| Share of gains/(losses) in associates and joint ventures (using the equity method) | – | – | – | – | – | – | – | – | – | – | – | – | – |
| General purpose income ¹ | 46,437 | 49,419 | 45,160 | – | – | – | 46,437 | 49,419 | 45,160 | 10,033 | 6,943 | – | – |
| Operating result from continuing operations | 119,136 | 132,227 | 134,694 | 108,056 | 109,511 | 114,678 | 11,080 | 22,716 | 20,016 | 18,016 | 15,516 | 969,639 | 945,229 |

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 2017

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

Includes Council's fire and emergency services levy, fire protection, emergency services, beach control, enforcement of regulations and animal control.

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 2017

Note 3. Income from continuing operations

| \$ '000 | Notes | Actual 2017 | Actual 2016 |
|--|--------------|------------------------|------------------------|
| (a) Rates and annual charges | | | |
| Ordinary rates | | | |
| Residential | | 30,300 | 29,265 |
| Farmland | | 836 | 832 |
| Business | | 7,313 | 7,203 |
| Total ordinary rates | | 38,449 | 37,300 |
| Special rates | | | |
| Nil | | | |
| Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611) | | | |
| Domestic waste management services | | 12,303 | 11,744 |
| Waste management services (non-domestic) | | 2,654 | 2,697 |
| Section 611 charges | | 9 | 8 |
| Total annual charges | | 14,966 | 14,449 |
| TOTAL RATES AND ANNUAL CHARGES | | 53,415 | 51,749 |

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 2017

Note 3. Income from continuing operations (continued)

| \$ '000 | Notes | Actual 2017 | Actual 2016 |
|---|-------|----------------|----------------|
| (b) User charges and fees | | | |
| Specific user charges (per s.502 – specific ‘actual use’ charges) | | | |
| Waste management services (non-domestic) | | 1,342 | 2,029 |
| Total user charges | | 1,342 | 2,029 |
| Other user charges and fees | | | |
| (i) Fees and charges – statutory and regulatory functions (per s.608) | | | |
| Building inspection fees | | 355 | 409 |
| Building services | | 1,060 | 995 |
| Private works – section 67 | | 169 | 571 |
| Section 149 certificates (EPA Act) | | 232 | 245 |
| Section 603 certificates | | 188 | 173 |
| Shop inspection fees | | 175 | 161 |
| Subdivision fees | | 230 | 344 |
| Total fees and charges – statutory/regulatory | | 2,409 | 2,898 |
| (ii) Fees and charges – other (incl. general user charges (per s.608)) | | | |
| Animal control | | 59 | 63 |
| Cemeteries | | 164 | 162 |
| Child care | | 1,349 | 1,397 |
| Fire and emergency services levy (FESL) implementation | | 122 | – |
| Holiday parks | | 10,636 | 10,296 |
| Leaseback fees – Council vehicles | | – | 4 |
| Leisure centre | | 84 | 96 |
| Library | | 114 | 115 |
| Newcastle airport partnership | | 14,139 | 12,277 |
| Parking meters | | 490 | 531 |
| Parks, gardens and other community services | | 8 | 8 |
| RMS (formerly RTA) charges (state roads not controlled by Council) | | 4,747 | 9,070 |
| Sewerage management fees | | 569 | 547 |
| Telecentre | | 17 | 56 |
| Waste disposal tipping fees | | 307 | 320 |
| Other | | 1,415 | 1,234 |
| Total fees and charges – other | | 34,220 | 36,176 |
| TOTAL USER CHARGES AND FEES | | 37,971 | 41,103 |

Port Stephens

Notes to the Financial Statements for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

| \$ '000 | Notes | Actual 2017 | Actual 2016 |
|--|-------|---------------------|----------------------|
| (c) Interest and investment revenue (including losses) | | | |
| Interest | | | |
| – Interest on overdue rates and annual charges (incl. special purpose rates) | | 153 | 160 |
| – Interest earned on investments (interest and coupon payment income) | | 717 | 689 |
| – Interest (Newcastle Airport partnership) | | 320 | 287 |
| Other | | 2 | 2 |
| <u>TOTAL INTEREST AND INVESTMENT REVENUE</u> | | <u>1,192</u> | <u>1,138</u> |
| Interest revenue is attributable to: | | | |
| Unrestricted investments/financial assets: | | | |
| Overdue rates and annual charges (general fund) | | 153 | 160 |
| General Council cash and investments | | 490 | 457 |
| Restricted investments/funds – external: | | | |
| Development contributions | | | |
| – Section 94 | | 229 | 234 |
| Newcastle Airport partnership | | 320 | 287 |
| Total interest and investment revenue recognised | | <u>1,192</u> | <u>1,138</u> |
| (d) Other revenues | | | |
| Fair value increments – investment properties | 14 | 525 | 486 |
| Rental income – investment properties | 14 | 2,653 | 2,621 |
| Rental income – other council properties | | 497 | 625 |
| Ex gratia rates | | 65 | 71 |
| Fines – parking | | 260 | 286 |
| Fines – other | | 312 | 255 |
| Legal fees recovery – rates and charges (extra charges) | | 163 | 178 |
| Legal fees recovery – other | | 64 | 33 |
| Commissions and agency fees | | 196 | 304 |
| Emergency relief | | 1,889 | 2,200 |
| Events and promotions | | 71 | 166 |
| Insurance claim recoveries | | 542 | 3,584 |
| Long service leave receipts | | 55 | 11 |
| Private works | | 400 | 334 |
| Other | | 901 | 1,178 |
| <u>TOTAL OTHER REVENUE</u> | | <u>8,593</u> | <u>12,332</u> |

Port Stephens

Notes to the Financial Statements for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

| \$ '000 | 2017 Operating | 2016 Operating | 2017 Capital | 2016 Capital |
|---|-------------------|-------------------|-----------------|-----------------|
| (e) Grants | | | | |
| General purpose (untied) | | | | |
| Financial assistance | 6,237 | 6,356 | – | – |
| Financial assistance - in advance | 3,218 | – | – | – |
| Pensioners' rates subsidies – general component | 578 | 587 | – | – |
| Total general purpose | 10,033 | 6,943 | – | – |
| Specific purpose | | | | |
| Pensioners' rates subsidies: | | | | |
| – Domestic waste management | 242 | 245 | – | – |
| Aged care | – | 14 | – | – |
| Bushfire and emergency services | 1,179 | 1,093 | – | – |
| Child care | 191 | 174 | – | – |
| Environmental protection | 670 | 346 | – | 144 |
| Family day care | 118 | 59 | – | – |
| Flood restoration | – | – | 72 | 125 |
| Heritage and cultural | 10 | – | – | – |
| Horticultural heritage trust | 30 | 40 | – | – |
| Library | 195 | 187 | 112 | 30 |
| LIRS subsidy | 76 | 86 | – | – |
| Newcastle airport partnership | – | – | 261 | 300 |
| Recreation and culture | 3 | – | 603 | 593 |
| Street lighting | 71 | 69 | – | – |
| Transport (roads to recovery) | 1,168 | 1,582 | – | – |
| Transport | 501 | 844 | 2,218 | 2,465 |
| Youth development | 74 | 68 | – | – |
| Weed control | 91 | 23 | – | – |
| Other | 67 | 82 | 31 | 4 |
| Total specific purpose | 4,686 | 4,912 | 3,297 | 3,661 |
| Total grants | 14,719 | 11,855 | 3,297 | 3,661 |
| Grant revenue is attributable to: | | | | |
| – Commonwealth funding | 11,842 | 8,038 | – | – |
| – State funding | 2,877 | 3,817 | 3,297 | 3,661 |
| | 14,719 | 11,855 | 3,297 | 3,661 |

Port Stephens

Notes to the Financial Statements for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

| \$ '000 | 2017 Operating | 2016 Operating | 2017 Capital | 2016 Capital |
|---|-------------------|-------------------|-----------------|-----------------|
| (f) Contributions | | | | |
| Developer contributions: (s93 & s94 – EP&A Act, s64 of the LGA): | | | | |
| S 94 – contributions towards amenities/services | 459 | 634 | 2,993 | 3,926 |
| Total developer contributions | 459 | 634 | 2,993 | 3,926 |
| Other contributions: | | | | |
| Bushfire services | – | – | 910 | 50 |
| Dedications (other than by S94) | – | – | 6,880 | 3,781 |
| Drainage | – | – | – | 34 |
| Economic development and tourism | 29 | 20 | – | – |
| Environmental projects | 164 | 233 | – | – |
| Kerb and gutter | – | – | – | 6 |
| Parking | – | – | – | 10 |
| Recreation and culture | – | – | 229 | 116 |
| Risk management | 103 | 100 | – | – |
| Roads and bridges | – | – | – | 400 |
| RMS contributions (regional roads, block grant) | 1,014 | 887 | – | – |
| Total other contributions | 1,310 | 1,240 | 8,019 | 4,397 |
| Total contributions | 1,769 | 1,874 | 11,012 | 8,323 |
| TOTAL GRANTS AND CONTRIBUTIONS | 16,488 | 13,729 | 14,309 | 11,984 |

| \$ '000 | Actual 2017 | Actual 2016 |
|--|----------------|----------------|
| (g) Unspent 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 | 14,568 | 12,391 |
| Add: grants and contributions recognised in the current period but not yet spent: | 1,400 | 5,040 |
| Add: grants and contributions received for the provision of goods and services in a future period | 198 | – |
| Less: grants and contributions recognised in a previous reporting period now spent: | (367) | (2,863) |
| Net increase (decrease) in restricted assets during the period | 1,231 | 2,177 |
| Unexpended and held as restricted assets | 15,799 | 14,568 |
| Comprising: | | |
| – Specific purpose unexpended grants | 268 | 635 |
| – Developer contributions | 15,333 | 13,933 |
| – Deferred revenue | 198 | – |
| | 15,799 | 14,568 |

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 4. Expenses from continuing operations

| \$ '000 | Notes | Actual 2017 | Actual 2016 |
|--|-------|----------------|----------------|
| (a) Employee benefits and on-costs | | | |
| Salaries and wages | | 28,352 | 28,764 |
| Salaries and wages – Newcastle airport partnership | | 2,429 | 2,236 |
| Travel expenses | | 2,386 | 1,500 |
| Employee leave entitlements (ELE) | | 6,784 | 6,626 |
| Superannuation | | 3,724 | 3,681 |
| Workers' compensation insurance | | 644 | 428 |
| Fringe benefit tax (FBT) | | 29 | 32 |
| Training costs (other than salaries and wages) | | 393 | 441 |
| Protective clothing | | 131 | 136 |
| Conferences | | 137 | 97 |
| Occupational health and safety | | 31 | 26 |
| Corporate uniform | | 1 | 2 |
| Other | | 23 | 21 |
| Total employee costs | | 45,064 | 43,989 |
| Less: capitalised costs | | (3,269) | (3,316) |
| TOTAL EMPLOYEE COSTS EXPENSED | | 41,795 | 40,673 |
| Number of 'full-time equivalent' employees (FTE) at year end | | 408 | 419 |
| Number of 'full-time equivalent' employees (FTE) at year end (incl. vacancies) | | 478 | 477 |
| (b) Borrowing costs | | | |
| (i) Interest bearing liability costs | | | |
| Interest on overdraft | | – | 2 |
| Interest on loans | | 527 | 550 |
| Interest – Newcastle airport partnership | | 234 | 286 |
| Charges relating to finance leases | | – | 2 |
| Other debts | | – | 2 |
| Total interest bearing liability costs | | 761 | 842 |
| Less: capitalised costs | | (92) | – |
| Total interest bearing liability costs expensed | | 669 | 842 |
| (ii) Other borrowing costs | | | |
| Discount adjustments relating to movements in provisions (other than ELE) | | | |
| – Remediation liabilities | 26 | – | 31 |
| Interest applicable on interest free (and favourable) loans to Council | | 45 | 20 |
| Total other borrowing costs | | 45 | 51 |
| TOTAL BORROWING COSTS EXPENSED | | 714 | 893 |

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 4. Expenses from continuing operations (continued)

| \$ '000 | Notes | Actual 2017 | Actual 2016 |
|--|-------|----------------|----------------|
| (c) Materials and contracts | | | |
| Raw materials and consumables | | 6,917 | 8,245 |
| Contractor and consultancy costs | | | |
| – Waste collection and disposal contract | | 10,844 | 11,241 |
| – Other contractor and consultancy costs | | 16,958 | 23,222 |
| Auditors remuneration ⁽¹⁾ | | 115 | 93 |
| Legal expenses: | | | |
| – Legal expenses: other | | 651 | 633 |
| Operating leases: | | | |
| – Operating lease rentals: minimum lease payments ⁽²⁾ | | 681 | 450 |
| Other | | 109 | 76 |
| TOTAL MATERIALS AND CONTRACTS | | 36,275 | 43,960 |

1. Auditor remuneration

a. During the year, the following fees were incurred for services provided by the Auditor-General:

(i) Audit and other assurance services

– Audit and review of financial statements: Auditor-General

Remuneration for audit and other assurance services

| | |
|-----------|----------|
| 75 | – |
| 75 | – |
| 75 | – |

b. During the year, the following fees were incurred for services provided by the other Council's Auditors (and the Auditors of other consolidated entities):

(i) Audit and other assurance services

– Audit and review of financial statements: Pitcher Partners

– Internal audit services: PKF Lawler

– Other audit and assurance services

Remuneration for audit and other assurance services

| | |
|-----------|-----------|
| – | 55 |
| 40 | 28 |
| – | 10 |
| 40 | 93 |

Total remuneration of other Council's Auditors

| | |
|-----------|-----------|
| 40 | 93 |
|-----------|-----------|

Total Auditor remuneration

| | |
|------------|-----------|
| 115 | 93 |
|------------|-----------|

2. Operating lease payments are attributable to:

Computers

| | |
|------------|------------|
| 681 | 450 |
| 681 | 450 |

Port Stephens

Notes to the Financial Statements for the year ended 30 June 2017

Note 4. Expenses from continuing operations (continued)

| \$ '000 | Notes | Actual 2017 | Actual 2016 |
|---|-------|----------------|----------------|
| (d) Depreciation, amortisation and impairment | | | |
| Plant and equipment | | 1,822 | 1,476 |
| Office equipment | | 192 | 144 |
| Furniture and fittings | | 34 | 22 |
| Land improvements (depreciable) | | 18 | 32 |
| Infrastructure: | | | |
| – Buildings – specialised | | 5,144 | 5,185 |
| – Other structures | | 234 | 152 |
| – Roads | | 2,649 | 2,710 |
| – Bridges | | 12 | 12 |
| – Footpaths | | 119 | 118 |
| – Stormwater drainage | | 188 | 185 |
| – Swimming pools | | 307 | 251 |
| – Other open space/recreational assets | | 827 | 806 |
| – Other infrastructure | | 268 | 227 |
| Other assets | | | |
| – Heritage collections | | 2 | 2 |
| – Library books | | 127 | 127 |
| – Car parks | | 518 | 486 |
| – Newcastle airport partnership | | 1,784 | 1,797 |
| – Other | | 192 | 206 |
| Intangible assets | 25 | 548 | 697 |
| Total depreciation and amortisation costs | | 14,985 | 14,637 |
| Impairment | | | |
| Infrastructure: | | | |
| – Buildings – specialised | | 696 | – |
| Total impairment costs | | 696 | – |
| TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED | | 15,681 | 14,637 |

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 4. Expenses from continuing operations (continued)

| \$ '000 | Notes | Actual 2017 | Actual 2016 |
|--|-------|----------------------|----------------------|
| (e) Other expenses | | | |
| Bad and doubtful debts | | 10 | 23 |
| Bank charges | | 247 | 237 |
| Contributions/levies to other levels of government | | | |
| – Lands department levy (holiday parks) | | 365 | 430 |
| – NSW rural fire service levy | | 464 | 416 |
| – Waste levy | | 1,773 | 1,704 |
| Councillor expenses – mayoral fee | | 60 | 58 |
| Councillor expenses – councillors' fees | | 170 | 165 |
| Councillors' expenses (incl. mayor) – other (excluding fees above) | | 68 | 77 |
| Donations, contributions and assistance to other organisations (Section 356) | | 936 | 944 |
| Electricity and heating | | 1,318 | 1,143 |
| Insurance | | 1,693 | 1,614 |
| Memberships | | 149 | 69 |
| Newcastle airport partnership | | 6,139 | 5,777 |
| Street lighting | | 1,063 | 1,282 |
| Telephone and communications | | 284 | 340 |
| Other | | 307 | 236 |
| <u>TOTAL OTHER EXPENSES</u> | | <u>15,046</u> | <u>14,515</u> |

Note 5. Gains or losses from the disposal of assets

| | | | |
|--|--|--------------------|---------------------|
| Property (excl. investment property) | | | |
| Proceeds from disposal – property | | 1,295 | – |
| Less: carrying amount of property assets sold/written off | | (942) | (491) |
| <u>Net gain/(loss) on disposal</u> | | <u>353</u> | <u>(491)</u> |
| Plant and equipment | | | |
| Proceeds from disposal – plant and equipment | | 221 | 1,050 |
| Less: carrying amount of plant and equipment assets sold/written off | | (257) | (578) |
| <u>Net gain/(loss) on disposal</u> | | <u>(37)</u> | <u>472</u> |
| Newcastle airport partnership | | | |
| Proceeds from disposal – infrastructure | | 49 | 22 |
| Less: carrying amount of infrastructure assets sold/written off | | (107) | (23) |
| <u>Net gain/(loss) on disposal</u> | | <u>(58)</u> | <u>(1)</u> |
| Real estate assets held for sale | | | |
| Proceeds from disposal – real estate assets | | – | 6,149 |
| Less: carrying amount of real estate assets sold/written off | | – | (3,470) |
| <u>Net gain/(loss) on disposal</u> | | <u>–</u> | <u>2,679</u> |
| Financial assets | | | |
| Proceeds from disposal/redemptions/maturities – financial assets | | 42,576 | 44,000 |
| Less: carrying amount of financial assets sold/redeemed/matured | | (42,576) | (44,000) |
| <u>Net gain/(loss) on disposal</u> | | <u>–</u> | <u>–</u> |
| <u>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</u> | | <u>259</u> | <u>2,659</u> |

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

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

| | | 2017 | 2017 | 2016 | 2016 |
|--|-------|---------------|-------------|---------------|-------------|
| | | Actual | Actual | Actual | Actual |
| \$ '000 | Notes | Current | Non-current | Current | Non-current |
| Cash and cash equivalents (Note 6a) | | | | | |
| Cash on hand and at bank | | 5,093 | – | 7,735 | – |
| Cash-equivalent assets ¹ | | | | | |
| – Short-term deposits | | 3,000 | – | – | – |
| Total cash and cash equivalents | | 8,093 | – | 7,735 | – |
| Investments (Note 6b) | | | | | |
| – Term deposits | | 40,402 | 231 | 24,914 | 244 |
| – NCD's, FRN's (with maturities > 3 months) | | – | – | 997 | – |
| Total investments | | 40,402 | 231 | 25,911 | 244 |
| TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS | | 48,495 | 231 | 33,646 | 244 |

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

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

| | | | | | |
|--|--|---------------|------------|---------------|------------|
| Cash and cash equivalents | | | | | |
| a. 'At fair value through the profit and loss' | | 8,093 | – | 7,735 | – |
| Investments | | | | | |
| a. 'Held to maturity' | | 40,402 | 231 | 24,914 | 244 |
| b. 'Available for sale' | | – | – | 997 | – |
| Investments | | 40,402 | 231 | 25,911 | 244 |

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 2017

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

| | 2017 Actual Current | 2017 Actual Non-current | 2016 Actual Current | 2016 Actual Non-current |
|---|---------------------------|-------------------------------|---------------------------|-------------------------------|
| \$ '000 | | | | |
| Total cash, cash equivalents and investments | 48,495 | 231 | 33,646 | 244 |
| attributable to: | | | | |
| External restrictions (refer below) | 25,222 | 231 | 21,668 | 244 |
| Internal restrictions (refer below) | 23,273 | – | 11,978 | – |
| Unrestricted | – | – | – | – |
| | 48,495 | 231 | 33,646 | 244 |

| 2017 \$ '000 | Opening balance | Transfers to restrictions | Transfers from restrictions | Closing balance |
|-----------------|--------------------|------------------------------|--------------------------------|--------------------|
|-----------------|--------------------|------------------------------|--------------------------------|--------------------|

Details of restrictions

External restrictions – included in liabilities

| | | | | |
|--|--------------|------------|--------------|------------|
| Deposits, retentions and bonds | 1,132 | – | (376) | 756 |
| Deferred revenue | 245 | 198 | (245) | 198 |
| External restrictions – included in liabilities | 1,377 | 198 | (621) | 954 |

External restrictions – other

| | | | | |
|--|---------------|---------------|-----------------|---------------|
| Developer contributions – general (A) | 13,933 | 3,681 | (2,281) | 15,333 |
| Specific purpose unexpended grants (B) | 635 | – | (367) | 268 |
| Domestic waste management (C) | 4,742 | 15,835 | (14,570) | 6,007 |
| Crown holiday parks | 805 | 3,795 | (2,362) | 2,238 |
| Carparking meters crown lands | 420 | 307 | (74) | 653 |
| External restrictions – other | 20,535 | 23,618 | (19,654) | 24,499 |
| Total external restrictions | 21,912 | 23,816 | (20,275) | 25,453 |

- A** Development contributions which are not yet expended for the provision of services and amenities in accordance with contributions plans (refer Note 17).
- B** Grants which are not yet expended for the purposes for which the grants were obtained. (refer Note 1 (b))
- C** 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 2017

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

| 2017 \$ '000 | Opening balance | Transfers to restrictions | Transfers from restrictions | Closing balance |
|--------------------------------------|--------------------|------------------------------|--------------------------------|--------------------|
| Internal restrictions | | | | |
| Administration building reserve | – | 910 | (910) | – |
| Asset rehabilitation | – | 2,777 | (2,603) | 174 |
| Commercial properties reserve | – | 7,948 | (7,948) | – |
| Drainage reserve | – | 1,629 | (1,425) | 204 |
| Election reserve | – | 400 | – | 400 |
| Fleet | – | 1,130 | (430) | 700 |
| IT reserve | – | 787 | (787) | – |
| Newcastle airport partnership | 11,052 | 2,793 | – | 13,845 |
| Other waste services reserve | – | 2,638 | (2,203) | 435 |
| Parking meters | – | 380 | (139) | 241 |
| Roads / environmental | – | 1,019 | (1,019) | – |
| Section 355C committees | 926 | 51 | – | 977 |
| Sustainable energy and water reserve | – | 250 | – | 250 |
| Unexpended loan funds | – | 4,870 | (2,075) | 2,795 |
| Federal Assistance Grant in Advance | – | 3,218 | – | 3,218 |
| Ward Funds | – | 259 | (225) | 34 |
| Total internal restrictions | 11,978 | 31,059 | (19,764) | 23,273 |
| TOTAL RESTRICTIONS | 33,890 | 54,875 | (40,039) | 48,726 |

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 7. Receivables

| \$ '000 | Notes | 2017 | | 2016 | |
|---|-------|---------------------|-------------------|----------------------|-------------------|
| | | Current | Non-current | Current | Non-current |
| Purpose | | | | | |
| Rates and annual charges | | 1,356 | — | 1,243 | — |
| Interest and extra charges | | 191 | — | 220 | — |
| User charges and fees | | 437 | — | 458 | — |
| Private works | | 424 | — | 519 | — |
| Contributions to works | | 50 | — | 74 | — |
| Accrued revenues | | | | | |
| – Interest on investments | | 165 | — | 81 | — |
| Deferred debtors | | 14 | — | 25 | — |
| Government grants and subsidies | | 13 | — | 4 | — |
| Net GST receivable | | 518 | — | 527 | — |
| Newcastle airport partnership | | 1,599 | — | 1,780 | 5 |
| RMS contributions | | 805 | — | 3,196 | — |
| Other debtors | | 3,243 | 228 | 4,634 | 242 |
| Total | | 8,815 | 228 | 12,761 | 247 |
| Less: provision for impairment | | | | | |
| Other debtors | | — | (51) | — | (48) |
| Total provision for impairment – receivables | | — | (51) | — | (48) |
| <u>TOTAL NET RECEIVABLES</u> | | <u>8,815</u> | <u>177</u> | <u>12,761</u> | <u>199</u> |
| Externally restricted receivables | | | | | |
| Domestic waste management | | 522 | — | 471 | — |
| Crown holiday parks | | — | — | 1,568 | — |
| Total external restrictions | | 522 | — | 2,039 | — |
| Internally restricted receivables | | | | | |
| Community Loans | | 200 | — | 200 | — |
| Receivables – Newcastle Airport Partnership | | 1,599 | — | 1,780 | — |
| Asset Rehab | | — | — | 277 | — |
| Parking meters | | — | — | 401 | — |
| Commercial properties | | 2,730 | — | 3,418 | — |
| Other Waste Reserve | | 1,060 | — | 1,203 | — |
| Sustainable Energy & Water Reserve | | — | — | 250 | — |
| Roads / environmental | | — | — | 93 | — |
| IT reserve | | — | — | 359 | — |
| Drainage reserve | | — | — | 408 | — |
| Administration building reserve | | 741 | — | 411 | — |
| Election reserve | | — | — | 300 | — |
| Ward Funds | | — | — | 104 | — |
| Internally restricted receivables | | 6,330 | — | 9,204 | — |
| Unrestricted receivables | | 1,963 | 177 | 1,518 | 199 |
| TOTAL NET RECEIVABLES | | 8,815 | 177 | 12,761 | 199 |

Notes on debtors above:

- Rates and annual charges outstanding are secured against the property.
- 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.
- Interest was charged on overdue rates and charges at 8.00% (2016 8.50%).
Generally all other receivables are non-interest bearing.
- 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 2017

Note 8. Inventories and other assets

| \$ '000 | Notes | 2017 | | 2016 | |
|---------|-------|---------|-------------|---------|-------------|
| | | Current | Non-current | Current | Non-current |

(a) Inventories

(i) Inventories at cost

| | | | | |
|--------------------------------------|---------------|--------------|---------------|--------------|
| Real estate for resale (refer below) | 14,116 | 5,721 | 12,060 | 4,557 |
| Stores and materials | 197 | – | 217 | – |
| Bio banking credits | – | 3,520 | – | 3,520 |
| Total inventories at cost | 14,313 | 9,241 | 12,277 | 8,077 |

(ii) Inventories at net realisable value (NRV)

Nil

| | | | | |
|--------------------------|---------------|--------------|---------------|--------------|
| TOTAL INVENTORIES | 14,313 | 9,241 | 12,277 | 8,077 |
|--------------------------|---------------|--------------|---------------|--------------|

(b) Other assets

| | | | | |
|---------------------------|------------|-----------|------------|----------|
| Prepayments | 435 | 10 | 513 | – |
| TOTAL OTHER ASSETS | 435 | 10 | 513 | – |

Externally restricted assets

There are no restrictions applicable to the above assets.

| | | | | |
|---|---------------|--------------|---------------|--------------|
| Total externally restricted assets | – | – | – | – |
| Total internally restricted assets | 14,116 | 9,241 | 12,060 | 8,077 |
| Total unrestricted assets | 632 | 10 | 730 | – |
| TOTAL INVENTORIES AND OTHER ASSETS | 14,748 | 9,251 | 12,790 | 8,077 |

Port Stephens

Notes to the Financial Statements for the year ended 30 June 2017

Note 8. Inventories and other assets (continued)

| \$ '000 | 2017 | | 2016 | |
|--|---------------|--------------|---------------|--------------|
| | Current | Non-current | Current | Non-current |
| (i) Other disclosures | | | | |
| (a) Details for real estate development | | | | |
| Residential | 862 | 2,548 | 851 | 2,421 |
| Industrial/commercial | 13,254 | 3,173 | 11,209 | 2,136 |
| Total real estate for resale | 14,116 | 5,721 | 12,060 | 4,557 |
| (Valued at the lower of cost and net realisable value) | | | | |
| Represented by: | | | | |
| Acquisition costs | 11,774 | 2,513 | 11,774 | 1,542 |
| Development costs | 2,342 | 3,208 | 286 | 3,015 |
| Total real estate for resale | 14,116 | 5,721 | 12,060 | 4,557 |
| Movements: | | | | |
| Real estate assets at beginning of the year | 12,060 | 4,557 | 3,122 | 11,632 |
| – Purchases and other costs | 2,056 | 193 | 286 | 3,016 |
| – Transfers in from (out to) Note 9 | – | 971 | 2,031 | – |
| – WDV of sales (expense) ⁵ | – | – | (3,470) | – |
| – Transfer between current/non-current | – | – | 10,091 | (10,091) |
| Total real estate for resale | 14,116 | 5,721 | 12,060 | 4,557 |

(b) Inventory write downs

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

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

Port Stephens

Notes to the Financial Statements
for the year ended 30 June 2017

Note 9a. Infrastructure, property, plant and equipment

| Asset class | as at 30/6/2016 | | | | Asset movements during the reporting period | | | | | | | | | | as at 30/6/2017 | | | |
|---|-----------------|----------------|---|---------------------------|---|-------------------------|-----------------------------------|-------------------------|--|--|------------------------------|--|---|---|-----------------|------------------|---|---------------------------|
| | | | | | Additions renewals | Additions new assets | Carrying value of disposals | Depreciation expense | Impairment loss (recognised in P/L) | Impairment reversal (via equity) | Adjustments and transfers | Tfrs from/(to) real estate assets (Note 8) | Tfrs from/(to) investment properties | Revaluation decrements to equity (ARR) | | | | |
| \$ '000 | At cost | At Fair Value | Accumulated depreciation and impairment | Net carrying amount | | | | | | | | | | | At cost | At Fair Value | Accumulated depreciation and impairment | Net carrying amount |
| Capital work in progress | 379 | – | – | 379 | – | 815 | – | – | – | – | (236) | – | – | – | 959 | – | (1) | 961 |
| Plant and equipment | – | 19,181 | 8,231 | 10,949 | 129 | 676 | (157) | (1,822) | – | – | (270) | – | (18) | – | – | 17,960 | 8,472 | 9,488 |
| Office equipment | – | 1,488 | 880 | 608 | – | 333 | (1) | (192) | – | – | – | – | – | – | – | 1,626 | 878 | 748 |
| Furniture and fittings | – | 1,204 | 1,090 | 114 | 1 | – | (3) | (34) | – | – | – | – | – | – | – | 1,125 | 1,047 | 78 |
| Land: | | | | | | | | | | | | | | | | | | |
| – Operational land | – | 36,008 | – | 36,008 | 24 | 24 | (942) | – | (165) | 150 | 331 | (971) | (2,150) | (2,026) | – | 30,282 | – | 30,282 |
| – Community land | – | 41,258 | – | 41,258 | 2 | 546 | – | – | – | – | – | – | – | – | – | 41,805 | – | 41,805 |
| – 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 | – | 1,049 | 373 | 676 | 19 | – | – | (18) | – | – | (49) | – | – | – | – | 1,012 | 383 | 628 |
| Infrastructure: | | | | | | | | | | | | | | | | | | |
| – Buildings – specialised | – | 150,602 | 63,859 | 86,743 | 483 | 3,315 | – | (5,144) | (531) | 202 | (50) | – | (1,692) | (244) | – | 148,890 | 65,810 | 83,080 |
| – Other structures | – | 3,722 | 1,577 | 2,145 | 222 | 1,619 | (32) | (234) | – | – | 44 | – | – | – | – | 5,295 | 1,531 | 3,764 |
| – Roads | – | 436,645 | 49,582 | 387,063 | 5,302 | 5,771 | – | (2,649) | – | – | – | – | – | – | – | 447,718 | 52,231 | 395,486 |
| – Bridges | – | 11,404 | 296 | 11,108 | 4 | 2 | – | (12) | – | – | (1) | – | – | – | – | 11,408 | 308 | 11,100 |
| – Footpaths | – | 30,127 | 3,244 | 26,883 | 767 | 468 | – | (119) | – | – | – | – | – | – | – | 31,362 | 3,363 | 27,999 |
| – Stormwater drainage | – | 189,396 | 5,606 | 183,790 | 2,974 | 1,720 | – | (188) | – | – | (331) | – | – | – | – | 193,759 | 5,794 | 187,964 |
| – Swimming pools | – | 6,962 | 3,526 | 3,436 | 117 | 84 | – | (307) | – | – | 421 | – | – | – | – | 8,151 | 4,400 | 3,751 |
| – Open space/recreational assets | – | 27,666 | 10,635 | 17,031 | 89 | 679 | (52) | (827) | – | – | 240 | – | – | – | – | 28,284 | 11,124 | 17,160 |
| – Other infrastructure | – | 8,321 | 3,135 | 5,186 | 483 | 316 | (0) | (268) | – | – | 19 | – | – | – | – | 9,136 | 3,399 | 5,737 |
| Other assets: | | | | | | | | | | | | | | | | | | |
| – Heritage collections | – | 230 | 68 | 162 | – | – | – | (2) | – | – | 1 | – | – | – | – | 230 | 70 | 160 |
| – Library books | – | 4,728 | 2,864 | 1,864 | – | 240 | – | (127) | – | – | – | – | – | – | – | 4,968 | 2,991 | 1,977 |
| – Car parks | – | 12,754 | 8,814 | 3,940 | 2 | 78 | – | (518) | – | – | (8) | – | – | – | – | 11,234 | 7,739 | 3,494 |
| – Newcastle airport partnership | 41,974 | – | 12,793 | 29,181 | – | 1,944 | (107) | (1,784) | – | – | – | – | – | – | 43,640 | – | 14,406 | 29,235 |
| – Other | – | 5,754 | 2,730 | 3,024 | 16 | 36 | (13) | (192) | – | – | (109) | – | – | – | – | 5,488 | 2,726 | 2,762 |
| TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP. | 42,353 | 991,563 | 179,303 | 854,614 | 10,633 | 18,665 | (1,307) | (14,437) | (696) | 352 | (0) | (971) | (3,860) | (2,270) | 44,600 | 1,002,798 | 186,673 | 860,726 |

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 2017

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

| \$ '000 | Actual 2017 | | | Actual 2016 | | |
|------------------------------------|-----------------------------|--|------------------------|-----------------------------|--|------------------------|
| | Gross carrying amount | Accumulated depn. and impairment | Net carrying amount | Gross carrying amount | Accumulated depn. and impairment | Net carrying amount |
| Domestic waste management | | | | | | |
| Buildings | 5,316 | 2,108 | 3,208 | 2,418 | 832 | 1,586 |
| Total DWM | 5,316 | 2,108 | 3,208 | 2,418 | 832 | 1,586 |
| TOTAL RESTRICTED I,PP&E | 5,316 | 2,108 | 3,208 | 2,418 | 832 | 1,586 |

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

| \$ '000 | Notes | 2017 | 2016 |
|---|---------|--------------|----------|
| (i) Impairment losses recognised in the Income Statement: | | | |
| – Market assessment prior to the reclassification to investment properties | | (696) | – |
| Total impairment losses | | (696) | – |
| IMPAIRMENT OF ASSETS – GAINS/(LOSSES) in P/L | 4(d) | (696) | – |
| (ii) Reversals of impairment losses previously recognised direct to equity (ARR): | | | |
| – Market assessment prior to the reclassification to investment properties | | 352 | – |
| Total impairment reversals | | 352 | – |
| IMPAIRMENT OF ASSETS – DIRECT to EQUITY (ARR) | 20 (ii) | 352 | – |

Port Stephens

Notes to the Financial Statements for the year ended 30 June 2017

Note 10a. Payables, borrowings and provisions

| \$ '000 | Notes | 2017 | | 2016 | |
|--|-------|---------------|---------------|---------------|---------------|
| | | Current | Non-current | Current | Non-current |
| Payables | | | | | |
| Goods and services – operating expenditure | | 4,233 | – | 4,160 | – |
| Accrued expenses: | | | | | |
| – Other expenditure accruals | | 2,799 | 8 | 1,570 | 7 |
| Security bonds, deposits and retentions | | 756 | – | 655 | – |
| Unclaimed monies | | 2 | – | 2 | – |
| Other | | 688 | – | 544 | – |
| Total payables | | 8,478 | 8 | 6,931 | 7 |
| Income received in advance | | | | | |
| Payments received in advance | | 198 | – | 245 | – |
| Deferred income – Newcastle Airport partnership | | 407 | 4,884 | – | 5,145 |
| Total income received in advance | | 605 | 4,884 | 245 | 5,145 |
| Borrowings | | | | | |
| Loans – secured ¹ | | 2,837 | 12,471 | 2,996 | 10,426 |
| Finance lease liabilities | | – | – | 18 | 22 |
| Other – Newcastle airport partnership | | – | 6,250 | – | 6,250 |
| Total borrowings | | 2,837 | 18,721 | 3,014 | 16,698 |
| Provisions | | | | | |
| Employee benefits: | | | | | |
| Annual leave | | 3,386 | – | 3,340 | – |
| Sick leave | | 3,204 | – | 3,320 | – |
| Long service leave | | 6,611 | 532 | 6,344 | 562 |
| Flexi time / RDO leave | | 211 | – | 193 | – |
| Other – Redundancy | | 397 | – | – | – |
| Sub-total – aggregate employee benefits | | 13,809 | 532 | 13,197 | 562 |
| Asset remediation/restoration (future works) | 26 | 1,600 | – | 1,600 | – |
| Total provisions | | 15,409 | 532 | 14,797 | 562 |
| TOTAL PAYABLES, BORROWINGS AND PROVISIONS | | | | | |
| | | 27,329 | 24,145 | 24,987 | 22,412 |

¹. 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 2017

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

| \$ '000 | Notes | 2017 | | 2016 | |
|---|-------|---------------|---------------|---------------|---------------|
| | | Current | Non-current | Current | Non-current |
| (i) Liabilities relating to restricted assets | | | | | |
| Externally restricted assets | | | | | |
| Domestic waste management | | 1,742 | 2,128 | 1,655 | 2,819 |
| Other | | 756 | — | 1,132 | — |
| Tip remediation | | 1,600 | — | 1,600 | — |
| Crown holiday park reserve | | 154 | 68 | 400 | 222 |
| Liabilities relating to externally restricted assets | | 4,252 | 2,196 | 4,787 | 3,041 |
| Internally restricted assets | | | | | |
| Drainage reserve | | 564 | 143 | 547 | 708 |
| Newcastle Airport Partnership | | 2,267 | 11,167 | 2,056 | 11,458 |
| Liabilities relating to internally restricted assets | | 2,831 | 11,310 | 2,603 | 12,166 |
| Total liabilities relating to restricted assets | | 7,083 | 13,506 | 7,390 | 15,207 |
| Total liabilities relating to unrestricted assets | | 20,246 | 10,639 | 17,597 | 7,205 |
| TOTAL PAYABLES, BORROWINGS AND PROVISIONS | | 27,329 | 24,145 | 24,987 | 22,412 |

(ii) Current liabilities not anticipated to be settled within the next twelve months

The following liabilities, even though classified as current, are not expected to be settled in the next 12 months.

| | 2017 | 2016 |
|--|--------------|---------------|
| Provisions – employees benefits | 8,716 | 9,762 |
| Payables – security bonds, deposits and retentions | 378 | 378 |
| | 9,094 | 10,140 |

Note 10b. Description of and movements in provisions

| Class of provision | 2016 | 2017 | | | | Closing balance as at 30/6/17 |
|--------------------|------------------------------|-----------------------|--------------------------|--|-------------------------|-------------------------------|
| | Opening balance as at 1/7/16 | Additional provisions | Decrease due to payments | Remeasurement effects due to discounting | Unused amounts reversed | |
| Asset remediation | 1,600 | – | – | – | – | 1,600 |
| TOTAL | 1,600 | – | – | – | – | 1,600 |

- Employees leave entitlements and on-costs represents those benefits accrued and payable and an estimate of those that will become payable in the future as a result of past service.
- 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 2017

Note 11. Statement of cash flows – additional information

| \$ '000 | Notes | Actual 2017 | Actual 2016 |
|---|-------|----------------|----------------|
| (a) Reconciliation of cash assets | | | |
| Total cash and cash equivalent assets | 6a | 8,093 | 7,735 |
| Balance as per the Statement of Cash Flows | | 8,093 | 7,735 |
| (b) Reconciliation of net operating result to cash provided from operating activities | | | |
| Net operating result from Income Statement | | 22,716 | 20,016 |
| Adjust for non-cash items: | | | |
| Depreciation and amortisation | | 14,985 | 14,637 |
| Net losses/(gains) on disposal of assets | | (259) | (2,659) |
| Non-cash capital grants and contributions | | (6,880) | (3,781) |
| Impairment losses recognition – I,PP&E | | 696 | – |
| Losses/(gains) recognised on fair value re-measurements through the P&L: | | | |
| – Investment properties | | (525) | (486) |
| – Other | | (512) | – |
| Amortisation of premiums, discounts and prior period fair valuations | | | |
| – Interest exp. on interest-free loans received by Council (previously fair valued) | | 45 | 20 |
| Unwinding of discount rates on reinstatement provisions | | – | 32 |
| +/- Movement in operating assets and liabilities and other cash items: | | | |
| Decrease/(increase) in receivables | | 3,954 | (2,518) |
| Increase/(decrease) in provision for doubtful debts | | 3 | 7 |
| Decrease/(increase) in inventories | | 20 | (24) |
| Decrease/(increase) in other assets | | 68 | (312) |
| Increase/(decrease) in payables | | 73 | (3,111) |
| Increase/(decrease) in other accrued expenses payable | | 1,230 | 150 |
| Increase/(decrease) in other liabilities | | 344 | (458) |
| Increase/(decrease) in employee leave entitlements | | 582 | (323) |
| Increase/(decrease) in other provisions | | – | (1) |
| Net cash provided from/(used in) operating activities from the Statement of Cash Flows | | 36,540 | 21,188 |

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

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

| \$ '000 | Notes | Actual 2017 | Actual 2016 |
|--|-------|----------------|----------------|
| (c) Non-cash investing and financing activities | | | |
| Dedicated subdivisions | | 6,880 | 3,781 |
| Total non-cash investing and financing activities | | 6,880 | 3,781 |
| (d) Financing arrangements | | | |
| (i) Unrestricted access was available at balance date to the following lines of credit: | | | |
| Bank overdraft facilities ⁽¹⁾ | | 5,000 | 2,000 |
| Credit cards/purchase cards | | 2,200 | 1,582 |
| Master lease facilities | | 1,000 | 1,000 |
| Total financing arrangements | | 8,200 | 4,582 |

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 | 50 | 293 |
| Plant and equipment | 311 | 21 |
| Newcastle airport | 515 | 56 |
| Other | 5,584 | 759 |
| Total commitments | 6,460 | 1,129 |
| These expenditures are payable as follows: | | |
| Within the next year | 6,460 | 1,129 |
| Total payable | 6,460 | 1,129 |
| Sources for funding of capital commitments: | | |
| Unrestricted general funds | 6,460 | 1,129 |
| Total sources of funding | 6,460 | 1,129 |

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 12. Commitments for expenditure (continued)

| \$ '000 | Notes | Actual 2017 | Actual 2016 |
|---|-----------------|-----------------------|----------------------------|
| (b) Finance lease commitments | | | |
| (i) Commitments under finance leases at the reporting date are payable as follows: | | | |
| Within the next year | | – | 19 |
| Later than one year and not later than 5 years | | – | 22 |
| Total minimum lease payments | | – | 41 |
| Less: future finance charges | | – | (2) |
| Amount recognised as a liability | | – | 39 |
| (ii) Finance lease liability recognised represent; | | | |
| Current liabilities | | – | 18 |
| Non-current liabilities | | – | 22 |
| Total finance lease liabilities disclosed | | – | 40 |
| (iii) General details | | | |
| Council leases the following property, plant and equipment under finance leases: | | | |
| | Term (years) | Option to purchase | Contingent rent clauses |
| Other equipment/assets | 3-10 | Y | Y |
| Total carrying value at year end | | – | 40 |

Additional details

Finance leases in place relate to the Newcastle Airport Partnership and have been extinguished during the year. 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 | 270 | 503 |
| Later than one year and not later than 5 years | – | 55 |
| Total non-cancellable operating lease commitments | 270 | 558 |

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

Computer and printing 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 2017

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

| \$ '000 | Amounts 2017 | Indicator 2017 | Prior periods | | Benchmark |
|--|-----------------|-------------------|---------------|----------|--------------------------------|
| | | | 2016 | 2015 | |
| Local government industry indicators – consolidated | | | | | |
| 1. Operating performance ratio | | | | | |
| Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses | 8,320 | 7.10% | 4.09% | -3.68% | >0.00% |
| Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions | 117,134 | | | | |
| 2. Own source operating revenue ratio | | | | | |
| Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions | 100,646 | 76.57% | 80.45% | 80.16% | >60.00% |
| Total continuing operating revenue ⁽¹⁾ | 131,443 | | | | |
| 3. Unrestricted current ratio | | | | | |
| Current assets less all external restrictions ⁽²⁾ | 46,314 | 3.31x | 3.53x | 2.21x | >1.5x |
| Current liabilities less specific purpose liabilities ^(3, 4) | 13,983 | | | | |
| 4. Debt service cover ratio | | | | | |
| Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation | 24,018 | 6.35x | 4.71x | 2.18x | >2x |
| Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement) | 3,782 | | | | |
| 5. Rates, annual charges, interest and extra charges outstanding percentage | | | | | |
| Rates, annual and extra charges outstanding | 1,547 | 2.80% | 2.69% | 4.27% | < 5% Metro <10% Rural |
| Rates, annual and extra charges collectible | 55,194 | | | | |
| 6. Cash expense cover ratio | | | | | |
| Current year's cash and cash equivalents plus all term deposits | 48,726 | 5.75 mths | 3.4 mths | 4.4 mths | > 3 mths |
| Payments from cash flow of operating and financing activities | 8,468 | | | | |

Notes

⁽¹⁾ 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.

⁽²⁾ Refer Notes 6-8 inclusive.

Also excludes any real estate and land for resale not expected to be sold in the next 12 months.

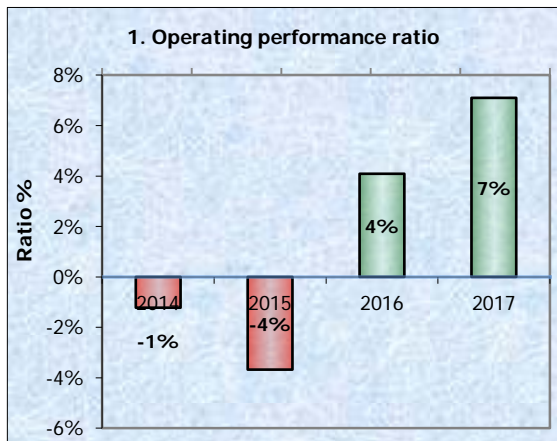
⁽³⁾ Refer to Note 10(a).

⁽⁴⁾ 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 2017

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



Benchmark: — Minimum $\geq 0.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #25

Purpose of operating performance ratio

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

Commentary on 2016/17 result

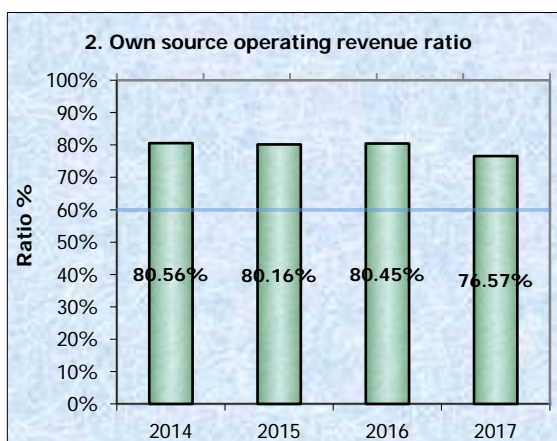
2016/17 ratio 7.10%

Councils operating result is higher than expected due to an advance partial payment of the 2018 Federal Assistance Grant. Without this income Councils adjusted operating performance ratio would still be positive at approximately 4%



Ratio achieves benchmark

Ratio is outside benchmark



Benchmark: — Minimum $\geq 60.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #25

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 2016/17 result

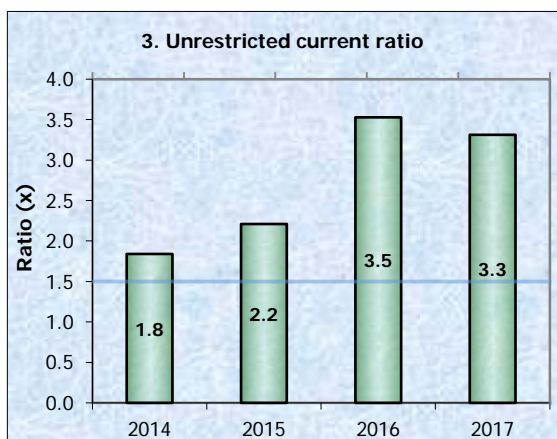
2016/17 ratio 76.57%

Councils operating revenue base continues to have strong diversification with its revenue mix not being heavily reliant on external grants.



Ratio achieves benchmark

Ratio is outside benchmark



Benchmark: — Minimum ≥ 1.50

Source for benchmark: Code of Accounting Practice and Financial Reporting #25

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 2016/17 result

2016/17 ratio 3.31x

Councils unrestricted ratio remains in a positive position.



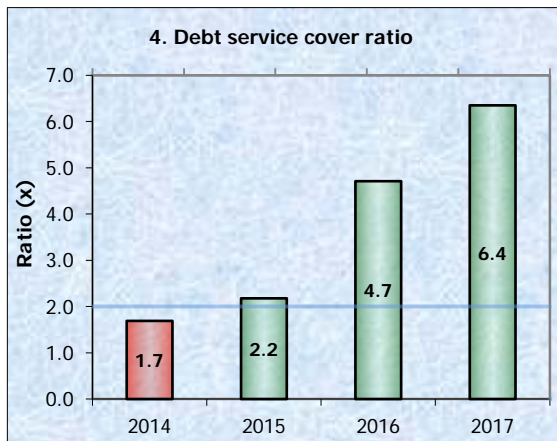
Ratio achieves benchmark

Ratio is outside benchmark

Port Stephens

Notes to the Financial Statements for the year ended 30 June 2017

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



Benchmark: — Minimum ≥ 2.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #25

Purpose of debt service cover ratio

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

Commentary on 2016/17 result

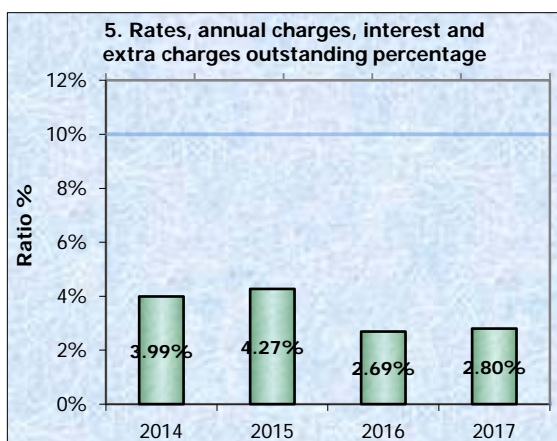
2016/17 ratio 6.35x

Council has continued to pay off existing debt and is now introducing new debt in order to adequately fund future infrastructure projects.



Ratio achieves benchmark

Ratio is outside benchmark



Benchmark: — Maximum $< 10.00\%$

Source for Benchmark: Code of Accounting Practice and Financial Reporting #25

Purpose of rates and annual charges outstanding ratio

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

Commentary on 2016/17 result

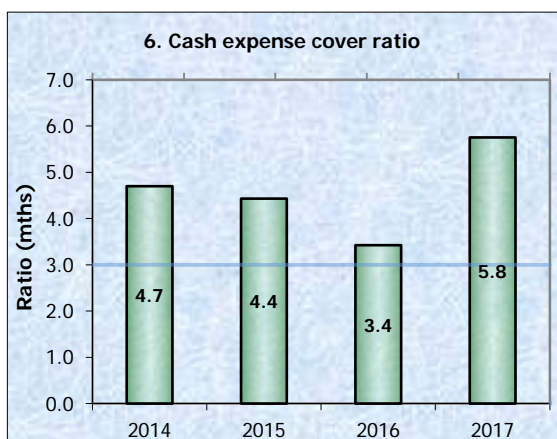
2016/17 ratio 2.80%

Council continues to perform above benchmarks in regards to collecting outstanding debtors.



Ratio is within Benchmark

Ratio is outside Benchmark



Benchmark: — Minimum ≥ 3.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #25

Purpose of cash expense cover ratio

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

Commentary on 2016/17 result

2016/17 ratio 5.75 mths

Council's liquidity position is in a healthy position due to the advance partial payment of the 2018 Federal Assistance Grant and strong debtor collection.



Ratio achieves benchmark

Ratio is outside benchmark

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 14. Investment properties

| \$ '000 | Notes | Actual 2017 | Actual 2016 |
|---|-------|----------------|----------------|
| (a) Investment properties at fair value | | | |
| Investment properties on hand | | 26,000 | 21,500 |
| Reconciliation of annual movement: | | | |
| Opening balance | | 21,500 | 21,148 |
| – Capitalised expenditure – this year | | 115 | 179 |
| – Net gain/(loss) from fair value adjustments | | 525 | 486 |
| – Transfers from/(to) owner occupied (Note 9) | | 3,860 | – |
| – Other movements | | – | (313) |
| CLOSING BALANCE – INVESTMENT PROPERTIES | | 26,000 | 21,500 |
| (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 2017 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 – Council as lessor | | | |
| 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 | | 2,227 | 2,125 |
| Later than 1 year but less than 5 years | | 3,645 | 4,701 |
| Later than 5 years | | 1,395 | 56 |
| Total minimum lease payments receivable | | 7,267 | 6,882 |
| 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 | | | |
| Rental income from investment properties: | | | |
| – Minimum lease payments | | 2,653 | 2,621 |
| Direct operating expenses on investment properties: | | | |
| – that generated rental income | | (519) | (489) |
| Net revenue contribution from investment properties | | 2,134 | 2,132 |
| plus: | | | |
| Fair value movement for year | | 525 | 486 |
| Total income attributable to investment properties | | 2,659 | 2,618 |

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 2017

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 | |
|------------------------------------|----------------|---------------|---------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| Financial assets | | | | |
| Cash and cash equivalents | 8,093 | 7,735 | 8,093 | 7,735 |
| Investments | | | | |
| – 'Held to maturity' | 40,633 | 25,158 | 40,633 | 25,158 |
| – 'Available for sale' | – | 997 | – | 997 |
| Receivables | 8,992 | 12,960 | 8,992 | 12,960 |
| Total financial assets | 57,718 | 46,850 | 57,718 | 46,850 |
| Financial liabilities | | | | |
| Payables | 8,486 | 6,938 | 8,486 | 6,938 |
| Loans/advances | 21,558 | 19,672 | 21,558 | 19,672 |
| Lease liabilities | – | 40 | – | 40 |
| Total financial liabilities | 30,044 | 26,650 | 30,044 | 26,650 |

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 2017

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 it's staff and an investment report is tabled before Council on a monthly basis setting out the portfolio breakup and its performance.

The risks associated with the investments held are:

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether there changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.

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

Council also seeks advice from independent advisers before placing any funds in cash equivalents 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 |
| 2017 | | | | |
| Possible impact of a 10% movement in market values | – | – | – | – |
| Possible impact of a 1% movement in interest rates | 310 | 310 | (310) | (310) |
| 2016 | | | | |
| Possible impact of a 10% movement in market values | – | 97 | – | (97) |
| Possible impact of a 1% movement in interest rates | 150 | 150 | (150) | (150) |

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

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:

| | 2017 Rates and annual charges | 2017 Other receivables | 2016 Rates and annual charges | 2016 Other receivables |
|--------------------------------------|--|------------------------------|--|------------------------------|
| (i) Ageing of receivables – % | | | | |
| Current (not yet overdue) | 0% | 75% | 0% | 85% |
| Overdue | 100% | 25% | 100% | 15% |
| | 100% | 100% | 100% | 100% |

| | | 2017 Rates and annual charges | 2017 Other receivables | 2016 Rates and annual charges | 2016 Other receivables |
|---|--------------------------|--|------------------------------|--|------------------------------|
| (ii) Ageing of receivables – value | | | | | |
| Rates and annual charges | Other receivables | | | | |
| Current | Current | – | 5,799 | – | 9,963 |
| < 1 year overdue | 0 – 30 days overdue | 589 | – | 467 | – |
| 1 – 2 years overdue | 31 – 60 days overdue | 419 | – | 319 | – |
| 2 – 5 years overdue | 61 – 90 days overdue | 282 | – | 303 | – |
| > 5 years overdue | > 91 days overdue | 66 | 1,888 | 154 | 1,802 |
| | | 1,356 | 7,687 | 1,243 | 11,765 |

(iii) Movement in provision for impairment of receivables

| | 2017 | 2016 |
|--|-----------|-----------|
| Balance at the beginning of the year | 48 | 41 |
| + new provisions recognised during the year | 6 | 12 |
| – amounts already provided for and written off this year | (2) | (3) |
| – amounts provided for but recovered during the year | (1) | (2) |
| Balance at the end of the year | 51 | 48 |

Port Stephens

Notes to the Financial Statements for the year ended 30 June 2017

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 | | |
| 2017 | | | | | | | | | |
| Trade/other payables | 758 | 7,720 | 8 | – | – | – | – | 8,486 | 8,486 |
| Loans and advances | – | 3,312 | 2,752 | 13,063 | 1,582 | 888 | 1,258 | 22,855 | 21,558 |
| Total financial liabilities | 758 | 11,032 | 2,760 | 13,063 | 1,582 | 888 | 1,258 | 31,341 | 30,044 |
| 2016 | | | | | | | | | |
| Trade/other payables | 657 | 6,276 | 7 | – | – | – | – | 6,940 | 6,938 |
| 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 | 26,650 |

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:

| | 2017 | | 2016 | |
|---|-------------------|--------------------------|-------------------|--------------------------|
| | Carrying value | Average interest rate | Carrying value | Average interest rate |
| Trade/other payables | 8,486 | 0.00% | 6,938 | 0.00% |
| Loans and advances – fixed interest rate | 10,217 | 3.62% | 19,072 | 3.56% |
| Loans and advances – variable interest rate | 11,341 | 2.93% | 600 | 4.62% |
| Lease liabilities | – | 0.00% | 40 | 5.20% |
| | 30,044 | | 26,650 | |

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 16. Material budget variations

\$ '000

Council's original financial budget for 16/17 was adopted by the Council on 24 May 2017.

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 | 2017 Budget | 2017 Actual | 2017 Variance* ----- | | |
|---|----------------|----------------|-------------------------|-------|----------|
| REVENUES | | | | | |
| Rates and annual charges | 52,778 | 53,415 | 637 | 1% | F |
| User charges and fees | 37,702 | 37,971 | 269 | 1% | F |
| Interest and investment revenue | 1,680 | 1,192 | (488) | (29%) | U |
| Interest income is lower than budget due to a declining cash rate and the cash outflow associated with funding the April 2015 storm clean up effort. | | | | | |
| Other revenues | 5,909 | 8,593 | 2,684 | 45% | F |
| Other revenues were higher than budget due to the accrual for natural disaster funding owed to Council as a result of the April 2015 Storm event. | | | | | |
| Operating grants and contributions | 12,814 | 16,488 | 3,674 | 29% | F |
| Operating grants and contributions were higher than the original budget due to the advance receipt of the Federal Assistance Grant for 2018 prior to 30 June. | | | | | |
| Capital grants and contributions | 8,003 | 14,309 | 6,306 | 79% | F |
| Capital grants and contributions were higher than the original budget due to Council being successful in a number of grant applications. | | | | | |
| Net gains from disposal of assets | 250 | 259 | 8 | 3% | F |
| The disposal of assets is higher than budget due to the sale of operational land during the year which was not originally budgeted for. | | | | | |

Port Stephens

Notes to the Financial Statements for the year ended 30 June 2017

Note 16. Material budget variations (continued)

| \$ '000 | 2017 Budget | 2017 Actual | 2017 Variance* | |
|--|----------------|----------------|-------------------|----------------|
| EXPENSES | | | | |
| Employee benefits and on-costs | 40,822 | 41,795 | (973) | (2%) U |
| Borrowing costs | 841 | 714 | 127 | 15% F |
| Borrowing costs are lower than budget due to Council locking in existing loans at lower than expected interest rates | | | | |
| Materials and contracts | 39,064 | 36,275 | 2,789 | 7% F |
| Depreciation and amortisation | 14,713 | 14,985 | (272) | (2%) U |
| Impairment expenses | – | 696 | (696) | 0% U |
| An impairment expense was recognised during the year as a result of a reclassification of property. | | | | |
| Other expenses | 12,616 | 15,046 | (2,430) | (19%) U |
| Other expenses are higher than the budget due to operating costs associated with Newcastle Airport. | | | | |

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

| | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|----------|
| Cash flows from operating activities | 24,357 | 36,540 | 12,183 | 50.0% | F |
| Cash flows from operating activities were higher than budget due to the receipt of capital grants and advance partial payment of the 2018 Federal Assistance Grant. | | | | | |
| Cash flows from investing activities | (19,750) | (37,983) | (18,233) | 92.3% | U |
| Cash flows from investing activities increased due to additional capital grants and contributions received during the year which were used to construct public infrastructure. | | | | | |
| Cash flows from financing activities | (3,767) | 1,801 | 5,568 | (147.8%) | F |
| Cash flows from financing activities were positive due to the introduction of new borrowings which were not originally budgeted for. | | | | | |

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

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 | (1) | – | – | – | – | – | (1) | – |
| Roads | 1,376 | 308 | – | 22 | (387) | – | 1,319 | – |
| Traffic facilities | 38 | – | – | 1 | – | – | 39 | – |
| Parking | (8) | – | – | – | – | – | (8) | – |
| Open space | 1,880 | 439 | – | 30 | (357) | – | 1,992 | – |
| Community facilities | 2,433 | 427 | – | 41 | (494) | – | 2,407 | – |
| Recreation | 3,894 | 784 | – | 64 | (78) | – | 4,664 | – |
| Fire Fighting Facilities | 439 | 62 | – | 7 | (169) | – | 339 | – |
| Haulage | 2,618 | 997 | – | 43 | (476) | – | 3,182 | – |
| Civic Administration | 288 | 130 | – | 5 | (147) | – | 276 | – |
| S94 contributions – under a plan | 12,958 | 3,147 | – | 213 | (2,108) | – | 14,210 | – |
| S94A levies – under a plan | 785 | 305 | 49 | 13 | (154) | – | 998 | – |
| Total S94 revenue under plans | 13,743 | 3,452 | 49 | 226 | (2,262) | – | 15,208 | – |
| Repealed funds | 190 | – | – | 3 | (68) | – | 125 | – |
| Total contributions | 13,933 | 3,452 | 49 | 229 | (2,330) | – | 15,333 | – |

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

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 | 64 | 3 | – | 1 | – | – | 68 | – |
| Open space | 131 | 8 | – | 2 | (63) | – | 78 | – |
| Community facilities | 120 | 8 | – | 2 | – | – | 130 | – |
| Recreation | 168 | 21 | – | 4 | – | – | 193 | – |
| Total | 483 | 40 | – | 9 | (63) | – | 469 | – |

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 | (1) | 35 | – | – | – | – | 34 | – |
| Parking | (11) | – | – | – | – | – | (11) | – |
| Open space | 320 | 54 | – | 5 | (147) | – | 232 | – |
| Community facilities | 172 | 62 | – | 3 | (120) | – | 117 | – |
| Recreation | 502 | 130 | – | 8 | – | – | 640 | – |
| Total | 982 | 281 | – | 16 | (267) | – | 1,012 | – |

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

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) |
|----------------------|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Roads | 277 | 114 | – | 5 | – | – | 396 | – |
| Open space | 312 | 116 | – | 5 | (44) | – | 389 | – |
| Community facilities | 283 | 141 | – | 5 | (143) | – | 286 | – |
| Recreation | 1,295 | 252 | – | 21 | – | – | 1,568 | – |
| Total | 2,167 | 623 | – | 36 | (187) | – | 2,639 | – |

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) |
|----------------------|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Roads | 43 | 23 | – | 1 | – | – | 67 | – |
| Open space | 36 | 80 | – | 1 | – | – | 117 | – |
| Community facilities | (131) | 23 | – | (2) | – | – | (110) | – |
| Recreation | 135 | 18 | – | 2 | – | – | 155 | – |
| Total | 83 | 144 | – | 2 | – | – | 229 | – |

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

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) |
|----------------------|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Roads | 324 | 12 | – | 5 | (320) | – | 21 | – |
| Open space | (59) | 18 | – | (1) | – | – | (42) | – |
| Community facilities | 45 | 19 | – | 1 | – | – | 65 | – |
| Recreation | 266 | 49 | – | 4 | (70) | – | 249 | – |
| Total | 576 | 98 | – | 9 | (390) | – | 293 | – |

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) |
|----------------------|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Drainage | (1) | – | – | – | – | – | (1) | – |
| Roads | 67 | 23 | – | 1 | (67) | – | 24 | – |
| Parking | 3 | – | – | – | – | – | 3 | – |
| Open space | 250 | 44 | – | 4 | (48) | – | 250 | – |
| Community facilities | 859 | 42 | – | 14 | (135) | – | 780 | – |
| Recreation | (141) | 108 | – | (2) | – | – | (35) | – |
| Total | 1,037 | 217 | – | 17 | (250) | – | 1,021 | – |

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

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) |
|----------------------|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Roads | 28 | 1 | – | – | – | – | 29 | – |
| Open space | 19 | 3 | – | – | – | – | 22 | – |
| Community facilities | (2) | 3 | – | – | – | – | 1 | – |
| Recreation | 30 | 6 | – | – | – | – | 36 | – |
| Total | 75 | 13 | – | – | – | – | 88 | – |

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) |
|----------------------|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Roads | 574 | 97 | – | 9 | – | – | 680 | – |
| Traffic facilities | 38 | – | – | 1 | – | – | 39 | – |
| Open space | 871 | 116 | – | 14 | (55) | – | 946 | – |
| Community facilities | 1,087 | 129 | – | 18 | (96) | – | 1,138 | – |
| Recreation | 1,639 | 200 | – | 27 | (8) | – | 1,858 | – |
| Total | 4,209 | 542 | – | 69 | (159) | – | 4,661 | – |

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

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 | 2,618 | 997 | – | 43 | (476) | – | 3,182 | – |
| Fire Fighting Facilities | 439 | 62 | – | 7 | (169) | – | 339 | – |
| Civic Administration | 288 | 130 | – | 5 | (147) | – | 276 | – |
| Total | 3,345 | 1,189 | – | 55 | (792) | – | 3,797 | – |

CONTRIBUTION PLAN - SECTION 94A

| 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 | | | | | |
| Section 94A | 785 | 305 | 49 | 13 | (154) | – | 998 | – |
| Total | 785 | 305 | 49 | 13 | (154) | – | 998 | – |

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

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 is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named the 'Local Government Superannuation Scheme – Pool B'. This scheme has been deemed to be a 'multi-employer fund' for the purposes of AASB 119.

Sufficient information is not available to account for the Scheme as a defined benefit plan (in accordance with AASB 119) because the assets to the scheme are pooled together for all Councils.

The 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 2017 was \$713,657.65. The last valuation of the Fund was performed by Mr Richard Boyfield, FIAA on 2nd December 2016 relating to the period ending 30 June 2016

However the position is monitored annually and the actuary has estimated that as at 30 June 2017 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 additional contributions included in the total employer contribution advised above is \$298,428.

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.

(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.

Port Stephens

Notes to the Financial Statements for the year ended 30 June 2017

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 2017

Note 19. Interests in other entities

\$ '000

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;

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)

(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 2017

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 | |
|---|----------------------------|-------------------|-----------------------|------|--------------------|------|
| | | | 2017 | 2016 | 2017 | 2016 |
| Newcastle Airport Partnership and Newcastle Airport Pty Ltd | Domestic Airport Operation | Williamstown | 50% | 50% | 50% | 50% |

(b) Council assets employed in the joint operations

| | 2017 | 2016 |
|--|---------------|---------------|
| Council's share of assets jointly owned with other partners | | |
| Current assets | 15,528 | 12,833 |
| Current liabilities | (2,267) | (2,057) |
| Property, plant and equipment | 29,235 | 29,181 |
| Other non-current assets | 10 | 5 |
| Non-current liabilities | (11,168) | (11,458) |
| Total net assets employed – Council and jointly owned | 31,338 | 28,504 |

(c) Share of joint operations expenditure commitments

| | 2017 | 2016 |
|--|------------|-----------|
| Capital commitments | | |
| Payable not later than 1 year | 484 | 56 |
| Total capital commitments | 484 | 56 |
| Operating expenditure commitments | | |
| Payable not later than 1 year | 515 | 18 |
| Payable later than 1 year but not later than 5 years | – | 22 |
| Total operating expenditure commitments | 515 | 40 |

(d) Contingent liabilities of joint operations

| | 2017 | 2016 |
|--|------|------|
| 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 | 2017 | 2017 |
|--|---|------------|------------|
| | | Net profit | Net assets |
| Strategic Services Australia Limited (formerly known as Hunter Councils Limited) | Council Support Services Joint Venture | (1) | 289 |

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 2017

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

| \$ '000 | Notes | Actual 2017 | Actual 2016 |
|--|----------|----------------|----------------|
| (a) Retained earnings | | | |
| Movements in retained earnings were as follows: | | | |
| Balance at beginning of year (from previous years audited accounts) | | 544,250 | 524,234 |
| a. Correction of prior period errors | 20 (c) | (512) | – |
| b. Net operating result for the year | | 22,716 | 20,016 |
| c. Transfers between equity | | 955 | – |
| Balance at end of the reporting period | | 567,409 | 544,250 |
| (b) Revaluation reserves | | | |
| (i) Reserves are represented by: | | | |
| – Infrastructure, property, plant and equipment revaluation reserve | | 350,755 | 353,628 |
| – ‘Available for sale’ financial investments revaluation reserve | | – | (48) |
| Total | | 350,755 | 353,580 |
| (ii) Reconciliation of movements in reserves: | | | |
| Infrastructure, property, plant and equipment revaluation reserve | | | |
| – Opening balance | | 353,628 | 362,282 |
| – Revaluations for the year | 9(a) | (2,270) | (8,654) |
| – (Impairment of revalued assets)/impairment reversals | 9(a),(c) | 352 | – |
| – Transfer to retained earnings for asset disposals | | (955) | – |
| – Balance at end of year | | 350,755 | 353,628 |
| ‘Available for sale’ financial investments revaluation reserve | | | |
| – Opening balance | | (48) | (67) |
| – Unrealised gain (loss) in value for the year | | 48 | 19 |
| – Balance at end of year | | – | (48) |
| TOTAL VALUE OF RESERVES | | 350,755 | 353,580 |

(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 2017

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

| \$ '000 | Notes | Actual 2017 | Actual 2016 |
|---|-------|----------------|----------------|
| (c) Correction of error/s relating to a previous reporting period | | | |
| Correction of errors disclosed in this year's financial statements: | | | |
| – Payroll accrual being taken up for the first time | | (512) | – |
| Correction of errors as disclosed in last year's financial statements: | | | |
| – 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 |
| In accordance with AASB 108 – Accounting Policies, Changes in Accounting Estimates and Errors, the above prior period errors have been recognised retrospectively. | | | |
| These amounted to the following equity adjustments: | | | |
| – Adjustments to opening equity – 1/7/15 (relating to adjustments for the 30/6/15 reporting year end and prior periods) | | – | 698 |
| – Adjustments to closing equity – 30/6/16 (relating to adjustments for the 30/6/16 year end) | | (512) | – |
| Total prior period adjustments – prior period errors | | (512) | 698 |

(d) Voluntary changes in accounting policies

Council made no voluntary changes in any accounting policies 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 2017

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

\$ '000

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

Note 23. Events occurring after the reporting date

Events that occur between the end of the reporting period (30 June 2017) and the date when the financial statements are 'authorised for issue' have been taken into account in preparing these statements.

Council has adopted the date of receipt of the Auditors' Report as the applicable 'authorised for issue' date relating to these General Purpose Financial Statements.

Accordingly, the 'authorised for issue' date is 27/10/17.

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 2017.

(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 2017 and which are only indicative of conditions that arose after 30 June 2017.

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

Note 24. Discontinued operations

Council has not classified any of its operations as 'discontinued'.

Port Stephens

Notes to the Financial Statements for the year ended 30 June 2017

Note 25. Intangible assets

| \$ '000 | Actual 2017 | Actual 2016 |
|--|------------------------|------------------------|
| Intangible assets represent identifiable non-monetary assets without physical substance. | | |
| Intangible assets are as follows: | | |
| Opening values: | | |
| Gross book value (1/7) | 2,185 | 2,079 |
| Accumulated amortisation (1/7) | (787) | (90) |
| Net book value – opening balance | 1,398 | 1,989 |
| Movements for the year | | |
| – Purchases | 357 | 70 |
| – Transfers from IPP&E | – | 36 |
| – Amortisation charges | (549) | (697) |
| – Gross book value written off | (10) | – |
| Closing values: | | |
| Gross book value (30/6) | 2,627 | 2,185 |
| Accumulated amortisation (30/6) | (1,431) | (787) |
| Accumulated impairment (30/6) | – | – |
| <u>TOTAL INTANGIBLE ASSETS – NET BOOK VALUE</u> ¹ | <u>1,196</u> | <u>1,398</u> |

¹. The net book value of intangible assets represent:

| | | |
|------------|--------------|--------------|
| – Software | 1,196 | 1,398 |
| | 1,196 | 1,398 |

Port Stephens

Notes to the Financial Statements for the year ended 30 June 2017

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 | |
|---|-------------------------------------|------------------|--------------|
| | | 2017 | 2016 |
| Tip site – Raymond terrace | 2018 | 1,600 | 1,600 |
| Balance at end of the reporting period | 10(a) | 1,600 | 1,600 |

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 | 1,600 | 1,568 |
| Amounts capitalised to new or existing assets: | | |
| Effect of a change in discount rates used in PV calculations | – | 6 |
| Amortisation of discount (expensed to borrowing costs) | – | 26 |
| Total – reinstatement, rehabilitation and restoration provision | 1,600 | 1,600 |

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 2017

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

\$ '000

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 2017

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:

| 2017 | 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 | | | | |
| Other financial assets | – | – | 3,520 | 3,520 |
| Total financial assets | – | – | 3,520 | 3,520 |
| Investment properties | | | | |
| Investment Properties held | – | 26,000 | – | 26,000 |
| Total investment properties | – | 26,000 | – | 26,000 |
| Infrastructure, property, plant and equipment | | | | |
| Plant and equipment | – | – | 9,488 | 9,488 |
| Office equipment | – | – | 748 | 748 |
| Furniture and fittings | – | – | 78 | 78 |
| Land | – | 30,600 | 44,870 | 75,470 |
| Land Improvements | – | – | 628 | 628 |
| Buildings – specialised | – | – | 83,080 | 83,080 |
| Other Structures | – | – | 3,764 | 3,764 |
| Infrastructure (roads, bridges, stormwater drains) | – | – | 736,042 | 736,042 |
| Other Assets | – | – | 8,394 | 8,394 |
| Total infrastructure, property, plant and equipment | – | 30,600 | 887,093 | 917,693 |

Port Stephens

Notes to the Financial Statements for the year ended 30 June 2017

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)

| 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 and equipment | – | – | 10,949 | 10,949 |
| Office equipment | – | – | 608 | 608 |
| Furniture and 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 |

(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 2017

Note 27. Fair value measurement (continued)

\$ '000

(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.
-

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.

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 2017

Note 27. Fair value measurement (continued)

\$ '000

(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.

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

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

\$ '000

(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.

Other Assets

Other Assets include Other assets in this class includes heritage collections library books, carpark 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.

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

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 |
|--|------------------------|--------------------------------|----------------------------|--------------------------------|----------------|
| Opening balance – 1/7/15 | 20,835 | 8,998 | 48 | 92,190 | 122,071 |
| Transfers from/(to) another asset class | – | 646 | 42 | (13,492) | (12,804) |
| 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 ¹ | 486 | – | – | – | 486 |
| Closing balance – 30/6/16 | 21,500 | 11,557 | 114 | 79,085 | 112,256 |
| Transfers from/(to) another asset class | 3,860 | – | – | 282 | 4,142 |
| Purchases (GBV) | 115 | 1,138 | – | 614 | 1,867 |
| Disposals (WDV) | – | (445) | (3) | (942) | (1,390) |
| Depreciation and impairment | – | (2,014) | (34) | (33) | (2,080) |
| FV gains – Income Statement ¹ | 525 | – | – | – | 525 |
| Other movement | – | – | – | (971) | (971) |
| Other movement | – | – | – | (2,150) | (2,150) |
| Other movement | – | – | – | (2,026) | (2,026) |
| Closing balance – 30/6/17 | 26,000 | 10,236 | 78 | 73,858 | 110,172 |
| ¹ FV gains recognised in the Income Statement relating to assets still on hand at year end total: | | | | | |
| YE 15/16 | 486 | – | – | – | 486 |
| YE 16/17 | 525 | – | – | – | 525 |

| | Buildings | Other Structures | Infrastructure | Other Assets | Total |
|---|---------------|---------------------|----------------|-----------------|----------------|
| Opening balance – 1/7/15 | 47,870 | 3,716 | 659,351 | 8,525 | 719,462 |
| Transfers from/(to) another asset class | 40,087 | (1,736) | (62,246) | 26,558 | 2,663 |
| 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) |
| Closing balance – 30/6/16 | 86,744 | 2,145 | 610,766 | 34,646 | 734,301 |
| Transfers from/(to) another asset class | (50) | 44 | (331) | 562 | 225 |
| Purchases (GBV) | 3,798 | 1,841 | 17,006 | 2,140 | 24,784 |
| Disposals (WDV) | – | (32) | – | (65) | (97) |
| Depreciation and impairment | (5,475) | (234) | (2,970) | (2,240) | (10,919) |
| Other movement | (1,692) | – | – | – | (1,692) |
| Other movement | (244) | – | – | – | (244) |
| Closing balance – 30/6/17 | 83,081 | 3,764 | 624,472 | 35,043 | 746,359 |

Port Stephens

Notes to the Financial Statements for the year ended 30 June 2017

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 (30/6/17) \$'000 | Valuation technique/s | Unobservable inputs |
|------------------------------|-----------------------------------|--------------------------|--|
| Investment properties | | | |
| Investment properties | 26,000 | Refer 27(3) above | * Market value (price per square metre) |
| I,PP&E | | | |
| Plant & Office Equipment | 3,764 | Refer 27(3) above | * Gross replacement cost * Remaining useful life * Residual value |
| Furniture & Fittings | 78 | Refer 27(3) above | * Gross replacement cost * Remaining useful life * Residual value |
| Land & Land Improvements | 73,858 | Refer 27(3) above | * VG value (price per square metre) * Market value (price per square metre) |
| Buildings - Specialised | 83,081 | Refer 27(3) above | * Gross replacement cost * Remaining useful life * Residual value |
| Other Structures | 3,764 | Refer 27(3) above | * Gross replacement cost * Remaining useful life * Residual value |
| Infrastructure | 624,472 | Refer 27(3) above | * Gross replacement cost * Remaining useful life * Residual value |
| Other Assets | 35,043 | 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 2017

Note 28. Related party disclosures

\$ '000

a. Key management personnel

Key management personnel (KMP) of the council are those persons having the authority and responsibility for planning, directing and controlling the activities of the council, directly or indirectly.

The aggregate amount of KMP compensation included in the Income Statement is:

| | Actual 2017 \$'000 |
|--------------------------|--------------------------|
| Compensation: | |
| Short-term benefits | 3,387 |
| Post-employment benefits | 282 |
| Total | <u>3,669</u> |

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 28. Related party disclosures (continued)

\$ '000

b. Other transactions with KMP and their related parties

Council has determined that transactions at arm's length between KMP and Council as part of Council delivering a public service objective (e.g. access to library or Council swimming pool by KMP) will not be disclosed.

| Nature of the transaction | | Value of transactions during year | Outstanding balance (incl. loans and commitments) | Terms and conditions | Provisions for doubtful debts outstanding | Doubtful debts expense recognised |
|---------------------------|------|-----------------------------------|---|-------------------------|---|-----------------------------------|
| | Note | \$'000 | \$'000 | | \$'000 | \$'000 |
| Director remuneration | 1 | 38 | — | n/a | — | — |
| Purchase of materials | 2 | 22 | — | 30 day terms on invoice | — | — |
| Payment of contributions | 3 | 391 | — | n/a | — | — |
| Legal Services | 4 | 205 | — | 30 day terms on invoice | — | — |
| Training services | 5 | 87 | — | 30 day terms on invoice | — | — |
| Tourism services | 6 | 32 | — | 30 day terms on invoice | — | — |

- 1 A member of Council's KMP is remunerated for the provision of board member services by Newcastle Airport Pty Ltd which Port Stephens Council has a 50% shareholding in
- 2 Port Stephens Council purchased road base materials from Grafil Pty Ltd during the year, a company which has a member of Council's KMP as a director. Amounts were billed based on normal rates for such supplies and were due and payable under normal payment terms following the council's procurement processes.
- 3 A member of Council's KMP is a board member of Destination Port Stephens (a non profit organisation) which receives an annual contribution from Council towards generating economic activity within the LGA. The KMP member is not remunerated by Destination Port Stephens for their Directorship
- 4 Port Stephens Council paid for legal services from Local Government Legal (a division of Strategic Services Australia Ltd) which is a joint operation between 11 Hunter Councils. A member of Council's KMP is a Director of Strategic Services Australia and is not remunerated for their Directorship.
- 5 Port Stephens Council paid for training services from Local Government Training Solutions (a division of Strategic Services Australia Ltd) which is a joint operation between 11 Hunter Councils. A member of Council's KMP is a Director of Strategic Services Australia and is not remunerated for their Directorship.
- 6 Port Stephens Council paid for tourism promotion services from Screen Hunter (a division of Strategic Services Australia Ltd) which is a joint operation between 11 Hunter Councils. A member of Council's KMP is a Director of Strategic Services Australia and is not remunerated for their Directorship.

Port Stephens

Notes to the Financial Statements

for the year ended 30 June 2017

Note 28. Related party disclosures (continued)

\$ '000

c. Other related party transactions

| Nature of the transaction | | Value of transactions during year | Outstanding balance (incl. loans and commitments) | Terms and conditions | Provisions for doubtful debts outstanding | Doubtful debts expense recognised |
|---------------------------|------|---|--|----------------------|--|--|
| | Note | \$'000 | \$'000 | | \$'000 | \$'000 |
| Shareholder dividend | 1 | 1,234 | — | n/a | — | — |

1 Port Stephens Council is a 50% shareholder in the joint operation of Newcastle Airport Pty Ltd for which it receives an annual dividend from.

Port Stephens

Notes to the Financial Statements for the year ended 30 June 2017

Note 29. Council information and contact details

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

Email: council@portstephens.nsw.gov.au

Officers
GENERAL MANAGER

Wayne Wallis

RESPONSIBLE ACCOUNTING OFFICER

Tim Hazell

PUBLIC OFFICER

Tony Wickham

AUDITORS

The Audit Office of New South Wales
Level 15, 1 Margaret Street,
Sydney, NSW, 2001

Elected members
MAYOR

Ryan Palmer

COUNCILLORS

Cr John Nell
Cr Glen Dunkley
Cr Jaimie Abbott
Cr Chris Doohan
Cr Steve Tucker
Cr Sarah Smith
Cr Paul Le Mottee
Cr Ken Jordan
Cr Giacomo Arnott

Other information

ABN: 16 744 377 876



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Port Stephens Council

To the Councillors of the Port Stephens Council

Opinion

I have audited the accompanying financial statements of Port Stephens Council (the Council), which comprise the statement of financial position as at 30 June 2017, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by Councillors and Management.

In my opinion,

- 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 (the Division)
- the financial statements:
 - have been presented, in all material respects, in accordance with the requirements of this Division
 - are consistent with the Council's accounting records
 - present fairly; in all material respects, the financial position of the Council as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

The Councillors' Responsibility for the Financial Statements

The Councillors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the *Local Government Act 1993*, and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors must assess the Council's ability to continue as a going concern except where the Council will be dissolved or amalgamated by an Act of Parliament. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar3.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, Note 2(a) and Note 16 budget variation explanations
- on the attached Special Schedules
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

C J Giumelli
Director, Financial Audit Services

26 October 2017
SYDNEY

Cr Ryan Palmer
Mayor
Port Stephens Council
PO Box 42
Raymond Terrace NSW 2324

Contact: Chris Giumelli
Phone no: 9275 7167
Our ref: D1727985/1779

26 October 2017

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2017
Port Stephens Council**

I have audited the general purpose financial statements of the Port Stephens Council (the Council) for the year ended 30 June 2017 as required by s415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's general purpose financial statements.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2017 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the general purpose financial statements issued under section 417(2) of the Act.

INCOME STATEMENT

Operating result

| | 2017 | 2016 | Variance |
|---|------|------|----------|
| | \$m | \$m | % |
| Rates and annual charges revenue | 53.4 | 51.7 | 3.3 ↑ |
| Grants and contributions revenue | 30.8 | 25.7 | 19.8 ↑ |
| Operating result for the year | 22.7 | 20.0 | 13.5 ↑ |
| Net operating result before capital amounts | 8.4 | 8.0 | 5 ↑ |

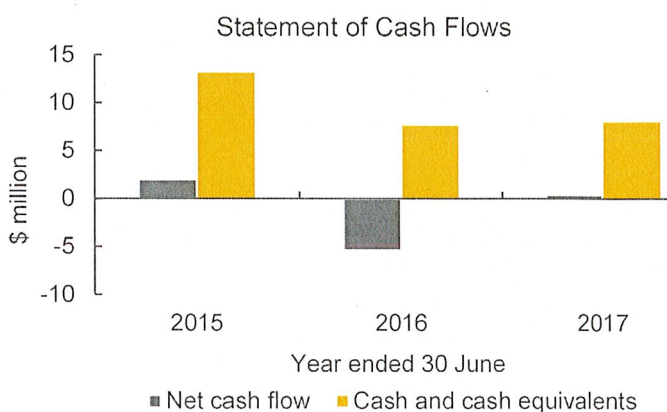
The operating result has largely been impacted by:

- Rates and annual charges increase of 3.3% for the year due to the permissible rate increase and increase in rateable properties
- Receipt of Financial Assistance grants of \$3.2 million in 2016-17 which relate to 2017-18
- Decrease in user charges and fees of \$3.1 million largely a result of a decrease in income from RMS charges
- Increase in capital contributions (dedications) of \$3.1 million, offset by a decrease in s94 contributions of \$1.1 million
- Decrease in materials and contract expenses of \$7.7 million largely in relation to a decrease in raw materials, consumables, other contractor and consultancy costs.
- Increase in employee benefits and on-costs of \$1.1 million, largely as a result of an increase in travel expenses.

STATEMENT OF CASH FLOWS

The statement of cash flows has been impacted by:

- Increase in receipts from grants and contributions of \$1.8 million
- Decrease in receipts from user charges and fees of \$2.1 million
- Increase in other receipts of \$1.6 million
- Decrease in payments for materials and contracts \$14 million
- Net increase in the purchase of investments of \$13.5 million
- Decrease in purchases of infrastructure, property, plant and equipment of \$3.5 million
- Increase in net new loans drawn down in the current year of \$5.2 million



FINANCIAL POSITION

Cash and Investments

| Restricted Cash and Investments | 2017 | 2016 | Commentary |
|-----------------------------------|-------------|-------------|--|
| | \$m | \$m | |
| External restrictions | 25.5 | 21.9 | Movements in restricted cash and investments have been impacted by: |
| Internal restrictions | 23.2 | 12.0 | |
| Unrestricted | - | - | |
| Total Cash and Investments | 48.7 | 33.9 | <ul style="list-style-type: none"> ● Increase in Newcastle Airport Partnership cash of \$2.8 million ● Federal Assistance Grant received in advance of \$3.2 million ● Increase in unexpended loan funds of \$2.8 million |

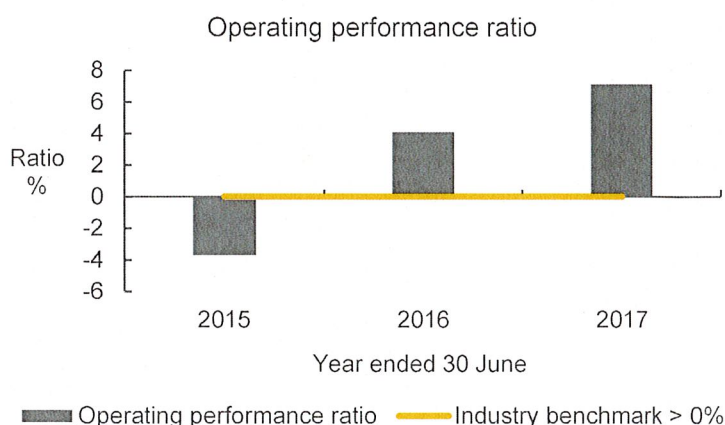
PERFORMANCE RATIOS

The definition of each ratio analysed below (except for the 'building and infrastructure renewals ratio') is included in Note 13 of the Council's audited general purpose financial statements. The 'building and infrastructure renewals ratio' is defined in Council's Special Schedule 7.

Operating performance ratio

The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is greater than zero per cent.

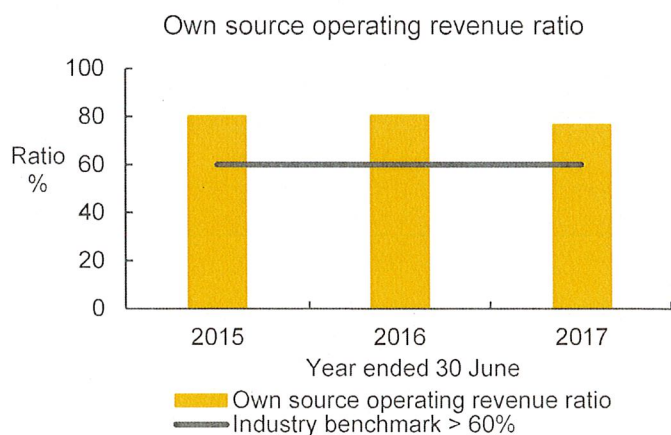
- Council exceeded the benchmark in 2016-17. The reasons are included in the commentary on the operating result on page 3.



Own source operating revenue ratio

The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.

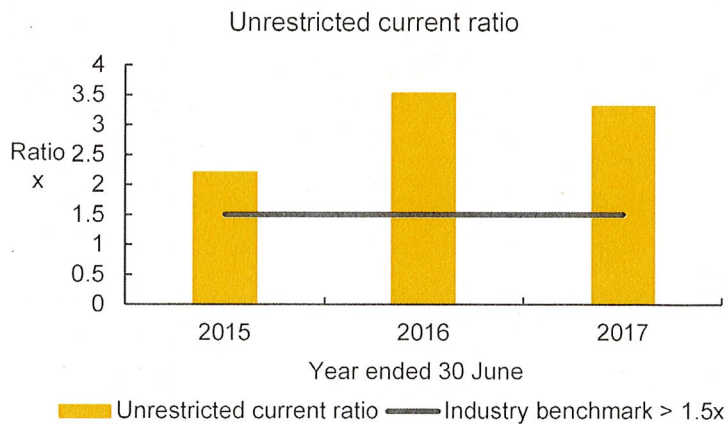
- Council is above the benchmark as Council's operating revenue base is diversified including receipts from the Newcastle Airport Partnership.



Unrestricted current ratio

The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.

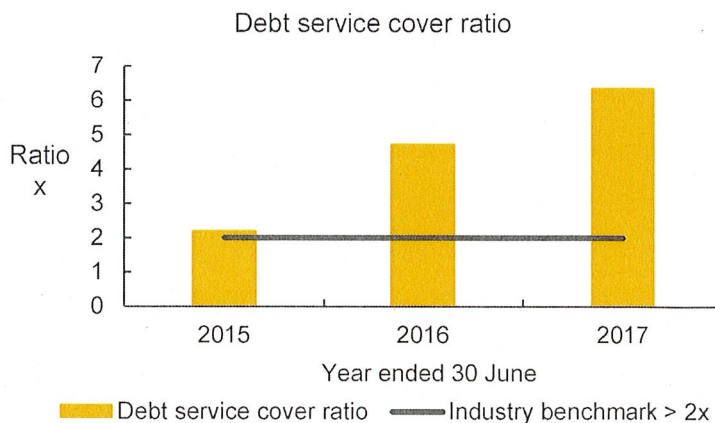
- Councils unrestricted ratio remains in a positive position and above the industry benchmark.



Debt service cover ratio

The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.

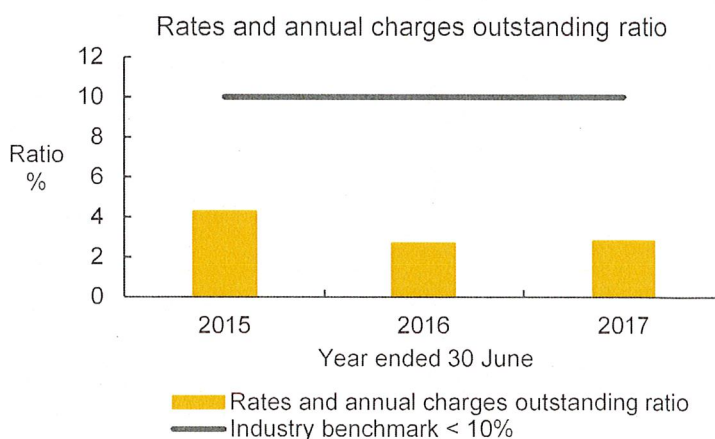
- The ratio has improved in the current year due to the improved operating result along with a reduction in principal and interest repayments.
- The raising of additional new loans of \$4.8 million in the current year may impact the ratio in subsequent years.



Rates and annual charges outstanding ratio

The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for rural councils.

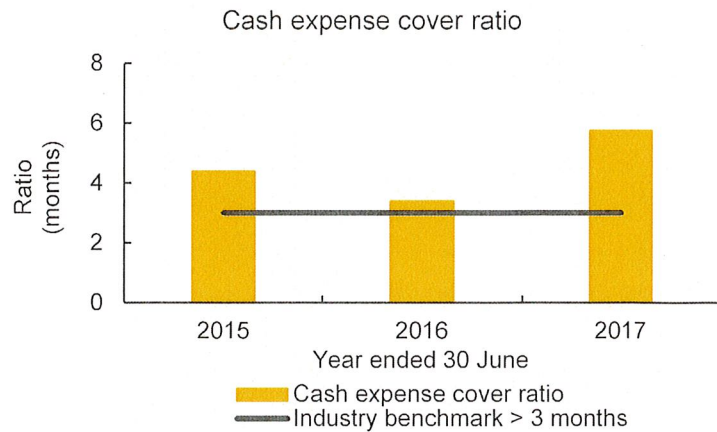
- Councils rates and annual charges outstanding ratio remains better than the industry benchmark.



Cash expense cover ratio

This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by OLG is greater than three months.

- Council's liquidity ratio is better than benchmark due to ongoing fiscal management as well as the influence in the current year of the advance payment of the 2017-18 Federal Assistance Grant and additional unspent borrowings.

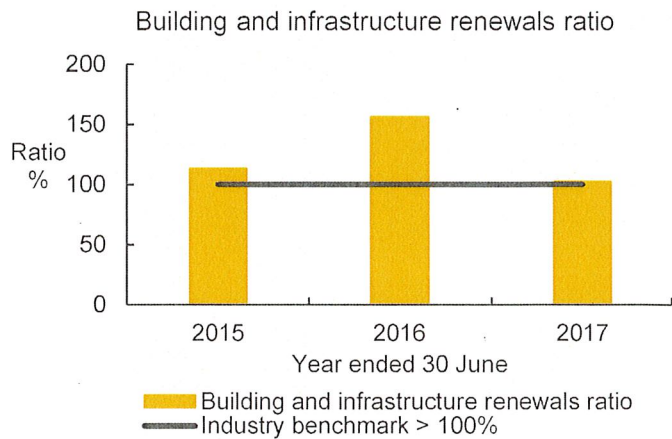


Building and infrastructure renewals ratio

The 'building and infrastructure renewals ratio assesses the rate at which these assets are being renewed against the rate at which they are depreciating. The benchmark set by OLG is greater than 100 per cent.

This ratio is sourced from information contained in council's Special Schedule 7 which has not been audited.

- The current year ratio is just above the industry benchmark as the amount of asset renewals in the current year has equalled depreciation, amortisation and impairment expenses.



OTHER MATTERS

New accounting standards implemented

AASB 124 'Related Party Disclosures'

Effective for annual reporting periods beginning on or 1 July 2016

AASB 2015-6 extended the scope of AASB 124 to include not-for-profit public sector entities. As a result, Council's financial statements disclosed the:

- compensation paid to their key management personnel
- nature of their related party relationships
- amount and nature of their related party transactions, outstanding balances and commitments and outstanding balances (including commitments).

Legislative compliance

My audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council's accounting records or financial reports. The Council's:

- accounting records were maintained in a manner and form to allow the general purpose financial statements to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.

Chris Giumelli
Director, Financial Audit Services

26 October 2017
SYDNEY

Port Stephens

SPECIAL SCHEDULES
for the year ended 30 June 2017

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



Port Stephens

Special Schedules

for the year ended 30 June 2017

Contents

Page

Special Schedules¹

| | | |
|---|--|-----|
| Special Schedule 1 | Net Cost of Services | 2 |
| Special Schedule 2(a) | Statement of Long Term Debt (all purposes) | 4 |
| Special Schedule 2(b) | Statement of Internal Loans (Sect. 410(3) LGA 1993) | n/a |
| Special Schedule 3 | Water Supply Operations – incl. Income Statement | n/a |
| Special Schedule 4 | Water Supply – Statement of Financial Position | n/a |
| Special Schedule 5 | Sewerage Service Operations – incl. Income Statement | n/a |
| Special Schedule 6 | Sewerage Service – Statement of Financial Position | n/a |
| Notes to Special Schedules 3 and 5 | | n/a |
| Special Schedule 7 | Report on Infrastructure Assets | 5 |
| Special Schedule 8 | Permissible Income Calculation | 9 |

¹ 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 2017

\$'000

| Function or activity | Expenses from continuing operations | Income from continuing operations | | Net cost of services |
|--|-------------------------------------|-----------------------------------|------------|----------------------|
| | | Non-capital | Capital | |
| Governance | 2,796 | 233 | – | (2,563) |
| Administration | 21,774 | 4,041 | – | (17,733) |
| Public order and safety | | | | |
| Fire service levy, fire protection, emergency services | 151 | 3 | – | (148) |
| Beach control | 659 | – | – | (659) |
| Enforcement of local government regulations | 2,031 | 509 | – | (1,522) |
| Animal control | – | 81 | – | 81 |
| Other | 1,656 | 1,076 | 908 | 328 |
| Total public order and safety | 4,497 | 1,669 | 908 | (1,920) |
| Health | 588 | 645 | – | 57 |
| Environment | | | | |
| Noxious plants and insect/vermin control | 178 | 188 | – | 10 |
| Other environmental protection | 1,506 | 1,034 | 335 | (137) |
| Solid waste management | 14,729 | 17,185 | – | 2,456 |
| Street cleaning | 42 | – | – | (42) |
| Drainage | 3,956 | – | – | (3,956) |
| Stormwater management | – | – | – | – |
| Total environment | 20,411 | 18,407 | 335 | (1,669) |
| Community services and education | | | | |
| Administration and education | 13 | 19 | – | 6 |
| Social protection (welfare) | 1,574 | 855 | – | (719) |
| Aged persons and disabled | – | – | – | – |
| Children's services | 1,290 | 1,325 | – | 35 |
| Total community services and education | 2,877 | 2,199 | – | (678) |
| Housing and community amenities | | | | |
| Public cemeteries | 117 | 164 | – | 47 |
| Public conveniences | – | – | – | – |
| Street lighting | 1,383 | – | – | (1,383) |
| Town planning | 2,809 | 772 | – | (2,037) |
| Other community amenities | – | – | – | – |
| Total housing and community amenities | 4,309 | 936 | – | (3,373) |
| Water supplies | – | – | – | – |
| Sewerage services | – | – | – | – |

Port Stephens

Special Schedule 1 – Net Cost of Services (continued) for the year ended 30 June 2017

\$'000

| Function or activity | Expenses from continuing operations | Income from continuing operations | | Net cost of services |
|---|-------------------------------------|-----------------------------------|---------------|----------------------|
| | | Non-capital | Capital | |
| Recreation and culture | | | | |
| Public libraries | 1,803 | 378 | 112 | (1,313) |
| Museums | — | — | — | — |
| Art galleries | — | — | — | — |
| Community centres and halls | 310 | (13) | — | (323) |
| Performing arts venues | — | — | — | — |
| Other performing arts | — | — | — | — |
| Other cultural services | 360 | — | — | (360) |
| Sporting grounds and venues | 24 | — | — | (24) |
| Swimming pools | 1,367 | — | — | (1,367) |
| Parks and gardens (lakes) | 722 | 138 | — | (584) |
| Other sport and recreation | 3,970 | 431 | 3,309 | (230) |
| Total recreation and culture | 8,556 | 934 | 3,421 | (4,201) |
| Fuel and energy | — | — | — | — |
| Agriculture | — | — | — | — |
| Mining, manufacturing and construction | | | | |
| Building control | 1,895 | 1,911 | — | 16 |
| Other mining, manufacturing and construction | — | — | — | — |
| Total mining, manufacturing and const. | 1,895 | 1,911 | — | 16 |
| Transport and communication | | | | |
| Urban roads (UR) – local | 4,574 | 2,109 | 9,221 | 6,756 |
| Urban roads – regional | 3,562 | 5,320 | — | 1,758 |
| Sealed rural roads (SRR) – local | 1,245 | — | — | (1,245) |
| Sealed rural roads (SRR) – regional | — | — | — | — |
| Unsealed rural roads (URR) – local | 526 | — | — | (526) |
| Unsealed rural roads (URR) – regional | — | — | — | — |
| Bridges on UR – local | — | — | — | — |
| Bridges on SRR – local | — | — | — | — |
| Bridges on URR – local | — | — | — | — |
| Bridges on regional roads | 109 | — | — | (109) |
| Parking areas | 524 | 319 | — | (205) |
| Footpaths | — | — | — | — |
| Aerodromes | 10,586 | 14,074 | — | 3,488 |
| Other transport and communication | 5,920 | 711 | — | (5,209) |
| Total transport and communication | 27,046 | 22,533 | 9,221 | 4,708 |
| Economic affairs | | | | |
| Camping areas and caravan parks | 8,933 | 10,874 | — | 1,941 |
| Other economic affairs | 5,829 | 4,117 | 424 | (1,288) |
| Total economic affairs | 14,762 | 14,991 | 424 | 653 |
| Totals – functions | 109,511 | 68,499 | 14,309 | (26,703) |
| General purpose revenues ⁽¹⁾ | | 49,419 | | 49,419 |
| Share of interests – joint ventures and associates using the equity method | — | — | | — |
| NET OPERATING RESULT ⁽²⁾ | 109,511 | 117,918 | 14,309 | 22,716 |

(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 2017

\$'000

| Classification of debt | Principal outstanding at beginning of the year | | | New loans raised during the year | Debt redemption during the year | | Transfers to sinking funds | Interest applicable for year | Principal outstanding at the end of the year | | |
|-----------------------------|--|---------------|---------------|----------------------------------|---------------------------------|---------------|----------------------------|------------------------------|--|---------------|---------------|
| | Current | Non-current | Total | | From revenue | Sinking funds | | | Current | Non-current | Total |
| Loans (by source) | | | | | | | | | | | |
| Other State Government | 400 | 222 | 622 | – | 400 | – | – | 25 | 154 | 68 | 222 |
| Financial institutions | 2,597 | 10,226 | 12,823 | 4,870 | 2,597 | – | – | 502 | 2,683 | 12,413 | 15,096 |
| Other | – | 6,250 | 6,250 | – | – | – | – | 232 | – | 6,250 | 6,250 |
| Total loans | 2,997 | 16,698 | 19,695 | 4,870 | 2,997 | – | – | 759 | 2,837 | 18,731 | 21,568 |
| Other long term debt | | | | | | | | | | | |
| Finance leases | 22 | 17 | 39 | – | 39 | – | – | 2 | – | – | – |
| Total long term debt | 22 | 17 | 39 | – | 39 | – | – | 2 | – | – | – |
| Total debt | 3,019 | 16,715 | 19,734 | 4,870 | 3,036 | – | – | 761 | 2,837 | 18,731 | 21,568 |

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 2017

\$'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 | 2016/17 Required maintenance ^a | 2016/17 Actual maintenance | Net carrying amount | Gross replacement cost (GRC) | Assets in condition as a percentage of gross replacement cost | | | | |
|------------------|-------------------|---|---|---|----------------------------|---------------------|------------------------------|---|--------------|--------------|-------------|-------------|
| | | | | | | | | 1 | 2 | 3 | 4 | 5 |
| Buildings | | | | | | | | | | | | |
| | Buildings | 1,133 | 1,133 | 1,510 | 1,850 | 83,080 | 154,645 | 21% | 39% | 34% | 6% | 0% |
| | Sub-total | 1,133 | 1,133 | 1,510 | 1,850 | 83,080 | 154,645 | 21.0% | 39.0% | 34.0% | 6.0% | 0.0% |
| Other structures | | | | | | | | | | | | |
| | Other structures | 5 | 5 | 195 | 289 | 3,764 | 5,113 | 36% | 5% | 59% | 0% | 0% |
| | Sub-total | 5 | 5 | 195 | 289 | 3,764 | 5,113 | 36.0% | 5.0% | 59.0% | 0.0% | 0.0% |
| Roads | | | | | | | | | | | | |
| | Sealed roads | 10,402 | 10,402 | 3,491 | 3,115 | 321,458 | 354,121 | 17% | 49% | 23% | 8% | 3% |
| | Unsealed roads | – | – | 655 | 514 | 8,195 | 11,540 | 6% | 0% | 94% | 0% | 0% |
| | Bridges | 80 | 80 | 100 | 18 | 11,100 | 11,432 | 21% | 79% | 0% | 0% | 0% |
| | Footpaths | 65 | 65 | 109 | 246 | 51,064 | 57,573 | 9% | 27% | 59% | 5% | 0% |
| | Other road assets | 1,001 | 1,001 | 768 | 408 | 42,768 | 46,814 | 12% | 22% | 62% | 4% | 0% |
| | Sub-total | 11,548 | 11,548 | 5,123 | 4,301 | 434,586 | 481,480 | 15.4% | 43.3% | 32.3% | 6.9% | 2.2% |

Port Stephens

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2017 (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 | 2016/17 Required maintenance ^a | 2016/17 Actual maintenance | Net carrying amount | Gross replacement cost (GRC) | Assets in condition as a percentage of gross replacement cost | | | | |
|--------------------------------|---------------------------|---|---|---|----------------------------|---------------------|------------------------------|---|--------------|--------------|--------------|-------------|
| | | | | | | | | 1 | 2 | 3 | 4 | 5 |
| Stormwater drainage | Stormwater drainage | 1,006 | 1,006 | 1,220 | 1,303 | 187,964 | 190,202 | 22% | 76% | 1% | 1% | 0% |
| | Sub-total | 1,006 | 1,006 | 1,220 | 1,303 | 187,964 | 190,202 | 22.0% | 76.0% | 1.0% | 1.0% | 0.0% |
| Open space/recreational assets | Swimming pools | – | – | 291 | 203 | 3,751 | 6,472 | 0% | 57% | 43% | 0% | 0% |
| | Open space | 251 | 251 | 3,507 | 2,909 | 17,160 | 35,244 | 4% | 34% | 35% | 26% | 1% |
| | Sub-total | 251 | 251 | 3,798 | 3,112 | 20,911 | 41,716 | 3.4% | 37.6% | 36.2% | 22.0% | 0.8% |
| Other infrastructure assets | Other | 160 | 160 | 41 | 240 | 5,737 | 13,935 | 20% | 31% | 34% | 13% | 2% |
| | Sub-total | 160 | 160 | 41 | 240 | 5,737 | 13,935 | 20.0% | 31.0% | 34.0% | 13.0% | 2.0% |
| | TOTAL – ALL ASSETS | 14,103 | 14,103 | 11,887 | 11,095 | 736,042 | 887,091 | 17.4% | 48.9% | 26.2% | 6.2% | 1.3% |

Notes:

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

Infrastructure asset condition assessment 'key'

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

Port Stephens

Special Schedule 7 – Report on Infrastructure Assets (continued) for the year ended 30 June 2017

| \$ '000 | Amounts 2017 | Indicator 2017 | Benchmark | Prior periods 20162015 | |
|--|-----------------|-------------------|-----------|---------------------------|---------|
| Infrastructure asset performance indicators * consolidated | | | | | |
| 1. Infrastructure renewals ratio | | | | | |
| Asset renewals ⁽¹⁾ | 10,441 | 99.97% | >= 100% | 156.05% | 112.74% |
| Depreciation, amortisation and impairment | 10,445 | | | | |
| 2. Infrastructure backlog ratio | | | | | |
| Estimated cost to bring assets to a satisfactory standard | 14,103 | 1.91% | < 2% | 2.15% | 2.57% |
| Net carrying amount of infrastructure assets | 736,670 | | | | |
| 3. Asset maintenance ratio | | | | | |
| Actual asset maintenance | 11,095 | 0.93 | > 1.00 | 1.42 | 0.95 |
| Required asset maintenance | 11,887 | | | | |
| 4. Cost to bring assets to agreed service level | | | | | |
| Estimated cost to bring assets to an agreed service level set by Council | 14,103 | 1.59% | | 1.74% | 0.00% |
| Gross replacement cost | 887,091 | | | | |

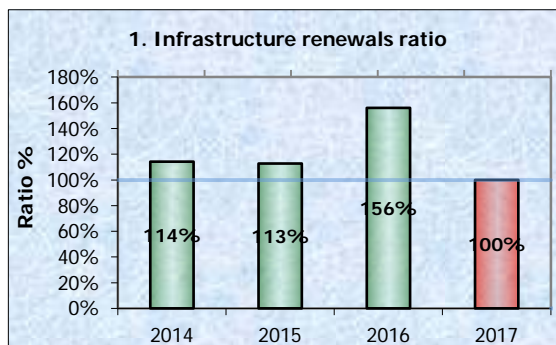
Notes

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

⁽¹⁾ Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

Port Stephens

Special Schedule 7 – Report on Infrastructure Assets (continued) for the year ended 30 June 2017



Benchmark: — Minimum $\geq 100.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #25

Purpose of asset renewals ratio

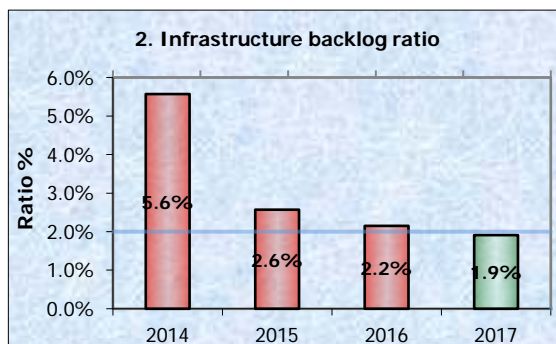
To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

Commentary on 2016/17 result

2016/17 Ratio 99.97%

The renewal ratio remains above benchmarks as a result of Council's effort to ensure community satisfaction standards are maintained for existing infrastructure.

Ratio achieves benchmark
Ratio is outside benchmark



Benchmark: — Maximum $< 2.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #25

Purpose of infrastructure backlog ratio

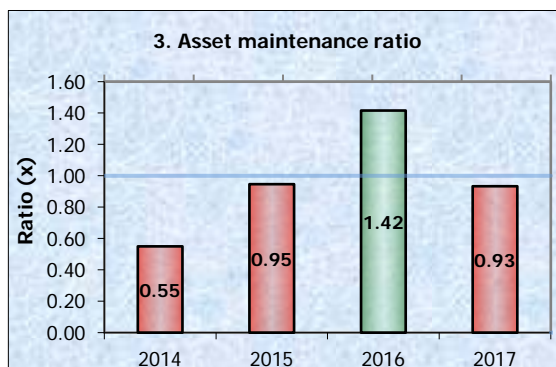
This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.

Commentary on 2016/17 result

2016/17 Ratio 1.91%

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 #25

Purpose of asset maintenance ratio

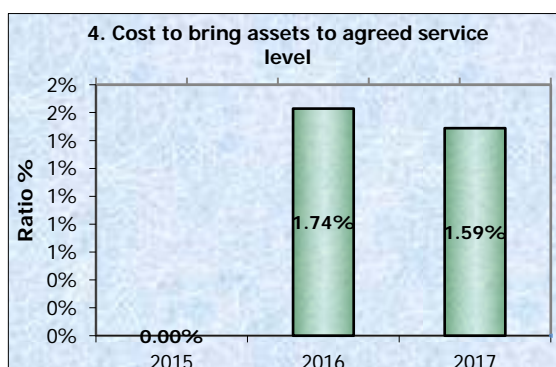
Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing.

Commentary on 2016/17 result

2016/17 Ratio 0.93 x

Council's maintenance ratio did not exceed the benchmark as Council ensure its maintenance programs are as efficient as possible.

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 2016/17 result

2016/17 Ratio 1.59%

This ratio is new and shows Council's commitment to reduce Council's asset backlog

Port Stephens

Special Schedule 8 – Permissible Income Calculation

for the year ended 30 June 2018

| \$'000 | | Calculation 2016/17 | Calculation 2017/18 |
|---|---------------------------|------------------------|------------------------|
| Notional general income calculation ⁽¹⁾ | | | |
| Last year notional general income yield | a | 38,490 | 39,685 |
| Plus or minus adjustments ⁽²⁾ | b | 487 | 430 |
| Notional general income | $c = (a + b)$ | 38,977 | 40,115 |
| Permissible income calculation | | | |
| Special variation percentage ⁽³⁾ | d | 0.00% | 0.00% |
| Or rate peg percentage | e | 1.80% | 1.50% |
| Or crown land adjustment (incl. rate peg percentage) | f | 1.83% | 1.53% |
| Less expiring special variation amount | g | — | — |
| Plus special variation amount | $h = d \times (c - g)$ | — | — |
| Or plus rate peg amount | $i = c \times e$ | — | — |
| Or plus Crown land adjustment and rate peg amount | $j = c \times f$ | 714 | 614 |
| Sub-total | $k = (c + g + h + i + j)$ | 39,691 | 40,729 |
| Plus (or minus) last year's carry forward total | l | 11 | 17 |
| Less valuation objections claimed in the previous year | m | — | — |
| Sub-total | $n = (l + m)$ | 11 | 17 |
| Total permissible income | $o = k + n$ | 39,702 | 40,746 |
| Less notional general income yield | p | 39,685 | 40,767 |
| Catch-up or (excess) result | $q = o - p$ | 17 | (21) |
| Plus income lost due to valuation objections claimed ⁽⁴⁾ | r | — | 21 |
| Less unused catch-up ⁽⁵⁾ | s | — | — |
| Carry forward to next year | $t = q + r - s$ | 17 | (0) |

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.



INDEPENDENT AUDITOR'S REPORT

Special Schedule No. 8

Port Stephens Council

To the Councillors of Port Stephens Council

Opinion

I have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule No. 8) of Port Stephens Council (the Council) for the year ending 30 June 2018.

In my opinion, Special Schedule No. 8 of Port Stephens Council for 30 June 2018 is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting (LG Code) issued by the Office of Local Government (OLG), and is in accordance with the books and records of the Council.

My opinion should be read in conjunction with the rest of this report, and in particular the Emphasis of Matter paragraph, which describes the basis of accounting.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of Special Schedule No.8' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to the notes and explanations in Special Schedule No. 8 that instruct councils in its preparation so it complies with OLG's requirements as described in the LG Code. As a result, Special Schedule No. 8 may not be suitable for another purpose.

Councillors' Responsibility for Special Schedule No. 8

The Councillors of the Council are responsible for the preparation of Special Schedule No. 8 in accordance with the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation of Special Schedule No. 8 that is free from material misstatement, whether due to fraud or error.

In preparing Special Schedule No.8, the Councillors must assess the Council's ability to continue as a going concern except where the Council will be dissolved or amalgamated by an Act of Parliament. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibility for the Audit of Special Schedule No. 8

My objectives are to:

- obtain reasonable assurance whether Special Schedule No. 8 as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on Special Schedule No.8.

A description of my responsibilities for the audit of Special Schedule No.8 is located at the Auditing and Assurance Standards Board website at http://www.auasb.gov.au/auditors_responsibilities/ar8.pdf. The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited Special Schedule No.8 on any website where they may be presented
- about any other information which may have been hyperlinked to/from Special Schedule No 8.

C J Giumelli
Director, Financial Audit Services

26 October 2017
SYDNEY

**Port Stephens Council
Holiday Parks & Investment Property Report
Financial Year 2016/2017**

| Holiday Parks | | Operating Income | Operating Expenditure | EBITDA (5) | Net Yield % (1) | Notes |
|---------------------|---------|------------------|-----------------------|----------------|-----------------|-------|
| Fingal Bay | Crown | 4,105,507 | 2,429,559 | 1,675,948 | 21% | |
| Halifax | Crown | 2,636,456 | 1,801,648 | 834,808 | 24% | |
| Shoal Bay | Crown | 956,089 | 612,035 | 344,054 | | |
| | Council | <u>1,775,594</u> | <u>1,136,637</u> | <u>638,957</u> | | |
| | | 2,731,683 | 1,748,672 | 983,011 | 10% | |
| Thou Walla | Council | 830,566 | 751,738 | 78,829 | 1% | 2 |
| TreEscape | Council | 570,123 | 722,562 | (152,439) | 0% | 3 |
| <hr/> | | | | | | |
| Investment Property | | Operating Income | Operating Expenditure | EBITDA (5) | Net Yield % (1) | |
| | Total | 2,652,991 | 518,805 | 2,134,186 | 8% | 4 |
| <hr/> | | | | | | |
| Newcastle Airport | | Operating Income | Operating Expenditure | Net Profit | Net Yield % (6) | |
| | Total | 14,458,416 | 10,653,538 | 3,804,878 | 13% | |

Notes

- 1 Net Yield = EBITDA / capital
- 2 Yield returns were affected by a transition from outsourced operation to insourced
- 3 Yield returns are dependent on the Koloa Hospital project which is yet to be constructed
- 4 Councils policy on the required return on capital in commercial property investments is between 7-9%
- 5 EBITDA used as the numerator for Return on Investment calculation in accordance with Crown Lands reporting
- 6 Net Yield = Net Profit / capital