

2013  
2014

VOLUME 2

ANNUAL REPORT

# Full Financial Statements

The Annual Report 2013-2014 was adopted by Council at its meeting on 25 November 2014 (Minute #323).

# Port Stephens

GENERAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2014

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*"A great lifestyle  
in a treasured environment"*



## Port Stephens

### General Purpose Financial Statements

for the financial year ended 30 June 2014

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#### Overview

(i) These financial statements are General Purpose Financial Statements and cover the consolidated operations for 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 (LGA) 1993 of NSW.

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

- the ability to provide goods, services & facilities, and to carry out activities appropriate to the current & future needs of the local community and of the wider public,
- the responsibility for administering regulatory requirements under the LGA and
- a role in the management, improvement and development of the resources in the area.

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

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

(iv) These financial statements were authorised for issue by the Council on 11 November 2014. Council has the power to amend and reissue these financial statements.

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## Port Stephens

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

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

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


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

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


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

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

Signed in accordance with a resolution of Council made on 23 September 2014.



Bruce MacKenzie  
MAYOR



COUNCILLOR



Wayne Wallis  
GENERAL MANAGER AND  
RESPONSIBLE ACCOUNTING OFFICER

## Port Stephens

### Income Statement

for the financial year ended 30 June 2014

Budget <sup>1</sup> 2014 \$ '000		Notes	Actual 2014	Actual 2013
<b>Income from Continuing Operations</b>				
<b>Revenue:</b>				
47,187	Rates & Annual Charges	3a	47,489	45,941
34,976	User Charges & Fees	3b	35,267	35,710
1,995	Interest & Investment Revenue	3c	1,744	1,975
7,651	Other Revenues	3d	6,121	4,974
10,268	Grants & Contributions provided for Operating Purposes	3e,f	8,281 <sup>2</sup>	14,004
10,644	Grants & Contributions provided for Capital Purposes	3e,f	13,387	8,079
<b>Other Income:</b>				
1,745	Net gains from the disposal of assets	5	841	1,148
-	Net Share of interests in Joint Ventures & Associated Entities using the equity method	19	-	-
<b>114,466</b>	<b>Total Income from Continuing Operations</b>		<b>113,130</b>	<b>111,831</b>
<b>Expenses from Continuing Operations</b>				
38,087	Employee Benefits & On-Costs	4a	36,037	34,326
1,170	Borrowing Costs	4b	1,345	1,498
30,159	Materials & Contracts	4c	31,834	32,203
17,529	Depreciation & Amortisation	4d	16,204	17,708
-	Impairment	4d	-	-
11,201	Other Expenses	4e	13,842	16,404
<b>98,146</b>	<b>Total Expenses from Continuing Operations</b>		<b>99,262</b>	<b>102,139</b>
<b>16,320</b>	<b>Operating Result from Continuing Operations</b>		<b>13,868</b>	<b>9,692</b>
<b>Discontinued Operations</b>				
-	Net Profit/(Loss) from Discontinued Operations	24	-	-
<b>16,320</b>	<b>Net Operating Result for the Year</b>		<b>13,868</b>	<b>9,692</b>
16,320	Net Operating Result attributable to Council		13,868	9,692
-	Net Operating Result attributable to Non-controlling Interests		-	-
<b>5,676</b>	<b>Net Operating Result for the year before Grants and Contributions provided for Capital Purposes</b>		<b>481</b>	<b>1,613</b>

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

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

## Port Stephens

### Statement of Comprehensive Income for the financial year ended 30 June 2014

\$ '000	Notes	Actual 2014	Actual 2013
<b>Net Operating Result for the year</b> (as per Income statement)		<b>13,868</b>	<b>9,692</b>
<b>Other Comprehensive Income:</b>			
<i>Amounts which will not be reclassified subsequently to the Operating Result</i>			
Gain (loss) on revaluation of I,PP&E	20b (ii)	-	(12,990)
Other Movements in reserves ( <a href="#">enter details here</a> )	20b (ii)	-	4,644
<b>Total Items which will not be reclassified subsequently to the Operating Result</b>		<b>-</b>	<b>(8,346)</b>
<i>Amounts which will be reclassified subsequently to the Operating Result when specific conditions are met</i>			
Gain (loss) on revaluation of available-for-sale investments	20b (ii)	-	124
<b>Total Items which will be reclassified subsequently to the Operating Result when specific conditions are met</b>		<b>-</b>	<b>124</b>
<b>Total Other Comprehensive Income for the year</b>		<b>-</b>	<b>(8,222)</b>
<b>Total Comprehensive Income for the Year</b>		<b>13,868</b>	<b>1,470</b>
<b>Total Comprehensive Income attributable to Council</b>		<b>13,868</b>	<b>1,470</b>
<b>Total Comprehensive Income attributable to Non-controlling Interests</b>		<b>-</b>	<b>-</b>



## Port Stephens

### Statement of Financial Position as at 30 June 2014

\$ '000	Notes	Actual 2014	Actual 2013
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash & Cash Equivalents	6a	11,089	14,900
Investments	6b	28,379	20,204
Receivables	7	7,978	8,927
Inventories	8	2,042	532
Other	8	92	-
Non-current assets classified as "held for sale"	22	-	-
<b>Total Current Assets</b>		<b>49,580</b>	<b>44,563</b>
<b>Non-Current Assets</b>			
Investments	6b	1,217	2,024
Receivables	7	217	4,347
Inventories	8	16,193	17,338
Infrastructure, Property, Plant & Equipment	9	710,985	699,502
Investments accounted for using the equity method	19	-	-
Investment Property	14	19,911	18,910
Intangible Assets	25	394	-
<b>Total Non-Current Assets</b>		<b>748,917</b>	<b>742,121</b>
<b>TOTAL ASSETS</b>		<b>798,497</b>	<b>786,684</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	10	8,733	10,192
Borrowings	10	4,072	6,663
Provisions	10	14,906	13,337
<b>Total Current Liabilities</b>		<b>27,711</b>	<b>30,192</b>
<b>Non-Current Liabilities</b>			
Payables	10	5	-
Borrowings	10	22,973	21,128
Provisions	10	255	1,679
<b>Total Non-Current Liabilities</b>		<b>23,233</b>	<b>22,807</b>
<b>TOTAL LIABILITIES</b>		<b>50,944</b>	<b>52,999</b>
<b>Net Assets</b>		<b>747,553</b>	<b>733,685</b>
<b>EQUITY</b>			
Retained Earnings	20	515,578	501,710
Revaluation Reserves	20	231,975	231,975
Council Equity Interest		747,553	733,685
Non-controlling Interests		-	-
<b>Total Equity</b>		<b>747,553</b>	<b>733,685</b>

## Port Stephens

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

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council Interest	Non-controlling Interest	Total Equity
<b>2014</b>						
<b>Opening Balance</b> (as per Last Year's Audited Accounts)		503,140	231,975	<b>735,115</b>	-	<b>735,115</b>
a. Correction of Prior Period Errors	20 (c)	(1,430)	-	<b>(1,430)</b>	-	<b>(1,430)</b>
b. Changes in Accounting Policies (prior year effects)	20 (d)	-	-	-	-	-
<b>Revised Opening Balance (as at 1/7/13)</b>		<b>501,710</b>	<b>231,975</b>	<b>733,685</b>	-	<b>733,685</b>
<b>c. Net Operating Result for the Year</b>		<b>13,868</b>	-	<b>13,868</b>	-	<b>13,868</b>
d. Other Comprehensive Income						
- Revaluations : IPP&E Asset Revaluation Rsve	20b (ii)	-	-	-	-	-
- Revaluations: Other Reserves	20b (ii)	-	-	-	-	-
- Transfers to Income Statement	20b (ii)	-	-	-	-	-
- Impairment (loss) reversal relating to I,PP&E	20b (ii)	-	-	-	-	-
- Other Movements	20b (ii)	-	-	-	-	-
<b>Other Comprehensive Income</b>		-	-	-	-	-
<b>Total Comprehensive Income (c&amp;d)</b>		<b>13,868</b>	-	<b>13,868</b>	-	<b>13,868</b>
e. Distributions to/(Contributions from) Non-controlling Interests		-	-	-	-	-
f. Transfers between Equity		-	-	-	-	-
<b>Equity - Balance at end of the reporting period</b>		<b>515,578</b>	<b>231,975</b>	<b>747,553</b>	-	<b>747,553</b>

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council Interest	Non-controlling Interest	Total Equity
<b>2013</b>						
<b>Opening Balance</b> (as per Last Year's Audited Accounts)		488,804	244,841	<b>733,645</b>	-	<b>733,645</b>
a. Correction of Prior Period Errors	20 (c)	3,214	-	<b>3,214</b>	-	<b>3,214</b>
b. Changes in Accounting Policies (prior year effects)	20 (d)	-	-	-	-	-
<b>Revised Opening Balance (as at 1/7/12)</b>		<b>492,018</b>	<b>244,841</b>	<b>736,859</b>	-	<b>736,859</b>
<b>c. Net Operating Result for the Year</b>		<b>9,692</b>	-	<b>9,692</b>	-	<b>9,692</b>
d. Other Comprehensive Income						
- Revaluations : IPP&E Asset Revaluation Rsve	20b (ii)	-	(12,990)	<b>(12,990)</b>	-	<b>(12,990)</b>
- Revaluations: Other Reserves	20b (ii)	-	124	<b>124</b>	-	<b>124</b>
- Transfers to Income Statement	20b (ii)	-	-	-	-	-
- Impairment (loss) reversal relating to I,PP&E	20b (ii)	-	-	-	-	-
- Other Movements	20b (ii)	-	-	-	-	-
<b>Other Comprehensive Income</b>		-	<b>(12,866)</b>	<b>(12,866)</b>	-	<b>(12,866)</b>
<b>Total Comprehensive Income (c&amp;d)</b>		<b>9,692</b>	<b>(12,866)</b>	<b>(3,174)</b>	-	<b>(3,174)</b>
e. Distributions to/(Contributions from) Non-controlling Interests		-	-	-	-	-
f. Transfers between Equity		-	-	-	-	-
<b>Equity - Balance at end of the reporting period</b>		<b>501,710</b>	<b>231,975</b>	<b>733,685</b>	-	<b>733,685</b>



## Port Stephens

### Statement of Cash Flows

for the financial year ended 30 June 2014

Budget 2014	\$ '000	Notes	Actual 2014	Actual 2013
<b>Cash Flows from Operating Activities</b>				
<b>Receipts:</b>				
47,187	Rates & Annual Charges		47,427	45,964
34,976	User Charges & Fees		36,279	34,924
1,995	Investment & Interest Revenue Received		1,740	1,959
20,912	Grants & Contributions		23,721	22,441
-	Bonds, Deposits & Retention Amounts Received		244	-
7,651	Other		8,669	8,416
<b>Payments:</b>				
(38,087)	Employee Benefits & On-Costs		(36,969)	(33,374)
(30,159)	Materials & Contracts		(36,163)	(33,056)
(1,170)	Borrowing Costs		(1,238)	(1,408)
-	Bonds, Deposits & Retention Amounts Refunded		-	(192)
(11,201)	Other		(16,257)	(20,048)
<b>32,104</b>	<b>Net Cash provided (or used in) Operating Activities</b>	11b	<b>27,453</b>	<b>25,626</b>
<b>Cash Flows from Investing Activities</b>				
<b>Receipts:</b>				
-	Sale of Investment Securities		47,414	15,417
-	Sale of Infrastructure, Property, Plant & Equipment		809	877
-	Deferred Debtors Receipts		-	224
<b>Payments:</b>				
-	Purchase of Investment Securities		(54,072)	(19,293)
-	Purchase of Investment Property		(161)	(151)
-	Purchase of Infrastructure, Property, Plant & Equipment		(28,365)	(22,253)
-	Purchase of Real Estate Assets		(391)	3,284
-	Purchase of Intangible Assets		(394)	-
-	Deferred Debtors & Advances Made		(24)	-
<b>-</b>	<b>Net Cash provided (or used in) Investing Activities</b>		<b>(35,184)</b>	<b>(21,895)</b>
<b>Cash Flows from Financing Activities</b>				
<b>Receipts:</b>				
-	Proceeds from Borrowings & Advances		12,250	1,000
<b>Payments:</b>				
-	Repayment of Borrowings & Advances		(7,995)	(5,766)
-	Repayment of Finance Lease Liabilities		(335)	(391)
<b>-</b>	<b>Net Cash Flow provided (used in) Financing Activities</b>		<b>3,920</b>	<b>(5,157)</b>
<b>32,104</b>	<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>		<b>(3,811)</b>	<b>(1,426)</b>
14,900	plus: Cash & Cash Equivalents - beginning of year	11a	14,900	16,326
<b>47,004</b>	<b>Cash &amp; Cash Equivalents - end of the year</b>	11a	<b>11,089</b>	<b>14,900</b>
	plus: Investments on hand - end of year	6b	29,596	22,228
	<b>Total Cash, Cash Equivalents &amp; Investments</b>		<b>40,685</b>	<b>37,128</b>

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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n/a - not applicable

## Port Stephens

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

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

The principal accounting policies adopted by Council in the preparation of these consolidated financial statements are set out below in order to assist in its general understanding.

Under Australian Accounting Standards (AASBs), accounting policies are defined as those specific principles, bases, conventions, rules and practices applied by a reporting entity (in this case Council) in preparing and presenting its financial statements.

##### **(a) Basis of preparation**

###### **(i) Background**

These financial statements are general purpose financial statements which have been prepared in accordance with;

- Australian Accounting Standards and Australian Accounting Interpretations issued by the Australian Accounting Standards Board,
- the Local Government Act (1993) & Regulation, and
- the Local Government Code of Accounting Practice and Financial Reporting.

For the purpose of preparing these financial statements, Council has been deemed to be a not-for-profit entity.

###### **(ii) Compliance with International Financial Reporting Standards (IFRSs)**

Because AASBs are sector neutral, some standards either:

- (a) have local Australian content and prescription that is specific to the Not-For-Profit sector (including Local Government) which are not in compliance with IFRS's, or
- (b) specifically exclude application by Not for Profit entities.

Accordingly in preparing these financial statements and accompanying notes, Council has been unable to comply fully with International Accounting Standards, but has complied fully with Australian Accounting Standards.

Under the Local Government Act (LGA), Regulations and Local Government Code of Accounting Practice & Financial Reporting, it should be noted that Councils in NSW only have a requirement to comply with AASBs.

###### **(iii) New and amended standards adopted by Council**

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

- AASB 13 Fair Value Measurement
- AASB 119 Employee Benefits

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

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

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

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

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

###### **(iv) Early adoption of Accounting Standards**

Council has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2013.

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

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

##### (v) Basis of Accounting

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

- (i) certain financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets which are all valued at fair value,
- (ii) the write down of any Asset on the basis of Impairment (if warranted) and
- (iii) certain classes of non current assets (eg. Infrastructure, Property, Plant & Equipment and Investment Property) that are accounted for at fair valuation.

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

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

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

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

##### (vii) Critical Accounting Estimates

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

Accordingly this requires management to exercise its judgement in the process of applying the Council's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on Council and that are believed to be reasonable under the circumstances.

##### **Critical accounting estimates and assumptions**

Council makes estimates and assumptions concerning the future.

The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

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

##### **Critical judgements in applying Council's accounting policies**

- (i) Impairment of Receivables - Council has made a significant judgement about the impairment of a number of its receivables in Note 7.
- (ii) Projected Section 94 Commitments - Council has used significant judgement in determining future Section 94 income and expenditure in Note 17.

##### (b) Revenue recognition

Council recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to it and specific criteria have been met for each of the Council's activities as described below.

Council bases any estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is measured on major income categories as follows:

##### **Rates, Annual Charges, Grants and Contributions**

Rates, annual charges, grants and contributions (including developer contributions) are recognised as revenues when the Council obtains control over the assets comprising these receipts.

Control over assets acquired from rates and annual charges is obtained at the commencement of the rating year as it is an enforceable debt linked to the rateable property or, where earlier, upon receipt of the rates.

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

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

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

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

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

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

The Council has obligations to provide facilities from contribution revenues levied on developers under the provisions of S94 of the EPA Act 1979.

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

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

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

#### User Charges, Fees and Other Income

User charges, fees and other income (including parking fees and fines) are recognised as revenue

when the service has been provided, the payment is received, or when the penalty has been applied, whichever first occurs.

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

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

#### Sale of Infrastructure, Property, Plant and Equipment

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

#### Interest and Rents

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

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

#### 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 financial statements incorporate **(i)** the assets and liabilities of Council and any entities (or operations) that it **controls** (as at 30 June 2014) and **(ii)** all the related operating results (for the financial year ended the 30th June 2014).

The financial statements also include Council's share of the assets, liabilities, income and expenses of any **Jointly Controlled Operations** under the appropriate headings.

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

In the process of reporting on Council's activities as a single unit, all inter-entity year end balances and reporting period transactions have been eliminated in full between Council and its controlled entities.

##### (i) The Consolidated Fund

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

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

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

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

Hunter Council Limited has not been consolidated as it is immaterial to The Consolidated Fund. All interest in Hunter Council Ltd 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 which must be applied only for the purposes of or in accordance with the trusts relating to those monies.

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

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

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

##### (iii) Joint Ventures

###### Jointly Controlled Assets & Operations

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

###### Jointly Controlled Entities

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

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

Hunter Council Limited has not been consolidated as it is immaterial to The Consolidated Fund. All interest in Hunter Council Ltd has been disclosed in Note 19.

##### (iv) Associated Entities

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

Such entities are usually termed Associates.

##### (v) County Councils

Council is not a member of any County Councils.

##### (vi) Additional Information

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



## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

##### (d) Leases

All Leases entered into by Council are reviewed and classified on inception date as either a Finance Lease or an Operating Lease.

##### Finance Leases

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

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

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

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

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

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

##### Operating Leases

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

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

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

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

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

- cash **on hand**,
- deposits held **at call** with financial institutions,

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

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

##### (f) Investments and Other Financial Assets

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

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

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

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

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

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

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

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 &/or are expected to be realised within 12 months of the balance sheet date.



## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 1. Summary of Significant Accounting Policies

### (ii) Loans and receivables

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

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

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

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

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

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

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

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

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

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

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

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

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

### Financial Assets – Reclassification

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

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

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

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

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

### General Accounting & Measurement of Financial Instruments:

#### (i) Initial Recognition

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

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

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

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

##### (ii) Subsequent Measurement

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

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

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

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

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

##### Impairment

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

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

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

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

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

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

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

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

##### (iii) Types of Investments

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

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

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

Council amended its policy following revisions to the Ministerial Local Government Investment Order arising from the Cole Inquiry recommendations. Certain investments that Council holds are no longer

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

prescribed (eg. managed funds, CDOs, and equity linked notes), however they have been retained under grandfathering provisions of the Order. These will be disposed of when most financially advantageous to Council.

##### **(g) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques.

Council uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

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

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

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

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

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

##### **(h) Receivables**

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

Receivables (excluding Rates & Annual Charges) are generally due for settlement no more than 30 days from the date of recognition.

The collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off in accordance with Council's policy.

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

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

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

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

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

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

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

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

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

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

## Port Stephens

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

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

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

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

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

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

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

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

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

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

#### 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 income statement.

An inventory 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.

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

##### Acquisition of assets

Council's non current assets are continually revalued (over a 5 year period) in accordance with the fair valuation policy as mandated by the Office of Local Government.

At balance date, the following classes of I,PP&E were stated at their Fair Value;

- **Investment Properties** – refer Note 1(p),
- **Operational Land** (External Valuation)
- **Buildings – Specialised/Non Specialised** (Internal Valuation)
- **Plant and Equipment** (as approximated by depreciated historical cost)
- **Roads Assets incl. roads, bridges & footpaths** (Internal Valuation)
- **Drainage Assets** (Internal Valuation)
- **Bulk Earthworks** (Internal Valuation)
- **Community Land** (External Valuation)
- **Land Improvements** (as approximated by depreciated historical cost)
- **Other Structures** (as approximated by depreciated historical cost)
- **Other Assets** (as approximated by depreciated historical cost)

##### Initial Recognition

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

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

The discount rate used is the Council's incremental borrowing rate, being the rate at which a similar

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

borrowing could be obtained from an independent financier under comparable terms and conditions.

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

##### Subsequent costs

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

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

##### Asset Revaluations (including Indexation)

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

- Increases in the combined carrying amounts of asset classes arising on revaluation are credited to the asset revaluation reserve.
- To the extent that a net asset class increase reverses a decrease previously recognised via the profit or loss, then increase is first recognised in profit or loss.
- Net decreases that reverse previous increases of the same asset class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset, with all other decreases charged to the Income statement.

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

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

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

##### Capitalisation Thresholds

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

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

<b>Plant &amp; Equipment</b>	
Office Furniture	> \$5,000
Office Equipment	> \$5,000
Other Plant & Equipment	> \$5,000

<b>Buildings &amp; Land Improvements</b>	
Park Furniture & Equipment	> \$5,000
Building	
- construction/extensions	100% Capitalised
- renovations	> \$5,000
Other Structures	> \$5,000

<b>Stormwater Assets</b>	
Drains & Culverts	> \$5,000
Other	> \$5,000

<b>Transport Assets</b>	
Road construction & reconstruction	> \$5,000
Reseal/Re-sheet & major repairs:	> \$5,000
Bridge construction & reconstruction	> \$5,000

##### Depreciation

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

Land is not depreciated.



## Port Stephens

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

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

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

<b>Plant &amp; Equipment</b>	
- 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
<b>Other Equipment</b>	
- Playground equipment	5 to 15 years
- Benches, seats etc	10 to 20 years
<b>Buildings</b>	
- Buildings : Masonry	40 to 50 years
- Buildings : Other	10 to 100 years
<b>Stormwater Drainage</b>	
- Drains	80 to 100 years
- Culverts	50 years
<b>Transportation Assets</b>	
- 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
<b>Other Infrastructure Assets</b>	
- Bulk earthworks	Infinite

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

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

#### Disposal and De-recognition

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

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the

asset) is included in Council's Income Statement in the year the asset is derecognised.

#### (k) Land

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

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

#### (l) Land under roads

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

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

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

#### (m) Intangible Assets

Council has not classified any assets as Intangible.

#### (n) Crown Reserves

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.

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

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

#### (o) Rural Fire Service assets

Under section 119 of the Rural Fires Act 1997, "all fire fighting equipment purchased or constructed wholly or from money to the credit of the Fund is to

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

*be vested in the council of the area for or on behalf of which the fire fighting equipment has been purchased or constructed”.*

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

Until such time as discussions on this matter have concluded and the legislation changed, Council will recognise rural fire service assets including land and buildings.

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

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

Investment property is carried at fair value, representing an in-house valuation based on market capitalisation rate.

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 30/06/14.

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

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

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

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

Costs are estimated on the basis of a closure plan.

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

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

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

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

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

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

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

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

Provision is made for the estimated present value of the costs of environmental clean up obligations outstanding at the balance sheet date.

These costs are charged to the income statement.

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

Remediation procedures generally commence soon after the time the damage, remediation process and estimated remediation costs become known, but may



## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

continue for many years depending on the nature of the disturbance and the remediation techniques.

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

The expected timing of expenditure can also change, for example in response to changes in quarry reserves or production rates.

As a result there could be significant adjustments to the provision for close down and restoration and environmental clean up, which would affect future financial results.

Specific Information relating to Council's provisions relating to Close down, Restoration and Remediation costs can be found at Note 26.

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

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

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

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

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

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

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

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

#### **(s) Impairment of assets**

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

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

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

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

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

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

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

#### **(t) Payables**

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

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

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

##### **(u) Borrowings**

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

Borrowings are subsequently measured at amortised cost.

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

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

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

##### **(v) Borrowing costs**

Borrowing costs are expensed, except to the extent that they are incurred during the construction of qualifying assets.

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

##### **(w) Provisions**

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

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

Provisions are not recognised for future operating losses.

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

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

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

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

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

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

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

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

Leave liabilities are recognised in the provision for employee benefits in respect of employees' services up to the reporting date with other short term 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 including Rostered Days Off are presented as payables.

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

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

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 1. Summary of Significant Accounting Policies

### (ii) Other Long Term Obligations

The liability for all long service and annual leave in respect of services provided by employees up to the reporting date (which is not expected to be wholly settled within the 12 months after the reporting period) are recognised in the provision for employee benefits.

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

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

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

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

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

### (iii) Retirement benefit obligations

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

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

#### Defined Benefit Plans

A liability or asset in respect of defined benefit superannuation plans would ordinarily be recognised

in the balance sheet, and measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost.

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

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

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named the "Local Government Superannuation Scheme – Pool B"

This Scheme has been deemed to be a "multi employer fund" for the purposes of AASB 119.

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

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

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

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

The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ended 30 June 2014 was \$930,095.99. The last valuation of the Scheme was performed by Mr Michael Smith, BSc, FIA, FIAA on

## Port Stephens

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

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

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20 June 2013 and covers the period ended 30 June 2013.

However the position is monitored annually and the Actuary has estimated that as at 30 June 2014 a deficit still exists. Effective from 1 July 2009, employers are required to contribute additional contributions to assist in extinguishing this deficit. The amount of additional contributions included in the total employer contribution advised above is \$364,357.62. Councils expected contributions to the plan for the next annual reporting period is \$948,482.49.

#### Defined Contribution Plans

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

#### (iv) Employee Benefit On-Costs

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

These amounts include Superannuation and Workers Compensation expenses which will be payable upon the future payment of certain Leave Liabilities accrued as at 30/6/14.

#### (y) Self insurance

Council does not self insure.

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

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

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

#### Exceptions

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

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

#### (aa) Taxes

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

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

#### Goods & Services Tax (GST)

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

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

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

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

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

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

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

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

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

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

**Council has not adopted any of these standards early.**

Council's assessment of the impact of these new standards and interpretations is set out below.

##### **Applicable to Local Government with implications:**

***AASB 9 Financial Instruments, associated standards, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and transitional disclosures and AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (effective from 1 January 2017)***

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

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

When adopted, the standard will affect in particular Council's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading.

Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss although there is currently a proposal by the IASB to introduce a Fair value through Other Comprehensive Income category for debt instruments.

There will be no impact on Council's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and Council does not have any such liabilities.

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

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

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

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

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

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

***AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective for 30 June 2015 Financial Statements for not-for-profit entities)***

This suite of five new and amended standards address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities.

The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities.

It focuses on the need to have both power and rights or exposure to variable returns.



## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both.

Control exists when the investor can use its power to affect the amount of its returns.

There is also new guidance on participating and protective rights and on agent/principal relationships. Council does not expect the new standard to have a significant impact on its composition.

AASB 11 introduces a principles based approach to accounting for joint arrangements.

The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement.

Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture.

Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted.

Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard.

AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

Council's investment in the joint venture partnership will be classified as a joint venture under the new rules.

As Council already applies the equity method in accounting for this investment, AASB 11 will not have any impact on the amounts recognised in its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128.

Application of this standard by Council will not affect any of the amounts recognised in the financial

statements, but will impact the type of information disclosed in relation to Council's investments.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa.

The amendments also introduce a "partial disposal" concept.

Council is still assessing the impact of these amendments.

Council does not expect to adopt the new standards before their operative date.

They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2015.

#### Not applicable to Local Government

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

#### (ac) Rounding of amounts

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

#### (ad) Comparative Figures

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

#### (ae) Disclaimer

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

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 2(a). Council Functions / Activities - Financial Information

Functions/Activities	Income, Expenses and Assets have been directly attributed to the following Functions / Activities. Details of these Functions/Activities are provided in Note 2(b).												
	Income from Continuing Operations			Expenses from Continuing Operations			Operating Result from Continuing Operations			Grants included in Income from Continuing Operations		Total Assets held (Current & Non-current)	
	Original Budget	Actual	Actual	Original Budget	Actual	Actual	Original Budget	Actual	Actual	Actual	Actual	Actual	Actual
	2014	2014	2013	2014	2014	2013	2014	2014	2013	2014	2013	2014	2013
Governance	-	-	-	-	-	-	-	-	-	116	114	5,768	10,222
Administration	6,371	3,280	8,069	15,115	11,831	13,845	(8,744)	(8,551)	(5,776)	28	265	80,018	80,024
Public Order & Safety	1,644	2,079	1,564	4,173	4,469	5,090	(2,529)	(2,390)	(3,526)	917	1,004	6,089	6,319
Health	223	218	204	291	369	315	(68)	(151)	(111)	113	86	-	-
Environment	14,830	14,929	3,010	18,186	18,451	17,441	(3,356)	(3,522)	(14,431)	472	-	-	-
Community Services & Education	3,367	2,568	2,771	4,743	3,604	4,449	(1,376)	(1,036)	(1,678)	986	1,019	11,558	11,899
Housing & Community Amenities	2,849	2,703	15,994	5,318	5,250	3,986	(2,469)	(2,547)	12,008	-	33	128,898	128,994
Recreation & Culture	5,015	5,749	2,015	11,344	11,329	16,236	(6,329)	(5,580)	(14,221)	3,301	423	105,962	101,636
Mining, Manufacturing & Construction	1,064	1,334	1,189	1,334	1,251	1,294	(270)	83	(105)	-	-	-	-
Transport & Communication	22,960	26,120	22,806	25,273	26,749	24,126	(2,313)	(629)	(1,320)	6,669	3,230	360,570	352,969
Economic Affairs	13,774	14,446	13,735	12,369	15,959	15,357	1,405	(1,513)	(1,622)	4	36	99,634	94,621
<b>Total Functions &amp; Activities</b>	<b>72,097</b>	<b>73,426</b>	<b>71,357</b>	<b>98,146</b>	<b>99,262</b>	<b>102,139</b>	<b>(26,049)</b>	<b>(25,836)</b>	<b>(30,782)</b>	<b>12,606</b>	<b>6,210</b>	<b>798,497</b>	<b>786,684</b>
Share of gains/(losses) in Associates & Joint Ventures (using the Equity Method)	-	-	-	-	-	-	-	-	-	-	-	-	-
General Purpose Income <sup>1</sup>	42,371	39,704	40,474	-	-	-	42,371	39,704	40,474	3,509	6,225	-	-
<b>Operating Result from Continuing Operations</b>	<b>114,468</b>	<b>113,130</b>	<b>111,831</b>	<b>98,146</b>	<b>99,262</b>	<b>102,139</b>	<b>16,322</b>	<b>13,868</b>	<b>9,692</b>	<b>16,115</b>	<b>12,435</b>	<b>798,497</b>	<b>786,684</b>

1. Includes: Rates & Annual Charges (incl. Ex-Gratia), Untied General Purpose Grants & Unrestricted Interest & Investment Income.



## Port Stephens

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

#### Note 2(b). Council Functions / Activities - Component Descriptions

**Details relating to the Council's functions / activities as reported in Note 2(a) are as follows:**

##### **GOVERNANCE**

Costs relating to the Council's role as a component of democratic government, including elections, members' fees and expenses, subscriptions to local authority associations, meetings of council and policy making committees, area representation and public disclosure and compliance.

##### **ADMINISTRATION**

Corporate Support and Other Support Services (not otherwise attributed to the listed functions / activities).

##### **PUBLIC ORDER & SAFETY**

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

##### **HEALTH**

Inspection, immunisations, food control, health centres, other, administration.

##### **ENVIRONMENT**

Noxious plants and insect/vermin control, other environmental protection, solid waste management, street cleaning, drainage, stormwater management.

##### **COMMUNITY SERVICES & EDUCATION**

Administration, family day care, child care, youth services, other family and children, aged and disabled, migrant services, Aboriginal services, other community services, education.

##### **HOUSING & COMMUNITY AMENITIES**

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

##### **RECREATION & CULTURE**

Public libraries, museums, art galleries, community centres, public halls, other cultural services, swimming pools, sporting grounds, parks and gardens (lakes), other sport and recreation.

##### **MINING, MANUFACTURING & CONSTRUCTION**

Building control, abattoirs, quarries & pits, other.

##### **TRANSPORT & COMMUNICATION**

Urban roads, sealed rural roads, unsealed rural roads, bridges, footpaths, aerodromes, parking areas, bus shelters and services, water transport, RMS works, other.

##### **ECONOMIC AFFAIRS**

Camping areas, caravan parks, tourism and area promotion, industrial development promotion, saleyards and markets, real estate development, commercial nurseries, other business undertakings.

## Port Stephens

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

#### Note 3. Income from Continuing Operations

\$ '000	Notes	Actual 2014	Actual 2013
<b>(a) Rates &amp; Annual Charges</b>			
<b>Ordinary Rates</b>			
Residential		27,304	26,376
Farmland		770	745
Mining		2	-
Business		6,825	6,460
<b>Total Ordinary Rates</b>		<b>34,901</b>	<b>33,581</b>
<b>Special Rates</b>			
Nil			
<b>Annual Charges</b> (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic Waste Management Services		10,405	9,812
Waste Management Services (non-domestic)		2,175	2,540
Section 611 Charges		8	8
<b>Total Annual Charges</b>		<b>12,588</b>	<b>12,360</b>
<b><u>TOTAL RATES &amp; ANNUAL CHARGES</u></b>		<b><u>47,489</u></b>	<b><u>45,941</u></b>

Council has used 2011 year valuations provided by the NSW Valuer General in calculating its rates.

## Port Stephens

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

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

\$ '000	Notes	Actual 2014	Actual 2013
<b>(b) User Charges &amp; Fees</b>			
<b>Specific User Charges</b> (per s.502 - Specific "actual use" charges)			
Waste Management Services (non-domestic)		1,059	957
<b>Total User Charges</b>		<b>1,059</b>	<b>957</b>
<b>Other User Charges &amp; Fees</b>			
<b>(i) Fees &amp; Charges - Statutory &amp; Regulatory Functions</b> (per s.608)			
Building Inspection Fees		304	275
Building Services		745	717
Private Works - Section 67		1,128	1,205
Section 149 Certificates (EPA Act)		239	211
Section 603 Certificates		156	129
Shop Inspection Fees		163	173
Subdivision Fees		277	72
<b>Total Fees &amp; Charges - Statutory/Regulatory</b>		<b>3,012</b>	<b>2,782</b>
<b>(ii) Fees &amp; Charges - Other (incl. General User Charges)</b> (per s.608)			
Animal Control		114	66
Cemeteries		123	136
Child Care		1,270	1,870
Community Care Centres		125	107
Holiday Parks		9,799	9,466
Newcastle Airport Partnership		11,179	10,944
Leaseback Fees - Council Vehicles		300	292
Leisure Centre		85	81
Library		112	118
Parking Meters		509	446
Parks, Gardens & Other Community Services		30	87
RMS (formerly RTA) Charges (State Roads not controlled by Council)		5,914	6,098
Sewerage Management Fees		389	357
Telecentre		36	43
Waste Disposal Tipping Fees		261	315
Other		950	1,545
<b>Total Fees &amp; Charges - Other</b>		<b>31,196</b>	<b>31,971</b>
<b>TOTAL USER CHARGES &amp; FEES</b>		<b>35,267</b>	<b>35,710</b>

## Port Stephens

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

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

\$ '000	Notes	Actual 2014	Actual 2013
<b>(c) Interest &amp; Investment Revenue (incl. losses)</b>			
<b>Interest &amp; Dividends</b>			
- Interest on Overdue Rates & Annual Charges (incl. Special Purpose Rates)		171	187
- Interest Earned On Investments (interest & coupon payment income)		1,061	1,271
- Interest - Newcastle Airport Partnership		508	515
Other		4	2
<b>TOTAL INTEREST &amp; INVESTMENT REVENUE</b>		<b>1,744</b>	<b>1,975</b>
<b>Interest Revenue is attributable to:</b>			
<b>Unrestricted Investments/Financial Assets:</b>			
Overdue Rates & Annual Charges (General Fund)		171	187
General Council Cash & Investments		824	416
<b>Restricted Investments/Funds - External:</b>			
Development Contributions			
- Section 94		241	417
Newcastle Airport Partnership		508	955
<b>Total Interest &amp; Investment Revenue Recognised</b>		<b>1,744</b>	<b>1,975</b>
<b>(d) Other Revenues</b>			
Fair Value Adjustments - Investment Properties	14	840	80
Rental Income - Investment Properties	14	2,099	2,140
Rental Income - Other Council Properties		814	669
Ex Gratia Rates		74	65
Fines - Parking		307	265
Fines - Other		183	118
Legal Fees Recovery - Rates & Charges (Extra Charges)		152	167
Legal Fees Recovery - Other		285	33
Commissions & Agency Fees		278	282
Events & Promotions		99	28
Insurance Claim Recoveries		124	765
Long Service Leave Receipts		27	61
Private Works		26	3
Natural Disaster (Bush Fires) Reimbursement		496	-
Other		317	298
<b>TOTAL OTHER REVENUE</b>		<b>6,121</b>	<b>4,974</b>

## Port Stephens

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

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

\$ '000	2014 Operating	2013 Operating	2014 Capital	2013 Capital
<b>(e) Grants</b>				
<b>General Purpose (Untied)</b>				
Financial Assistance	2,947	5,666	-	-
Pensioners' Rates Subsidies - General Component	562	559	-	-
<b>Total General Purpose</b>	<b>3,509</b>	<b>6,225</b>	<b>-</b>	<b>-</b>

<sup>1</sup> The Financial Assistance Grant for 13/14 reflects a one off reduction due to the fact that this grant is no longer being paid in advance by up to 50% as has occurred in previous years - it does not represent a loss of income but is instead a timing difference.

#### Specific Purpose

##### Pensioners' Rates Subsidies:

- Domestic Waste Management	228	223	-	-
Aged Care	388	437	-	-
Bushfire & Emergency Services	860	1,078	-	-
Child Care	216	267	-	-
Environmental Protection	390	15	230	1
Family Day Care	244	176	-	-
Heritage & Cultural	4	9	-	-
Horticultural Heritage Trust	45	32	-	-
Library	182	184	-	-
Parks and Gardens	-	-	124	217
Recreation & Culture	-	22	326	14
Street Lighting	33	33	-	-
Transport (Roads to Recovery)	144	-	-	-
Transport	78	10	6,323	2,878
Weed Control	112	86	-	-
Youth Development	70	73	-	-
Department of Regional Australia	-	-	2,200	-
Other	205	199	204	256
<b>Total Specific Purpose</b>	<b>3,199</b>	<b>2,844</b>	<b>9,407</b>	<b>3,366</b>
<b>Total Grants</b>	<b>6,708</b>	<b>9,069</b>	<b>9,407</b>	<b>3,366</b>

##### Grant Revenue is attributable to:

- Commonwealth Funding	3,411	6,311	2,200	553
- State Funding	3,221	2,666	7,207	2,813
- Other Funding	76	92	-	-
	<b>6,708</b>	<b>9,069</b>	<b>9,407</b>	<b>3,366</b>

## Port Stephens

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

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

\$ '000	2014 Operating	2013 Operating	2014 Capital	2013 Capital
<b>(f) Contributions</b>				
<b>Developer Contributions:</b>				
<b>(s93 &amp; s94 - EP&amp;A Act, s64 of the LGA):</b>				
S 94 - Contributions towards amenities/services	119	200	1,875	1,672
<b>Total Developer Contributions</b>	<b>119</b>	<b>200</b>	<b>1,875</b>	<b>1,672</b>
<b>Other Contributions:</b>				
Aged Services	2	3	-	-
Contributions from Sporting Bodies	-	-	41	-
Dedications (other than by S94)	-	-	1,837	2,829
Economic Development & Tourism	17	-	-	-
Environmental Projects	164	81	-	-
Kerb & Gutter	-	-	2	82
Paving	-	-	31	(11)
Recreation & Culture	100	100	146	-
Risk Management	107	132	-	-
RMS Contributions (Regional Roads, Block Grant)	862	855	-	-
Tourism	-	1	-	-
Bio Banking	-	3,520	-	-
Other	202	43	48	141
<b>Total Other Contributions</b>	<b>1,454</b>	<b>4,735</b>	<b>2,105</b>	<b>3,041</b>
<b>Total Contributions</b>	<b>1,573</b>	<b>4,935</b>	<b>3,980</b>	<b>4,713</b>
<b>TOTAL GRANTS &amp; CONTRIBUTIONS</b>	<b>8,281</b>	<b>14,004</b>	<b>13,387</b>	<b>8,079</b>

#### (g) Restrictions relating to Grants and Contributions

<b>Certain grants &amp; contributions are obtained by Council on condition that they be spent in a specified manner:</b>	<b>Actual 2014</b>	<b>Actual 2013</b>
Unexpended at the Close of the Previous Reporting Period	11,469	12,179
add: Grants & contributions recognised in the current period but not yet spent:	3,367	4,479
less: Grants & contributions recognised in a previous reporting period now spent:	(5,743)	(5,189)
<b>Net Increase (Decrease) in Restricted Assets during the Period</b>	<b>(2,376)</b>	<b>(710)</b>
<b>Unexpended and held as Restricted Assets</b>	<b>9,093</b>	<b>11,469</b>
<b>Comprising:</b>		
- Specific Purpose Unexpended Grants	1,342	2,252
- Developer Contributions	7,751	9,217
	<b>9,093</b>	<b>11,469</b>

## Port Stephens

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

#### Note 4. Expenses from Continuing Operations

\$ '000	Notes	Actual 2014	Actual 2013
<b>(a) Employee Benefits &amp; On-Costs</b>			
Salaries and Wages		26,320	25,037
Salaries and Wages - Newcastle Airport Partnership		2,090	1,918
Travelling		422	304
Employee Leave Entitlements (ELE)		6,367	4,588
Superannuation		3,228	3,111
Workers' Compensation Insurance		477	1,116
Fringe Benefit Tax (FBT)		159	121
Training Costs (other than Salaries & Wages)		354	338
Protective Clothing		176	162
Corporate Uniform		5	12
Occupational Health & Safety		32	23
Conferences		189	210
Other		63	43
<b>Total Employee Costs</b>		<b>39,882</b>	<b>36,983</b>
less: Capitalised Costs		(3,845)	(2,657)
<b>TOTAL EMPLOYEE COSTS EXPENSED</b>		<b>36,037</b>	<b>34,326</b>
Number of "Equivalent Full Time" Employees at year end		405	412
Number of "Equivalent Full Time" Employees at year end (incl. vacancies)		467	458
<b>(b) Borrowing Costs</b>			
<b>(i) Interest Bearing Liability Costs</b>			
Interest on Loans		916	956
Interest - Newcastle Airport Partnership		323	439
<b>Total Interest Bearing Liability Costs Expensed</b>		<b>1,239</b>	<b>1,395</b>
<b>(ii) Other Borrowing Costs</b>			
Discount adjustments relating to movements in Provisions (other than ELE)			
- Remediation Liabilities	26	61	44
Interest applicable on Interest Free (& favourable) Loans to Council		45	59
<b>Total Other Borrowing Costs</b>		<b>106</b>	<b>103</b>
<b>TOTAL BORROWING COSTS EXPENSED</b>		<b>1,345</b>	<b>1,498</b>



## Port Stephens

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

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

\$ '000	Notes	Actual 2014	Actual 2013
<b>(c) Materials &amp; Contracts</b>			
Raw Materials & Consumables		9,901	6,691
Contractor & Consultancy Costs			
- Waste Collection & Disposal Contract		9,467	8,815
- Other Contractor & Consultancy Costs		11,225	15,615
Auditors Remuneration <sup>(1)</sup>		99	76
Legal Expenses:			
- Legal Expenses: Planning & Development		679	511
Operating Leases:			
- Operating Lease Rentals: Minimum Lease Payments <sup>(2)</sup>		381	366
Other		82	129
<b><u>TOTAL MATERIALS &amp; CONTRACTS</u></b>		<b><u>31,834</u></b>	<b><u>32,203</u></b>

#### 1. Auditor Remuneration

During the year, the following fees were incurred for services provided by the Council's Auditor:

##### (i) Audit and Other Assurance Services

- Audit & review of financial statements: Pitcher Partners	18	-
- Audit & review of financial statements: PricewaterhouseCoopers	81	66
- Other audit & assurance services PricewaterhouseCoopers	-	10
<b>Remuneration for audit and other assurance services</b>	<b><u>99</u></b>	<b><u>76</u></b>
<b>Total Auditor Remuneration</b>	<b><u>99</u></b>	<b><u>76</u></b>

#### 2. Operating Lease Payments are attributable to:

Other	381	366
	<b><u>381</u></b>	<b><u>366</u></b>

## Port Stephens

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

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

\$ '000	Notes	Impairment Costs		Depreciation/Amortisation	
		Actual 2014	Actual 2013	Actual 2014	Actual 2013
(d) Depreciation, Amortisation & Impairment					
Plant and Equipment		-	-	1,489	1,549
Office Equipment		-	-	82	68
Furniture & Fittings		-	-	19	60
Land Improvements (depreciable)		-	-	113	354
Buildings - Specialised		-	-	2,663	6,292
Other Structures		-	-	216	673
Infrastructure:					
- Roads		-	-	4,058	4,336
- Bridges		-	-	107	-
- Footpaths		-	-	203	-
- Stormwater Drainage		-	-	1,999	1,974
- Other Open Space/Recreational Assets		-	-	3,055	-
Other Assets					
- Heritage Collections		-	-	7	-
- Library Books		-	-	127	127
- Car Parks		-	-	326	327
- Other Infrastructure		-	-	37	122
- Newcastle Airport Partnership	19(c)	-	-	1,561	1,504
- Other		-	-	142	322
<b>TOTAL DEPRECIATION &amp; IMPAIRMENT COSTS EXPENSED</b>		<b>-</b>	<b>-</b>	<b>16,204</b>	<b>17,708</b>

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

\$ '000	Notes	Actual 2014	Actual 2013
<b>(e) Other Expenses</b>			
Bad & Doubtful Debts		28	(10)
Bank Charges		226	229
Contributions/Levies to Other Levels of Government			
- Lands Department Levy (Holiday Parks)		465	429
- NSW Rural Fire Service Levy		359	339
- Waste Levy		1,108	992
Councillor Expenses - Mayoral Fee		56	54
Councillor Expenses - Councillors' Fees		156	155
Councillors' Expenses (incl. Mayor) - Other (excluding fees above)		65	103
Donations, Contributions & Assistance to other organisations (Section 356)		779	753
Electricity & Heating		1,485	1,436
Insurance		1,826	1,797
Other Expenses - Newcastle Airport Partnership		5,335	5,061
Memberships		55	48
Street Lighting		1,376	960
Telephone & Communications		350	335
Impairment of Inventory		-	3,595
Other		173	128
<b><u>TOTAL OTHER EXPENSES</u></b>		<b><u>13,842</u></b>	<b><u>16,404</u></b>

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

<b>Property</b> (excl. Investment Property)			
Proceeds from Disposal - Property		226	-
less: Carrying Amount of Property Assets Sold / Written Off		(220)	-
<b>Net Gain/(Loss) on Disposal</b>		<b>6</b>	<b>-</b>
<b>Plant &amp; Equipment</b>			
Proceeds from Disposal - Plant & Equipment		583	877
less: Carrying Amount of P&E Assets Sold / Written Off		(458)	(1,196)
<b>Net Gain/(Loss) on Disposal</b>		<b>125</b>	<b>(319)</b>
<b>Financial Assets*</b>			
Proceeds from Disposal / Redemptions / Maturities - Financial Assets		47,414	15,417
less: Carrying Amount of Financial Assets Sold / Redeemed / Matured		(46,704)	(13,950)
<b>Net Gain/(Loss) on Disposal</b>		<b>710</b>	<b>1,467</b>
<b><u>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</u></b>		<b><u>841</u></b>	<b><u>1,148</u></b>
<b>* Financial Assets disposals / redemptions include:</b>			
- Net Gain/(Loss) from Financial Assets designated "Available for Sale"		710	1,467
<b>Net Gain/(Loss) on Disposal of Financial Assets</b>		<b>710</b>	<b>1,467</b>

## Port Stephens

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

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

		2014	2014	2013	2013
\$ '000	Notes	Actual Current	Actual Non Current	Actual Current	Actual Non Current
Cash & Cash Equivalents (Note 6a)					
Cash on Hand and at Bank		11,089	-	13,900	-
Cash-Equivalent Assets <sup>1</sup>					
- Deposits at Call		-	-	1,000	-
<b>Total Cash &amp; Cash Equivalents</b>		<b>11,089</b>	<b>-</b>	<b>14,900</b>	<b>-</b>
Investments (Note 6b)					
- Term Deposits		27,006	292	19,000	283
- NCD's, FRN's (with Maturities > 3 months)		1,000	-	1,000	500
- CDO's		373	925	204	1,241
<b>Total Investments</b>		<b>28,379</b>	<b>1,217</b>	<b>20,204</b>	<b>2,024</b>
<b>TOTAL CASH ASSETS, CASH EQUIVALENTS &amp; INVESTMENTS</b>		<b>39,468</b>	<b>1,217</b>	<b>35,104</b>	<b>2,024</b>

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

**Cash, Cash Equivalents & Investments were  
classified at year end in accordance with  
AASB 139 as follows:**

#### Cash & Cash Equivalents

<b>a. "At Fair Value through the Profit &amp; Loss"</b>	<b>11,089</b>	<b>-</b>	<b>14,900</b>	<b>-</b>
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#### Investments

##### a. "At Fair Value through the Profit & Loss"

- "Held for Trading"	6(b-i)	-	-	-	-
- "Designated at Fair Value on Initial Recognition"	6(b-i)	-	-	-	-
<b>b. "Held to Maturity"</b>	6(b-ii)	27,006	292	19,000	283
<b>c. "Loans &amp; Receivables"</b>	6(b-iii)	-	-	-	-
<b>d. "Available for Sale"</b>	6(b-iv)	1,373	925	1,204	1,741
<b>Investments</b>		<b>28,379</b>	<b>1,217</b>	<b>20,204</b>	<b>2,024</b>

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 financial year ended 30 June 2014

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

	2014 Actual Current	2014 Actual Non Current	2013 Actual Current	2013 Actual Non Current
\$ '000				
<b>Note 6(b-i)</b>				
<b>Reconciliation of Investments classified as "At Fair Value through the Profit &amp; Loss"</b>				
Nil				
<b>Note 6(b-ii)</b>				
<b>Reconciliation of Investments classified as "Held to Maturity"</b>				
Balance at the Beginning of the Year	19,000	283	12,230	46
Additions	54,006	9	19,000	237
Disposals (sales & redemptions)	(46,000)	-	(12,230)	-
<b>Balance at End of Year</b>	<b>27,006</b>	<b>292</b>	<b>19,000</b>	<b>283</b>
<b>Comprising:</b>				
- Long Term Deposits	27,006	292	19,000	283
<b>Total</b>	<b>27,006</b>	<b>292</b>	<b>19,000</b>	<b>283</b>
<b>Note 6(b-iii)</b>				
<b>Reconciliation of Investments classified as "Loans &amp; Receivables"</b>				
Nil				
<b>Note 6(b-iv)</b>				
<b>Reconciliation of Investments classified as "Available for Sale"</b>				
Balance at the Beginning of the Year	1,204	1,741	1,989	2,496
Amortisation of premiums & discounts	-	57	-	56
Revaluation - transfer gain (loss) to ARR in Equity	-	-	79	45
Disposals (sales & redemptions)	(704)	-	(1,720)	-
Transfers between Current/Non Current	873	(873)	856	(856)
<b>Balance at End of Year</b>	<b>1,373</b>	<b>925</b>	<b>1,204</b>	<b>1,741</b>
<b>Comprising:</b>				
- NCD's, FRN's (with Maturities > 3 months)	1,000	-	1,000	500
- CDO's	373	925	204	1,241
<b>Total</b>	<b>1,373</b>	<b>925</b>	<b>1,204</b>	<b>1,741</b>

## Port Stephens

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

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

	2014 Actual Current	2014 Actual Non Current	2013 Actual Current	2013 Actual Non Current
<b>\$ '000</b>				
<b>Total Cash, Cash Equivalents and Investments</b>	<b>39,468</b>	<b>1,217</b>	<b>35,104</b>	<b>2,024</b>
<b>attributable to:</b>				
External Restrictions (refer below)	17,283	1,217	20,114	2,024
Internal Restrictions (refer below)	21,739	-	14,903	-
Unrestricted	446	-	87	-
	<b>39,468</b>	<b>1,217</b>	<b>35,104</b>	<b>2,024</b>

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

##### External Restrictions - Included in Liabilities

Nil

##### External Restrictions - Other

Developer Contributions - General	(D)	9,218	2,237	(3,704)	7,751
Specific Purpose Unexpended Grants	(F)	2,251	-	(909)	1,342
Domestic Waste Management	(G)	3,540	1,483	(611)	4,412
Crown Holiday Parks		6,385	-	(2,202)	4,183
Carparking Meters Crown Lands		744	68	-	812
<b>External Restrictions - Other</b>		<b>22,138</b>	<b>3,788</b>	<b>(7,426)</b>	<b>18,500</b>
<b>Total External Restrictions</b>		<b>22,138</b>	<b>3,788</b>	<b>(7,426)</b>	<b>18,500</b>

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

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

**G** Water, Sewerage, Domestic Waste Management (DWM) & 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 financial year ended 30 June 2014

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

2014 \$ '000	Opening Balance	Transfers to Restrictions	Transfers from Restrictions	Closing Balance
<b>Internal Restrictions</b>				
Deposits, Retentions & Bonds	-	662	-	662
Fleet	124	1,888	(1,846)	166
Asset Rehabilitation	872	3,952	(3,324)	1,500
Bonds held for Developer's Works	286	198	-	484
Election Reserve	-	100	-	100
Newcastle Airport Partnership	8,590	1,176	-	9,766
Section 355C Committees	922	46	-	968
Financial Assistance Grant	2,935	-	(2,935)	-
IT Reserve	487	1,000	(37)	1,450
Drainage Reserve	425	1,112	(818)	719
Roads / Environmental	60	894	(892)	62
Parking Meters	86	46	-	132
Works Depot	116	516	(632)	-
Commercial Properties Reserve	-	92	-	92
Other Waste Services Reserve	-	301	-	301
Administration Building Reserve	-	679	(592)	87
Sustainable Energy & Water Reserve	-	250	-	250
Community Loans Reserve	-	200	-	200
Unexpended Loan Funds	-	3,500	-	3,500
Employees Leave Entitlements	-	1,300	-	1,300
<b>Total Internal Restrictions</b>	<b>14,903</b>	<b>17,912</b>	<b>(11,076)</b>	<b>21,739</b>
<b>TOTAL RESTRICTIONS</b>	<b>37,041</b>	<b>21,700</b>	<b>(18,502)</b>	<b>40,239</b>

## Port Stephens

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

#### Note 7. Receivables

\$ '000	Notes	2014		2013	
		Current	Non Current	Current	Non Current
<b>Purpose</b>					
Rates & Annual Charges		2,161	-	1,938	161
Interest & Extra Charges		(176)	-	(127)	-
User Charges & Fees		608	-	840	-
Private Works		142	-	922	-
Contributions to Works		152	-	42	-
Accrued Revenues					
- Interest on Investments		257	-	204	-
Government Grants & Subsidies		209	-	70	-
Deferred Debtors		55	-	25	6
Receivables - Newcastle Airport Partners		1,402	-	1,806	15
Loans to Newcastle Airport Partnership		-	-	831	3,880
Net GST Receivable		502	-	341	-
RMS Contributions		2,291	-	1,619	-
Other Debtors		375	285	416	330
<b>Total</b>		<b>7,978</b>	<b>285</b>	<b>8,927</b>	<b>4,392</b>
<b>less: Provision for Impairment</b>					
Other Debtors		-	(68)	-	(45)
<b>Total Provision for Impairment - Receivables</b>		<b>-</b>	<b>(68)</b>	<b>-</b>	<b>(45)</b>
<b><u>TOTAL NET RECEIVABLES</u></b>		<b><u>7,978</u></b>	<b><u>217</u></b>	<b><u>8,927</u></b>	<b><u>4,347</u></b>
<b>Externally Restricted Receivables</b>					
Nil					
<b>Internally Restricted Receivables</b>					
Community Loans		-	-	200	-
Sustainable Energy Fund		-	-	250	-
<b>Internally Restricted Receivables</b>		<b>-</b>	<b>-</b>	<b>450</b>	<b>-</b>
<b>Unrestricted Receivables</b>		<b>7,978</b>	<b>217</b>	<b>8,477</b>	<b>4,347</b>
<b>TOTAL NET RECEIVABLES</b>		<b>7,978</b>	<b>217</b>	<b>8,927</b>	<b>4,347</b>

#### Notes on Debtors above:

- (i) Rates & Annual Charges Outstanding are secured against the property.
- (ii) Doubtful Rates Debtors are provided for where the value of the property is less than the debt outstanding.  
An allowance for other doubtful debts is made when there is objective evidence that a receivable is impaired.
- (iii) Interest was charged on overdue rates & charges at 9.00% (2013 10.00%).  
Generally all other receivables are non interest bearing.
- (iv) Please refer to Note 15 for issues concerning Credit Risk and Fair Value disclosures.

## Port Stephens

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

#### Note 8. Inventories & Other Assets

\$ '000	Notes	2014		2013	
		Current	Non Current	Current	Non Current
<b>Inventories</b>					
Real Estate for resale (refer below)		1,827	12,673	291	13,818
Stores & Materials		215	-	241	-
Bio Banking Credits		-	3,520	-	3,520
<b>Total Inventories</b>		<b>2,042</b>	<b>16,193</b>	<b>532</b>	<b>17,338</b>
<b>Other Assets</b>					
Prepayments		92	-	-	-
<b>Total Other Assets</b>		<b>92</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b><u>TOTAL INVENTORIES / OTHER ASSETS</u></b>		<b>2,134</b>	<b>16,193</b>	<b>532</b>	<b>17,338</b>

#### Externally Restricted Assets

There are no restrictions applicable to the above assets.

#### Other Disclosures

##### (a) Details for Real Estate Development

Residential	1,556	2,229	-	4,526
Industrial/Commercial	271	10,444	291	9,292
<b>Total Real Estate for Resale</b>	<b>1,827</b>	<b>12,673</b>	<b>291</b>	<b>13,818</b>

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

##### Represented by:

Acquisition Costs	1,793	12,315	-	12,018
Development Costs	34	358	291	1,800
<b>Total Costs</b>	<b>1,827</b>	<b>12,673</b>	<b>291</b>	<b>13,818</b>
<b>Total Real Estate for Resale</b>	<b>1,827</b>	<b>12,673</b>	<b>291</b>	<b>13,818</b>

##### Movements:

Real Estate assets at beginning of the year	291	13,818	466	16,927
- Purchases and other costs	34	357	235	76
- Transfer between Current/Non Current	1,502	(1,502)	(410)	410
- Other	-	-	-	(3,595)
<b>Total Real Estate for Resale</b>	<b>1,827</b>	<b>12,673</b>	<b>291</b>	<b>13,818</b>

##### (b) Inventory Write Downs

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

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

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 9a. Infrastructure, Property, Plant & Equipment

\$ '000	as at 30/6/2013					Asset Movements during the Reporting Period				as at 30/6/2014				
	At	At	Accumulated		Carrying	Asset Additions	WDV of Asset Disposals	Depreciation Expense	Adjustments & Transfers	At	At	Accumulated		Carrying
	Cost	Fair Value	Dep'n	Impairment	Value					Cost	Fair Value	Dep'n	Impairment	Value
Capital Work in Progress	143	-	1	-	142	729	-	-	-	871	-	1	-	870
Plant & Equipment	-	19,865	10,426	-	9,439	2,141	(423)	(1,490)	(705)	-	18,638	9,677	-	8,961
Office Equipment	-	909	543	-	366	700	-	(82)	(34)	-	1,307	357	-	950
Furniture & Fittings	-	1,158	1,007	-	151	-	-	(19)	(74)	-	656	598	-	58
<b>Land:</b>														
- Operational Land	-	38,825	-	-	38,825	57	(220)	-	-	-	38,662	-	-	38,662
- Community Land	-	47,199	-	-	47,199	-	-	-	-	-	47,199	-	-	47,199
- 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	-	20,050	6,045	-	14,005	-	-	(113)	(10,315)	-	5,459	1,882	-	3,577
Buildings - Specialised	-	134,479	48,503	-	85,976	1,444	-	(2,662)	(35,567)	-	80,293	31,102	-	49,191
Other Structures	-	22,688	9,763	-	12,925	988	-	(216)	(10,106)	-	5,430	1,839	-	3,591
<b>Infrastructure:</b>														
- Roads	-	320,240	60,183	-	260,057	11,192	-	(4,059)	-	-	331,432	64,242	-	267,190
- Bridges	-	10,548	2,335	-	8,213	32	-	(107)	-	-	10,580	2,442	-	8,138
- Footpaths	-	9,860	626	-	9,234	243	-	(203)	-	-	10,103	829	-	9,274
- Bulk Earthworks (non-depreciable)	-	56,181	-	-	56,181	-	-	-	-	-	56,181	-	-	56,181
- Stormwater Drainage	-	154,354	37,655	-	116,699	2,203	-	(1,999)	-	-	156,557	39,654	-	116,903
- Other Open Space/Recreational Assets	-	-	-	-	-	6,711	(35)	(3,055)	60,924	-	104,955	40,410	-	64,545
<b>Other Assets:</b>														
- Heritage Collections	-	230	56	-	174	-	-	(7)	-	-	230	63	-	167
- Library Books	-	4,013	2,484	-	1,529	241	-	(127)	-	-	4,253	2,610	-	1,643
- Car Parks	-	6,261	3,246	-	3,015	-	-	(326)	(36)	-	6,221	3,568	-	2,653
- Other Infrastructure	-	6,865	3,635	-	3,230	-	-	(37)	(1,459)	-	3,688	1,954	-	1,734
- Newcastle Airport Partnership	32,176	-	8,354	-	23,822	1,661	(2)	(1,562)	-	33,835	-	9,916	-	23,919
- Other	-	8,522	3,267	-	5,255	28	-	(141)	(2,628)	-	4,017	1,503	-	2,514
<b>TOTAL INFRASTRUCTURE, PROPERTY, PLANT &amp; EQUIP.</b>	<b>32,319</b>	<b>865,312</b>	<b>198,129</b>	<b>-</b>	<b>699,502</b>	<b>28,370</b>	<b>(680)</b>	<b>(16,205)</b>	<b>-</b>	<b>34,706</b>	<b>888,926</b>	<b>212,647</b>	<b>-</b>	<b>710,985</b>

Additions to Buildings & Infrastructure Assets are made up of Asset Renewals (\$12,493) and New Assets (\$2,924).

Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

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

## Port Stephens

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

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

\$ '000 Class of Asset	Actual 2014				Actual 2013			
	At Cost	At Fair Value	A/Dep & Impairm't	Carrying Value	At Cost	At Fair Value	A/Dep & Impairm't	Carrying Value
<b>Domestic Waste Management</b>								
Buildings	-	2,046	688	<b>1,358</b>	-	2,046	620	<b>1,426</b>
<b>Total DWM</b>	-	<b>2,046</b>	<b>688</b>	<b>1,358</b>	-	<b>2,046</b>	<b>620</b>	<b>1,426</b>
<b>TOTAL RESTRICTED I,PP&amp;E</b>	-	<b>2,046</b>	<b>688</b>	<b>1,358</b>	-	<b>2,046</b>	<b>620</b>	<b>1,426</b>

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

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

## Port Stephens

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

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

\$ '000	Notes	2014		2013	
		Current	Non Current	Current	Non Current
Payables					
Goods & Services - operating expenditure		5,450	-	6,569	-
Accrued Expenses:					
- Salaries & Wages		-	-	831	-
- Other Expenditure Accruals		1,710	5	1,776	-
Security Bonds, Deposits & Retentions		672	-	428	-
Unclaimed Monies		100	-	139	-
Other		801	-	449	-
Total Payables		8,733	5	10,192	-
Borrowings					
Loans - Secured <sup>1</sup>		3,842	16,655	5,992	20,327
Finance Lease Liabilities		230	68	335	298
Other - Newcastle Airport Partnership		-	6,250	336	503
Total Borrowings		4,072	22,973	6,663	21,128
Provisions					
Employee Benefits;					
Annual Leave		3,143	-	3,105	-
Sick Leave		4,089	-	4,231	-
Long Service Leave		6,155	255	6,001	222
Sub Total - Aggregate Employee Benefits		13,387	255	13,337	222
Asset Remediation/Restoration (Future Works)	26	1,519	-	-	1,457
Total Provisions		14,906	255	13,337	1,679
Total Payables, Borrowings & Provisions		27,711	23,233	30,192	22,807

#### (i) Liabilities relating to Restricted Assets

	2014		2013	
	Current	Non Current	Current	Non Current
<b>Externally Restricted Assets</b>				
Domestic Waste Management	645	4,138	611	4,783
Liabilities relating to externally restricted assets	645	4,138	611	4,783
<b>Internally Restricted Assets</b>				
Nil				
<b>Total Liabilities relating to restricted assets</b>	645	4,138	611	4,783
<b>Total Liabilities relating to Unrestricted Assets</b>	27,066	19,095	29,581	18,024
<b>TOTAL PAYABLES, BORROWINGS &amp; PROVISIONS</b>	<b>27,711</b>	<b>23,233</b>	<b>30,192</b>	<b>22,807</b>

<sup>1.</sup> Loans are secured over the General Rating Income of Council

Disclosures on Liability Interest Rate Risk Exposures, Fair Value Disclosures & Security can be found in Note 15.



## Port Stephens

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

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

	Actual 2014	Actual 2013
<b>\$ '000</b>		
<b>(ii) Current Liabilities not anticipated to be settled within the next 12 months</b>		
The following Liabilities, even though classified as current, are not expected to be settled in the next 12 months.		
Provisions - Employees Benefits	9,660	10,687
Payables - Security Bonds, Deposits & Retentions	12	543
	<b>9,672</b>	<b>11,230</b>

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

Class of Provision	2013	2014				Closing Balance as at 30/6/14
	Opening Balance as at 1/7/13	Additional Provisions	Decrease due to Payments	Remeasurement effects due to Discounting	Unused amounts reversed	
Asset Remediation	1,457	62	-	-	-	1,519
<b>TOTAL</b>	<b>1,457</b>	<b>62</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,519</b>

- a. Asset Remediation, Reinstatement & Restoration Provisions represent the Present Value estimate of future costs Council will incur in order to remove, restore & remediate assets &/or activities as a result of past operations.

## Port Stephens

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

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

\$ '000	Notes	Actual 2014	Actual 2013
<b>(a) Reconciliation of Cash Assets</b>			
Total Cash & Cash Equivalent Assets	6a	11,089	14,900
Less Bank Overdraft	10	-	-
<b>BALANCE as per the STATEMENT of CASH FLOWS</b>		<b>11,089</b>	<b>14,900</b>
<b>(b) Reconciliation of Net Operating Result to Cash provided from Operating Activities</b>			
<b>Net Operating Result from Income Statement</b>		<b>13,868</b>	<b>9,692</b>
Adjust for non cash items:			
Depreciation & Amortisation		16,204	17,708
Net Losses/(Gains) on Disposal of Assets		(841)	(1,148)
Losses/(Gains) recognised on Fair Value Re-measurements through the P&L:			
- Investment Properties		(840)	(80)
- Other		-	(103)
Amortisation of Premiums, Discounts & Prior Period Fair Valuations			
- Interest Exp. on Interest Free Loans received by Council (previously Fair Valued)		45	59
Unwinding of Discount Rates on Reinstatement Provisions		62	31
<b>+/- Movement in Operating Assets and Liabilities &amp; Other Cash Items:</b>			
Decrease/(Increase) in Receivables		369	3,229
Increase/(Decrease) in Provision for Doubtful Debts		23	(25)
Decrease/(Increase) in Inventories		26	(3,462)
Decrease/(Increase) in Other Assets		(92)	-
Increase/(Decrease) in Payables		(1,119)	2,609
Increase/(Decrease) in other accrued Expenses Payable		(892)	(1,965)
Increase/(Decrease) in Other Liabilities		557	(1,040)
Increase/(Decrease) in Employee Leave Entitlements		83	121
<b>NET CASH PROVIDED FROM/(USED IN) OPERATING ACTIVITIES from the STATEMENT of CASH FLOWS</b>		<b>27,453</b>	<b>25,626</b>

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

\$ '000	Notes	Actual 2014	Actual 2013
<b>(c) Non-Cash Investing &amp; Financing Activities</b>			
Nil			
<b>(d) Financing Arrangements</b>			
<b>(i) Unrestricted access was available at balance date to the following lines of credit:</b>			
Bank Overdraft Facilities <sup>(1)</sup>		2,000	2,000
Credit Cards / Purchase Cards		1,144	1,101
Master Lease Facilities		1,000	1,000
<b>Total Financing Arrangements</b>		<b>4,144</b>	<b>4,101</b>

1. The Bank overdraft facility may be drawn at any time and may be terminated by the bank without notice.

Interest rates on overdrafts are Interest Rates on Loans & Other Payables are disclosed in Note 15.

#### **(ii) Secured Loan Liabilities**

Loans are secured by a mortgage over future years Rate Revenue only.

#### 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 & Equipment**

Buildings	106	1,663
Plant & Equipment	119	241
Newcastle Airport Partnership	6,099	227
Other	167	770
<b>Total Commitments</b>	<b>6,491</b>	<b>2,901</b>
<b>These expenditures are payable as follows:</b>		
Within the next year	6,491	2,901
<b>Total Payable</b>	<b>6,491</b>	<b>2,901</b>
<b>Sources for Funding of Capital Commitments:</b>		
Unrestricted General Funds	6,491	2,901
<b>Total Sources of Funding</b>	<b>6,491</b>	<b>2,901</b>

## Port Stephens

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

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

\$ '000	Notes	Actual 2014	Actual 2013
<b>(b) Finance Lease Commitments</b>			
<b>(i) Commitments under Finance Leases at the Reporting Date are payable as follows:</b>			
Within the next year		244	367
Later than one year and not later than 5 years		70	314
<b>Total Minimum Lease Payments</b>		<b>314</b>	<b>681</b>
less: Future Finance Charges		(16)	(48)
<b>Amount Recognised as a Liability</b>		<b>298</b>	<b>633</b>

#### **(ii) Finance Lease Liability Recognised represent;**

Current Liabilities	230	335
Non-Current Liabilities	68	298
<b>Total Finance Lease Liabilities Disclosed</b>	<b>298</b>	<b>633</b>

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

#### **(c) Operating Lease Commitments (Non Cancellable)**

##### **a. Commitments under Non Cancellable Operating Leases at the Reporting date, but not recognised as Liabilities are payable:**

Within the next year	398	444
Later than one year and not later than 5 years	536	335
Later than 5 years	-	-
<b>Total Non Cancellable Operating Lease Commitments</b>	<b>934</b>	<b>779</b>

##### **b. Non Cancellable Operating Leases include the following assets:**

Computer Equipment

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

##### **Conditions relating to Finance & Operating Leases:**

- All Finance & 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 financial year ended 30 June 2014

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

\$ '000	Amounts 2014	Indicator 2014	Prior Periods 2013      2012	
Local Government Industry Indicators - Consolidated				
1. Operating Performance Ratio				
Total continuing operating revenue <sup>(1)</sup>				
(excl. Capital Grants & Contributions) - Operating Expenses	(1,200)	-1.22%	0.38%	-3.01%
Total continuing operating revenue <sup>(1)</sup>	98,062			
(excl. Capital Grants & Contributions)				
2. Own Source Operating Revenue Ratio				
Total continuing operating revenue <sup>(1)</sup>				
(less ALL Grants & Contributions)	89,781	80.56%	80.03%	75.33%
Total continuing operating revenue <sup>(1)</sup>	111,449			
3. Unrestricted Current Ratio				
Current Assets less all External Restrictions <sup>(2)</sup>	32,297	1.86 : 1	1.33	1.56
Current Liabilities less Specific Purpose Liabilities <sup>(3, 4)</sup>	17,394			
4. Debt Service Cover Ratio				
Operating Result <sup>(1)</sup> before capital excluding interest and depreciation / impairment / amortisation (EBITDA)	16,349	1.69 : 1	2.56	2.18
Principal Repayments (from the Statement of Cash Flows) + Borrowing Interest Costs (from the Income Statement)	9,675			
5. Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage				
Rates, Annual and Extra Charges Outstanding	1,985	3.99%	4.08%	4.45%
Rates, Annual and Extra Charges Collectible	49,784			
6. Cash Expense Cover Ratio				
Current Year's Cash and Cash Equivalents including All Term Deposits	38,387	4.65	4.35	4.12
Payments from cash flow of operating and financing activities	8,246			

#### Notes

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

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

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

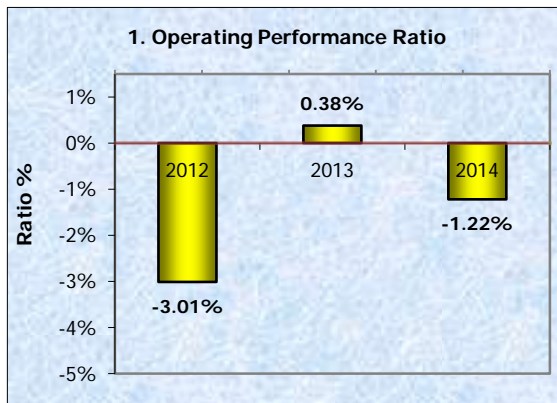
<sup>(3)</sup> Refer to Note 10(a).

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

## Port Stephens

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

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



**Purpose of Operating Performance Ratio**

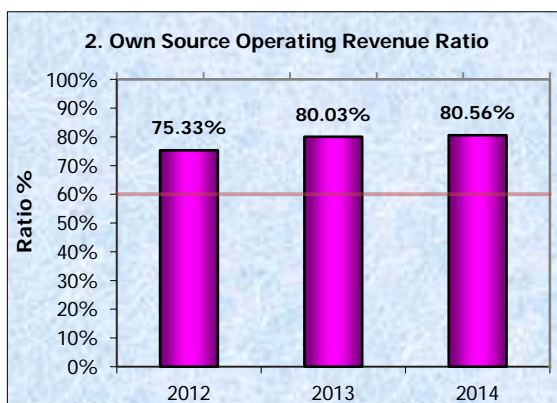
This ratio measures Council's achievement of containing operating expenditure within operating revenue.

**Commentary on 2013/14 Result**

**2013/14 Ratio**    **-1.22%**

The drop in the operating performance ratio is due to a timing in the receipt of general operating grants.

Source for Benchmark: Code of Accounting Practice and Financial Reporting



**Purpose of Own Source Operating Revenue Ratio**

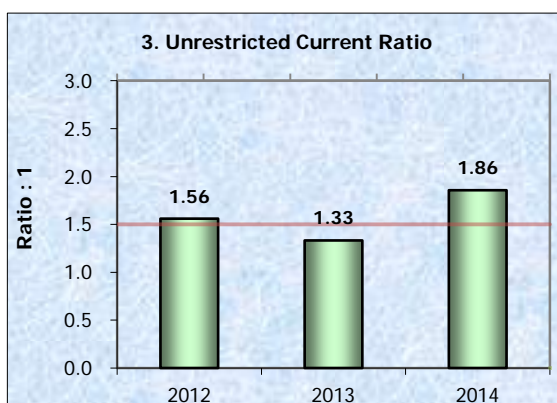
This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants & contributions.

**Commentary on 2013/14 Result**

**2013/14 Ratio**    **80.56%**

Council continues to have a strong self-sufficiency in terms of its revenue mix not being heavily reliant on capital grants and contributions. This trend is expected to continue in the future as Council explores other revenue opportunities.

Source for Benchmark: Code of Accounting Practice and Financial Reporting



**Purpose of Unrestricted Current Ratio**

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

**Commentary on 2013/14 Result**

**2013/14 Ratio**    **1.86 : 1**

The unrestricted current ratio is in a healthy position. Of particular significance is the increase in cash and investments of \$3.5M.

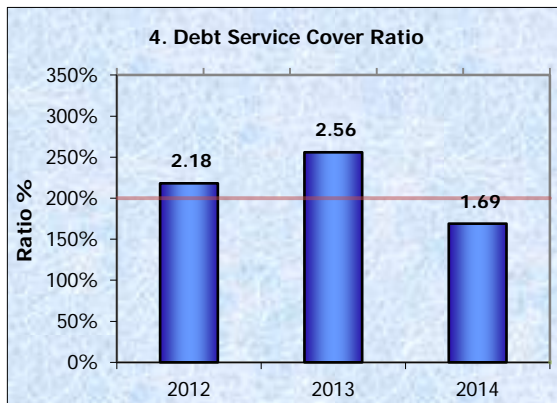
Source for Benchmark: Code of Accounting Practice and Financial Reporting



## Port Stephens

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

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



Source for Benchmark: NSW Treasury Corporation

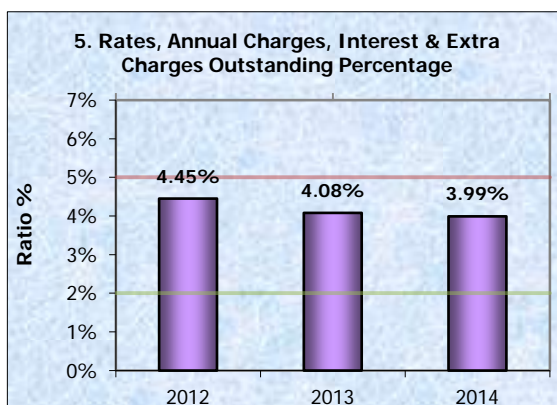
#### Purpose of Debt Service Cover Ratio

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

#### Commentary on 2013/14 Result

**2013/14 Ratio 1.69 : 1**

The debt service ratio has declined due to the restructure of Newcastle Airport Pty Ltd with loans paid out ahead of schedule. Council expects this ratio to return normal in 2015.



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

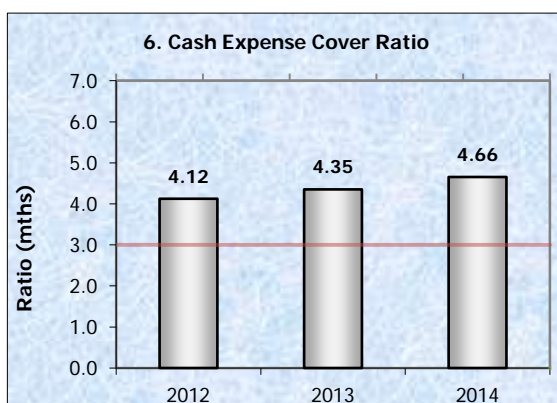
#### Purpose of Rates & Annual Charges Outstanding Ratio

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

#### Commentary on 2013/14 Result

**2013/14 Ratio 3.99%**

A strong performance by Council in its effort to collect outstanding rates and annual charges, along with the steady growth in the amount of rates levied has seen this steadily improve over the last 4 years.



Source for Benchmark: Code of Accounting Practice and Financial Reporting

#### Purpose of Cash Expense Cover Ratio

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

#### Commentary on Result

**2013/14 Ratio 4.65**

Council's liquidity position is strong as a result of investment in more current term assets from strong collection rates.

## Port Stephens

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

#### Note 14. Investment Properties

\$ '000	Notes	Actual 2014	Actual 2013
<b>(a) Investment Properties at Fair value</b>			
<u>Investment Properties on Hand</u>		<u>19,911</u>	<u>18,910</u>
<b>Reconciliation of Annual Movement:</b>			
Opening Balance		18,910	18,679
- Acquisitions		161	151
- Net Gain/(Loss) from Fair Value Adjustments		840	80
<b>CLOSING BALANCE - INVESTMENT PROPERTIES</b>		<b><u>19,911</u></b>	<b><u>18,910</u></b>

#### (b) Valuation Basis

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

The 2014 revaluations are not based on an Independent Assessment and Valuation.

#### (c) Contractual Obligations at Reporting Date

Refer to Note 12 for disclosures relating to any Capital and Service obligations that have been contracted.

#### (d) Leasing Arrangements

Details of leased Investment Properties are as follows;

Future Minimum Lease Payments receivable under non-cancellable  
Investment Property Operating Leases not recognised in the  
Financial Statements are receivable as follows:

Within 1 year	1,987	1,391
Later than 1 year but less than 5 years	3,345	1,373
Later than 5 years	1,292	243
<b>Total Minimum Lease Payments Receivable</b>	<b><u>6,624</u></b>	<b><u>3,007</u></b>

#### (e) Investment Property Income & Expenditure - summary

<b>Rental Income from Investment Properties:</b>		
- Minimum Lease Payments	2,099	2,140
<b>Direct Operating Expenses on Investment Properties:</b>		
- that generated rental income	(532)	(385)
<b>Net Revenue Contribution from Investment Properties</b>	<b><u>1,567</u></b>	<b><u>1,755</u></b>
plus:		
<b>Fair Value Movement for year</b>	<b><u>840</u></b>	<b><u>80</u></b>
<b>Total Income attributable to Investment Properties</b>	<b><u>2,407</u></b>	<b><u>1,835</u></b>

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

## Port Stephens

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

#### 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.

A comparison by category of the carrying amounts and fair values of Council's Financial Assets & Financial Liabilities recognised in the financial statements is presented below.

	Carrying Value		Fair Value	
	2014	2013	2014	2013
<b>Financial Assets</b>				
Cash and Cash Equivalents	11,089	14,900	11,089	14,900
Investments				
- "Held to Maturity"	27,298	19,283	27,298	19,283
- "Available for Sale"	2,298	2,945	2,298	2,945
Receivables	8,195	13,274	8,195	13,274
<b>Total Financial Assets</b>	<b>48,880</b>	<b>50,402</b>	<b>48,880</b>	<b>50,402</b>
<b>Financial Liabilities</b>				
Payables	8,738	10,192	8,738	9,113
Loans / Advances	26,747	27,158	26,747	27,158
Lease Liabilities	298	633	298	633
<b>Total Financial Liabilities</b>	<b>35,783</b>	<b>37,983</b>	<b>35,783</b>	<b>36,904</b>

Fair Value is determined as follows:

- **Cash & Cash Equivalents, Receivables, Payables** - are estimated to be the carrying value which approximates market value
- **Borrowings & Held to Maturity Investments** - are based upon estimated future cash flows discounted by the current market interest rates applicable to assets & liabilities with similar risk profiles, unless quoted market prices are available.
- Financial Assets classified (i) **"at fair value through profit & loss"** or (ii) **Available for Sale** - are based upon quoted market prices (in active markets for identical investments) at the reporting date or independent valuation.

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

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 15. Financial Risk Management (continued)

\$ '000

##### (a) Cash & Cash Equivalents, Financial assets 'at fair value through the profit & Loss' "Available-for-sale" financial assets & "Held-to-maturity" Investments

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

Council's Finance area manages the Cash & Investments portfolio with the assistance of independent advisors.

Council has an Investment Policy which complies with the Local Government Act & Minister's Investment Order. This Policy is regularly reviewed by Council and its staff and an Investment Report is tabled before Council on a monthly basis setting out the portfolio breakup and its performance.

The risks associated with the investments held are:

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

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

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

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

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

	Increase of Values/Rates		Decrease of Values/Rates	
	Profit	Equity	Profit	Equity
<b>2014</b>				
Possible impact of a 10% movement in Market Values	-	127	-	(127)
Possible impact of a 1% movement in Interest Rates	280	-	(280)	-
<b>2013</b>				
Possible impact of a 10% movement in Market Values	-	222	-	(222)
Possible impact of a 1% movement in Interest Rates	225	-	(225)	-

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 15. Financial Risk Management (continued)

\$ '000

##### (b) Receivables

Council's major receivables comprise **(i) Rates & Annual charges** and **(ii) User Charges & Fees**.

The major risk associated with these receivables is credit risk - the risk that debts due and payable to Council may not be repaid in full.

Council manages this risk by monitoring outstanding debt and employing stringent debt recovery procedures. It also encourages ratepayers to pay their rates by the due date through incentives.

Credit risk on rates and annual charges is minimised by the ability of Council to secure a charge over the land relating to the debts - that is, the land can be sold to recover the debt. Council is also able to charge interest on overdue rates & annual charges at higher than market rates which further encourages the payment of debt.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

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

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

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

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

	2014 Rates & Annual Charges	2014 Other Receivables	2013 Rates & Annual Charges	2013 Other Receivables
<b>(i) Ageing of Receivables - %</b>				
Current (not yet overdue)	0%	100%	0%	100%
Overdue	100%	0%	100%	0%
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>(ii) Ageing of Receivables - value</b>				
Current (not yet overdue)	-	6,102	-	11,220
Past due by up to 30 days	1,053	-	915	-
Past due by more than 90 days	1,108	-	1,184	-
	<b>2,161</b>	<b>6,102</b>	<b>2,099</b>	<b>11,220</b>
<b>(iii) Movement in Provision for Impairment of Receivables</b>			2014	2013
Balance at the beginning of the year			45	70
+ new provisions recognised during the year			25	-
- amounts already provided for & written off this year			(1)	(6)
- amounts provided for but recovered during the year			(1)	-
- previous impairment losses reversed			-	(19)
<b>Balance at the end of the year</b>			<b>68</b>	<b>45</b>

## Port Stephens

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

#### Note 15. Financial Risk Management (continued)

\$ '000

##### (c) Payables & Borrowings

Payables & Borrowings are both subject to liquidity risk - the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due.

Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer.

Payment terms can (in extenuating circumstances) also be extended & overdraft facilities utilised as required.

The contractual undiscounted cash outflows (ie. principal and interest) of Council's Payables & Borrowings are set out in the maturity table below:

\$ '000	Subject to no maturity	payable in:						Total	Actual
		≤ 1 Year	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	> 5 Yrs	Cash Outflows	Carrying Values
2014									
Trade/Other Payables	772	7,966	-	-	-	-	-	8,738	8,738
Loans & Advances	-	4,592	4,025	3,598	3,292	2,574	5,300	23,381	26,747
Lease Liabilities		244	54	-	-	-	-	298	298
Total Financial Liabilities	772	12,802	4,079	3,598	3,292	2,574	5,300	32,417	35,783
2013									
Trade/Other Payables	567	8,546	-	-	-	-	-	9,113	10,192
Loans & Advances	-	6,365	5,593	4,428	3,876	3,469	6,341	30,072	27,158
Lease Liabilities	-	-	-	-	-	-	-	-	633
Total Financial Liabilities	567	14,911	5,593	4,428	3,876	3,469	6,341	39,185	37,983

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

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

	2014		2013	
	Carrying Value	Average Interest Rate	Carrying Value	Average Interest Rate
Trade/Other Payables	8,738	0.0%	10,192	0.0%
Loans & Advances - Fixed Interest Rate	23,900	3.8%	15,648	4.5%
Loans & Advances - Variable Interest Rate	2,847	4.5%	11,510	4.1%
Lease Liabilities	298	5.2%	633	5.2%
	<b>35,783</b>		<b>37,983</b>	



## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 16. Material Budget Variations

\$ '000

Council's Original Financial Budget for 13/14 was adopted by the Council on 28 May 2013.

While the Income Statement included in this General Purpose Financial Report must disclose the Original Budget adopted by Council, the Local Government Act requires Council to review its Financial Budget on a Quarterly Basis, so that it is able to manage the various variations between actuals versus budget that invariably occur throughout the year.

This Note sets out the details of MATERIAL VARIATIONS between Council's Original Budget and its Actual results for the year as per the Income Statement - even though such variations may have been adjusted for during each Quarterly Budget Review.

**Note that for Variations\* of Budget to Actual :**

Material Variations represent those variances that amount to **10%** or more of the original budgeted figure.

**F** = Favourable Budget Variation, **U** = Unfavourable Budget Variation

\$ '000	2014 Budget	2014 Actual	2014 ----- Variance* -----		
<b>REVENUES</b>					
<b>Rates &amp; Annual Charges</b>	<b>47,187</b>	<b>47,489</b>	<b>302</b>	1%	<b>F</b>
<b>User Charges &amp; Fees</b>	<b>34,976</b>	<b>35,267</b>	<b>291</b>	1%	<b>F</b>
<b>Interest &amp; Investment Revenue</b>	<b>1,995</b>	<b>1,744</b>	<b>(251)</b>	(13%)	<b>U</b>
Interest & Investment revenue was \$375K less than anticipated for the Newcastle Airport Partnership. As the operations of this venture are outside the control of the Council, some budget variation is to be expected.					
<b>Other Revenues</b>	<b>7,651</b>	<b>6,121</b>	<b>(1,530)</b>	(20%)	<b>U</b>
Actual Newcastle Airport Partnership dividend income was \$1.85M less than anticipated and budgeted					
<b>Operating Grants &amp; Contributions</b>	<b>10,268</b>	<b>8,281</b>	<b>(1,987)</b>	(19%)	<b>U</b>
Payments amounting to \$2.36M for a State Govt. Financial Assistance Grant relating to 2014 were received in advance in 2013. Amounts have not been received in advance again this financial year.					
<b>Capital Grants &amp; Contributions</b>	<b>10,644</b>	<b>13,387</b>	<b>2,743</b>	26%	<b>F</b>
The budgetary difference is largely attributable to \$2.06M received, but not budgeted for, relating to RTA Grants, where the nature and timing of grant monies received are unpredictable in nature.					
<b>Net Gains from Disposal of Assets</b>	<b>1,745</b>	<b>841</b>	<b>(904)</b>	(52%)	<b>U</b>
The sale of a property at Salamander Bay was expected to proceed, but did not eventuate this year. Net gain on the disposal of this land was expected to be in the vicinity of \$1.4M.					

## Port Stephens

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

#### Note 16. Material Budget Variations (continued)

\$ '000	2014 Budget	2014 Actual	2014 ----- Variance* -----	
<b>EXPENSES</b>				
<b>Employee Benefits &amp; On-Costs</b>	<b>38,087</b>	<b>36,037</b>	<b>2,050</b>	5% <b>F</b>
<b>Borrowing Costs</b>	<b>1,170</b>	<b>1,345</b>	<b>(175)</b>	(15%) <b>U</b>
Borrowing Costs for the Newcastle Airport Partnership have exceeded budget expectations. As the operations of this venture are outside the control of the Council, some budget variation is to be expected.				
<b>Materials &amp; Contracts</b>	<b>30,159</b>	<b>31,834</b>	<b>(1,675)</b>	(6%) <b>U</b>
There has been an increase in materials and contracts costs during the financial year beyond expectations in the budget. However, 2014 costs are only 4% more than 2013, so this increase is within reason.				
<b>Depreciation &amp; Amortisation</b>	<b>17,529</b>	<b>16,204</b>	<b>1,325</b>	8% <b>F</b>
<b>Other Expenses</b>	<b>11,201</b>	<b>13,842</b>	<b>(2,641)</b>	(24%) <b>U</b>
Other Expenses for the Newcastle Airport Partnership have exceeded budget expectations. As the operations of this venture are outside the control of the Council, some budget variation is to be expected.				

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

### Note 17. Statement of Developer Contributions

\$ '000

Council recovers contributions, raises levies & enters into planning agreements on development works that are subject to a development consent issued by Council. All contributions must be spent/utilised for the specific purpose they were levied and any interest applicable to unspent funds must be attributed to remaining funds.

The following tables detail the receipt, interest and use of the above contributions & levies and the value of all remaining funds which are "restricted" in their future use.

#### SUMMARY OF CONTRIBUTIONS & LEVIES

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Drainage	(2)	5	-	-	-	-	3	-	-	3	-
Roads	659	124	-	20	(244)	-	559	-	-	559	-
Traffic Facilities	19	11	-	1	-	-	31	-	-	31	-
Parking	(7)	-	-	-	-	-	(7)	-	-	(7)	-
Open Space	662	269	-	19	(250)	-	700	-	-	700	-
Community Facilities	1,079	356	-	32	(380)	-	1,087	-	-	1,087	-
Recreation	2,174	283	-	42	(1,283)	-	1,216	-	-	1,216	-
Fire Fighting Facilities	167	43	-	5	(50)	-	165	-	-	165	-
Haulage	3,129	551	-	87	(913)	-	2,854	-	-	2,854	-
Civic Administration	72	189	-	(2)	(119)	-	140	-	-	140	-
<b>S94 Contributions - under a Plan</b>	<b>7,952</b>	<b>1,831</b>	<b>-</b>	<b>204</b>	<b>(3,239)</b>	<b>-</b>	<b>6,748</b>	<b>-</b>	<b>-</b>	<b>6,748</b>	<b>-</b>
<b>S94A Levies - under a Plan</b>	<b>417</b>	<b>164</b>	<b>-</b>	<b>11</b>	<b>(200)</b>	<b>-</b>	<b>392</b>				<b>-</b>
<b>Total S94 Revenue Under Plans</b>	<b>8,369</b>	<b>1,995</b>	<b>-</b>	<b>215</b>	<b>(3,439)</b>	<b>-</b>	<b>7,140</b>				<b>-</b>
Repealed Funds	847	-	-	27	(264)	-	610				
<b>Total Contributions</b>	<b>9,217</b>	<b>1,995</b>	<b>-</b>	<b>242</b>	<b>(3,703)</b>	<b>-</b>	<b>7,751</b>	<b>-</b>	<b>-</b>	<b>6,748</b>	<b>-</b>

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

\$ '000

##### S94 CONTRIBUTIONS - UNDER A PLAN

###### CONTRIBUTION PLAN NUMBER 1 - 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	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Roads	29	17	-	2	-	-	48	-	-	48	-
Open Space	80	14	-	4	-	-	98	-	-	98	-
Community Facilities	46	16	-	2	-	-	64	-	-	64	-
Recreation	111	31	-	3	(19)	-	126	-	-	126	-
<b>Total</b>	<b>266</b>	<b>78</b>	<b>-</b>	<b>11</b>	<b>(19)</b>	<b>-</b>	<b>336</b>	<b>-</b>	<b>-</b>	<b>336</b>	<b>-</b>

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

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Roads	(96)	19	-	(4)	-	-	(81)	-	-	(81)	-
Parking	(10)	-	-	-	-	-	(10)	-	-	(10)	-
Open Space	274	26	-	13	-	-	313	-	-	313	-
Community Facilities	3	24	-	-	-	-	27	-	-	27	-
Recreation	520	48	-	7	(380)	-	195	-	-	195	-
<b>Total</b>	<b>691</b>	<b>117</b>	<b>-</b>	<b>16</b>	<b>(380)</b>	<b>-</b>	<b>444</b>	<b>-</b>	<b>-</b>	<b>444</b>	<b>-</b>

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

\$ '000

##### S94 CONTRIBUTIONS - UNDER A PLAN

###### CONTRIBUTION PLAN NUMBER 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	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Roads	171	7	-	2	(120)	-	60	-	-	60	-
Open Space	247	10	-	-	(250)	-	7	-	-	7	-
Community Facilities	212	12	-	8	(40)	-	192	-	-	192	-
Recreation	564	24	-	25	(30)	-	583	-	-	583	-
<b>Total</b>	<b>1,194</b>	<b>53</b>	<b>-</b>	<b>35</b>	<b>(440)</b>	<b>-</b>	<b>842</b>	<b>-</b>	<b>-</b>	<b>842</b>	<b>-</b>

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

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Roads	31	-	-	1	-	-	32	-	-	32	-
Open Space	8	-	-	-	-	-	8	-	-	8	-
Community Facilities	(128)	-	-	(6)	-	-	(134)	-	-	(134)	-
Recreation	119	-	-	6	-	-	125	-	-	125	-
<b>Total</b>	<b>30</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>31</b>	<b>-</b>	<b>-</b>	<b>31</b>	<b>-</b>

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

\$ '000

##### S94 CONTRIBUTIONS - UNDER A PLAN

###### CONTRIBUTION PLAN NUMBER 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	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Roads	262	3	-	12	-	-	277	-	-	277	-
Open Space	(105)	5	-	(5)	-	-	(105)	-	-	(105)	-
Community Facilities	2	5	-	(1)	(20)	-	(14)	-	-	(14)	-
Recreation	145	11	-	7	-	-	163	-	-	163	-
<b>Total</b>	<b>304</b>	<b>24</b>	<b>-</b>	<b>13</b>	<b>(20)</b>	<b>-</b>	<b>321</b>	<b>-</b>	<b>-</b>	<b>321</b>	<b>-</b>

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

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Drainage	(2)	5	-	-	-	-	3	-	-	3	-
Roads	36	44	-	(4)	(124)	-	(48)	-	-	(48)	-
Parking	3	-	-	-	-	-	3	-	-	3	-
Open Space	(47)	67	-	(2)	-	-	18	-	-	18	-
Community Facilities	476	148	-	18	(100)	-	542	-	-	542	-
Recreation	90	158	-	(22)	(554)	(300)	(628)	-	-	(628)	-
<b>Total</b>	<b>555</b>	<b>422</b>	<b>-</b>	<b>(10)</b>	<b>(778)</b>	<b>(300)</b>	<b>(111)</b>	<b>-</b>	<b>-</b>	<b>(111)</b>	<b>-</b>

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

\$ '000

##### S94 CONTRIBUTIONS - UNDER A PLAN

###### CONTRIBUTION PLAN NUMBER 7 - 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	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Roads	11	2	-	1	-	-	14	-	-	14	-
Open Space	9	2	-	-	-	-	11	-	-	11	-
Community Facilities	(16)	2	-	(1)	-	-	(15)	-	-	(15)	-
Recreation	11	3	-	1	-	-	15	-	-	15	-
<b>Total</b>	<b>15</b>	<b>9</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>25</b>	<b>-</b>	<b>-</b>	<b>25</b>	<b>-</b>

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

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Roads	215	32	-	10	-	-	257	-	-	257	-
Traffic Facilities	19	11	-	1	-	-	31	-	-	31	-
Open Space	196	145	-	9	-	-	350	-	-	350	-
Community Facilities	484	149	-	12	(220)	-	425	-	-	425	-
Recreation	614	8	-	15	(300)	300	637	-	-	637	-
<b>Total</b>	<b>1,528</b>	<b>345</b>	<b>-</b>	<b>47</b>	<b>(520)</b>	<b>300</b>	<b>1,700</b>	<b>-</b>	<b>-</b>	<b>1,700</b>	<b>-</b>



## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

\$ '000

##### S94 CONTRIBUTIONS - UNDER A PLAN

###### CONTRIBUTION PLAN - 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	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Haulage	3,129	551	-	87	(913)	-	2,854	-	-	2,854	-
Fire Fighting Facilities	167	43	-	5	(50)	-	165	-	-	165	-
Civic Administration	72	189	-	(2)	(119)	-	140	-	-	140	-
<b>Total</b>	<b>3,368</b>	<b>783</b>	<b>-</b>	<b>90</b>	<b>(1,082)</b>	<b>-</b>	<b>3,159</b>	<b>-</b>	<b>-</b>	<b>3,159</b>	<b>-</b>

##### S94A LEVIES - UNDER A PLAN

###### CONTRIBUTION PLAN NUMBER

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Other	417	164	-	11	(200)	-	392	-	-		-
<b>Total</b>	<b>417</b>	<b>164</b>	<b>-</b>	<b>11</b>	<b>(200)</b>	<b>-</b>	<b>392</b>				<b>-</b>

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

\$ '000

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

### LIABILITIES NOT RECOGNISED:

#### 1. Guarantees

##### (i) Defined Benefit Superannuation Contribution Plans

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

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

The Schemes most recent full actuarial review indicated that the Net Assets of the Scheme were not sufficient to meet the accrued benefits of the Schemes Defined Benefit member category with member Councils required to make significantly higher contributions in future years.

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

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

##### (ii) Statewide Limited

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

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

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

##### (iii) StateCover Limited

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

StateCover is a company providing workers compensation insurance cover to the NSW Local Government Industry and specifically Council.

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

These future equity contributions would be required to maintain the company's minimum level of Net Assets in accordance with its Licence Requirements.

##### (iv) Other Guarantees

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

## Port Stephens

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

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

\$ '000

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

##### **2. Other Liabilities**

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

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

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

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

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

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

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

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

##### **(iii) 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 (& 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 & including 30/6/08.

##### **(ii) Infringement Notices/Fines**

Fines & Penalty Income, the result of Council issuing Infringement Notices is followed up and collected by the Infringement Processing Bureau.

Councils Revenue Recognition policy for such income is to account for it as revenue on receipt.

Accordingly, at Year End, there is a potential asset due to Council representing issued but unpaid Infringement Notices.

Due to the limited information available on the status, value and duration of outstanding Notices, Council is unable to determine the value of outstanding income.

##### **(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 financial year ended 30 June 2014

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

\$ '000

##### (a) Jointly Controlled Assets

##### Council is involved in the following Jointly Controlled Assets

Name of Operation	Principal Activity	Councils Interests in Outputs
Newcastle Airport Partnership and Newcastle Airport Pty Limited	Domestic Airport Operation	50%
Hunter Council Limited	Council Support Services	12%

Newcastle Airport Partnership  
and  
Newcastle Airport Pty Limited

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

	2014	2013
Current Assets	11,157	10,401
Current Liabilities	(2,738)	(5,267)
Property, Plant & Equipment	23,920	23,822
Other Non Current Assets	11	15
Non Current Liabilities	(155)	(4,616)
	<b>32,195</b>	<b>24,355</b>

##### Hunter Council Limited

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

	2014	2013
Current Assets	55	40
Current Liabilities	(67)	(48)
Property, Plant & Equipment	521	393
Non Current Liabilities	(351)	(256)
	<b>158</b>	<b>129</b>

##### Council's total share of assets jointly controlled with other partners

**32,353**      **24,484**

##### (b) Joint Venture Partnership

Council is not involved in any Joint Venture Partnerships

## Port Stephens

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

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

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\$ '000

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##### (c) Contingent Liabilities Relating To Jointly Controlled Assets

In November 2012, the Office of State Revenue (OSR) formally issued Newcastle Airport Pty Limited (NAPL) with Assessments for Payroll Tax Liability. On 24 December 2012, NAPL lodged a formal objection against this determination. On 23 July 2013, NAPL were advised the OSR disallowed NAPL's objection to pay Payroll Tax. In August 2013 the Board resolved to "obtain advice from Senior Counsel to determine the optimal strategy for disputing OSR's decision". NAPL's CEO, Manager Corporate Services (MCS), General Managers of Port Stephens Council and Newcastle City Council, and instructing solicitors, Herbert Smith Freehills (HSF), met with Mr Mark Richmond SC to discuss the case. Mr Richmond advised NAPL had "very strong grounds" for success.

Mr Richmond recommended the most cost effective way to resolve the matter in the first instance, would be for HSF to:

- Write a letter to OSR advising of NAPL's intention to litigate if OSR does not reconsider its decision to disallow NAPL's objection to Payroll tax liability, and;
- Include Mr Richmond's Opinion as an attachment to the letter.

On 30 August 2013, HSF received a response from the OSR stating that "The Chief Commissioner has reviewed all the new material, however we have not altered our position that wages paid by NAPL are subject to payroll tax."

NAPL has engaged HSF and Mr Richmond to act on their behalf with respect to the matter. In September 2013, a Summons was lodged with the Supreme Court of NSW representing the value of Payroll Tax paid to OSR to date, being \$779,587, for the periods of July 2008 to July 2013.

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

\$ '000	Notes	Actual 2014	Actual 2013
<b>(a) Retained Earnings</b>			
<b>Movements in Retained Earnings were as follows:</b>			
Balance at beginning of Year (from previous years audited accounts)		503,140	488,804
c. Other Comprehensive Income (excl. direct to Reserves transactions)		-	-
d. Net Operating Result for the Year		13,868	9,692
<b>Balance at End of the Reporting Period</b>		<b>515,578</b>	<b>501,710</b>

#### (b) Reserves

##### (i) Reserves are represented by:

- Infrastructure, Property, Plant & Equipment Revaluation Reserve	232,029	232,029
- "Available for Sale" Financial Investments Revaluation Reserve	(54)	(54)
<b>Total</b>	<b>231,975</b>	<b>231,975</b>

##### (ii) Reconciliation of movements in Reserves:

###### Infrastructure, Property, Plant & Equipment Revaluation Reserve

- Opening Balance	232,029	245,019
- Revaluations for the year	-	(12,990)
<b>- Balance at End of Year</b>	<b>232,029</b>	<b>232,029</b>

###### "Available for Sale" Financial Investments Revaluation Reserve

- Opening Balance	(54)	(178)
- Unrealised Gain (Loss) in value for the year	-	124
<b>- Balance at End of Year</b>	<b>(54)</b>	<b>(54)</b>

###### TOTAL VALUE OF RESERVES

<b>231,975</b>	<b>231,975</b>
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##### (iii) Nature & Purpose of Reserves

###### Infrastructure, Property, Plant & Equipment Revaluation Reserve

- The Infrastructure, Property, Plant & Equipment Revaluation Reserve is used to record increments/decrements of Non Current Asset values due to their revaluation.

###### "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 financial year ended 30 June 2014

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

\$ '000	Notes	Actual 2014	Actual 2013
<b>(c) Correction of Error/s relating to a Previous Reporting Period</b>			
<b>Correction of errors disclosed in this year's financial statements:</b>			
Adjustment to correct expenditure accruals for waste services in the period to which they relate:		(1,079)	
Recognition of vested sick leave accrued in prior years.		(351)	
<b>Correction of errors as disclosed in last year's financial statements:</b>			
Newcastle Airport Partnership made an adjustment to retained earnings of \$(103) being the result of a legal settlement with QANTAS Link.			(103)
As part of Council measuring its I,PP&E at Fair Values, Council this year reviewed Fair Values for the following Asset Classes: for the following Asset Classes:			
- Operational Land, Buildings			
As part of that evaluation & measurement process, the remaining useful life of each asset has been reassessed to actual.			
This reassessment resulted in a material difference as to where some assets actually sat in with respect to their asset life cycle relative to what the value of accumulated depreciation in Council's Financial Reports had previously indicated.			
Council did not have sufficient and reliable information that would allow the restatement of information prior to 30/6/12 (the closing date for the comparative figures in last year's report).			
As a result, Council adjusted the accumulated depreciation for the Asset Classes below as at 30/6/12 to reflect the correct value of accumulated depreciation;			
Buildings decrease to accumulated depreciation			4,747
This adjustment resulted in a net increase in Council's Accumulated Surplus as at 01/07/2012			
<b>In accordance with AASB 108 - Accounting Policies, Changes in Accounting Estimates and Errors, the above Prior Period Errors have been recognised retrospectively.</b>			
<b>These amounted to the following Equity Adjustments:</b>			
- Adjustments to Opening Equity - 1/7/12 (relating to adjustments for the 30/6/12 reporting year end and prior periods)		(295)	4,644
- Adjustments to Closing Equity - 30/6/13 (relating to adjustments for the 30/6/13 year end)		(1,135)	-
<b>Total Prior Period Adjustments - Prior Period Errors</b>		<b>(1,430)</b>	<b>4,644</b>



## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

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\$ '000

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

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

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

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Council utilises only a General Fund for its operations.

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

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

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

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Events that occur between the end of the reporting period (ending 30 June 2014) and the date when the financial statements are "authorised for issue" have been taken into account in preparing these statements.

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

Accordingly, the "authorised for issue" date is 11/11/14.

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

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

These financial statements (and the figures therein) incorporate all "adjusting events" that provided evidence of conditions that existed at 30 June 2014.

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

These financial statements (& figures therein) do not incorporate any "non-adjusting events" that have occurred after 30 June 2014 and which are only indicative of conditions that arose after 30 June 2014.

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

#### Note 24. Discontinued Operations

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

## Port Stephens

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

#### Note 25. Intangible Assets

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

Intangible Assets are as follows;

##### Opening Values:

Gross Book Value (1/7)	-	-
Accumulated Amortisation (1/7)	-	-
Accumulated Impairment (1/7)	-	-
<b>Net Book Value - Opening Balance</b>	<b>-</b>	<b>-</b>

##### Movements for the year

- Purchases	394	-
- Development Costs	-	-
- Amortisation charges	-	-
- Impairment charges	-	-
- Gross Book Value written off	-	-
- Accumulated Amortisation charges written off	-	-
- Accumulated Impairment charges written off	-	-

##### Closing Values:

Gross Book Value (30/6)	394	-
Accumulated Amortisation (30/6)	-	-
Accumulated Impairment (30/6)	-	-

#### TOTAL INTANGIBLE ASSETS - NET BOOK VALUE <sup>1</sup>

<b>394</b>	<b>-</b>
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<sup>1</sup>. The Net Book Value of Intangible Assets represent:

- Software	394	-
	<b>394</b>	<b>-</b>

## Port Stephens

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

#### Note 26. Reinstatement, Rehabilitation & Restoration Liabilities

\$ '000

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

Asset/Operation	Estimated year of restoration	NPV of Provision	
		2014	2013
Tip Site - Raymond Terrace	2016	1,519	1,457
<b>Balance at End of the Reporting Period</b>	10(a)	<b>1,519</b>	<b>1,457</b>

Under AASB 116 - Property, Plant & Equipment, where the use of an asset results in the obligation to dismantle or remove the asset and restore the site on which the asset stands, an estimate of such costs is required to be included in the cost of the asset.

An equivalent liability must be recognised under AASB 137 - Provisions, Contingent Liabilities and Contingent Assets.

The provision has been calculated by determining the present value of the future expenditures expected to be incurred. The discount rate used is the risk free borrowing rate applicable to Council.

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

Balance at beginning of year	1,457	1,426
Amounts capitalised to new or existing assets:		
Effect of a change in discount rates used in PV calculations	23	(13)
Amortisation of discount (expensed to borrowing costs)	39	44
<b>Total - Reinstatement, rehabilitation and restoration provision</b>	<b>1,519</b>	<b>1,457</b>

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

### Note 27. Fair Value Measurement

\$ '000

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

- Infrastructure, Property, Plant and Equipment
- Investment Property
- Financial Assets & 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 & recognised at fair values:**

2014	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				
- "Held to Maturity"	27,289	-	-	27,289
- "Available for Sale"	2,295	-	-	2,295
Total Financial Assets	29,584	-	-	29,584
Investment Properties				
Investment Properties held	-	-	19,911	19,911
Total Investment Properties	-	-	19,911	19,911
Infrastructure, Property, Plant & Equipment				
Plant & Equipment	-	-	8,961	8,961
Office Equipment	-	-	950	950
Furniture & Fittings	-	-	58	58
Land	-	-	88,926	88,926
Land Improvements	-	-	3,577	3,577
Buildings - Specialised	-	-	49,191	49,191
Other Structures	-	-	3,591	3,591
Infrastructure (Roads, Bridges, Stormwater drains)	-	-	522,231	522,231
Other Assets	-	-	8,711	8,711
Total Infrastructure, Property, Plant & Equipment	-	-	686,196	686,196

## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

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\$ '000

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

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

##### (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:

##### Investment Properties

Council obtains independent valuation of its investment properties every 3 years 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:

1. Current prices in an active market for different types of properties or similar properties in a less active market
2. Expected future rental income generated from the property based on a discounted cash flow

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

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

Plant & Equipment, Office Equipment and Furniture & Fittings are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items. Examples of assets within these classes are as follows:

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

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

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## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

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\$ '000

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

###### Land

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

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

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

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

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

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

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

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

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## Port Stephens

### Notes to the Financial Statements

for the financial year ended 30 June 2014

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

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\$ '000

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

###### Infrastructure

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

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

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

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

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

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###### Other Assets

Other Assets include Other assets in this class includes heritage collections library books, 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. There has been no change to the valuation process during the reporting period.

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## Port Stephens

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

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

\$ '000

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

##### a. The following tables present the changes in Level 3 Fair Value Asset Classes.

	Investment Property	Plant & Office Equipment	Furniture & Fittings	Land & Land Improvements	Total
Adoption of AASB 13	18,910	9,804	151	103,094	131,959
Purchases (GBV)	161	2,841	-	57	3,059
Disposals (WDV)	-	(423)	-	(220)	(643)
Depreciation & Impairment	-	(1,572)	(19)	(113)	(1,704)
FV Gains - Income Statement <sup>1</sup>	840	-	-	-	840
Other movement (details here)	-	(739)	(74)	(10,315)	(11,128)
<b>Closing Balance - 30/6/14</b>	<b>19,911</b>	<b>9,911</b>	<b>58</b>	<b>92,503</b>	<b>122,383</b>

<sup>1</sup> FV Gains recognised in the Income Statement relating to assets still on hand at year end total:  
YE 13/14

840	-	-	-	840
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	Buildings	Other Structures	Infrastructure	Other Assets	Total
Adoption of AASB 13	85,976	12,925	450,384	13,203	562,488
Purchases (GBV)	1,444	988	20,381	269	23,082
Disposals (WDV)	-	-	(35)	-	(35)
Depreciation & Impairment	(2,662)	(216)	(9,423)	(638)	(12,939)
Transfers from / (to) fair value class	(35,567)	(10,106)	60,924	(4,123)	11,128
<b>Closing Balance - 30/6/14</b>	<b>49,191</b>	<b>3,591</b>	<b>522,231</b>	<b>8,711</b>	<b>583,724</b>

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

No Transfers were made in or out of the level 3 Fair Value Hierarchy.

## Port Stephens

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

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

\$ '000

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

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

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

Class	Fair Value (30/6/14) \$'000	Unobservable Inputs	Range of Inputs (incl. probable)	Relationship of unobservable inputs to Fair Value
<b>Investment Properties</b>				
Investment properties	19,911	* Market value (price per square metre)	* \$1,732 - \$5,935 (per square metre)	Significant changes in price per square metre would result in significant changes to fair value measurement.
<b>I, PP&amp;E</b>				
Plant & Office Equipment	8,961	* Gross replacement cost * Remaining useful life * Residual value	* Varies * Poor to Excellent * 1 - 50 years	Significant changes in gross replacement value, asset condition or remaining useful life would result in significant changes to fair value measurement.
Furniture & Fittings	58	* Gross replacement cost * Remaining useful life * Residual value	* Varies * Poor to Excellent * 5 - 20 years	Significant changes in gross replacement value, asset condition or remaining useful life would result in significant changes to fair value measurement.
Land & Land Improvements	88,926	* VG value (price per square metre) * Market value (price per square metre)	* per square metre	Significant changes in price per square metre would result in significant changes to fair value measurement.
Buildings - Specialised	49,191	* Gross replacement cost * Remaining useful life * Residual value	* Varies * Poor to Excellent * 5 - 50 years	Significant changes in gross replacement value, asset condition or remaining useful life would result in significant changes to fair value measurement.
Other Structures	3,591	* Gross replacement cost * Remaining useful life * Residual value	* Varies * Poor to Excellent * 5 - 50 years	Significant changes in gross replacement value, asset condition or remaining useful life would result in significant changes to fair value measurement.

## Port Stephens

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

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

\$ '000

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

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

Class	Fair Value (30/6/14) \$'000	Unobservable Inputs	Range of Inputs (incl. probable)	Relationship of unobservable inputs to Fair Value
<b>Investment Properties</b>				
Infrastructure	522,231	* Gross replacement cost * Remaining useful life * Residual value	* Varies * Poor to Excellent * 5 - 100 years	Significant changes in gross replacement value, asset condition or remaining useful life would result in significant changes to fair value measurement.
Other Assets	8,711	* Gross replacement cost * Remaining useful life * Residual value	* Varies * Poor to Excellent * 3 - 50 years	Significant changes in gross replacement value, asset condition or remaining useful life would result in significant changes to fair value measurement.

#### (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 financial year ended 30 June 2014

#### Note 28. Council Information & Contact Details

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**Principal Place of Business:**

116 Adelaide Street  
Raymond Terrace NSW 2324

**Contact Details**
**Mailing Address:**

PO Box 42  
Raymond Terrace NSW 2324

**Opening Hours:**

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

**Telephone:** 02 4890 0255

**Facsimile:** 02 4987 3612

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

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

**Officers**
**GENERAL MANAGER**

Wayne Wallis

**RESPONSIBLE ACCOUNTING OFFICER**

Wayne Wallis

**AUDITORS**

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

**Elected Members**
**MAYOR**

Bruce MacKenzie

**COUNCILLORS**

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

**Other Information**

**ABN:** 16 744 377 876



# PITCHER PARTNERS

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## Port Stephens Council

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

#### Report on the financial statements

We have audited the accompanying financial statements of Port Stephens Council (the Council), which comprise the statement of financial position as at 30 June 2014, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, accompanying notes to the financial statements, and the Statement by Councillors and Management in the approved form as required by Section 413 (2) of the Local Government Act 1993.

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

The councillors of the Council are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Local Government Act 1993. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Councillors or management, as well as evaluating the overall presentation of the financial statements.

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

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



an independent member of

**BAKER TILLY**  
INTERNATIONAL

Our audit responsibility does not extend to the Original Budget Figures included in the Income Statement, Statement of Cash Flows and the Original Budget disclosures in Notes 2(a) and 16 and the Projections disclosed in Note 17 to the financial statements, nor the attached Special Schedules (1,2,7 &8) and accordingly, we express no opinion on them.

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

*Auditor's opinion*

- a) the Council's accounting records have been kept in accordance with the requirements of the Local Government Act 1993, Chapter 13 Part 3 Division 2; and
- b) the financial statements:
  - i. have been presented in accordance with the requirements of this Division;
  - ii. are consistent with the Council's accounting records;
  - iii. present fairly the Council's financial position as at 30 June 2014 and the results of operations and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations); and
- c) all information relevant to the conduct of the audit has been obtained; and
- d) there are no material deficiencies in the accounting records or financial statements that have come to light during the course of the audit.



Pitcher Partners Newcastle & Hunter



Wayne Russell  
Partner

Newcastle  
28 October 2014



**PITCHER PARTNERS**

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## **Port Stephens Council**

### **Independent Audit Report**

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

#### **REPORT ON THE CONDUCT OF THE AUDIT FOR THE YEAR ENDED 30 JUNE 2014 - SECTION 417(3)**

We have completed our audit of the financial statements for Port Stephens Council for the year ended 30 June 2014, in accordance with Section 415 of the Local Government Act 1993 (the Act). This report should be read in conjunction with our audit opinion under Section 417(2) of the Act on the General Purpose Financial Reports of Council.

The Council is responsible for the preparation and fair presentation of the financial statements in accordance with the Local Government Act 1993. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

We conducted an independent audit of the financial statements in order to express an opinion on them to the Council. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our audit responsibility does not extend to the Original Budget figures included in the Income Statement, Statement of Cash Flows and the Original Budget disclosures in Notes 2(a) and 16 and the Projections disclosed in Note 17 to the financial statements, nor the attached Special Schedules (1,2,7&8) and accordingly, we express no opinion on them. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

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

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Council.

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

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





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

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

## **Income Statement**

These financial statements incorporate Council's consolidated accounts for the year ended 30 June 2014.

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

Council's Net Operating Result before capital grants and contributions for the year ended 30 June 2014 shows a surplus of \$481,000 compared with a surplus of \$1,613,000 for the year ended 30 June 2013.

The movement in the result is largely attributable to increases in rates and annual charges revenue of \$1,548,000 an increase in other revenues of \$1,147,000, a decrease in other expenses of \$2,562,000 offset by, a decrease in grants and contributions for operational purposes of \$5,723,000 and a increase in employee benefits expense of \$1,711,000.

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

After allowing for items of a capital nature, Council's net operating result for the year ended 30 June 2014 was a surplus of \$13,868,000 compared to a surplus of \$9,692,000 for the year ended 30 June 2013.

The movement in the result is largely attributable to increases in transport capital grants of \$3,445,000 and regional development capital grants of \$2,200,000.

## **Asset Recognition**

### **Background**

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

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

The OLG requires that Councils undertake a revaluation of assets at every five years (unless there have been material changes to the valuation beforehand). Under this framework there were no assets required to be revalued in the current year.

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

- plant and equipment - approximated by depreciated historical cost
- buildings - fair value as determined by internal valuations
- operational land - fair value as determined by independent external valuers

The fair value of roads, bridges, footpaths and drainage assets was based on the method of written down replacement cost.

The fair value of Community land, land improvements and other structures was based on the following methods:

- land improvements and other structures - approximated by depreciated historical cost
- community land - on the following bases
  - the NSW Valuer General's valuations may be used to initially recognise community land acquired at no cost or nominal cost. It is considered that the valuations represent the fair value of such land in lieu of actual cost.
  - Community land acquired at market price should be recorded initially at cost.
  - the NSW Valuer General's valuations may be used under the revaluation model to represent fair value for the revaluation of community land.

As noted earlier while no assets were required to be revalued in the current year property, plant and equipment, operational land and buildings were last required to be revalued in 2013. This resulted in a reduction in the carrying value of the assets and a related reduction in depreciation expense in the current year.

### **Performance Indicators**

Our comments in regard to Council's performance for the 2014 year are based on those performance indicators and areas that are considered meaningful.

The indicators we have reviewed are as follows:

#### **a) Operational Performance- Operating Performance Ratio**

This ratio measures Council's achievement of containing operating expenditure within operating revenue. The ratio excludes capital grants and contributions and fair value adjustments. The benchmark for the ratio is greater than 0%. At 30 June 2014 Council's ratio was -1.22% (2013: 0.38%). The deterioration in the ratio has been impacted by the timing of the receipt of Council's Financial Assistance Grant.

It is important for Council to consider this ratio in conjunction with its operating result before grants and contributions for capital purposes and in particular gain an understanding of the items impacting on the operating result before grants and contributions for capital purposes.

#### **b) Liquidity**

At 30 June 2014, Council's net current assets stood at \$21,869,000 compared to \$14,371,000 at 30 June 2013. In other words, the total current assets that Council is expected to realise in the coming year exceeded the total current liabilities that will need to be met by this amount. This is referred to as the current asset ratio and is a measure of the liquidity of Council. Prima facie, this places Council in a sound financial position. The unrestricted current ratio also shows that prima facie Council is in a sound position, with unrestricted current assets outweighing current liabilities (excluding specific purpose liabilities) by 1.86:1. However, it must be remembered that these balances include items which are restricted in their use.

### *Net Current Assets*

Included in Council's net current assets, are cash and investments of \$39,468,000 which are subject to restrictions as follows:

	30 June 2014 \$'000	30 June 2013 \$'000
Total cash and investments (current \$39,468,000 + non-current \$1,217,000)	40,685	37,128
Less: Items specifically restricted by external regulation	<u>(18,500)</u>	<u>(22,138)</u>
	22,185	14,990
Less: Amounts subject to restrictions made by Council to cover long term projects and commitments - Internal restrictions	<u>(21,739)</u>	<u>(14,903)</u>
Unrestricted cash and investments	<u>446</u>	<u>87</u>

### *Unrestricted Current Ratio*

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

2014	2013	2012
1.86	1.33	1.56

However as noted above these ratios include internal restrictions which are amounts set aside by Council to cover long term projects and commitments. Accordingly Councils liquidity needs to be considered in this context.

### **c) Debt Service Cover Ratio**

At 30 June 2014 Council had outstanding loans of \$27,045,000 compared with \$27,791,000 at 30 June 2013. The debt service cover ratio has been used to give some indication of the cost of meeting loan and interest repayments and is often expressed as a percentage of revenue from continuing operations, excluding specific purpose grants and contributions. The industry benchmark is a ratio of greater than 2. It represents 1.69:1 for the year ended 30 June 2014 compared to 2.56:1 for the year ended 30 June 2013 and 2.18:1 for the year ended 30 June 2012.

The debt service cover ratio has decreased slightly in the current year as a result of an increase in loans by the Newcastle Airport Partnership of \$6,250,000, offset by a decrease in the council's own borrowings of \$5,822,000.

### **d) Own Source Operating Revenue**

This ratio is essentially a measure of the extent to which Council is dependent upon revenue from grants and contributions as compared to its total revenue. For the year ended 30 June 2014, Council's own source operating revenue ratio was approximately 80.56% compared to 80.03% in 2013 and 75.33% in 2012. Accordingly Council's grants and contributions revenue as a proportion of its total revenue increased slightly compared to the previous years.

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

The rates and annual charges outstanding percentage is used to assess the impact of uncollected rates and annual charges on liquidity and the adequacy of debt recovery efforts. The percentage of rates and annual charges outstanding is 3.99% in 2014 compared to 4.08% in 2013 and 4.45% in 2012.

#### **f) Internally Restricted Assets**

Council sets aside in the form of specific cash or investments amounts to cover future expenditure that is considered necessary for efficient long term operations. This cash is restricted for use only on the specific purposes designated. It does not include restrictions on unexpended grant income or section 94 contributions, as these are provided for separately in external restrictions. Internal restrictions relate to expenditure on such items as leave entitlements, asset replacement and carry over works. At 30 June 2014, Council had internally restricted assets totalling \$21,739,000 compared to \$14,903,000 at 30 June 2013. Given prima facie the amount of internal restrictions has increased, Council should consider whether the level of cash and investments it has available for future projects and operations is appropriate compared to the desired level.

#### **g) Statement of Cash Flows**

##### *Cash flows from operating activities*

Net cash provided from operating activities amounted to \$27,453,000 in 2014 compared to \$25,626,000 for the previous year.

The cash flows from operating activities is largely consistent with the prior year.

##### *Cash flows from investing activities*

Net cash used in investing activities amounted to \$35,184,000 for the year ended 30 June 2014, compared to \$21,895,000 for the previous year.

The movement is primarily attributable to a increase in receipts from the sale of investments of \$31,997,000, a increase in the purchase of real estate assets of \$3,675,000 offset by a increase in the purchase of investments of \$34,779,000 and a increase in the purchase of infrastructure, property, plant and equipment of \$6,112,000 from the prior year.

##### *Cash flows from financing activities*

Net cash provided by financing activities amounted to \$3,920,000 for the year ended 30 June 2014 compared to net cash used in financing activities of \$5,157,000 in the previous year.

The movement is attributable to a increase in proceeds from borrowings of \$11,250,000 offset by a increase in repayments of borrowings of \$2,229,000.

#### **General**

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

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

A handwritten signature in black ink that reads "Pitcher Partners". The script is fluid and cursive.

Pitcher Partners Newcastle & Hunter

A handwritten signature in black ink that reads "Wayne Russell". The script is fluid and cursive.

Wayne Russell  
Partner

Newcastle  
28 October 2014