

# Port Macquarie - Hastings Council

## General Purpose Financial Report for the year ended 30 June 2008

### Contents

	Page
<b>General purpose financial report</b>	
Statement by Administrator and Management	1
Income statement	2
Balance sheet	3
Statement of changes in equity	4
Cash flow statement	5
Notes to the financial statements	6
Auditors' reports	

This financial report is a general purpose financial report of Port Macquarie-Hastings Council and its controlled entities and is presented in Australian currency.

Port Macquarie-Hastings Council is constituted under the Local Government Act (1993) and has its principal place of business at:

Port Macquarie-Hastings Council  
Cnr Lord & Burrawan Streets  
PORT MACQUARIE NSW 2444.

The financial report was authorised for issue by the Council on 27 August 2008. Council has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our reporting is timely, complete, and available at minimum cost. All press releases, financial reports and other information are available on our website: [www.pmhc.nsw.gov.au](http://www.pmhc.nsw.gov.au)

**Port Macquarie - Hastings Council**

**General Purpose Financial Report  
for the year ended 30 June 2008**

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

The attached General Purpose Financial Report has been prepared in accordance with:

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

To the best of our knowledge and belief, this Report:

- \* presents 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 this Report false or misleading in any way.

Signed in accordance with a resolution of Council made on 27th August 2008.



---

Dick Persson AM  
Administrator



---

Andrew Roach  
General Manager



---

Kerrie Avery  
Responsible Accounting Officer

## Port Macquarie - Hastings Council

### Income Statement for the year ended 30 June 2008

Original Budget (1) 2008 \$'000		Notes	Actual 2008 \$'000	Actual 2007 \$'000
	<b>Income from continuing operations</b>			
	<i>Revenue:</i>			
54,285	Rates and annual charges	3a	54,331	50,039
19,745	User charges and fees	3b	20,246	18,396
5,306	Interest and investment revenues	3c	1,654	8,808
2,093	Other revenues	3d	3,107	1,999
10,667	Grants and contributions provided for operating purposes	3e,f	12,166	11,945
17,427	Grants and contributions provided for capital purposes	3e,f	17,363	14,267
	<i>Other Income:</i>			
5,060	Net gain from the disposal of assets	5	0	0
114,583	<b>Total income from continuing operations</b>		108,867	105,454
	<b>Expenses from continuing operations</b>			
31,096	Employee benefits and on-costs	4a	33,344	30,458
5,027	Borrowing costs	4b	3,546	3,832
26,284	Materials and contracts	4c	29,562	25,767
20,871	Depreciation & amortisation	4d	30,669	25,466
5,910	Other expenses	4e	5,635	5,662
	Investment losses	3c	0	0
	Net loss from disposal of assets	5	2,812	1,611
89,188	<b>Total expenses from continuing operations</b>		105,568	92,796
25,395	<b>Operating result from continuing operations</b>		3,299	12,658
25,395	<b>Net operating result for the year</b>		3,299	12,658
	Attributable to:			
25,395	- Council		3,299	12,658
25,395			3,299	12,658
7,968	<b>Net operating result for the year before grants and contributions provided for capital purposes</b>		-14,064	-1,609

*Note:*

(1) Original budget as approved by Council - refer Note 16.

The above income statement should be read in conjunction with the accompanying notes

## Port Macquarie - Hastings Council

### Balance Sheet as at 30 June 2008

	Notes	Actual 2008 \$'000	Actual 2007 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	6a	4,378	2,709
Investments	6b	10,737	17,300
Receivables	7	11,010	9,676
Inventories	8	1,290	1,304
Other	8	731	706
<b>Total current assets</b>		<b>28,146</b>	<b>31,695</b>
<b>Non Current Assets</b>			
Investments	6b	39,536	62,296
Receivables	7	1,767	1,669
Inventories	8	168	168
Infrastructure, property, plant and equipment	9	1,116,309	1,028,350
<b>Total non-current assets</b>		<b>1,157,780</b>	<b>1,092,483</b>
<b>Total assets</b>		<b>1,185,926</b>	<b>1,124,178</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables - Payable in less than 12 months	10	8,961	8,747
Borrowings	10	6,562	5,849
Provisions	10	13,058	12,851
<b>Total current liabilities</b>		<b>28,581</b>	<b>27,447</b>
<b>Non-current liabilities</b>			
Payables	10	8,624	8,624
Borrowings	10	71,435	59,439
Provisions	10	522	569
<b>Total non-current liabilities</b>		<b>80,581</b>	<b>68,632</b>
<b>Total liabilities</b>		<b>109,162</b>	<b>96,079</b>
<b>Net assets</b>		<b>1,076,764</b>	<b>1,028,099</b>
<b>EQUITY</b>			
Retained earnings		855,043	855,588
Revaluation reserves		221,721	172,511
<b>Total equity</b>		<b>1,076,764</b>	<b>1,028,099</b>

## Port Macquarie - Hastings Council

### Statement of changes in equity for the year ended 30 June 2008

	Notes Ref.	Actual 2008 \$'000				Actual 2007 \$'000			
		Retained earnings	Asset revaluation reserve	Council equity interest	Total equity	Retained earnings	Asset revaluation reserve	Council equity interest	Total equity
<b>Balance at beginning of the reporting period</b>	20	855,588	172,511	1,028,099	1,028,099	849,345	1,017	850,362	850,362
<b>Adjustment on adoption of AASB 132 and AASB 139</b>				0	0		0	0	0
Transfers to/from Asset revaluation reserve			49,210	49,210	49,210		171,494	171,494	171,494
Adjustment due to previous years error		-3,844		-3,844	-3,844	-6,415		-6,415	-6,415
<b>Net movements recognised directly in equity</b>		<b>-3,844</b>	<b>49,210</b>	<b>45,366</b>	<b>45,366</b>	<b>-6,415</b>	<b>171,494</b>	<b>165,079</b>	<b>165,079</b>
<b>Net operating result for the year</b>		<b>3,299</b>		<b>3,299</b>	<b>3,299</b>	<b>12,658</b>		<b>12,658</b>	<b>12,658</b>
<b>Balance at end of the reporting period</b>		<b>855,043</b>	<b>221,721</b>	<b>1,076,764</b>	<b>1,076,764</b>	<b>855,588</b>	<b>172,511</b>	<b>1,028,099</b>	<b>1,028,099</b>

The above Statement of changes in equity should be read in conjunction with the accompanying notes.

## Port Macquarie - Hastings Council

### Cashflow Statement for the year ended 30 June 2008

Budget 2008 \$'000		Notes	Actual 2008 \$'000	Actual 2007 \$'000
	<b>Cash flows from operating activities</b>			
	<b>Receipts:</b>			
54,662	Rates and annual charges		53,754	49,514
20,374	User charges and fees		19,787	19,323
5,342	Investment revenue and interest		5,026	6,822
20,776	Grants and contributions		21,752	16,308
5,380	Other		7,632	4,341
	<b>Payments:</b>			
-30,497	Employee benefits and on-costs		-33,396	-29,612
-29,381	Materials and contracts		-32,985	-27,151
-4,828	Borrowing Costs		-2,996	-3,730
-7,422	Other		-7,770	-7,480
34,406	<b>Net cash provided by operating activities</b>	11 (b)	30,804	28,335
	<b>Cash flows from investing activities</b>			
	<b>Receipts:</b>			
17,015	Sale of Investments	6	29,114	28,796
	Sale of investment property			
	Sale of real estate assets	5,8	0	94
7,310	Sale of infrastructure, property, plant and equipment	5	2,381	1,865
4,250	Other		5,345	5,163
	<b>Payments:</b>			
	Purchase of investments		-12,925	-22,635
	Purchase of investment properties			
-74,526	Purchase of infrastructure, property, plant and equipment	9	-65,506	-62,176
	Purchase of real estate	8		-84
	Other		-253	-821
-45,951	<b>Net cash used in investing activities</b>		-41,844	-49,798
	<b>Cash flows from financing activities</b>			
	<b>Receipts:</b>			
18,488	Borrowings and advances		18,488	22,156
	<b>Payments:</b>			
-6,261	Borrowings and advances		-5,689	-6,045
12,227	<b>Net cash provided by financing activities</b>		12,799	16,111
682	<b>Net increase/(decrease) in cash and cash equivalents</b>		1,759	-5,352
2,498	Cash and cash equivalents at beginning of reporting period	11(a)	2,498	7,850
3,180	<b>Cash and cash equivalents at end of reporting period</b>	11	4,257	2,498

The above Cash flow statement should be read in conjunction with the accompanying notes.

## **Port Macquarie - Hastings Council**

### **Notes to the financial statements for the year ended 30 June 2008**

#### **Contents of the notes to the financial statements**

	Page
Note 1 Summary of significant accounting policies	6-14
Note 2(a) Functions or activities	15
Note 2(b) Components of functions or activities	16
Note 3 Income from continuing operations	17-21
Note 4 Expenses from continuing operations	22-23
Note 5 Gain or loss from disposal of assets	24
Note 6(a) Cash and cash equivalents	25
Note 6(b) Investments	26
Note 6(c) Restricted cash, cash equivalents and investments	27
Note 7 Receivables	28
Note 8 Inventories and other assets	29
Note 9(a) Infrastructure, property, plant and equipment	30
Note 9(b) Restricted infrastructure, property, plant and equipment	31
Note 10(a) Payables, borrowings and provisions	32
Note 10(b) Description of and movements in provisions	33
Note 11 Reconciliation of cash flow movements	34-35
Note 12 Commitments for expenditure	36-37
Note 13 Statement of performance measures	38
Note 14 Investment properties	39
Note 15 Financial Risk Management	40-43
Note 16 Material budget variations	44-45
Note 17 Statement of contribution plans	46
Note 18 Contingencies	47
Note 19 Interests in joint ventures	48
Note 20 Revaluation reserves and retained earnings	49
Note 21 Reinstatement, rehabilitation and restoration liabilities	50
Note 22 Not required	51
Note 23 Events occurring after balance sheet date	52

**Note 1 Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**(a) Basis of preparation**

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Standards Interpretations, the Local Government Act (1993) and Regulations and the Local Government Code of Accounting Practice and Financial Reporting.

*AAS 27*

Port Macquarie-Hastings Council is required to comply with AAS27 *Financial Reporting* by Local Government, and where AAS 27 conflicts with AIFRS, the requirements of AAS 27 have been applied. Where AAS 27 makes reference to another Australian accounting standard, the new Australian IFRS equivalent standards will apply. The specific 'not for profit' reporting requirements also apply.

*Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, certain classes of infrastructure, property, plant and equipment and investment property.

*Critical accounting estimates*

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgements in the process of applying the Council's accounting policies.

**(b) Revenue recognition**

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. 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.

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

Control over granted assets 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.

Income is recognised when the Council obtains control of the contribution or the right to receive the contribution, it is probable that the economic benefits comprising the contribution will flow to the Council and 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). The note also discloses the amount of unused grant or contribution from prior years that was expended on Council's operations during the current year.

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

*User charges and fees*

User charges and fees are recognised as revenue when the service has been provided, the payment is received, or when the penalty has been applied, whichever first occurs.

*Sale of plant, property, infrastructure and equipment*

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

*Interest and rents*

Interest and rents are recognised as revenue on proportional basis when the payment is due, the value of the payment is notified, or the payment is received, whichever first occurs.



**Note 1 Summary of significant accounting policies - (continued)****(c) Principles of consolidation***(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
- \* Water supply
- \* Sewerage service
- \* Waste management service

Council controls a number of S355 Committees. The majority of the Committees financial figures were consolidated into Councils financial statements at year end, the results of the remainder were not known at balance date, however this is not considered material.

The committees controlled by Council are the following:

- \* Beechwood School of Arts
- \* Bonny Hills Community Hall
- \* Friends of the Court House
- \* Lake Cathie Community Hall
- \* Lake Cathie Sports Council
- \* Laurieton School of Arts
- \* Lorne Recreation Centre
- \* Mac Adams Music Centre
- \* Port Macquarie Senior Citizens
- \* Wauchope Rotary Youth Centre
- \* Wauchope Community Arts Hall

*(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 reports.

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

**(d) 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 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 other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged 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. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

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 as income on a straight-line basis over the lease term.

**(e) Acquisition of assets**

The purchase method of accounting is used to account for all acquisitions of assets. Cost is measured at the fair value of the assets given, plus costs directly attributable to the acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Council's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

**Note 1 Summary of significant accounting policies - (continued)****(f) Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for 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.

For non-cash generating assets of the Council such as roads, drains, public buildings and the like, value in use is represented by the deprival value of the asset approximated by its written down replacement cost.

**(g) Cash and cash equivalents**

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.

**(h) Receivables**

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Receivables are due for settlement no more than 30 days from the date of recognition.

Collectibility of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful 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 receivables.

**(i) Inventories***(i) Raw materials and stores, work in progress and finished goods.*

Raw materials and stores, work in progress and finished goods are 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. 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.

*ii) Land held for resale/capitalisation of borrowing costs*

Land held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed borrowing costs and other holding charges are expensed as incurred.

Borrowing costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

**(j) Non-current assets held for sale**

Non-current assets are classified as held for sale and stated at the lower of their carrying amount and 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 - these are retained in property, plant and equipment.

An impairment loss is recognised for any initial or subsequent write down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets 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.

**(k) Investments and other financial assets****Classification**

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

**Note 1 Summary of significant accounting policies - (continued)***(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets that are held for trading or have been designated by Council as such. Derivatives are classified as held for trading unless they are designated as hedges.

*(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 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. Loans and receivables are included in trade and other receivables in the balance sheet.

*(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. If Council were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

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

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Investments are 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.

**Recognition and derecognition**

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

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

**Subsequent measurement**

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

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the income statement as part of revenue from continuing operations when Council's right to receive payments is established. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

**Fair value**

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), Council establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

**Impairment**

Council assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. 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 as an indicator that the securities are 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 or loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

**Note 1 Summary of significant accounting policies (continued)****Policy**

Council has an approved investment policy complying with Section 625 of the Local Government Act and S212 of the LG (General) Regulations 2005. Investments are placed and managed in accordance with that policy and having particular regard to authorised investments prescribed under the Local Government Investment Order. Council maintains an investment policy that complies 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.

**(l) 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. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

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.

**(m) Infrastructure, property, plant and equipment (IPPE)**

Council's assets are being progressively revalued to fair value in accordance with a staged implementation advised by the Department of Local Government. At balance date the following classes of IPPE were stated at their fair value:

- \* Operational Land (External Valuation).
- \* Buildings - Specialised/Non Specialised (External Valuation).
- \* Water/Sewerage Networks (Internal Valuation).
- \* Plant and equipment (as approximated by depreciated historical cost).

Increases in the carrying amounts arising on revaluation are credited to the asset revaluation reserve. To the extent that the increase reverses a decrease previously recognising profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first charged against revaluation reserve directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the Income Statement.

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.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Office equipment	3 to 10 years
Office furniture	3 to 10 years
Vehicles and road making equipment	5 to 12 years
Other plant and equipment	5 to 12 years
Buildings - masonry	50 to 100 years
Buildings - other construction	20 to 40 years
Playground equipment	15 to 25 years
Benches, seats etc	10 to 20 years
Dams and reservoirs	80 to 100 years
Bores	20 to 40 years
Reticulation pipes - PVC	50 years
Reticulation pipes - other	80 years
Pumps and telemetry	15 years
Drains	80 to 100 years
Culverts	50 to 80 years
Flood control structures	80 to 100 years

**Note 1 Summary of significant accounting policies (continued)**

Sealed roads	40 years
Unsealed roads	20 years
Bridges - Concrete	80 years
Bridges - Other	45 years
Bulk earthworks	infinite

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

**(n) Investment property**

Investment property is held for long-term rental yields and is not occupied by the Council. Investment property is carried at fair value, representing open-market value determined annually by external valuers. Changes in fair values are recorded in the income statement as part of other income. Full revaluations are carried out every three years with an appropriate index used every year between the full revaluations.

**(o) Payables**

These amounts represent liabilities for goods and services provided to the Council prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**(p) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are 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.

**(q) Borrowing costs**

Borrowing cost 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. Other borrowing costs are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the actual borrowing costs incurred on that borrowing during that period less any investment income on the temporary investment of those borrowings.

**(r) Provisions**

Provisions are recognised when: the 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.

**(s) Employee benefits***(i) Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in the provision for employee benefits in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

**Note 1 Summary of significant accounting policies (continued)***(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date 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 discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match as closely as possible, the estimated future cash outflows. Where Council does not have the unconditional right to defer settlement beyond 12 months, the liability is recognised as a current liability.

*(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.

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 accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans (see below). The Local Government Superannuation Scheme has advised that it is unable to provide individual councils with an accurate split of their share of the Scheme's assets and liabilities and so no asset or liability is recognised.

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.

**(t) Rounding of amounts**

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

**(u) Land under roads**

Council has elected not to recognise land under roads in accordance with the deferral arrangements available under AASB 1045. These provisions allow deferral of recognition until the new Standard for land under roads (AASB 1051) becomes applicable (1 July 2008).

**(v) Provisions for close down and restoration and for environmental clean up cost - Waste Management Facilities***(i) Restoration*

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and 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. The 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 and restoration costs are a normal consequence of waste management facility operations, and the some of the 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. The amortisation of the discount is shown as a borrowing cost.

Other movements in the provisions for close down and restoration 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.

*(ii) Rehabilitation*

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

**Note 1 Summary of significant accounting policies (continued)**

Provision is made for the estimated present value of the costs of environmental clean up obligations outstanding at the balance sheet date. These cost are charged to the income statement. Movements in the environmental clean up provisions are presented as an operating cost, except for the unwind of the discount which is shown as a borrowing cost. Remediation procedures generally commence soon after the time the damage, remediation process and estimated remediation costs become known, but may continue for many years depending on the nature of the disturbance and the remediation techniques.

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

**(w) Allocation between current and non-current**

In the determination of whether an asset or liability is 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. 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. Inventories held for trading are classified as current even if not expected to be realised in the next 12 months.

**(x) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. Council's assessment of the impact of these new standards and interpretations is set out below.

	<b>Title and topic</b>	<b>Issued</b>	<b>Applicable (1)</b>	<b>Impact</b>
(a)	AASB-I 12 <i>Service Concession Arrangements</i> AASB 2007-1 <i>Amendments to Australian Accounting Standards arising from AASB Interpretation 12, revised UIG 4 Determining whether an Arrangement contains a Lease and revised UIG 129 Service Concession Arrangements: Disclosures</i>	February 2007	1 January 2008	Nil - Council is not party to an Service Concession Arrangements
(b)	AASB 8 <i>Operating Segments and</i> AASB 2007-3 <i>Amendments to Australian Accounting Standards arising from AASB 8</i>	February 2007	1 January 2008	Nil - The Standard is not applicable to not-for-profit entities.
(c)	<i>Revised</i> AASb 123 <i>Borrowing Costs and</i> AASB 2007-6 <i>Amendments to Australian Accounting Standards arising from</i> AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]	June 2007	1 January 2009	The revised Standard has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.
(d)	AASB-I 13 <i>Customer Loyalty Programmes</i>	August 2007	1 July 2008	Nil - Council has no Customer Loyalty Programmes.
(e)	AASB-I 14 <i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>	August 2007	1 January 2008	Nil - The Interpretation provides guidance on the maximum amount that may be recognised as an asset in relation to a defined benefit plan and the impact of minimum funding requirements on such an asset. Council does not recognise any assets in respect of its contributions to defined benefit plans as they cannot be reliably measured. As a result, there is not expected to be any impact on the financial statements.

**Note 1 Summary of significant accounting policies (continued)**

(f)	Revised AASB 101 <i>Presentation of Financial Statements and Amendments to Australian Accounting Standards arising from AASB 101 and AASB 2007-10 Further Amendments to Australian Accounting Standards arising from AASB 101</i>	Sept/Dec 2007	1 January 2009	Nil - The revised Standard required the presentation of a Statement of comprehensive income and makes changes to the Statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If Council has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (Statement of financial position), this one being as at the beginning of the comparative period.
(g)	AASB 1049 <i>Whole of Government and General Government Sector Financial Reporting</i>	October 2007	1 July 2008	Nil - The Standard is not applicable to Local Governments.
(h)	AASB 1050 <i>Administered Items</i> ; AASB 1051 <i>Land Under Roads</i> , AASB 1052 <i>Disaggregated Disclosures</i> , revised AASB 1004 <i>Contributions</i> , AASB 2007-9 <i>Amendments to Australian Accounting Standards arising from the review of AAS 27, AAS 29 and AAS 31 and revised interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities</i> .	December 2007	1 July 2008 (2)	<ul style="list-style-type: none"> <li>- AASB 1050 is only applicable to Government departments and will have impact on Council.</li> <li>- AASB 1051 will allow Council to recognise or not recognise land under roads acquired before 30 June 2008. Land under roads acquired after 30 June 2008 must be recognised. This Standard will have a significant impact on the Council's financial statements.</li> <li>- AASB 1052 requires disclosure of financial information by function or activity. Council already provides this information in Note 2(a) so there will be no additional impact on the financial statements.</li> <li>- AASB 1004 requires contributions made to Council to be recognised at fair value when they are controlled and to be appropriately disclosed. Council already accounts for contributions in this manner so there will be no additional impact on the financial statements.</li> </ul>

*Notes:*

- (1) Applicable to reporting periods commencing on or after the given date.  
(2) Applicable only to not-for-profit and/or public sector entities.

**(y) Land**

Land is classified as either operational or community in accordance with Part 2 of Chapter 6 of the Local Government Act (1993). This is disclosed in Note 9(a)

**(z) Intangible assets***IT Development and software*

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs or materials and service, direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line bases over periods generally ranging from 3 to 5 years.

**(aa) Crown Reserves**

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

A working party of interested representatives from both State and Local Government is being formed to consider the accounting issues related to the Crown Reserves, with the intention of developing a consistent approach to their recognition and future accounting treatment across both tiers of government.

**(bb) Rural Fire Service assets**

Under section 119 of the Rural Fire Services Act 1997, "all fire fighting equipment purchased or constructed wholly or from money to the credit of the Fund is to be vested in the council of the area for or on behalf of which the fire fighting equipment has been purchased or constructed". Until such time as discussions on this matter have concluded and the legislation changed, councils will continue to account for these assets as they have been doing in previous years.



Note 2(a) Functions

Revenues, expenses and assets have been directly attributed to the following functions/activities. Details of those focus areas are provided.													
Functions/Activities	Income from continuing operations			Expenses from continuing operations			Operating result from continuing operations			Grants included in income from continuing operations		Total assets held (current and non-current)	
	Original Budget	Actual	Actual	Original Budget	Actual	Actual	Original Budget	Actual	Actual	Actual	Actual	Actual	Actual
	2008	2008	2007	2008	2008	2007	2008	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Governance	1,370	80	27	1,696	2,660	2,655	-326	-2,580	-2,628				
Administration	7,173	383	347	3,071	1,572	1,587	4,102	-1,189	-1,240	759	730	30,846	27,532
Public order & safety	1,335	1,559	2,121	2,775	2,487	2,743	-1,440	-928	-622	914	1,714	11,662	8,770
Health	82	117	93	307	347	278	-225	-230	-185	104	93	49	59
Community services & education	98	154	321	1,805	1,949	2,053	-1,707	-1,795	-1,732	80	242	2,270	2,323
Housing & community amenities	16,607	17,028	15,463	18,803	20,050	18,162	-2,196	-3,022	-2,699	991	1,196	62,616	56,472
Water supplies	16,538	17,533	16,100	12,834	17,198	14,294	3,704	335	1,806	381	528	349,236	340,591
Sewerage services	16,280	13,964	15,240	12,322	15,069	13,328	3,958	-1,105	1,912	336	311	208,382	202,685
Recreation & culture	2,611	1,918	1,805	11,372	10,977	10,240	-8,761	-9,059	-8,435	579	777	94,432	79,641
Mining, manufacturing & construction	1,754	1,635	1,417	1,781	2,177	1,795	-27	-542	-378			395	320
Transport & communication	10,552	15,289	11,127	17,504	25,181	20,196	-6,952	-9,892	-9,069	3,342	1,600	410,686	392,518
Economic affairs	2,894	3,066	2,556	4,918	5,777	4,644	-2,024	-2,711	-2,088	39	31	15,352	13,267
<b>Total functions &amp; activities</b>	<b>77,294</b>	<b>72,726</b>	<b>66,617</b>	<b>89,188</b>	<b>105,444</b>	<b>91,975</b>	<b>-11,894</b>	<b>-32,718</b>	<b>-25,358</b>	<b>7,525</b>	<b>7,222</b>	<b>1,185,926</b>	<b>1,124,178</b>
General Purpose Income (1)	37,289	36,141	38,837		124	821	37,289	36,017	38,016	6,698	6,478		
<b>Totals</b>	<b>114,583</b>	<b>108,867</b>	<b>105,454</b>	<b>89,188</b>	<b>105,568</b>	<b>92,796</b>	<b>25,395</b>	<b>3,299</b>	<b>12,658</b>	<b>14,223</b>	<b>13,700</b>	<b>1,185,926</b>	<b>1,124,178</b>

Note (1) Includes : Rates and annual charges  
Non-capital general purpose grants  
Interest and investment revenue

**Note 2(b) Components of functions**

**(continued)**

The activities relating to the Council's functions reported on 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, together with related administration costs.

**Administration**

Costs otherwise attributed to other functions.

**Public order and safety**

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

**Health**

Administration and inspection, immunisations, food control, insect/vermin control, noxious plants, health centres, other.

**Community services and education**

Administration, child-care, youth services, other families and children, aged and disabled, Aboriginal services, other community services, education.

**Housing and community amenities**

Housing, town planning, domestic waste management services, other waste management services, street cleaning, other sanitation and garbage, urban stormwater drainage, environmental protection, public cemeteries, public conveniences, other community amenities.

**Water Supplies**

**Sewerage Services**

**Recreation and culture**

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

**Mining, manufacturing and construction**

Building control, other.

**Transport and communications**

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

**Economic Affairs**

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

**Note 3 Income from continuing operations**

**(a) Rates and annual charges**

**Ordinary Rates**

	Actual 2008 \$'000	Actual 2007 \$'000
Residential	22,073	20,915
Farmland	1,633	1,676
Mining		
Business	4,976	4,809
<b>Total ordinary rates</b>	<b>28,682</b>	<b>27,400</b>

**Special Rates**

Broadwater Special Rate	63	59
Newtons Special Rate	10	8
<b>Total special rates</b>	<b>73</b>	<b>67</b>

**Annual Charges** *(pursuant to s.496 and s.501)*

Domestic waste management services	8,414	7,486
Water supply	3,608	3,458
Sewerage services	12,440	10,576
Waste management services (not domestic)	505	452
Stormwater Drainage	609	600
<b>Total annual charges</b>	<b>25,576</b>	<b>22,572</b>

**Total rates and annual charges**

	<b>54,331</b>	<b>50,039</b>
--	---------------	---------------

*Council has used 2006 valuations provided by the NSW Valuer General in calculating its rates.*

*Valuations are updated every three years.*

**Note 3 Income from continuing operations (continued)**

**(b) User charges and fees**

**User charges** (pursuant to s.502)

	Actual 2008 \$'000	Actual 2007 \$'000
Water supply services	8,165	7,790
Sewerage services	610	582
Waste management services (not domestic)	2,660	2,504
Onsite Effluent	78	75
<b>Total user charges</b>	<b>11,513</b>	<b>10,951</b>

**Fees**

Administration	69	48
Aerodrome	2,621	1,953
Animal registration	242	199
Beach permits	19	19
Caravan parks	1,293	1,059
Certificate income	233	233
Crematorium/cemeteries	975	873
Health	56	43
Planning and building	2,062	1,832
Private Works	278	419
s.611	39	39
Section 68 permits	377	299
Sewerage Services	5	
Water meter installations	389	367
Water supply fees	75	62
<b>Total fees</b>	<b>8,733</b>	<b>7,445</b>
<b>Total user charges and fees</b>	<b>20,246</b>	<b>18,396</b>

**(c) Interest and Investment revenue**

**Interest Revenue**

Overdue rates and charges	355	299
Cash, cash equivalents and Investments:		
- Externally restricted	2,785	4,691
- Internally restricted	2,156	3,818

**Movements in fair value**

Movement in fair value of investments (at fair value through profit and loss) refer Note 3(h)

	-3,642	
<b>Total interest and investment revenue</b>	<b>1,654</b>	<b>8,808</b>

**Note 3 Income from continuing operations (continued)**

**(d) Other revenues**

Administration  
Animal Control  
Community services  
Economic affairs  
Fines  
Housing and community amenities  
Information/document sales  
Library charges  
Public order and safety  
Recreation and cultural facilities  
Rental of council facilities  
Sewerage services  
Transport and communications  
Waste management revenues  
Water supplies  
**Total other revenues**

	Actual 2008 \$'000	Actual 2007 \$'000
	196	132
	24	23
	78	6
	1,106	702
	389	220
	131	38
	82	90
	122	120
	11	16
	247	121
	379	274
	24	23
	11	8
	264	194
	43	32
	<b>3,107</b>	<b>1,999</b>

## Note 3 Income from continuing operations (continued)

	Operating		Capital	
	Actual 2008 \$'000	Actual 2007 \$'000	Actual 2008 \$'000	Actual 2007 \$'000
<b>(e) Grants</b>				
<b>General purpose (Untied)</b>				
Financial assistance	6,698	6,479		
Pensioners' rates subsidies:				
- General	745	730		
<b>Special purpose</b>				
Pensioners' rate subsidies:				
- Water	338	380		
- Sewer	318	308		
- Domestic waste management	287	278		
Community services and education	81	264		
Economic affairs	139	141		
Employment and training programmes	77	8		
Health - Noxious plants	117	93		
Housing and community amenities	468	648	41	100
Library	183	166		
Public order and safety	525	427	407	1,286
Recreation and culture	62	96	214	472
Roads and bridges	86	98		
Sewerage services			6	2
Street lighting	88	86		
Transport (3x3, Flood works, Roads to Recovery)			3,168	1,332
Waste management	180	166		
Water supplies			-5	140
<b>Total grants</b>	<b>10,392</b>	<b>10,368</b>	<b>3,831</b>	<b>3,332</b>
<b>Comprising:</b>				
- Commonwealth funding	6,702	6,487	1,835	678
- State funding	3,681	3,876	1,996	2,654
- Other funding	9	5		
	<b>10,392</b>	<b>10,368</b>	<b>3,831</b>	<b>3,332</b>
<b>(f) Contributions</b>				
Developer Contributions				
- Section 94	66	113	2,086	3,921
- Section 94A			16	
RTA contributions (Regional/Local, Block Grant)	951	939		
Section 64:				
- Water			1,448	1,809
- Sewerage			718	832
Dedications			8,116	3,474
Administration	80	25		163
Community services and education	5			
Economic affairs	48	35		
Housing and community amenities	324	326		
Public order and safety	18			
Recreation and culture	55	113	20	
Sewerage services				57
Street Lighting		6		
Transport and communications	10		93	134
Water supplies	217	20	1,035	545
<b>Total contributions</b>	<b>1,774</b>	<b>1,577</b>	<b>13,532</b>	<b>10,935</b>
<b>Total grants and contributions</b>	<b>12,166</b>	<b>11,945</b>	<b>17,363</b>	<b>14,267</b>

**Note 3 Income from continuing operations (continued)**

**(g) Restrictions relating to grants and contributions**

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

Grants and contributions recognised in the current period which have not been spent

Less:

Grants and contributions recognised in previous reporting periods which have been spent in the current reporting period

	Actual 2008 \$'000	Actual 2007 \$'000
Grants and contributions recognised in the current period which have not been spent	3,972	2,320
Less: Grants and contributions recognised in previous reporting periods which have been spent in the current reporting period	4,443	14,019
<b>Net increase/(decrease) in restricted grants and contributions</b>	<b>-471</b>	<b>-11,699</b>

**(h) Significant Items**

The following items have significantly impacted Council's operating result.

**Reduction in the value of investments.**

Council has designated a proportion of its investments portfolio as "at fair value through profit and loss". There has been a significant reduction in the fair value of these investments during the financial year (Refer Note 3c).

-3,642	0
--------	---

**Note 4 Expenses from continuing operations**

**(a) Employee benefits and on costs**

Salaries and wages

26,970

25,847

Travelling

1,965

1,462

Employee leave entitlements

4,288

4,127

Superannuation

2,337

2,225

Workers' compensation insurance

1,159

740

Fringe Benefits Tax

208

160

Payroll Tax

541

521

Training costs (excluding Salaries)

234

206

Other

118

99

Less: Capitalised costs

-4,476

-4,929

**Total employee costs expensed**

**33,344**

**30,458**

Number of FTE employees

509

518

**(b) Borrowing Costs**

Interest on Overdrafts

3

1

Interest on Loans

4,771

3,816

Amortisation of discounts and premiums:

- Tip remediation

17

15

Less: Capitalised costs

-1,245

0

**Total borrowing costs expensed**

**3,546**

**3,832**

**(c) Materials and contracts**

Raw materials and consumables

18,925

15,559

Contractor and consultancy costs

6,576

6,065

- Domestic waste management contract

3,539

3,680

Audit Fees:

- Audit services

60

61

- Other

0

7

Legal fees:

- Planning and development

21

99

- Other

441

296

**Total materials and contracts**

**29,562**

**25,767**



**Note 4 Expenses from continuing operations (continued)**

**(d) Depreciation, amortisation and impairment**

	Actual 2008 \$'000	Actual 2007 \$'000
Plant and equipment	2,193	2,162
Office equipment	1,584	1,351
Furniture & fittings	199	136
Leased property, plant and equipment	2	3
Land Improvements (depreciable)	788	705
Buildings - Non Specialised	1,201	1,106
Other Structures	435	409
Infrastructure:		
- roads, bridges and footpaths	10,808	10,308
- storm water drainage	826	810
- water supply network	7,329	4,333
- sewerage network	4,877	3,717
Other Assets:		
- heritage collections	5	6
- library books	343	346
- other	66	61
Tip asset	13	13
<b>Total depreciation</b>	<b>30,669</b>	<b>25,466</b>

**(e) Other expenses**

Other expenses for the year including the following:

Revaluation decrements - IPPE	0	0
Mayoral fee	21	32
Councillors' fees	87	98
Councillors' (incl Mayor) expenses	102	132
Administrator Expenses	56	0
Insurance	1,051	948
Street lighting	1,007	952
Electricity and heating	1,891	1,693
Telephones	562	751
Contributions and donations	310	378
Bank charges and fees	151	154
Valuation fees	114	103
Payment to other Levels of Government	283	421
<b>Total Other Expenses</b>	<b>5,635</b>	<b>5,662</b>

**Note 5 Gain or loss from disposal of assets**

**Gain (or loss) on disposal of Property**

Proceeds from disposal

Less: Carrying amount of assets sold

**Gain (or loss) on disposal**

**Gain (or loss) on disposal of Plant and Equipment**

Proceeds from disposal

Less: Carrying amount of assets sold

**Gain (or loss) on disposal**

**Gain (or loss) on disposal of Real Estate assets held for sale**

Proceeds from sales

Less: Cost of sales

**Gain (or loss) on disposal**

**Gain (or loss) on disposal of Infrastructure Assets**

Proceeds from disposal

Less: Carrying amount of infrastructure assets

**Gain (or loss) on disposal**

**Gain (or loss) on disposal of Financial Assets**

Proceeds from disposal

Less: Carrying value of financial assets

**Gain (or loss) on disposal**

**Net gain (or loss) from disposal of assets**

	Actual 2008 \$'000	Actual 2007 \$'000
<b>Gain (or loss) on disposal of Property</b>		
Proceeds from disposal	657	2
Less: Carrying amount of assets sold	252	170
<b>Gain (or loss) on disposal</b>	405	-168
<b>Gain (or loss) on disposal of Plant and Equipment</b>		
Proceeds from disposal	1,724	1,863
Less: Carrying amount of assets sold	2,068	2,312
<b>Gain (or loss) on disposal</b>	-344	-449
<b>Gain (or loss) on disposal of Real Estate assets held for sale</b>		
Proceeds from sales	0	94
Less: Cost of sales	0	60
<b>Gain (or loss) on disposal</b>	0	34
<b>Gain (or loss) on disposal of Infrastructure Assets</b>		
Proceeds from disposal	0	0
Less: Carrying amount of infrastructure assets	2,620	207
<b>Gain (or loss) on disposal</b>	-2,620	-207
<b>Gain (or loss) on disposal of Financial Assets</b>		
Proceeds from disposal	29,114	28,796
Less: Carrying value of financial assets	29,367	29,617
<b>Gain (or loss) on disposal</b>	-253	-821
<b>Net gain (or loss) from disposal of assets</b>	-2,812	-1,611

Note 6(a) Cash and Cash equivalents

Cash at bank and on hand

Deposits at call

Actual 2008 \$'000	Actual 2007 \$'000
162	131
4,216	2,578
<b>4,378</b>	<b>2,709</b>

**Note 6(b) Investments**

The following financial assets are held as investments

	Actual 2008		Actual 2007	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
Financial assets at fair value through Profit and Loss	4,108	11,841	11,862	18,189
Held to maturity investments	0	0	0	0
Available for sale financial assets	6,629	27,695	5,438	44,107
<b>Total</b>	<b>10,737</b>	<b>39,536</b>	<b>17,300</b>	<b>62,296</b>
<b>Financial assets at fair value through Profit and Loss</b>				
At beginning of year	11,862	18,189	17,718	7,159
Transfer b/w Current & Non-Current	0	0	0	0
Adjustment on adoption of AASB132 & 139	0	0	0	0
Revaluation to Income statement	0	-3,642	0	2,080
Additions	0	2,925	685	8,950
Disposals (Sale/Redemption)	-7,754	-5,631	-6,541	0
At end of year	<b>4,108</b>	<b>11,841</b>	<b>11,862</b>	<b>18,189</b>
<b>Comprising of:</b>				
- Equity Linked Notes	0	11,841	0	18,189
- Managed Funds	4,108	0	11,862	0
	<b>4,108</b>	<b>11,841</b>	<b>11,862</b>	<b>18,189</b>
<b>Available for sale financial assets</b>				
At beginning of year	5,438	44,107	24,772	33,600
Transfer b/w Current & Non-Current	7,092	-7,092	0	0
Additions	10,000	0		13,000
Disposals (Sale/Redemption)	-15,729	0	-19,827	-2,427
Revaluation adjustment to equity	-172	-9,320	493	-66
At end of year	<b>6,629</b>	<b>27,695</b>	<b>5,438</b>	<b>44,107</b>
<b>Comprising of:</b>				
- Floating Rate Notes	5,923	11,156	5,039	18,101
- Mortgage Backed Securities	706	0	399	995
- Collateralised Debt Obligations	0	16,539	0	25,011
	<b>6,629</b>	<b>27,695</b>	<b>5,438</b>	<b>44,107</b>

Note 6(c) Restricted cash, cash equivalents and investments

	Actual 2008		Actual 2007	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
<b>Total cash, cash equivalents and investments</b>	<b>15,115</b>	<b>39,536</b>	<b>20,009</b>	<b>62,296</b>
External restrictions	2,759	39,536	0	47,065
Internal restrictions	12,155		19,681	15,231
Unrestricted	201		328	
	<b>15,115</b>	<b>39,536</b>	<b>20,009</b>	<b>62,296</b>

Notes	Opening Balance \$'000	Transfers to restrictions \$'000	Transfers from restrictions \$'000	Closing balance \$'000
	<b>External Restrictions</b>			
Developer Contributions (A)	27,922	6,055	5,691	28,286
Unexpended Contributions (B)	733	205	536	402
Unexpended Grants (C)	2,122	1,193	1,698	1,617
Water (D)	4,758	-743	1,070	2,945
Sewerage (E)	10,529	4,901	7,920	7,510
Broadwater Special Rate (F)	391	67	16	442
Sanctury Springs Special Rate (G)	9	14		23
Domestic Waste Management (H)	415	114		529
Caravan Parks (I)	-99	173	1	73
Stormwater Levy	285	281	98	468
<b>Total external restrictions</b>	<b>47,065</b>	<b>12,260</b>	<b>17,030</b>	<b>42,295</b>

(A) Developer contributions which are not yet expended for the provision of services and amenities in accordance with contributions plans (see Note 17)

(B) Contributions which are not yet expended for the purposes for which they were obtained (see Note 3g)

(C) Grants which are not yet expended for the purposes for which they were obtained (see Note 3g)

(D-H) Water, Sewerage, Broadwater Special Rate, Newtons Special Rate and Domestic Waste Management (DWM) funds are externally restricted assets which must be applied for the purposes for which they were raised.

(I) Caravan parks funds are externally restricted assets and must be applied to the parks where the funds were raised.

	Opening Balance \$'000	Transfers to restrictions \$'000	Transfers from restrictions \$'000	Closing balance \$'000
<b>Internal Restrictions</b>				
4WD Beach Access	37	19		56
Aerodrome	3,333	992	2,696	1,629
Canal Maintenance	118	80	39	159
CBD Townscape	1,357	1,059	1,729	687
Committed Works	21,104	11,338	25,466	6,976
Crematorium	272	7	122	157
Employee Leave Entitlements	1,087	406		1,493
Environmental Levy	332	541	380	493
Ferry Replacement	1,879	200	1,811	268
Lake Cathie Dredging	32	11		43
Major Building	594	190	241	543
Office Building & Equipment	938	1,324	1,366	896
Natural Resources	205		205	0
Plant Replacement	1,751	1,968	1,327	2,392
Property	412	-412		0
Public Halls	30		2	28
Timbertown	29		29	0
Tourism & Industry Promotion	391	56	185	262
Town Bands	17	7	8	16
Unrealised Profit/(Loss) on Investments		-6,409		-6,409
Working Capital	994	1,257	-215	2,466
<b>Total Internal Restrictions</b>	<b>34,912</b>	<b>12,634</b>	<b>35,391</b>	<b>12,155</b>
<b>Total Restrictions</b>	<b>81,977</b>	<b>24,894</b>	<b>52,421</b>	<b>54,450</b>

**Note 7 Receivables**

Purpose	Actual 2008		Actual 2007	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
Rates and annual charges	3,303	832	2,530	1,028
Interest and extra charges	101	363	95	294
User charges and fees	3,517	527	2,441	306
Accrued revenues	559		364	
GST Receivable	1,079		1,277	
Government grants and subsidies	2,198		2,486	
Other	308	46	549	41
<b>Total</b>	<b>11,065</b>	<b>1,767</b>	<b>9,742</b>	<b>1,669</b>
<b>Less: Provision for doubtful debts</b>				
Rates and annual charges	22		22	
User charges and fees	33		44	
	<b>55</b>		<b>66</b>	
<b>Total</b>	<b>11,010</b>	<b>1,767</b>	<b>9,676</b>	<b>1,669</b>
<b>Restricted receivables</b>				
<b>Externally restricted receivables</b>				
Water Supply	3,532	301	3,105	287
Sewerage Services	2,286	289	2,104	310
Domestic waste management	726	251	473	256
Newton special rate	0	0	3	1
Broadwater special rate	2	1	1	1
<b>Total externally restricted receivables</b>	<b>6,546</b>	<b>842</b>	<b>5,686</b>	<b>855</b>
<b>Unrestricted receivables</b>	<b>4,464</b>	<b>925</b>	<b>3,242</b>	<b>814</b>
<b>Total receivables</b>	<b>11,010</b>	<b>1,767</b>	<b>8,928</b>	<b>1,669</b>

**Note 8 Inventories and other assets**

	Actual 2008		Actual 2007	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
<b>Inventories</b>				
Real estate (refer below)	641	168	641	168
Stores and materials	649		663	
<b>Total</b>	<b>1,290</b>	<b>168</b>	<b>1,304</b>	<b>168</b>
<b>Other assets</b>				
Prepayments	731		706	
<b>Total</b>	<b>731</b>		<b>706</b>	
<b>Real Estate Development</b>				
Residential	91	20	91	
Industrial/Commercial	550	148	550	20
Other properties				148
<b>Total real estate for resale</b>	<b>641</b>	<b>168</b>	<b>641</b>	<b>168</b>
<i>(Valued at the lower of cost and net realisable value)</i>				
<b>Represented by:</b>				
Acquisition costs				
Development costs	641	168	641	168
Borrowing costs				
<b>Total real estate for resale</b>	<b>641</b>	<b>168</b>	<b>641</b>	<b>168</b>

**Externally restricted inventories and other assets**

	Actual 2008		Actual 2007	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
<b>Water</b>				
Stores and materials	372		356	
<b>Total Water</b>	<b>372</b>		<b>356</b>	
<b>Sewerage</b>				
Stores and materials	7		17	
<b>Total Sewerage</b>	<b>7</b>		<b>17</b>	
<b>Total externally restricted inventories and other assets</b>	<b>379</b>		<b>373</b>	
<b>Unrestricted inventories and other assets</b>	<b>1,642</b>	<b>168</b>	<b>1,637</b>	<b>168</b>
<b>Total inventories and other assets</b>	<b>2,021</b>	<b>168</b>	<b>2,010</b>	<b>168</b>

Note 9(a) Infrastructure, property, plant and equipment

By Asset Type	At 30 June 2007				Movements during year							At 30 June 2008			
	At Cost	Fair Value	Accum depn and impairment	Written Down Value	Additions - Renewals	Additions - New Assets	WDV of Disposals	Depn and impairment	Transfers/ Adjustments	Prior Year Adjustments to Equity	Revaluation increments/(decrements) (2)	At Cost	Fair Value	Accum depn and impairment	Written Down Value
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Plant and equipment	26,541		12,736	13,805		5,389	2,068	2,193					28,905	13,972	14,933
Office equipment	10,881		7,828	3,053		1,505	1	1,584					12,242	9,269	2,973
Furniture and fittings	2,669		1,303	1,366		464		199					3,133	1,502	1,631
Leased plant and equipment	286		29	257				2					286	31	255
Land															
- Operational Land	45,282			45,282		2,144	195		-189		25,917		72,959		72,959
- Community Land	9,858			9,858		295			189			10,342			10,342
- Non depreciable land improvements	2,438			2,438		1,642						4,080			4,080
Land Improvements - depreciable	28,192		12,345	15,847	59	440		788				28,691		13,133	15,558
Buildings	64,593		19,038	45,555	223	16,114	56	1,201	-1,050	-3,843	17,631		111,765	38,392	73,373
Other Structures	14,682		4,921	9,761	38	610		435	-78			15,245		5,349	9,896
Infrastructure															
- Roads, bridges, footpaths	432,580		69,900	362,680	17,306	8,700	1,912	10,808	-407			455,744		80,185	375,559
- Stormwater Drainage	41,794		6,926	34,868	141	1,604		826	407			43,946		7,752	36,194
- Water Supply Network		432,200	115,899	316,301	2,199	1,075	708	7,329	1,178		12,803	449,383	123,864	325,519	
- Sewerage Network		247,440	82,140	165,300	1,031	7,410		4,877	-50		2,352	262,052	90,886	171,166	
Other Assets															
- Heritage Collections	515		130	385				5				515		135	380
- Library Books	3,407		2,938	469		230		343				3,637		3,281	356
- Other	1,410		469	941	11	78		66				1,499		535	964
Tip Asset	223		39	184				13				223		52	171
<b>Totals</b>	<b>685,351</b>	<b>679,640</b>	<b>336,641</b>	<b>1,028,350</b>	<b>21,008</b>	<b>47,700</b>	<b>4,940</b>	<b>30,669</b>		<b>-3,843</b>	<b>58,703</b>	<b>563,922</b>	<b>940,725</b>	<b>388,338</b>	<b>1,116,309</b>

Notes: (1) Refer to Note 20(d) for explanation of Adjustment



Note 9(b) Restricted infrastructure, property, plant and equipment

By Asset Type	At 30 June 2008				At 30 June 2007			
	At Cost \$'000	Fair Value \$'000	Accum depn and impairment \$'000	Written Down Value \$'000	At Cost \$'000	Fair Value \$'000	Accum depn and impairment \$'000	Written Down Value \$'000
<b>Water Supply</b>								
Plant and equipment		205	16	189	205			205
Land								
- Operational Land		5,256		5,256	2,808			2,808
Buildings		6,638	1,617	5,021	8,783		663	8,120
Water Supply Infrastructure		449,383	123,864	325,519		432,200	115,899	316,301
<b>Total water supply</b>		461,482	125,497	335,985	11,796	432,200	116,562	327,434
<b>Sewerage Services</b>								
Plant and equipment		451	296	155	450		256	194
Office equipment		125	78	47	98		73	25
Land								
- Operational Land		6,182		6,182	4,876			4,876
Buildings		3,776	1,289	2,487	2,627		870	1,757
Sewerage Infrastructure		262,052	90,886	171,166		247,440	82,140	165,300
<b>Total sewerage services</b>		272,586	92,549	180,037	8,051	247,440	83,339	172,152
<b>Domestic Waste Management</b>								
Plant and equipment		208	116	92	208		95	113
Office equipment		23	23		23		23	
Furniture and fittings		35	23	12	35		19	16
Land								
- Operational Land		2,795		2,795	2,962			2,962
Land Improvements - non-depreciable	289			289	289			289
Land Improvements - depreciable	3,566		1,077	2,489	3,546		904	2,642
Buildings		1,767	659	1,108	406		95	311
Other Structures	1,007		150	857	993		120	873
Other	239		79	160	239		65	174
Cairncross Tip Asset	223		52	171	223		39	184
<b>Total Domestic Waste</b>	5,324	4,828	2,179	7,973	8,924		1,360	7,564
<b>Caravan Parks</b>								
Plant and equipment		36	32	4	36		32	4
Office equipment		8	8	-	8		8	-
Furniture and fittings		51	16	35	51		7	44
Land Improvements	667		304	363	563		283	280
Buildings		3,204	873	2,331	2,445		672	1,773
Other Structures	166		127	39	154		121	33
Other Assets	408		173	235	377		156	221
<b>Total Caravan Parks</b>	1,241	3,299	1,533	3,007	3,634	-	1,279	2,355
<b>Total Restrictions</b>	6,565	742,195	221,758	527,002	32,405	679,640	202,540	509,505

**Note 10(a) Payables, borrowings and provisions**

	Actual 2008		Actual 2007	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
<b>Payables</b>				
Goods and services	5,395		6,288	
Payments received in advance	763		706	
Accrued expenses	702		301	
Accrued Interest	943		410	
S64 contributions due to PWD		8,624		8,624
Deposits and retentions	1,072		958	
Other	86		84	
<b>Total payables</b>	<b>8,961</b>	<b>8,624</b>	<b>8,747</b>	<b>8,624</b>
Current payables not expected to be settled within the next 12 months	451		606	
<b>Borrowings</b>				
Bank overdraft	121		211	
Loans - Secured (1)	6,441	71,435	5,638	59,439
Loans - Unsecured	0		0	
<b>Total borrowings</b>	<b>6,562</b>	<b>71,435</b>	<b>5,849</b>	<b>59,439</b>
<b>Provisions (2)</b>				
Annual leave	3,061		3,112	
Sick leave	3,871		3,792	
Long service leave	6,101	240	5,919	304
Maternity leave	25		28	
Tip remediation (Note 21)		282		265
<b>Total provisions</b>	<b>13,058</b>	<b>522</b>	<b>12,851</b>	<b>569</b>
Current provisions not expected to be settled within the next 12 months	9,516		9,375	
<b>Liabilities relating to restricted assets</b>				
Domestic waste management	1,194	1,423	1,775	1,944
Water	3,057	16,921	4,602	17,637
Sewer	2,289	9,091	2,129	5,431
<b>Total</b>	<b>6,540</b>	<b>27,435</b>	<b>8,506</b>	<b>25,012</b>

Notes:

(1) Loans are secured over the rating income of Council

(2) Vested ELE is all carried as a current provision

**Note 10(b) Description of and movements in provisions**

<b>Class of provision</b>	<b>Opening balance \$'000</b>	<b>Increases in provisions \$'000</b>	<b>Payments \$'000</b>	<b>Re-measurement \$'000</b>	<b>Closing balance \$'000</b>
Annual leave	3,111	2,161	2,211		3,061
Sick leave	3,792	1,155	1,076		3,871
Long service leave	6,223	927	809		6,341
Maternity leave	28	45	48		25
Tip remediation	265				265
<b>Total</b>	<b>13,419</b>	<b>4,288</b>	<b>4,144</b>	<b>0</b>	<b>13,563</b>

**Note 11 Reconciliation of cash flow movements**

	Notes	Actual 2008 \$'000	Actual 2007 \$'000
<b>(a) Reconciliation of cash assets</b>			
Total cash and cash equivalents	6a	4,378	2,709
Less: Bank overdraft	10	121	211
<b>Balances as per cash flow statement</b>		<b>4,257</b>	<b>2,498</b>
<b>(b) Reconciliation of net operating result to cash provided from operating activities</b>			
Net operating result from Income statement		3,299	12,658
<b>Add:</b>			
Depreciation and impairment		30,669	25,466
Increase in provision for leave entitlements		143	920
Increase in other provisions		16	15
Decrease in inventories		14	
Increase in payables			1,217
Increase in accrued interest payable		533	87
Loss on sale of assets		2,812	1,611
		<b>37,486</b>	<b>41,974</b>
<b>Less:</b>			
Decrease in provision for doubtful debts		11	1
Increase in receivables		1,421	26
Increase in inventories			84
Increase in other current assets		25	21
Decrease in payables		319	0
Non cash capital grants and contributions		8,548	5,012
Fair value adjustments to financial assets at fair value through profit and loss		-3,642	2,080
Previous period error - debtor write off through equity		0	6,415
<b>Net cash provided by operating activities from Cash flow statement</b>		<b>30,804</b>	<b>28,335</b>

**Note 11 Reconciliation of cash flow movements (continued)**

Notes	Actual 2008 \$'000	Actual 2007 \$'000
<b>(c) Non-cash financing and investing activities</b>		
PWD construction	6	143
Bushfire grants	426	1,395
S94 contributions in kind		
Dedications	8,116	3,474
Other		
	8,548	5,012
<b>(d) Financing arrangements</b>		
Unrestricted access was available at balance date to the following:		
Bank overdraft facility (1)	500	500
Purchase Cards	500	350
Corporate Credit Cards	110	110
	1,110	960

Notes:

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

**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:

- Buildings
- Infrastructure
- Land
- Plant and equipment

**Total**

These expenditures are payable as follows:

- Not later than one year
- Later than one year and not later than 5 years
- Later than 5 years

**Total**

**(b) Service commitments (exclusive of GST)**

Other non-capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities include:

- Audit Services
- Garbage and recycling services
- Cleaning and maintenance services
- Other

**Total**

These expenditures are payable as follows:

- Not later than one year
- Later than one year and not later than 5 years
- Later than 5 years

**Total**

	Actual 2008 \$'000	Actual 2007 \$'000
- Buildings	15,911	25,636
- Infrastructure	16,140	3,747
- Land	0	291
- Plant and equipment	6,774	2,585
<b>Total</b>	<b>38,825</b>	<b>32,259</b>
- Not later than one year	38,825	30,189
- Later than one year and not later than 5 years	0	2,070
- Later than 5 years	0	0
<b>Total</b>	<b>38,825</b>	<b>32,259</b>
- Audit Services	306	42
- Garbage and recycling services	23,058	26,428
- Cleaning and maintenance services	834	126
- Other	962	2,452
<b>Total</b>	<b>25,160</b>	<b>29,048</b>
- Not later than one year	6,739	7,325
- Later than one year and not later than 5 years	18,421	17,426
- Later than 5 years	0	4,297
<b>Total</b>	<b>25,160</b>	<b>29,048</b>

**Note 12 Commitments for Expenditure (continued)**

**(c) Operating Lease commitments**

Commitments under non-cancellable operating leases at the reporting date but not recognised in the financial statements are payable as follows

- Not later than one year
- Later than one year and not later than 5 years
- Later than 5 years

**Total**

**(d) Remuneration commitments**

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:

- Not later than one year
- Later than one year and not later than 5 years
- Later than 5 years

**Total**

Actual 2008 \$'000	Actual 2007 \$'000
16	16
12	28
0	0
<b>28</b>	<b>44</b>
0	216
0	350
0	0
<b>0</b>	<b>566</b>

**Note 13 Statement of performance measures**

	Amounts	Current year indicators	2007	2006	2005
<b>1. Unrestricted current ratio</b>					
Current assets less all external restrictions (1)	18,462	1.24 :1	2.17:1	2.79:1	2.34:1
Current liabilities less specific purpose liabilities (2)	14,855				
<b>2. Debt service ratio</b>					
<b>Factors</b>					
Debt Service Cost	10,463	12.05%	11.50%	7.07%	6.61%
Revenue from continuing operational excluding capital items and specific purpose grants/contributions	86,847				
<b>3. Rate coverage ratio</b>					
<b>Factors</b>					
Rates and annual charges	54,331	49.91%	47.82%	43.49%	40.17%
Revenue for continuing operations	108,867				
<b>4. Rates and annual charges outstanding percentage</b>					
<b>Factors</b>					
Rates and annual charges outstanding	4,576	7.81%	7.30%	6.83%	5.85%
Rates and annual charges collectible	58,611				
<b>5. Building and infrastructure renewals ratio (3)</b>					
Asset renewals - building and infrastructure	21,008	83.89%	52.32%		
Depreciation, amortisation, & impairment - building and infrastructure	25,041				

Notes:

(1) Refer to Notes 6-8 inclusive.

(2) Refer to note 10(a)

(3) Refer Note 9a



**Note 14 Investment properties**

	Actual 2008 \$'000	Actual 2007 \$'000
<b>At fair value</b>		
Opening balance at 1 July		
Acquisitions		
Capitalised subsequent expenditure		
Classified as held for sale or disposals		
Net gain (loss) from fair value adjustment		
Treansfer (to) from inventories and owner occupied property		
<b>Closing balance at 30 June</b>	0	0
<b>(a) Amounts recognised in profit and loss for investment property</b>		
Rental income		
Net gain (loss) from fair value adjustment		
Direct operating expenses from property that generated rental income		
Direct operating expenses from property that did not generate rental income		
	0	0

**(b) Valuation basis**

The basis for valuation of investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's 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 2008 revaluations were based on independent assessments made by a member of the Australian Property Institute.

**(c) Contractual obligations**

Refer to note 12 for disclosure of contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

**(d) Leasing arrangements**

The investment properties are leased to tenants under long term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows.

**(c) Operating Lease commitments**

Commitments under non-cancellable operating leases at the reporting date but not recognised in the financial statements are payable as follows.

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:

- Within one year
- Later than one year and not later than 5 years
- Later than 5 years

**Total**

	0	0

**Note 15 Financial risk management**

**Risk management**

Council's activities expose it to a variety of financial risks including price risk, credit risk, liquidity risk and 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 the Finance Section under policies approved by the Council.

Council held the following financial instruments at balance date:

	Carrying Value		Fair value	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Financial Assets</b>				
Cash and cash equivalents	4,378	2,709	4,378	2,709
Receivables	12,777	11,345	12,777	11,345
Financial assets at fair value through profit or loss	15,949	30,051	15,949	30,051
Available-for-sale financial assets	34,324	49,545	34,324	49,545
Held-to-maturity investments	0	0	0	0
<b>Total</b>	<b>67,428</b>	<b>93,650</b>	<b>67,428</b>	<b>93,650</b>
<b>Financial Liabilities</b>				
Payables	17,585	17,371	17,575	17,371
Borrowings	77,997	65,288	71,704	63,731
<b>Total</b>	<b>95,582</b>	<b>82,659</b>	<b>89,279</b>	<b>81,102</b>

Fair value is determined as follows:

\* Cash and Cash Equivalents, Receivables, Payables - estimated to be the carrying value which approximates net market value.

\* Borrowings, Held-to-Maturity Investments - estimated future cash flows discounted by the current market interest rates applicable to assets and liabilities with similar risk profiles.

\* Financial Assets at Fair Value through profit and loss, Available for Sale Financial Assets - based on quoted market prices at the reporting date or independent valuation.

**Note 15 Financial risk management (continued)**

**(a) Cash and cash equivalents**

**Financial assets at fair value through profit and loss**

**Available-for-sale financial assets**

**Held-to-maturity investments**

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital. The Finance Section manages the cash and investment portfolio, and in the future will do this with the assistance of independent advisors. Council has a investment policy which complies with the Local Government Act and Minister's Order. The policy is regularly reviewed by Council and an Investment Report is provided to Council monthly setting out the make-up and performance of the portfolio.

The major risk associated with investments is price risk - the risk that the capital value of investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments or their issuers or factors affecting similar instruments traded in a market.

Cash and investments are also subject to interest rate risk - the risk that movements in interest rates could affect returns.

Another risk associated with cash and investments is credit risk - the risk that a contracting entity will not complete its obligations under a financial instrument resulting in a financial loss to Council.

Council manages these risks by diversifying its portfolio and only purchasing investments with high credit ratings or capital protection. Council will in the future seek advice from its independent advisors before placing any cash and investments.

	30.6.2008 \$'000		30.6.2007 \$'000
Impact of a 10% (1) movement in price of investments			
- Equity	3		5
- Income statement	2	(2)	3
Impact of a 1% (1) movement in interest rates on cash and investments			
- Equity			
- Income statement	0		1

*Notes:*

(1) Sensitivity percentages based on management's expectation of future possible market movements. Recent market volatility has seen larger market movements for certain types of investments.

(2) Maximum impact.

**Note 15 Financial risk management (continued)**

**(b) Receivables**

Council's major receivables comprise rates and annual charges and user charges and fees. The major risk associated with these receivables is credit risk - the risk that the debts may not be repaid. Council manages this risk by monitoring outstanding debt and employing stringent debt recovery policies.

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

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 subject to a re-negotiation of repayment terms.

The profile of the Council's credit risk at balance date was:

	30.6.2008	30.6.2007
Percentage of Rates and Annual charges:		
- Current	27.52%	34.20%
- Overdue	72.48%	65.80%
Percentage of Other Receivables		
- Current	89.44%	95.35%
- Overdue	10.56%	4.65%

**Note 15 Financial risk management (continued)**

**(c) Payables  
Borrowings**

Payables and borrowings are both subject to liquidity risk - that is 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 be extended and overdraft facilities drawn upon in extenuating circumstances.

The contractual undiscounted cash flows of Council's Payable and Borrowings are set out in the Liquidity Sensitivity Table below:

2008 \$'000	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total Contractual Cash flows
Payables	17,134	451	0	17,585
Borrowings	11,279	45,998	63,740	121,017
	28,413	46,449	63,740	138,602

2007 \$'000	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total Contractual Cash flows
Payables	16,906	466	0	17,372
Borrowings	9,928	38,682	52,215	100,825
	26,834	39,148	52,215	118,196

Borrowings are also subject to interest rate risk - the risk that movements in interest rates could adversely affect funding costs. Council may manage this risk by borrowing long term and fixing the interest rate over the life of the loan. The Finance Section regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

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

	30 June 2008		30 June 2007	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Overdraft	2.94%	121	3.21%	211
Bank Loans - Fixed	6.73%	59,802	6.58%	45,964
- Variable (1)	7.80%	18,074	6.34%	19,113
		77,997		65,288

Note:

(1) The interest rate risk applicable to Variable Rate Bank Loans is not considered significant.

**Note 16 Budget Variations**

Council's original budget was incorporated as part of the Corporate Plan adopted by the Council on 18 June 2007. The original projections on which the budget was based have been affected by a number of factors. These include State and Federal Government decisions including new grant programs, changing economic activity, the weather, and by decisions made by Council. Material variations of more than 10% are explained below.

**Revenues**

**1. Other Revenues**

Other revenues were over budget by some \$1,014K (F) 48.45%. Variations in amounts received for other revenues are detailed below.

	Greater focus on parking by Council
* Fine Revenue	\$173K (F) Rangers
* Insurance Rebate	\$45K (F)
* Library Charges	\$28K (F)
* Lake Cathie Community Hall Revenue	\$45K (F)
* Purchasing Rebate	\$16K (F)
* S355 Ctee Revenues	\$57K (F)
* Sports Development Revenues	\$37K (F)
* Timbertown Revenue	\$255K (F)
* Tourism Marketing Revenue	\$100K (F)
* Waste Management Revenues	\$128K (F)

**2. Interest and investment revenues**

Interest and investment revenues were under budget by \$3,652K (U) 68.83%. Interest and other investment revenues actually recognised for the 2008 financial year has been influenced by movements in the fair value of investments downwards by \$3,642K.

**3. Grants and contributions provided for operating purposes**

Actual amounts of grants and contributions received for operating purposes were over budget by some \$1,499K (F) 14.05%. Variations in amounts received in grant funds are detailed below.

* Community Services & Education Grants	\$5K (F)
* Economic Affairs Grant/Contributions	\$70K (F)
* Employment/Training Grants	\$66K (F)
* Financial Assistance Grants	\$72K (F)
* Fire Control Grants	\$106K (F)
* Natural Resources Grants	\$458K (F)
* Housing & Community Contribution (Contributions to planning studies)	\$324K (F)
* Library Grants	\$52K (F)
* Recreation & Cultural Grants	\$52K (F)
* S94 Admin Levy	\$138K (U)
* Waste Management Grant	\$180K (F)
* Water Supply Contribution to Flouridation	\$217K (F)

## **Note 16 Budget Variations (continued)**

### **Expenses**

#### **4. Materials & Contracts**

The variation of \$3,278K (12.47%) (U) was due to many factors including:-

- Substantial operational grants have been received during the year that were not originally budgeted for (see grants and contributions provided for operating purposes above). This increases Council's operational materials and contracts expenditure.
- As part of the Link Road construction project a large amount of expenditure was incurred in providing assets that were transferred to other organisations, eg street lighting was transferred to Country Energy, traffic signals were transferred to the RTA. As this expenditure cannot be capitalised as Council's asset it is included in the operating expenditure of Council. The budget for these works was originally included in the capital works program.

#### **5. Borrowing Costs**

The variation of \$1,481K (29.46%) (F) is due to the fact that Council has capitalised \$1,091K of the interest on the Glasshouse loan in line with the Local Government Code of Accounting Practice. The budget has been transferred to the capital budget for the Glasshouse to cover this interest capitalisation. Council also budgets conservatively for all variable loans to ensure sufficient funds are available in the event of an interest rate rise.

#### **6. Depreciation and Amortisation**

The variation of \$9,798K (46.95%) (U) is primarily due to revaluations undertaken in water supply and sewerage services at the end of the 2006/07 financial year. There was a large increase in the value of these assets due to the revaluation and as such the depreciation charge has significantly increased also. In addition, the depreciation charge for roads and bridges has also increased, this is due to the capitalisation of the Ring Road. The major individual variations are detailed below.

* Land Improvements	\$117K (U)
* Office Equipment	\$340K (U)
* Roads Bridges and Footpaths	\$3,103K (U)
* Sewerage Services	\$1,972K (U)
* Water Supply	\$4,038K (U)

#### **7. Net gain on disposal of Assets**

Council budgeted for a gain on disposal of assets of \$5,060K but actually incurred a loss of \$2,812K. This is due to the fact that a parcel of land that Council was expecting to sell was not sold at the 30 June 2008. This figure also includes the loss on sale of financial assets that was not budgeted for.

In addition to the above mentioned items, minor favourable and unfavourable variations occurred throughout the year in a number of revenue and expense items. All variations have been monitored and reported to Council on a regular basis.

**Note 17 Statement of contribution plans**

**(a) Summary of contributions**

	Opening Balance \$'000	Contributions received during year (1)		Interest & investment income earned during year \$'000	Expended during year \$'000	Balance before internal borrowings \$'000	Internal borrowings (to)/from (3) \$'000	Held as restricted asset (2) \$'000
		Cash \$'000	Non cash \$'000					
Roads	666	982		-112	3,506	-1,970	1,970	
Parking	2,463	111		172	73	2,673	-2,405	268
Open Space	-710	629		-43	311	-435	435	
Community Facilities	1,322	300		97	31	1,688		1,688
Other	1,748	30		112	137	1,753		1,753
Administration Levy		66			66			
<b>S94 under plans</b>	<b>5,489</b>	<b>2,118</b>		<b>226</b>	<b>4,124</b>	<b>3,709</b>		<b>3,709</b>
S94 not under plans	622	34		44	460	240		240
S94A levies		16			16			
Planning agreements								
Section 64	21,811	2,166		1,451	1,091	24,337		24,337
<b>Totals</b>	<b>27,922</b>	<b>4,334</b>		<b>1,721</b>	<b>5,691</b>	<b>28,286</b>		<b>28,286</b>

Notes:

(1) Reconcilable with Note 3

(2) Reconcilable with Note 6 (Restricted assets excludes 'amounts expended in advance')

(3) Cumulative balance of borrowing within and between plans - Note: General Fund Expenditure in Advance of Contributions is not to be shown here.

**(b) Contributions under plans**

	Opening Balance \$'000	Contributions received during year (1)		Interest & investment income earned during year \$'000	Expended during year \$'000	Balance before internal borrowings \$'000	Internal borrowings (to)/from (4) \$'000	Held as restricted asset (2) \$'000
		Cash \$'000	Non cash \$'000					
Roads	666	982		-112	3,506	-1,970	1,970	
Parking	2,463	111		172	73	2,673	-2,405	268
Open Space	-710	629		-43	311	-435	435	
Community Facilities	1,322	300		97	31	1,688		1,688
Other	1,748	30		112	137	1,753		1,753
Administration Levy		66			66			
<b>Totals</b>	<b>5,489</b>	<b>2,118</b>		<b>226</b>	<b>4,124</b>	<b>3,709</b>		<b>3,709</b>

**(c) Contributions not under plans**

	Opening Balance \$'000	Contributions received during year (1)		Interest & investment income earned during year \$'000	Expended during year \$'000	Balance before internal borrowings \$'000	Internal borrowings (to)/from (4) \$'000	Held as restricted asset (2) \$'000
		Cash \$'000	Non cash \$'000					
Roads	421	34		30	460	25		25
Parking								
Open Space	11			1		12		12
Community Facilities	190			13		203		203
Other								
<b>Totals</b>	<b>622</b>	<b>34</b>		<b>44</b>	<b>460</b>	<b>240</b>		<b>240</b>



## Note 18 Contingencies

### Contingent liabilities

- 1 Council has been named as defendant in two actions regarding an alleged breach of the National Parks and Wildlife Act and the Fisheries Management Act at Partridge Creek. Council has pleaded guilty on the advice of its barristers but the final costs/fines are unknown at this stage.
- 2 Council has compulsorily acquired land at Kew for the Kew Waste Transfer Station. The valuer general determined the amount of the compensation payable to the owners under Section 55 of the Land Acquisition (Just Terms Compensation) Act. In accordance with the requirements of the Act the owners have been paid 90% of the amount determined. The owners are dissatisfied with the compensation amount and have commenced proceedings in the Land & Environment Court. The final amount that will be paid in compensation is undetermined at this stage.

### Contingent Assets

#### 1 Infringement Notices/Fines

The result of Council issuing infringement notices is followed up and collected by the Infringement Processing Bureau.

Council's revenue recognition policy for such income is to account for it as revenue on receipt. Accordingly, at year end, there is a potential asset due to Council representing issued but not received 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.

#### 2 Land Under Roads

As permitted under AASB 1045 and in accordance with DLG recommendations, Council has not brought to account in these Reports the value of Land Under Roads.

This is due to the divergence of opinion as to what value should be ascribed to such assets. At present, the transitional period for deferral of recognition ends on 1 July 2008.

#### 3 Defined Benefit Superannuation Contribution Plans

Council participates in an employer sponsored Defined Benefit superannuation scheme, and makes contributions as determined by the Superannuation Trustees.

The Local Government Superannuation Scheme however, has advised that it is unable to provide Council with an accurate estimate of its share of the Defined Benefits Schemes assets and liabilities in accordance with AASB 119.

The Schemes most recent full actuarial review indicated that the Net Assets of the Scheme were more than sufficient to meet the accrued benefits of the Schemes defined benefit member category.

Council has not recorded any asset in these Financial Reports to represent any future economic benefit relating to the Scheme's Financial Position, nor has it recorded any movements in the Schemes Financial Position in these Accounts.

Accordingly, contributions made to the defined benefit scheme are recognised as an expense when the become payable - similar to accounting for a defined contributions plan.

**Note 19 Interests in joint ventures**

**(a) Jointly controlled assets**

	Actual 2008 \$'000	Actual 2007 \$'000
<b>Current Assets</b>		
Cash and cash equivalents		
Inventories		
<b>Total current assets</b>	0	0
<b>Non-current assets</b>		
Infrastructure, property, plant & equipment - at cost		
Accumulated depreciation		
<b>Total non-current assets</b>	0	0
<b>Share of assets employed in joint venture</b>	0	0

**(b) Jointly controlled entity**

	Actual 2008 \$'000	Actual 2007 \$'000
Carrying amount of investment in partnership	0	0
<b>Share in partnership's asset and liabilities</b>		
Current assets		
Non-current assets		
<b>Total Assets</b>	0	0
Current liabilities		
Non-current liabilities		
<b>Total liabilities</b>	0	0
<b>Net assets</b>	0	0
<b>Share of partnership's revenue, expenses and results</b>		
Revenues		
Expenses		
<b>Operating Result</b>	0	0
<b>Share of partnership's commitments</b>		
Lease commitments		
Other commitments (other than for the supply of inventories)		
Total expenditure commitments	0	0
Capital commitments	0	0

**Contingent liabilities relating to jointly controlled entity**  
Nil

## Note 20 Revaluation reserves and retained earnings

Notes	Actual 2008 \$'000	Actual 2007 \$'000
<b>(a) Revaluation reserves</b>		
Infrastructure, property, plant and equipment revaluation reserve	231,109	172,406
Available-for-sale investments revaluation reserve	-9,389	104
	<b>221,720</b>	<b>172,510</b>
<b>Movements</b>		
<b>Infrastructure, property, plant and equipment revaluation reserve</b>		
At beginning of year	172,406	1,341
Revaluations (Note 9)	58,703	171,065
Transfers		
At end of year	<b>231,109</b>	<b>172,406</b>
<b>Available-for-sale investments revaluation reserve</b>		
At beginning of year	104	-324
Revaluation - gross	-9,493	428
Depreciation transfer - gross		
At end of year	<b>-9,389</b>	<b>104</b>
<b>(b) Retained earnings</b>		
Movements in retained earnings were as follows:		
At beginning of year	855,588	849,345
Adjustment due to error for prior year (20(d))	-3,844	-6,415
Net operating result for the year	3,299	12,658
At end of year	<b>855,043</b>	<b>855,588</b>

**(c) Nature and purpose of reserves****(i) Infrastructure, property, plant and equipment revaluation reserve**

The infrastructure, property, plant and equipment revaluation reserve is used to record increments and decrements on the revaluation of non-current assets

**(ii) Available-for-sale investments revaluation reserve**

Changes in fair value are taken to the available-for-sale investments revaluation reserve, as described in note 1(k). Amounts are recognised in profit and loss when the associated assets are sold or impaired.

**(d) Correction of errors in previous years**

Council had not previously reassessed the useful life of its buildings and, as a result, was found to have significantly understated their depreciation. A revaluation exercise in the 2008 year identified this error and an adjustment has been made against the current years balances of IPPE and Retained Earnings to correct the error because it was found to be impractical to restate the prior year comparatives.

**Note 21 Reinstatement, rehabilitation and restoration liabilities**

**Tip Remediation**

Council is required by law to restore the present tip site at Cairncross at the end of its useful life in 2021. The projected cost of this restoration in 2021 is \$600,000 based on a study conducted by Impact Environmental Consulting Pty Ltd. This figure is based on Council maintaining its current management approach which involves each cell being capped as it is filled.

**At Beginning of year**

Amounts capitalised to Tip asset

- New disturbance
- Revised costs
- Revised life
- Revised discount rate

Amortisation of discount - expensed to borrowing costs

**At end of year**

<b>Actual 2008 \$'000</b>	Actual 2007 \$'000
265	250
17	15
<b>282</b>	<b>265</b>

**Note 22 Non-current assets classified as held for sale**

This note is not relevant to Port Macquarie-Hastings Council

**Note 23 Events occurring after balance sheet date**

Events that occur after the reporting date of 30 June 2008, and up to and including the date when the financial report is "authorised for issue" have been taken into account in preparing this financial report. Council has determined the date of the Auditors' Report as the appropriate "authorised for issue" date relating to this General Purpose Financial Report.

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

- (i) Events that have provided evidence of conditions that existed at the Reporting Date. These financial reports (and the figures therein) incorporate all "adjusting events" that provided evidence of conditions that existed at 30 June 2008.
- (ii) Events that have provided evidence of conditions that arose after the Reporting Date. These financial reports (and figures therein) do not incorporate any "non adjusting events" that have occurred after 30 June 2008 and which are only indicative of conditions that arose after 30 June 2008.

**Movement in the Fair Value of Council's Investment Portfolio.**

Subsequent to balance date there has been a deterioration in the fair value of Council's investment securities arising from the financial credit crisis. As at 30 September 2008 the value of Council's investment portfolio has fallen, however the exact amount is unknown at this stage due to the fact that accurate valuations for some of the investments are unavailable at this time.. The majority of Council's investments are capital protected on maturity.

Whilst Council has elected to recognise it's investments at their fair value, it should be noted that a large proportion of the investments held at 30th June 2008 are capital protected on maturity. Capital protection means that the original investment is protected subject to the investment issuer having the capacity to repay on the date of the investments maturity.



**Thomas Noble & Russell**  
Accountants | Auditors | Business Advisers

Lismore, 29 October 2008

The Administrator  
Port Macquarie-Hastings Council  
P O Box 84  
PORT MACQUARIE NSW 2444

Dear Administrator

We advise that we have completed our audit of the Council's general purpose and special purpose financial reports for the year ended 30th June 2008 under section 417 of the Local Government Act 1993.

In accordance with that section we now report on the conduct of the audit.

## **1. AUDITORS' RESPONSIBILITIES**

In order that you may appreciate our responsibilities as auditors, we take this opportunity to briefly discuss the scope of our audit.

In accordance with our contractual arrangements with Council we have undertaken to perform an attest (risk based) audit. The definition of an attest audit is:

"the minimum audit work necessary to enable an opinion to be expressed as to whether the financial report is presented fairly in accordance with the requirements of the Local Government Act 1993, Australian Accounting Standards and Interpretations so as to present a view which is consistent with an understanding of the Council's financial position, the results of its operations and its cash flows."

### **Forming an opinion**

Our function as auditors is to examine the general purpose and special purpose (National Competition Policy) financial reports presented to us by the Council. Our audit responsibility does not extend to the original budget information included in the income statement, cashflow statement, Note 2(a), Note 16 budget variation explanations and Note 17 forecast information contained in the general purpose financial report and the best practice disclosures in Notes 2 & 3 to the special purpose financial report and accordingly, we do not express an opinion on such. As auditors of the Council we are not responsible for the preparation of the financial reports nor for the maintenance of proper and adequate accounting records and proper systems of internal control. These responsibilities, together with the requirement to present financial reports which give a true and fair view of the state of the Council's affairs and of its results are imposed on the Administrator by the Local Government Act and Regulations 1993.



Liability limited by a  
Scheme approved  
under the Professional  
Standards Legislation

31 Keen Street, Lismore NSW 2480 PO Box 106 Lismore NSW 2480  
Telephone +61 (0)2 66218544 Facsimile +61 (0) 2 66219035  
Email: [lismore@tnr.com.au](mailto:lismore@tnr.com.au) Website: [www.tnr.com.au](http://www.tnr.com.au)

Thomas Noble & Russell is a member of HLB International. A world-wide organization of accounting firms and business advisers

As auditors of Council we are not required to:

- 1) Review and assess the adequacy of Council's:
  - a) management plans;
  - b) quarterly budget reviews;
  - c) insurance cover; and
  - d) infrastructure improvement / maintenance planning and monitoring.
- 2) form an opinion on, or advise Council on the probity of its decisions, however we ensure that the financial effect of Council's decisions are adequately disclosed in the general purpose and special purpose financial reports in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia.

The responsibility of the abovementioned rests with Council.

## 2. FINANCIAL MANAGEMENT PRACTICES

In accordance with the requirements of the Local Government Act 1993 and Regulations Council must prepare detailed budgets for all operations. As part of the budgetary process Council is responsible for authorising all expenditures and variations to budget.

The quarterly review of Council's budget progress is a very important process in ensuring that the financial targets established by Council are met. We are aware that management place a high level of importance in ensuring that budgets are complied with. To maintain Council's financial position there needs to be a continued level of accountability and responsibility by senior management.

All decisions of Council need to be made with appropriate consideration of their financial impact.

## 3. OPERATING RESULT

Council's surplus from all activities for 2008 was \$3,299,000. This compares to a surplus in 2007 of \$12,658,000. This result can be summarised as follows:-

<b>Operating Result</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Revenues from continuing operations	95,146	89,107	83,433
Expenses from continuing operations	(72,087)	(65,719)	(63,796)
Result from continuing operations before depreciation	23,059	23,388	19,637
Less depreciation expense	(30,669)	(25,466)	(19,786)
<b><i>Result from continuing operations before capital amounts</i></b>	<b><i>(7,610)</i></b>	<b><i>(2,078)</i></b>	<b><i>(149)</i></b>
Capital grants and contributions	17,363	14,267	24,311
Fair value gains and losses on investments	(3,642)	2,080	0
Loss on disposal of assets	(2,812)	(1,611)	(9,487)
<b>Surplus from all activities</b>	<b>3,299</b>	<b>12,658</b>	<b>14,675</b>



## Fair Value Gains and Losses on Investments

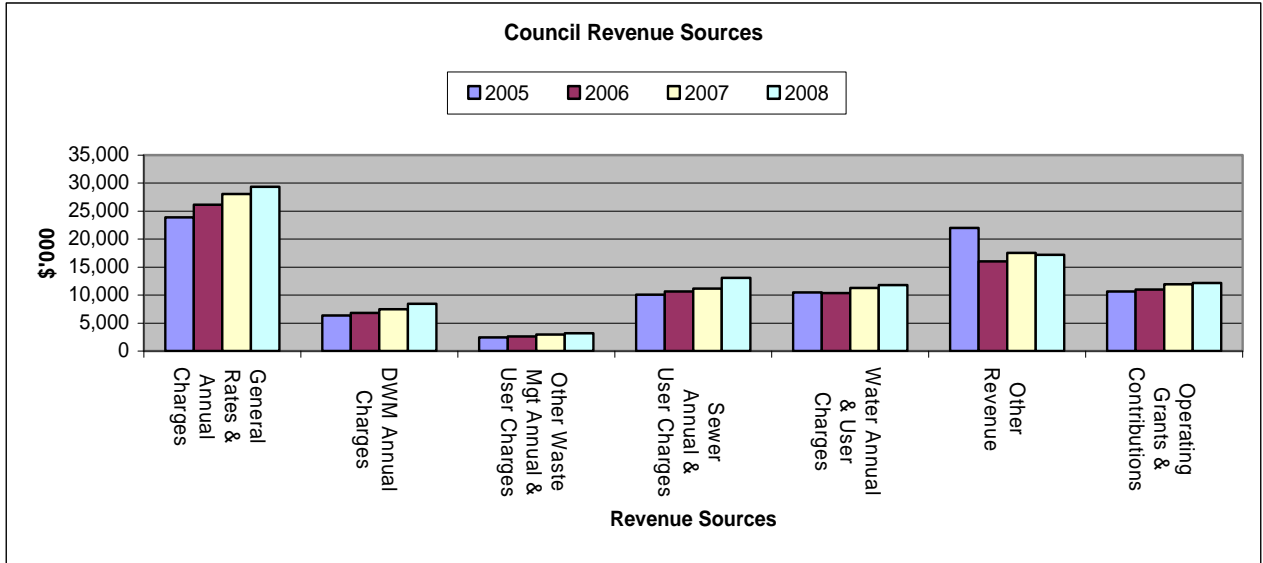
One of the contributing factors to the reduction in surplus from all activities is due to the decline in the fair value of Council's investment portfolio. The United States sub-prime mortgage led downturn in the financial credit markets has seen the fair value of Council's investments fall by \$13,134,000 during the 2008 financial year. In accordance with Council's adoption of Australian Accounting Standards \$3,642,000 of the total reduction in the value of investments during 2008 impacts the operating result and is recognized as an expense in the income statement. The remaining \$9,492,000 reduction in investments is recognized as a movement in a reserve as part of Council's equity. See section 10.1 of this report for further analysis of Council's investment portfolio performance.

## Variations to 2007 by Revenue / Expenditure

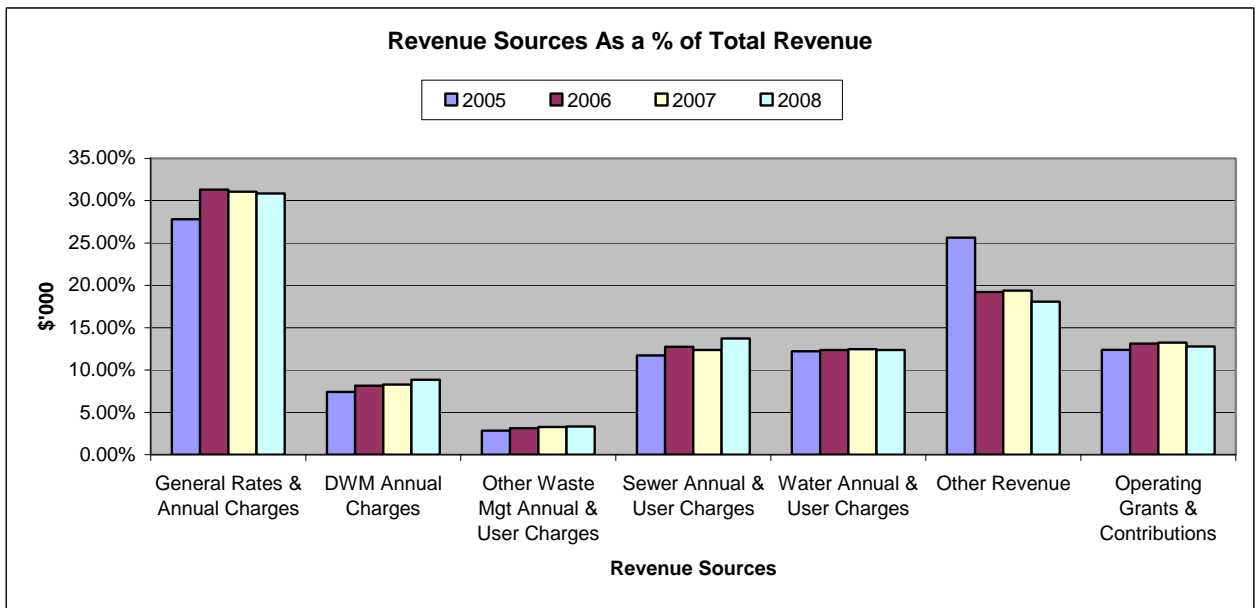
The surplus from ordinary activities before depreciation and capital amounts has remained relatively static on 2007 at \$23,059,000. Some of the components contributing to the result before depreciation expense and capital revenues include:

Account	Increase / (Decrease) \$'000	Effect on Operating Result \$'000	Reason for Increase / Decrease
<b>Revenue</b>			
General rates	1,288	1,288	General rates have increased due to a rate-pegged increase of 3.4% plus growth in the number of assessments.
Domestic Waste Annual Charges	928	928	Annual charges increased in 2008 by 10% to reflect the costs of service delivery.
Sewer Annual Charges	1,864	1,864	Annual charges were increased by 5% in 2008. The growth in the number of assessments also contributed to the increase in revenue.
Interest revenue	(1,432)	(1,432)	Interest revenue has decreased as some returns on investment are dependent on the performance of their underlying assets.
<b>Expenses</b>			
Employee costs	2,886	(2,886)	Employee costs have increased in conjunction with an award increment of 3.2%.
Materials and contracts	3,795	(3,795)	Materials and contract expenses have increased as a result of Council transferring capital assets to other government authorities as part of the Ring Road construction. Assets constructed but not controlled by Council subsequent to completion included street lighting and traffic lights.

#### 4. COUNCIL REVENUE SOURCES



The above graph illustrates that Council's main revenue sources are trending upwards. Council's revenue from rates and annual charges for all operations as a percentage of total revenue for the 2008 financial year is 49.90% and compares favourably with comparative data published by the NSW Department of Local Government for 2005/06.



The above graph illustrates that revenues (excluding capital grants and contributions) have remained in proportion to one another over the last 4 years.

#### 5. CAPITAL GRANTS AND CONTRIBUTIONS

##### Capital Grants

Capital grants received during the year amounted to \$3,831,000 and largely consisted of grant monies received for the Roads to Recovery programme.

## Capital Contributions

Capital contributions received during the period amounted to \$13,532,000. Capital contributions comprise section 94 and 64 developer contributions and dedications of infrastructure assets to Council upon the completion of residential and other developments.

	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Non-cash developer infrastructure dedications	8,116	3,474	10,311
Section 94 contributions - cash	2,102	3,921	2,574
Section 64 contributions - cash	2,166	2,641	2,751
Other contributions	1,148	899	1,656
Total	<u>13,532</u>	<u>10,935</u>	<u>17,292</u>

The use of cash contributions received during each year is restricted and accordingly they are not available for use in Council's general operations.

## 6. GAIN / (LOSS) ON DISPOSAL OF ASSETS

Council's loss on disposal of assets for the 2008 financial year comprise the following items.

	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Gain / (Loss) on disposal of property	405	(168)	(991)
Loss on disposal of plant & equipment	(344)	(449)	(408)
Gain on disposal of real estate assets	0	34	348
Loss on disposal of infrastructure	(2,620)	(207)	(8,436)
Loss on disposal of financial assets	(253)	(821)	0
Total	<u>(2,812)</u>	<u>(1,611)</u>	<u>(9,487)</u>

The loss on disposal of infrastructure represents assets disposed of in the normal course of Council's budgeted asset replacement program. The loss on disposal of financial assets reflects the transfer of the movement in fair value of "available for sale" investments from the available for sale reserve in equity to the income statement at the time of sale. Refer to 10.1 of this report for discussion on available for sale investments.

## 7. NATIONAL COMPETITION POLICY REPORTING REQUIREMENTS

Under the National Competition guidelines Council is required to apply taxation equivalent principles to each business similar to those that would apply if they were operating in the commercial sector. Council declared business activities have been reported with operating details and assets disclosed on a gross basis in Council's special purpose financial report.

Each activity has a required rate of return on its activities that is calculated as the operating result plus interest expense divided by the written down value of property, plant & equipment. Where the return on investment is below the required rate of return, the difference is disclosed as a notional subsidy from Council's General Fund activities. Dividends represent funds provided by the relevant business activity for other functions of Council.

A summary of the financial performance of Council's declared business activities is provided below:

<b>Activity/Year</b>	<b>Revenue \$'000</b>	<b>Expenses \$'000</b>	<b>Result prior to capital amounts \$'000</b>	<b>Return on capital %</b>	<b>Subsidy \$'000</b>	<b>Dividends Paid \$'000</b>
<b>2008</b>						
Water	13,821	(18,634)	(4,813)	(1.17)	10,633	-
Sewer	14,498	(17,216)	(2,718)	(1.35)	6,018	-
Waste Management	14,105	(12,552)	1,553	21.51	-	500
Glasshouse Operations	130	(3,494)	(3,364)	(9.64)	★	-
<b>2007</b>						
Water	13,805	(15,905)	(2,100)	(0.38)	7,770	258
Sewer	15,937	(14,975)	962	0.68	2,268	1,254
Waste Management	11,775	(10,886)	889	14.17	-	-
Glasshouse Operations	115	(3,031)	(2,916)	(9.35)	★	-
<b>2006</b>						
Water	14,013	(15,440)	(1,427)	(0.59)	5,317	867
Sewer	13,666	(13,390)	276	0.49	1,694	758
Waste Management	10,391	(8,920)	1,471	21.93	-	-
Glasshouse Operations	37	(885)	(848)	✦	★	-

★ No subsidy calculated as a desired rate of return is yet to be determined. See comments below.

✦ No rate of return calculated as the business activity did not hold any assets at this time. See comments below.

### **Water and Sewer Services**

Council's water and sewer operations have returned deficits before capital grants and contributions in the 2008 financial year. One of the main reasons for the deficit is that depreciation expense has increased on the 2007 year in conjunction with the revaluation of water and sewer assets as at 30 June 2007. Whilst capital grants and contributions assist Council to update its water and sewer infrastructure network the effects of depreciation need to be carefully considered when setting future operating budgets.

Water and sewer operations are recognized as monopolies under the National Competition Policy guidelines. As a provider of essential services water and sewer funds should generate enough profits to enable it to replace its infrastructure as required. A rate of return of 2% has been used as the desired rate of return for the 2008 financial year.

In 2008 water and sewer have not achieved their required rate of return. Under the National Competition Policy reporting framework Council is to recognize the difference between the actual rate of return and the required rate of return as a notional subsidy from General Fund operations. For 2008 the notional subsidy calculated is \$10.633 million and \$6.018 million for water and sewer funds respectively. We draw to the readers attention that an actual subsidy payment has not been paid in this instance and the calculated subsidy is notional in nature only.

### **Waste Management**

Council's Waste Management Business Activity comprises commercial and domestic waste operations and has returned a profit of \$1,553,000 for the 2008 financial year. This represents a increase on the 2007 result of \$664,000 which is due to review of domestic and commercial waste management annual and user charges at the beginning of the financial year as part of the budget process. A dividend of \$500,000 has been paid by the Waste Management business activity to general fund during the 2008 financial year.

Council has adopted a desired rate of return on assets for its waste management operations of 15% and the actual rate of return for the 2008 year has exceeded this benchmark.

### **Glasshouse Operations**

In accordance with the recommendations arising from the recent Department of Local Government inquiry into Council operations the Glasshouse operations have been included in the special purpose financial report as a business activity. As at 30 June 2008 the Glasshouse was under construction and is not operational. As revenue generating activities are yet to commence the activity has returned an operating loss. Council is yet to determine a desired rate of return on this activity.

### **Other Audit Observations**

The desired rates of return on Council's business activities have not been reviewed for some time. To ensure the desired rate of return reflects current market conditions we recommend that Council investigates whether the current desired rates of return are appropriate for each business activity.

## 8. WATER SUPPLIES

### (i) *Operating Results*

Water supply activities can be summarised as follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Rates and service availability charges	3,614	3,466	3,457
User charges	8,716	8,391	7,405
Interest	159	312	1,682
Other	712	641	629
Grants - PWD		140	4019
- Other	381	388	409
Contributions	3,273	3,236	2,891
Total Revenue	<u>16,855</u>	<u>16,574</u>	<u>20,492</u>
Management Expenses	2,868	2,733	2,842
Operating Costs	1,696	2,997	3,631
Other	5,019	4,691	5,714
Depreciation	7,423	4,410	2,869
Loss/(Gain) on Disposal of Assets	740	207	170
Interest	888	868	214
Total Expenses	<u>18,634</u>	<u>15,906</u>	<u>15,440</u>
Operating Result	<u>(1,779)</u>	<u>668</u>	<u>5,052</u>

\* This information is prepared on a pre-consolidation basis and accordingly the results of each activity will not agree with Note (2a) to the financial statements.

### (ii) *Explanations for Significant Variances*

#### *Revenue*

Water user charges have increased in conjunction with a 5% increment to residential user charge prices.

#### *Expenditure*

Operating costs have decreased due to reduced maintenance requirements on renewed infrastructure as well as general cost review strategies taking effect.

Depreciation expense has increased as a result of the revaluation of water infrastructure assets as at 30 June 2007.

## 9. SEWERAGE SERVICES

### (i) *Operating Result*

Sewerage services activities can be summarised as follows:

	2008	2007	2006
	\$'000	\$'000	\$'000
Rates and service availability charges	12,526	10,626	10,130
User charges	705	598	569
Interest	736	3,544	2,314
Other	200	267	325
Grants - PWD	6	2	74
- Other	318	308	319
Contributions	1,532	1,080	2,134
<b>Total Revenue</b>	<b>16,023</b>	<b>16,425</b>	<b>15,865</b>
Management Expenses	2,784	2,444	2,251
Operating Costs	2,396	1,980	1,925
Other	6,690	5,923	6,046
Depreciation	4,963	3,824	2,894
Loss/(Gain) on Disposal of Assets	90	0	0
Interest	293	209	272
<b>Total Expenses</b>	<b>17,216</b>	<b>14,380</b>	<b>13,388</b>
<b>Operating Result</b>	<b>(1,193)</b>	<b>2,045</b>	<b>2,477</b>

\* This information is prepared on a pre-consolidation basis and accordingly the results of each activity will not agree with Note (2a) to the financial statements.

### (ii) *Explanations for Significant Variances*

#### *Revenue*

Rates and service availability charges as well as revenue from user charges have increased in conjunction with a budgeted price increase of 15%. Interest revenue has decreased in conjunction with the downturn in the investment market.

#### *Expenditure*

Management and Operating expenses have increased as a result of higher maintenance costs together with additional running costs associated with the reclaimed water treatment plant. Depreciation expense has increased from the effects of the asset revaluation effective 1 July 2007.

## 10. BALANCE SHEET

### 10.1 INVESTMENTS

Council's investments are recognised and accounted for at their fair value. The volatility in credit markets over the last year has resulted in Council recognising reductions in the value of its investments totalling \$13,134,000. Whilst Council has complied with the Minister's Investment Order issued under Section 625 of the Local Government Act 1993 the events relating largely to the US sub-prime mortgage led credit crisis has impacted the type of investments held during the financial year.

## Investment Products Held

At balance date Council held the following investment types:

	<b>2008</b>
	<b>\$'000</b>
<b>Investments</b>	
Collateralised Debt Obligations	16,539
Equity Linked Notes	11,841
Floating Rate Notes	17,079
Mortgage-backed securities	705
Long-term deposits	<u>4,109</u>
Total Investments at 30 June 2008	<u><u>50,273</u></u>

## Investment Classification by Council

In accordance with Australian Accounting Standards Council has designated its investments as follows:

### i) *At Fair Value Through the Profit & Loss*

Note 1 to the financial statements provides information relating to investments designated at the time of purchase as "at fair value through the profit & loss". Once Council designates its investments as at fair value through the profit and loss it must recognize each investment at its fair (market) value in the balance sheet and the movements in fair value throughout the year are recognised as revenues or expenses in the income statement.

### ii) *Available for Sale*

Note 1 to the financial statements provides information relating to investments designated at the time of purchase as "available for sale". Available for sale investments must also be recognised at their fair value in the balance sheet however any movements in fair value are booked to an equity account (available for sale reserve). At the time of sale of an investment, any movement in fair value between purchase date and sale date is transferred from the available for sale reserve to the income statement.

A summary of the movement in Council's investments is as follows:

	<b>Investments</b>			
	<i>At Fair Value Through the Profit &amp; Loss</i>		<i>Available for Sale Investments</i>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Fair value of investments at beginning of the ye	30,051	24,877	49,545	58,372
Investments purchased during the year	2,925	9,635	10,000	13,000
Investments sold or redeemed	(13,385)	(6,541)	(15,729)	(22,254)
Movement in fair value of investments statement	(3,642)	2,080		
Recognised in equity			(9,492)	427
Fair value of investments at the end of the year	<u>15,949</u>	<u>30,051</u>	<u>34,324</u>	<u>49,545</u>



## **Security of Investments**

The table indicates that Council's total investment portfolio increased in fair value in 2007 by \$2,507,000 however in 2008 reduced by \$13,134,000. Whilst the reduction in the fair value of Council's investments during 2008 is significant, it is important to note that a large proportion of investments held are capital protected on their maturity.

Capital protected on maturity means that the investment's capital is protected to the extent that the financial institution or issuer has the capacity to repay the invested money at the time of maturity. Capital is not protected if the investment is sold before its maturity.

Collateralised Debt Obligations (CDO's) are not capital protected and the return to Council on their maturity is largely dependent on the number of defaults occurring in the underlying "basket" of securities comprising the investment.

## **Liquidity**

Based on information provided by Council management, which has not been subject to audit, the maturity profile of investments held at balance date should not materially impact Council's budgeted operations for the 2008 / 2009 financial year from a liquidity perspective.

## **Post Balance Date Events**

The value of Council's investments have further declined subsequent to balance date however see our comments above relating to the security of Council's investment portfolio.

## **Qualified Audit Opinion for 2008**

At 30 June 2008, Council's investment portfolio totalled \$50,273,000 which largely consisted of securities that have been impacted by market volatility over the last twelve months. The impact on individual securities varies depending on their degree of exposure to affected markets.

At balance date Council's investment portfolio included CDO securities totalling \$16,539,000. Many of these securities do not have market values that are independently quoted and they are not widely traded at this point in time. Independent market valuations are not readily available and in many cases, values are assessed based on estimates from issuers and/or valuation models for which there is limited market evidence available to verify their reasonableness. Further, the ongoing volatility of financial markets creates greater uncertainty to the valuation process and determination of future cash flows that can be attributed to these securities.

These circumstances have resulted in our inability to obtain sufficient and appropriate audit evidence to satisfy ourselves as to the fair value and recoverability of at least \$16,539,000 of Council's total investment portfolio.

The qualified audit report issued for 2008 is not unique to Port Macquarie-Hastings Council. Qualified audit opinions have been issued for other local government authorities carrying investments where their valuation at 30 June 2008 has been difficult to calibrate to a functional market. The approach to auditing investments and the issue of qualified audit reports where necessary is in accordance with directives from the NSW Local Government Auditors Association and has been discussed with the Local Government Finance Professionals Association and the NSW Department of Local Government.

## 10.2 NON-CURRENT ASSETS AND LIABILITIES

Council has a net non-current asset position of \$1,077,199,000 (2007: \$1,023,851,000) which consists largely of externally restricted investments with maturity periods exceeding twelve months from balance date, infrastructure, property, plant and equipment, loans, provisions for employee benefits and tip and quarry rehabilitation liabilities.

## 10.3 PROPERTY, PLANT AND EQUIPMENT

During the year Council capitalised approximately \$69 million in infrastructure, property, plant and equipment. Assets capitalised consist of:

	<b>2008</b>
	<b>\$'000</b>
<i>Developer Infrastructure Dedications</i>	
Open Space & Buildings	402
Roads and Drainage Network	6,357
Water & Sewerage Network	1,357
<i>Non-cash Grants/contributions</i>	
Bush Fire, Subsidised Schemes etc.	432
<i>Council Constructed / Purchased Assets</i>	
Land and Buildings	20,515
Plant and Equipment	7,358
Roads and Drainage	21,394
Water & Sewerage Network	9,926
Other Assets	967
	<hr/>
	68,708
	<hr/> <hr/>

Land and buildings capitalised largely relates to the construction of the Port Macquarie Performing Arts Centre, commonly referred to as the Glasshouse.

### Asset Renewals

Council has reported that \$21,008,000 of total capital expenditure has been for the renewal of existing infrastructure and building assets. At note 13 to the financial statements is a ratio which measures the level of expenditure on asset renewals as a percentage of depreciation and amortisation of infrastructure and building assets. The ratio for 2008 indicated that asset renewal expenditure represented 83.89% of depreciation related to infrastructure and building assets.

## 10.4 ASSET MANAGEMENT

### Asset Revaluations

The Department of Local Government has mandated that all infrastructure assets including land and buildings are to be recognised in Council's financial records at their fair value. Fair value represents the written-down replacement cost of each asset using modern day equivalent materials and design.

Council is to revalue its assets in accordance with the following timeframe:

<b>Asset Type</b>	<b>Date of Revaluation</b>
Water & Sewer Infrastructure	30 June 2007
Operational Land and Buildings	30 June 2008
Roads and Drainage Infrastructure	30 June 2009
Other Structures	30 June 2009
Community Land and Buildings	30 June 2010

In complying with the Department of Local Government revaluation programme Council revalued its operational land and buildings as at 30 June 2008. The revaluation of operational land and buildings resulted in an increase to the carrying value of these assets of \$43,548,000. Subsequent to revaluation Council is required to index the carrying value of its assets so that they continue to reflect their fair value. As part of this process Council indexed the value of its water and sewer infrastructure during the 2008 financial year which resulted in an increase to the carrying value of the assets and the asset revaluation reserve of \$15,155,000.

### **Asset Management**

The revaluation process has enabled Council to accurately assess the cost of replacing its operational land and building assets as well as providing a reliable estimate of the current condition and remaining useful lives of its buildings. The information obtained from this revaluation needs to be captured and utilised by Council to assist in the management of land and buildings.

Asset management is an important part of Council's operations. Council's infrastructure assets represent the largest item on Council's balance sheet and the depreciation expense attaching to Council's assets represents one of the largest expense items in the income statement. To ensure that accurate budgeting for maintenance and renewal Council needs to perform regular condition assessments for each asset to determine their remaining service potential to the organisation.

### **Asset Revaluations for 2009**

Council is required to revalue its roads, drainage and other structure assets during the year ending 30 June 2009. The revaluation of these assets is a large and complex process with the final result being the establishment of an accurate and detailed asset register that will ensure best practice asset management is adopted and adhered to into the future.

It is important that Council creates a detailed project plan to ensure the completeness and accuracy of these revaluations. A detailed project plan document should be prepared that addresses, as a minimum:

- the methodology for identify all assets under Council's control,
- the methodology used to value each asset,
- the creation of condition assessment models that will allow for identification of each asset's remaining useful life and the ongoing assessment of its performance, and
- the creation of comprehensive policies and procedures supporting accounting and asset management practices.

## 10.5 LOANS LIABILITY

Council's general fund loan liability has increased \$7,201,000 from 2007 to \$54,501,000 as at 30 June 2008. During the year Council's General Fund borrowed \$11,188,000 to fund the following projects:

	<b>2008</b>
	<b>\$'000</b>
Aerodrome Upgrade	10,000
Ring Road Construction	988
Caravan Park Improvements	<u>200</u>
<b>Total Borrowings During 2008</b>	<b><u>11,188</u></b>

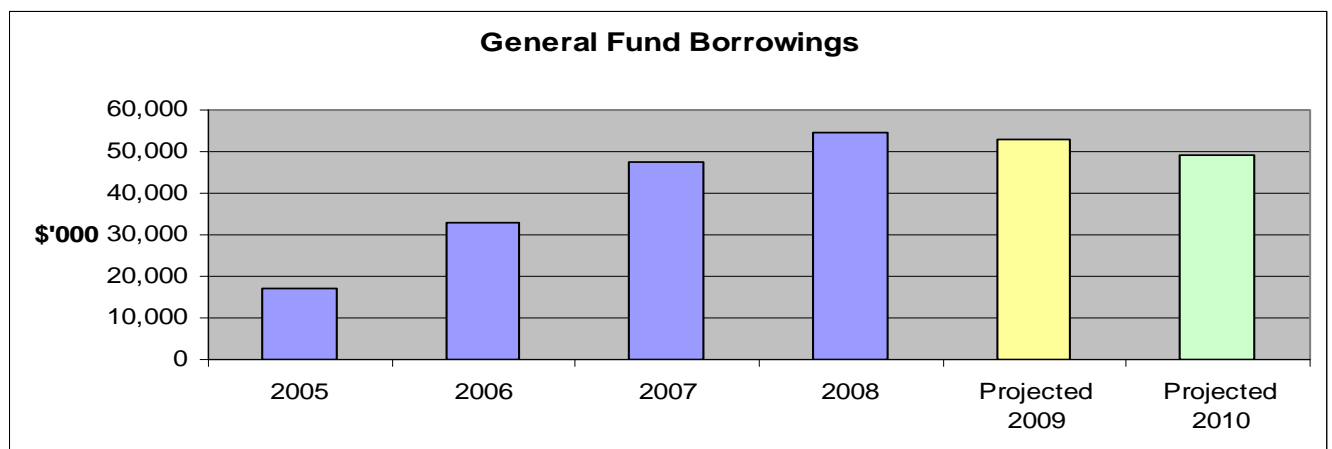
Council's general fund borrowings have increased by approximately \$36 million since 2005. A material portion of the increase in borrowings is attributable to the construction of the Port Macquarie Glasshouse project. At 30 June 2008 the estimated cost of constructing the Glasshouse was \$43,000,000. Construction costs relating to the Glasshouse have been funded from the following sources:

	<b>\$'000</b>
Internal reserves	7,980,205
Government grants	975,000
Borrowings*	<u>34,044,795</u>
<b>Total Estimated Construction Cost</b>	<b><u>43,000,000</u></b>

\* Approximately \$10.9 million of borrowings will be repaid using Section 94 developer contributions to be collected by Council in future years.

We discuss the impacts of increased borrowings on Council's general fund debt service ratio at Section 11 to this report.

Details on the level of general fund borrowings since 2005 and projected until 2010 are provided below. Projections are based on current budget models adopted by Council. The graph below illustrates that general fund borrowings have peaked and should begin to fall next financial year.



## 11. PERFORMANCE INDICATORS

Council's performance can be measured using selected indicators. We provide an analysis of key performance indicators as disclosed at Note 13 to the general purpose financial report.

### *Unrestricted Current Ratio*

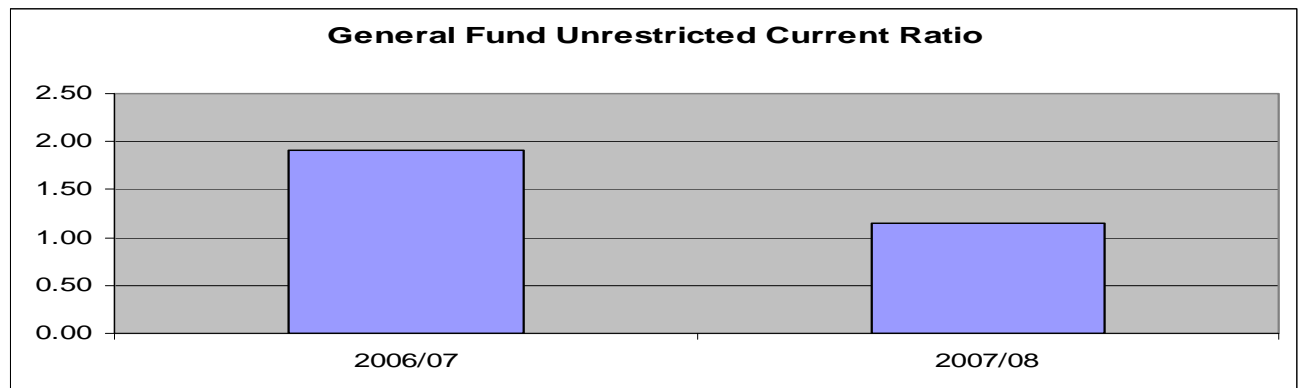
The unrestricted current ratio represents Council's capacity to meet its commitments from current assets net of externally restricted cash, investments and receivables.

Factors influencing Council's unrestricted current assets ratio include:

- planning and budgetary controls
- cash management and the timing of cash flows
- the level of internally restricted assets
- credit management policies and economic circumstances

### *General Fund Unrestricted Current Ratio*

The graph below indicates that Council's general fund unrestricted current ratio has deteriorated from 1.92 in 2007 to a ratio of 1.15 as at 30 June 2008. An unrestricted current ratio of 1.15 means that Council's general fund has \$1.15 in cash and other liquid assets to satisfy every \$1 in short-term liabilities.

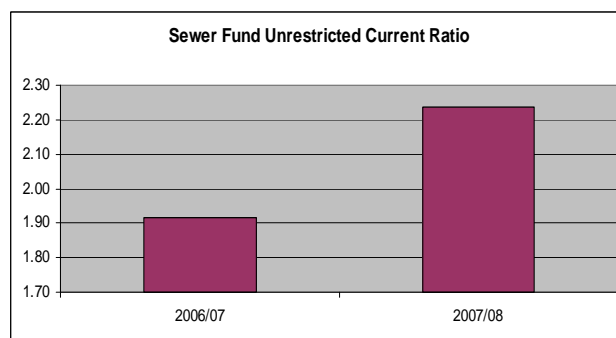
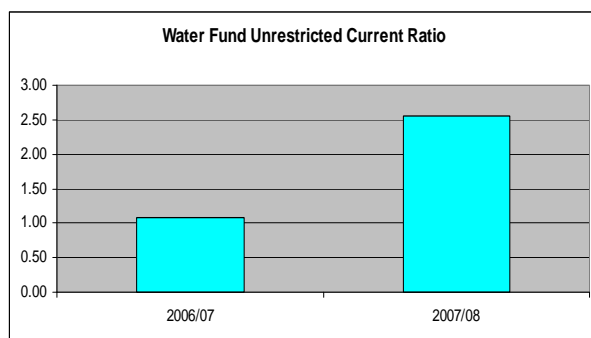


The reason for the deterioration in the general fund unrestricted current ratio is largely because of the reduction in the value of Council's invested internal reserves arising from the current economic conditions. An unrestricted current ratio of at least 1.5 is considered to be an appropriate level to allow Council to satisfy its day-to-day commitments and absorb any unforeseen expenses or reductions in revenue.

### *General Fund Long-Term Objectives*

It is important to note that the unrestricted current ratio does not reflect Council's capacity to fund long term infrastructure needs nor the current state of the infrastructure itself. Council needs to assess its infrastructure requirements and asset management systems and develop strategies to ensure the long-term viability (ability to provide services) of its assets.

## Sewer and Water Fund Unrestricted Current Ratio



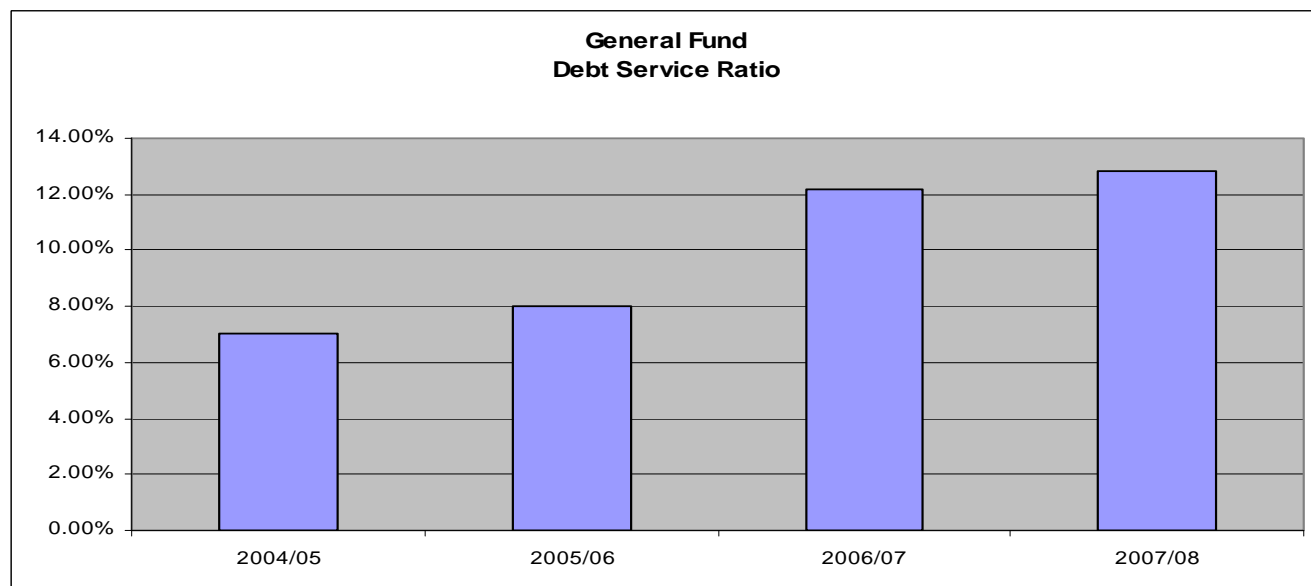
The unrestricted current ratio for water and sewer activities may fluctuate significantly. Yearly fluctuations may result from the accumulation of internal reserves and the impact of lower debt levels and will continue to fluctuate in the future as further funds are collected and expended on infrastructure improvements.

## Debt Service Ratio

This indicator assesses the degree to which revenues from continuing operations are committed to the repayment of debt. Factors influencing a council's debt service ratio include:

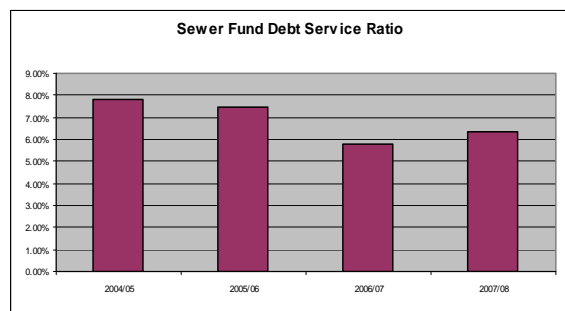
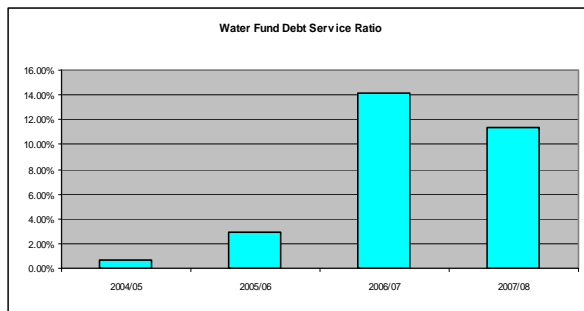
- the rate of new development in the Council area
- Council's debt policy
- interest rate movements and loan terms
- capital investment strategies and capital contributions policies
- the level of cash reserves available to reduce the level of borrowings
- the state of Council's infrastructure / age of assets.

## General Fund Debt Service Ratio



The above graph illustrates the movement in Council's general fund debt service levels over the past four years. Council's general fund debt service ratio has increased over the last two years in conjunction with borrowings to fund the construction of the Glasshouse and other infrastructure improvements. A debt service ratio of this level for a developing coastal council such as Port Macquarie-Hastings is not abnormal however general fund debt levels need to be closely monitored to ensure the level of Council's services do not materially diminish.

### Sewer and Water Fund Debt Service Ratio



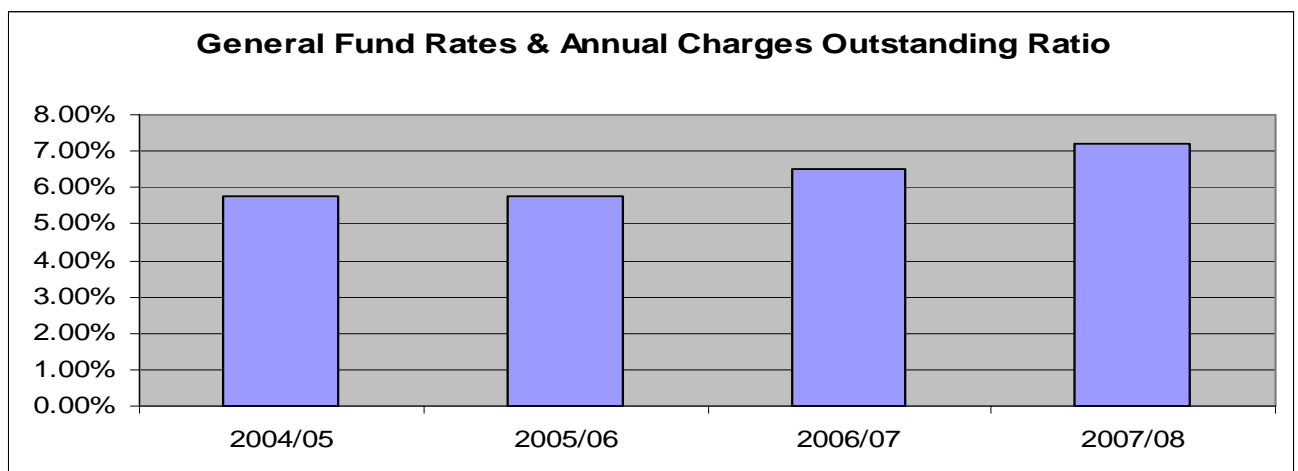
The above graphs illustrate the periodic borrowings to fund Council's capital works programmes for water and sewer funds.

### Rates and Annual Charges Outstanding Percentage

This indicator assesses the effectiveness of Council's revenue collection. Factors influencing Council's rates and annual charges outstanding ratio include:

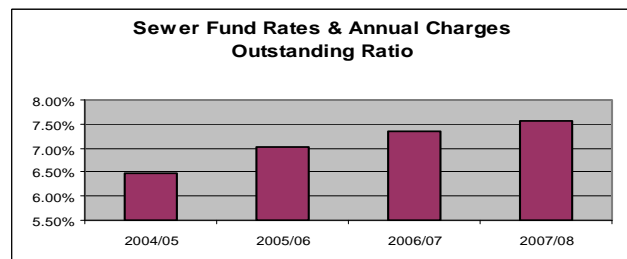
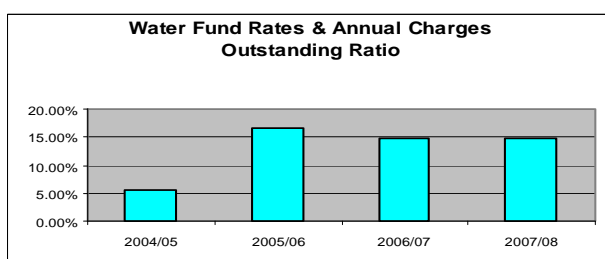
- Council's rating policy
- credit management policies
- the socioeconomic characteristics of the area
- environmental factors influencing ratepayers ability to satisfy their obligations.

### General Fund Rates & Annual Charges Outstanding Ratio



Council's general fund rates and annual charges outstanding percentage is gradually trending upwards. Whilst the ratio is still within acceptable industry parameters Council should continue to monitor its debt collection processes to ensure this ratio remains within Council's policy guidelines.

### Sewer and Water Funds Rates & Annual Charges Outstanding Ratio



The above graphs illustrate the rates and annual charges outstanding ratio for water and sewer funds. The ratio for water and sewer funds can often be influenced by the invoicing for user charges close to the end of the financial year however Council should review its collection policies and procedures to improve this ratio where possible.

## **12. OTHER CURRENT MATTERS**

### **12.1 ASSET MANAGEMENT**

As discussed at 10.4 of this report Council is required to revalue infrastructure assets. Asset management is integral to ensuring that infrastructure standards are managed and utilisation of Council's resources is maximised.

In 2009 Council is required to revalue roads and drainage infrastructure as well as other structures. We also recommend that Council commence planning for this revaluation to ensure asset management practices are implemented in conjunction with the revaluation process. For those asset valuations already performed by Council such as water and sewer, an annual indexation of value together with a reassessment of useful life is required.

The introduction of improved asset management practices may require additional resources to ensure ongoing systems maintenance and upgrade.

### **12.2 INTERNAL CONTROL ENVIRONMENT**

#### **Results of Testing Council's Financial Reporting Systems**

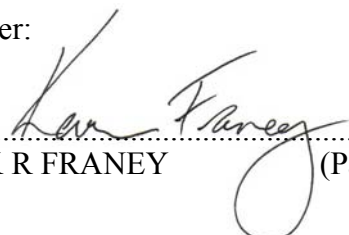
No significant breakdowns of internal control were encountered during the course of our audit nor did we become aware of the existence of items comprising material error, sufficient to cause us to issue a qualified audit opinion in addition to our qualification relating to Council's investment portfolio.

Subject to the foregoing comments the books of account and records of the Council were maintained in good order and condition and the information and explanations required during the course of our work were readily supplied by the General Manager and his staff.

Yours faithfully

**THOMAS NOBLE & RUSSELL**

Per:

  
.....  
K R FRANEY (Partner)



**COUNCIL OF PORT MACQUARIE-HASTINGS  
GENERAL PURPOSE FINANCIAL REPORT  
INDEPENDENT AUDIT REPORT**

**Matters Relating to the Electronic Presentation of the Audited Financial Report**

This audit report relates to the general purpose financial report of Port Macquarie-Hastings Council for the year ended 30 June 2008 included on Council's web site. The Council is responsible for the integrity of its web site. We have not been engaged to report on the integrity of the Council's web site. The audit report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

**Report on the Financial Report**

We have audited the accompanying financial report of Port Macquarie-Hastings Council (the Council), which comprises the balance sheet as at 30 June 2008, the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the statement by Councillors' and Management.

**Council's Responsibility for the Financial Report**

The Council is responsible for the preparation and fair presentation of the financial report 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 report 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 report 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 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 report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, 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 report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Council, as well as evaluating the overall presentation of the financial report.

Our audit responsibility does not extend to the original budget information included in the income statement, cash flow statement, note 2(a), note 16 budget variation explanations and note 17 forecast information, and accordingly, we do not express an opinion on such. In addition, our audit did not include an analysis of the prudence of business decisions made by Council or management.

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

## **Independence**

In conducting our audit, we have complied with the independence requirements of the Australian professional accounting bodies.

## **Qualified Audit Opinion**

In our opinion, except for the effects on the financial statements of the matter referred to in the paragraph below titled Basis for Qualified 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 report:
  - (i) has been presented in accordance with the requirements of this Division;
  - (ii) is consistent with the Council's accounting records;
  - (iii) presents fairly the Council's financial position as at 30 June 2008, the results of its operations and its cash flows for the year then ended; and
  - (iv) are in accordance with applicable Accounting Standards, Interpretations and other mandatory professional reporting requirements in Australia.
- (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 report that have come to light during the course of the audit.

This opinion must be read in conjunction with the rest of our audit report.

## **Basis for Qualified Auditor's Opinion**

Since July 2007, global financial markets have experienced a period of high volatility led by events in the US housing market, particularly sub prime loans, which has impacted the value, recoverability, liquidity, cash flows and rates of return of many financial assets including, but not limited to Collateralised Debt Obligations (CDOs), Equity Linked Notes (ELNs) and certain other Managed Funds.

At 30 June 2008, Port Macquarie-Hastings Council has an investment portfolio totalling \$50.273 million which largely consisted of securities that have been impacted by this market volatility. The impact on individual securities varies depending on their degree of exposure to affected markets.

At balance date Council's investment portfolio included CDO securities totaling \$16.539 million. Many of these securities do not have market values that are independently quoted and they are not widely traded. Independent market valuations are not readily available and in many cases, values are assessed based on estimates from issuers and/or valuation models for which there is limited market evidence available to verify their reasonableness. Further, the ongoing volatility of financial markets creates greater uncertainty to the valuation process and determination of future cash flows that can be attributed to these securities.

These circumstances have resulted in our inability to obtain sufficient and appropriate audit evidence to satisfy ourselves as to the fair value and recoverability of at least \$16.539 million of Council's total investment portfolio.

**THOMAS NOBLE & RUSSELL  
CHARTERED ACCOUNTANTS**



.....  
K R FRANEY (Partner)  
Registered Company Auditor

Dated at Lismore this 29th day of October 2008.

# Port Macquarie - Hastings Council

## Special Purpose Financial Report for the year ended 30 June 2008

### Contents

	Page
<b>Statement by Administrator and Management</b>	1
Income statement of Water Supply business activity	2
Income statement of Sewerage business activity	3
Income statement of Waste Management business activity	4
Income statement of The Glasshouse business activity	5
Balance sheet of Water Supply business activity	6
Balance sheet of Sewerage business activity	7
Balance sheet of Waste Management business activity	8
Balance sheet of The Glasshouse business activity	9
Notes to the Special Purpose Financial Reports	10
Auditors' report	

## Port Macquarie - Hastings Council

### Special Purpose Financial Report for the year ended 30 June 2008

#### Statement by Administrator and Management made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

The attached Special Purpose Financial Report has been prepared in accordance with:

- \* NSW Government Policy Statement *"Application of National Competition Policy to Local Government"*.
- \* Department of Local Government Guidelines *"Pricing & Costing for Council Businesses: A Guide to Competitive Neutrality"*.
- \* The Local Government Code of Accounting Practice and Financial Reporting.
- \* The Department of Water & Energy Best Practice Management of Water Supply and Sewerage Guidelines.

To the best of our knowledge and belief, these Reports:

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

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

Signed in accordance with a resolution of Council made on 27th August 2008.



---

Dick Persson AM  
**Administrator**



---

Andrew Roach  
**General Manager**



---

Kerrie Avery  
**Responsible Accounting Officer**

**Port Macquarie - Hastings Council**

**Income Statement of Water Supply business activity  
for the year ended 30 June 2008**

	<b>Actual 2008 \$'000</b>	Actual 2007 \$'000	Actual 2006 \$'000
<b>Income from continuing operations</b>			
Access charges	3,614	3,466	3,455
User charges	8,715	8,391	7,407
Fees	663	609	588
Interest	159	309	1,679
Grants and contributions provided for non capital purposes	621	996	839
Other revenues	49	34	45
<b>Total revenues from continuing operations</b>	<b>13,821</b>	<b>13,805</b>	<b>14,013</b>
<b>Expenses from continuing operations</b>			
Employee benefits and on-costs	3,149	3,603	3,680
Borrowing costs	888	868	214
Materials and contracts	5,346	5,660	7,454
Depreciation & impairment	7,423	4,410	2,867
Loss on sale of assets	740	207	170
Calculated taxation equivalents	41	41	29
Debt guarantee fee (if applicable)	380	404	241
Other expenses	667	712	785
<b>Total expenses from continuing operations</b>	<b>18,634</b>	<b>15,905</b>	<b>15,440</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>-4,813</b>	<b>-2,100</b>	<b>-1,427</b>
Grants and contributions provided for capital purposes	3,034	2,768	6,481
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>-1,779</b>	<b>668</b>	<b>5,054</b>
Less Corporate Taxation Equivalent (30%) [based on result before capital]	0	0	0
<b>Surplus (deficit) after tax</b>	<b>-1,779</b>	<b>668</b>	<b>5,054</b>
<b>Opening retained profits and reserves</b>	<b>318,505</b>	<b>197,079</b>	<b>192,662</b>
Adjustments for amounts unpaid			
Taxation equivalent payments	41	41	29
Debt guarantee fees	380	404	241
Corporate taxation equivalent	0	0	0
Less: TER Dividend Paid		-258	-867
Less: Surplus Dividend Paid			
Financial Instruments through equity	-1,185	46	-40
Adjustment for previous period error	-1,176	-6,415	
Revaluation Reserve	14,472	126,940	
<b>Closing retained profits and reserves</b>	<b>329,258</b>	<b>318,505</b>	<b>197,079</b>
Return on Capital %	-1.17%	-0.38%	-0.59%
Subsidy from Council	10,633	7,770	5,317
<b>Calculation of Dividend Payable</b>			
Surplus (deficit) after tax	-1,779	668	5,054
Less: Capital grants and contributions (excluding developer contributions)	1,586	959	4,538
Surplus for dividend calculation purposes	-3,365	-291	516
Dividend calculated from surplus	0	0	258

## Port Macquarie - Hastings Council

### Income Statement of Sewerage business activity for the year ended 30 June 2008

	Actual 2008 \$'000	Actual 2007 \$'000	Actual 2006 \$'000
<b>Income from continuing operations</b>			
Access charges	12,526	11,216	10,130
User charges	688	660	622
Fees	64	157	250
Interest	736	3,545	2,314
Grants and contributions provided for non capital purposes	330	308	327
Other revenues	154	51	23
<b>Total revenues from continuing operations</b>	<b>14,498</b>	<b>15,937</b>	<b>13,666</b>
<b>Expenses from continuing operations</b>			
Employee benefits and on-costs	4,063	3,637	3,195
Borrowing costs	293	209	272
Materials and contracts	6,556	6,293	6,008
Depreciation & impairment	4,964	3,825	2,894
Loss on sale of assets	90		
Calculated taxation equivalents	90	77	68
Debt guarantee fee (if applicable)	180	58	106
Other expenses	980	876	847
<b>Total expenses from continuing operations</b>	<b>17,216</b>	<b>14,975</b>	<b>13,390</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>-2,718</b>	<b>962</b>	<b>276</b>
Grants and contributions provided for capital purposes	1,525	1,083	2,201
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>-1,193</b>	<b>2,045</b>	<b>2,477</b>
Less Corporate Taxation Equivalent (30%) [based on result before capital]	0	289	83
<b>Surplus (deficit) after tax</b>	<b>-1,193</b>	<b>1,756</b>	<b>2,394</b>
<b>Opening retained profits and reserves</b>	<b>198,177</b>	<b>152,929</b>	<b>151,188</b>
Taxation equivalent payments	90	77	68
Debt guarantee fees	180	58	106
Corporate taxation equivalent	0	289	83
Less: TER Dividend Paid			-758
Less: Surplus Dividend Paid		-1,254	
Financial Instruments through equity	-3,526	197	-152
Revaluation Reserve	3,274	44,125	
<b>Closing retained profits and reserves</b>	<b>197,002</b>	<b>198,177</b>	<b>152,929</b>
Return on Capital %	-1.35%	0.68%	0.49%
Subsidy from Council	6,018	2,268	1,694
<b>Calculation of Dividend Payable</b>			
Surplus (deficit) after tax	-1,193	1,756	2,394
Less: Capital grants and contributions (excluding developer contributions)	6	250	183
Surplus for dividend calculation purposes	0	1,506	2,211
Dividend calculated from surplus	0	753	1,106

## Port Macquarie - Hastings Council

### Income Statement of Waste Management business activity for the year ended 30 June 2008

	Actual 2008 \$'000	Actual 2007 \$'000	Actual 2006 \$'000
<b>Revenue from continuing operations</b>			
Access charges	9,485	7,958	7,226
User charges	3,665	2,996	2,634
Fees			
Interest	90	106	28
Grants and contributions provided for non capital purposes	468	494	384
Other revenues	397	221	119
<b>Total revenues from continuing operations</b>	<b>14,105</b>	<b>11,775</b>	<b>10,391</b>
<b>Expenses from continuing operations</b>			
Employee benefits and on-costs	1,463	1,402	1,225
Borrowing costs	162	183	204
Materials and contracts	10,506	8,857	7,052
Depreciation & impairment	263	265	252
Loss on sale of assets	7		
Calculated taxation equivalents	40	44	31
Debt guarantee fee (if applicable)	57	73	88
Other expenses	54	62	68
<b>Total expenses from continuing operations</b>	<b>12,552</b>	<b>10,886</b>	<b>8,920</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>1,553</b>	<b>889</b>	<b>1,471</b>
Grants and contributions provided for capital purposes			25
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>1,553</b>	<b>889</b>	<b>1,496</b>
<b>Surplus (deficit) from all operational before tax</b>			
Less Corporate Taxation Equivalent (30%) [based on result before capital]	466	267	441
<b>Surplus (deficit) after tax</b>	<b>1,087</b>	<b>622</b>	<b>1,055</b>
<b>Opening retained profits and reserves</b>	<b>5,152</b>	<b>4,146</b>	<b>2,531</b>
Adjustments for amounts unpaid			
Taxation equivalent payments	40	44	31
Debt guarantee fees	57	73	88
Corporate taxation equivalent	466	267	441
Adjustment for previous period error	-43		
Asset Revaluation	777		
Less: Dividend Paid	-500	0	0
<b>Closing retained profits and reserves</b>	<b>7,036</b>	<b>5,152</b>	<b>4,146</b>
Return on Capital %	21.51%	14.17%	21.93%
Subsidy from Council	0	0	0
<b>Calculation of Dividend Payable</b>			
Surplus (deficit) after tax	1,087	622	1,055
Less: Capital grants and contributions (excluding developer contributions)	0	0	25
Surplus for dividend calculation purposes	1,087	622	1,030
Dividend calculated from surplus	500	0	0



## Port Macquarie - Hastings Council

### Income Statement of The Glasshouse business activity for the year ended 30 June 2008

	<b>Actual 2008 \$'000</b>	Actual 2007 \$'000	Actual 2006 \$'000
<b>Revenue from continuing operations</b>			
Access charges			
User charges			
Fees			
Interest			
Grants and contributions provided for non capital purposes	3	50	
Other revenues	127	65	37
<b>Total revenues from continuing operations</b>	<b>130</b>	<b>115</b>	<b>37</b>
<b>Expenses from continuing operations</b>			
Employee benefits and on-costs	465	303	170
Borrowing costs	884	1,532	101
Materials and contracts	1,151	368	215
Depreciation & impairment	23	19	0
Calculated taxation equivalents	56	114	114
Debt guarantee fee (if applicable)	904	686	280
Other expenses	11	9	5
<b>Total expenses from continuing operations</b>	<b>3,494</b>	<b>3,031</b>	<b>885</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>-3,364</b>	<b>-2,916</b>	<b>-848</b>
Grants and contributions provided for capital purposes	100	0	0
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>-3,264</b>	<b>-2,916</b>	<b>-848</b>
<b>Surplus (deficit) from all operational before tax</b>			
Less Corporate Taxation Equivalent (30%) [based on result before capital]	0	0	0
<b>Surplus (deficit) after tax</b>	<b>-3,264</b>	<b>-2,916</b>	<b>-848</b>
<b>Opening retained profits</b>	<b>1,613</b>	<b>3,729</b>	<b>4,183</b>
Adjustments for amounts unpaid			
Taxation equivalent payments	56	114	114
Debt guarantee fees	904	686	280
Corporate taxation equivalent	0	0	0
Less: Dividend Paid	0	0	0
<b>Closing retained profits</b>	<b>-691</b>	<b>1,613</b>	<b>3,729</b>
Return on Capital %	-9.64%	-9.35%	
Subsidy from Council			

## Port Macquarie - Hastings Council

### Balance Sheet of Water Supply business activity as at 30 June 2008

	<b>Actual 2008 \$'000</b>	Actual 2007 \$'000
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents		
Investments	590	0
Receivables	3,532	3,105
Inventories	372	356
<b>Total current assets</b>	<b>4,494</b>	<b>3,461</b>
<b>Non Current Assets</b>		
Investments	8,456	9,562
Receivables	301	287
Infrastructure, property, plant and equipment	335,985	327,434
<b>Total non-current assets</b>	<b>344,742</b>	<b>337,283</b>
<b>Total assets</b>	<b>349,236</b>	<b>340,744</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	310	1,975
Interest bearing liabilities	755	708
Provisions	1,992	1,919
<b>Total current liabilities</b>	<b>3,057</b>	<b>4,602</b>
<b>Non-current liabilities</b>		
Payables	5,287	5,287
Interest bearing liabilities	11,585	12,298
Provisions	49	52
<b>Total non-current liabilities</b>	<b>16,921</b>	<b>17,637</b>
<b>Total liabilities</b>	<b>19,978</b>	<b>22,239</b>
<b>Net assets</b>	<b>329,258</b>	<b>318,505</b>
<b>EQUITY</b>		
Retained earnings	189,024	191,560
Reserves	140,234	126,945
<b>Total equity</b>	<b>329,258</b>	<b>318,505</b>

## Port Macquarie - Hastings Council

### Balance Sheet of Sewerage business activity as at 30 June 2008

	<b>Actual 2008 \$'000</b>	Actual 2007 \$'000
<b>ASSETS</b>		
<b>Current Assets</b>		
Investments	1,681	0
Receivables	2,755	2,545
Inventories	7	17
<b>Total current assets</b>	<b>4,443</b>	<b>2,562</b>
<b>Non Current Assets</b>		
Investments	24,083	27,973
Receivables	2,558	3,049
Infrastructure, property, plant and equipment	180,037	172,152
<b>Total non-current assets</b>	<b>206,678</b>	<b>203,174</b>
<b>Total assets</b>	<b>211,121</b>	<b>205,736</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	244	546
Interest bearing liabilities	905	520
Provisions	1,140	1,063
<b>Total current liabilities</b>	<b>2,289</b>	<b>2,129</b>
<b>Non-current liabilities</b>		
Payables	3,337	3,337
Interest bearing liabilities	8,472	2,077
Provisions	21	16
<b>Total non-current liabilities</b>	<b>11,830</b>	<b>5,430</b>
<b>Total liabilities</b>	<b>14,119</b>	<b>7,559</b>
<b>Net assets</b>	<b>197,002</b>	<b>198,177</b>
<b>EQUITY</b>		
Retained earnings	153,085	154,008
Reserves	43,917	44,169
<b>Total equity</b>	<b>197,002</b>	<b>198,177</b>

## Port Macquarie - Hastings Council

### Balance Sheet of Waste Management business activity as at 30 June 2008

	Actual 2008 \$'000	Actual 2007 \$'000
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents		
Investments	46	0
Receivables	726	473
<b>Total current assets</b>	<b>772</b>	<b>473</b>
<b>Non Current Assets</b>		
Investments	656	579
Receivables	252	255
Infrastructure, property, plant and equipment	7,973	7,564
<b>Total non-current assets</b>	<b>8,881</b>	<b>8,398</b>
<b>Total assets</b>	<b>9,653</b>	<b>8,871</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	5	588
Interest bearing liabilities	521	516
Provisions	668	671
<b>Total current liabilities</b>	<b>1,194</b>	<b>1,775</b>
<b>Non-current liabilities</b>		
Interest bearing liabilities	1,137	1,658
Provisions	286	286
<b>Total non-current liabilities</b>	<b>1,423</b>	<b>1,944</b>
<b>Total liabilities</b>	<b>2,617</b>	<b>3,719</b>
<b>Net assets</b>	<b>7,036</b>	<b>5,152</b>
<b>EQUITY</b>		
Retained earnings	6,259	5,152
Reserves	777	
<b>Total equity</b>	<b>7,036</b>	<b>5,152</b>

## Port Macquarie - Hastings Council

### Balance Sheet of The Glasshouse business activity as at 30 June 2008

	<b>Actual 2008 \$'000</b>	Actual 2007 \$'000
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents		
Investments	6,702	18,957
Receivables		
Inventories		
<b>Total current assets</b>	6,702	18,957
<b>Non Current Assets</b>		
Receivables		
Infrastructure, property, plant and equipment	25,715	14,810
<b>Total non-current assets</b>	25,715	14,810
<b>Total assets</b>	32,417	33,767
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	3,307	1,534
Interest bearing liabilities	891	843
Provisions	76	51
<b>Total current liabilities</b>	4,274	2,428
<b>Non-current liabilities</b>		
Payables		
Interest bearing liabilities	28,834	29,726
Provisions		
<b>Total non-current liabilities</b>	28,834	29,726
<b>Total liabilities</b>	33,108	32,154
<b>Net assets</b>	-691	1,613
<b>EQUITY</b>		
Retained earnings	-691	1,613
<b>Total equity</b>	-691	1,613

## **Port Macquarie - Hastings Council**

### **Notes to the Special Purpose Financial Reports for the year ended 30 June 2008**

	Page
Contents of the notes to the financial statements	
Note 1 Significant accounting policies	SP10
Note 2 Water Supply Business best practice management disclosure requirements	SP13
Note 3 Sewerage Business best practice management disclosure requirements	SP14

## Port Macquarie - Hastings Council

### Note 1 Significant accounting policies for the year ended 30 June 2008

A statement summarising the supplemental accounting policies adopted in the preparation of the SPFR for National Competition Policy reporting purposes follows.

These financial statements are a Special Purpose Financial Report (SPFR) prepared for use by the Council and Department of Local Government. For the purposes of these statements, the Council is not a reporting entity.

This special purpose financial report, unless otherwise stated, has been prepared in accordance with applicable Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Accounting Standards Interpretations, the Local Government Act and Regulations, the Local Government Code of Accounting Practice and Financial Reporting and the Local Government Asset Accounting Manual.

The statements are also prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, current values of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

#### National Competition Policy

Council has adopted the principle of 'competitive neutrality' to its business activities as part of the national competition policy which is being applied throughout Australia at all levels of government. The framework for its application is set out in the June 1996 Government Policy statement on the '*Application of National Competition Policy to Local Government*'. The '*Pricing & Costing for Council Businesses A Guide to Competitive Neutrality*' issued by the Department of Local Government in July 1997 has also been adopted.

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

#### Declared business activities

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

#### Declared business activities

##### Category 1 - Where annual turnover is greater than \$2 million

Name	Brief description of Activity
Port Macquarie-Hastings Water Supply	Comprising the whole of the operations and assets of the water supply systems servicing the Port Macquarie-Hastings Council area, which is established as a separate Special Rate Fund. As the total annual operating revenues exceed \$2,000,000, it is defined as a "Category 1" Business activity.

## Note 1 Significant accounting policies - continued

Port Macquarie-Hastings Sewerage Services	Comprising the whole of the operations and assets of the sewerage reticulation and treatment systems servicing the Port Macquarie-Hastings Council area, which is established as a separate Special Rate Fund. As the total annual operating revenues exceed \$2,000,000, it is defined as a "Category 1" Business activity.
Port Macquarie-Hastings Waste Management Services	Comprising the whole of the operations and assets of the waste management service carried out by the Port Macquarie-Hastings Council, which is established as a separate Special Rate Fund. As the total annual operating revenues exceed \$2,000,000, it is defined as a "Category 1" Business activity.

### Category 2 - Where annual turnover is less than \$2 million

Name	Brief description of Activity
The Glasshouse	The Glasshouse is a multi-function community centre. It includes a 606 seat tiered theatre, Regional Gallery, Exhibition and performance studio, Meeting and conference rooms, Community workshop space, Café/Bar, Outdoor forecourt, Office space and retail space.

### Monetary amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest one thousand dollars, with the exception of Note 2 (Water Supply Best Practice Management Disclosures A513) and Note 3 (Sewerage Best Practice Management Disclosures A514). As required by the Department of Water and Energy, the amounts shown in Notes 2 and Note 3 are shown in whole dollars.

### Taxation equivalent charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations (General Purpose Financial Report) just like all other costs. However, where Council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council nominated business activities and are reflected in the SPFR. For the purposes of disclosing comparative information relevant to the private sector equivalent the following taxation equivalents have been applied to all Council nominated business activities (this does not include Council's non-business activities):

	Notional Rate Applied
Corporate Tax Rate	30%
Land Tax	\$100 plus 1.6cents for each \$ by which the taxable value exceeds \$359,000
Other Taxes for Charges	Adjusted accordingly
Payroll Tax	6% on salaries and wages in excess of \$600,000

In accordance with the guidelines for Best Practice Management of Water Supply and Sewerage, a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from Water Supply and Sewerage Business activities. The payment of taxation equivalent charges, referred in the Best Practice Management of Water Supply and Sewerage Guides to as a "Dividend for Taxation equivalent", may be applied for any purpose allowed under the Local Government Act, 1993. Achievement of substantial compliance against the guidelines for Best Practice Management of Water



## **Note 1 Significant accounting policies - continued**

### **Income Tax**

An income tax equivalent has been applied on the profits of the business. Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account of in terms of assessing the rate of return required on capital invested. Accordingly, the return on capital invested is set at a pre-tax level (gain/(loss) from ordinary activities before capital amounts) as would be applied by a private sector competitor – that is, it should include a provision equivalent to the corporate income tax rate, currently 30%.

Income Tax is only applied where a positive gain/(loss) from ordinary activities before capital amounts has been achieved. Since the taxation equivalent is notional, that is, it is payable to the “Council” as the owner of business operations, it represents an internal payment and has no effect on the operations of the council.

Accordingly, there is no need for disclosure of internal charges in the GPFR. The rate applied of 30% is the equivalent company tax rate prevalent as at balance date. No adjustments have been made for variations that have occurred during the year.

### **Local Government Rates and Charges**

A calculation of the equivalent rates and charges for all Category 1 businesses has been applied to all

### **Loan and debt guarantee fees**

The debt guarantee fee is designed to ensure that Council business activities face “true” commercial borrowing costs in line with private sector competitors. In order to calculate a debt guarantee fee, council has determined what the differential borrowing rate would have been between the commercial rate and the council’s borrowing rate for its business activities.

### **Subsidies**

Government policy requires that subsidies provided to customers and the funding of those subsidies must be explicitly disclosed. Subsidies occur where council provides services on a less than cost recovery basis. This option is exercised on a range of services in order for council to meet its community services obligations. The overall effect of subsidies is contained within the statement of financial performance by Business Activities.

### **Return on Investments (rate of return)**

The Policy statement requires that Councils with category 1 businesses “would be expected to generate a rate of return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field”. Funds are subsequently available for meeting commitments or financing future investment strategies. The rate of return is disclosed for each of Council’s business activities on the Income Statement and Balance Sheet.

### **Dividends**

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

Local Government Water Supply and Sewerage Businesses are permitted to pay an annual dividend from its water supply or sewerage business surplus. The dividend, calculated and approved in accordance with the Best Practice Management Guidelines, must not exceed 50% of this surplus in any one year, or the number of water supply or sewerage assessments at 30 June 2008 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the guidelines for Best Practice Management for Water Supply and Sewerage, a Dividend Payment form, Statement of Compliance, unqualified independent Financial Audit Report and Compliance Audit Report are submitted to the Department of Water and Energy.

**Note 2 Water Supply Business best practice management disclosure requirements**

**Calculation and payment of tax-equivalents**

(i)	Calculated tax-equivalents	421,153
(ii)	No of assessments multiplied by \$3/assessment	95,733
(iii)	Amounts payable for tax-equivalents (lessor of (i) and (ii))	95,733
(iv)	Tax equivalents paid	0

**Dividend from Surplus**

(i)	50% of surplus before dividends <i>(Calculated in accordance with Best Practice Management for Water Supply and Sewerage Guidelines)</i>	0
(ii)	No. of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	957,330
(iii)	Cumulative surplus before dividends for 3 years to 30 June 2008, less cumulative dividends paid for 2 years to 30 June 2007	0
(iv)	Maximum dividend from surplus (least of (i), (ii) and (iii))	0
(v)	Dividend paid from surplus	0

**Required outcomes for 6 Criteria**

**Yes/No**

(1)	Completion of Strategic Business Plan (including Financial Plan)	Yes
(2)	Full cost recovery, without significant cross subsidies <i>(Item 2(a) in Table 1 on page 22 of the Best Practice Management Guidelines)</i>	Yes
Complying Charges	(a) Residential (Item 2(b) in Table 1)	Yes
	(b) Non-residential (Item 2(b) in Table 1)	Yes
	DSP with Commerical Developer Charges (Item 2(e) in Table 1)	Yes
	If Dual Water Supplies, Complying Charges (Item 2(g) in Table 1)	Yes
(3)	Sound Water Conservation & Demand Management Implemented	Yes
(4)	Sound Drought Management Implemented	Yes
(5)	Complete Performance Reporting Form (by 15 September each year)	Yes

**Note 2 Water Supply Business best practice management disclosure requirements - continued**

(6)	Complete Integrated Water Cycle Management Evaluation	Yes
(7)	Complete and implement Integrated Water Cycle Management Strategy	Yes

**National Water Initiative (NWI) Financial Performance Indicators**

NWI F1	Total Revenue (Water) = Total Revenue (w13) - Grants for Acquisition of Assets (w11a) - Interest Income (w9)	\$ ('000)	16,741
NWI F4	Revenue from Residential Usage Charges (Water) = Income from residential Usage Charges (w6b) x 100 / (Income from residential usage charges (w6a) + Income from residential access charges (w6b))	%	74.15
NWI F9	Written Down Replacement Cost of Fixed Assets (Water) = Written down current cost of system assets (w47)	\$ ('000)	335,985
NWI F11	Operating Cost (OMA) (Water) = Management Expenses (w1) + Operation and Maintenance Expenses (w2)	\$ ('000)	6,835
NWI F14	Capital Expenditure (Water) = Acquisition of fixed assets (w16)	\$ ('000)	3,481
NWI F17	Economic Real Rate of Return (Water) = [Total Income (w13) - Interest Income (w9) - Grants for acquisition of Assets (w11a) - Operating Cost(NWI F11) - Current cost Depreciation (W3)] x 100 divided by Written Down Cost of system assets (w47) + Plant and Equipment (W33b)	%	0.7390
NWI F26	Capital Works Grants (Water) = Grants for Acquisition of Assets (w11a)	\$ ('000)	0

**Notes**

- References to w (eg. W12) refer to item numbers in Special Schedules Nos. 3 and 4 of each of Council's Annual Financial Statements.
- The NWI performance indicators are based on the National Performance Framework handbook for Urban Performance Reporting Indicators and Definitions.

The NWI indicators are to be calculated using the formulae shown above.

## Port Macquarie - Hastings Council

### Note 3 Sewerage Business best practice management disclosure requirements for the year ended 30 June 2008

#### Calculation and payment of tax-equivalents

(i)	Calculated tax-equivalents	269,702
(ii)	No of assessments multiplied by \$3/assessment	81,885
(iii)	Amounts payable for tax-equivalents (lessor of (i) and (ii))	81,885
(iv)	Tax equivalents paid	0

#### Dividend from Surplus

(i)	50% of surplus before dividends <i>(Calculated in accordance with Best Practice Management for Water Supply and Sewerage Guidelines)</i>	0
(ii)	No. of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	818,850
(iii)	Cumulative surplus before dividends for 3 years to 30 June 2008, less cumulative dividends paid for 2 years to 30 June 2007	2,463,000
(iv)	Maximum dividend from surplus (least of (i), (ii) and (iii))	0
(v)	Dividend paid from surplus	0

#### Required outcomes for 4 Criteria

	Yes/No
(i) Complete current Strategic Business Plan (including Financial Plan)	Yes
(ii) Pricing with full cost-recovery, without significant cross subsidies (Item 2(a) in Table 1 on page 18 of the Best Practice Guidelines)	Yes
Complying Charges	
(a) Residential (Item 2(b) in Table 1)	Yes
(b) Non-residential (Item 2(b) in Table 1)	Yes
(c) Trade Waste (Item 2(d) in Table 1)	Yes
DSP with Commerical Developer Charges (Item 2(e) in Table 1)	Yes
Liquid Trade Waste Approvals and Policy	Yes
(iii) Complete performance Reporting Form by (15 September each year)	Yes
(iv) Complete Integrated Water Cycle Management Evaluation	Yes

(v)	Complete and implement Integrated Water Cycle Management Strategy	Yes
-----	---	-----

**National Water Initiative (NWI) Financial Performance Indicators**

NWI F2	Total Revenue (Sewerage) = Total Income (s14) - Grants for Acquisition of Assets (s12a) - Interest Income (s10)	\$ ('000) 15,362
--------	--	------------------

NWI F10	Written Down Replacement Cost of Fixed Assets (Sewerage) = Written down current cost of system assets (s48)	\$ ('000) 179,883
---------	--	-------------------

NWI F12	Operating Cost (OMA) (Sewerage) = Management Expenses (s1) + Operation and Maintenance Expenses (s2)	\$ ('000) 9,777
---------	---	-----------------

NWI F15	Capital Expenditure (Sewerage) = Acquisition of fixed assets (s17)	\$ ('000) 9,585
---------	---	-----------------

NWI F18	Economic Real Rate of Return (Sewerage) = [Total Income (s14) - Interest Income (s10) - Grants for acquisition of assets (s12a) - Operating Cost(NWI F12) - Current cost depreciation (s3)] x 100 divided by Written Down current cost (WDCC) of system assets (s48) + Plant and Equipment (s34b)	% 0.345
---------	--	---------

NWI F27	Capital Works Grants (Sewerage) = Grants for Acquisition of Assets (s12a)	\$ ('000) 6
---------	--	-------------

NWI F3	Total Income (Water & Sewerage) = Total income (w13 +s14) + Gain/loss on disposal of assets (W14+S15) - Grants for acquisition of assets (w11a + s12a) - Interest income (w9 + s10)	\$ ('000) 31,272
--------	--	------------------

NWI F8	Revenue from Community Service Obligations (Water and Sewerage) = Community Service Obligations (NWI F25) x 100 divided by Total Income (NWI F3)	% 2.0977
--------	---	----------

NWI F13	Operating Cost (OMA) (Water & Sewerage) = Operating cost (water & sewerage) (NWI F11 + NWI F12)	\$ ('000) 16,612
---------	--	------------------

NWI F16	Capital Expenditure (Water & Sewerage) = Acquisition of fixed assets (w16 + s17)	\$ ('000) 13,066
---------	---	------------------

NWI F19	Economic Real Rate of Return (Water and Sewerage)	% 0.602
---------	---	---------

=  $[Total\ Income\ (w13 + s14) - Interest\ Income\ (w9 + s10) - Grants\ for\ Assets\ (w11a + s12a) - Operating\ Cost(NWI\ F11 + NWI\ F12) - current\ cost\ depreciation\ (w3 + s3)] \times 100$  divided by  $Written\ Down\ Replacement\ Cost\ of\ fixed\ assets\ (NWIF9 + NWIF10) + s33b$

**National Water Initiative (NWI) Financial Performance Indicators - continued**

NWI F20	Dividend (Water & Sewerage) = Dividend paid from surplus (2(v) of Note 2 + 2(v) of Note 3)	\$ ('000)	0.000
NWI F21	Dividend Payout Ratio (Water & Sewerage) = Dividend (NWI F20) *100	%	0.000
NWI F22	Net Debt to Equity (Water and Sewerage) = $[Overdraft\ (w36 +s37) + Borrowings\ (w38 + s39) - Cash\ and\ investments\ (w30 + s31)] \times 100$ divided by $[Total\ Assets\ (w35 +s36) - Total\ Liabilities\ (w40 + s41)]$	%	-2.488
NWI F23	Interest Cover (Water and Sewerage) = EBIT /NI Earnings before Interest and Tax (EBIT) = Operating result (w15a+s16a) + Interest expense (W4a +s4a) - Interest income (w9 + s10) - Gain/loss on disposal of assets (w14 +s15) Net Interest (NI) = Interest expense (w4a + s4a) - Interest income (w9 + s10) Note: If EBIT>0 AND Net interest <=0 THEN Interest cover is to be reported as ">100" If EBIT <0 THEN interest Cover = 0		0.000
NWI F24	Net Profit After Tax (Water and Sewerage) = $[Surplus\ before\ Dividends\ (w15a + s16a) - Tax\ Paid\ (1(iv)\ of\ Note\ 2 + 1(iv)\ of\ Note\ 3)]$	\$ ('000)	-2,978
NWI F25	Community Service Obligations (Water and Sewerage) = Grants for pensioner rebates (w11b + s12b)	\$ ('000)	656

Notes

- References to s (eg. s12) refer to item numbers in Special Schedules Nos. 5 and 6 of each of Council's Annual Financial Statements.
- The NWI performance indicators are based on the National Performance Framework handbook for Urban Performance Reporting Indicators and Definitions

The NWI indicators are to be calculated using the formulae shown above.

**COUNCIL OF PORT MACQUARIE-HASTINGS  
SPECIAL PURPOSE FINANCIAL REPORT  
INDEPENDENT AUDIT REPORT**

**Matters Relating to the Electronic Presentation of the Audited Financial Report**

This audit report relates to the special purpose financial report of Port Macquarie-Hastings Council for the year ended 30 June 2008 included on Council's web site. The Council is responsible for the integrity of its web site. We have not been engaged to report on the integrity of the Council's web site. The audit report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

**Report on the Financial Report**

We have audited the accompanying special purpose financial report of Port Macquarie-Hastings Council (the Council), which comprises the balance sheet as at 30 June 2008, the income statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the statement by Councillors' and Management.

**Council's Responsibility for the Financial Report**

The Council is responsible for the preparation and fair presentation of the financial report in accordance with the Local Government Act 1993 and has determined that the accounting policies described in note 1 to the financial statements, which form part of the financial report, are appropriate to meet the financial reporting requirements of Department of Local Government. The Council's responsibility also includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report 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 report based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 1, are appropriate to meet the Council's financial reporting obligations. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our audit responsibility does not extend to the best practice management disclosures in note 2 and note 3, and accordingly, we do not express an opinion on such.

Our responsibility is to express an opinion on the financial report 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 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 report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, 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 report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Council, as well as evaluating the overall presentation of the financial report.

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

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

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

### **Independence**

In conducting our audit, we have complied with the independence requirements of the Australian professional accounting bodies.

### **Qualified Audit Opinion**

In our opinion, except for the effects on the financial statements of the matter referred to in the paragraph below titled Basis for Qualified Auditor's Opinion, the special purpose financial report of Port Macquarie-Hastings Council:

- (a) has been prepared in accordance with the requirements of those applicable Australian Accounting Standards detailed in note 1 and the Local Government Code of Accounting Practice and Financial Reporting;
- (b) is consistent with the Council's accounting records; and
- (c) presents fairly, in all material respects, the financial position of Council's nominated Business Activities as at 30 June 2008 and the results of their operations for the year then ended.

### **Basis for Qualified Auditor's Opinion**

Since July 2007, global financial markets have experienced a period of high volatility led by events in the US housing market, particularly sub prime loans, which has impacted the value, recoverability, liquidity, cash flows and rates of return of many financial assets including, but not limited to Collateralised Debt Obligations (CDOs), Equity Linked Notes (ELNs) and certain other Managed Funds.



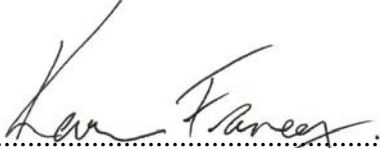
At 30 June 2008, Port Macquarie-Hastings Council has an investment portfolio totalling \$50.273 million which largely consisted of securities that have been impacted by this market volatility. The impact on individual securities varies depending on their degree of exposure to affected markets.

At balance date Council's investment portfolio included CDO securities totaling \$16.539 million. A proportion of these investments are held by Council's business activities. Many of these securities do not have market values that are independently quoted and they are not widely traded.

Independent market valuations are not readily available and in many cases, values are assessed based on estimates from issuers and/or valuation models for which there is limited market evidence available to verify their reasonableness. Further, the ongoing volatility of financial markets creates greater uncertainty to the valuation process and determination of future cash flows that can be attributed to these securities.

These circumstances have resulted in our inability to obtain sufficient and appropriate audit evidence to satisfy ourselves as to the fair value and recoverability of at least \$16.539 million of Council's total investment portfolio.

**THOMAS NOBLE & RUSSELL  
CHARTERED ACCOUNTANTS**



.....  
K. R. FRANEY (Partner)  
Registered Company Auditor

Dated at Lismore this 29th day of October 2008.

## Port Macquarie - Hastings Council

### Special Schedules for the year ended 30 June 2008

#### Contents

<b><i>Special Schedules (Not Audited)</i></b>		Page
Special Schedule No. 1	Net cost of services	1
Special Schedule No. 2(a)	Statement of long-term debt (all purpose)	4
Special Schedule No. 2(b)	Statement of internal loans (Section 410(3))	5
Special Schedule No. 3	Water supply income statement	6
Special Schedule No. 4	Water supply - balance sheet	9
Special Schedule No. 5	Sewerage service income statement	10
Special Schedule No. 6	Sewerage service - balance sheet	13
Notes to Special Schedules 3 and 5		14
Special Schedule No. 7	Condition of public works	15
Special Schedule No. 8	Financial Projections	16

Port Macquarie - Hastings Council

Special Schedule No. 1  
Net cost of services  
for the year ended 30 June 2008

Function or Activity	Expenses from continuing operations		Revenue from continuing operations			Net cost of services	
	Expenses	Group totals	Non Capital revenues	Capital Revenues	Group totals	Net cost	Group totals
<b>Governance</b>	2,660		80			2,580	
		2,660			80		2,580
<b>Adminstration</b>							
Corporate Support	1,037		269	191		577	
Engineering and Works	1,296		8	-4		1,292	
Other Support Services	-761		-81			-680	
		1,572			383		1,189
<b>Public Order and Safety</b>							
Contributions to Fire Service Levy	273					273	
Fire Protection - Other	1,037		515	344		178	
Animal Control	442		269			173	
Beach Control	86		19			67	
Enforcement of Local Govt Regs	549		347			202	
Emergency Services	95		-8	73		30	
Other	5		0			5	
		2,487			1,559		928
<b>Health</b>							
Administration and Inspection						0	
Immunisations						0	
Food Control						0	
Insect/Vermin Control						0	
Noxious Plants	324		117			207	
Health Centres						0	
Other	23					23	
		347			117		230
<b>Community Services and Education</b>							
Administration	1,085					1,085	
Child Care			-2			2	
Youth Services	114		40			74	
Other Families and Children						0	
Aged and Disabled	159		32			127	
Aboriginal Services	59					59	
Education	0					0	
Other Community Services	532		31	53		448	
		1,949			154		1,795
<b>Housing and Community Amenities</b>							
Housing	75		29			46	
Town Planning	2,928		1,339			1,589	
Domestic Waste Management	6,753		8,793			-2,040	
Other Waste Management	4,736		4,552			184	
Street Cleaning	356		-10			366	
Other Sanitation and Garbage	65		78			-13	
Urban Stormwater Drainage	1,727		606			1,121	
Environmental Protection	1,970		669	46		1,255	
Public Cemeteries	982		957			25	
Public Conveniences	410		-30			440	
Other Community Amenities	48		-1		0	49	

20,050

17,028

3,022

**Net cost of services (continued)**

Function or Activity	Expenses from		Revenue from continuing			Net cost of services	
	Expenses	Group totals	Non Capital revenues	Capital Revenues	Group totals	Net cost	Group totals
<b>Water Supplies</b>	17,198		13,745	3,788		-335	
		17,198			17,533		-335
<b>Sewerage Services</b>	15,069		13,193	771		1,105	
		15,069			13,964		1,105
<b>Recreation and Culture</b>							
Public Libraries	2,097		305	7		1,785	
Museums	118		-1			119	
Art Galleries	331		73			258	
Community Centres	52		134	15		-97	
Public Halls	168		20	149		-1	
Other Cultural Services	2,450		19	145		2,286	
Swimming Pools	820		-52			872	
Sporting Grounds	870		-61			931	
Parks and Gardens (Lakes)	3,624		63	928		2,633	
Other Sport and Recreation	447		90	84		273	
		10,977			1,918		9,059
<b>Mining, Manufacturing and Constructions</b>							
Building Control	2,177		1,635			542	
		2,177			1,635		542
<b>Transport and Communications</b>							
Urban Roads (UR): Local	4,410		840	6,281		-2,711	
Urban Roads: Regional	1,597		781	1,910		-1,094	
Sealed Rural Roads (SRR): Local	10,727		-1	2,276		8,452	
Sealed Rural Roads: Regional	232			21		211	
Unsealed Rural Roads (URR): Local	1,492					1,492	
Bridges Urban Roads: Local	124		-1	50		75	
Bridges Unsealed Rural Roads: Local	19					19	
Bridges on Sealed Rural Roads: Local	1,156		-2			1,158	
Footpaths	259		57	104		98	
Aerodromes	1,536		2,550			-1,014	
Parking Areas	191		-123	111		203	
Bus Shelters and Services	35		10	8		17	
Water Transport	400		10			390	
Street Lighting	1,153		88			1,065	
Other	1,850		307	12		1,531	
		25,181			15,289		9,892

## Net cost of services (continued)

Function or Activity	Expenses from		Revenue from continuing			Net cost of services	
	Expenses	Group totals	Non Capital revenues	Capital Revenues	Group totals	Net cost	Group totals
<b>Economic Affairs</b>							
Camping Areas						0	
Caravan Parks	1,094		1,221			-127	
Tourism and Area Promotion	2,356		920			1,436	
Industrial Development Promotion	557		254			303	
Real Estate Development	323		-41			364	
Other Business Undertakings	1,447		712			735	
		5,777			3,066		2,711
<b>Totals - Functions</b>		105,444			72,726		32,718
<b>General Purpose Revenues (1)</b>	124	124	36,141		36,141	36,017	36,017
<b>Net operating result for the year (2)</b>		105,568			108,867		3,299

### Notes:

(1) Includes:

- \* Rates and annual charges
- \* Non-Capital General Purpose Grants
- \* Interest on Investments
- \* Gain/Loss on Disposal Financial Asset

(2) As reported on the income statement

Port Macquarie - Hastings Council

Special Schedule No. 2(a)

Statement of long-term debt (all purpose)

for the year ended 30 June 2008

Classification of Debt	Principal outstanding at beginning of year			New loans raised during the year	Debt redemption during the year		Transfer to Sinking Funds	Interest applicable for year	Principal outstanding at end of year		
	Current	Non-current	Total		From revenue	Sinking Funds			Current	Non-current	Total
<b>Loans (by source)</b>											
Financial Institutions	5,575	59,166	64,741	18,288	5,626	-	-	4,750	6,392	71,011	77,403
Department of Lands	63	273	336	200	63	-	-	21	49	424	473
<b>Total Loans</b>	<b>5,638</b>	<b>59,439</b>	<b>65,077</b>	<b>18,488</b>	<b>5,689</b>	<b>-</b>	<b>-</b>	<b>4,771</b>	<b>6,441</b>	<b>71,435</b>	<b>77,876</b>
<b>Total long term debt</b>	<b>5,638</b>	<b>59,439</b>	<b>65,077</b>	<b>18,488</b>	<b>5,689</b>	<b>-</b>	<b>-</b>	<b>4,771</b>	<b>6,441</b>	<b>71,435</b>	<b>77,876</b>

## Port Macquarie - Hastings Council

### Special Schedule No. 2(b)

### Statement of internal loans (Section 410(3) LGA 1993)

for the year ended 30 June 2008

#### Summary of internal loans

Borrower (by purpose)	Account originally raised	Total repaid during the year Principal and interest	Principal outstanding at end of year
General			
<b>Totals</b>	3,595	667	2,739
<b>Total long term debt</b>	3,595	667	2,739

The summary of internal loans (see above) represents the total of Councils' internal loans categorised according to the purpose of the borrower. Details of individual loans are set out below.

#### Details of Individual Internal Loans

Borrower (by purpose)	Lender (by purpose)	Date of Minister's approval	Date raised	Term Years	Dates of maturity	Rate of interest	Amount originally raised	Total repaid during the year Principal and interest	Principal outstanding at end of year
Property (Land purchase Flynn Street, Port Macquarie)	Sewer Fund	5/07/2003	2/07/2003	10	2/07/2013	7.92%	2,008	284	1,160
Property (Land purchase Toorak Circuit, Port Macquarie) - Deposit	Sewer Fund	5/07/2003	3/05/2003	10	3/05/2013	8.33%	302	43	174
Property (Land purchase Toorak Circuit, Port Macquarie)	Sewer Fund	5/07/2003	30/06/2003	10	30/06/2013	8.90%	2,427	340	1,405
							4,737	667	2739

**Port Macquarie - Hastings Council**

**Special Schedule No. 3  
Water Supply Income Statement  
(Gross including Internal Transactions)  
for the year ended 30 June 2008**

	<b>Actual 2008 \$'000</b>	Actual 2007 \$'000
<b>A Expenses and Income</b>		
<b>Expenses</b>		
1 Management Expenses		
a. Administration	2,069	1,987
b. Engineering and Supervision	800	746
2 Operation and Maintenance		
Dams and Weirs		
a. Operation expenses	152	351
b. Maintenance expenses	32	66
Mains		
c. Operation expenses	76	84
d. Maintenance expenses	460	700
Reservoirs		
e. Operation expenses	41	111
f. Maintenance expenses	42	89
Pumping Stations		
g. Operation expenses (excluding energy costs)	267	174
h. Energy Costs	536	481
i. Maintenance expenses	617	490
Treatment		
j. Operation expenses (excluding chemical costs)	3	1
k. Chemical Costs	128	91
l. Maintenance expenses	129	138
Other		
m. Operation expenses	1,157	2,276
n. Maintenance expenses	326	442
o. Purchase of Water		
3 Depreciation		
a. System assets	7,423	4,410
b. Plant and equipment		
4 Miscellaneous Expenses		
a. Interest expenses	888	868
b. Other expenses	2,328	1,749
NCP Tax & Other Equivalents	421	445
5 Total expenses	<b>17,895</b>	<b>15,699</b>
<b>Income</b>		
6 Residential charges		
a. Access (including rates)	2,783	2,724
b. User charges	7,984	7,686
7 Non-residential charges		
a. Access (including rates)	831	742
b. User charges	732	705
8 Extra charges	45	52
9 Interest income	115	260
10 Other income	712	641
11 Grants		
a. Grants for the acquisition of assets		140
b. Grants for pensioner rebates	338	380
c. Other grants	43	8
12 Contributions		
a. Developer charges	1,448	1,809
b. Developer provided assets	556	274
c. Other contributions	1,269	1,153
13 <b>Total Income</b>	<b>16,856</b>	<b>16,574</b>
14 Gain or (loss) on disposal of assets	-740	-207
15 Operating result	<b>-1,779</b>	<b>668</b>
15a <b>Operating result</b> (less grants for acquisition of assets)	<b>-1,779</b>	<b>528</b>



**Port Macquarie - Hastings Council**

**Special Schedule No. 3 (continued)  
Water Supply Income Statement  
(Gross including Internal Transactions)  
for the year ended 30 June 2008**

	<b>Actual 2008 \$'000</b>	<b>Actual 2007 \$'000</b>
<b>B Capital transactions</b>		
<b>Non-operating expenditures</b>		
16 Acquisition of Fixed Assets		
a. Subsidised Scheme		1,696
b. Other new system assets	1,282	7,259
c. Renewals	2,199	409
d. Plant and equipment		
17 Repayment of Debt		
a. Loans	667	933
18 Transfer to sinking fund		
<b>19 Totals</b>	<b>4,148</b>	<b>10,297</b>
<b>Non-operating funds employed</b>		
20 Proceeds from the disposal of assets		
21 Borrowings utilised		
a. Loans	0	0
22 Transfer from sinking fund		
<b>23 Totals</b>	<b>0</b>	<b>0</b>
<b>C Rates and charges</b>		
24 Number of assessments		
a. Residential (occupied)	27,892	26,736
b. Residential (unoccupied)	1,240	1,260
c. Non-residential (occupied)	2,628	2,485
d. Non-residential (unoccupied)	151	190
	<b>31,911</b>	<b>30,671</b>
25 Number of ET's for which developer charges were received	192	261
26 Total amount of pensioner rebates	604	587

## Port Macquarie - Hastings Council

### Special Schedule No. 3 (continued) Water Supply - Cross-subsidies for the year ended 30 June 2008

	Yes/No	Amount
<b>D Best practice annual charges and developer charges</b>		
<b>27 Annual Charges</b>		
a. Does Council have best-practice water supply annual charges and usage chages?	Yes	
If yes go to 28a.		
If no, has Council removed land value from accerss charges (ie rates)		
b. Cross-subsidy from residential customers using less than allowance (page 25 of Guidelines)		_____
c. Cross-subsidy to non-residential customers using less than allowance (page 25 of Guidelines)		_____
d. Cross-subsidy to large connections in unmetered supplies (page 26 of Guidelines)		_____
<b>28 Developer charges</b>		
a. Has council completed a water supply Development Servicing Plan? ***	Yes	_____
b. Total cross-subsidy in water supply developer charges for 2007/08 (page 47 of Guidelines)		1,728
*** In accordance with page 9 of <i>Developer Charges Guidelines for Water Supply, Sewerage and Stormwater</i> , Department of Land and Water Conservation, December 2002		
<b>29 Disclosure of cross-subsidies</b>		
Total of cross-subsidies (27b+27c+27d+28b)		1,728

Councils which have not yet implemented best practice water supply pricing should disclose cross-subsidies in items 27b, 27c and 27d above

However, disclosure of cross-subsidies is not required where a Council has implemented best practice pricing and is phasing in such pricing over a period of three years.

**Port Macquarie - Hastings Council**

**Special Schedule No. 4**

**Water Supply - Balance Sheet**

**(Gross including Internal Transactions)**

**for the year ended 30 June 2008**

	Current \$'000	Non current \$'000	Total \$'000
<b>ASSETS</b>			
30			
Cash and investments			
a. Developer charges		6,084	6,084
b. Specific purpose grants		5	5
c. Accrued leave		226	226
d. Other	590	2,141	2,731
31			
Receivables			
a. Specific purpose grants	486		486
b. Rates and charges	550	53	603
c. Other	2,496	248	2,744
32			
Inventories	372		372
33			
Property, plant and equipment			
a. System assets		335,985	335,985
b. Plant and equipment			0
34			
Other Assets			
35			
<b>Total assets</b>	4,494	344,742	349,236
<b>LIABILITIES</b>			
36			
Bank overdraft			
37			
Creditors	310	5,287	5,597
38			
Borrowings			
a. Loans	755	11,585	12,340
39			
Provisions			
c. Other	1,992	49	2,041
40			
<b>Total Liabilities</b>	3,057	16,921	19,978
41			
<b>Net assets committed</b>	1,437	327,821	329,258
<b>EQUITY</b>			
42			
Accumulated Surplus			189,024
Asset revaluation reserve			140,234
44			
<b>Total equity</b>			329,258
<b>Note to system assets:</b>			
45			
Current replacement cost of system assets			461,482
46			
Accumulated current cost depreciation of system assets			125,497
47			
Written down current cost of system assets			335,985

## Port Macquarie - Hastings Council

### Special Schedule No. 5 Sewerage Income Statement (Gross including Internal Transactions) for the year ended 30 June 2008

	Actual 2008 \$'000	Actual 2007 \$'000
<b>A Expenses and Income</b>		
<b>Expenses</b>		
1 Management Expenses		
a. Administration	1,826	1,655
b. Engineering and Supervision	958	789
2 Operation and Maintenance		
Mains		
a. Operation expenses	198	286
b. Maintenance expenses	390	388
Pumping Stations		
c. Operation expenses (excluding energy costs)	751	715
d. Energy Costs	356	364
e. Maintenance expenses	1,269	1,208
Treatment		
f. Operation expenses (excluding chemical , energy, effluent and biosolids management costs)	1,058	506
g. Chemical Costs	179	193
h. Energy Costs	520	442
i. Effluent management	63	82
j. Biosolids management	819	718
k. Maintenance expenses	1,001	1,044
Other		
l. Operation Expenses	389	473
m. Maintenance expenses		
3 Depreciation		
a. System assets	4,920	3,772
b. Plant and equipment	44	52
4 Miscellaneous Expenses		
a. Interest expenses	293	209
b. Other expenses	1,822	1,349
NCP Tax & Other Equivalents	270	135
5 Total expenses	17,126	14,380
<b>Income</b>		
6 Residential charges (including rates)	11,548	9,799
7 Non-residential charges		
a. Access (including rates)	978	827
b. User charges	688	582
8 Trade Waste Charges	17	16
9 Extra charges	80	65
10 Interest income	656	3,479
11 Other income	201	267
12 Grants		
a. Grants for the acquisition of assets	6	2
b. Grants for pensioner rebates	318	308
13 Contributions		
a. Developer charges	718	832
b. Developer provided assets	801	191
c. Other contributions	12	57
14 Total Income	16,023	16,425
15 Gain or loss on disposal of assets	-90	
16 Operating result	-1,193	2,045
16a Operating result (less grants for acquisition of assets)	-1,199	2,043

**Port Macquarie - Hastings Council**

**Special Schedule No. 5 (continued)  
Sewerage Income Statement  
(Gross including Internal Transactions)  
for the year ended 30 June 2008**

	<b>Actual 2008 \$'000</b>	<b>Actual 2007 \$'000</b>
<b>B Capital transactions</b>		
<b>Non-operating expenditures</b>		
17 Acquisition of Fixed Assets		
a. Subsidised Scheme	10	4
b. Other new system assets	8,517	18,296
c. Renewals	1,031	1,397
d. Plant and equipment	27	9
18 Repayment of Debt		
a. Loans	520	607
19 Transfer to sinking fund		
<b>20 Totals</b>	<b>10,105</b>	<b>20,313</b>
<b>Non-operating funds employed</b>		
21 Proceeds from the disposal of assets		
22 Borrowings utilised		
a. Loans	4,600	
23 Transfer from sinking fund		
<b>24 Totals</b>	<b>4,600</b>	
<b>C Rates and Charges</b>		
25 Number of assessments		
a. Residential (occupied)	24,269	25,065
b. Residential (unoccupied)	1,072	
c. Non-residential (occupied)	1,803	1,997
d. Non-residential (unoccupied)	151	
	<b>27,295</b>	<b>27,062</b>
26 Number of ET's for which developer charges were received	205	242
27 Total amount of pensioner rebates	577	560

## Port Macquarie - Hastings Council

### Special Schedule No. 5 (continued) Sewerage - Cross-subsidies for the year ended 30 June 2008

	Yes/No	Amount
<b>D Best practice annual charges and developer charges</b>		
<b>28 Annual Charges</b>		
a. Does Council have best-practice sewerage annual charges and usage charges and trade waste fees and charges*?	Yes	
If yes go to 28a.		
If no, has Council removed land value from access charges (ie rates)		
b. Cross-subsidy from residential customers using less than allowance (page 25 of Guidelines)		_____
c. Cross-subsidy to non-residential customers using less than allowance (page 25 of Guidelines)		_____
d. Cross-subsidy to large connections in unmetered supplies (page 26 of Guidelines)		_____
<b>29 Developer charges</b>		
a. Has council completed a sewerage Development Servicing Plan? ***	Yes	_____
b. Total cross-subsidy in sewerage developer charges for 2006/07 (page 47 of Guidelines)		5,945
*** In accordance with page 9 of <i>Developer Charges Guidelines for Water Supply, Sewerage and Stormwater</i> , Department of Land and Water Conservation, December 2002		
<b>30 Disclosure of cross-subsidies</b>		
Total of cross-subsidies (27b+27c+27d+28b)		5,945

Councils which have not yet implemented best practice sewerage pricing should disclose cross-subsidies in items 27b, 27c and 27d above

However, disclosure of cross-subsidies is not required where a Council has implemented best practice sewerage and liquid trade waste pricing and is phasing in such pricing over a period of three years.

**Port Macquarie - Hastings Council**

**Special Schedule No. 6  
Sewerage services - Balance Sheet  
(Gross including Internal Transactions)  
for the year ended 30 June 2008**

**ASSETS**

- 31 Cash and investments
  - a. Developer charges
  - b. Specific purpose grants
  - c. Accrued leave
  - d. Unexpended loans
  - e. Sinking fund
  - f. Other
- 32 Receivables
  - a. Specific purpose grants
  - b. Rates and charges
  - c. Other
- 33 Inventories
- 34 Property, plant and equipment
  - a. System assets
  - b. Plant and equipment

35 Other Assets

36 **Total assets**

**LIABILITIES**

- 38 Creditors
- 39 Borrowings
  - a. Loans
- 40 Provisions
  - c. Other

41 **Total Liabilities**

42 **Net assets committed**

**EQUITY**

- 43 Accumulated Surplus
- 44 Asset revaluation reserve

45 **Total equity**

**Note to system assets:**

- 46 Current replacement cost of system assets
- 47 Accumulated current cost depreciation of system assets
- 48 Written down current cost of system assets

	Current \$'000	Non current \$'000	Total \$'000
		18,254	18,254
		155	155
	1,681		1,681
		100	100
		5,574	5,574
	1,340		1,340
	703	197	900
	712	2,361	3,073
	7		7
		179,883	179,883
		154	154
	4,443	206,678	211,121
	244	3,337	3,581
	905	8,472	9,377
	1,140	21	1,161
	2,289	11,830	14,119
	2,154	194,848	197,002
			153,085
			43,917
			197,002
			272,136
			92,253
			179,883

## Notes to Special Schedules 3 and 5

**Administration<sup>(1)</sup>** (item 1a of Special Schedules 3 and 5) comprises the following:

- Administration staff:
  - Salaries and allowance
  - Travelling expenses
  - Accrual of leave entitlements
  - Employment overheads.
- Meter reading.
- Bad and doubtful debts.
- Other administrative/corporate support services.

**Engineering and supervision<sup>(1)</sup>** (item 1b of Special Schedules 3 and 5) comprises the following:

- Engineering staff:
  - Salaries and allowance
  - Travelling expenses
  - Accrual of leave entitlements
  - Employment overheads.
- Other technical and supervision staff:
  - Salaries and allowance
  - Travelling expenses
  - Accrual of leave entitlements
  - Employment overheads.

**Operation expenses** (item 2 of Special Schedules 3 and 5) comprise the day to day operational expenses excluding maintenance expenses.

**Maintenance expenses** (item 2 of Special Schedules 3 and 5) comprise the day to day repair and maintenance expenses. (Refer to Section 5 of the Local Government Asset Accounting Manual regarding capitalisation principles and the distinction between capital and maintenance expenditure).

**Other expenses** (item 4b of Special Schedules 3 and 5) include all expenses not recorded elsewhere.

**Residential charges<sup>(2+A36)</sup>** (items 6a, 6b and item 6 of Special Schedules 3 and 5 respectively) include all income from residential charges. Item 6 of Schedule 3 should be separated into 6a Access Charges (including rates if applicable) and 6b User Charges.

**Non-residential charges<sup>(2)</sup>** (items 7a, 7b of Special Schedules 3 and 5) include all income from non-residential charges separated into 7a Access Charges (including rates if applicable) and 7b User Charges.

**Trade waste charges** (item 8 of Special Schedule 5) include all income from trade waste charges.

**Other income** (items 10 and 11 of Special Schedules 3 and 5 respectively) include all income not recorded elsewhere.

**Other contributions** (items 12c and 13c of Special Schedules 3 and 5 respectively) include capital contributions for water supply or sewerage services received by Council under Section 565 of the Local Government Act.



**Port Macquarie - Hastings Council  
Special Schedule No. 7**

**as at 30 June 2008  
\$'000**

Asset class	Asset category (as determined by Council)	Deprn Expense % (sepcific rate or range of rates)	Deprn expense \$'000	Cost \$'000	Valuation \$'000	Accum Depreciation and Impairment \$'000	WDV \$'000	Asset Condition (refer to details attached)	Estimated cost to bring to a satisfactory standard \$'000	Required annual maintenance \$'000	Current annual maintenance \$'000
		Per Note 1	Per Note 4	Per Note 9				Per Section 428(2d)			
Public Buildings	Infrastructure	1% to 10%	1,201	22,822	88,943	38,392	73,373	3	0	1,506	1,506
Public Roads	Infrastructure	1.25% to 10%	10,808	455,744		80,185	375,559	4	53,736	9,817	5,740
Water	Infrastructure	1.25% to 10%	7,329	2,123	447,260	123,864	325,519	3	1,220	3,110	2,780
Sewerage	Infrastructure	1.25% to 10%	4,877	33,936	228,116	90,886	171,166	3	0	4,200	4,200
Stormwater Drainage	Infrastructure	1.25% to 10%	741	38,857		7,118	31,739	4	8,447	874	725
Flood Mitigation	Infrastructure	1.25% to 10%	85	5,089		634	4,455	4	1,153	115	34
<b>Total classes</b>	<b>Total – all assets</b>		25,041	558,571	764,319	341,079	981,811		64,556	19,622	14,985

**Notes:**

Satisfactory refers to estimated cost to bring the asset to a satisfactory condition as deemed by Council. It does not include any planned 'enhancement(s)' to the existing asset.

Required Annual Maintenance is what should be spent to maintain assets in a satisfactory standard.

Current Annual Maintenance is what has been spent in the current year to maintain assets.

## **Port Macquarie - Hastings Council**

### **Notes to Special Schedule 7**

#### **"SATISFACTORY" CONDITION OF PUBLIC ASSETS**

each asset, based on the original design standard. Changes in standards or proposed or potential enhancements to the existing asset design standard have been ignored (Code p A702). Assets within each Asset Category have been assessed on an overall basis, recognising that an average standard of "satisfactory" may be achieved even though certain assets may be above or below that standard on an individual basis.

Council recognises that the standard that it considers to be "satisfactory" may be different from that adopted by other Councils.

The information contained in this Schedule comprises accounting estimates formulated in accordance with the NSW Local Government Code of Accounting Practice and Financial Reporting. Nothing contained within this Schedule may be taken to be an admission of any liability to any person under any circumstance.

The information provided for the "Public Roads" Asset Class has been based on condition data from surveys conducted over the 2000/01 period. A full condition rating of the road network has not been undertaken since 2001. For the years since 2002, the figures provided have been estimates based on the 2001 year, indexed using construction indices obtained from the NSW Department of Commerce.

Recently a random sample of the road network has been surveyed with the sample results used to represent the condition of the entire network. The results of the sample indicate the potential for a significantly higher level of estimated expenditure to bring road assets "to a satisfactory standard". This is due in part to recent changes in the weather patterns which has resulted in noticeable acceleration in the deterioration of some "roads assets". In addition, true costs of 'road projects' have increased at a rate greater than the general construction cost index applied.

A full and thorough asset condition assessment is underway and the results will be included as appropriate in Special Schedule 7 to the 2008/09 Financial Statements.

#### **ASSET CONDITION**

The following condition codes have been used in this Schedule.

1. Newly Constructed
2. Over 5 years old but fully maintained in "as new" condition
3. Good condition
4. Average condition
5. Partly worn - beyond 50% of economic life
6. Worn but servicable
7. Poor - replacement required

## Port Macquarie - Hastings Council

### Special Schedetle No. 8 Financial projections for the year ended 30 June 2008

	2008 (1) \$m	2009 \$m	2010 \$m	2011 \$m
<b>Recurrent budget</b>				
Income from continuing operations	108,614	120,136	128,159	128,581
Expenses from continuing operations	105,315	108,170	109,854	113,121
Operating result from continuing operations	3,299	11,966	18,305	15,460
<b>Capital budget</b>				
New capital works (2)	68,708	64,635	51,061	47,479
<b>Funded by:</b>				
- Loans	29,592	15,540	9,900	4,600
- Asset sales				
- Reserves	18,144	34,463	22,859	25,635
- Grants/Contributions	16,289	12,316	15,654	13,252
- Recurrent revenue	4,683	2,316	2,648	3,992
- Other				
	68,708	64,635	51,061	47,479

Notes:

(1) From income statement

(2) New Capital Works are a major non-recurrent projects, eg new Leisure Centre, new Library, new Swimming pool etc