

Port Macquarie - Hastings Council

General purpose financial statements for the year ended 30 June 2010

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These financial statements are general purpose financial statements of Port Macquarie-Hastings Council and are 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 statements are authorised for issue by the Council on 22 September 2010. Council has the power to amend and reissue the financial statements.

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

Port Macquarie - Hastings Council

**General purpose financial statements
for the year ended 30 June 2010**

**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 Statements have been prepared in accordance with:

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

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

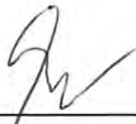
- * presents fairly the Council's operating result and financial position for the year, and
- * accords with Council's accounting and other records.

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 22nd September 2010.



Garry Payne AM
Administrator

Andrew Roach
General Manager

Tony Leahy
Responsible Accounting Officer

Port Macquarie - Hastings Council

Income statement

for the year ended 30 June 2010

Budget (1) 2010 \$'000		Notes	Actual 2010 \$'000	Actual 2009 \$'000
Income from continuing operations				
Revenue:				
61,260	Rates and annual charges	3a	62,275	58,768
22,118	User charges and fees	3b	25,381	21,552
1,872	Interest and investment revenue	3c	6,893	0
3,849	Other revenues	3d	5,027	3,927
11,178	Grants and contributions provided for operating purposes	3e,f	13,174	14,665
19,460	Grants and contributions provided for capital purposes	3e,f	23,844	22,957
Other Income:				
0	Net gain from the disposal of assets	5	1,866	0
0	Net share of interest in joint ventures and associates using the equity method		0	0
119,737	Total income from continuing operations		138,460	121,869
Expenses from continuing operations				
34,168	Employee benefits and on-costs	4a	34,281	35,392
7,048	Borrowing costs	4b	5,195	3,546
29,950	Materials and contracts	4c	28,151	28,723
34,567	Depreciation and amortisation	4d	36,798	33,653
7,607	Other expenses	4e	6,973	6,090
0	Interest and investment losses	3c	0	12,922
1,240	Net loss from disposal of assets	5	0	434
0	Share of interests in joint ventures and associates using the equity method		0	0
114,580	Total expenses from continuing operations		111,398	120,760
5,157	Operating result from continuing operations		27,062	1,109
	Operating result from discontinued operations	24	0	0
5,157	Net operating result for the year		27,062	1,109
Attributable to:				
5,157	- Council		27,062	1,109
5,157			27,062	1,109
-14,303	Net operating result for the year before grants and contributions provided for capital purposes		3,218	-21,848

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

Statement of comprehensive income for the year ended 30 June 2010

		Actual 2010 \$'000	Actual 2009 \$'000
	Notes		
Net operating result for the year - from Income statement		27,062	1,109
Other comprehensive income			
Gain (loss) on revaluation of infrastructure, property, plant and equipment	20b	451,250	24,833
Gain (loss) on revaluation of available-for-sale investments	20b	1,117	7,171
Realised available-for-sale investment gains recognised in revenue	20b	572	0
De-recognition of land under roads	20b	0	-2,388
Adjustment to correct prior period depreciation errors	20b		0
Total other comprehensive income for the year		<u>452,939</u>	<u>29,616</u>
Total comprehensive income for the year		<u>480,001</u>	<u>30,725</u>
Attributable to - Council		<u>480,001</u>	<u>30,725</u>

The above Statement of comprehensive income should be read in conjunction with the accompanying notes

Port Macquarie - Hastings Council

Balance sheet

as at 30 June 2010

		Actual 2010 \$'000	Actual 2009 \$'000
	Notes		
ASSETS			
Current Assets			
Cash and cash equivalents	6a	42,804	4,501
Investments	6b	7,016	11,626
Receivables	7	13,474	15,175
Inventories	8	1,141	1,205
Other	8	707	708
Non-current assets classified as held for sale	22	1,999	7,392
Total current assets		67,141	40,607
Non Current Assets			
Investments	6b	22,252	19,264
Receivables	7	6,844	1,989
Inventories	8	168	168
Infrastructure, property, plant and equipment	9	1,628,055	1,171,515
Investments accounted for using equity method	19	0	0
Investment property	14	0	0
Intangible assets	25	0	0
Other	8	0	0
Total non-current assets		1,657,319	1,192,936
Total assets		1,724,460	1,233,543
LIABILITIES			
Current liabilities			
Payables	10	10,799	11,312
Borrowings	10	7,783	6,501
Provisions	10	14,885	13,857
Total current liabilities		33,467	31,670
Non-current liabilities			
Payables	10	8,624	8,624
Borrowings	10	94,336	85,192
Provisions	10	543	568
Total non-current liabilities		103,503	94,384
Total liabilities		136,970	126,054
Net assets		1,587,490	1,107,489
EQUITY			
Retained earnings	20	880,826	853,764
Revaluation reserves	20	706,664	253,725
Total equity		1,587,490	1,107,489

Port Macquarie - Hastings Council

Statement of changes in equity

for the year ended 30 June 2010

		Actual 2010 \$'000				
	Notes Ref.	Retained earnings	Asset revaluation reserve	Other Reserves	Council equity interest	Total equity
Opening balance	20	853,764	255,942	-2,217	1,107,489	1,107,489
Correction of errors					0	0
Changes in Accounting Policies					0	0
Restated opening balance		853,764	255,942	-2,217	1,107,489	1,107,489
Total comprehensive income	20	27,062	451,250	1,689	480,001	480,001
Closing balance	20	880,826	707,192	-528	1,587,490	1,587,490

		Actual 2009 \$'000				
		Retained earnings	Asset revaluation reserve	Other Reserves	Council equity interest	Total equity
		855,043	231,109	-9,388	1,076,764	1,076,764
					0	0
					0	0
		855,043	231,109	-9,388	1,076,764	1,076,764
		-1,279	24,833	7,171	30,725	30,725
		853,764	255,942	-2,217	1,107,489	1,107,489

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

Port Macquarie - Hastings Council

Statement of cash flows

for the year ended 30 June 2010

Budget			Actual	Actual
2010			2010	2009
\$'000		Notes	\$'000	\$'000
Cash flows from operating activities				
Receipts:				
61,272	Rates and annual charges		61,921	58,279
23,214	User charges and fees		26,426	21,974
2,066	Investment revenue and interest		2,540	3,192
21,708	Grants and contributions		33,323	27,164
6,812	Other		9,732	5,765
Payments:				
-34,272	Employee benefits and on-costs		-33,414	-34,647
-33,502	Materials and contracts		-34,921	-29,515
-6,703	Borrowing Costs		-4,998	-3,221
-9,390	Other		-10,446	-8,281
31,205	Net cash provided by operating activities	11 (b)	50,163	40,710
Cash flows from investing activities				
Receipts:				
8,410	Sale of Investments	6	12,230	10,761
1,000	Sale of real estate assets	5,8	6,983	0
10	Sale of infrastructure, property, plant and equipment	5	2,701	1,446
Payments:				
	Purchase of investments		-7,000	0
-44,567	Purchase of infrastructure, property, plant and equipment	9	-39,013	-66,490
	Other			
-35,147	Net cash used in investing activities		-24,099	-54,283
Cash flows from financing activities				
Receipts:				
10,000	Borrowings and advances		19,309	20,340
Payments:				
-7,241	Borrowings and advances		-7,070	-6,523
2,759	Net cash provided by financing activities		12,239	13,817
-1,183	Net increase/(decrease) in cash and cash equivalents		38,303	244
4,501	Cash and cash equivalents at beginning of reporting period	11(a)	4,501	4,257
3,318	Cash and cash equivalents at end of reporting period	11	42,804	4,501

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 2010

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Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements 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 statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations, The Local Government Act (1993) and Regulation and the Local Government Code of Accounting Practice and Financial Reporting.

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 property, plant and equipment and investment property.

Critical accounting estimates

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

Financial statement presentation

The Council has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Council had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(b) Revenue recognition

Council recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Council's activities as described below. Council bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is measured on major income categories as follows:

Rates, annual charges, grants and contributions

Rates, annual charges, grants and contributions (including developer contributions) are recognised as 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.

Note 1 Summary of significant accounting policies

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.

(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 Council, as lessee, 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 fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. 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 is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is not reasonable certainty that Council will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Council as lessee 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 where Council is a lessor 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.

Note 1 Summary of significant accounting policies

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.

(f) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(h) Receivables

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

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

The amount of the impairment loss is recognised in the income statement within other expenses. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(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. Cost includes the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw material. Costs are assigned to individual items of inventory on basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. 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.

Note 1 Summary of significant accounting policies**(j) Non-current assets (or disposal groups) held for sale and discontinued operations**

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell an asset (or disposal group), 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 (or disposal group) is recognised at the date of de-recognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

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

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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 reporting date which are classified as non-current assets. Loans and receivables are included in other receivables (note 8) and receivables (note 7) 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 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 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 reporting 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.

Financial assets - reclassification

Council may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, Council may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if it has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Note 1 Summary of significant accounting policies

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Recognition and de-recognition

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

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

Subsequent measurement

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

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 '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 monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Details on how the fair value of financial instruments is determined are disclosed in note 1(l).

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 and 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.

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

Investment Policy

Council has an approved investment policy complying with Section 625 of the Local Government Act and *S212 of the LG (General) Regulation 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.

Council amended its policy following revisions to the Investment Order arising from the Cole Inquiry recommendations. Certain investments the Council holds are no longer prescribed - for example managed funds, CDO's and equity linked notes - however they have been retained under grandfathering provisions of the Order. These will be disposed of when most financially advantageous to Council.

Note 1 Summary of significant accounting policies

(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 Division 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).
- * Road assets - roads, bridges and footpaths (Internal Valuation)
- * Drainage assets - (Internal Valuation)
- * Bulk Earthworks - (Internal Valuation)

Other asset classes will be revalued to fair value as follows:

2010/11 - community land, land improvements, other structures and other assets.

Water and sewerage network assets are indexed annually between full revaluations in accordance with the latest indices provided in the NSW Office of Water - Rates Reference Manual. For all other assets, Council assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, Council determines the asset's fair value and revalues the asset to that amount. Full revaluations are undertaken for all assets on a 5 year cycle.

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.

Note 1 Summary of significant accounting policies

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
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.

Land, other than land under roads, is classified as either operational or community in accordance with Part 2 of Chapter 6 of the Local Government Act (1993). This classification is made in Note 9(a).

(n) Investment property

Investment property, principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Council. Investment property is carried at fair value, which is based on active market prices, adjusted, if necessary, for an difference in the nature, location or condition of the specific assets. If this information is not available, Council uses alternative valuation methods such as recent prices in less active markets or discounted cash flow projections. These valuations are reviewed annually by a member of the Australian Property Institute. Changes in fair values are recorded in the income statement as part of other income.

Investment property now also includes properties that are under construction for future use as investment properties. These are also carried at fair value unless the fair value cannot yet be reliably determined. Where that is the case, the property will be accounted for at cost until either the fair value becomes reliably determinable or construction is complete. This is different to previous years where properties under construction were accounted for at cost and presented under property, plant and equipment until construction was complete. The change in policy was necessary following changes made to AASB 140 Investment Property as a result of the IASB's 2008 Improvements standard.

(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. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Note 1 Summary of significant accounting policies

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance cost.

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

(q) Borrowing costs

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

(r) Provisions

Provisions are recognised when Council has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(s) Employee benefits*(i) Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Vesting Sick leave

When an employee becomes deceased, or in the event of retirement, resignation or redundancy from the service of Council, and provided this separation is not a result of disciplinary action, the employee will be paid a proportion of untaken sick leave on the following basis:

10 - 15 years service	30%
15 years service and over	50%

provided that all new employees either commencing, or recommencing employment with Council, after 10 July 2008, are precluded from accessing payment for untaken sick leave on termination of employment.

The liability for vesting sick leave is recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided up to the reporting date.

(iii) Other long-term employee benefits obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service 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.

(iv) 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).

Note 1 Summary of significant accounting policies

The Local Government Superannuation Scheme has advised member councils that as a result of the global financial crisis, it has a significant deficiency of assets over liabilities. As a result they have asked for significant increases in contributions from to recover that deficiency. Council's share of that deficiency cannot be accurately calculated as the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils. For this reason, no liability for the deficiency has been recognised in Council's accounts. Council has, however, disclosed a contingent liability in note 18 to reflect the possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

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 statements have been rounded off to the nearest thousand dollars.

(u) Land under roads

Council has elected not to recognise land under roads acquired before 1 July 2008 in accordance with AASB 1051. Any land under roads that was recognised before 1 July 2008 was been derecognised at 1 July 2008 against the opening balance of retained earnings.

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

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

(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, e.g. 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 majority 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.

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.

Note 1 Summary of significant accounting policies**(w) Allocation between current and non-current assets and liabilities**

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 ensuing 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 2010 reporting periods. Council's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 2009-8 *Amendments to Australian Accounting Standards - Group Cash-Settled Share - based Payment Transactions* [AASB 2] (effective from 1 January 2010)

The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as an equity- or cash-settled transaction. **No impact on Council.**

(ii) AASB 2009-10 *Amendments to Australian Accounting Standards - Classification of Rights Issue* [AASB 132] (effective from 1 February 2010)

In October 2009 the AASB issued an amendment to AASB 132 *Financial Instruments: Presentation* which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. **No impact on Council.**

(iii) AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect Council's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. Council is yet to assess its full impact. **However, initial indications are that it may affect Council's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale investments, for example, will therefore have to be recognised directly in profit or loss.**

(iv) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. **No impact on Council.**

(v) AASB Interpretation 19 *Extinguishing financial liabilities with equity instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19* (effective from 1 July 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. **No impact on Council.**

(vi) AASB 2009-14 *Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement* (effective from 1 January 2011)

In December 2009, the AASB made an amendment to Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. Council does not make any such prepayments. **The amendment is therefore not expected to have any impact on Council.**

Note 1 Summary of significant accounting policies**(y) 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.

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

(z) Crown Reserves

Crown reserves under Council's care and control are recognised as assets of the Council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated.

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

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

(aa) 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, Council will recognise rural fire service assets including land, buildings, plant & vehicles.

(bb) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of the acquisition of the asset for as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows, arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Note 2(a) Functions or activities

Income, expenses and assets have been directly attributed to the following functions or activities. Details of those functions or activities areas are provided in Note 2(b).													
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
	2010 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Governance		20	-20	5,315	4,465	5,259	-5,315	-4,445	-5,279				
Administration	193	391	334	1,372	2,590	2,589	-1,179	-2,199	-2,255	825	797	38,179	29,218
Public order & safety	1,419	2,842	3,131	3,064	3,306	3,225	-1,645	-464	-94	2,141	2,504	18,134	13,920
Health		80		1	29	30	-1	51	-30			34	88
Environment	15,232	18,065	16,729	16,808	16,556	22,316	-1,576	1,509	-5,587	1,222	1,444	104,331	62,151
Community services & education	85	1,427	331	1,728	1,352	1,563	-1,643	75	-1,232	1,644	206	3,290	2,020
Housing & community amenities	2,027	2,890	2,726	5,315	5,279	5,053	-3,288	-2,389	-2,327	121	217	24,078	1,264
Water supplies	20,813	26,923	23,790	17,379	15,700	20,453	3,434	11,223	3,337	831	367	374,453	361,274
Sewerage services	18,765	21,065	15,834	15,204	15,492	13,647	3,561	5,573	2,187	335	335	235,810	222,088
Recreation & culture	5,635	4,195	2,151	16,471	16,840	11,217	-10,836	-12,645	-9,066	1,031	1,763	111,165	117,841
Mining, manufacturing & construction	1,174	1,589	1,361	1,852	2,030	1,952	-678	-441	-591			250	235
Transport & communication	13,874	14,535	13,339	24,918	22,812	24,639	-11,044	-8,277	-11,300	3,293	3,048	798,442	407,897
Economic affairs	2,515	5,104	3,806	5,153	4,947	5,221	-2,638	157	-1,415			16,294	15,547
Total functions & activities	81,732	99,126	83,512	114,580	111,398	117,164	-32,848	-12,272	-33,652	11,443	10,681	1,724,460	1,233,543
General Purpose Income (1)	38,005	39,334	38,357			3,596	38,005	39,334	34,761	7,662	9,133		
Totals	119,737	138,460	121,869	114,580	111,398	120,760	5,157	27,062	1,109	19,105	19,814	1,724,460	1,233,543

Note (1) Includes :

Rates and annual charges
Non-capital general purpose grants
Interest and investment revenue

As reported on the income statement.

Note 2(b) Components of functions or activities

(continued)

Details of the functions or activities 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, emergency services, animal control, beach control, enforcement of local government regulations, other.

Health

Administration and inspection, immunisations, food control, health centres, other.

Environment

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

Community services and education

Administration and education, social protection, aged persons and disabled, childrens services.

Housing and community amenities

Public cemeteries, public conveniences, street lighting, town planning, other community amenities.

Water Supplies

Sewerage Services

Recreation and culture

Public libraries, museums, art galleries, community centres and halls, performing arts venues, other performing arts, other cultural services, sporting grounds and venues, swimming pools, 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, water transport, RTA works, 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

(continued)

	Actual 2010 \$'000	Actual 2009 \$'000
(a) Rates and annual charges		
Ordinary Rates		
Residential	23,944	22,979
Farmland	1,781	1,710
Business	5,363	5,212
Total ordinary rates	31,088	29,901
Special Rates		
Broadwater Special Rate	69	66
Newtons Special Rate	12	13
Total special rates	81	79
Annual Charges (pursuant to s.496 and s.501)		
Domestic waste management services	9,211	8,790
Water supply	4,818	4,365
Sewerage services	15,839	14,508
Waste management services (not domestic)	534	513
Stormwater Drainage	694	611
Reclaimed Water	10	1
Total annual charges	31,106	28,788
Total rates and annual charges	62,275	58,768

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

Note 3 Income from continuing operations (continued)

Notes to the financial statements
30 June 2010
(continued)

	Actual 2010 \$'000	Actual 2009 \$'000
(b) User charges and fees		
User charges <i>(pursuant to s.502)</i>		
Water supply services	11,104	10,000
Sewerage services	811	723
Waste management services (not domestic)	3,243	2,684
Onsite Effluent	140	134
Reclaimed Water	27	10
Total user charges	15,325	13,551
Fees		
Administration	142	151
Animal registration	93	219
Beach permits	24	22
Building	1,014	886
Caravan parks	1,420	1,387
Certificate income	217	189
Crematorium/cemeteries	1,182	997
Health	50	48
Private Works	277	450
s.611	44	41
Section 68 permits	538	377
Sewerage Services	18	16
Transport & Communications	3,572	2,099
Town Planning	1,020	813
Water meter installations	355	236
Water supply fees	90	70
Total fees	10,056	8,001
Total user charges and fees	25,381	21,552

Note 3 Income from continuing operations (continued)

Notes to the financial statements

30 June 2010

(continued)

	Actual 2010 \$'000	Actual 2009 \$'000
(c) Interest and Investment revenue (losses)		
Interest and Dividends		
- Overdue rates and charges	485	361
- Cash and Investments	2,675	2,512
Fair value adjustments		
- Investments	669	-373
Impairment Losses		
- Investments	1,251	-15,422
Premiums recognised on financial instrument transactions		
- Interest free loan from State Government	1,813	
Total interest and investment revenue (losses)(1)	6,893	-12,922
(d) Other revenues		
Administration	225	217
Animal Control	25	25
Community services	26	36
Economic affairs	1,229	1,303
Fines	511	370
Health	0	1
Housing and community amenities	258	228
Information/document sales	60	61
Library charges	127	134
Public order and safety	24	10
Recreation and cultural facilities	61	190
Rental of council facilities	411	408
Sewerage services	20	29
Transport and communications	1	
The Glasshouse	882	
Waste management revenues	1,109	885
Water supplies	58	30
Total other revenues	5,027	3,927

Note:

(1) Where interest and investment revenue nets to an overall loss, this is carried to the interest and investment losses line on the Income Statement.

Note 3 Income from continuing operations (continued)

	Operating		Capital	
	Actual	Actual	Actual	Actual
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
(e) Grants				
General purpose (Untied)				
Financial assistance	7,662	9,133		
Pensioners' rates subsidies:				
- General	776	767		
Special purpose				
Pensioners' rate subsidies:				
- Water	205	351		
- Sewer	333	328		
- Domestic waste management	309	305		
Administration	20			
Community services and education	213	133	1,319	73
Economic affairs	206	258		200
Employment and training programmes	54	56		
Health	86	179		
Housing and community amenities	597	593	62	102
Library	180	152		
Public order and safety	375	334	1,706	2,170
The Glasshouse	38	36		
Recreation and culture	67	55	704	831
Roads and bridges	197	104	3,101	
Sewerage services				5
Street lighting	92	90		
Transport (3x3, Flood works, Roads to Recovery)				3,255
Waste management	180	304		
Water supplies			623	
Total grants	11,590	13,178	7,515	6,636
Comprising:				
- Commonwealth funding	504	78	3,140	3,623
- State funding	10,983	13,040	4,375	3,013
- Other funding	103	60		
	11,590	13,178	7,515	6,636
(f) Contributions				
Developer Contributions				
- Section 94	100	56	2,795	1,751
- Section 94A			80	94
- Planning agreements			0	265
RTA contributions (Regional/Local, Block Grant)	1,053	968		
Section 64:				
- Water			4,852	3,599
- Sewerage			1,259	693
Dedications			6,510	8,711
Administration		-72		
Community services and education	3	43		54
Economic affairs	112	68		
Housing and community amenities	140	207		
Public order and safety	18		102	50
Recreation and culture	112	51		44
The Glasshouse	43	91		
Transport and communications	3		204	123
Water supplies		75	527	937
Total contributions	1,584	1,487	16,329	16,321
Total grants and contributions	13,174	14,665	23,844	22,957

Note 3 Income from continuing operations (continued)

(continued)

	Actual 2010 \$'000	Actual 2009 \$'000
(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	10,473	5,963
Less:		
Grants and contributions recognised in previous reporting periods which have been spent in the current reporting period	6,218	5,258
Net increase/(decrease) in restricted grants and contributions	4,255	705
(h) Significant Items		
The following items have 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". Any movement in the fair value of these investments is recognised as revenue or expense in the income statement. There has been an increase in the fair value of these investments during the financial year (Refer Note 3c).	711	-313
Impairment losses investments.		
Council has designated a proportion of its investments portfolio as "available for sale". In accordance with Australian Accounting Standard 139 the movement in the fair value of these investments is recognised in equity up until the point in time where Council considers them to be impaired. Once each investment is considered to be impaired the cumulative movement in fair value from the time of purchase to the date of impairment is required to be transferred to the Income Statement. The amount recognised in the Income Statement is the difference between the purchase price of the investment and the carrying value in the Balance Sheet as at the date of impairment. The amount recognised here is attributable to those investments Council considers, along with its Advisors, to be higher risk.	1,209	-15,482

Note 4 Expenses from continuing operations

	Actual 2010 \$'000	Actual 2009 \$'000
(a) Employee benefits and on costs		
Salaries and wages	25,784	26,711
Travelling	2,012	2,052
Employee leave entitlements	4,690	5,569
Superannuation	3,605	2,942
Workers' compensation insurance	854	763
Fringe Benefits Tax	219	227
Payroll Tax	468	529
Training costs (excluding Salaries)	269	143
Other	93	94
Less: Capitalised costs	-3,713	-3,638
Total employee costs expensed	34,281	35,392
Number of FTE employees	447	455
(b) Borrowing Costs		
Interest on Overdrafts		1
Interest on Loans	6,324	6,024
Amortisation of discounts and premiums:		
- Tip remediation	21	16
Less: Capitalised costs	-1,150	-2,495
Total borrowing costs expensed	5,195	3,546
(c) Materials and contracts		
Raw materials and consumables	16,811	17,127
Contractor and consultancy costs	6,367	6,742
- Domestic waste management contract	4,084	3,791
Audit Fees:		
- Audit services	63	53
Legal fees:		
- Planning and development	17	40
- Other	809	970
Total materials and contracts	28,151	28,723

Note 4 Expenses from continuing operations

(continued)

	Depn/Amor Actual 2010 \$'000	Depn/Amor Actual 2009 \$'000	Imp (1) Actual 2010 \$'000	Imp Actual 2009 \$'000
(d) Depreciation, amortisation and impairment				
Plant and equipment	2,045	2,177		
Office equipment	1,191	1,467		
Furniture & fittings	396	243		
Leased property, plant and equipment	3	3		
Land Improvements (depreciable)	829	809		
Buildings - Non Specialised	4,606	2,513		
Other Structures	471	454		
Infrastructure:				
- roads, bridges and footpaths	11,903	11,630		
- storm water drainage	864	859		
- water supply network	7,490	7,814		
- sewerage network	6,688	5,333		
Other Assets:				
- heritage collections	5	5		
- library books	233	268		
- other	60	65		
Tip asset	14	13		
Total depreciation	36,798	33,653	0	0
			Actual 2010 \$'000	Actual 2009 \$'000

(e) Other expenses

Other expenses for the year including the following:

Bad & Doubtful Debts	67	0
Administrator Expenses	154	188
Insurance	1,263	1,098
Street lighting	883	1,054
Electricity and heating	2,634	2,121
Telephones	402	437
Contributions and donations	166	587
Bank charges and fees	196	164
Valuation fees	141	115
Payment to other Levels of Government	1,067	326
Total Other Expenses	6,973	6,090

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Note 5 Gain or loss from disposal of assets

(continued)

	Actual 2010 \$'000	Actual 2009 \$'000
Gain (or loss) on disposal of Property		
Proceeds from disposal	1,768	640
Less: Carrying amount of assets sold	1,640	336
Gain (or loss) on disposal	<u>128</u>	<u>304</u>
Gain (or loss) on disposal of Plant and Equipment		
Proceeds from disposal	933	1,240
Less: Carrying amount of assets sold	1,139	1,619
Gain (or loss) on disposal	<u>-206</u>	<u>-379</u>
Gain (or loss) on disposal of Real Estate assets held for sale		
Proceeds from sales	6,983	0
Less: Cost of sales	5,003	0
Gain (or loss) on disposal	<u>1,980</u>	<u>0</u>
Gain (or loss) on disposal of Infrastructure Assets		
Proceeds from disposal	0	0
Less: Carrying amount of infrastructure assets	36	359
Gain (or loss) on disposal	<u>-36</u>	<u>-359</u>
Gain (or loss) on disposal of Financial Assets		
Proceeds from disposal	12,230	10,761
Less: Carrying value of financial assets	12,230	10,761
Gain (or loss) on disposal *	<u>0</u>	<u>0</u>
Net gain (or loss) from disposal of assets	<u>1,866</u>	<u>-434</u>

Note 6(a) Cash and cash equivalents

(continued)

	Actual 2010 \$'000	Actual 2009 \$'000
Cash at bank and on hand	596	248
Deposits at call	42,208	4,253
	42,804	4,501

Note 6(b) Investments

(continued)

The following financial assets are held as investments

	Actual 2010		Actual 2009	
	Current	Non-Current	Current	Non-Current
	\$'000	\$'000	\$'000	\$'000
Financial assets at fair value through Profit and Loss - Held for trading (1)	0	11,347	0	11,528
Held to maturity investments	3,000	4,000	0	0
Available for sale financial assets (1)	4,016	6,905	11,626	7,736
Total	7,016	22,252	11,626	19,264
Financial assets at fair value through Profit and Loss - Held for trading				
At beginning of year	0	11,528	4,108	11,841
Transfer b/w Current & Non-Current	0	0	0	0
Revaluation to Income statement	0	669	0	-313
Additions	0	0	0	0
Disposals	0	-850	-4,108	0
At end of year	0	11,347	0	11,528
Comprising of:				
- Equity Linked Notes	0	11,347	0	11,528
	0	11,347	0	11,528
Held to maturity investments				
At beginning of year	0	0	0	0
Additions	3,000	4,000	0	0
Disposals (Sale/Redemption)	0	0	0	0
At end of year	3,000	4,000	0	0
Comprising of:				
- Term Deposits	3,000	4,000	0	0
	3,000	4,000	0	0
Available for sale financial assets				
At beginning of year	11,626	7,736	6,629	27,695
Transfer b/w Current & Non-Current	1,565	-1,565	9,962	-9,962
Additions	0	0	0	0
Disposals	-10,500	-880	-4,713	-1,940
Revaluation to equity	1,325	363	-252	-8,057
Revaluation to income statement		1,251	0	0
At end of year	4,016	6,905	11,626	7,736
Comprising of:				
- Floating Rate Notes	1,000	5,456	6,494	4,352
- Collateralised Debt Obligations	3,016	1,449	5,132	3,384
	4,016	6,905	11,626	7,736

Note:

(1) Fair values for all investments in this Category are determined by quoted prices in active markets for identical investments.

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

(continued)

	Actual 2010		Actual 2009	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
Total cash, cash equivalents and investments	49,820	22,252	16,127	19,264
External restrictions	35,327	22,252	13,893	19,264
Internal restrictions	13,897		1,986	0
Unrestricted	596		248	
	49,820	22,252	16,127	19,264

	Opening Balance \$'000	Transfers to restrictions \$'000	Transfers from restrictions \$'000	Closing balance \$'000
Notes				
External Restrictions				
Developer Contributions (A)	26,461	10,013	8,756	28,053
Unexpended Contributions (B)	461	723	307	877
Unexpended Grants (C)	4,088	4,522	2,275	6,335
Water (D)	-1,529	13,255	1,917	9,809
Sewerage (E)	347	15,978	8,945	7,380
Employee Leave Entitlements (Water, Sewerage, Waste)	888	789		1,677
Broadwater Special Rate (F)	352	120		472
Sanctuary Springs Special Rate (G)	25	16		41
Domestic Waste Management (H)	1,341	2,644	1,965	2,020
Caravan Parks (I)	255	228		483
Stormwater Management	468	116	152	432
Total external restrictions	33,157	48,404	24,317	57,579
Internal Restrictions				
Airport	-379	426		47
Canal Maintenance	200	44		244
CBD Townscape	1,309	1,102	291	2,120
Committed Works	1,536	2,200	230	3,506
Crematorium	208	239	33	414
Employee Leave Entitlements	1,939	418		2,357
Environmental Levy Reserve	301	579	479	401
Ferries Maintenance	128	267		395
Lake Cathie Dredging	55	12		67
Maintenance of 4WD Access Points	77	21		98
Major Buildings Renewals	686	197	30	853
Office Building & Equipment	1,002	1,355	920	1,437
Onsite Effluent	132	48		180
Plant Replacement	2,582	1,853	1,379	3,056
Pool Refurbishment		308		308
Public Halls	1	9		10
Surf Clubs		40		40
Tourism & Industry Promotion	121	66		187
Town Bands	21	7		28
Transport Infrastructure Renewal		499		499
Unrealised Profit/(Loss) on Investments	-6,541	1,755		-4,786
Working Capital	-1,392	3,828		2,436
Total Internal Restrictions	1,986	15,273	3,362	13,897
Total Restrictions	35,143	63,677	27,679	71,476

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

(B) Contributions which are not yet expended for the purposes for which they were obtained.

(C) Grants which are not yet expended for the purposes for which they were obtained (see Note 1)

(D-H) Water, Sewerage, Broadwater Special Rate, Sanctuary Springs 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.

Note 7 Receivables

(continued)

	Actual 2010		Actual 2009	
	Current	Non-Current	Current	Non-Current
	\$'000	\$'000	\$'000	\$'000
Purpose				
Rates and annual charges	3,809	1,169	3,663	961
Interest and extra charges	262	479	146	419
User charges and fees	3,886	561	3,866	557
Accrued revenues	583		139	
GST Receivable	816		961	
Government grants and subsidies	2,821		3,868	
Other	1,377	4,635	2,565	52
Total	13,554	6,844	15,208	1,989
Less: Provision for impairment:				
Rates and annual charges	22		22	
User charges and fees	58		11	
	80		33	
Total	13,474	6,844	15,175	1,989
Restricted receivables				
Externally restricted receivables				
Water Supply	3,989	4,925	6,590	308
Sewerage Services	3,264	1,539	2,927	1,916
Domestic waste management	844	339	979	336
Newton special rate	1	0	0	0
Broadwater special rate	5	0	3	0
Total externally restricted receivables	8,103	6,803	10,499	2,560
Unrestricted receivables	5,371	41	4,676	-571
Total receivables	13,474	6,844	15,175	1,989

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(continue)

Note 8 Inventories and other assets

	Actual 2010 Current \$'000	Non- Current \$'000	Actual 2009 Current \$'000	Non- Current \$'000
Inventories				
Real estate (refer below)	641	168	641	168
Stores and materials	500		564	
Total inventories	1,141	168	1,205	168
Inventories not expected to be realised within the next 12 months		168		168
Other assets				
Prepayments	707		708	
Total	707		708	
Real Estate Development				
Residential	91	20	91	20
Industrial/Commercial	550	148	550	148
Total real estate for resale	641	168	641	168
<i>(Valued at the lower of cost and net realisable value)</i>				
Represented by:				
Acquisition costs				
Development costs	641	168	641	168
Borrowing costs				
Total real estate for resale	641	168	641	168
Externally restricted inventories and other assets				
Water Supply				
Stores and materials	256		334	
Total Water Supply	256		334	
Sewerage				
Stores and materials	7		3	
Total Sewerage	7		3	
Total externally restricted inventories and other assets	263		337	
Unrestricted inventories and other assets	1,585	168	1,576	168
Total inventories and other assets	1,848	168	1,913	168

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

By Asset Type	At 30 June 2009				Movements during year							At 30 June 2010			
	Cost/ Deemed cost \$'000	Fair Value \$'000	Accum depreciation and impairment \$'000	Written Down Value \$'000	Additions - Renewals \$'000	Additions - New Assets \$'000	WDV of Disposals \$'000	Depn and impairment \$'000	Transfers/ Adjustments \$'000	Prior Year Adjustments to Equity	Revaluation increments/(decrements) (2) \$'000	Cost/ Deemed cost \$'000	Fair Value \$'000	Accum depreciation and impairment \$'000	Written Down Value \$'000
WIP		107,571		107,571	2,744	19,652			-84,773				45,194		45,194
Plant and equipment		29,945	15,429	14,516		3,047	1,139	2,045	28				31,025	16,618	14,407
Office equipment		13,487	10,704	2,783		1,011		1,191	16				14,485	11,866	2,619
Furniture and fittings		3,281	1,745	1,536		570	55	396	1,998				5,758	2,105	3,653
Leased plant and equipment		286	34	252				3					286	37	249
Land															
- Operational Land		67,954		67,954		6	400		419				67,979		67,979
- Community Land	9,380			9,380								9,380			9,380
Land Under Roads:															
- Pre 1 July 2008															
- Post 1 July 2008	60			60					25			85			85
Non depreciable land improvements	4,125			4,125					35			4,160			4,160
Depreciable land improvements	28,546		13,942	14,604		716	10	829	780			30,018		14,757	15,261
Buildings		96,698	42,349	54,349	93	2,852	286	4,606	42,263		1,488		140,503	44,350	96,153
Other Structures	15,221		5,804	9,417		260	618	471	109			14,463		5,766	8,697
Infrastructure															
- Roads, bridges, footpaths	462,357		91,799	370,558	2,356	5,313	36	11,903	1,478		394,650		965,689	203,273	762,416
- Stormwater Drainage	43,993		8,611	35,382	527	1,232	2	864	813		38,048	6,714	111,061	42,639	75,136
- Water Supply Network		475,456	141,506	333,950	1,434	1,231	99	7,490	2,249		11,620		494,107	151,212	342,895
- Sewerage Network		248,180	104,872	143,308	168	1,656	5	6,688	34,271		5,443		294,768	116,615	178,153
Other Assets															
- Heritage Collections	515		140	375			111	5				345		86	259
- Library Books	3,865		3,549	316		248		233				4,113		3,782	331
- Other	1,520		599	921		77	54	60				1,524		640	884
Reinstatement, Rehabilitation, Restoration Assets (refer note 21)															
Tip Asset	223		65	158				14				223		79	144
Totals	569,805	1,042,858	441,148	1,171,515	7,322	37,871	2,815	36,798	-289		451,249	71,025	2,170,855	613,825	1,628,055

Notes: Excludes investment properties and non-current assets held for resale.

Additions to Buildings and Infrastructure are made up of Asset Renewals and New Assets. Renewals are defined as replacements of existing assets with equivalent capacity or performance as opposed to the acquisition of new assets.

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

(continued)

By Asset Type	Actual 2010 \$'000				Actual 2009 \$'000			
	At Cost \$'000	Fair Value \$'000	Accum depreciation and impairment \$'000	Written Down Value \$'000	At Cost \$'000	Fair Value \$'000	Accum depreciation and impairment \$'000	Written Down Value \$'000
Water Supply								
Plant and equipment		244	51	193		221	31	190
Land								
- Operational Land		5,596		5,596		5,596		5,596
Buildings		7,238	1,955	5,283		7,019	1,858	5,161
Water Supply Infrastructure		494,458	151,563	342,895		475,456	141,506	333,950
Capital WIP		2,366		2,366		3,648		3,648
Total water supply		509,902	153,569	356,333		491,940	143,395	348,545
Sewerage Services								
Plant and equipment		339	371	-32		451	336	115
Office equipment		126	86	40		126	82	44
Land								
- Operational Land		6,361		6,361		6,333		6,333
Buildings		4,118	1,517	2,601		3,993	1,439	2,554
Sewerage Infrastructure		294,768	116,615	178,153		248,180	104,872	143,308
Capital WIP		34,157		34,157		53,316		53,316
Total sewerage services		339,869	118,589	221,280		312,399	106,729	205,670
Domestic Waste Management								
Plant and equipment		208	156	52		208	136	72
Office equipment		48	36	12		48	23	25
Furniture and fittings		35	30	5		35	26	9
Land								
- Operational Land		2,796		2,796		2,795		2,795
Land Improvements - non-depreciable	325			325	289			289
Land Improvements - depreciable	3,828		1,453	2,375	3,598		1,263	2,335
Buildings		1,939	771	1,168		1,881	729	1,152
Other Structures	1,007		207	800	1,007		178	829
Other	239		104	135	239		93	146
Cairncross Tip Asset	223		79	144	223		65	158
Capital WIP		1,798		1,798		144		144
Total Domestic Waste	5,622	6,824	2,836	9,610	5,356	5,111	2,513	7,954
Caravan Parks								
Plant and equipment		68	36	32		36	33	3
Office equipment		8	8			8	8	-
Furniture and fittings		51	34	17		51	25	26
Land								
- Operational Land		1,700		1,700		1,700		1,700
Land Improvements	667		342	325	667		326	341
Buildings		3,689	1,489	2,200		3,384	1,129	2,255
Other Structures	168		141	27	167		134	33
Other Assets	408		203	205	408		188	220
Capital WIP						28		28
Total Caravan Parks	1,243	5,516	2,253	4,506	1,242	5,207	1,843	4,606
Total Restrictions	6,865	862,111	277,247	591,729	6,598	814,657	254,480	566,775

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Note 10(a) Payables, borrowings and provisions

(continued)

	Actual 2010		Actual 2009	
	Current	Non-Current	Current	Non-Current
	\$'000	\$'000	\$'000	\$'000
Payables				
Goods and services	5,602		7,324	
Accrued wages and salaries	133		137	
Accrued expenses - other	1,354		571	
Payments received in advance	1,041		939	
Accrued Interest	1,428		1,252	
S64 contributions due to PWD		8,624		8,624
Deposits and retentions	1,236		1,086	
Other payables	5		3	
Total payables	10,799	8,624	11,312	8,624
Current payables not expected to be settled within the next 12 months	548		476	
Borrowings				
Loans - Secured (1)	7,783	94,336	6,501	85,192
Total borrowings	7,783	94,336	6,501	85,192
Provisions (2)				
Annual leave	2,959		2,961	
Sick leave	4,787		4,274	
Long service leave	7,100	224	6,610	270
Maternity leave	39		12	
Asset remediation (Note 26)		319		298
Total provisions	14,885	543	13,857	568
Current provisions not expected to be settled within the next 12 months	10,296		10,105	
Liabilities relating to restricted assets				
Domestic waste management	1,203	740	1,221	939
Water	4,764	20,831	2,988	16,204
Sewer	3,608	29,479	3,017	21,326
Total	9,575	51,050	7,226	38,469

Notes:

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

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

Note 10(b) Description of and movements in provisions

(continued)

Class of provision	Opening balance \$'000	Increases in provisions \$'000	Payments \$'000	Re- measurement \$'000	Closing balance \$'000
Annual leave	2,961	2,090	2,092		2,959
Sick leave	4,274	1,592	1,079		4,787
Long service leave	6,880	994	550		7,324
Maternity leave	12	53	26		39
Asset remediation	298	18		3	319
Total	14,425	4,747	3,747	3	15,428

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Note 11 Reconciliation of cash flow movements

(continued)

	Notes	Actual 2010 \$'000	Actual 2009 \$'000
(a) Reconciliation of cash assets			
Total cash and cash equivalents	6a	42,804	4,501
Less: Bank overdraft	10	0	0
Balances as per cash flow statement		42,804	4,501
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income statement		27,062	1,109
Add:			
Depreciation and impairment		36,798	33,653
Increase in provision for doubtful debts		47	
Impairment Losses			15,422
Increase in provision for leave entitlements		982	829
Increase in other provisions		21	16
Decrease in inventories		64	85
Decrease in other current assets		1	23
Increase in payables			2,042
Increase in accrued interest payable		176	309
Loss on sale of assets			434
		65,151	53,922
Less:			
Decrease in provision for doubtful debts			22
Increase in receivables		3,201	4,364
Decrease in payables		689	
Reversal of previous valuation decrements		1,251	
Non cash capital grants and contributions		5,499	9,199
Gain on sale of assets		1,866	
Fair value adjustments to financial assets at fair value through profit and loss		669	-373
Premiums recognised on financial instrument transactions - Interest free loan from State Government		1,813	
Net cash provided by operating activities from Cash flow statement		50,163	40,710

Note 11 Reconciliation of cash flow movements (continued)

(continued)

	Actual 2010 \$'000	Actual 2009 \$'000
Notes		
(c) Non-cash financing and investing activities		
NSW Office of Water Construction	-1,297	5
Bushfire grants	286	483
S94 contributions in kind	219	
Dedications	6,510	8,711
Other		
	5,718	9,199

(d) Financing arrangements

Unrestricted access was available at balance date to the following:

Bank overdraft facility (1)	500	7,500
Purchase Cards	500	500
Corporate Credit Cards	110	110
	1,110	8,110

Notes:

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

(2) Interest rates on overdrafts are variable while the rates for loans can be set for the period of the loan.

Note 12 Commitments for Expenditure

(continued)

	Actual 2010 \$'000	Actual 2009 \$'000
(a) Capital commitments (exclusive of GST)		
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
- Buildings	1,083	174
- Infrastructure	7,671	11,738
- Land		0
- Plant and equipment	3,479	4,723
Total	12,233	16,635
These expenditures are payable as follows:		
- Not later than one year	12,132	16,329
- Later than one year and not later than 5 years	101	306
- Later than 5 years	0	0
Total	12,233	16,635
(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	186	278
- Garbage and recycling services	15,165	18,058
- Cleaning and maintenance services	718	417
- Other	2,626	3,008
Total	18,695	21,761
These expenditures are payable as follows:		
- Not later than one year	8,173	7,242
- Later than one year and not later than 5 years	10,027	14,519
- Later than 5 years	495	0
Total	18,695	21,761

Note 12 Commitments for Expenditure (continued)

	Actual 2010 \$'000	Actual 2009 \$'000
--	--------------------------	--------------------------

(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	0	12
- Later than one year and not later than 5 years	0	0
- Later than 5 years	0	0
Total	0	12

(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	1,029	767
- Later than one year and not later than 5 years	2,845	2,115
- Later than 5 years	0	0
Total	3,874	2,882

Note 13 Statement of performance measures -
Consolidated results

	Amounts 2010	2010 indicators	2009	2008	2007
1. Unrestricted current ratio					
Current assets less all external restrictions ⁽¹⁾	23,448	1.41 :1	0.96:1	1.24:1	2.17:1
Current liabilities less specific purpose liabilities ^{(2) (3) (4)}	16,607				
2. Debt service ratio					
Debt Service Cost	13,394	12.18%	13.32%	12.05%	11.50%
Revenue from continuing operational excluding capital items and specific purpose grants/contributions	109,952				
3. Rate coverage ratio					
Rates and annual charges	62,275	44.98%	48.22%	49.91%	47.82%
Revenue from continuing operations	138,460				
4. Rates and annual charges outstanding percentage					
Rates and annual charges outstanding	5,697	8.39%	8.11%	7.81%	7.30%
Rates and annual charges collectible	67,927				
5. Building and infrastructure renewals ratio ⁽⁵⁾					
Asset renewals - building and infrastructure	7,322	23.21%	14.95%	83.89%	52.32%
Depreciation, amortisation, & impairment - building and infrastructure	31,551				

Notes:

(1) Refer to Notes 6-8 inclusive.

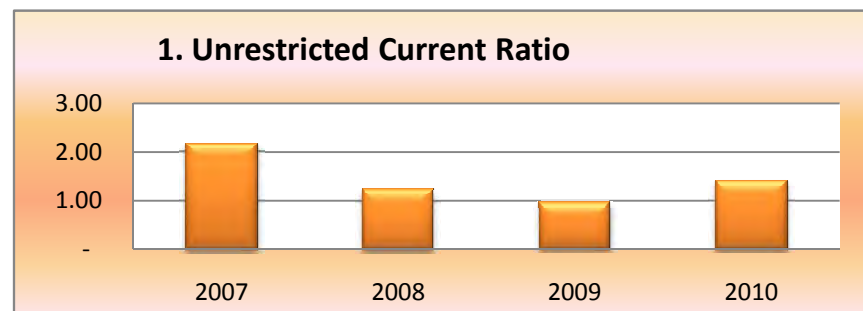
(2) Refer to note 10(a)

(3) \$6.7m provisions not expected to be settled deducted.

(4) \$548k payables not expected to be settled deducted.

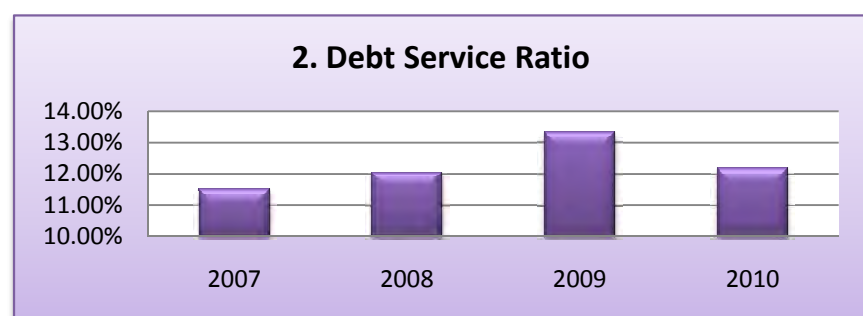
(5) Refer Note 9a

Note 13 Statement of performance measures - Consolidated results - Graphs



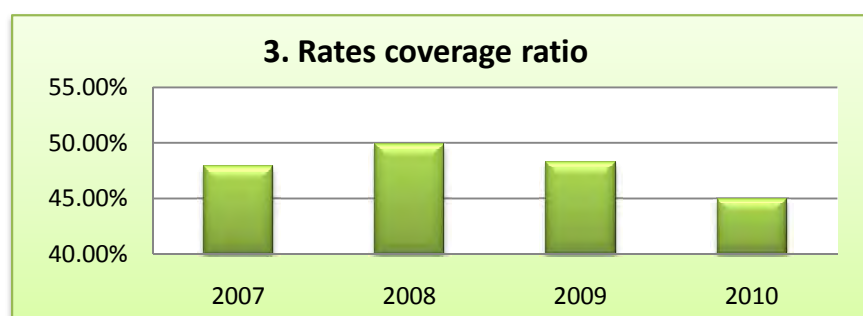
Purpose of unrestricted current ratio

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



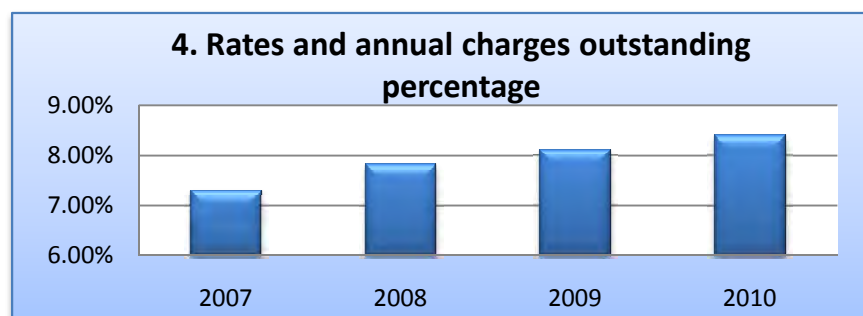
Purpose of debt service ratio

To assess the impact of loan principal and interest repayments on the discretionary revenue of Council.



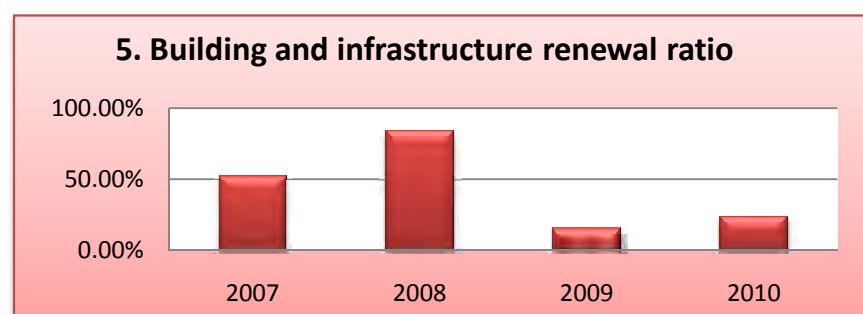
Purpose of rates and annual charges coverage ratio

To assess the degree of dependence upon revenues from rates and annual charges and to assess the security of Council's income.



Purpose of rates and annual charges outstanding ratio

To assess the impact of uncollected rates and annual charges on liquidity and the adequacy of recover efforts.



Purpose of building and infrastructure renewal ratio

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

Note 13 Statement of performance measures - By
Fund

	Current year indicators		
	General ⁽¹⁾	Water	Sewer
1. Unrestricted current ratio			
Current assets less all external restrictions ⁽¹⁾	1.30:1	4.09:1	3.47:1
Current liabilities less specific purpose liabilities ⁽²⁾			
2. Debt service ratio			
Debt Service Cost	11.82%	8.08%	18.23%
Revenue from continuing operational excluding capital items and specific purpose grants/contributions			
3. Rate coverage ratio			
Rates and annual charges	45.59%	17.85%	77.84%
Revenue from continuing operations			
4. Rates and annual charges outstanding percentage			
Rates and annual charges outstanding	8.49%	12.61%	6.75%
Rates and annual charges collectible			
5. Building and infrastructure renewals ratio ⁽³⁾			
Asset renewals - building and infrastructure	27.67%	20.11%	15.48%
Depreciation, amortisation, & impairment - building and infrastructure			

Notes:

(1) Refer to Notes 6-8 inclusive.

(2) Refer to note 10(a)

(3) \$6.7m provisions not expected to be settled deducted.

Note 14 Investment properties

(continued)

This note is not applicable to Port Macquarie-Hastings Council

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	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Financial Assets				
Cash and cash equivalents	42,804	4,501	42,804	4,501
Receivables	20,318	17,164	20,318	17,164
Financial assets at fair value through profit or loss - Held for trading	11,347	11,528	11,347	11,528
Available-for-sale financial assets	10,921	19,362	10,921	19,362
Held-to-maturity investments	7,000	0	7,000	0
Total	92,390	52,555	92,390	52,555
Financial Liabilities				
Payables	19,423	19,936	19,423	19,936
Borrowings	102,119	91,693	96,622	85,881
Total	121,542	111,629	116,045	105,817

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 in active markets for identical investments.

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 guarantees that comply with the Ministers' Investment Order. Council seeks advice from its independent advisors before placing any cash and investments.

	30.6.2010 \$'000	30.6.2009 \$'000
Impact of a 5% (1) movement in price of investments		
- Equity	546	968
- Income statement	567 (2)	576
Impact of a 1% (1) movement in interest rates on cash and investments		
- Equity		
- Income statement	531	236

Notes:

(1) Sensitivity percentages based on management's expectation of future possible market movements. (Price movements calculated on investments subject to fair value adjustments. Interest rate movements calculated on cash, cash equivalents, managed funds, and FRNs.) Recent market volatility has seen larger market movements for certain types of investments. 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:

	30.6.2010	30.6.2009
Percentage of Rates and Annual charges:		
- Current	30.45%	29.48%
- Overdue	69.55%	70.52%
Percentage of Other Receivables		
- Current	55.47%	67.50%
- Overdue	44.53%	32.50%

Note 15 Financial risk management (continued)

(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:

2010 \$'000	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total Contractual Cash flows	Carrying values
2010					
Payables	19,423			19,423	19,423
Borrowings	13,796	62,917	77,563	154,276	102,119
	33,219	62,917	77,563	173,699	121,542
2009					
Payables	19,460	476	0	19,936	19,936
Borrowings	12,685	54,562	75,912	143,159	91,693
	32,145	55,038	75,912	163,095	111,629

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 2010		30 June 2009	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	\$'000	%	\$'000
Overdraft			0.00%	0
Bank Loans - Fixed	6.60%	78,855	6.72%	75,832
- Variable ⁽¹⁾	5.64%	23,264	5.36%	15,860
		102,119		91,692

Note:

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

Note 15 Financial risk management (continued)

(continued)

(d) Financial instruments measured at fair value

The financial instruments (other than cash and cash equivalents) recognised at fair value in the balance sheet have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists for the following levels:

Level 1

Quoted prices in active markets for identical assets or liabilities. Included within Level 1 of the hierarchy are Floating Rate Notes and Equity Linked Notes. The fair values of these financial assets have been based on the closing quoted bid prices at reporting date, excluding transaction costs.

Level 2

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). In valuing unlisted investments, included in Level 2 of the hierarchy, valuation techniques such as those using comparisons to similar investments for which market observable prices are available have been adopted to determine the fair values of these investments. These ordinarily include Collateralised Debt Obligations that have evidence of recent trading.

Level 3

Inputs for the asset or liability that are not based on observable market data (unobservable inputs). These include CDO's that do not have any evidence of recent trading or buy-back by the issuing financial institution.

	Level 1 \$,000	Level 2 \$,000	Level 3 \$,000	Total \$,000
2010				
Financial assets:				
Financial assets at fair value through profit or loss:				
- Equity Linked Notes	11,347			11,347
Held-to-maturity investments:				
- Fixed Interest Investments	7,000			7,000
Available-for-sale financial assets:				
- Floating Rate Notes	6,456			6,456
- Collateralised Debt Obligations		3,016	1,449	4,465
	24,803	3,016	1,449	29,268

Note 6 (b) provides details of movements relating to each of the above investment types.

Note 16 Budget Variations

(continued)

Council's original budget was incorporated as part of the Corporate Plan adopted by the Council on 24 June 2009. 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. User charges and fees**

User charges and fees were over budget by \$3,263K (F) 14.75%. Variations in amounts received for user charges and fees are detailed below.

* Water user charges	\$1,063K (F)	
* Sewer user charges	\$165K (F)	
* Other waste user charges	\$1,036K (F)	
* Building and planning fees	\$411K (F)	Increase in building activity
* Airport fees	\$207K (F)	
* Crematorium fees	\$125K (F)	
* Section 68 permits	\$294K (F)	Increase in building activity

2. Interest and investment revenues

Interest and investment revenues were over budget by \$5,183K (F) 276.87%. This result was caused by a number of issues including:-

1. Interest estimates in the original budget were conservative due to the economic climate.
2. Interest and other investment revenues actually recognised for the 2010 financial year have been influenced by movements in the fair value of investments upwards by \$711K.
3. Council has reversed a previous impairment loss in the amount of \$1.3m in line with independent market valuations.
4. Council has received two interest free loans from the State Government and the recognition of the discount has improved the interest and investment revenues by \$1.8m.

2. Other revenues

Other revenues were over budget by some \$1,177K (F) 30.57%. Variations in amounts received for other revenues are detailed below.

* Economic Affairs Revenues	\$183K (F)	Increased income for tourism marketing
* Fine Revenue	\$185K (F)	Greater focus on parking by Council Rangers
* Insurance Rebate	\$66K (F)	
* Library Charges	\$26K (F)	
* Waste Management Revenues	\$606K (F)	Increased steel sales from waste management depots. Sale of Compost.

3. Grants and contributions provided for operating purposes

Actual amounts of grants and contributions received for operating purposes were over the original budget by some \$1,996K (F) 17.86%. Variations in the amounts received in grant funds are detailed below.

* Administration Grant	\$20K (F)	Grant received for Integrated planning project.
* Bushfire Control Grant	\$59K (F)	

Note 16 Budget Variations (continued)

* Community Services & Education Grants	\$125K (F)	Grants received for Move Well Eat Well along with Rural Halls.
* Economic Affairs Grant/Contributions	\$176K (F)	Start-up Pgmme, Economic Gardeners and University Project
* Employment/Training Grants	\$44K (F)	
* Financial Assistance Grants	\$275K (F)	Received pre-payment of 2010/11 Grant.
* Natural Resources Grants	\$588K (F)	Grants received for Urban Sustainability and Bush Regeneration Team
* Housing & Community Contribution	\$140K (F)	Contribution to planning studies by landowners
* Library Grants	\$45K (F)	
* Pensioner Rates Subsidy	\$110K (U)	Only one claim per year done.
* Recreation & Cultural Grants	\$57K (F)	
* Recreation & Cultural Contributions	\$62K (F)	Contribution received for Netball Clubhouse and Memorial Seats
* Roads & Bridges Grants	\$135K (F)	Grant for Flood Damage May 2009
* S94 Admin Levy	\$31K (F)	
* Waste Management Grant	\$180K (F)	Additional midwaste grant

4. Grants and contributions provided for capital purposes

Actual amounts of grants and contributions received for capital purposes were over the original budget by some \$5,576K (F) 28.65%. Variations in the amounts received in grant funds are detailed below.

* Water Supply Grant	\$1,920 (F)	Council received a grant for Fluoridation and the SCADA project
* Community Services Grant	\$1,319 (F)	HACC construction grant.
* Bonny Hills Surf Club Grant	\$1,350 (F)	
* S94/64 Contributions	\$646 (F)	Increased activity in development.
* Roads and Bridges Grants	\$589 (F)	Increased roads to recovery and flood damage grants.

5. Net gain on disposal of assets

Council budgeted for a loss on disposal of assets of \$1,240K but actually incurred a gain of \$1,704K. This is due to the fact that a parcel of land that budgeted to sell in 2009 was in fact sold in 2010. In addition, the write off of infrastructure assets was not as great as expected.

Expenses**6. Borrowing costs**

The variation of \$1,853K (26.29%) (F) is due to the fact that Council has capitalised \$1,150K of the interest on the sewerage loans in line with the Local Government Code of Accounting Practice. The budget has been transferred to the capital budget for these items 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.

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 developer contributions

(a) Summary of developer 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	Projected future contributions ⁽³⁾ \$'000	Projected cost of works still outstanding ⁽³⁾ \$'000	Projected over/under funding ⁽³⁾ \$'000	Cumulative balance of internal borrowings (to)/from \$'000
		Cash \$'000	Non cash \$'000									
Roads	-1,891	1,179	219	-83	151	-727	727		58,769	69,931	-11,889	727
Parking	2,937	63		111		3,111	-727	2,384	9,831	12,942		-727
Open Space	-172	789		4	345	276		276	50,337	57,894	-7,281	
Community Facilities	1,047	448		46	1,031	510		510	41,858	46,654	-4,286	
Other	1,772	34		94	207	1,693		1,693	850	2,543		
Administration Levy		99			99				2,232	2,747	-515	
S94 under plans	3,693	2,612	219	172	1,833	4,863		4,863	163,877	192,711	-23,971	
S94 not under plans	264	282		12		558		558				
S94A levies	97	80		4	146	35		35				
Planning agreements	234			9	243							
Section 64	22,173	6,111	116	731	6,534	22,597		22,597				
Totals	26,461	9,085	335	928	8,756	28,053		28,053	163,877	192,711	-23,971	

Notes:

(1) Reconcilable with Note 3

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

(3) Projections are not applicable to S94A levies, Planning agreements and Section 64. Projections are based on undiscounted numbers.

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

Note 17 Statement of developer contributions (continued)

(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	Projected future contributions (3) \$'000	Projected cost of works still outstanding (3) \$'000	Projected over/under funding (3) \$'000	Cumulative balance of internal borrowings (to)/from \$'000
		Cash \$'000	Non cash \$'000									
Roads	-1,891	1,179	219	-83	151	-727	727		58,769	69,931	-11,889	727
Parking	2,937	63		111		3,111	-727	2,384	9,831	12,942		-727
Open Space	-172	789		4	345	276		276	50,337	57,894	-7,281	
Community Facilities	1,047	448		46	1,031	510		510	41,858	46,654	-4,286	
Other	1,772	34		94	207	1,693		1,693	850	2,543		
Administration Levy		99			99				2,232	2,747	-515	
Section 94A	97	80		4	146	35		35				
Totals	3,790	2,692	219	176	1,979	4,898		4,898	163,877	192,711	-23,971	

(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	Projected future contributions (3) \$'000	Projected cost of works still outstanding (3) \$'000	Projected over/under funding (3) \$'000	Cumulative balance of internal borrowings (to)/from \$'000
		Cash \$'000	Non cash \$'000									
Roads	66	131		4		201		201				
Parking												
Open Space	38	151		2		191		191				
Community Facilities	160			6		166		166				
Other												
Totals	264	282		12		558		558				

Note 18 Contingencies

(continued)

Contingent liabilities

1 Land Sale

Council has been taken to Court over the sale of a parcel of land in Hayward Street, Port Macquarie. The judge dismissed the claim for damages and costs were awarded against the other party. The other party has appealed the judgement and the awarding of costs to Council. This has not been resolved at this stage.

2 Superannuation

Council contributes to the Local Government Superannuation Scheme which has a closed section where a portion of member entitlements are defined as a multiple of salary. Member councils bear the responsibility of ensuring there are sufficient monies available to pay out benefits as these members cease employment. The Scheme has a deficit of assets over liabilities and its administrators have advised Council that it will need to make significantly higher contributions to help reverse this deficit. However, they may call upon Council to make an immediate payment sufficient to offset this deficit at any time. As the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils, the amount of such a payment is not able to be reliably quantified.

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.

Note 19 Interests in joint ventures and associates

This note is not applicable to Port Macquarie - Hastings Council

Note 20 Revaluation reserves and retained earnings

(continued)

	Actual 2010 \$'000	Actual 2009 \$'000
Notes		
(a) Retained earnings		
Movements in retained earnings were as follows:		
At beginning of year	853,764	855,043
Adjustment due to error for prior year (20(d))		
Land under roads derecognised		-2,388
Net operating result for the year	27,062	1,109
At end of year	880,826	853,764
(b) Revaluation reserves		
Infrastructure, property, plant and equipment revaluation reserve	707,192	255,942
Available-for-sale investments revaluation reserve	-528	-2,217
	706,664	253,725
Movements:		
<i>Property, plant and equipment revaluation reserve</i>		
At beginning of year	255,942	231,109
Revaluations (Note 9)	451,250	24,833
At end of year	707,192	255,942
<i>Available-for-sale investments revaluation reserve</i>		
At beginning of year	-2,217	-9,389
Revaluation - gross	1,117	-8,310
Transfer to net profit - gross	572	15,482
At end of year	-528	-2,217

(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.

Income Statement by Fund	Actual 2010 \$'000 General ⁽¹⁾	Actual 2010 \$'000 Water	Actual 2010 \$'000 Sewer
Income from continuing operations			
Revenue:			
Rates and annual charges	41,653	4,772	15,850
User charges and fees	12,697	12,434	250
Interest and investment revenue	2,457	2,899	1,699
Other revenues	4,801	72	154
Grants and contributions provided for operating purposes	12,604	235	335
Grants and contributions provided for capital purposes	15,260	6,454	2,130
Other Income:			
Net gain from the disposal of assets	1,897		
Total income from continuing operations	91,369	26,866	20,418
Expenses from continuing operations			
Employee benefits and on-costs	27,828	2,976	3,477
Borrowing costs	3,933	656	606
Materials and contracts	17,559	5,515	5,077
Depreciation and amortisation	22,270	7,694	6,834
Impairment			
Other expenses	4,886	800	1,287
Interest and investment losses			
Net Loss from the disposal of assets		139	54
Total expenses from continuing operations	76,476	17,780	17,335
Operating result from continuing operations	14,893	9,086	3,083
Net operating result for the year	14,893	9,086	3,083
Attributable to:			
- Council	14,893	9,086	3,083
Net operating result for the year before grants and contributions provided for capital purposes (2)	-367	2,632	953

Notes:

(1) General Fund refers to all Council activities except Water and Sewer

(2) The relevant operating result used for Water and Sewer is the 'Operating Result less Grants for Acquisition of Assets' as reported in Special Schedule 3. This result is respectively:

	\$'000
Water	7,937
Sewer	2,267

Balance Sheet by Fund	Actual 2010 \$'000 General	Actual 2010 \$'000 Water	Actual 2010 \$'000 Sewer
ASSETS			
Current assets			
Cash and cash equivalents	21,884	12,723	8,197
Investments	3,244	2,294	1,478
Receivables	6,221	3,989	3,264
Inventories	878	256	7
Other	707		
Non-current asset classified as held for sale	1,999		
Total current assets	34,933	19,262	12,946
Non-current assets			
Investments	4,328	10,984	6,940
Receivables	380	4,925	1,539
Inventories	168		
Infrastructure, property, plant & equipment	1,050,441	356,333	221,281
Total non-current assets	1,055,317	372,242	229,760
Total assets	1,090,250	391,504	242,706
LIABILITIES			
Current liabilities			
Payables	9,056	1,046	697
Borrowings	4,583	1,558	1,642
Provisions	11,456	2,160	1,269
Total current liabilities	25,095	4,764	3,608
Non-current liabilities			
Payables		5,287	3,337
Borrowings	52,721	15,500	26,115
Provisions	472	44	27
Total non-current liabilities	53,193	20,831	29,479
Total liabilities	78,288	25,595	33,087
Net assets	1,011,962	365,909	209,619
EQUITY			
Retained earnings	532,718	196,252	151,856
Revaluation reserves	479,244	169,657	57,763
Council equity interest	1,011,962	365,909	209,619
Total equity	1,011,962	365,909	209,619

Notes:

(1) General Fund refers to all Council activities except Water and Sewer

Note 22 Non-current assets classified as held for sale

(continued)

	Actual 2010 \$'000	Actual 2009 \$'000
Land		
Council has made the decision to dispose of surplus land. The land is currently available for sale and is actively being marketed.	1,999	7,392

Note 23 Events occurring after balance sheet date

(continued)

Events that occur after the reporting date of 30 June 2010, 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 2010.
- (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 2010 and which are only indicative of conditions that arose after 30 June 2010.

Note 24 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 independent consultants. This figure is based on Council maintaining its current management approach which involves each cell being capped as it is filled. This \$600,000 has been discounted to its present value at an interest rate equivalent to the risk-free cost of borrowing to Council.

	Actual 2010 \$'000	Actual 2009 \$'000
At Beginning of year	298	282
Amounts capitalised to Tip asset		
- New disturbance		
- Revised costs		
- Revised life		
- Revised discount rate	3	
Amortisation of discount - expensed to borrowing costs	18	16
At end of year	319	298

12 October 2010

Mr Garry Payne
Administrator
Port Macquarie-Hastings Council
PO 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 statements for the year ended 30th June 2010. In accordance with section 417 of the Local Government Act 1993 we now report on the conduct of the audit.

1. COUNCIL'S FINANCIAL REPORTING REQUIREMENTS

Council is required to prepare two financial reports ready for audit each year:

General Purpose Financial Report

This financial report presents the financial position and performance of the Council on a consolidated basis. The report includes all controlled Council operations such as general, water and sewer funds as well as domestic waste management activities. Council has prepared its general purpose financial report in accordance with the Division of Local Government Code of Accounting Practice Manual which adopts applicable Australian Accounting Standards as the framework for financial reporting.

Special Purpose Financial Report

This financial report provides an understanding of the financial position and performance of Council's declared business activities as required under National Competition Policy. Council's declared business activities for the 2010 financial year are:

- water fund operations
- sewer fund operations
- Glasshouse operations
- Commercial waste management operations

Council is not required to adopt Australian Accounting Standards when preparing this financial report however the financial position and performance have been calculated by adopting applicable Accounting Standard requirements.



2. AUDITORS' RESPONSIBILITIES

Council's annual financial audit engagement has been conducted in accordance with Australian Auditing Standards.

Our audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our professional 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, we consider 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 opinion on the effectiveness of the organisation's internal control. Our audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial report.

Forming Our Audit Opinion

Our function as auditors is to examine the general purpose and special purpose financial reports presented to us by the Council to allow us to express an audit opinion. Our audit opinion does not cover:

- i) The original budget information included in:
 - The income statement;
 - The statement of cash flows; and
 - Note 2(a) to the financial statements in the general purpose financial statements;
- ii) Note 16 budget variation explanations in the general purpose financial statements;
- iii) Note 17 forecast information contained in the general purpose financial statements; and
- iv) The best practice disclosures in notes 2 & 3 to the special purpose financial statements.

As auditors of the Council we are not responsible for the preparation of the financial reports or for the maintenance of accounting records or the organisation's 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.



3. CONSOLIDATED OPERATING RESULT

Council's surplus from all activities for 2010 was \$27,062,000. This compares to a surplus in 2009 of \$1,109,000. This result can be summarised as follows:-

Consolidated Operating Result	2010	2009	2008
	\$'000	\$'000	\$'000
Revenues from continuing operations	109,017	98,912	95,146
Expenses from continuing operations	(74,600)	(70,878)	(72,087)
Result from continuing operations before depreciation	34,417	28,034	23,059
Less: depreciation expense	(36,798)	(33,653)	(30,669)
Result from continuing operations before capital amounts	(2,381)	(5,619)	(7,610)
Capital grants and contributions	23,844	22,957	17,363
Result from continuing operations after capital amounts	21,463	17,338	9,753
Fair value gains and losses on investments	1,920	(373)	(3,642)
Impairment of investments	-	(15,422)	-
Gain on recognition of interest-free loans	1,813	-	-
Profit/(Loss) on disposal of assets	1,866	(434)	(2,812)
Surplus from all activities	27,062	1,109	3,299

3.1 ANALYSIS OF RESULT FROM CONTINUING OPERATIONS BEFORE CAPITAL AMOUNTS

The deficit from continuing operations before capital amounts has reduced from \$5,619,000 in 2009 to \$2,381,000 in 2010. Some of the material components contributing to the reduction of this deficit include:

Account	Increase / (Decrease) \$'000	Reason for Increase / Decrease
Revenue		
General rates	1,187	General rates revenue has increased with a rate-pegged increment of 3.5% plus growth in the number of assessments.
Sewer Annual Charges	1,331	Revenue from sewer annual charges has increase in conjunction with the Council's annual review of fees and charges together with increases in the number of sewer connections.
Water User Charges	1,104	Tier 1 consumption charges have increase from \$1.84 in 2009 to \$1.97 per kilolitre in 2010 whilst Tier 2 consumption charges per kilolitre have increased by 26¢ on 2009.
Transport & Communication Fees	1,473	Revenue relating to this aspect of Council's operations is largely attributable to increased airport activity.

Account	Increase / (Decrease) \$'000	Reason for Increase / Decrease
Expenses		
Employee costs	(1,111)	Employee costs have reduced in conjunction with a slight decrease in employees and a lower cost of providing employee benefits.
Borrowing costs	1,649	Borrowing costs have increased as interest is recognised on loans drawn down toward the end of the 2009 financial year.
Depreciation Expense	3,145	Depreciation expense has increased in conjunction with the indexation of buildings, water and sewerage infrastructure at 30 June 2009.

3.2 OTHER MATERIAL ITEMS IMPACTING THE CONSOLIDATED OPERATING RESULT

Council's consolidated operating result can be influenced by transactions that may be unique or not related to core service delivery. The 2010 consolidated operating surplus has been impacted by the following significant revenue items.

Fair Value Movement of Investments

The majority of Council's investments are recognised in the financial report at their fair value. Any movements in the fair value of Council's investments are recognised as a revenue or expense in the income statement. Council receives independent valuations for each of its investments so that it may accurately report their fair value in the financial report. The value of Council's investment portfolio recognised at fair value has increased by \$1,920,000 during the 2010 financial year which has been recognised as revenue in the income statement.

Gain on Recognition of Interest-Free Loan

During the year Council successfully applied for interest free loans being offered by the NSW State Government. These loans were largely used to fund roads and water infrastructure improvements.

A gain has been recognised in Council's financial report on discounting the loan to its amortised value as required by Australian Accounting Standards. This gain represents the value of the benefit received by Council under interest-free terms and conditions.

Gain / (Loss) on Disposal of Assets

The gain on disposal of assets is largely represented by the sale of land assets during the financial year.

3.3 CAPITAL GRANTS & CONTRIBUTIONS

Council receives capital grants and contributions from various sources each financial year. The extent of revenue received each year is influenced by the nature and extent of Council's capital improvements programme and general economic activity.

Capital Grants

Capital grants received during the year amounted to \$7,515,000 and largely consisted of grant monies received for the Hastings district water supply fluoridation, HACC construction as well as road infrastructure improvements under the Roads to Recovery funding programme.

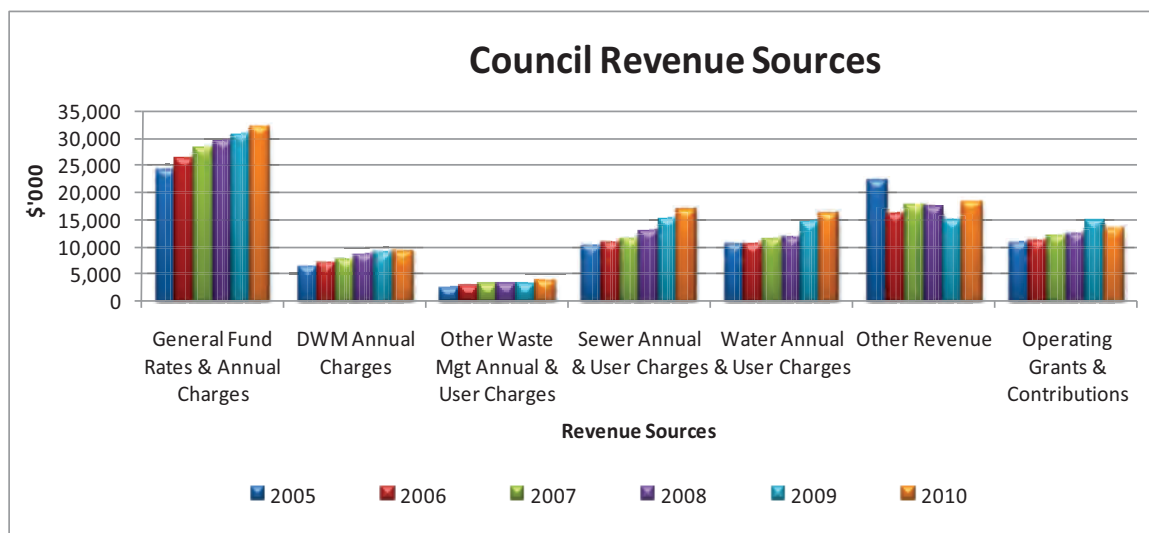
Capital Contributions

Capital contributions received during the period amounted to \$16,329,000. Capital contributions largely comprise section 94 and 64 developer contributions and dedications of infrastructure assets to Council upon the completion of residential and other developments.

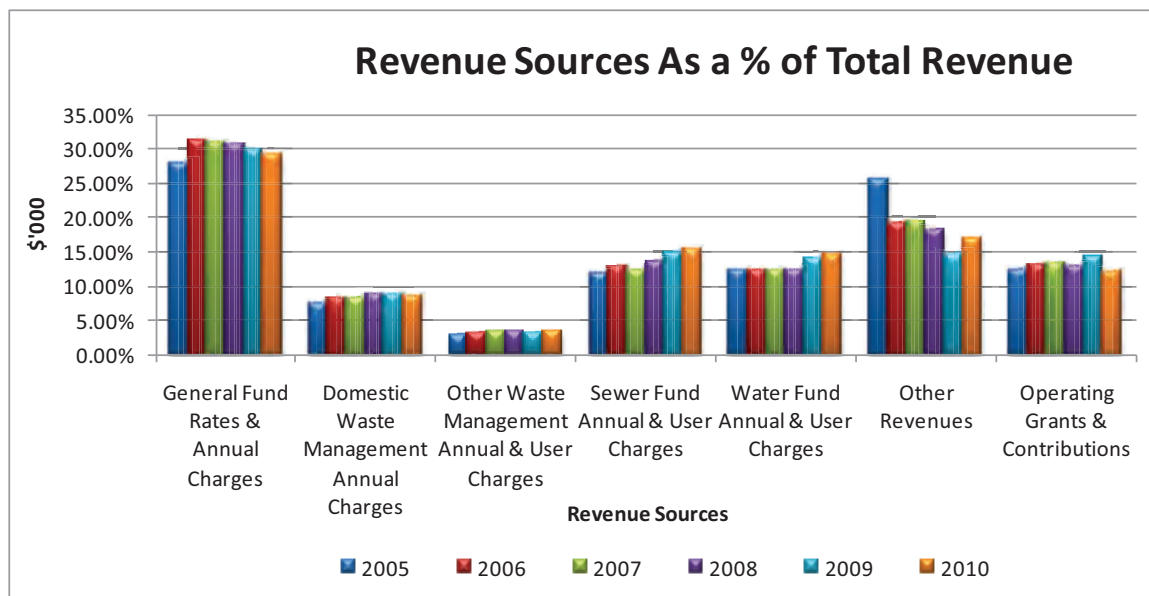
	2010 \$'000	2009 \$'000	2008 \$'000
Non-cash developer infrastructure dedications	6,510	8,711	8,116
Section 94 contributions - cash	2,875	1,845	2,102
Section 64 contributions - cash	6,111	4,292	2,166
Other contributions	833	1,473	1,148
Total	16,329	16,321	13,532

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

4. COUNCIL REVENUE SOURCES



The above graph illustrates the movement in Council's main revenue sources over the past six years. Council's revenue from rates and annual charges for all operations as a percentage of total revenue for the 2010 financial year is 45.59% and compares favourably with comparative data published by the NSW Division of Local Government for 2008/09.



The above graph illustrates the Council's main revenue streams as a percentage of total revenue. Other revenue has been influenced by the first year of the Glasshouse operations. The graph shows a proportionate decline in general fund rates and annual charges revenue over the last five years as other revenues grow at a greater rate than the annual rate-pegged increments.

5. DECLARED BUSINESS ACTIVITIES UNDER THE NATIONAL COMPETITION GUIDELINES

Under the National Competition guidelines Council is required to apply taxation equivalent principles to declared business activities 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 statements.

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 and 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:

Activity/Year	Revenue \$'000	Expenses \$'000	Result prior to capital amounts \$'000	Return on capital %	Notional Subsidy \$'000	Dividends Paid \$'000
2010						
Water	20,536	(18,430)	2,106	0.78	4,364	-
Sewer	19,199	(19,061)	138	0.39	3,573	-
Waste Management	15,669	(12,178)	3,491	37.13	-	1,150
The Glasshouse	964	(8,495)	(7,531)	(11.02)	6,186	-
2009						
Water	12,289	(19,872)	(7,583)	(1.92)	13,683	-
Sewer	11,068	(19,096)	(8,028)	(3.56)	11,438	-
Waste Management	13,974	(12,170)	1,804	24.05	-	-
The Glasshouse	263	(3,128)	(2,865)	(5.51)	3,835	-

Water and Sewer Services

Council's water and sewer operations have improved their financial performance when compared to 2009. This improvement is largely attributable to positive movements in the fair value of investments in 2010. Council has also maintained costs whilst improving operating revenue for each activity.

Water and sewer operations are recognised 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. Council has resolved that a desired rate of return of 2% should be sufficient to allow for the replacement of infrastructure in the future.

In 2010 Council's water and sewer operations have not achieved their desired rate of return. Under the current reporting framework Council is to recognise the difference between the actual rate of return and the required rate of return as a notional subsidy from General Fund operations. For 2010 the notional subsidy calculated is \$4,364 million and \$3,573 million for water and sewer funds respectively. We highlight that an actual subsidy has not been paid and is not payable by general fund to water or sewer funds as 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 \$3,491,000 for the 2010 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 2010 year has exceeded this benchmark.

The Glasshouse Arts, Conference and Entertainment Centre

Council has nominated the Glasshouse Arts, Conference and Entertainment Centre a declared business activity to provide ratepayers with an understanding of its financial performance and position. It should be noted that Council is providing this information as a matter of governance and transparency as it does not necessarily qualify as a reportable activity under the National Competition Policy guidelines.



The 2010 year marked the commencement of operations at the Glasshouse. The deficit of \$7,531 million includes notional taxation equivalents of \$1,117 million and depreciation expense of \$1,838 million. We understand that Council is monitoring the Glasshouse operations so that expenses are maintained and revenues improved wherever possible.

8. BALANCE SHEET

8.1 CASH AND INVESTMENTS

At balance date Council had \$72,072,000 in cash and investments. Council's cash and investments consist of:

	2010 \$'000	2009 \$'000
Cash on hand and at bank	596	248
Deposits at call	49,208	4,253
Floating Rate Notes	6,456	10,846
Collateralised Debt Obligations	4,465	8,516
Equity Linked Notes	<u>11,347</u>	<u>11,528</u>
	<u>72,072</u>	<u>35,391</u>

Council's cash and investments are largely restricted in their use:

Externally restricted	57,579	33,157
Internally restricted	13,897	1,986
Unrestricted	<u>596</u>	<u>248</u>
	<u>72,072</u>	<u>35,391</u>

The above table illustrates that Council has approximately \$596,000 unrestricted cash at balance date. This money is used to conduct Council's day-to-day operations. Externally restricted cash consists of unspent monies such as developer contributions, grants and special rates as well as water and sewer funds. These funds are limited in their use under legislation or specific funding agreements and are not available for general Council operations.

Council has increased the level of internally restricted cash reserves. These reserves are tied to specific Council projects under Council resolution and are generally not available to fund day-to-day operations. The increase in the level of internally restricted reserves has been funded by general operations as well as the sale of excess land assets. We commend Council for improving the amount of internally restricted reserves and we encourage higher levels of funding so that Council may further secure its financial position and guard against any unforeseen financial impacts that may occur in the future.

Security of Investments

It is important to note that most of Council's investments 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 always protected if the investment is sold before its maturity.



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 2010/11 financial year from a liquidity perspective.

8.2 PROPERTY, PLANT AND EQUIPMENT

During the year Council capitalised \$45.193 million on infrastructure and property, plant and equipment. Assets recognized in Council's balance sheet consist of:

	2010	2009
	\$'000	\$'000
<i>Developer Infrastructure Dedications</i>	6,510	8,711
<i>Non-cash Grants/contributions</i>		
Bush Fire, Subsidised Schemes etc.	-	483
<i>Council Constructed / Purchased Assets</i>		
Land and Buildings	3,927	6,145
Plant and Equipment	3,047	4,310
Roads and Drainage	9,428	8,305
Water & Sewerage Network	4,489	4,722
Other Assets	1,906	276
Work in Progress	22,396	51,448
	45,193	75,689

The work in progress as at the end of the reporting period, largely relates to the construction of sewer infrastructure.

Asset Revaluations 2010

The Division 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, design and capacity.

During the year Council revalued its roads and drainage infrastructure assets. The effect of the revaluation process was to increase the written-down replacement cost of roads and drainage assets by \$432,698,000 to \$837,552,000. As at 30 June 2010 Council controls plant, equipment, land, buildings and infrastructure with a written down replacement cost of \$1,628 billion.

Future Asset Revaluations

The following asset classes are required to be revalued by Council in 2011:

<i>Asset Type</i>	<i>Date of Revaluation</i>
Other Structures and other assets	30 June 2011
Community Land and land improvements	30 June 2011



The valuation of other structures and other assets includes a wide range of assets which may be managed by different Council personnel / departments. It is important that Council adopts a sound project management approach when recognising and valuing these assets so the process is as effective and efficient as possible.

The valuation of community land and land improvements will also be quite complex. We recommend that Council's valuation project team include a review of the "control" concept under Australian Accounting Standards when determining which assets to recognise on the balance sheet.

8.3 LOANS LIABILITY

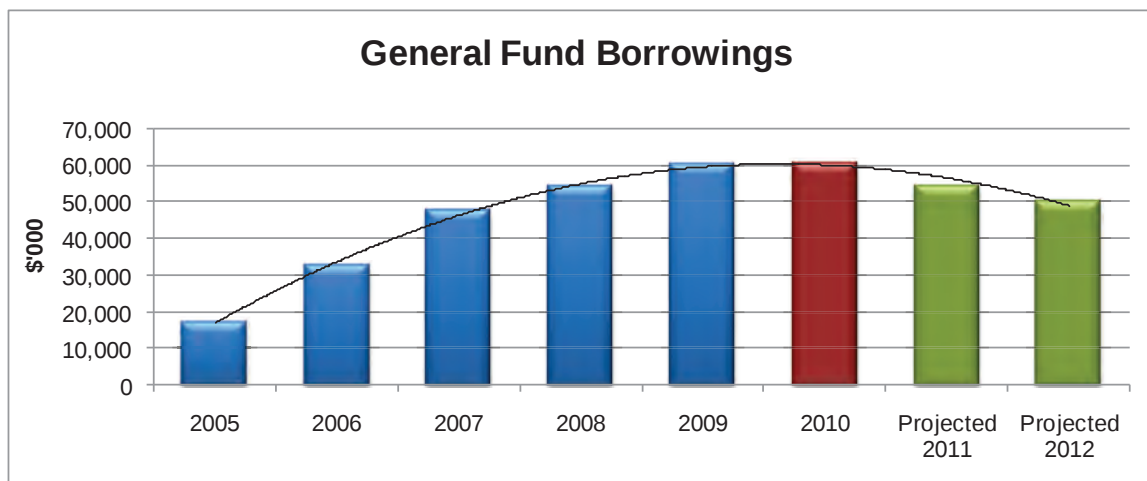
Council has total borrowings at balance date of \$102,119,000 increasing from \$91,693,000 in 2009. The total loan liability at balance date is attributable to the Council's operating funds as follows:

	2010 \$'000
General fund	60,671
Sewer fund	23,755
Water fund	17,058
Waste management	<u>635</u>
Total Loan Liability as at 30 June 2010	<u><u>102,119</u></u>

In addition to the above borrowings, Council's general fund has an internal loan liability to sewer fund of \$1,733,000 as at 30 June 2010. This borrowing is eliminated for financial reporting on a consolidated basis.

During the 2010 financial year Council repaid principal totaling \$7,070,000 and borrowed \$19,309,000 to fund the following projects:

	2010 \$'000
Sewerage treatment plant construction	10,000
Water infrastructure construction	7,959
Roads infrastructure improvements	<u>1,350</u>
Borrowings for 2010	<u><u>19,309</u></u>



The graph above illustrates the trending for the total general fund loan liability at each reporting period including borrowings for the construction of the Glasshouse Arts, Conference and Entertainment Centre. This graph illustrates the forecast loan liability to 2012 and illustrates a planned reduction in the level of debt for general fund.

9. KEY FINANCIAL PERFORMANCE INDICATORS

Council's performance can be measured using selected financial indicators. The local government sector utilises certain key performance indicators to measure some aspects of its financial position and performance. Note 13 to the general purpose financial statements provides details of local government sector key performance indicators. We provide an analysis of some of these key performance indicators on a fund-by-fund basis.

When interpreting the ratios below it is important to recognise that they represent a measure of certain aspects of Council's operations at a particular point in time and do not provide a complete assessment of Council's financial performance or position nor do they consider the plans Council has in place to manage its operations into the future.

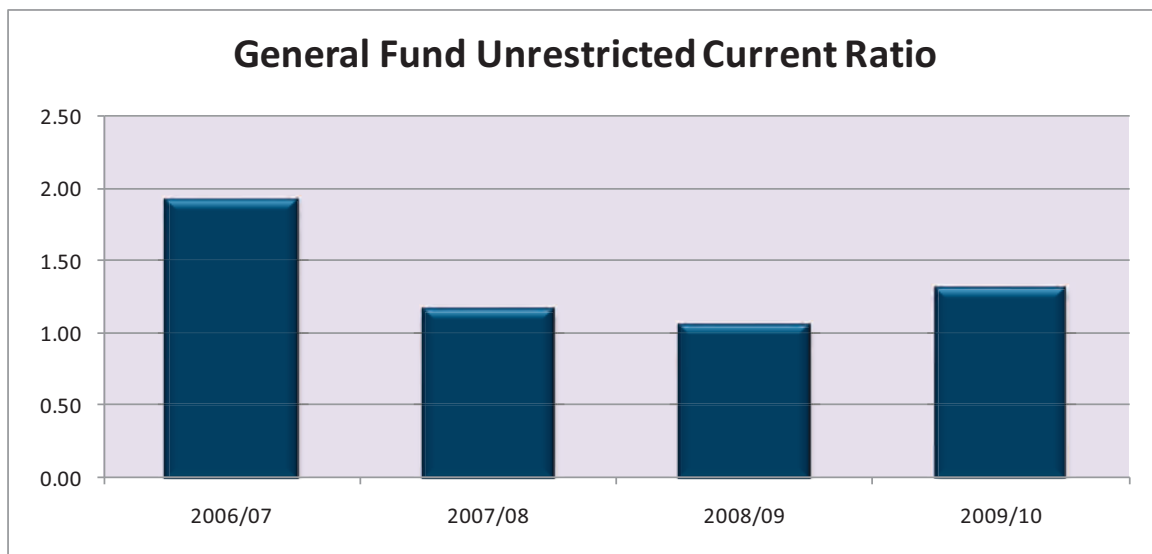
Unrestricted Current Ratio

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 general fund unrestricted current ratio has improved from 1.04 as at 30 June 2009 to 1.3 at balance date 2010. This means that Council has \$1.30 in liquid current assets for every \$1 of current liabilities. The improvement in the general fund unrestricted current ratio has arisen from Council replenishing its internal cash reserves as detailed at 8.1.

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. We recommend that Council continue to improve this ratio.

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. As part of its asset management processes Council needs to assess its infrastructure requirements and develop strategies to ensure the long-term viability (ability to provide services) of its assets.

Sewer and Water Fund Unrestricted Current Ratio



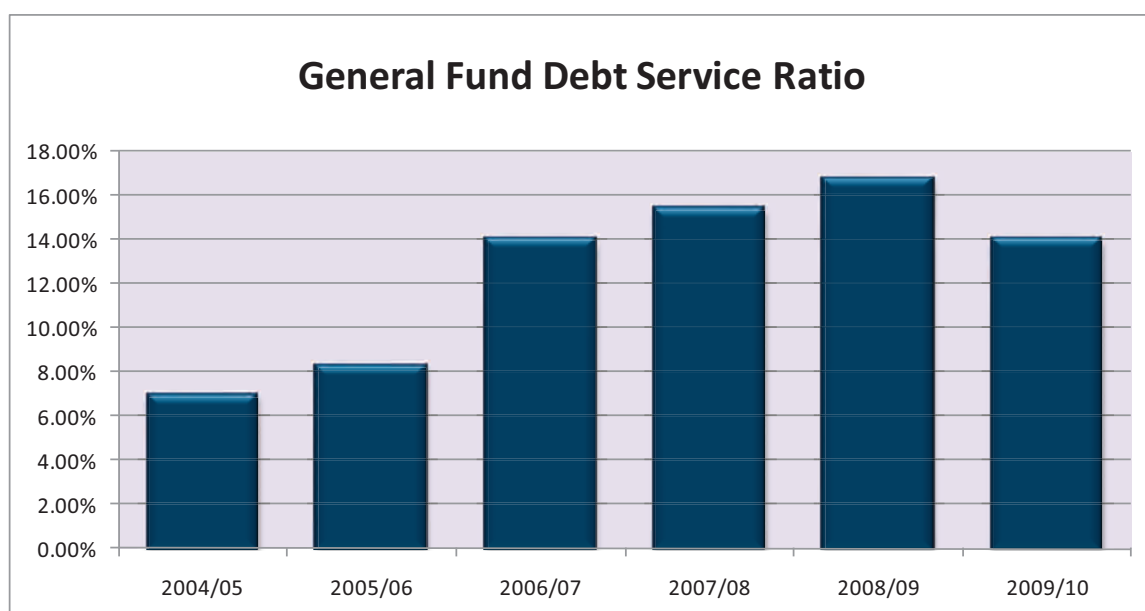
The unrestricted current ratio for water and sewer activities may fluctuate significantly. Yearly fluctuations may result from the accumulation of internal reserves and the impact of lower debt levels and will continue to fluctuate in the future as further funds are collected and expended on infrastructure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

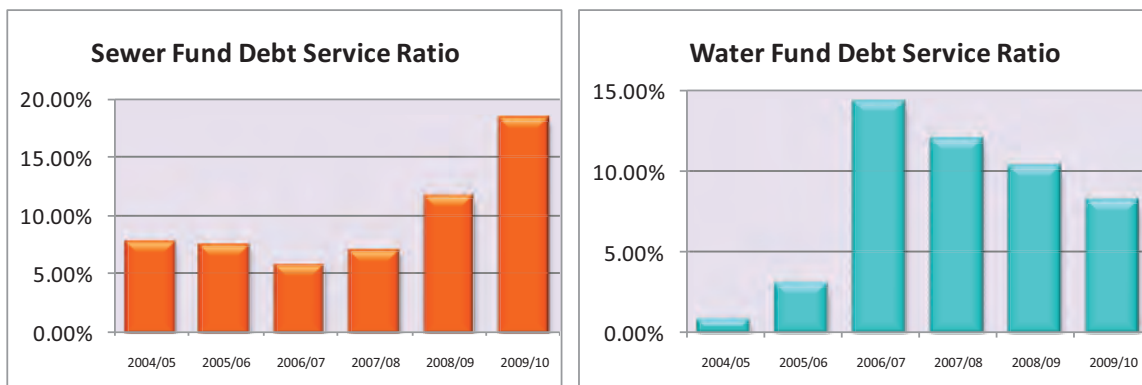
- The rate of new development in the Council area and the need to borrow to fund new infrastructure;
- Council's debt policy;
- Interest rate movements and loan terms;
- Capital investment strategies and capital contributions policies;
- The level of cash reserves available to reduce the level of borrowings; and
- The state of Council's infrastructure assets and the need to borrow to replace them.

General Fund Debt Service Ratio



The above graph illustrates the movement in Council's general fund (excluding domestic waste management operations) debt service levels over the past six years. Council's general fund debt service ratio has decreased from its 2009 level to 14%. Whilst the general fund loan repayments and interest has remained relatively static on 2009 the debt service ratio reduction has lowered as a function of increased revenue in 2010. A debt service ratio of this level for a developing coastal council such as Port Macquarie-Hastings is not considered to be abnormal under Local Government Managers Association performance measures.

Sewer and Water Fund Debt Service Ratio



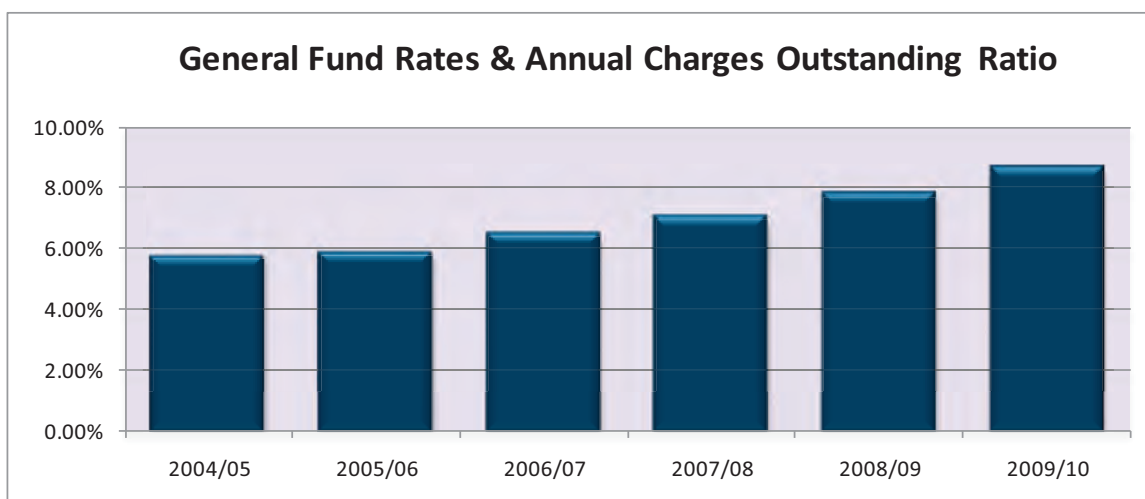
The above graphs illustrate the periodic borrowings to fund Council's capital works programmes for water and sewer funds. Sewer debt service ratio has increased as borrowings have been sourced to fund the construction of sewer treatment plants at Dunbogan and Camden Haven.

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; and
- Environmental factors influencing ratepayers ability to satisfy their obligations.

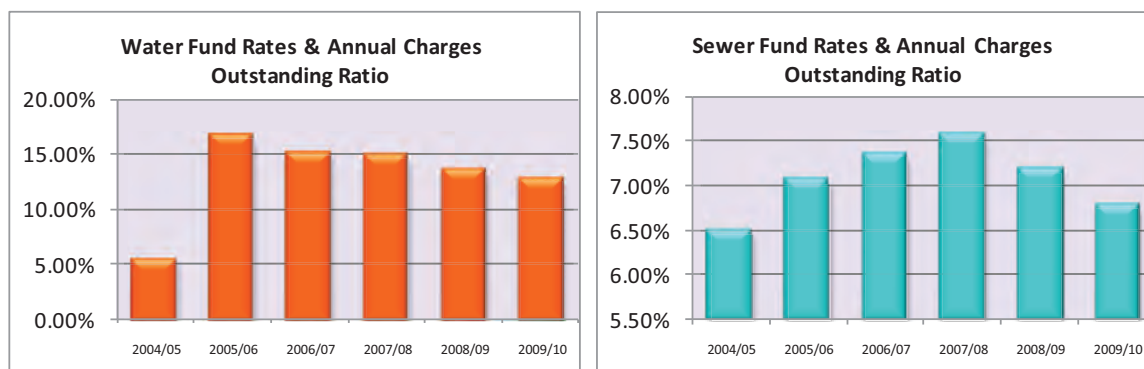
General Fund Rates & Annual Charges Outstanding Ratio





Council's general fund rates and annual charges outstanding percentage is gradually trending upwards and exceeds 8% as at 30 June 2010. We understand that Council has allocated resources to its debt collection area to ensure this ratio is maintained within established parameters.

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 fund can often be influenced by the invoicing for user charges close to the end of the financial year.

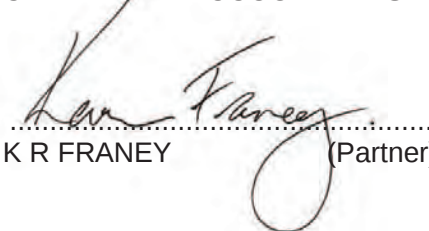
10. INTERNAL CONTROL ENVIRONMENT

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
CHARTERED ACCOUNTANTS**


K R FRANEY (Partner)



Thomas Noble & Russell
Accountants | Auditors | Business Advisers

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

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the general purpose financial statements of Port Macquarie-Hastings Council for the year ended 30 June 2010 included on Council's website. The Council is responsible for the integrity of its website. We have not been engaged to report on the integrity of the Council's website. 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 these statements are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements to confirm the information included in the audited financial statements presented on this website.

Report on the Financial Statements

We have audited the accompanying financial statements of Port Macquarie-Hastings Council (the Council), which comprises the balance sheet as at 30 June 2010, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies, other explanatory notes and the statement by the Administrator and Management.

Council's Responsibility for the Financial Statements

The Council is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Local Government Act 1993. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Council, as well as evaluating the overall presentation of the financial statements.

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



Our audit responsibility does not extend to the original budget information included in the income statement, statement of cash flows, 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

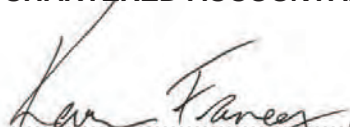
In conducting our audit, we have complied with the independence requirements of the Australian professional accounting bodies.

Audit Opinion

In our opinion,

- (a) The Council's accounting records have been kept in accordance with the requirements of the Local Government Act 1993, Chapter 13 part 3 Division 2; and
- (b) The financial statements:
 - i. Have been presented in accordance with the requirements of this Division;
 - ii. Are consistent with the Council's accounting records;
 - iii. Presents fairly the Council's financial position as at 30 June 2010, 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.

**THOMAS NOBLE & RUSSELL
CHARTERED ACCOUNTANTS**


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

Dated at Lismore this 12th day of October 2010.

Port Macquarie - Hastings Council

Special Purpose Financial Statements for the year ended 30 June 2010

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Port Macquarie - Hastings Council

**Special purpose financial statements
for the year ended 30 June 2010**

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

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

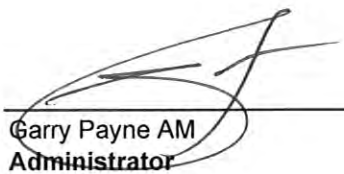
- * NSW Government Policy Statement *"Application of National Competition Policy to Local Government"*.
- * Division of Local Government Guidelines *"Pricing & Costing for Council Businesses: A Guide to Competitive Neutrality"*.
- * The Local Government Code of Accounting Practice and Financial Reporting.
- * The NSW Office of Water, Department of Environment, Climate Change and Water 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 22nd September 2010



Garry Payne AM
Administrator

Andrew Roach
General Manager

Tony Leahy
Responsible Accounting Officer

Port Macquarie - Hastings Council

Income Statement of Water Supply business activity for the year ended 30 June 2010

	Actual 2010 \$'000	Actual 2009 \$'000	Actual 2008 \$'000
Income from continuing operations			
Access charges	4,827	4,374	3,614
User charges	11,917	10,732	8,715
Fees	585	531	663
Interest	2,899	-3,842	159
Grants and contributions provided for non capital purposes	236	457	621
Other income	72	37	49
Total income from continuing operations	20,536	12,289	13,821
Expenses from continuing operations			
Employee benefits and on-costs	2,976	3,351	3,149
Borrowing costs	656	876	888
Materials and contracts	5,639	6,108	5,346
Depreciation & impairment	7,694	8,006	7,423
Water purchase charges			
Loss on sale of assets	139	357	740
Calculated taxation equivalents	97	97	41
Debt guarantee fee (if applicable)	429	359	380
Other expenses	800	718	667
Total expenses from continuing operations	18,430	19,872	18,634
Surplus (deficit) from continuing operations before capital amounts	2,106	-7,583	-4,813
Grants and contributions provided for capital purposes	6,454	5,269	3,034
Surplus (deficit) from continuing operations after capital amounts	8,560	-2,314	-1,779
Less Corporate Taxation Equivalent (30%) [based on result before capital]	632	0	0
Surplus (deficit) after tax	7,928	-2,314	-1,779
Opening retained profits	187,166	189,024	191,558
Adjustments for amounts unpaid			
Taxation equivalent payments	97	97	41
Debt guarantee fees	429	359	380
Corporate taxation equivalent	632	0	0
Adjustment for previous period error			-1,176
Closing retained profits and reserves	196,252	187,166	189,024
Return on Capital %	0.78%	-1.92%	-1.20%
Subsidy from Council	4,364	13,683	10,483
Calculation of Dividend Payable			
Surplus (deficit) after tax	7,928	-2,314	-1,779
Less: Capital grants and contributions (excluding developer contributions)	1,603	1,670	1,586
Surplus for dividend calculation purposes	6,325	-3,984	-3,365
Dividend calculated from surplus	0	0	0

Port Macquarie - Hastings Council

Income Statement of Sewerage business activity for the year ended 30 June 2010

	Actual 2010 \$'000	Actual 2009 \$'000	Actual 2008 \$'000
Income from continuing operations			
Access charges	15,948	14,599	12,526
User charges	838	733	688
Liquid trade waste charges			
Fees	117	153	64
Interest	1,807	-4,909	736
Grants and contributions provided for non capital purposes	335	330	330
Profit from the sale of assets			
Other income	154	162	154
Total income from continuing operations	19,199	11,068	14,498
Expenses from continuing operations			
Employee benefits and on-costs	3,477	3,886	4,063
Borrowing costs	714	703	293
Materials and contracts	5,880	7,429	6,556
Depreciation & impairment	6,834	5,478	4,964
Loss on sale of assets	54	29	90
Calculated taxation equivalents	112	112	90
Debt guarantee fee (if applicable)	704	428	180
Other expenses	1,286	1,031	980
Total expenses from continuing operations	19,061	19,096	17,216
Surplus (deficit) from continuing operations before capital amounts	138	-8,028	-2,718
Grants and contributions provided for capital purposes	2,130	3,176	1,525
Surplus (deficit) from continuing operations after capital amounts	2,268	-4,852	-1,193
Less Corporate Taxation Equivalent (30%) [based on result before capital]	41	0	0
Surplus (deficit) after tax	2,227	-4,852	-1,193
Opening retained profits	148,772	153,084	154,007
Taxation equivalent payments	112	112	90
Debt guarantee fees	704	428	180
Corporate taxation equivalent	41	0	0
Less: TER Dividend Paid			
Less: Surplus Dividend Paid			
Closing retained profits and reserves	151,856	148,772	153,084
Return on Capital %	0.39%	-3.56%	-1.35%
Subsidy from Council	3,573	11,438	6,018
Calculation of Dividend Payable			
Surplus (deficit) after tax	2,227	-4,852	-1,193
Less: Capital grants and contributions (excluding developer contributions)	870	2,483	6
Surplus for dividend calculation purposes	1,357	-7,335	-1,199
Dividend calculated from surplus	0	0	0

Port Macquarie - Hastings Council

Income Statement of Waste Management business activity for the year ended 30 June 2010

	Actual 2010 \$'000	Actual 2009 \$'000	Actual 2008 \$'000
Revenue from continuing operations			
Access charges	9,766	9,324	9,485
User charges	3,783	3,395	3,665
Fees			
Interest	363	-383	90
Grants and contributions provided for non capital purposes	508	609	468
Profit from the sale of assets		5	
Other income	1,249	1,024	397
Total income from continuing operations	15,669	13,974	14,105
Expenses from continuing operations			
Employee benefits and on-costs	1,147	1,543	1,463
Borrowing costs	77	109	162
Materials and contracts	10,091	10,084	10,506
Depreciation & impairment	322	307	263
Loss on sale of assets	8		7
Calculated taxation equivalents	26	41	40
Debt guarantee fee (if applicable)	41	50	57
Other expenses	466	36	54
Total expenses from continuing operations	12,178	12,170	12,552
Surplus (deficit) from continuing operations before capital amounts	3,491	1,804	1,553
Grants and contributions provided for capital purposes			
Surplus (deficit) from continuing operations after capital amounts	3,491	1,804	1,553
Less Corporate Taxation Equivalent (30%) [based on result before capital]	1,047	541	466
Surplus (deficit) after tax	2,444	1,263	1,087
Opening retained profits and reserves	8,153	6,258	5,152
Adjustments for amounts unpaid			
Taxation equivalent payments	26	41	40
Debt guarantee fees	41	50	57
Corporate taxation equivalent	1,047	541	466
Adjustment for previous period error			-44
Less: Dividend Paid	-1,150		-500
Closing retained profits and reserves	10,561	8,153	6,258
Return on Capital %	37.13%	24.05%	21.51%
Subsidy from Council	0	0	0
Calculation of Dividend Payable			
Surplus (deficit) after tax	2,444	1,263	1,087
Less: Capital grants and contributions (excluding developer contributions)	0	0	0
Surplus for dividend calculation purposes	2,444	1,263	1,087
Dividend calculated from surplus	1,150	0	500

Port Macquarie - Hastings Council

Income Statement of The Glasshouse business activity for the year ended 30 June 2010

	Actual 2010 \$'000	Actual 2009 \$'000	Actual 2008 \$'000
Revenue from continuing operations			
Grants and contributions provided for non capital purposes	82	126	3
Other income	882	137	127
Total income from continuing operations	964	263	130
Expenses from continuing operations			
Employee benefits and on-costs	1,346	749	465
Borrowing costs	2,295	193	884
Materials and contracts	1,550	1,089	1,151
Depreciation & impairment	1,838	22	23
Calculated taxation equivalents	61	62	56
Debt guarantee fee (if applicable)	1,056	983	904
Other expenses	349	30	11
Total expenses from continuing operations	8,495	3,128	3,494
Surplus (deficit) from continuing operations before capital amounts	-7,531	-2,865	-3,364
Grants and contributions provided for capital purposes		44	100
Surplus (deficit) from continuing operations after capital amounts	-7,531	-2,821	-3,264
Surplus (deficit) from all operational before tax			
Less Corporate Taxation Equivalent (30%) [based on result before capital]	0	0	0
Surplus (deficit) after tax	-7,531	-2,821	-3,264
Opening retained profits	12,104	-691	1,613
Adjustments for amounts unpaid			
Taxation equivalent payments	61	62	56
Debt guarantee fees	1,056	983	904
Corporate taxation equivalent	0	0	0
Less: Contribution from General Fund	6,576	14,571	0
Closing retained profits	12,266	12,104	-691
Return on Capital %	-11.02%	-5.51%	-9.64%
Subsidy from Council	6,188	3,640	2,994

Port Macquarie - Hastings Council

Balance Sheet of Water Supply business activity as at 30 June 2010

	Actual 2010 \$'000	Actual 2009 \$'000
ASSETS		
Current Assets		
Cash and cash equivalents	12,723	
Investments	2,294	1,363
Receivables	3,989	6,590
Inventories	256	334
Total current assets	19,262	8,287
Non Current Assets		
Investments	10,984	6,615
Receivables	4,925	308
Infrastructure, property, plant and equipment	356,333	348,545
Total non-current assets	372,242	355,468
Total assets	391,504	363,755
LIABILITIES		
Current liabilities		
Payables	1,046	324
Interest bearing liabilities	1,558	710
Provisions	2,160	1,954
Total current liabilities	4,764	2,988
Non-current liabilities		
Payables	5,287	5,287
Interest bearing liabilities	15,500	10,856
Provisions	44	61
Total non-current liabilities	20,831	16,204
Total liabilities	25,595	19,192
Net assets	365,909	344,563
EQUITY		
Retained earnings	196,252	187,166
Reserves	169,657	157,397
Council equity interest	365,909	344,563
Total equity	365,909	344,563

Port Macquarie - Hastings Council

Balance Sheet of Sewerage business activity as at 30 June 2010

	Actual 2010 \$'000	Actual 2009 \$'000
ASSETS		
Current Assets		
Cash and cash equivalents	8,197	
Investments	1,478	4,187
Receivables	3,264	3,071
Inventories	7	3
Total current assets	12,946	7,261
Non Current Assets		
Investments	6,940	9,527
Receivables	1,539	2,066
Infrastructure, property, plant and equipment	221,281	205,670
Total non-current assets	229,760	217,263
Total assets	242,706	224,524
LIABILITIES		
Current liabilities		
Payables	697	444
Interest bearing liabilities	1,642	1,206
Provisions	1,269	1,367
Total current liabilities	3,608	3,017
Non-current liabilities		
Payables	3,337	3,337
Interest bearing liabilities	26,115	17,951
Provisions	27	38
Total non-current liabilities	29,479	21,326
Total liabilities	33,087	24,343
Net assets	209,619	200,181
EQUITY		
Retained earnings	151,856	148,772
Reserves	57,763	51,409
Council equity interest	209,619	200,181
Total equity	209,619	200,181

Port Macquarie - Hastings Council

Balance Sheet of Waste Management business activity as at 30 June 2010

	Actual 2010 \$'000	Actual 2009 \$'000
ASSETS		
Current Assets		
Investments	2,608	1,820
Receivables	844	979
Total current assets	3,452	2,799
Non Current Assets		
Investments		
Receivables	339	336
Infrastructure, property, plant and equipment	9,610	7,954
Total non-current assets	9,949	8,290
Total assets	13,401	11,089
LIABILITIES		
Current liabilities		
Payables	265	4
Interest bearing liabilities	214	502
Provisions	724	715
Total current liabilities	1,203	1,221
Non-current liabilities		
Interest bearing liabilities	421	635
Provisions	319	304
Total non-current liabilities	740	939
Total liabilities	1,943	2,160
Net assets	11,458	8,929
EQUITY		
Retained earnings	10,561	8,153
Reserves	897	776
Council equity interest	11,458	8,929
Total equity	11,458	8,929

Port Macquarie - Hastings Council

Balance Sheet of The Glasshouse business activity as at 30 June 2010

	Actual 2010 \$'000	Actual 2009 \$'000
ASSETS		
Current Assets		
Cash and cash equivalents		
Investments	2	90
Receivables		
Total current assets	2	90
Non Current Assets		
Receivables		
Infrastructure, property, plant and equipment	47,517	48,452
Total non-current assets	47,517	48,452
Total assets	47,519	48,542
LIABILITIES		
Current liabilities		
Payables	481	472
Interest bearing liabilities	1,366	1,273
Provisions	197	115
Total current liabilities	2,044	1,860
Non-current liabilities		
Payables		
Interest bearing liabilities	33,196	34,567
Provisions	13	11
Total non-current liabilities	33,209	34,578
Total liabilities	35,253	36,438
Net assets	12,266	12,104
EQUITY		
Retained earnings	12,266	12,104
Reserves		
Council equity interest	12,266	12,104
Total equity	12,266	12,104

Port Macquarie - Hastings Council

Notes to the Special Purpose Financial Reports for the year ended 30 June 2010

Contents of the notes to the financial statements		Page
Note 1	Significant accounting policies	SP10
Note 2	Water Supply Business best practice management disclosure requirements	SP14
Note 3	Sewerage Business best practice management disclosure requirements	SP16

Note 1 Significant accounting for the year ended 30 June 2010

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

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

The figures presented in these special purpose financial statements have been prepared in accordance with the recognition criteria of applicable Australian Accounting Standards, other authoritative pronouncements of the AASB and Australian Accounting Interpretation. The disclosures in these special purpose financial statements have been prepared in accordance with the Local Government Act and Regulation and the Local Government Code of Accounting Practice and Financial Reporting.

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 Division 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:

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.
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.

Note 1 Significant accounting policies - continued

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.
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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 NSW Office of Water, Department of Environment, Climate Change and Water, 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 Statements) 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 SPFS. 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 Supply and Sewerage is not a prerequisite for the payment of the tax equivalent charges, however the payment must not exceed \$3 per assessment.

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 assets owned or exclusively used by the business activity.

Loan and debt guarantee fees

The debt guarantee fee is designed to ensure that Council business activities face “true” commercial borrowing costs in line with private sector competitors. In order to calculate a debt guarantee fee, council has determined what the differential borrowing rate would have been between the commercial rate and 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 2009 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

Note 1 Significant accounting policies - continued

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 NSW Office of Water.

30 June 2010

(continued)

Note 2 Water Supply Business best practice management disclosure requirements**2010****Calculation and payment of tax-equivalents**

(i)	Calculated tax-equivalents	526,164
(ii)	No of assessments multiplied by \$3/assessment	91,362
(iii)	Amounts payable for tax-equivalents (lessor of (i) and (ii))	91,362
(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>	6,325,200
(ii)	No. of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	913,620
(iii)	Cumulative surplus before dividends for 3 years to 30 June 2010, less cumulative dividends paid for 2 years to 30 June 2009	-1,023,800
(iv)	Maximum dividend from surplus (least of (i), (ii) and (iii))	-1,023,800
(v)	Dividend paid from surplus	0

Required outcomes for 6 Criteria**Yes/No**

(i)	Comple current Strategic Business Plan (including Financial Plan)	Yes
(ii)	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 <i>(Item 2(b) in Table 1)</i>	Yes
	DSP with Commercial Developer Charges <i>(Item 2(e) in Table 1)</i>	Yes
	If Dual Water Supplies, Complying Charges <i>(Item 2(g) in Table 1)</i>	Yes
(iii)	Sound Water Conservation & Demand Management Implemented	Yes
(iv)	Sound Drought Management Implemented	Yes
(v)	Complete Performance Reporting Form <i>(by 15 September each year)</i>	Yes
(vi)	a. Complete Integrated Water Cycle Management Evaluation	Yes

Note 2 Water Supply Business best practice management disclosure requirements

b. Complete and implement Integrated Water Cycle Management Strategy

Yes

National Water Initiative (NWI) Financial Performance Indicators

NWI F1	Total Revenue (Water) = Total Income (w13) - Grants for Acquisition of Assets (w11a) - Interest Income (w9)	\$ ('000)	23,551
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))	%	70.33
NWI F9	Written Down Replacement Cost of Fixed Assets (Water) = Written down current cost of system assets (w47)	\$ ('000)	356,333
NWI F11	Operating Cost (OMA) (Water) = Management Expenses (w1) + Operation and Maintenance Expenses (w2)	\$ ('000)	8,911
NWI F14	Capital Expenditure (Water) = Acquisition of fixed assets (w16)	\$ ('000)	3,794
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))	%	1.9493
NWI F26	Capital Works Grants (Water) = Grants for Acquisition of Assets (w11a)	\$ ('000)	623

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.

Note 3 Sewerage Business best practice management disclosure requirements

Calculation and payment of tax-equivalents

(i)	Calculated tax-equivalents	815,830
(ii)	No of assessments multiplied by \$3/assessment	88,434
(iii)	Amounts payable for tax-equivalents (<i>lessor of (i) and (ii)</i>)	88,434
(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	795,906
(iii)	Cumulative surplus before dividends for 3 years to 30 June 2010, less cumulative dividends paid for 2 years to 30 June 2009	-7,177,400
(iv)	Maximum dividend from surplus (<i>least of (i), (ii) and (iii)</i>)	-7,177,400
(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 (<i>Item 2(a) in Table 1 on page 18 of the Best Practice Guidelines</i>)	Yes
Complying Charges (a) Residential (<i>Item 2(b) in Table 1</i>)	Yes
(b) Non-residential (<i>Item 2(b) in Table 1</i>)	Yes
(c) Trade Waste (<i>Item 2(d) in Table 1</i>)	Yes
DSP with Commerical Developer Charges (<i>Item 2(e) in Table 1</i>)	Yes
Liquid Trade Waste Approvals and Policy (<i>Item 2(f) in Table 1</i>)	Yes
(iii) Complete performance Reporting Form by (<i>15 September each year</i>)	Yes
(iv) a. Complete Integrated Water Cycle Management Evaluation	Yes

Note 3 Sewerage Business best practice management disclosure requirements

b. Complete and implement Integrated Water Cycle Management Strategy

Yes

National Water Initiative (NWI) Financial Performance Indicators

NWI F2	Total Revenue (Sewerage) <i>= Total Income (s14) - Grants for Acquisition of Assets (s12a) - Interest Income (s10)</i>	\$ ('000)	19,618
NWI F10	Written Down Replacement Cost of Fixed Assets (Sewerage) <i>= Written down current cost of system assets (s48)</i>	\$ ('000)	221,201
NWI F12	Operating Cost (OMA) (Sewerage) <i>= Management Expenses (s1) + Operation and Maintenance Expenses (s2)</i>	\$ ('000)	9,693
NWI F15	Capital Expenditure (Sewerage) <i>= Acquisition of fixed assets (s17)</i>	\$ ('000)	17,074
NWI F18	Economic Real Rate of Return (Sewerage) <i>= [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)</i>	%	1.397
NWI F27	Capital Works Grants (Sewerage) <i>= Grants for Acquisition of Assets (s12a)</i>	\$ ('000)	0
NWI F3	Total Income (Water & Sewerage) <i>= Total income (w13 +s14) + Gain/loss on disposal of assets (W14+S15) - Grants for acquisition of assets (w11a + s12a) - Interest income (w9 + s10)</i>	\$ ('000)	42,977
NWI F8	Revenue from Community Service Obligations (Water and Sewerage) <i>= Community Service Obligations (NWI F25) x 100 divided by Total Income (NWI F3)</i>	%	1.2518
NWI F16	Capital Expenditure (Water & Sewerage) <i>= Acquisition of fixed assets (w16 + s17)</i>	\$ ('000)	20,868
NWI F19	Economic Real Rate of Return (Water and Sewerage)	%	1.738

Note 3 Sewerage Business best practice management disclosure requirements

= $[Total\ Income\ (w13 + s14) - Interest\ Income\ (w9 + s10) - Grants\ for\ Assets\ (w11a + s12a) - Operating\ Cost(NWI\ F11 + NWI\ F12) - current\ cost\ depreciation\ (w3 + s3)] \times 100$ divided by $Written\ Down\ Replacement\ Cost\ of\ fixed\ assets\ (NWIF9 + NWIF10) + Plant\ \&\ Equipment\ (w33b + s34b)$

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
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 $[Total\ Assets\ (w35 + s36) - Total\ Liabilities\ (w40 + s41)]$	%	0.382
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) + Miscellaneous expenses (W4b+w4c+s4b+s4c) 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		>100
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)	10,204
NWI F25	Community Service Obligations (Water and Sewerage) = Grants for pensioner rebates (w11b + s12b)	\$ ('000)	538

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.



Thomas Noble & Russell
Accountants | Auditors | Business Advisers

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

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the special purpose financial statements of Port Macquarie-Hastings Council for the year ended 30 June 2010 included on Council's website. The Council is responsible for the integrity of its website. We have not been engaged to report on the integrity of the Council's website. 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 these statements are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements to confirm the information included in the audited financial statements presented on this website.

Report on the Financial Statements

We have audited the accompanying special purpose financial statements of Port Macquarie-Hastings Council (the Council), which comprises the balance sheet as at 30 June 2010, income statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the statement by the Administrator and Management.

Council's Responsibility for the Financial Statements

The Council is responsible for the preparation and fair presentation of the financial statements 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 statements, are appropriate to meet the financial reporting requirements of Division of Local Government. The Council's responsibility also includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. 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 statements are 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.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Council, as well as evaluating the overall presentation of the financial statements.

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

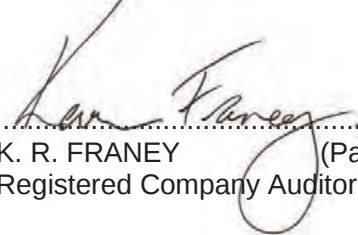
In conducting our audit, we have complied with the independence requirements of the Australian professional accounting bodies.

Audit Opinion

In our opinion, the special purpose financial statements of Port Macquarie-Hastings Council:

- (a) Have 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) Are consistent with the Council's accounting records; and
- (c) Present fairly, in all material respects, the financial position of Council's nominated Business Activities as at 30 June 2010 and the results of their operations for the year then ended.

**THOMAS NOBLE & RUSSELL
CHARTERED ACCOUNTANTS**


K. R. FRANEY (Partner)
Registered Company Auditor

Dated at Lismore this 12th day of October 2010.

Port Macquarie - Hastings Council

Special Schedules for the year ended 30 June 2010

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Port Macquarie - Hastings Council

Special Schedule No. 1

Net cost of services

for the year ended 30 June 2010

Function or Activity	Expenses from continuing operations '000	Income from continuing operations (non capital) \$'000	Income from continuing operations (capital) \$'000	Net cost of services \$'000
Governance	4,465	20		4,445
Adminstration	2,590	337	54	2,199
Public Order and Safety				
Fire Service Levy, Fire protection, Emergency services	1,659	457	389	813
Animal Control	192	117		75
Beach Control	116	14		102
Enforcement of Local Govt Regs	843	435		408
Other	496	0	1,430	-934
Total Public Order and Safety	3,306	1,023	1,819	464
Health	29	80		-51
Environment				
Noxious Plants and Insect/Vermin control	370	83		287
Other Environmental Protection	2,180	1,734	94	352
Solid Waste Management	11,919	15,396		-3,477
Street Cleaning	356	50		306
Drainage	1,433	708		725
Stormwater Management	298	0		298
Total Environment	16,556	17,971	94	-1,509
Community Services and Education				
Administration & Education	778	0		778
Social Protection (welfare)	336	2		334
Aged Persons and Disabled	126	69	1,318	-1,261
Childrens Services	112	38		74
Total Community Services and Education	1,352	109	1,318	-75
Housing and Community Amenities				
Public Cemeteries	922	1,181		-259
Public Conveniences	607	0		607
Street Lighting	918	95		823
Town Planning	2,814	1,340	274	1,200
Other Community Amenities	18	0		18
Total Housing & Community Amenities	5,279	2,616	274	2,389

Net cost of services (continued)

Function or Activity	Expenses from continuing operations '000	Income from continuing operations (non capital) \$'000	Income from continuing operations (capital) \$'000	Net cost of services \$'000
Water Supplies	15,700	19,598	7,325	-11,223
Sewerage Services	15,492	18,878	2,187	-5,573
Recreation and Culture				
Public Libraries	2,489	307	56	2,126
Museums	164	0		164
Art Galleries	180	6		174
Community Centres & Halls	267	151	315	-199
Performing Arts Venues	7,176	884		6,292
Other Performing Arts	0	0		0
Other Cultural Services	1,384	620	65	699
Sporting Grounds & Venues	769	0	537	232
Swimming Pools	751	0		751
Parks and Gardens (Lakes)	3,083	133	997	1,953
Other Sport and Recreation	577	97	27	453
Total Recreation and Culture	16,840	2,198	1,997	12,645
Mining, Manufacturing and Construction				
Building Control	2,030	1,589		441
	2,030	1,589	0	441
Transport and Communication				
Urban Roads (UR) - Local	9,176	1,024	6,317	1,835
Urban Roads - Regional	303	1,053		-750
Sealed Rural Roads (SRR) - Local	1,204	-10	1,659	-445
Sealed Rural Roads (SRR) - Regional	2,256	0		2,256
Unsealed Rural Roads (URR) - Local	1,755	-7		1,762
Unsealed Rural Roads (URR) - Regional	35	0		35
Bridges Urban Roads - Local	12	0	34	-22
Bridges on Sealed Rural Roads - Local	971	0	702	269
Bridges on Unsealed Rural Roads - Local	189	1		188
Bridges on Regional Roads	18	0		18
Parking Areas	188	0	64	124
Footpaths	283	65		218
Aerodromes	3,499	3,475		24
Other Transport & Communication	2,923	158		2,765
Total Transport and Communication	22,812	5,759	8,776	8,277

Net cost of services (continued)

Function or Activity	Expenses from continuing operations '000	Income from continuing operations (non capital) \$'000	Income from continuing operations (capital) \$'000	Net cost of services \$'000
Economic Affairs				
Camping Areas & Caravan Parks	1,104	1,374		-270
Other Economic Affairs	3,843	3,730		113
Total Economic Affairs	4,947	5,104	0	-157
Totals - Functions	111,398	75,282	23,844	12,272
General Purpose Revenues (1)				-39,334
Net operating result for the year (2)				-27,062

Note:

(1) 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 2010

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
Loans (by source)											
Financial Institutions	6,392	84,851	91,243	10,000	6,951	0	0	6,300	6,239	88,053	94,292
State Government	0	0	0	9,309	0	0	0	0	1,135	8,174	9,309
Department of Lands	109	341	450	0	119	0	0	24	93	238	331
Total Loans	6,501	85,192	91,693	19,309	7,070	0	0	6,324	7,467	96,465	103,932
Total long term debt	6,501	85,192	91,693	19,309	7,070	0	0	6,324	7,467	96,465	103,932

Port Macquarie - Hastings Council

Special Schedule No. 2(b)

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

for the year ended 30 June 2010

Summary of internal loans

Borrower (by purpose)	Amount originally raised	Total repaid during the year Principal and interest	Principal outstanding at end of year
General			
Totals	2,739	641	1,733
Total long term debt	2,739	641	1,733

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	3.54%	2,008	267	734
Property (Land purchase Toorak Circuit, Port Macquarie) - Deposit	Sewer Fund	5/07/2003	3/05/2003	10	3/05/2013	3.92%	302	40	110
Property (Land purchase Toorak Circuit, Port Macquarie)	Sewer Fund	5/07/2003	30/06/2003	10	30/06/2013	4.09%	2,427	334	889
							4,737	641	1,733

Port Macquarie - Hastings Council

**Special Schedule No. 3
Water Supply Income Statement
(Gross including Internal Transactions)
for the year ended 30 June 2010**

	Actual 2010 \$'000	Actual 2009 \$'000
A Expenses and Income		
Expenses		
1 Management Expenses		
a. Administration	2,523	2,285
b. Engineering and Supervision	1,076	967
2 Operation and Maintenance		
Dams and Weirs		
a. Operation expenses	265	168
b. Maintenance expenses	233	71
Mains		
c. Operation expenses	798	467
d. Maintenance expenses	510	498
Reservoirs		
e. Operation expenses	94	28
f. Maintenance expenses	139	46
Pumping Stations		
g. Operation expenses (excluding energy costs)	41	315
h. Energy Costs	526	599
i. Maintenance expenses	431	559
Treatment		
j. Operation expenses (excluding chemical costs)	352	3
k. Chemical Costs	143	132
l. Maintenance expenses	226	124
Other		
m. Operation expenses	1,082	1,369
n. Maintenance expenses	390	278
o. Purchase of Water	82	
3 Depreciation		
a. System assets	7,694	8,006
b. Plant and equipment		
4 Miscellaneous Expenses		
a. Interest expenses	656	876
b. Other expenses	505	1,610
NCP Tax & Other Equivalents	526	1,115
5 Total expenses	<u>18,292</u>	<u>19,516</u>
Income		
6 Residential charges		
a. Access (including rates)	3,596	3,324
b. Usage charges	8,523	9,702
7 Non-residential charges		
a. Access (including rates)	1,231	1,050
b. Usage charges	3,394	1,030
8 Extra charges	98	68
9 Interest income	2,816	-3,909
10 Other income	642	568
11 Grants		
a. Grants for the acquisition of assets	623	
b. Grants for pensioner rebates	205	351
c. Other grants	4	16
12 Contributions		
a. Developer charges	4,879	3,599
b. Developer provided assets	453	733
c. Other contributions	526	1,027
13 Total Income	<u>26,990</u>	<u>17,559</u>
14 Gain or (loss) on disposal of assets	-138	-357
15 Operating result	<u>8,560</u>	<u>-2,314</u>
15a Operating result (less grants for acquisition of assets)	<u>7,937</u>	<u>-2,314</u>

Port Macquarie - Hastings Council

Special Schedule No. 3 (continued) Water Supply Income Statement (Gross including Internal Transactions) for the year ended 30 June 2010

		Actual 2010 \$'000	Actual 2009 \$'000
B	Capital transactions		
	Non-operating expenditures		
16	Acquisition of Fixed Assets		
a.	Subsidised Scheme		
b.	Other new system assets	2,251	2,067
c.	Renewals	1,543	1,885
d.	Plant and equipment		
17	Repayment of Debt		
a.	Loans	963	773
18	Transfer to sinking fund		
19	Totals	4,757	4,725
	Non-operating funds employed		
20	Proceeds from the disposal of assets		
21	Borrowings utilised		
a.	Loans	0	0
22	Transfer from sinking fund		
23	Totals	0	0
C	Rates and charges		
24	Number of assessments		
a.	Residential (occupied)	26,907	26,257
b.	Residential (unoccupied ie vacant lot)	882	1,175
c.	Non-residential (occupied)	2,469	2,536
d.	Non-residential (unoccupied ie vacant lot)	196	173
		30,454	30,141
25	Number of ET's for which developer charges were received	319	438
26	Total amount of pensioner rebates	639	604

Port Macquarie - Hastings Council

Special Schedule No. 3 (continued)

Water Supply - Cross-subsidies

for the year ended 30 June 2010

	Yes/No	Amount
D Best practice annual charges and developer charges		
27 Annual Charges		
a. Does Council have best-practice water supply annual charges and usage charges*?	Yes	
If yes go to 28a.		
If no, has Council removed land value from access charges (ie rates)		
 * Such charges for both residential customers and non-residential customers comply with 3.2 of <i>Water Supply, Sewerage and Trade Waste Pricing Guidelines</i> , NSW Office of Water, December, 2002. Such charges do not involve significant cross subsidies.		
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)		
 28 Developer charges		
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> , NSW Office of Water, December 2002		
 29 Disclosure of cross-subsidies		
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 2010

	Current \$'000	Non current \$'000	Total \$'000
Assets			
30 Cash and investments			
a. Developer charges	2,863	10,984	13,847
b. Specific purpose grants	1,430		1,430
c. Accrued leave	810		810
d. Unexpended loans	7,959		7,959
e. Other	1,955		1,955
31 Receivables			
a. Specific purpose grants	146		146
b. Rates and charges	629	70	699
c. Other	3,214	4,855	8,069
32 Inventories	256		256
33 Property, plant and equipment			
a. System assets		356,333	356,333
b. Plant and equipment		0	0
34 Other Assets			
35 Total assets	19,262	372,242	391,504
Liabilities			
36 Bank overdraft			
37 Creditors	1,046	5,287	6,333
38 Borrowings			
a. Loans	1,558	15,500	17,058
39 Provisions			
c. Other	2,160	44	2,204
40 Total Liabilities	4,764	20,831	25,595
41 Net assets committed	14,498	351,411	365,909
Equity			
42 Accumulated Surplus			196,252
Asset revaluation reserve			169,657
44 Total equity			365,909
Note to system assets:			
45 Current replacement cost of system assets			509,551
46 Accumulated current cost depreciation of system assets			153,218
47 Written down current cost of system assets			356,333

Port Macquarie - Hastings Council

Special Schedule No. 5

Sewerage Income Statement

(Gross including Internal Transactions)
for the year ended 30 June 2010

	Actual 2010 \$'000	Actual 2009 \$'000
A Expenses and Income		
Expenses		
1 Management Expenses		
a. Administration	1,719	1,963
b. Engineering and Supervision	867	974
2 Operation and Maintenance		
Mains		
a. Operation expenses	129	322
b. Maintenance expenses	506	271
Pumping Stations		
c. Operation expenses (excluding energy costs)	326	587
d. Energy Costs	414	367
e. Maintenance expenses	1,329	992
Treatment		
Operation expenses (excluding chemical , energy, effluent and		
f. biosolids management costs)	377	978
g. Chemical Costs	79	66
h. Energy Costs	758	584
i. Effluent management	286	0
j. Biosolids management	733	858
k. Maintenance expenses	1,221	926
Other		
l. Operation Expenses	905	765
m. Maintenance expenses	44	19
3 Depreciation		
a. System assets	6,799	5,437
b. Plant and equipment	35	41
4 Miscellaneous Expenses		
a. Interest expenses	713	703
b. Other expenses	951	2,674
NCP Tax & Other Equivalents	816	540
5 Total expenses	19,007	19,067
Income		
6 Residential charges (including rates)	14,698	13,468
7 Non-residential charges		
a. Access (including rates)	1,250	1,131
b. Usage charges	838	733
8 Trade Waste Charges	18	16
9 Extra charges	97	84
10 Interest income	1,710	-4,988
11 Other income	253	299
12 Grants		
a. Grants for the acquisition of assets		5
b. Grants for pensioner rebates	333	328
c. Other grants	1	
13 Contributions		
a. Developer charges	1,259	693
b. Developer provided assets	871	2,478
c. Other contributions		2
14 Total Income	21,328	14,249
15 Gain or loss on disposal of assets	-54	-29
16 Operating result	2,267	-4,847
16a Operating result (less grants for acquisition of assets)	2,267	-4,852

Port Macquarie - Hastings Council

Special Schedule No. 5 (continued)

Sewerage Income Statement

(Gross including Internal Transactions)
for the year ended 30 June 2010

		Actual 2010 \$'000	Actual 2009 \$'000
B	Capital transactions		
	Non-operating expenditures		
17	Acquisition of Fixed Assets		
a.	Subsidised Scheme		8
b.	Other new system assets	15,719	25,847
c.	Renewals	1,052	415
d.	Plant and equipment	303	0
18	Repayment of Debt		
a.	Loans	1,399	921
19	Transfer to sinking fund		
20	Totals	18,473	27,191
	Non-operating funds employed		
21	Proceeds from the disposal of assets		
22	Borrowings utilised		
a.	Loans	6,886	13,400
23	Transfer from sinking fund		
24	Totals	6,886	13,400
C	Rates and Charges		
25	Number of assessments		
a.	Residential (occupied)	26,578	24,646
b.	Residential (unoccupied ie vacant lot)	902	903
c.	Non-residential (occupied)	1,831	1,818
d.	Non-residential (unoccupied ie vacant lot)	167	173
		29,478	27,540
26	Number of ET's for which developer charges were received	346	193
27	Total amount of pensioner rebates	606	577

Port Macquarie - Hastings Council

Special Schedule No. 5 (continued)

Sewerage - Cross-subsidies for the year ended 30 June 2010

	Yes/No	Amount
D Best practice annual charges and developer charges		
28 Annual Charges		
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)		
 * Such charges for both residential customers and non-residential customers comply with 3.2 of <i>Water Supply, Sewerage and Trade Waste Pricing Guidelines</i> , NSW Office of Water, December, 2002. Such charges do not involve significant cross subsidises.		
b. Cross-subsidy to non-residential customers using less than allowance (page 25 of Guidelines)		
c. Cross-subsidy to trade waste discharges (page 46 of Guidelines)		
29 Developer charges		
a. Has council completed a sewerage Development Servicing Plan? **	Yes	
b. Total cross-subsidy in sewerage developer charges for 2008/09 (page 47 of Guidelines)		5,945
 ** In accordance with page 9 of <i>Developer Charges Guidelines for Water Supply, Sewerage and Stormwater</i> , NSW Office of Water , December 2002		
30 Disclosure of cross-subsidies		
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 2010

	Current \$'000	Non current \$'000	Total \$'000
Assets			
31 Cash and investments			
a. Developer charges	1,810	6,940	8,750
b. Specific purpose grants			
c. Accrued leave	485		485
d. Unexpended loans	3,114		3,114
e. Sinking fund	100		100
f. Other	4,166		4,166
32 Receivables			
a. Specific purpose grants	1,743		1,743
b. Rates and charges	808	356	1,164
c. Other	713	1,183	1,896
33 Inventories	7		7
34 Property, plant and equipment			
a. System assets		221,201	221,201
b. Plant and equipment		80	80
35 Other Assets			
36 Total assets	12,946	229,760	242,706
Liabilities			
38 Creditors	697	3,337	4,034
39 Borrowings			
a. Loans	1,642	26,115	27,757
40 Provisions			
c. Other	1,269	27	1,296
41 Total Liabilities	3,608	29,479	33,087
42 Net assets committed	9,338	200,281	209,619
Equity			
43 Accumulated Surplus			151,856
44 Asset revaluation reserve			57,763
45 Total equity			209,619
Note to system assets:			
46 Current replacement cost of system assets			339,419
47 Accumulated current cost depreciation of system assets			118,218
48 Written down current cost of system assets			221,201

Notes to Special Schedules 3 and 5

Administration⁽¹⁾ (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⁽¹⁾ (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 4c of Special Schedules 3 and 5) include all expenses not recorded elsewhere.

Revaluation decrements (item 4b of Special Schedules 3 and 5) is to be used when infrastructure assets have decreased in fair value.

Residential charges⁽²⁾ (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. Exclude non-residential charges.

Non-residential charges⁽²⁾ (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. Exclude residential 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 Condition of Public works as at 30 June 2010 \$'000

Asset class	Asset category (as determined by Council)	Depn Expense % (sepcific rate or range of rates)	Depn 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%	4,606	0	140,503	44,350	96,153	3	3,219	1,596	1,596
Public Roads	Infrastructure	1.25% to 10%	11,903		965,689	203,273	762,416	3	92,469	10,139	5,155
Water	Infrastructure	1.25% to 10%	7,490	0	494,107	151,212	342,895	3	785	7,270	4,891
Sewerage	Infrastructure	1.25% to 10%	6,688	0	294,768	116,615	178,153	3	0	3,100	3,100
Stormwater Drainage	Infrastructure	1.25% to 10%	750		111,061	41,769	69,292	3	10,500	1,400	530
Flood Mitigation	Infrastructure	1.25% to 10%	114	6,714		870	5,844	3	0	147	54
Total classes	Total – all assets		31,551	6,714	2,006,128	558,089	1,454,753		106,973	23,652	15,326

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.

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 Schedule No. 8 Financial projections for the year ended 30 June 2010

	2010 (1) \$'000	2011 \$'000	2012 \$'000	2013 \$'000
Recurrent budget				
Income from continuing operations	138,460	127,820	134,434	143,648
Expenses from continuing operations	111,398	120,640	124,355	129,286
Operating result from continuing operations	27,062	7,180	10,079	14,362
Capital budget				
New capital works (2)	45,193	49,838	39,005	44,561
Funded by:				
- Loans	7,115	1,000	1,000	4,000
- Asset sales	1,146			
- Reserves	7,974	22,264	14,232	13,459
- Grants/Contributions	23,044	24,217	21,863	24,221
- Recurrent revenue	5,914	2,357	1,910	2,881
- Other				
	45,193	49,838	39,005	44,561

Notes:

(1) From income statement

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