



Port Macquarie-Hastings Council
Annual Report
2012 - 2013

PART 3 - Financial Statements



PORT MACQUARIE
HASTINGS

Port Macquarie - Hastings Council

General purpose financial statements for the year ended 30 June 2013

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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 31 October 2013. 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 2013**

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

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

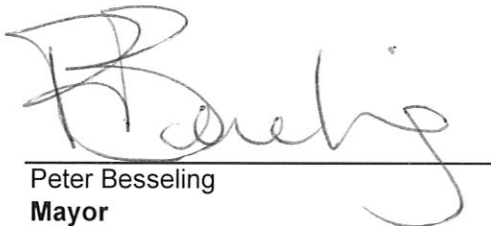
- * The Local Government Act 1993 (as amended) and the Regulations made thereunder.
- * The Australian Accounting Standards and professional pronouncements.
- * The Local Government Code of Accounting Practice and Financial Reporting.

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

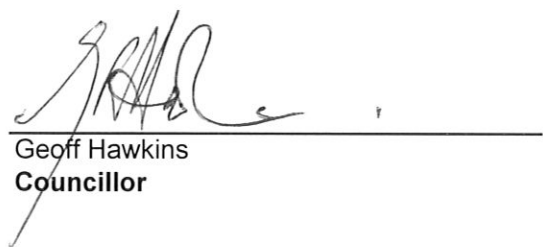
- * presents fairly the Council's operating result and financial position for the year, and
- * accords with Council's accounting and other records.

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 21 August 2013



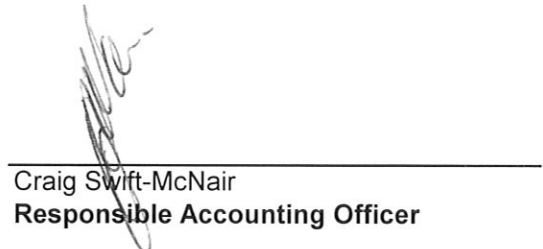
Peter Besseling
Mayor



Geoff Hawkins
Councillor



Tony Hayward
General Manager



Craig Swift-McNair
Responsible Accounting Officer

Port Macquarie - Hastings Council

Income statement

for the year ended 30 June 2013

Budget (1) 2013 \$'000		Notes	Actual 2013 \$'000	Actual 2012 \$'000
Income from continuing operations				
Revenue:				
74,390	Rates and annual charges	3a	75,423	70,093
23,835	User charges and fees	3b	26,954	24,413
4,134	Interest and investment revenue	3c	9,156	4,554
4,850	Other revenues	3d	5,290	5,370
14,125	Grants and contributions provided for operating purposes	3e,f	15,854	16,773
25,392	Grants and contributions provided for capital purposes	3e,f	40,978	24,126
Other Income:				
0	Net share of interest in joint ventures and associates using the equity method	19	0	0
146,726	Total income from continuing operations		173,655	145,329
Expenses from continuing operations				
39,935	Employee benefits and on-costs	4a	36,706	36,124
7,639	Borrowing costs	4b	5,459	5,779
37,730	Materials and contracts	4c	36,011	33,293
42,947	Depreciation and amortisation	4d	46,059	44,740
	Impairment	4d	84	2,223
10,344	Other expenses	4e	10,842	9,008
0	Interest and investment losses	3c	0	0
2,900	Net loss from disposal of assets	5	2,141	1,568
141,495	Total expenses from continuing operations		137,302	132,735
5,231	Operating result from continuing operations		36,353	12,594
0	Operating result from discontinued operations	24	0	0
5,231	Net operating result for the year		36,353	12,594
Attributable to:				
5,231	- Council		36,353	12,594
	- Non-controlling interests		0	0
5,231			36,353	12,594
-20,161	Net operating result for the year before grants and contributions provided for capital purposes		-4,625	-11,532

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 2013

	Notes	Actual 2013 \$'000	Actual 2012 \$'000
Net operating result for the year - from Income statement		36,353	12,594
Other comprehensive income			
<i>Amounts which will not be reclassified subsequently to operating result</i>			
Gain (loss) on revaluation of infrastructure, property, plant and equipment	20b	99,600	200,965
Adjustment to correct prior period errors	20a	0	-4,160
<i>Amounts which will be reclassified subsequently to operating result when specific conditions are met</i>			
Gain (loss) on revaluation of available-for-sale investments	20b	10	17
Realised available-for-sale investment gains recognised in revenue	20b	0	0
Total other comprehensive income for the year		<u>99,610</u>	<u>196,822</u>
Total comprehensive income for the year		<u>135,963</u>	<u>209,416</u>
Attributable to - Council		135,963	209,416
- Non-controlling interests		0	0

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

Port Macquarie - Hastings Council

Statement of financial position

as at 30 June 2013

		Actual 2013 \$'000	Actual 2012 \$'000
	Notes		
ASSETS			
Current Assets			
Cash and cash equivalents	6a	27,555	9,487
Investments	6b	68,014	61,904
Receivables	7	16,121	15,683
Inventories	8	954	1,032
Other	8	760	732
Non-current assets classified as held for sale	22	350	1,999
Total current assets		113,754	90,837
Non-Current Assets			
Investments	6b	45,728	32,892
Receivables	7	4,159	5,275
Inventories	8	168	168
Infrastructure, property, plant and equipment	9	2,082,044	1,968,224
Total non-current assets		2,132,099	2,006,559
Total assets		2,245,853	2,097,396
LIABILITIES			
Current liabilities			
Payables	10	17,614	9,298
Borrowings	10	8,936	8,726
Provisions	10	15,622	15,072
Total current liabilities		42,172	33,096
Non-current liabilities			
Payables	10	7,147	7,147
Borrowings	10	83,936	80,686
Provisions	10	1,840	1,673
Total non-current liabilities		92,923	89,506
Total liabilities		135,095	122,602
Net assets		2,110,758	1,974,794
EQUITY			
Retained earnings	20	990,668	954,314
Revaluation reserves	20	1,120,090	1,020,480
Council equity interest		0	0
Non-controlling equity interest		0	0
Total equity		2,110,758	1,974,794

The above Statement of financial position should be read in conjunction with the accompanying notes.

Port Macquarie - Hastings Council

Statement of changes in equity

for the year ended 30 June 2013

		Actual 2013 \$'000				
	Notes Ref.	Retained earnings	Asset revaluation reserve	Other reserves	Council equity interest	Total equity
Opening balance	20	954,315	1,020,490	-10	1,974,795	1,974,795
Correction of errors					0	0
Changes in Accounting Policies	1(u)	0			0	0
Restated opening balance		954,315	1,020,490	-10	1,974,795	1,974,795
Net operating result for the year		36,353			36,353	36,353
Other comprehensive income	20	0	99,600	10	99,610	99,610
Total comprehensive income	20	36,353	99,600	10	135,963	135,963
Closing balance	20	990,668	1,120,090	0	2,110,758	2,110,758

Actual 2012 \$'000				
Retained earnings	Asset revaluation reserve	Other reserves	Council equity interest	Total equity
945,881	819,525	-27	1,765,379	1,765,379
			0	0
			0	0
945,881	819,525	-27	1,765,379	1,765,379
12,594			12,594	12,594
-4,160	200,965	17	196,822	196,805
8,434	200,965	17	209,416	209,416
954,315	1,020,490	-10	1,974,795	1,974,795

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 2013

Budget			Actual	Actual
2013			2013	2012
\$'000		Notes	\$'000	\$'000
Cash flows from operating activities				
Receipts:				
74,502	Rates and annual charges		75,720	69,702
24,523	User charges and fees		27,867	26,015
5,611	Investment revenue and interest		7,292	5,345
33,617	Grants and contributions		35,437	31,375
	Deposits and retentions received		1,911	1,446
10,842	Other		10,314	12,669
Payments:				
-38,755	Employee benefits and on-costs		-36,094	-34,750
-40,865	Materials and contracts		-34,078	-39,449
-7,090	Borrowing costs		-5,536	-5,759
	Deposits and retentions refunded		-944	-1,090
-13,211	Other		-12,846	-10,383
49,174	Net cash provided by operating activities	11 (b)	69,043	55,121
Cash flows from investing activities				
Receipts:				
36,832	Sale of Investments	6	105,930	49,232
	Sale of real estate assets	5,8	184	199
	Sale of infrastructure, property, plant and equipment	5	1,779	539
	Other			0
Payments:				
-22,656	Purchase of investments	6	-122,000	-67,000
-76,550	Purchase of infrastructure, property, plant and equipment	9	-40,517	-31,121
	Other			
-62,374	Net cash used in investing activities		-54,624	-48,151
Cash flows from financing activities				
Receipts:				
19,300	Borrowings and advances		11,189	1,000
Payments:				
-8,735	Borrowings and advances		-7,729	-7,177
10,565	Net cash provided by (or used in) financing activities		3,460	-6,177
-2,635	Net increase/(decrease) in cash and cash equivalents		17,879	793
9,487	Cash and cash equivalents at beginning of reporting period	11(a)	9,487	8,694
6,852	Cash and cash equivalents at end of reporting period	11	27,366	9,487

The above Statement of cash flows should be read in conjunction with the accompanying notes.

Port Macquarie - Hastings Council

Notes to the financial statements for the year ended 30 June 2013

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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 and Interpretations issued by the Australian Accounting Standards Board, The Local Government Act (1993) and Regulation, and the Local Government Code of Accounting Practice and Financial Reporting. Port Macquarie-Hastings Council is a not for-profit entity for the purpose of preparing the financial statements.

(i) New and amended standards adopted by Council

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(ii) Early adoption of standards

Port Macquarie-Hastings Council has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2012.

(iii) 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.

(iv) Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgements in the process of applying the Council's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

*** Critical accounting estimates and assumptions**

Port Macquarie-Hastings Council makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.

(i) Estimated fair values of infrastructure, property, plant & equipment.

(ii) Estimated tip remediation provisions.

(iii) The calculation of employee benefit provisions such as vesting sick leave and long service leave.

(iv) The estimated useful lives of infrastructure assets

*** Critical judgements in applying the entity's accounting policies****(i) Impairment of Receivables**

Council has made a significant judgement about the impairment of a number of its receivables in Note 7.

(ii) Projected Section 94 Commitments

Council has used significant judgement in determining future Section 94 income and expenditure in Note 17.

(b) Revenue recognition

Council recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to 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.

Note 1 Summary of significant accounting policies

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.

Revenue is recognised when the Council obtains control of the contribution or the right to receive the contribution, it is probable that the economic benefits comprising the contribution will flow to the Council and the amount of the contribution can be measured reliably.

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner or used over a particular period and those conditions were undischarged at balance date, the unused grant or contribution is disclosed in Note 3(g). The note also discloses the amount of unused grant or contribution from prior years that was expended on Council's operations during the current year.

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

User charges and fees

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

Sale of plant, property, infrastructure and equipment

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

Interest and rents

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

(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
- * Broadwater special rate
- * Sanctuary Springs special rate

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

(iii) *Associates*

Associates are all entities over which the Council has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

(iv) *Joint Ventures*

Jointly controlled assets.

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the activity are set out in Note 19.

Note 1 Summary of significant accounting policies**Joint venture entities**

The interest in a joint venture partnership is accounted for using the equity method after initially being recognised at cost. Under the equity method, the share of the profits or losses of the partnership is recognised in profit or loss, and the share of post acquisition movements in reserves is recognised in other comprehensive income. Details relating to the partnership are set out in Note 19.

Profits or losses on transactions establishing the joint venture partnership and transactions with the joint venture are eliminated to the extent of the Council's ownership interest until such time as they are realised by the joint venture partnership on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

(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.

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

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 that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

(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 Statement of financial position.

(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.

Note 1 Summary of significant accounting policies

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 the 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.

(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 Statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the Statement of financial position.

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.

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

Financial assets at fair value through profit or loss are designated by Council as such on recognition or comprise financial assets held for trading which are acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the 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 non-derivative trading financial assets 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.

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 (note Council's obligation under Section 625 of the Local Government Act and S212 of the LG (General) Regulation 2005). 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).

Note 1 Summary of significant accounting policies**Impairment**

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

(i) Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 Ministerial 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 Ministerial Local Government 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.

(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 balance 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 have been 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 (External 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)
- * Community Land - (Internal Valuation)
- * Land Improvements - (Internal Valuation)
- * Other Structures - (Internal Valuation)

Note 1 Summary of significant accounting policies

* Other Assets - (Internal Valuation)

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 relating to that asset class, the increase is first recognised in profit or loss. Decreases that reverse previous increases of assets in the same class are first charged against revaluation reserve directly in equity to the extent of the remaining reserve attributable to the class; all other decreases are charged to the Income Statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Office equipment	5 to 10 years
Office furniture	10 to 20 years
Vehicles and road making equipment	5 to 8 years
Other plant and equipment	5 to 15 years
Buildings - masonry	50 to 100 years
Buildings - other construction	20 to 40 years
Playground equipment	5 to 15 years
Benches, seats etc	10 to 20 years
Dams and reservoirs	40 to 100 years
Bores	20 to 40 years
Reticulation pipes - PVC	40 years
Reticulation pipes - other	40 to 100 years
Pumps and telemetry	10 to 50 years
Drains	80 to 100 years
Culverts	50 to 80 years
Flood control structures	80 to 100 years
Sealed roads - Surface	20 years
Sealed roads - Structure	50 years
Unsealed roads	20 years
Bridges - Concrete	100 years
Bridges - Other	50 years
Bulk earthworks	infinite

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

Change in Accounting Estimate - Depreciation

A reassessment of the residual values of roads infrastructure assets was undertaken in the 2012/13 financial year. The inclusion of a residual life on road assets has resulted in the depreciation expense reported for roads infrastructure assets to decrease from 2012/13. The depreciation expense for 2011/12 was \$16.348m and this has reduced to \$12,427m in 2012/13.

(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

Note 1 Summary of significant accounting policies

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.

Borrowings are removed from the Statement of financial position 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 vesting 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 vesting sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long term employee benefit obligations

The liability for long service leave, vesting sick 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 end of the reporting period 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 end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

(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.

Note 1 Summary of significant accounting policies

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) 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 Statement of financial position, and measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. However, when this information is not reliably available, Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans (see below).

The Local Government Superannuation Scheme - Pool B (the scheme) is a defined benefit plan that has been deemed to be a "multi-employer fund" for purposes of AASB119. Sufficient information under AASB119 is not available to account for the Scheme as a defined benefit plan, because the assets to the Scheme are pooled together for all employers.

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.

The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2013 was \$1,313,179. The last valuation of the Scheme performed by the Actuary has estimated that as at 30 June 2013 a deficit still exists. Effective from 1 July 2009, employers were required to contribute additional contributions to assist in extinguishing this deficit. The amount of additional contributions included in the total employer contribution advised above is \$533,211.

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 to recognise land under roads in accordance with AASB 1051. Council has used the "Englobo" valuation method for land under roads. This requires an average Site Value (SV) for each suburb within the Council area on a \$ per m2 has to be calculated. The site value is "the value of the underlying land assuming that any existing improvements have not been made. It also assumes that the land is not encumbered by any lease, mortgage or other charge". Australian Property Institute, 2004. Adjustment factors for 65% and 25% respectively have been applied for Englobo value and access and carriageway tights and infrastructure (other users for carriageway reserve and infrastructure).

Land under roads acquired 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.

Note 1 Summary of significant accounting policies

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

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

(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 2013 reporting periods. Port Macquarie-Hastings Council's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2012-6 Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and transitional disclosures* (effective from 1 January 2015)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. When adopted, the standard will affect in particular the Council's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss although there is currently a proposal by the IASB to introduce a Fair Value through Other Comprehensive Income category for debt instruments.

There will not be a material impact on the Council's accounting for financial instruments.

* In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly.

(ii) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013).

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

Note 1 Summary of significant accounting policies

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation - Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. Council does not expect the new standard to have a significant impact on its composition.

AASB 11 introduces a principles based approach to accounting for joint ventures. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

Council does not participate in any joint ventures and as a result AASB 11 will not have any impact on the amounts recognised in its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by Council will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to Council's investments.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. Council is not impacted by this standard.

Council has not adopted the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

(iii) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. Council has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. Council does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 Jun 2014.

(iv) Revised AASB 119 *Employee Benefits*, AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB119 (September 2011)* and AASB 2011-11 *Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements* (effective 1 January 2013).

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively. Council does not recognise defined benefit assets and liabilities for the reasons set out in note 1 (s)(iii) and so these changes will not have an impact on its reported results.

(v) AASB 2012-2 *Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities* [AASB 132 & AASB 7] (effective 1 January 2013)

The standard amends the required disclosures in AASB 7 to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

The standard also amends AASB 132 to refer to the additional disclosures added to AASB 7 by this Standard.

The adoption of this standard will not change the reported financial position and performance of the entity, there are no impact on disclosures as there are no offsetting arrangements currently in place.

(vi) AASB 2012-3 *Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities* [AASB 132] (effective 1 January 2014)

Note 1 Summary of significant accounting policies

This standard adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

The adoption of this standard will not change the reported financial position and performance of the entity, there are no impact on disclosures as there are no offsetting arrangements currently in place.

(vii) AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle (*effective 1 January 2013*)

AASB 1 - this standard clarifies that an entity can apply AASB 1 more than once.

An entity can elect to apply AASB 123 from the transition date or an earlier date.

AASB 101 - clarifies that a third statement of financial position is required when the opening statement of financial position is materially affected by any adjustments.

AASB 116 - clarifies the classification of servicing equipment.

AASB 132 and Interpretation 2 - Clarifies that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with AASB 112 Income Taxes.

AASB 134 - provides clarification about segment reporting.

The amendments arising from this standard are not expected to change the reported financial position or performance of the Council.

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

(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 also 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.

Note 1 Summary of significant accounting policies

(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 or 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 Statement of financial position.

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

(continued)

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
	2013 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Governance		1		2,846	2,545	4,330	-2,846	-2,544	-4,330				240
Administration	196	1,381	683	851	2,407	1,263	-655	-1,026	-580	23	20	54,398	36,035
Public order & safety	1,570	1,675	1,161	3,719	3,791	3,957	-2,149	-2,116	-2,796	1,041	667	20,267	16,598
Health				1	1	2	-1	-1	-2		166	90	24
Environment	20,623	21,547	20,384	23,054	22,722	22,313	-2,431	-1,175	-1,929	1,095	1,895	122,715	110,810
Community services & education	770	442	667	2,187	2,116	1,625	-1,417	-1,674	-958	422	570	6,707	3,801
Housing & community amenities	2,265	4,364	2,627	5,805	6,117	5,633	-3,540	-1,753	-3,006	150	117	27,960	21,856
Water supplies	22,464	25,907	23,251	21,609	22,455	18,746	855	3,452	4,505	4,034	1,315	496,118	488,287
Sewerage services	22,338	24,563	22,760	20,624	23,260	16,747	1,714	1,303	6,013	311	675	324,594	313,654
Recreation & culture	7,836	2,646	6,571	18,938	17,188	20,514	-11,102	-14,542	-13,943	597	3,506	171,147	157,007
Mining, manufacturing & construction	1,043	1,077	1,018	2,666	2,245	2,415	-1,623	-1,168	-1,397			292	380
Transport & communication	17,810	37,556	17,954	35,744	29,379	31,829	-17,934	8,177	-13,875	9,592	5,484	1,010,740	938,510
Economic affairs	1,441	1,707	2,090	3,451	3,254	3,361	-2,010	-1,547	-1,271	116	128	10,825	10,194
Total functions & activities	98,356	122,866	99,166	141,495	137,480	132,735	-43,139	-14,614	-33,569	17,381	14,543	2,245,853	2,097,396
General Purpose Income (1)	48,370	50,789	46,163		-178		48,370	50,967	46,163	9,394	11,817		
Totals	146,726	173,655	145,329	141,495	137,302	132,735	5,231	36,353	12,594	26,775	26,360	2,245,853	2,097,396

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.

Administration

Which includes corporate support and other support services.

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, RMS 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 2013 \$'000	Actual 2012 \$'000
(a) Rates and annual charges		
Ordinary Rates		
Residential	30,336	27,707
Farmland	2,136	2,011
Business	6,541	6,229
Total ordinary rates	39,013	35,947
Special Rates		
Broadwater Special Rate	88	83
Sanctuary Springs Special Rate	21	18
Total special rates	109	101
Annual Charges (pursuant to s.496, 496A, 496B, 501 & 611)		
Domestic waste management services	10,812	9,213
Water supply	5,726	5,362
Sewerage services	18,365	17,389
Waste management services (not domestic)	650	1,348
Stormwater Drainage	727	722
Reclaimed Water	21	11
Total annual charges	36,301	34,045
Total rates and annual charges	75,423	70,093

Council has used 2012 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 2013
(continued)

	Actual 2013 \$'000	Actual 2012 \$'000
(b) User charges and fees		
User charges <i>(pursuant to s.502)</i>		
Water supply services	12,319	10,906
Sewerage services	905	801
Waste management services (not domestic)	4,014	3,248
Onsite Effluent	160	153
Reclaimed Water	74	27
Total user charges	17,472	15,135
Fees		
Administration	303	225
Animal registration	79	67
Beach permits	25	22
Caravan parks	167	264
Certificate income	216	199
Crematorium/cemeteries	1,286	1,152
Health	70	48
Private Works	18	961
s.611	55	54
Section 68 permits	422	408
Sewerage Services	10	12
Transport & communications	4,652	3,929
Planning & building - Regulatory	1,710	1,533
Water meter installations	379	318
Water supply fees	90	86
Total fees	9,482	9,278
Total user charges and fees	26,954	24,413

Note 3 Income from continuing operations (continued)

Notes to the financial statements

30 June 2013

(continued)

	Actual 2013 \$'000	Actual 2012 \$'000
(c) Interest and Investment revenue (losses) ⁽¹⁾		
Interest and Dividends		
- Overdue rates and charges ⁽²⁾	724	602
- Cash and Investments	6,088	5,286
Fair value adjustments		
- Investments at fair value through the profit and loss	229	675
- Investments classified as available for sale	2,115	-2,009
Premiums recognised on financial instrument transactions		
- Interest free loan from State Government		0
Total interest and investment revenue (losses) ⁽¹⁾	9,156	4,554
(d) Other revenues		
Administration	241	376
Animal Control	33	31
Caravan Parks	256	306
Community services	3	9
Economic affairs	312	347
Environment	162	150
Fines	640	407
Housing and community amenities	67	116
Information/document sales	52	50
Legal Costs Settlement	720	
Library charges	109	116
Public order and safety	6	7
Recreation and cultural facilities	100	23
Rental of council facilities	608	517
Sewerage services	21	29
Transport and communications	4	10
The Glasshouse	1,019	1,351
Waste management revenues	851	1,499
Water supplies	86	26
Total other revenues	5,290	5,370

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.

(2) Includes interest from special purpose rates

Note 3 Income from continuing operations (continued)

	Operating		Capital	
	Actual	Actual	Actual	Actual
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
(e) Grants				
General purpose (Untied)				
Financial assistance	8,560	10,997		
Pensioners' rates subsidies:				
- General	834	821		
Special purpose				
Pensioners' rate subsidies:				
- Water	368	364		
- Sewer	344	343		
- Domestic waste management	299	306		
Airport			6,505	3,500
Administration	3			
Clean energy future grants				
Community services and education	443	661	11	
Economic affairs	113	203		
Employment and training programmes	30	24		
Health	147	125		
Housing and community amenities	235	379	1	900
Library	142	142		
Public order and safety	494	536	519	131
The Glasshouse	125	74		
Recreation and culture	3	5	361	2,312
Roads and bridges	150	55	2,940	2,901
Sewerage services			-34	329
Stormwater				
Street lighting	100	97		
Transport (3x3, Flood works, Roads to Recovery)				
Waste management	415	203		
Water supplies			3,667	952
Total grants	12,805	15,335	13,970	11,025
Comprising:				
- Commonwealth funding	8,900	11,764	9,328	7,292
- State funding	3,788	3,560	4,637	3,733
- Other funding	117	11	5	
	12,805	15,335	13,970	11,025
(f) Contributions				
Developer Contributions				
- Section 94	76	107	1,974	2,586
- Section 94A			137	187
- Planning agreements			1,606	-2,127
RMS contributions (Regional/Local, Block Grant)	2,735	1,136		
Section 64:				
- Water			-245	3,215
- Sewerage			889	1,180
Dedications			22,541	7,300
Administration		2		
Community services and education	9			
Economic affairs	71	46		
Environmental Protection	11	30		
Housing and community amenities	53	29		
Public order and safety	11			
Recreation and culture	58	59	28	235
Sewerage services				
Street Lighting	21	1		
The Glasshouse	4	28		
Transport and communications			78	91
Water supplies				434
Total contributions	3,049	1,438	27,008	13,101
Total grants and contributions	15,854	16,773	40,978	24,126

Note 3 Income from continuing operations (continued)

(continued)

	Actual 2013 \$'000	Actual 2012 \$'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	14,142	23,345
Less:		
Grants and contributions recognised in previous reporting periods which have been spent in the current reporting period	10,793	12,632
Net increase/(decrease) in restricted grants and contributions	3,349	10,713
(h) Significant Items		
The following items have impacted Council's operating result.		
Increase in the value of investments.		
At Fair Value through Profit & Loss		
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).	315	675
Available for Sale		
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. Thereafter any fair value gains or losses are immediately recognised in the income statement. The increase in fair value attributable to impaired assets classified as available for sale for the financial year and recognised in the income statement is:	2,116	-2,009
Write off of S64 Liability		
In 1996 Council created a liability for S64 contributions due to the Public Works Department in respect of its share of S64 contributions received by Council for subsidised water and sewerage schemes. A proportion of the water supply liability was paid out in 2001. A detailed investigation has taken place on the remaining liability in 2011/12 and an reduction to the water liability and Section 64 contributions revenue has been necessary.	0	1,477

Note 3 Income from continuing operations (continued)

(continued)

	Actual	Actual
	0	0
	\$'000	\$'000

Adjustment to Voluntary Planning Receivable

During 2010 and 2011 PMHC raised a receivable under a Voluntary Planning Agreement established in 2008 relating to the payment of water supply contributions relating to a substantial development. The revised terms of this agreement include varying the payment schedule under the agreement. Accordingly the receivable and Section 64 contributions revenue under planning agreements have been reduced to match the terms of the varied agreement.

0	-2,188
<u>2,431</u>	<u>-1,334</u>

Note 4 Expenses from continuing operations

	Actual 2013 \$'000	Actual 2012 \$'000
(a) Employee benefits and on costs		
Salaries and wages	28,071	26,595
Travelling	1,860	1,961
Employee leave entitlements	4,437	5,006
Superannuation	3,549	3,463
Workers' compensation insurance	520	905
Fringe Benefits Tax	109	121
Payroll Tax	434	458
Training costs (excluding Salaries)	165	222
Other	94	94
Less: Capitalised costs	-2,533	-2,701
Total employee costs expensed	36,706	36,124
Number of FTE employees	459	444
(b) Borrowing Costs		
Interest on Overdrafts	0	0
Interest on Loans	5,635	6,258
Amortisation of discounts and premiums:		
- Tip remediation	21	21
Less: Capitalised costs	-197	-500
Total borrowing costs expensed	5,459	5,779

Note 4 Expenses from continuing operations

	Actual 2013 \$'000	Actual 2012 \$'000
(c) Materials and contracts		
Raw materials and consumables	21,380	19,147
Contractor and consultancy costs	9,627	9,192
- Domestic waste management contract	4,525	4,524
Remuneration of Auditors (1)	74	84
Legal fees:		
- Planning and development	342	11
- Other	63	335
Total materials and contracts	36,011	33,293

Note 1:

During the year the following fees were paid or payable for services provided by the Council's auditor - Thomas Noble & Russell

<i>(i) Audit and other assurance services</i>	
Audit and review of financial statements	70
Other assurance services	
- Audit grant acquittals	2
Total remuneration for audit and other assurance services	72
<i>(ii) Other services</i>	
Advice and assistance	4
Total remuneration for other services	4
Total remuneration of Thomas Noble & Russell	76

Note 4 Expenses from continuing operations (continued)

(continued)

	Depn/Amor Actual 2013 \$'000	Depn/Amor Actual 2012 \$'000	Imp (1) Actual 2013 \$'000	Imp Actual 2012 \$'000
(d) Depreciation, amortisation and impairment				
Plant and equipment	2,286	2,303		
Office equipment	1,454	1,167		
Furniture & fittings	465	452		
Leased property, plant and equipment	2	3		
Land Improvements (depreciable)	448	364		
Land				970
Buildings - Specialised	3,956	4,063		
Other Structures	2,631	3,344		
Infrastructure:				
- roads, bridges and footpaths	12,427	16,348		
- storm water drainage	2,079	2,049		
- water supply network	10,870	8,212		125
- sewerage network	9,102	6,179		1,128
Other Assets:				
- heritage collections	5	3		
- library books	247	210		
- other	74	30		
Tip asset	13	13		
Assets held for sale			84	
Total depreciation and total impairment	46,059	44,740	84	2,223
			Actual 2013 \$'000	Actual 2012 \$'000

(e) Other expenses

Other expenses for the year including the following:

Bad & Doubtful Debts	13	-6
Mayoral fee	41	
Councillors' fees	44	
Councillors' (incl Mayor) expenses	102	
Administrator Expenses	26	131
Insurance	1,271	1,176
Street lighting	1,364	1,050
Electricity and heating	4,070	3,300
Telephones	408	392
Contributions and donations	593	492
Bank charges and fees	243	198
Valuation fees	199	164
Payment to other Levels of Government	2,468	2,111
Total other expenses from continuing operations	10,842	9,008

Note 1:

Impairment losses for revalued assets are to be fully offset against the amount in the revaluation surplus for the class of asset, with only the excess to be recognised in the Income Statement. Show gross impairment and the amount of impairment offset against asset revaluation reserves.

30 June 2013

Note 5 Gain or loss from disposal of assets

(continued)

	Actual 2013 \$'000	Actual 2012 \$'000
Gain (or loss) on disposal of Property		
Proceeds from disposal	429	199
Less: Carrying amount of assets sold	432	659
Gain (or loss) on disposal	<u>-3</u>	<u>-460</u>
Gain (or loss) on disposal of Plant and Equipment		
Proceeds from disposal	1,350	539
Less: Carrying amount of assets sold	1,392	556
Gain (or loss) on disposal	<u>-42</u>	<u>-17</u>
Gain (or loss) on disposal of Real Estate assets held for sale		
Proceeds from sales	184	0
Less: Cost of sales	165	0
Gain (or loss) on disposal	<u>19</u>	<u>0</u>
Gain (or loss) on disposal of Infrastructure Assets		
Proceeds from disposal	0	0
Less: Carrying amount of infrastructure assets	2,550	3,788
Gain (or loss) on disposal	<u>-2,550</u>	<u>-3,788</u>
Gain (or loss) on disposal of Financial Assets		
Proceeds from disposal	105,930	49,232
Less: Carrying value of financial assets	105,495	46,535
Gain (or loss) on disposal	<u>435</u>	<u>2,697</u>
Net gain (or loss) from disposal of assets	<u><u>-2,141</u></u>	<u><u>-1,568</u></u>

Note 6(a) Cash and cash equivalents

(continued)

	Actual 2013 \$'000	Actual 2012 \$'000
Cash at bank and on hand	24	31
Deposits at call	27,531	9,456
	27,555	9,487

Note 6(b) Investments

(continued)

The following financial assets are held as investments

	Actual 2013		Actual 2012	
	Current	Non-Current	Current	Non-Current
	\$'000	\$'000	\$'000	\$'000
Financial assets at fair value through Profit and Loss	3,014	3,728	5,914	6,513
Held to maturity investments	65,000	42,000	54,000	25,000
Available for sale financial assets (1)	0	0	1,990	1,379
Total	68,014	45,728	61,904	32,892
Financial assets at fair value through Profit and Loss				
At beginning of year	5,914	6,513	1,985	11,760
Revaluation to Income statement	86	229	294	373
Disposals	-6,000	0	-1,985	0
Transfer b/w Current & Non-Current	3,014	-3,014	5,620	-5,620
At end of year	3,014	3,728	5,914	6,513
Comprising of:				
- Equity Linked Notes	0	3,728	5,914	3,548
- Floating Rate Notes	3,014	0	0	2,965
	3,014	3,728	5,914	6,513
Held to maturity investments				
At beginning of year	54,000	25,000	40,000	12,000
Additions	105,000	17,000	42,000	25,000
Disposals (Redemption)	-94,000	0	-40,000	0
Transfer b/w Current & Non-Current	0	0	12,000	-12,000
At end of year	65,000	42,000	54,000	25,000
Comprising of:				
- Term Deposits	65,000	42,000	54,000	25,000
	65,000	42,000	54,000	25,000
Available for sale financial assets				
At beginning of year	1,990	1,379	3,990	5,921
Disposals	-3,495	-2,000	-4,000	-550
Transfer b/w Current & Non-Current	-621	621	1,983	-1,983
Revaluation to equity	10	0	17	0
Revaluation to income statement	2,116	0	0	-2,009
At end of year	0	0	1,990	1,379
Comprising of:				
- Floating Rate Notes	0	0	1,990	0
- Collateralised Debt Obligations	0	0	0	1,379
	0	0	1,990	1,379

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 2013		Actual 2012	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
Total cash, cash equivalents and investments	95,569	45,728	71,391	32,892
External restrictions	50,885	45,728	51,332	32,892
Internal restrictions	37,008		19,979	
Unrestricted	7,676		80	
	95,569	45,728	71,391	32,892

	Opening Balance \$'000	Transfers to restrictions \$'000	Transfers from restrictions \$'000	Closing balance \$'000
Notes				
External Restrictions				
Developer Contributions (A)	35,520	5,637	2,391	38,766
Unexpended Contributions (B)	365	118	123	360
Unexpended Grants (C)	13,001	9,308	9,198	13,111
Water (D)	13,542	7,447	5,774	15,215
Sewerage (E)	15,744	7,799	2,417	21,126
Employee Leave Entitlements (Water, Sewerage, Waste)	1,289			1,289
Broadwater Special Rate (F)	775	149		924
Sanctuary Springs Special Rate (G)	79	28		107
Domestic Waste Management (H)	3,662	4,811	2,827	5,646
Stormwater Management	247	1,224	1,402	69
Total external restrictions	84,224	36,521	24,132	96,613

Internal Restrictions

Airport	41	1,622	101	1,562
Canal Maintenance	351	55		406
CBD Townscape	3,553	1,201	874	3,880
Committed Works	2,150	7,307	2,656	6,801
Crematorium	647	351	30	968
Council Election	240		240	0
Crown Reserves	310	201		511
Cultural Activities	78	25		103
Employee Leave Entitlements	2,582	602		3,184
Environmental Levy Reserve	706	677	482	901
Ferries Maintenance	567	288	663	192
HACC Greenmeadows	12		6	6
Lake Cathie Dredging	92	13	21	84
Maintenance of 4WD Access Points	143	25		168
Major Buildings Renewals	690	179	284	585
Office Building & Equipment	1,614	1,274	733	2,155
Onsite Effluent	305	51		356
Plant Replacement	2,139	2,643	1,951	2,831
Property Development	0	620	49	571
Public Halls	85		44	41
Street Lighting	502	9		511
Surf Clubs	170	88		258
Tourism & Industry Promotion	353	36	76	313
Town Bands	43	7		50
Town Beach Sand Nourishment	30	30		60
Transport Infrastructure Renewal	2,402	1,945	1,140	3,207
The Glasshouse	300	107		407
Unrealised Profit/(Loss) on Investments	-3,713	3,713		0
Wauchope Heated Indoor Pool	1,299			1,299
Working Capital	2,288	3,507	197	5,598
Total Internal Restrictions	19,979	26,576	9,547	37,008
Total Restrictions	104,203	63,097	33,679	133,621

(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)
restricted assets which must be applied for the purposes for which they were raised.

Note 7 Receivables

(continued)

	Actual 2013		Actual 2012	
	Current	Non-Current	Current	Non-Current
	\$'000	\$'000	\$'000	\$'000
Purpose				
Rates and annual charges	4,066	1,826	4,429	1,759
Interest and extra charges	358	188	304	245
User charges and fees	4,645	372	4,109	740
Accrued revenues	2,087		2,564	
GST Receivable	1,608		666	
Government grants and subsidies	2,464		3,463	
Other	972	1,773	217	2,531
Total	16,200	4,159	15,752	5,275
Less: Provision for impairment:				
Rates and annual charges	35		34	
User charges and fees	44		35	
	79		69	
Total	16,121	4,159	15,683	5,275
Restricted receivables				
Externally restricted receivables				
Water Supply	5,113	1,524	4,868	2,912
Sewerage Services	2,886	371	3,474	402
Domestic Waste Management	1,205	306	1,197	485
Sanctuary Springs	3	1	3	0
Broadwater special rate	24	1	21	2
Total externally restricted receivables	9,231	2,203	9,563	3,801
Unrestricted receivables	6,890	1,956	6,120	1,474
Total receivables	16,121	4,159	15,683	5,275

Note 8 Inventories and other assets

(continued)

	Actual 2013 Current \$'000	Non- Current \$'000	Actual 2012 Current \$'000	Non- Current \$'000
Inventories				
Real estate (refer below)	535	168	535	168
Stores and materials	419		497	
Total inventories	954	168	1,032	168
Inventories not expected to be realised within the next 12 months		168		168
Other assets				
Prepayments	760		732	
Total	760		732	
Real Estate Development				
Residential	29		29	
Industrial/Commercial	506	168	506	168
Total real estate held for resale	535	168	535	168
<i>(Valued at the lower of cost and net realisable value)</i>				
Represented by:				
Acquisition costs				
Development costs	535	168	535	168
Borrowing costs				
Total real estate held for resale	535	168	535	168
Externally restricted inventories and other assets				
Water Supply				
Stores and materials	225		269	
Total Water Supply	225		269	
Sewerage				
Stores and materials	4		6	
Total Sewerage	4		6	
Total externally restricted inventories and other assets	229		275	
Unrestricted inventories and other assets	1,485	168	1,489	168
Total inventories and other assets	1,714	168	1,764	168

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

By Asset Type	At 30 June 2012				Movements during year						At 30 June 2013			
	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	Revaluation increments/(decrements) (2) \$'000	Cost \$'000	Fair Value \$'000	Accum depreciation and impairment \$'000	Written Down Value \$'000
WIP		57,166		57,166	8,506	15,346			-27,496			53,522		53,522
Plant and equipment		34,045	18,303	15,742		4,508	1,392	2,286	-266			34,842	18,536	16,306
Office equipment		21,737	16,409	5,328		711		1,454	267			22,779	17,927	4,852
Furniture and fittings		6,112	2,948	3,164		128		465	619			6,952	3,506	3,446
Leased plant and equipment		286	43	243				2				286	45	241
Land														
- Operational Land		71,114		71,114			75		1,400	11,287		83,726		83,726
- Community Land		23,037		23,037					1			23,038		23,038
Crown Land (Council Trustee)		18,719		18,719								18,719		18,719
Land Under Roads*		48,130		48,130		12						48,142		48,142
Depreciable land improvements		9,191	2,618	6,573		155		448	618	398		10,614	3,318	7,296
Buildings		166,403	55,626	110,777	343	92	342	3,956	389	27,041		157,047	22,703	134,344
Other Structures		64,681	34,726	29,955		798	15	2,631	399	782		67,563	38,275	29,288
Infrastructure														
- Roads, bridges, footpaths		1,096,176	257,691	838,485	6,432	19,390	1,858	12,427	1,962	38,300		1,171,091	280,807	890,284
- Stormwater Drainage		152,500	59,528	92,972	61	1,422	2	2,079	48	5,363		163,019	65,234	97,785
- Water Supply Network		493,264	77,858	415,406	360	486	266	10,870	-469	10,092		505,643	90,904	414,739
- Sewerage Network		306,106	77,127	228,979	249	4,156	424	9,102	23,229	5,771		340,779	87,921	252,858
Other Assets														
- Heritage Collections		1,137	324	813				5		566		1,651	277	1,374
- Library Books		4,608	4,231	377		258		247				4,866	4,478	388
- Other		1,282	156	1,126		12		74	527			1,904	313	1,591
Reinstatement, Rehabilitation, Restoration Assets (refer note 21)														
Tip Asset		223	105	118				13				223	118	105
Totals		2,575,917	607,693	1,968,224	15,951	47,474	4,374	46,059	1,228	99,600		2,716,406	634,362	2,082,044

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.

- The 'Water Supply network' and 'Sewerage network' asset classes do not include those fixed assets belonging to the water and sewerage funds which form part of other asset classes, eg land, buildings etc. See Note 9b for all the classes of fixed assets belonging to the water and sewer funds.

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

(continued)

By Asset Type	Actual 2013 \$'000				Actual 2012 \$'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		47		47		47		47
Office equipment		5,452	2,596	2,856		5,094	2,252	2,842
Furniture & Fittings		135	47	88				
Land								
- Operational Land		10,301		10,301		5,596		5,596
Buildings		12,532	999	11,533		22,976	4,134	18,842
Water Supply Infrastructure		505,643	90,904	414,739		493,264	77,858	415,406
Capital WIP		10,844		10,844		5,780		5,780
Total water supply		544,954	94,546	450,408		532,757	84,244	448,513
Sewerage Services								
Plant and equipment		640	514	126		390	359	31
Office equipment		177	132	45		98	84	14
Furniture & Fittings		28	14	14		28	11	17
Land								
- Operational Land		7,309		7,309		6,447		6,447
Buildings		9,827	1,730	8,097		8,475	2,096	6,379
Sewerage Infrastructure		340,779	87,921	252,858		306,106	77,127	228,979
Capital WIP		21,085		21,085		42,679		42,679
Total sewerage services		379,845	90,311	289,534		364,223	79,677	284,546
Waste Management								
Plant and equipment		213	198	15		213	189	24
Office equipment		48	48			48	48	
Furniture and fittings		35	35			35	35	
Land								
- Operational Land		2,213		2,213		3,600		3,600
Land Improvements - depreciable		9,049	3,072	5,977		8,545	2,516	6,029
Buildings		6,991	1,241	5,750		2,066	923	1,143
Other Structures		1,237	407	830		1,237	354	883
Other		224	85	139		223	71	152
Cairncross Tip Asset		223	118	105	223		105	118
Capital WIP		1,770		1,770		134		134
Total Waste Management		22,003	5,204	16,799	223	16,101	4,241	12,083
Total Restrictions		946,802	190,061	756,741	223	913,081	168,162	745,142

Note 10(a) Payables, borrowings and provisions

(continued)

	Actual 2013		Actual 2012	
	Current	Non-Current	Current	Non-Current
	\$'000	\$'000	\$'000	\$'000
Payables				
Goods and services	12,614		4,195	
Accrued wages and salaries	132		142	
Accrued expenses - other	237		203	
Payments received in advance	1,504		1,342	
Accrued Interest	1,305		1,403	
S64 contributions due to PWD		7,147		7,147
Deposits and retentions	1,819		2,009	
Other payables	3		4	
Total payables	17,614	7,147	9,298	7,147
Current payables not expected to be settled within the next 12 months	954		1,060	
Borrowings				
Bank overdraft	189	0	0	0
Loans - Secured (1)	8,747	83,936	8,726	80,686
Total borrowings	8,936	83,936	8,726	80,686
Provisions (2)				
Annual leave	3,274		3,221	
Sick leave	4,088	1,289	4,057	1,069
Long service leave	8,231	168	7,779	242
Maternity leave	29		15	
Asset remediation (Note 24)		383		362
Total provisions	15,622	1,840	15,072	1,673
Current provisions not expected to be settled within the next 12 months	11,111		10,292	
Liabilities relating to restricted assets				
Domestic waste management	515	565	512	616
Water	3,876	14,092	3,868	16,057
Sewer	3,950	30,041	3,876	28,087
Total restricted liabilities	8,341	44,698	8,256	44,760
Liabilities related to unrestricted assets	33,831	48,225	24,840	44,746
Total	42,172	56,566	33,096	89,506

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	3,221	2,249	2,196		3,274
Sick leave	5,126	1,311	1,060		5,377
Long service leave	8,021	929	551		8,399
Maternity leave	15	14			29
Asset remediation	362				362
Total	16,745	4,503	3,807	0	17,441

Note 11 Reconciliation of operating result to net cash movement from operating activities.

	Notes	Actual 2013 \$'000	Actual 2012 \$'000
(a) Reconciliation of cash assets			
Total cash and cash equivalents	6a	27,555	9,487
Less: Bank overdraft	10	189	0
Balances as per Statement of cash flows		27,366	9,487
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income statement		36,353	12,594
Add:			
Depreciation and impairment		46,143	46,963
Increase in provision for doubtful debts		10	0
Increase in provision for leave entitlements		696	1,471
Increase in other provisions		21	21
Decrease in receivables		668	1,052
Decrease in inventories		78	0
Increase in payables		8,316	0
Loss on sale of assets		2,141	1,568
		94,426	63,669
Less:			
Decrease in provision for doubtful debts		0	20
Increase in inventories		0	21
Increase in other current assets		28	26
Decrease in payables		0	2,158
Non cash capital grants and contributions		23,011	7,657
Fair value adjustments to financial assets at fair value through profit and loss		229	675
Fair Value adjustments to impaired financial assets classified as available for sale		2,115	-2,009
Net cash provided by operating activities from Cash flow statement		69,043	55,121

Note 11 Reconciliation of operating result to net cash
movement from operating activities (continued)

	Actual 2013 \$'000	Actual 2012 \$'000
Notes		
(c) Non-cash financing and investing activities		
Bushfire grants	470	49
S94 contributions in kind	0	308
Dedications	22,541	7,300
	23,011	7,657

(d) Financing arrangements

Unrestricted access was available at balance date to the following:

Bank overdraft facility (1)	500	500
Purchase Cards	610	500
Corporate Credit Cards	0	110
	1,110	1,110

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

	Actual 2013 \$'000	Actual 2012 \$'000
Notes		
(a) Capital commitments (exclusive of GST)		
Capital expenditure committed for at the end of the reporting date but not recognised in the financial statements as liabilities:		
- Buildings		14
- Infrastructure	10,981	4,593
- Land	0	40
- Plant and equipment	240	879
	11,221	5,526

Note 13(a) Statement of performance measures -
Consolidated results

	Amounts 2013	2013 indicators	2012	2011	2010
1. Unrestricted current ratio					
Current assets less all external restrictions ⁽¹⁾	53,409	2.21 :1	1.88:1	1.89:1	1.41:1
Current liabilities less specific purpose liabilities ^{(2) (3) (4)}	24,127				
2. Debt service ratio					
Debt Service Cost	14,077	11.15%	12.12%	12.37%	12.18%
Income from continuing operational excluding capital items and specific purpose grants/contributions	126,293				
3. Rate coverage ratio					
Rates and annual charges	75,423	43.43%	48.23%	45.76%	44.98%
Income from continuing operations	173,655				
4. Rates and annual charges outstanding percentage					
Rates and annual charges outstanding	6,403	7.73%	8.70%	8.70%	8.39%
Rates and annual charges collectible	82,850				
4a. Rates and annual charges outstanding percentage (excluding pensioner accruals)					
Rates and annual charges outstanding	6,312	7.62%	8.54%	8.54%	
Rates and annual charges collectible	82,850				
5. Building and infrastructure renewals ratio ⁽⁵⁾					
Asset renewals - (building and infrastructure)	15,951	41.50%	20.40%	21.73%	23.21%
Depreciation, amortisation, & impairment - (building and infrastructure)	38,434				

Notes:

(1) Refer to Notes 6-8 inclusive.

(2) Refer to note 10(a)

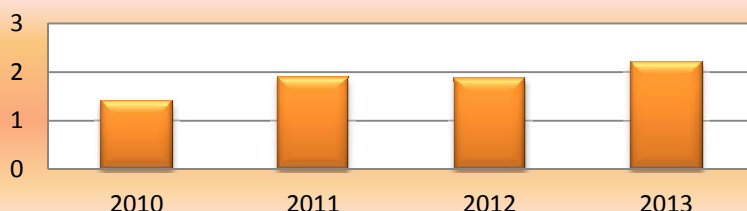
(3) \$10.3m provisions not expected to be settled deducted.

(4) \$1.06m payables not expected to be settled deducted.

(5) Refer Note 9a

Note 13 Statement of performance measures - Consolidated results - Graphs

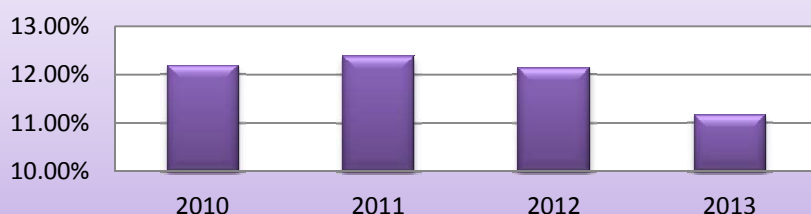
1. Unrestricted Current Ratio



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.

2. Debt Service Ratio



Purpose of debt service ratio

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

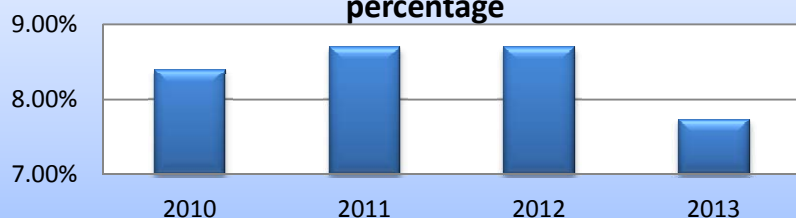
3. Rates coverage ratio



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.

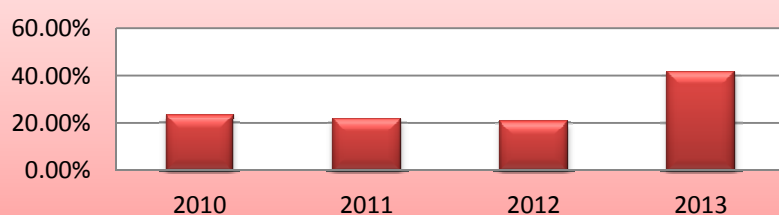
4. Rates and annual charges outstanding percentage



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.

5. Building and infrastructure renewal ratio



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⁾	2.21:1	7.87:1	7.70:1
Current liabilities less specific purpose liabilities ⁽²⁾			
2. Debt service ratio			
Debt Service Cost	10.03%	12.07%	17.60%
Income from continuing operational excluding capital items and specific purpose grants/contributions			
3. Rate coverage ratio			
Rates and annual charges	41.72%	21.89%	74.77%
Income from continuing operations			
4. Rates and annual charges outstanding percentage			
Rates and annual charges outstanding	7.95%	11.28%	5.93%
Rates and annual charges collectible			
5. Building and infrastructure renewals ratio ⁽³⁾			
Asset renewals - building and infrastructure	74.33%	20.80%	3.78%
Depreciation, amortisation, & impairment - building and infrastructure			

Notes:

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

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	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Financial Assets				
Cash and cash equivalents	27,555	9,487	27,555	9,487
Receivables	20,280	20,958	20,280	20,958
Financial assets at fair value through profit or loss	6,742	12,427	6,742	12,427
Available-for-sale financial assets	0	3,369	0	3,369
Held-to-maturity investments	107,000	79,000	107,000	79,000
Total	161,577	125,241	161,577	125,241
Financial Liabilities				
Payables**	23,257	15,103	23,257	15,103
Borrowings	92,872	89,412	89,586	89,510
Total	116,129	104,515	112,843	104,613

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.

** Excludes revenue received in advance

Note 15 Financial risk management (continued)

(continued)

Fair value hierarchy

The fair values of financial instruments carried at fair value have been classified using a fair value hierarchy that reflects the significance of the inputs use in making the measurements.

The levels in the hierarchy are as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. As prices) or indirectly (i.e. derived from prices)
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The value of financial instruments carried at fair value shown in the relevant level of the hierarchy is shown below:

	2013	2012
	\$'000	\$'000
Level 1	13,742	93,417
Level 2		0
Level 3		1,379

Reconciliation of movement in level 3 financial assets

	2013 (\$'000)	2012 (\$'000)
Balance 1 July	1,379	3,938
Gains or losses for the period:	2,116	2,697
Recognised in profit or loss	435	-2,009
Recognised in other comprehensive income		
Purchases		
Sales	-3,930	-3,247
Settlements		
Issues		
Transfers in/ (out) of Level 3		
Balance 30 June	0	1,379

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 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.

	2013	2012
	\$'000	\$'000
Impact of a 5% (1) movement in price of investments		
- Equity	0	168
- Income statement	337 (2)	621
Impact of a 1% (1) movement in interest rates on cash and investments		
- Equity		
- Income statement	75	128

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.)

(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.

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

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:

	2013	2012
Percentage of Rates and Annual charges:		
- Current	28.82%	33.47%
- Overdue	71.18%	66.53%
Percentage of Other Receivables		
- Current	95.72%	96.87%
- Overdue	4.28%	3.13%

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:

\$'000	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total Contractual Cash flows	Carrying values
2013					
Payables	15,156	8,101		23,257	24,761
Borrowings	14,382	63,062	67,119	144,563	92,872
	29,538	71,163	67,119	167,820	117,633
2012					
Payables	6,896	8,207		15,103	16,445
Borrowings	13,365	58,902	56,957	129,224	89,412
	20,261	67,109	56,957	144,327	105,857

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 2013		30 June 2012	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
		\$'000		\$'000
Overdraft	5.77%	189		0
Bank Loans - Fixed	6.09%	84,088	6.52%	67,966
- Variable ⁽¹⁾	5.70%	8,595	5.64%	21,446
		92,872		89,412

Note:

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

30 June 2013

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

Council's original budget was incorporated as part of the Corporate Plan adopted by the Council on 23 May 2012. 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 Interest and investment revenues**

Interest and investment revenues were over budget by \$5,022K (F) 121.48%. 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 recognised for the 2013 financial year have been influenced by movements in the fair value of investments upwards by \$229K.
3. Included in the investment income is an amount of \$2,115K for the reversal of previous years impairment on two CDO investments.

2. User Charges and Fees

User charges and fees were over budget by some \$3,119K (F) 13.09%. Variations in amounts received for user charges and fees are detailed below.

User Charges - Water Supply	\$1,553K (F)	Conservative water usage estimates due to previous wet years.
User Charges - Other Waste Management	\$740K (F)	Increased usage at Cairncross
Fees - Building, Planning, S603 Certificates, Water Meter Installations	\$288K (F)	Increase in fees associated with the constructions industry.
Fees - Airport	\$669K (F)	Airport fees are up due to increased passenger security screening as well as conservative estimates for passenger numbers.

2. Grants and contributions provided for operating purposes

Grants and contributions provided for operating purposes were over budget by some \$1,729K (F) 9.13%. This was primarily due to an amount received from Roads and Maritime Services for bypassed roads.

30 June 2013

Note 16 Material Budget Variations

(continued)

3. Grants and contributions provided for capital purposes

Actual amounts of grants and contributions received for capital purposes were over the original budget by some \$15,586K (F) 61.38%. Variations in the amounts received in grant and contributions funds are detailed below.

Developer Provided Asset Contributions	\$15,541(F)	Developers has contributed a significant amount of infrastructure assets to Council.
Swimming Pool Grant	\$2,300 (U)	A budgeted grant for the Wauchope Swimming Pool upgrade was not received.
Voluntary Planning Agreements	\$1,605 (F)	Council raised a debtor for the Voluntary Planning Agreement at Sovereign Hills
Water Supply	\$3,667 (F)	Council received two grants towards the Sancrox Reservoir

Expenses**4. Net loss on disposal of assets**

Council budgeted for a loss on disposal of assets of \$2,900K but actually incurred a loss of \$2,141K. This is due to two reasons, firstly the write off of infrastructure assets was not as great as anticipated and secondly Council made a profit on sale of a CDO investment in the amount of \$450K (F).

5. Borrowing costs

The variation of \$2,180K (F) (28.54%) in borrowing costs is due to four things.

1. Council has capitalised \$197K 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.
2. Council also budgets conservatively for all variable loans to ensure sufficient funds are available in the event of an interest rate rise.
3. Council's original budget included loan repayments on the Stingray Creek Bridge loan. This loan was not borrowed in 2012/13 and will be borrowed in 2013/14.
4. The airport loan was originally going to be for \$10m but only \$6m was actually borrowed.

In addition to the above mentioned items, minor favourable and unfavourable variations occurred

Note 17 Statement of developer contributions

(continued)

(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 during the year (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 (5) \$'000
		Cash \$'000	Non cash \$'000									
Roads	790	944		36	488	1,282		1,282	56,737	68,414	-10,395	4,588
Parking	3,472	14		114		3,600		3,600	9,619	12,942	277	-5,919
Open Space	1,438	538		53	260	1,769		1,769	49,155	57,373	-6,449	1,317
Community Facilities	259	399		13	34	637		637	40,816	45,630	-4,177	
Other	1,370	62		46	451	1,027		1,027	564	1,491	100	
Administration Levy		76			76				2,048	2,563	-515	14
S94 under plans	7,329	2,033		262	1,309	8,315		8,315	158,939	188,413	-21,159	
S94 not under plans	742	17		25	251	533		533				
S94A levies	63	137		4	100	104		104				
Planning agreements	160	114	1,492	5	209	1,562		1,562				
Section 64	27,226	2,136	-1,492	904	522	28,252		28,252				
Totals	35,520	4,437		1,200	2,391	38,766		38,766	158,939	188,413	-21,159	

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) Borrowings within and between plans during current period only.

(5) Cumulative balance of borrowing within and between plans.

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 during the year (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 (5) \$'000
		Cash \$'000	Non cash \$'000									
Roads	790	944		36	488	1,282		1,282	56,737	68,414	-10,395	4,588
Parking	3,472	14		114		3,600		3,600	9,619	12,942	277	-5,919
Open Space	1,438	538		53	260	1,769		1,769	49,155	57,373	-6,449	1,317
Community Facilities	259	399		13	34	637		637	40,816	45,630	-4,177	
Other	1,370	62		46	451	1,027		1,027	564	1,491	100	
Administration Levy		76			76				2,048	2,563	-515	
Section 94A	63	137		4	100	104		104				14
Totals	7,392	2,170		266	1,409	8,419		8,419	158,939	188,413	-21,159	

(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 during the year (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 (5) \$'000
		Cash \$'000	Non cash \$'000									
Roads	292	15		10	10	307		307				
Parking												
Open Space	217	2		7		226		226				
Community Facilities	233			8	241							
Other												
Totals	742	17		25	251	533		533				

Note 18 Contingencies

(continued)

Contingent liabilities

1 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.

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)

	Notes	Actual 2013 \$'000	Actual 2012 \$'000
(a) Retained earnings			
Movements in retained earnings were as follows:			
At beginning of year		954,315	945,881
Adjustment to correct prior period errors (20(d))			-4,160
Change in accounting policy	1(u)	36,353	12,594
Net operating result for the year		<u>990,668</u>	<u>954,315</u>
At end of year			
(b) Revaluation reserves			
Infrastructure, property, plant and equipment revaluation reserve		1,120,090	1,020,490
Available-for-sale investments revaluation reserve		0	-10
		<u>1,120,090</u>	<u>1,020,480</u>
Movements:			
<i>Property, plant and equipment revaluation reserve</i>			
At beginning of year		1,020,490	819,525
Revaluations	9	99,600	200,965
At end of year		<u>1,120,090</u>	<u>1,020,490</u>
<i>Available-for-sale investments revaluation reserve</i>			
At beginning of year		-10	-27
Revaluation - gross		10	17
Transfer to net profit - gross			
At end of year		<u>0</u>	<u>-10</u>
(c) Nature and purpose of reserves			
(i) <i>Infrastructure, property, plant and equipment revaluation reserve</i>			
The infrastructure, property, plant and equipment revaluation reserve is used to record increments and decrements on the revaluation of non-current assets			
(ii) <i>Available-for-sale investments revaluation reserve</i>			
Changes in fair value are taken to the available-for-sale investments revaluation reserve, as described in Note 1(k). Amounts are recognised in profit and loss when the associated assets are sold or impaired.			
(d) Correction of errors in previous years			
Duplication of non-depreciable land improvements		(1) 0	-4,160
			<u>-4,160</u>

Note 1 - Adjusted to retained earnings

Income Statement by Fund	Actual 2013 \$'000 General ⁽¹⁾	Actual 2013 \$'000 Water	Actual 2013 \$'000 Sewer
Income from continuing operations			
Revenue:			
Rates and annual charges	51,387	5,670	18,366
User charges and fees	13,363	13,464	127
Interest and investment revenue	4,600	2,482	2,074
Other revenues	5,011	117	162
Grants and contributions provided for operating purposes	15,122	387	345
Grants and contributions provided for capital purposes	33,702	3,786	3,490
Other Income:			
Net gain from the disposal of assets			
Total income from continuing operations	123,185	25,906	24,564
Expenses from continuing operations			
Employee benefits and on-costs	30,362	2,876	3,468
Borrowing costs	3,084	770	1,605
Materials and contracts	21,627	7,003	7,381
Depreciation and amortisation	25,262	11,488	9,393
Other expenses	7,558	1,303	1,981
Net Loss from the disposal of assets	1,681	143	317
Total expenses from continuing operations	89,574	23,583	24,145
Operating result from continuing operations	33,611	2,323	419
Net operating result for the year	33,611	2,323	419
Attributable to:			
- Council	33,611	2,323	419
Net operating result for the year before grants and contributions provided for capital purposes (2)	-91	-1,463	-3,071

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's 3 and 5. This result is respectively:

	\$'000
Water	-1,917
Sewer	-507

Statement of financial position by Fund	Actual 2013 \$'000 General	Actual 2013 \$'000 Water	Actual 2013 \$'000 Sewer
ASSETS			
Current assets			
Cash and cash equivalents	27,555		
Investments	29,965	17,717	20,332
Receivables	8,122	5,113	2,886
Inventories	725	225	4
Other	760		
Non-current asset classified as held for sale	350		
Total current assets	67,477	23,055	23,222
Non-current assets			
Investments	12,938	21,337	11,453
Receivables	2,264	1,524	371
Inventories	168		
Infrastructure, property, plant & equipment	1,342,103	450,408	289,533
Total non-current assets	1,357,473	473,269	301,357
Total assets	1,424,950	496,324	324,579
LIABILITIES			
Current liabilities			
Payables	16,596	526	492
Borrowings	5,078	1,716	2,142
Provisions	12,672	1,634	1,316
Total current liabilities	34,346	3,876	3,950
Non-current liabilities			
Payables		3,810	3,337
Borrowings	47,174	10,164	26,598
Provisions	1,616	118	106
Total non-current liabilities	48,790	14,092	30,041
Total liabilities	83,136	17,968	33,991
Net assets	1,341,814	478,356	290,588
EQUITY			
Retained earnings	624,490	203,917	162,261
Revaluation reserves	717,324	274,439	128,327
Council equity interest	1,341,814	478,356	290,588
Total equity	1,341,814	478,356	290,588

Notes:

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

30 June 2013

Note 22 Non-current assets classified as held for sale

(continued)

	Actual 2013 \$'000	Actual 2012 \$'000
Land		
Council has made the decision to dispose of surplus land. The land is currently available for sale and is actively being marketed.	350	1,999

Two properties that were included as non-current assets classified as held for sale in 2012 are no longer being actively marketed so have been transferred to operational land.

Note 23 Events occurring after reporting date

(continued)

Events that occur after the reporting date of 30 June 2013, 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 2013. Council does not have any such events.
- (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 2013 and which are only indicative of conditions that arose after 30 June 2013. Council does not have any such events.

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 2013 \$'000	Actual 2012 \$'000
At Beginning of year	362	341
Amounts capitalised to Tip asset		
- New disturbance		
- Revised costs		
- Revised life		
- Revised discount rate		
Amortisation of discount - expensed to borrowing costs	21	21
Amounts used		
At end of year	383	362

31 October 2013

Mr Tony Hayward
General Manager
Port Macquarie-Hastings Council
PO Box 84
PORT MACQUARIE NSW 2444

Dear Tony

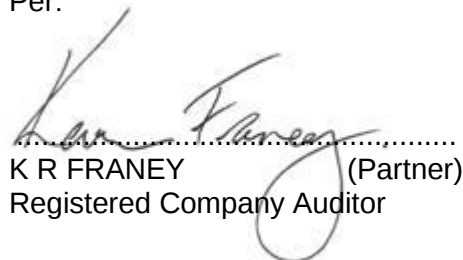
We advise that we have completed our audit of the Council's general purpose and special purpose financial statements for the year ended 30 June 2013 under section 417 of the Local Government Act 1993.

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

Yours faithfully

THOMAS NOBLE & RUSSELL

Per:


K R FRANEY (Partner)
Registered Company Auditor

Port Macquarie-Hastings Council

Report to Council under s417 of the Local Government Act 1993

30 June 2013



PORT MACQUARIE
HASTINGS



Thomas
Noble &
Russell

Accountants | Auditors | Business Advisers



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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 2013 financial year are:

- Water fund operations;
- Sewer fund operations; and
- 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. AUDITOR'S 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 an 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 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 Council and Management by the Local Government Act and Regulations 1993.

Reporting on the Conduct of the Audit

As part of our role as auditor of Council, Section 417 (3) of the *Local Government Act 1993* and the Local Government (General) regulation requires us to consider and provide comment on the material items affecting the general purpose financial report and other matters pertinent to the audit. The following section of this report provides an understanding of Council's financial position as at 30 June 2013, its performance for the year then ended, its cash flows and other material financial matters.

3. CONSOLIDATED OPERATING RESULT

Council's surplus from all activities for 2013 was \$36,353,000. This compares to a surplus in 2012 of \$12,594,000. This result can be summarised as follows:-

	2013 \$'000	2012 \$'000	2011 \$'000	2010 \$'000
Revenues from continuing operations	130,333	122,537	114,525	107,905
Expenses from continuing operations	(89,018)	(84,204)	(79,725)	(73,834)
Result from continuing operations before depreciation	41,315	38,333	34,800	34,071
Less: depreciation expense	(46,143)	(44,740)	(41,032)	(36,633)
Operating Deficit After Depreciation & Before Capital Revenue and Other Significant Items	(4,828)	(6,407)	(6,232)	(2,562)
<i>Significant items impacting the operating result</i>				
Fair value gains and losses on investments	2,344	(1,334)	3,078	1,920
Impairment of non-current assets	-	(2,223)	-	-
Gain on sale of financial assets	435	2,697	-	-
Gain on recognition of interest-free loans	-	-	-	1,813
Gain/(Loss) on disposal of assets	(2,576)	(4,265)	(6,176)	1,866
Operating Result Before Capital Revenue	(4,625)	(11,532)	(9,330)	3,037
Capital grants and contributions	40,978	24,126	28,913	23,844
Discontinued operations	-	-	(2,511)	181
Surplus from all activities	36,353	12,594	17,072	27,062

3.1 Analysis of Operating Deficit After Depreciation & Before Capital Revenue and Other Significant Items

The operating deficit after depreciation and before capital revenue and other significant items has decreased from \$6,407,000 in 2012 to \$4,828,000 in 2013. Some of the material components contributing to the reduced deficit include:

Account	Increase / (Decrease) \$'000	Reason for Increase / Decrease
Revenue		
General rates	3,066	General rates revenue has increased in conjunction with a special rate variation of 4.43% which was in addition to the rate-pegged increment of 3.6%.
Sewer annual charges	976	Revenue from sewer annual charges has increased in conjunction with the Council's annual review of fees and charges together with increases in the number of sewer connections.
Water user charges	1,413	Council's water user charges has increased in conjunction with the Council's annual review of fees and charges together with changes in water consumption when compared to the prior year.
Interest revenue	924	Interest revenue has increased in conjunction with the amount of funds invested.
Financial assistance grant	(2,530)	The reduction in operating grants was largely influenced by the annual Financial Assistance Grant decreasing from \$10,997,000 in 2012 to \$8,560,000 in 2013. The 2012 financial year included grant payments received in advance which inflated the revenue when compared to the 2013 financial year.
Operating contributions	1,536	On completion of the West Port Gateway project, Council received funds from the Roads and Maritime Service to maintain the bypassed section of the Oxley Highway.

Account	Increase / (Decrease) \$'000	Reason for Increase / Decrease
Expenses		
Employee costs	582	Council's employee costs consist of salaries and wages, on-costs such as workers compensation payments, superannuation and payroll tax as well as the movement in employee leave provisions. Whilst salaries and wages have increased in accordance with the Council's performance management systems, a reduction to employee benefits arising from factors influencing net present value calculations has offset this increase.
Contractor and consultancy costs	435	The movement in this expense is largely attributable to increased waste management contracting costs as well as ferry slipping costs not incurred in 2012.
Other expenses	1,918	Higher energy costs have largely contributed to the increase in other expenses. In addition, Councillor and Mayor costs commenced in September 2012.
Depreciation expense	1,319	Depreciation expense has been influenced by the revaluation of water and sewerage assets in 2012. Depreciation expense is also increasing in conjunction with the annual indexation of infrastructure assets such as roads and drainage.
Significant Revenue and Expenses		
Fair value movement of investments	2,344	The increase in fair value of Council's investments is largely attributable to the improved value of the Collateralised Debt Obligation (CDO) portfolio. The value of these investments increased during the 2013 financial year by \$2,115,000 prior to the redemption of the remaining CDO portfolio.
Gain on sale of financial investments	435	During the financial year Council had an unexpected windfall arising from the sale of the remaining two CDOs. These CDOs were previously impaired.
Gain / (loss) on disposal of assets	(2,576)	The loss on disposal of assets is largely represented by the disposal of roads and other infrastructure at the time of their rehabilitation or replacement during the financial year.

3.2 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 \$13,970,000 and largely consisted of grant monies received for:

	2012 \$'000
Roads to recovery	1,861
Airport runway extension	6,505
Bushfire equipment	470
Roadworks	1,079
Sancrox reservoir construction	3,667
Other capital grants	388
	<u>13,970</u>

Capital Contributions

Capital contributions received during the period amounted to \$27,008,000. The table below provides an understanding of the capital contributions received by Council for the past three years.

	2013 \$'000	2012 \$'000	2011 \$'000
Developer infrastructure dedications	8,700	7,300	12,235
RMS dedication - Pacific Hwy Bypass - Kew	-	-	4,421
RMS dedication - Oxley Hwy - Port Gateway*	13,840	-	-
Developer contributions - Section 94 cash	2,111	2,773	3,887
Developer contributions - Section 64 cash	644	2,918	2,555
Developer contributions - under planning agreements	1,606	61	2,414
Revision of planning agreement long term receivable	-	(2,188)	-
Adjustment to water subsidised scheme liability	-	1,477	-
Other contributions	107	760	294
Total	<u>27,008</u>	<u>13,101</u>	<u>25,806</u>

- * The RMS transferred the fair value of roads infrastructure associated with the Port Gateway project on 31 March 2013.

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. SPECIAL PURPOSE FINANCIAL REPORT

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
2013						
Water	22,293	(24,329)	(2,036)	(0.28)	10,286	-
Sewer	22,083	(26,114)	(4,031)	(0.83)	8,207	-
Waste Management	18,644	(16,442)	2,202	13.36	-	705
2012						
Water	20,082	(20,975)	(893)	0.02	8,893	-
Sewer	21,368	(20,785)	583	0.68	2,768	-
Waste Management	17,172	(16,950)	222	2.25	-	660

Sewer and Water Services

Council's sewer and water operating results before capital amounts are largely break-even. Council has adopted a desired rate of return for sewer and water funds of 2% per annum. The rate of return for 2012 and 2013 has not satisfied Council's adopted rate of return.

As a result, a notional subsidy has been calculated for each fund representing the difference between the actual rate of return and the desired rate of return. This subsidy is notional only and no funds have been transferred into sewer or water funds from other areas of Council's operations.

Whilst the operating result before capital for water and sewer operations can fluctuate annually, Council has a 30 year infrastructure plan for each fund which budgets for the generation of sufficient revenues to satisfy operational and capital requirements for current and future generations. Council should continue to monitor its rates of return for sewer and water funds so they generate sufficient profits to replace existing assets as well as fund new assets.

Waste Management

Council's Waste Management Business Activity comprises commercial and domestic waste operations and has returned a profit of \$2,202,000 for the 2013 financial year compared to \$222,000 in 2012. The 2013 profit before income tax represents a return on investment of 13% and has been achieved through cost management and a reduction in depreciation expense.

5. STATEMENT OF FINANCIAL POSITION

We provide commentary on some of the material assets and liabilities appearing on Council's statement of financial position as at 30 June 2013.

6.1 Cash and Investments

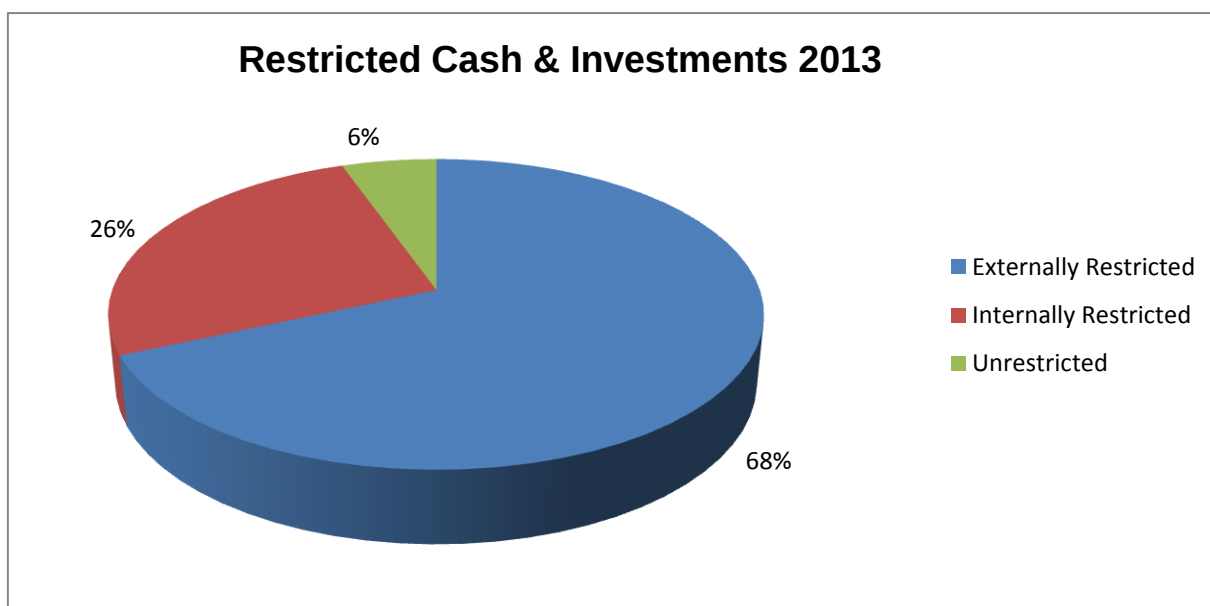
At balance date Council had \$141,297,000 in cash and investments. Council's cash and investments consist of:

	2013 \$'000	2012 \$'000	2011 \$'000
Cash on Hand and At Bank	24	31	185
Deposits at Call	27,531	9,456	8,839
Floating Rate Notes	3,014	4,955	8,965
Collateralised Debt Obligations	-	1,379	3,938
Equity Linked Notes	3,728	9,462	10,753
Term Deposits	107,000	79,000	52,000
Total	141,297	104,283	84,680

Council is managing its investment portfolio in accordance with the Minister's Investment Order which is applicable to all local government authorities.

Council's cash and investments are restricted in their use and have been disclosed in the financial report as follows:

	2013 \$'000	2012 \$'000	2011 \$'000
Externally Restricted	96,613	84,224	65,428
Internally Restricted	37,008	19,979	19,041
Unrestricted	7,676	80	211
	<u>141,297</u>	<u>104,283</u>	<u>84,680</u>



Externally Restricted Cash

Externally restricted cash consists of unspent monies such as developer contributions, grants and contributions 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.

Externally restricted cash and investments have increased when compared to 2012 due to greater monies held in sewer, water and domestic waste management funds. This money will be used to fund infrastructure in future periods.

Internally Restricted Cash

Internally restricted cash and investments are tied to specific Council reserves for planned projects under Council resolution and are generally not available to fund day-to-day operations. Internal reserves have increased from 2012 as illustrated below:

	2013 \$'000	2012 \$'000
Airport	1,562	41
CBD Townscape	3,880	3,553
Committed Works	6,801	2,150
Employee Leave Entitlements	3,184	3,184
Office Building & Equipment	2,155	1,614
Plant Replacement	2,831	2,139
Transport Infrastructure Renewal	3,207	2,402
Wauchope Heated Indoor Pool	2,421	1,299
Working Capital	4,476	2,288
Unrealised Loss on Investments	-	(3,713)
Other	6,491	5,022
Total	37,008	19,979

Unrestricted Cash

This money is used to conduct Council's day-to-day operations and provide a buffer against unforeseen events. The amount of unrestricted cash is significantly greater than prior years. The statement of financial position shows that Council's trade and other payables liability is approximately \$8 million higher than the 2012 financial year. Council's unrestricted cash will reduce once this higher level of trade and other payables has been paid subsequent to balance date.

6.2 Infrastructure, Property, Plant and Equipment (I,P,P&E)

The largest asset or liability appearing on Council's statement of financial position is I,P,P&E.

Note 9 to the general purpose financial statements provides an understanding of Council's I,P,P&E and illustrates that Council is responsible for maintaining and improving assets with a written down value of \$2 billion.

	WDV 2013 \$'000	Depreciation Expense 2013 \$'000	WDV 2012 \$'000	Depreciation Expense 2012 \$'000
Plant & Equipment	16,306	2,286	15,742	2,303
Operational Land	83,726	-	71,114	-
Community Land	23,038	-	23,037	-
Crown Land Controlled by Council	18,719	-	18,719	-
Land Under Roads	48,142	-	48,130	-
Land Improvements	7,296	448	6,573	364
Buildings	134,344	3,956	110,777	4,063
Roads, Bridges & Footpaths	890,284	12,427	838,485	16,348
Stormwater Drainage	97,785	2,079	92,972	2,049
Water Supply Infrastructure	414,739	10,870	415,406	8,212
Sewer Supply Infrastructure	252,858	9,102	228,979	6,179
Work in Progress	53,522	-	57,166	-
Other Assets	41,285	4,891	41,124	5,222
	<u>2,082,044</u>	<u>46,059</u>	<u>1,968,224</u>	<u>44,740</u>

Council Constructed / Purchased Additions

Each year Council budgets to renew or capitalise new assets. An illustration of I,P,P&E capitalised over the past two years is provided below:

	2013 \$'000	2012 \$'000
<i>Infrastructure Dedications</i>		
Developer Infrastructure Dedications	8,700	7,300
RMS Infrastructure Dedication – Port Gateway	13,840	-
<i>Non-cash Grants/contributions</i>		
Bush Fire, Subsidised Schemes etc.	470	49
<i>Council Constructed / Purchased Assets</i>		
Land and Buildings	447	4,049
Plant and Equipment	4,508	4,041
Roads and Drainage	6,281	11,372
Water & Sewerage Network	2,252	4,013
Other Assets	3,075	2,390
Work in Progress	23,852	13,440
	<u>63,425</u>	<u>39,305</u>
Consisting of:		
Asset Renewals – Buildings & Infrastructure	15,951	7,773
Dedicated Assets	23,010	7,349
New Assets	24,464	24,183
	<u>63,425</u>	<u>39,305</u>

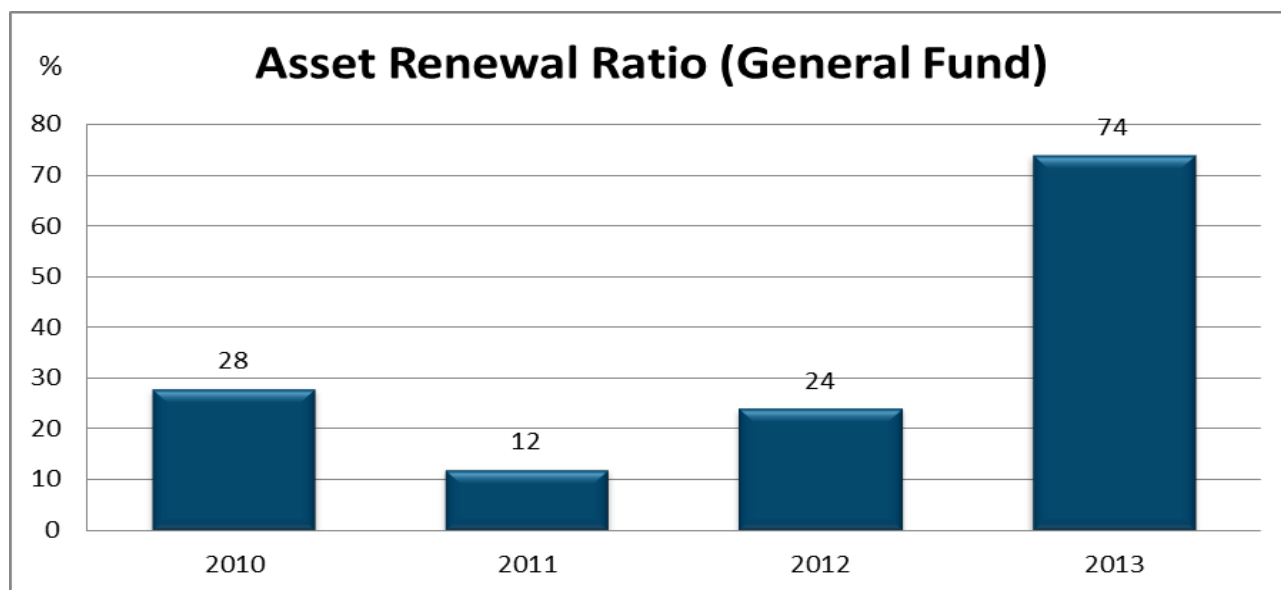
Renewing Buildings & Infrastructure

During the year Council renewed buildings and infrastructure assets of \$15.951 million and represents a significant increase in expenditure on the prior year. However the rate at which these assets are depreciating is in excess of the amount being spent to renew them. The table below illustrates this shortfall in expenditure on asset renewals compared to the related depreciation expense for the 2013 financial year.

	Renewals Expenditure \$'000	Depreciation Expense \$'000	Renewals Shortfall \$'000	Asset Renewals Ratio %
General Fund	13,255	17,832	4,577	74.3%
Sewer Fund	354	9,343	8,989	3.8%
Water Fund	2,342	11,258	8,916	20.8%
Total	15,951	38,433	22,482	41.5%

Buildings & Infrastructure Renewals Ratio

Assessing the rate at which buildings and infrastructure assets are being renewed against the rate at which they are depreciating is measured using the buildings and infrastructure renewals ratio.



The buildings and infrastructure renewals ratio is calculated based on replacement of existing assets with assets of equivalent capacity or performance as opposed to the acquisition of new assets. Expenditure incurred to add capacity to existing assets is excluded from this ratio.

The renewals statistics provided above indicate that Council's buildings and infrastructure assets renewal expenditure for General Fund has improved significantly compared to the prior year. Industry benchmarking recommends that asset renewals equate to the related depreciation expense or be in the range of 90-100%. The challenge facing all local government authorities is to improve this ratio to satisfy this industry benchmark continuously.

Creating financial capacity to fund asset maintenance, renewals and new capital projects is one of the most difficult issues facing the Local Government industry in Australia. The ability to satisfy the industry parameters for asset renewals is a key goal for any local government authority which will only be achieved by:

- having asset management and financial systems that accurately identify and record renewals expenditure throughout each year,
- ensuring that the depreciation expense disclosed in the financial report reflects the actual consumption of each asset,
- ensuring policies and procedures are updated so that Council personnel have sound guidance on capital v maintenance and renewals v new capital,
- accurately recording renewals expenditure where projects include replacing an existing asset with greater capacity, and
- constantly reviewing Council's operations so that the maximum available resources can be directed toward asset renewal.

Asset Management

Infrastructure, property, plant and equipment represent the largest asset group on the Council's Statement of Financial Position. The management of infrastructure, property, plant and equipment is an important part of Council's objectives. The Local Government Infrastructure audit report released by the Division of Local Government in 2013 identified Port Macquarie-Hastings Council as having moderate infrastructure management practices.

It is important that Council continues to develop asset management systems so that revenue and borrowings are utilised effectively and efficiently and integrated strategic planning goals are achieved. Council should ensure that the recommendations arising from the Local Government Infrastructure audit are considered and implemented where not already done so.

At present, Council needs to improve its asset management technology so that data can be captured, recorded and utilised to manage assets effectively as well as provide Council and other stakeholders with financial reporting in an efficient manner.

Asset Revaluations 2013

All infrastructure assets are to be recognised in Council's financial records at their fair value. For most of Council's infrastructure and other assets, fair value represents the written-down replacement cost of each asset using modern day equivalent materials, design and capacity.

During the year Council comprehensively revalued buildings and operational land whilst indexing other infrastructure asset classes so their carrying values continue to reflect fair value. This revaluation and indexation process has resulted in the fair value of all assets as well as the asset revaluation reserve increasing by \$99.6 million.

Reassessment of Asset Useful Lives

As required by Australian Accounting Standards, Council has reassessed asset useful lives and residual values. In 2013 Council reassessed the residual values for its roads infrastructure. This reassessment has had the effect of reducing the annual depreciation expense for roads infrastructure by \$3.9 million.

6.3 Loans Liability

Council has total borrowings at balance date of \$92,683,000 increasing from \$89,412,000 in 2012. The total loan liability at balance date is attributable to the Council's operating funds as follows:

	2013 \$'000	2012 \$'000	2011 \$'000
General (excluding Glasshouse)	30,544	27,053	29,277
Glasshouse	21,519	22,671	23,751
	52,063	49,124	53,028
Sewer	28,740	26,580	27,201
Water	11,880	13,708	15,360
Total	92,683	89,412	95,589

Movements in Borrowings for the year:

	General \$'000	Sewer \$'000	Water \$'000
Liability as at 1 July	49,124	26,580	13,708
New Loans	7,000	4,000	-
Repayments	(4,061)	(1,840)	(1,826)
Liability as at 30 June	52,063	28,740	11,880

General fund borrowed \$7 million during 2013 to fund the construction of airport improvements as well as roads and stormwater infrastructure works.

Refer to comments at Section 6 of this report relating to Council's debt servicing.

6. 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 on a consolidated basis as well as by Fund. We provide an analysis of some of these key performance indicators on a fund-by-fund basis.

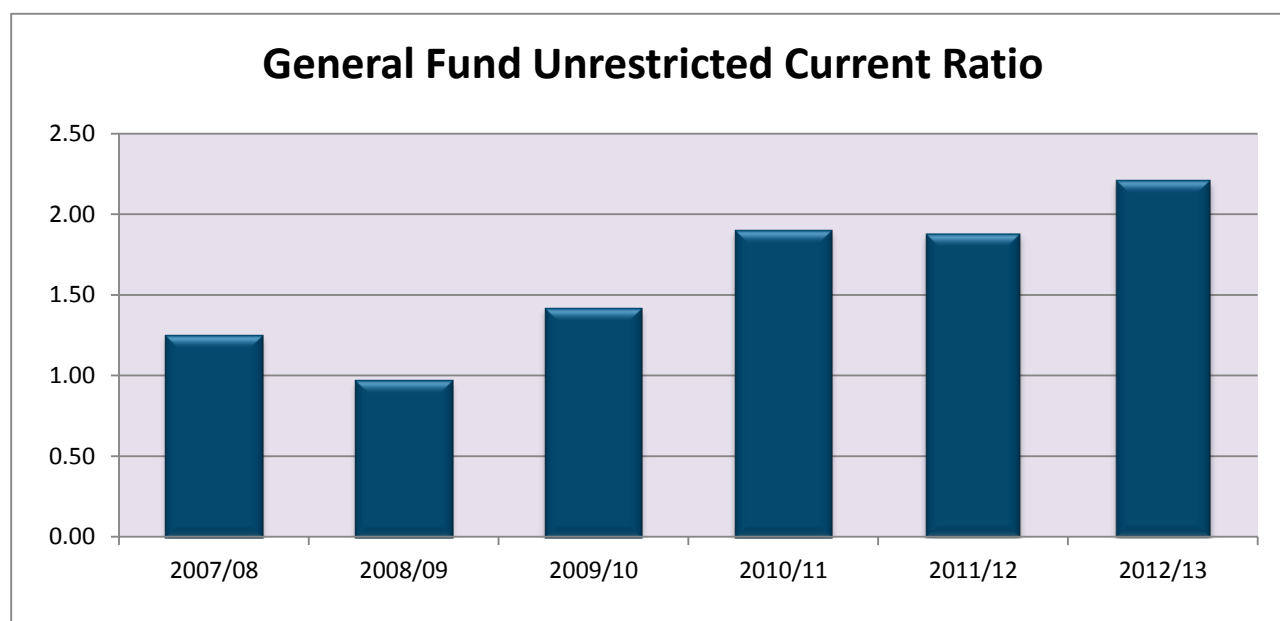
When interpreting the ratios below it is important to recognise that they represent a measure of certain aspects of Council's operations at a particular point in time and do not provide a complete assessment of Council's financial performance or position nor do they consider the plans Council has in 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; and
- Credit management policies and economic circumstances.



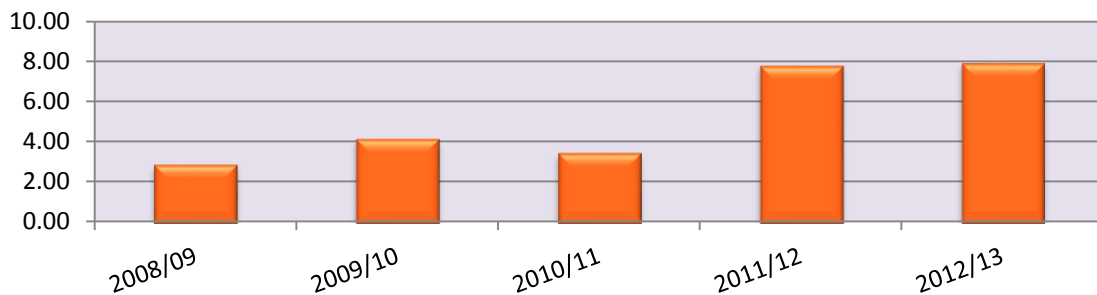
The general fund unrestricted current ratio has increased from 2012 and is 2.21 at 30 June 2013. This means that Council has \$2.21 in liquid current assets for every \$1 of current liabilities. The graph above illustrates the improvement in the general fund unrestricted current ratio since 2008 and is largely due to Council prudently replenishing its internal cash reserves.

An unrestricted current ratio of between 1.5 and 2 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 commend Council on maintaining its short-term liquidity position.

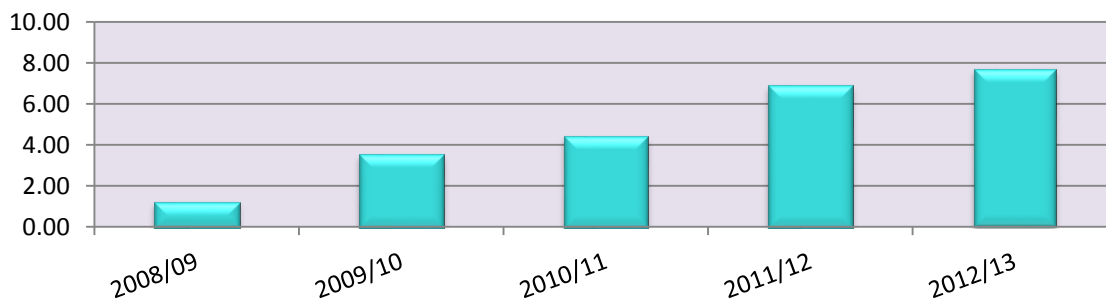
General Fund Long-Term Objectives

It is important to note that the unrestricted current ratio does not reflect Council's capacity to fund long term infrastructure needs nor maintain the current state of its infrastructure. As part of its asset management processes Council needs to assess its infrastructure requirements and develop strategies to deliver on its strategic plan. The development of asset management plans (supported by appropriate management systems and delivery plans) linked to strategic plans is required to satisfy long term infrastructure needs.

Water Fund Unrestricted Current Ratio



Sewer Fund Unrestricted Current Ratio

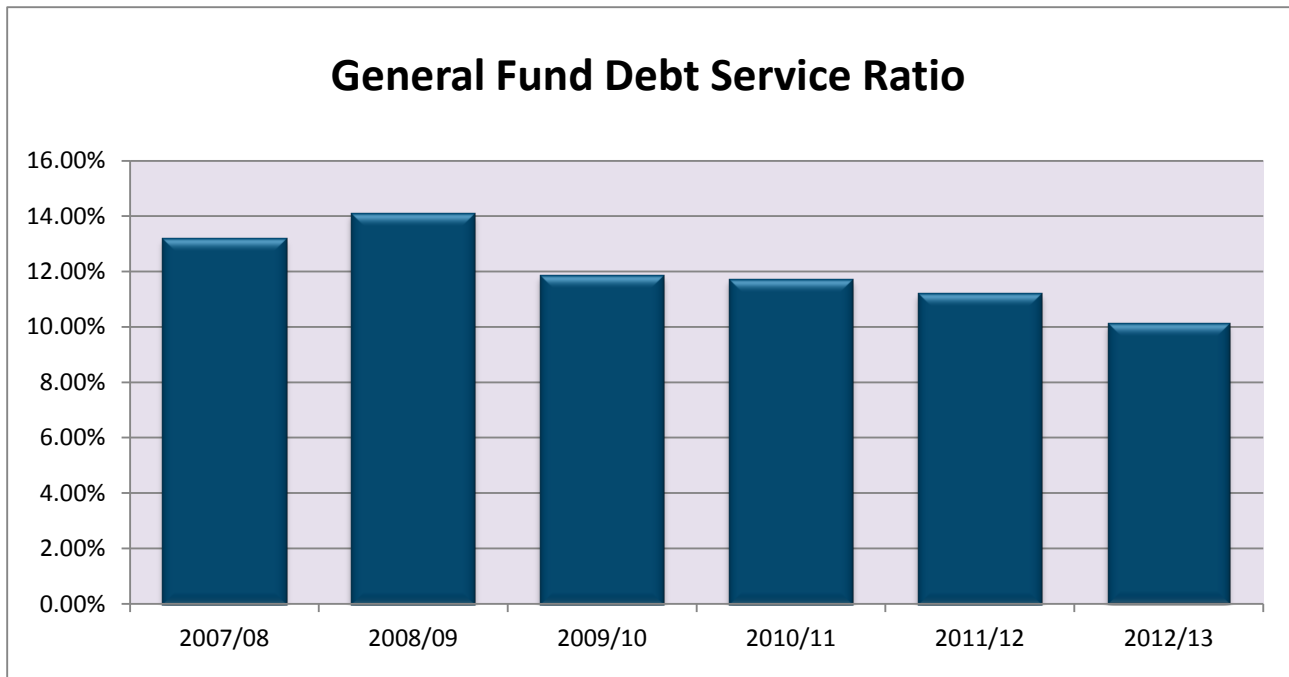


The unrestricted current ratio for water and sewer activities may fluctuate significantly. Yearly movements in the unrestricted current ratio will be influenced by the accumulation of internal reserves as well as the impact of lower debt levels and will continue to fluctuate in the future as further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

Debt Service Ratio

This ratio assesses the degree to which revenues from continuing operations are committed to the repayment of debt. Factors influencing the 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.



Council's General Fund debt service ratio includes the cost to service the Glasshouse construction loan as well as repayment of monies borrowed from sewer fund in prior years. The above graph illustrates the movement in Council's General Fund debt service levels over the past six years. The ratio continues to reduce and is 10.12% as at 30 June 2013.

The NSW Division of Local Government suggested benchmark for the debt service ratio is:

<10 satisfactory

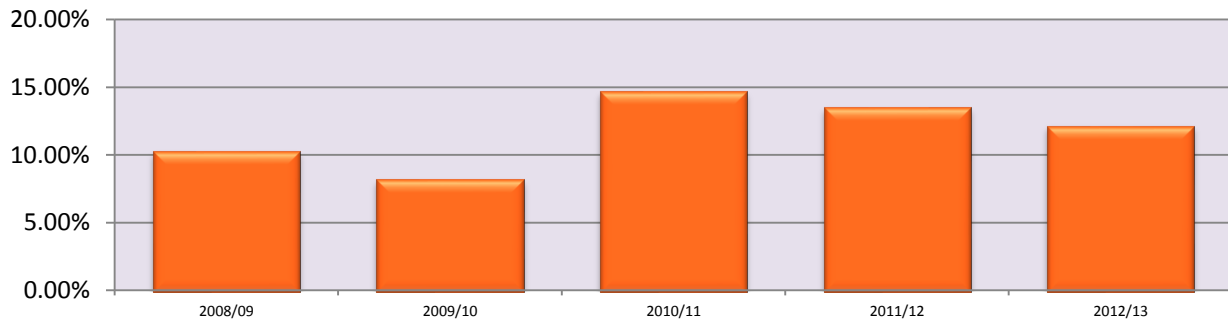
10-20 is fair

>20 could be of concern when considered with other financial indicators.

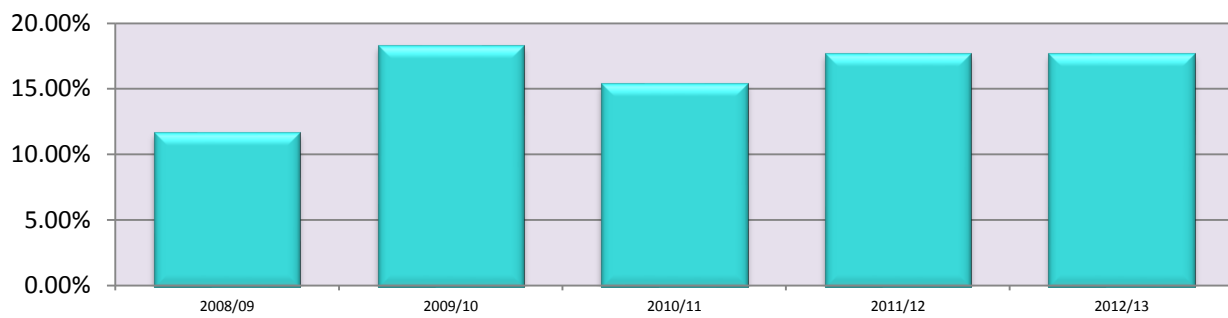
A debt service ratio of this level for a developing coastal council such as Port Macquarie-Hastings is acceptable under Local Government performance measures.



Water Fund Debt Service Ratio



Sewer Fund Debt Service Ratio

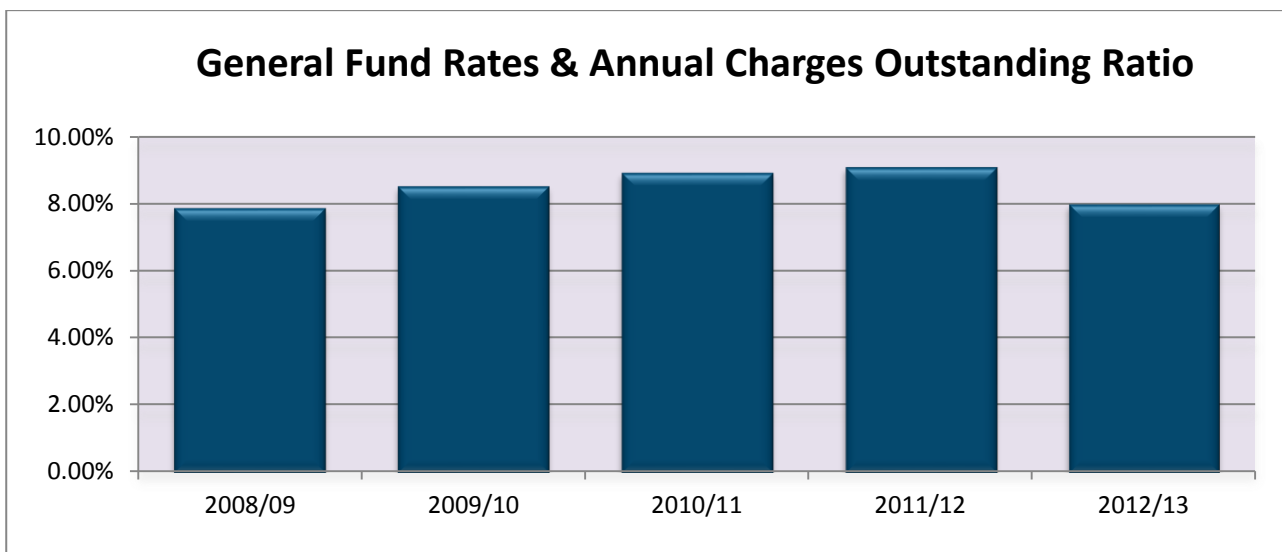


The above graphs illustrate the periodic borrowings to fund Council's capital works programmes for water and sewer funds.

Rates and Annual Charges Outstanding Percentage

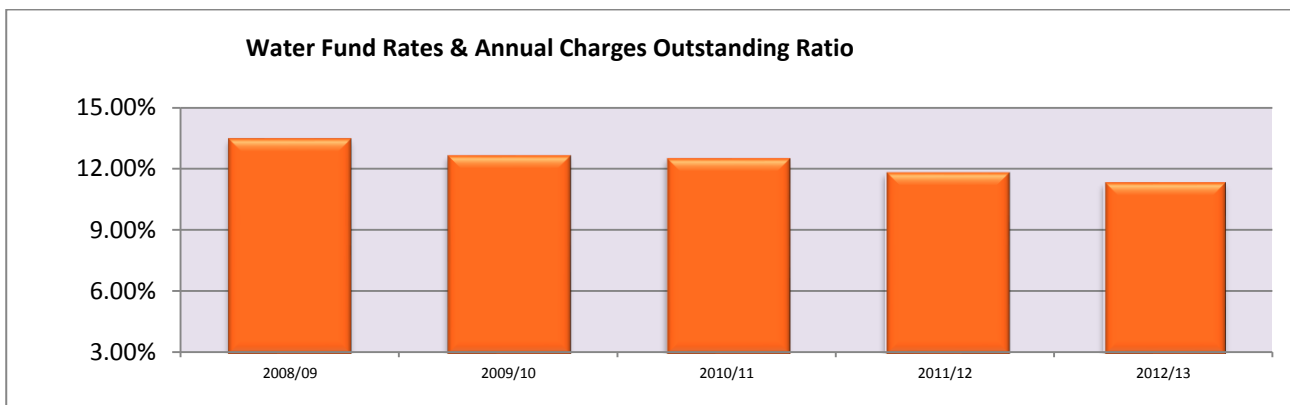
This indicator assesses the effectiveness of Council's revenue collection processes. Factors influencing Council's rates and annual charges outstanding ratio include:

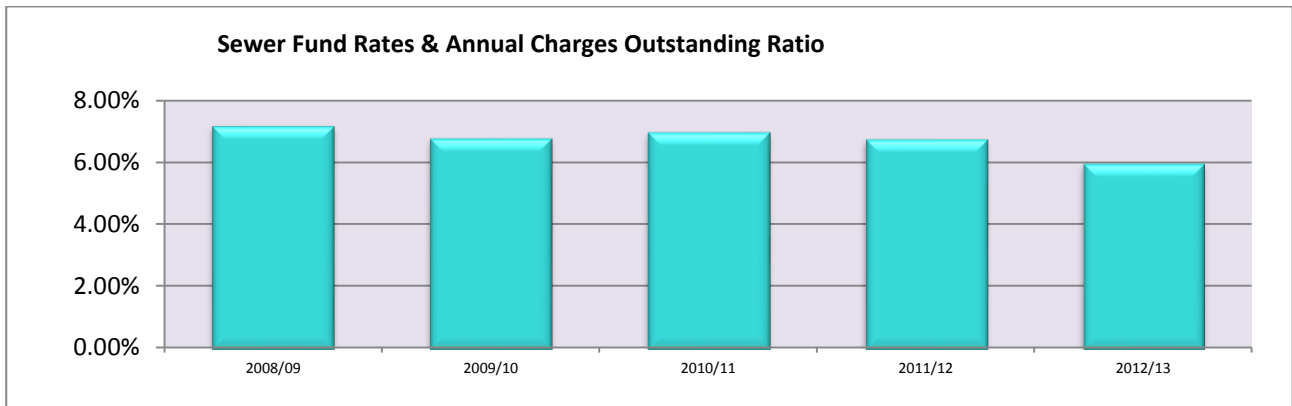
- Council's rating policy;
- Credit management policies;
- The socioeconomic characteristics of the area; and
- Environmental factors influencing ratepayers ability to satisfy their obligations.



Council's General Fund rates and annual charges outstanding ratio has improved from 9.05% in 2012 to 7.95% as at 30 June 2013.

The NSW Division of Local Government benchmark is <5% for urban and coastal Council's and <10% for rural Council's.





The above graphs illustrate the rates and annual charges outstanding ratio for water and sewer funds. Water Fund outstanding rates and annual charges can be influenced by the timing of invoices issued for annual charges however Council should determine whether this ratio can be reduced. Sewer Fund rates and annual charges outstanding is within acceptable parameters.

7. INTERNAL CONTROL ENVIRONMENT

7.1 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 modified audit opinion. We will issue a separate report to Council which identifies internal control weaknesses and other audit observations in due course.

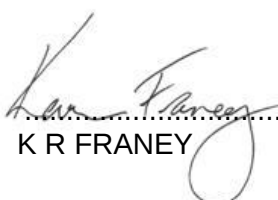
7.2 Financial Performance Measurement

In 2014, note 13 to the general purpose financial statements will incorporate more key performance indicators which are designed to measure financial and asset management performance. Council will need to review its data recording and collection systems to ensure it is able to accurately report on these key indicators.

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)

**PORT MACQUARIE-HASTINGS COUNCIL
GENERAL PURPOSE FINANCIAL REPORT
INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial report of Port Macquarie-Hastings Council (the Council), which comprises the statement of financial position as at 30 June 2013, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the statement by Councillors and Management.

Council's Responsibility for the Financial Report

The Council is responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Local Government Act 1993* and for such internal control as the Council determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Auditor's 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 report:
 - i. has been presented in accordance with the requirements of this Division;
 - ii. is consistent with the Council's accounting records;
 - iii. presents fairly the Council's financial position as at 30 June 2013 and the results of its operations for the year then ended; and
 - iv. is 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 31st day of October 2013

Port Macquarie-Hastings Council

Special Purpose Financial Reports

for the year ended 30 June 2013

Port Macquarie - Hastings Council

Special purpose financial statements for the year ended 30 June 2013

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Port Macquarie - Hastings Council

**Special purpose financial statements
for the year ended 30 June 2013**

**Statement by Councillors 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:

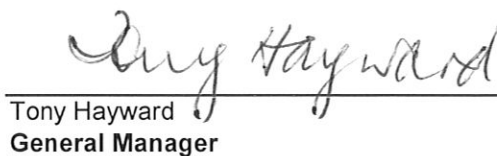
- * NSW Government Policy Statement *"Application of National Competition Policy to Local Government"*.
- * Division of Local Government Guidelines *"Pricing & Costing for Council Businesses: A Guide to Competitive Neutrality"*.
- * The Local Government Code of Accounting Practice and Financial Reporting.
- * 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 21 August 2013.


Peter Besseling
Mayor
Geoff Hawkins
Councillor
Tony Hayward
General Manager
Craig Swift-McNair
Responsible Accounting Officer

Port Macquarie - Hastings Council

Income Statement of Water Supply business activity for the year ended 30 June 2013

	Actual 2013 \$'000	Actual 2012 \$'000
Income from continuing operations		
Access charges	5,737	5,371
User charges	13,134	11,480
Fees	436	1,214
Interest	2,482	1,584
Grants and contributions provided for non capital purposes	387	394
Other income	117	39
Total income from continuing operations	22,293	20,082
Expenses from continuing operations		
Employee benefits and on-costs	2,876	3,212
Borrowing costs	770	963
Materials and contracts	7,177	6,511
Depreciation & impairment	11,488	8,544
Loss on sale of assets	142	331
Calculated taxation equivalents	189	96
Debt guarantee fee (if applicable)	384	436
Other expenses	1,303	882
Total expenses from continuing operations	24,329	20,975
Surplus (deficit) from continuing operations before capital amounts	-2,036	-893
Grants and contributions provided for capital purposes	3,786	3,796
Surplus (deficit) from continuing operations after capital amounts	1,750	2,903
Less Corporate Taxation Equivalent (30%) [based on result before capital]	0	0
Surplus (deficit) after tax	1,750	2,903
Opening retained profits	201,593	198,158
Adjustments for amounts unpaid		
Taxation equivalent payments	189	96
Debt guarantee fees	384	436
Corporate taxation equivalent		
Closing retained profits	203,916	201,593
Return on Capital %	-0.28%	0.02%
Subsidy from Council	10,274	8,893
Calculation of Dividend Payable		
Surplus (deficit) after tax	1,750	2,903
Less: Capital grants and contributions (excluding developer contributions)	3,667	1,386
Surplus for dividend calculation purposes	-1,917	1,517
Dividend calculated from surplus	0	0

Port Macquarie - Hastings Council

Income Statement of Sewerage business activity for the year ended 30 June 2013

	Actual 2013 \$'000	Actual 2012 \$'000
Income from continuing operations		
Access charges	18,491	17,501
User charges	979	828
Fees	23	62
Interest	2,084	2,461
Grants and contributions provided for non capital purposes	345	346
Other income	161	170
Total income from continuing operations	22,083	21,368
Expenses from continuing operations		
Employee benefits and on-costs	3,468	3,281
Borrowing costs	1,614	1,339
Materials and contracts	8,381	6,016
Depreciation & impairment	9,394	7,437
Loss on sale of assets	316	45
Calculated taxation equivalents	130	113
Debt guarantee fee (if applicable)	830	807
Other expenses	1,981	1,747
Total expenses from continuing operations	26,114	20,785
Surplus (deficit) from continuing operations before capital amounts	-4,031	583
Grants and contributions provided for capital purposes	3,490	1,696
Surplus (deficit) from continuing operations after capital amounts	-541	2,279
Less Corporate Taxation Equivalent (30%) [based on result before capital]	0	175
Surplus (deficit) after tax	-541	2,104
Opening retained profits	161,843	158,644
Adjustments for amounts unpaid		
Taxation equivalent payments	130	113
Debt guarantee fees	830	807
Corporate taxation equivalent	0	175
Closing retained profits	162,262	161,843
Return on Capital %	-0.83%	0.68%
Subsidy from Council	8,208	2,768
Calculation of Dividend Payable		
Surplus (deficit) after tax	-541	2,104
Less: Capital grants and contributions (excluding developer contributions)	-34	329
Surplus for dividend calculation purposes	-507	1,775
Dividend calculated from surplus	0	888

Port Macquarie - Hastings Council

Income Statement of Waste Management business activity for the year ended 30 June 2013

	Actual 2013 \$'000	Actual 2012 \$'000
Income from continuing operations		
Access charges	11,485	10,583
User charges	4,862	4,027
Interest	569	324
Grants and contributions provided for non capital purposes	766	546
Profit from the sale of assets	23	107
Other income	939	1,585
Total income from continuing operations	18,644	17,172
Expenses from continuing operations		
Employee benefits and on-costs	1,336	1,299
Borrowing costs	43	50
Materials and contracts	12,772	12,741
Depreciation & impairment	524	1,477
Loss on sale of assets		
Calculated taxation equivalents	29	56
Debt guarantee fee (if applicable)	8	11
Other expenses	1,730	1,316
Total expenses from continuing operations	16,442	16,950
Surplus (deficit) from continuing operations before capital amounts	2,202	222
Grants and contributions provided for capital purposes		
Surplus (deficit) from continuing operations after capital amounts	2,202	222
Less Corporate Taxation Equivalent (30%) [based on result before capital]	661	67
Surplus (deficit) after tax	1,541	155
Opening retained profits and reserves	11,695	12,391
Adjustments for amounts unpaid		
Taxation equivalent payments	29	56
Debt guarantee fees	8	11
Corporate taxation equivalent	661	67
Less: Dividend Paid	-705	-660
Less: Non Depreciable Land Improvements written off through Equity		-325
Closing retained profits and reserves	13,229	11,695
Return on Capital %	13.36%	2.25%
Subsidy from Council		
Calculation of Dividend Payable		
Surplus (deficit) after tax	1,541	155
Less: Capital grants and contributions (excluding developer contributions)	0	0
Surplus for dividend calculation purposes	1,541	155
Dividend calculated from surplus	705	660

Port Macquarie - Hastings Council

Statement of Financial Position of Water Supply business activity as at 30 June 2013

	Actual 2013 \$'000	Actual 2012 \$'000
ASSETS		
Current assets		
Cash and cash equivalents		2,938
Investments	17,717	13,714
Receivables	5,113	4,868
Inventories	225	269
Total current assets	23,055	21,789
Non-current assets		
Investments	21,337	15,257
Receivables	1,524	2,912
Infrastructure, property, plant and equipment	450,408	448,512
Total non-current assets	473,269	466,681
Total assets	496,324	488,470
LIABILITIES		
Current liabilities		
Payables	526	629
Interest bearing liabilities	1,716	1,616
Provisions	1,634	1,623
Total current liabilities	3,876	3,868
Non-current liabilities		
Payables	3,810	3,810
Interest bearing liabilities	10,164	12,092
Provisions	118	155
Total non-current liabilities	14,092	16,057
Total liabilities	17,968	19,925
Net assets	478,356	468,545
EQUITY		
Retained earnings	203,917	201,593
Reserves	274,439	266,952
Council equity interest	478,356	468,545
Total equity	478,356	468,545

Port Macquarie - Hastings Council

Statement of Financial Position of Sewerage business activity as at 30 June 2013

	Actual 2013 \$'000	Actual 2012 \$'000
ASSETS		
Current assets		
Cash and cash equivalents		2,192
Investments	20,332	14,122
Receivables	2,886	3,474
Inventories	4	6
Total current assets	23,222	19,794
Non-current assets		
Investments	11,453	9,397
Receivables	371	402
Infrastructure, property, plant and equipment	289,533	284,546
Total non-current assets	301,357	294,345
Total assets	324,579	314,139
LIABILITIES		
Current liabilities		
Payables	492	489
Interest bearing liabilities	2,142	1,949
Provisions	1,316	1,438
Total current liabilities	3,950	3,876
Non-current liabilities		
Payables	3,337	3,337
Interest bearing liabilities	26,598	24,631
Provisions	106	119
Total non-current liabilities	30,041	28,087
Total liabilities	33,991	31,963
Net assets	290,588	282,176
EQUITY		
Retained earnings	162,261	161,843
Reserves	128,327	120,333
Council equity interest	290,588	282,176
Total equity	290,588	282,176

Port Macquarie - Hastings Council

Statement of Financial Position of Waste Management business activity as at 30 June 2013

	Actual 2013 \$'000	Actual 2012 \$'000
ASSETS		
Current assets		
Cash and cash equivalents		385
Investments	5,952	3,636
Receivables	1,205	1,197
Total current assets	7,157	5,218
Non-current assets		
Investments		485
Receivables	306	
Infrastructure, property, plant and equipment	16,799	12,083
Total non-current assets	17,105	12,568
Total assets	24,262	17,786
LIABILITIES		
Current liabilities		
Payables	3	2
Interest bearing liabilities	109	101
Provisions	403	409
Total current liabilities	515	512
Non-current liabilities		
Interest bearing liabilities	117	226
Provisions	448	390
Total non-current liabilities	565	616
Total liabilities	1,080	1,128
Net assets	23,182	16,658
EQUITY		
Retained earnings	13,229	11,695
Reserves	9,953	4,963
Council equity interest	23,182	16,658
Total equity	23,182	16,658

Port Macquarie - Hastings Council

Notes to the Special Purpose Financial Reports as at 30 June 2013

Contents of the notes to the financial statements		Page
Note 1	Significant accounting policies	SP8 - SP10
Note 2	Water Supply Business best practice management disclosure requirements	SP11 - SP12
Note 3	Sewerage Business best practice management disclosure requirements	SP13 - SP15

Note 1 Significant accounting for the year ended 30 June 2013

(continued)

A statement summarising the supplemental accounting policies adopted in the preparation of the Special Purpose Financial Statements (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 Division of Local Government. For the purposes of these statements, the Council is not a reporting not-for-profit entity.

The figures presented in these SPFS have been prepared in accordance with the recognition and measurement criteria of relevant 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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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, 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 (Special 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 \$406,000 but is less than \$2,482,000. A premium rate of 2 cents for each \$ applies where taxable value exceeds \$2,482,000.
Other Taxes for Charges	Adjusted accordingly
Payroll Tax	5.45% on salaries and wages in excess of \$689,000

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.

Income Tax

An income tax equivalent has been applied on the profits of the business activities. 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%.

Note 1 Significant accounting policies - continued

Income Tax is only applied where a gain 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 SPFR. 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.

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 2013 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

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

Note 2 Water Supply Business best practice management disclosure requirements**2013****1. Calculation and payment of tax-equivalents**

(i)	Calculated tax-equivalents	573,521
(ii)	No of assessments multiplied by \$3/assessment	93,426
(iii)	Amounts payable for tax-equivalents (lessor of (i) and (ii))	93,426
(iv)	Tax equivalents paid	0

2. 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	934,260
(iii)	Cumulative surplus before dividends for 3 years to 30 June 2013, less cumulative dividends paid for 2 years to 30 June 2012	815,000
(iv)	Maximum dividend from surplus (least of (i), (ii) and (iii))	0
(v)	Dividend paid from surplus	0

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

(i)	Complete 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) = <i>Total Income (w13)</i> - <i>Grants for Acquisition of Assets (w11a) - Interest Income (w9)</i>	\$ ('000)	20,024
NWI F4	Revenue from Residential Usage Charges (Water) = <i>Income from residential Usage Charges (w6b) x 100 / (Income from residential usage charges (w6a) + Income from residential access charges (w6b)</i>	%	73.48
NWI F9	Written Down Replacement Cost of Fixed Assets (Water) = <i>Written down current cost of system assets (w47)</i>	\$ ('000)	447,416
NWI F11	Operating Cost (OMA) (Water) = <i>Management Expenses (w1) + Operation and Maintenance Expenses (w2)</i>	\$ ('000)	10,867
NWI F14	Capital Expenditure (Water) = <i>Acquisition of fixed assets (w16)</i>	\$ ('000)	6,075
NWI F17	Economic Real Rate of Return (Water) = <i>[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)</i>	%	-0.5175
NWI F26	Capital Works Grants (Water) = <i>Grants for Acquisition of Assets (w11a)</i>	\$ ('000)	3,667

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

1. Calculation and payment of tax-equivalents

(i)	Calculated tax-equivalents	959,661
(ii)	No of assessments multiplied by \$3/assessment	85,569
(iii)	Amounts payable for tax-equivalents (<i>lessor of (i) and (ii)</i>)	85,569
(iv)	Tax equivalents paid	0

2. 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	770,121
(iii)	Cumulative surplus before dividends for 3 years to 30 June 2013, less cumulative dividends paid for 2 years to 30 June 2012	6,292,000
(iv)	Maximum dividend from surplus (<i>least of (i), (ii) and (iii)</i>)	0
(v)	Dividend paid from surplus	0

3. 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) = Total Income (s14) - Grants for Acquisition of Assets (s12a) - Interest Income (s10)	\$ ('000)	23,643
NWI F10	Written Down Replacement Cost of Fixed Assets (Sewerage) = Written down current cost of system assets (s48)	\$ ('000)	289,349
NWI F12	Operating Cost (OMA) (Sewerage) = Management Expenses (s1) + Operation and Maintenance Expenses (s2)	\$ ('000)	12,610
NWI F15	Capital Expenditure (Sewerage) = Acquisition of fixed assets (s17)	\$ ('000)	7,449
NWI F18	Economic Real Rate of Return (Sewerage) = [Total Income (s14) - Interest Income (s10) - Grants for acquisition of assets (s12a) - Operating Cost(NWI F12) - Current cost depreciation (s3)] x 100 divided by Written Down current cost (WDCC) of system assets (s48) + Plant and Equipment (s34b)	%	0.566
NWI F27	Capital Works Grants (Sewerage) = Grants for Acquisition of Assets (s12a)	\$ ('000)	-34
NWI F3	Total Income (Water & Sewerage) = Total income (w13 +s14) + Gain/loss on disposal of assets (W14+S15) - Grants for acquisition of assets (w11a + s12a) - Interest income (w9 + s10)	\$ ('000)	43,207
NWI F8	Revenue from Community Service Obligations (Water and Sewerage) = Community Service Obligations (NWI F25) x 100 divided by Total Income (NWI F3)	%	1.6502
NWI F16	Capital Expenditure (Water & Sewerage) = Acquisition of fixed assets (w16 + s17)	\$ ('000)	13,524
NWI F19	Economic Real Rate of Return (Water and Sewerage)	%	-0.094

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	%	0.00%
NWI F22	Net Debt to Equity (Water and Sewerage) = $[Overdraft\ (w36 + s37) + Borrowings\ (w38 + s39) - Cash\ and\ investments\ (w30 + s31)] \times 100$ divided by $[Total\ Assets\ (w35 + s36) - Total\ Liabilities\ (w40 + s41)]$	%	- 3.93
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)	-2,424
NWI F25	Community Service Obligations (Water and Sewerage) = Grants for pensioner rebates (w11b + s12b)	\$ ('000)	713

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.

**PORT MACQUARIE-HASTINGS COUNCIL
SPECIAL PURPOSE FINANCIAL REPORT
INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial report, being a special purpose financial report, of Port Macquarie-Hastings Council (the Council), which comprises the statement of financial position as at 30 June 2013, the income statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the statement by Councillors and Management.

Council's Responsibility for the Financial Report

The Council is responsible for the preparation of the financial report and has determined that the basis of preparation described in Note 1 to the financial statements is appropriate to satisfy the requirements of the *Local Government Act 1993* and meet the needs of the NSW Division of Local Government. The Council's responsibility also includes such internal control as the Council determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those 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 report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Council, as well as evaluating the overall presentation of the financial report.

Our audit responsibility does not extend to the best practice management disclosures in note 2 and note 3 to the financial statements, 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.

Auditor's Opinion

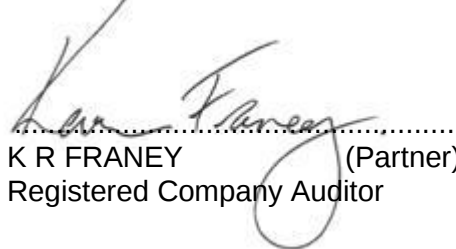
In our opinion, the special purpose financial report of Port Macquarie-Hastings Council:

- i) has been prepared in accordance with the requirements of those applicable Australian Accounting Standards detailed in note 1 and the Local Government Code of Accounting Practice and Financial Reporting;
 - a) is consistent with the Council's accounting records;
 - b) presents fairly, in all material respects, the financial position of Council's nominated Business Activities as at 30 June 2013 and the results of their operations for the year then ended;
- ii) all information relevant to the conduct of the audit has been obtained; and
- iii) there are no material deficiencies in the accounting records or financial statements that we have become aware of in the course of the audit.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the financial statements which describe the basis of accounting. The financial report has been prepared for the purpose of fulfilling the requirements of the NSW Division of Local Government. As a result, the financial report may not be suitable for another purpose.

THOMAS NOBLE & RUSSELL CHARTERED ACCOUNTANTS

A handwritten signature in dark ink, appearing to read 'K R Franey', is written over a dotted line. Below the signature, the text 'K R FRANEY (Partner) Registered Company Auditor' is printed.

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

Dated at Lismore this 31st day of October 2013.

Port Macquarie-Hastings Council

Special Schedules

for the year ended 30 June 2013

Port Macquarie - Hastings Council

Special Schedules for the year ended 30 June 2013

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Special Schedules (Not Audited)

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Port Macquarie - Hastings Council

Special Schedule No. 1

Net cost of services

for the year ended 30 June 2013

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	2,545	1		2,544
Adminstration	2,407	1,048	333	1,026
Public Order and Safety				
Fire Service Levy, Fire protection, Emergency services	1,847	442	547	858
Animal Control	213	111		102
Beach Control	586	56		530
Enforcement of Local Govt Regs	922	519		403
Other	223			223
Total Public Order and Safety	3,791	1,128	547	2,116
Health	1			1
Environment				
Noxious Plants and Insect/Vermin control	638	148		490
Other Environmental Protection	2,756	1,327	1	1,428
Solid Waste Management	16,843	18,652		-1,809
Street Cleaning	105	0		105
Drainage	2,032	746	673	613
Stormwater Management	348	0		348
Total Environment	22,722	20,873	674	1,175
Community Services and Education				
Administration & Education	1,102	9		1,093
Social Protection (welfare)	622	359	-21	284
Aged Persons and Disabled	239	47		192
Childrens Services	153	48		105
Total Community Services and Education	2,116	463	-21	1,674
Housing and Community Amenities				
Public Cemeteries	1,099	1,276		-177
Public Conveniences	816	-56	45	827
Street Lighting	1,338	121		1,217
Town Planning	2,826	1,224	137	1,465
Other Community Amenities	38	28	1,589	-1,579
Total Housing & Community Amenities	6,117	2,593	1,771	1,753

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	22,455	22,121	3,786	-3,452
Sewerage Services	23,260	21,073	3,490	-1,303
Recreation and Culture				
Public Libraries	2,491	251	71	2,169
Museums	31	0		31
Art Galleries	154	64		90
Community Centres & Halls	513	67	402	44
Performing Arts Venues	7,044	1,066		5,978
Other Performing Arts	0	0		0
Other Cultural Services	348	-1	28	321
Sporting Grounds & Venues	1,213	1	47	1,165
Swimming Pools	808	-114		922
Parks and Gardens (Lakes)	4,017	-23	668	3,372
Other Sport and Recreation	569	47	72	450
Total Recreation and Culture	17,188	1,358	1,288	14,542
Mining, Manufacturing and Construction				
Building Control	2,245	1,077		1,168
	2,245	1,077	0	1,168
Transport and Communication				
Urban Roads (UR) - Local	7,865	1,019	18,615	-11,769
Urban Roads - Regional	1,516	1,199		317
Sealed Rural Roads (SRR) - Local	4,170	-5	623	3,552
Sealed Rural Roads (SRR) - Regional	2,086	-1		2,087
Unsealed Rural Roads (URR) - Local	3,542	-7		3,549
Unsealed Rural Roads (URR) - Regional	0	0		0
Bridges Urban Roads - Local	187	0	63	124
Bridges on Sealed Rural Roads - Local	942	0		942
Bridges on Unsealed Rural Roads - Local	668	-1		669
Bridges on Regional Roads	776	0		776
Parking Areas	203	-122	14	311
Footpaths	181	41		140
Aerodromes	2,981	4,514	6,505	-8,038
Other Transport & Communication	4,262	1,809	3,290	-837
Total Transport and Communication	29,379	8,446	29,110	-8,177

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	123	403		-280
Other Economic Affairs	3,131	1,304		1,827
Total Economic Affairs	3,254	1,707	0	1,547
Totals - Functions	137,480	81,888	40,978	14,614
General Purpose Revenues (2)	-178	50,789		-50,967
Net operating result for the year (1)	137,302	132,677	40,978	-36,353

Note:

(1) As reported on the Income statement

(2) Includes:

- * Rates and annual charges (including ex-gratia but excluding water and sewer)
- * Non-capital general purpose grants
- * Interest on investments

Port Macquarie - Hastings Council

Special Schedule No. 2(a)

Statement of long-term debt (all purpose)

for the year ended 30 June 2013

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	7,236	76,948	84,184	11,000	7,512			5,430	7,463	80,209	87,672
State Government	1,135	5,904	7,039		1,135				1,135	4,769	5,904
Department of Lands	0	0	0	0					0	0	0
Total Loans	8,371	82,852	91,223	11,000	8,647	0	0	5,430	8,598	84,978	93,576
Total long term debt	8,371	82,852	91,223	11,000	8,647	0	0	5,430	8,598	84,978	93,576

Port Macquarie - Hastings Council

Special Schedule No. 2(b)

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

for the year ended 30 June 2013

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 Fund	4,737	600	0
Total long term debt	4,737	600	0

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	253	-
Property (Land purchase Toorak Circuit, Port Macquarie) - Deposit	Sewer Fund	5/07/2003	3/05/2003	10	3/05/2013	3.92%	302	38	-
Property (Land purchase Toorak Circuit, Port Macquarie)	Sewer Fund	5/07/2003	30/06/2003	10	30/06/2013	4.09%	2,427	309	-
							4,737	600	-

Port Macquarie - Hastings Council

Special Schedule No. 3
Water Supply Income Statement
(Gross including Internal Transactions)
for the year ended 30 June 2013

	Actual 2013 \$'000	Actual 2012 \$'000
A Expenses and Income		
Expenses		
1 Management Expenses		
a. Administration	2,985	2,753
b. Engineering and Supervision	926	846
2 Operation and Maintenance		
Dams and Weirs		
a. Operation expenses	129	135
b. Maintenance expenses	536	387
Mains		
c. Operation expenses	828	843
d. Maintenance expenses	709	728
Reservoirs		
e. Operation expenses	90	148
f. Maintenance expenses	355	249
Pumping Stations		
g. Operation expenses (excluding energy costs)	21	35
h. Energy Costs	872	551
i. Maintenance expenses	508	544
Treatment		
j. Operation expenses (excluding chemical costs)	592	597
k. Chemical Costs	174	212
l. Maintenance expenses	287	264
Other		
m. Operation expenses	1,195	1,173
n. Maintenance expenses	506	514
o. Purchase of Water	154	112
3 Depreciation		
a. System assets	11,258	8,526
b. Plant and equipment	230	18
4 Miscellaneous Expenses		
a. Interest expenses	770	963
b. Other expenses	488	404
NCP Tax & Other Equivalents	573	532
5 Total expenses	<u>24,186</u>	<u>20,534</u>
Income		
6 Residential charges		
a. Access (including rates)	4,283	5,372
b. Usage charges	11,865	11,370
7 Non-residential charges		
a. Access (including rates)	1,453	
b. Usage charges	1,269	
8 Extra charges	121	98
9 Interest income	2,388	1,485
10 Other income	526	1,283
11 Grants		
a. Grants for the acquisition of assets	3,667	952
b. Grants for pensioner rebates	368	364
c. Other grants		
12 Contributions		
a. Developer charges	-225	1,027
b. Developer provided assets	364	1,384
c. Other contributions		434
13 Total Income	<u>26,079</u>	<u>23,769</u>
14 Gain or (loss) on disposal of assets	<u>-143</u>	<u>-331</u>
15 Operating result	<u>1,750</u>	<u>2,904</u>
15a Operating result (less grants for acquisition of assets)	<u>-1,917</u>	<u>1,952</u>

Port Macquarie - Hastings Council

Special Schedule No. 3 (continued)
Water Supply Income Statement
(Gross including Internal Transactions)
for the year ended 30 June 2013

		Actual 2013 \$'000	Actual 2012 \$'000
B	Capital transactions		
	Non-operating expenditures		
16	Acquisition of Fixed Assets		
a.	New assets for Improved Standards	2,463	711
b.	New assets for Growth	1,246	5,374
c.	Renewals	2,342	1,149
d.	Plant and equipment	24	30
17	Repayment of Debt		
a.	Loans	1,827	1,653
18	Transfer to sinking fund		
19	Totals	7,902	8,917
	Non-operating funds employed		
20	Proceeds from the disposal of assets	0	0
21	Borrowings utilised		
a.	Loans	1,887	2,860
22	Transfer from sinking fund		
23	Totals	1,887	2,860
C	Rates and charges		
24	Number of assessments		
a.	Residential (occupied)	27,748	27,476
b.	Residential (unoccupied ie vacant lot)	733	837
c.	Non-residential (occupied)	2,526	2,486
d.	Non-residential (unoccupied ie vacant lot)	135	195
		31,142	30,994
25	Number of ET's for which developer charges were received	137	234
26	Total amount of pensioner rebates	668	662

Port Macquarie - Hastings Council

Special Schedule No. 3 (continued)

Water Supply - Cross-subsidies

for the year ended 30 June 2013

	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 2010/11 (page 47 of Guidelines)		1
 **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

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 - Statement of Financial Position

(Gross including Internal Transactions)

for the year ended 30 June 2013

	Current \$'000	Non current \$'000	Total \$'000
Assets			
30 Cash and investments			
a. Developer charges		18,100	18,100
b. Specific purpose grants	3,646		3,646
c. Accrued leave	603		603
d. Unexpended loans		1,745	1,745
e. Other	13,468	1,492	14,960
31 Receivables			
a. Specific purpose grants	497		497
b. Rates and charges	503	228	731
c. User charges	3,136	372	3,508
d. Other	977	924	1,901
32 Inventories	225		225
33 Property, plant and equipment			
a. System assets		447,416	447,416
b. Plant and equipment		2,992	2,992
34 Other Assets			0
35 Total assets	23,055	473,269	496,324
Liabilities			
36 Bank overdraft			
37 Creditors	526	3,810	4,336
38 Borrowings			
a. Loans	1,716	10,164	11,880
39 Provisions			
c. Other	1,634	118	1,752
40 Total Liabilities	3,876	14,092	17,968
41 Net assets committed	19,179	459,177	478,356
Equity			
42 Accumulated Surplus			203,917
Asset revaluation reserve			274,439
44 Total equity			478,356
Note to system assets:			
45 Current replacement cost of system assets			539,320
46 Accumulated current cost depreciation of system assets			91,904
47 Written down current cost of system assets			447,416

Port Macquarie - Hastings Council

Special Schedule No. 5

Sewerage Income Statement

(Gross including Internal Transactions)
for the year ended 30 June 2013

	Actual 2013 \$'000	Actual 2012 \$'000
A Expenses and Income		
Expenses		
1 Management Expenses		
a. Administration	1,813	1,656
b. Engineering and Supervision	1,097	850
2 Operation and Maintenance		
Mains		
a. Operation expenses	138	139
b. Maintenance expenses	632	541
Pumping Stations		
c. Operation expenses (excluding energy costs)	328	284
d. Energy Costs	624	544
e. Maintenance expenses	1,972	1,047
Treatment		
Operation expenses (excluding chemical , energy, effluent and		
biosolids management costs)	422	560
g. Chemical Costs	79	51
h. Energy Costs	1,186	1,025
i. Effluent management	225	202
j. Biosolids management	837	890
k. Maintenance expenses	1,675	1,329
Other		
l. Operation Expenses	1,542	753
m. Maintenance expenses	40	52
3 Depreciation		
a. System assets	9,343	7,079
b. Plant and equipment	50	358
4 Miscellaneous Expenses		
a. Interest expenses	1,615	1,339
b. Other expenses	1,220	1,121
NCP Tax & Other Equivalents	960	920
5 Total expenses	25,798	20,740
Income		
6 Residential charges (including rates)	17,303	16,321
7 Non-residential charges		
a. Access (including rates)	1,188	1,180
b. Usage charges	979	828
8 Trade Waste Charges	20	19
9 Extra charges	120	100
10 Interest income	1,965	2,361
11 Other income	164	213
12 Grants		
a. Grants for the acquisition of assets	-34	329
b. Grants for pensioner rebates	345	343
c. Other grants	0	3
13 Contributions		
a. Developer charges	890	1,179
b. Developer provided assets	2,634	187
c. Other contributions		
14 Total Income	25,574	23,063
15 Gain or loss on disposal of assets	-317	-45
16 Operating result	-541	2,278
16a Operating result (less grants for acquisition of assets)	-507	1,949

Port Macquarie - Hastings Council

Special Schedule No. 5 (continued)

Sewerage Income Statement

(Gross including Internal Transactions)
for the year ended 30 June 2013

		Actual 2013 \$'000	Actual 2012 \$'000
B	Capital transactions		
	Non-operating expenditures		
17	Acquisition of Fixed Assets		
a.	New assets for Improved Standards	2,143	3,486
b.	New assets for Growth	4,953	801
c.	Renewals	353	1,212
d.	Plant and equipment		70
18	Repayment of Debt		
a.	Loans	1,841	1,620
19	Transfer to sinking fund		
20	Totals	9,290	7,189
	Non-operating funds employed		
21	Proceeds from the disposal of assets		
22	Borrowings utilised		
a.	Loans	2,700	1,000
23	Transfer from sinking fund		
24	Totals	2,700	1,000
C	Rates and Charges		
25	Number of assessments		
a.	Residential (occupied)	25,706	25,461
b.	Residential (unoccupied ie vacant lot)	793	850
c.	Non-residential (occupied)	1,883	1,847
d.	Non-residential (unoccupied ie vacant lot)	141	151
		28,523	28,309
26	Number of ET's for which developer charges were received	227	259
27	Total amount of pensioner rebates	627	624

Port Macquarie - Hastings Council

Special Schedule No. 5 (continued)

Sewerage - Cross-subsidies

for the year ended 30 June 2013

	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 subsidies.		
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 2010/2011 (page 47 of Guidelines)		7
 ** 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)		7

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 - Statement of Financial Position

(Gross including Internal Transactions)

for the year ended 30 June 2013

	Current \$'000	Non current \$'000	Total \$'000
Assets			
31 Cash and investments			
a. Developer charges		10,153	10,153
b. Specific purpose grants			
c. Accrued leave	506		506
d. Unexpended loans		1,300	1,300
e. Sinking fund			
f. Other	19,826		19,826
32 Receivables			
a. Specific purpose grants	1,344		1,344
b. Rates and charges	799	371	1,170
c. User charges	18		18
d. Other	725		725
33 Inventories	4		4
34 Property, plant and equipment			
a. System assets		289,349	289,349
b. Plant and equipment		184	184
35 Other Assets			
36 Total assets	23,222	301,357	324,579
Liabilities			
38 Creditors	492	3,337	3,829
39 Borrowings			
a. Loans	2,142	26,598	28,740
40 Provisions			
c. Other	1,316	106	1,422
41 Total Liabilities	3,950	30,041	33,991
42 Net assets committed	19,272	271,316	290,588
Equity			
43 Accumulated Surplus			162,261
44 Asset revaluation reserve			128,327
45 Total equity			290,588
Note to system assets:			
46 Current replacement cost of system assets			379,000
47 Accumulated current cost depreciation of system assets			89,651
48 Written down current cost of system assets			289,349

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 2013 \$'000

Asset class	Asset category (as determined by Council)	Depn Expense % (specific rate or range of rates)	Depn expense \$'000	Valuation \$'000	Accum Depreciation, Amortisation and Impairment \$'000	WDV \$'000	Asset Condition (refer to details attached) (4)	Estimated cost to bring to a satisfactory standard (1) \$'000	Required annual maintenance (2) \$'000	Current annual maintenance (3) \$'000
		Per Note 1	Per Note 4	Per Note 9			Per Section 428(2d)			
Public Buildings	Infrastructure	1% to 10%	3,956	157,047	22,703	134,344	3	1,067	1,545	1,258
Public Roads	Unsealed Roads	0% to 5%	1,018	81,817	53,367	28,450	4	15,681	7,570	2,341
	Sealed Roads	0% to 2%	8,738	443,207	145,335	297,872	3	89,809	15,068	3,040
	Parking Areas	0% to 5%	195	13,942	1,997	11,945	1	2,217	314	
	Kerb & Guttering	2% - 5%	867	109,066	36,090	72,976	4	31,408	1,636	325
	Footpaths	2% - 5%	175	20,676	8,874	11,802	4	4,263	367	401
	Bridges	1% - 2%	855	88,103	13,574	74,529	3	16,977	991	435
	Culverts	1% - 2%	579	66,791	21,325	45,466	3	18,240	751	17
	Earthworks	0%		347,489	245	347,244		3,014	227	453
	Signs	10%					5	6,172	356	150
	Total - Roads		12,427	1,171,091	280,807	890,284	4	187,781	27,280	7,162
Water	Infrastructure	1.25% to 10%	10,870	505,643	90,904	414,739	3-4	1,980	5,200	2,901
Sewerage	Infrastructure	1.25% to 10%	9,102	340,779	87,921	252,858	3	0	4,319	4,319
Stormwater Drainage	Infrastructure	1.25% to 10%	1,694	132,294	53,894	78,400	3.78	17,052	1,694	746
Flood Mitigation	Infrastructure	1.25% to 10%	385	30,725	11,340	19,385	3		385	19
Total classes	Total – all assets		38,434	2,337,579	547,569	1,790,010		207,880	40,423	16,405

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.



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