



DRAFT

**ANNUAL FINANCIAL
STATEMENTS**

Year Ending 30 June 2012

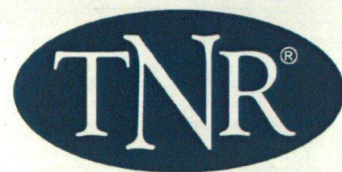
PART A

AUDITOR'S REPORTS

Ballina Shire Council

Report to Council under s417 of
the Local Government Act 1993

30 June 2012



Thomas
Noble &
Russell

Accountants | Auditors | Business Advisers



CONTENTS

| | | |
|-----|---|------|
| 1. | COUNCIL'S FINANCIAL REPORTING REQUIREMENTS | iii |
| 2. | AUDITOR'S RESPONSIBILITIES | iv |
| 3. | CONSOLIDATED OPERATING RESULT | v |
| 3.1 | Analysis of Operating Result Before Capital | v |
| 3.2 | Analysis of Income Sources | vii |
| 3.3 | Capital Revenue | viii |
| 4. | BALANCE SHEET | ix |
| 4.1 | Cash and Investments | ix |
| 4.2 | Infrastructure, Property, Plant and Equipment (IPP&E) | x |
| 4.3 | Loans Liability | xii |
| 5. | KEY FINANCIAL PERFORMANCE INDICATORS | xiii |
| 6. | INTERNAL CONTROL ENVIRONMENT | xix |



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 2012 financial year are:

- Water fund operations
- Sewer fund operations
- Quarry operations
- Aerodrome operations
- Wigmore Arcade
- Land development
- Commercial waste
- Private works

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, 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 415 (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 beneficial audit. The following section of this report provides an understanding of Council's financial position as at 30 June 2012, its performance for the year then ended, its cash flows and other material financial matters.

3. CONSOLIDATED OPERATING RESULT

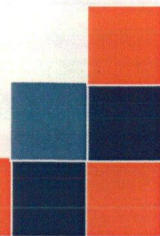
Council's surplus from all activities for 2012 was \$12,570,000. This compares to a surplus in 2011 of \$18,566,000. This result can be summarised as follows:-

| | 2010 \$'000 | 2011 \$'000 | 2012 \$'000 |
|---|----------------|----------------|----------------|
| Revenues from continuing operations | 57,858 | 59,620 | 63,473 |
| Expenses from continuing operations | (48,132) | (47,004) | (52,399) |
| Result from continuing operations before depreciation | 9,726 | 12,616 | 11,074 |
| Less: Depreciation expense | (14,429) | (19,658) | (21,701) |
| Result from continuing operations before capital amounts | (4,703) | (7,042) | (10,627) |
| Capital grants and contributions | 10,375 | 24,045 | 22,699 |
| Fair value gains / (losses) on investments | 1,641 | 747 | 34 |
| Increase in the fair value of investment properties | - | 2,567 | - |
| Gain on recognition of interest-free loans | 4,142 | - | - |
| Gain / (loss) on disposal of assets | (347) | (1,751) | 464 |
| Gains / (loss) on disposal of assets from discontinued operations | (7,378) | - | - |
| Surplus / (Deficit) from all activities | 3,730 | 18,566 | 12,570 |

3.1 Analysis of Operating Result Before Capital

Council has recorded a deficit from continuing operations before capital and other items of \$10,627,000 which has increased by \$3,585,000 from 2011. Some of the material components contributing to the increased deficit include:

| Account | Increase / (Decrease) \$'000 | Reason for Increase / Decrease |
|----------------|------------------------------------|---|
| REVENUE | | |
| Ordinary rates | 1,008 | General rates revenue increased as a result of Council receiving approval for a rate variation of 6.1% for the 2012 year. |
| Annual charges | 2,640 | Revenue from annual charges increased by 14% resulting from an increase in Sewer charges of 14.5%, Water charges 10% and Domestic Waste Management charges up to 17.6% from the prior year. |



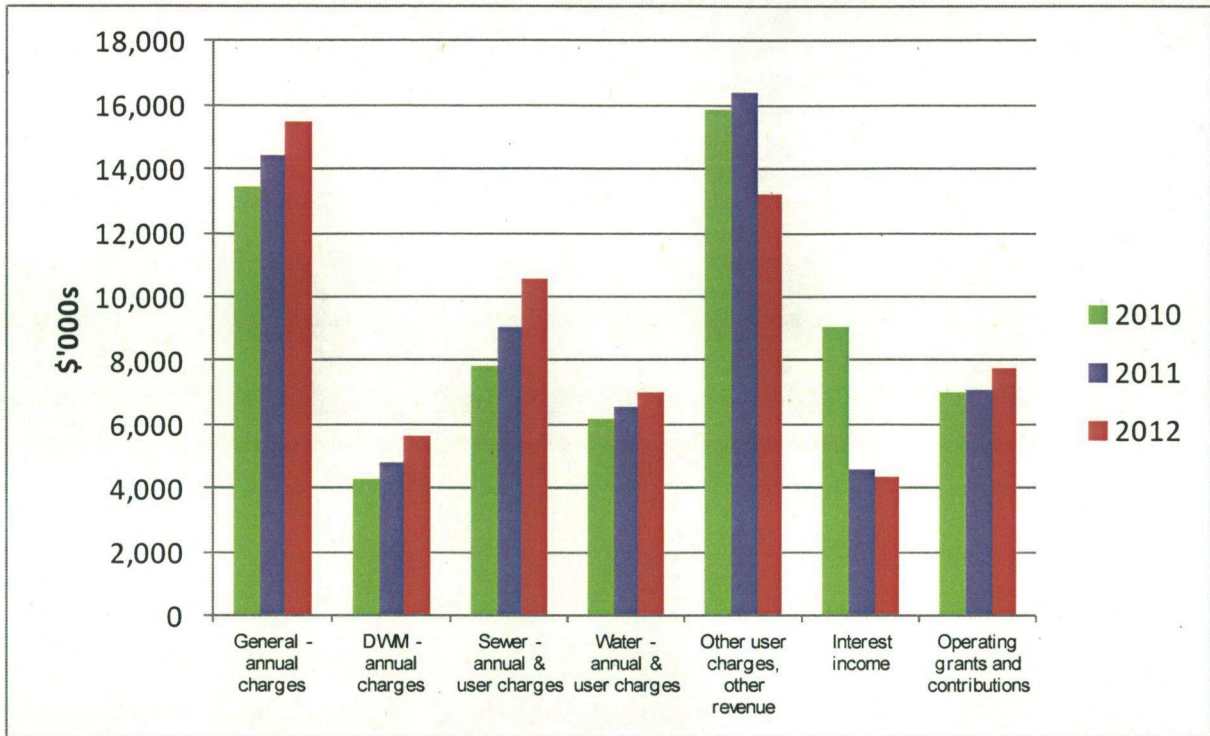
| Account | Increase / (Decrease) \$'000 | Reason for Increase / Decrease |
|-----------------------------|------------------------------------|---|
| User charges | (534) | Revenue from user charges was lower by 8% largely due to reduced revenue generated by Waste Management. This decrease resulted from a reduction in tip gate fees as well as the sale of the bulk (skip bin) waste removal business during the year which has eliminated a revenue stream. |
| Aerodrome Fees | 756 | Landing fees received from the airline carriers have increased by 22% arising from recent reviews of their operating contracts combined with additional passengers compared to the prior period. |
| Quarries Revenue | (310) | Quarries revenue has fallen by 113% from the previous year which was high as a consequence of major works completed on the Ballina By-pass in the 2011 year. |
| Legal Fees Recovered | (513) | The 2011 year included a significant sum received by Council in defending a claim relating to the validity of zoning of land stock. There were no notable amounts received in the 2012 year. |
| EXPENSES | | |
| Borrowing costs | 1,228 | The increase in borrowing costs is reflective of the increase in borrowings, particularly in relation to the sewer fund. |
| Raw materials & consumables | 4,478 | Expenditure relating to materials and contracts increased significantly from the prior year. The underlying reason for the increase is the significant amount of sewer maintenance undertaken during the 2012 year as well as higher water purchase costs. |
| Legal expenses | (632) | Legal expenses incurred have decreased by 82% from 2011. Legal expenses can fluctuate from year to year. |

| Account | Increase / (Decrease) \$'000 | Reason for Increase / Decrease |
|-----------------------------|------------------------------------|--|
| Depreciation & Amortisation | 2,043 | <p>In 2011 Council engaged an independent valuer to revalue its buildings. As part of this valuation, the replacement cost of these assets increased and the useful lives of buildings were reassessed and decreased, in the most part, by 10 years. As a result, these changes have impacted the depreciation of specialised buildings for the 2012 year by an estimated \$1,100k. Another item contributing to the increase in the depreciation expense of specialised buildings was the completion of the Lennox Head Community Centre.</p> <p>The depreciation expense for road, bridges and footpaths also increased by \$570k from the prior year.</p> |

3.2 Analysis of Income Sources

| | 2010 \$'000 | 2011 \$'000 | 2012 \$'000 |
|--|----------------|----------------|----------------|
| General – rates and annual charges | 13,429 | 14,416 | 15,451 |
| DWM - annual charges | 4,322 | 4,804 | 5,631 |
| Sewer - annual & user charges | 7,810 | 9,058 | 10,597 |
| Water - annual & user charges | 6,192 | 6,531 | 6,993 |
| Sub - total | 31,753 | 34,809 | 38,672 |
| Other user charges, other revenue | 15,859 | 16,428 | 13,190 |
| Interest income | 9,032 | 4,580 | 4,365 |
| Operating grants and contributions | 6,997 | 7,117 | 7,744 |
| Total income from continuing operations before profit from disposal of assets and capital grants | 63,641 | 62,934 | 63,507 |

Income Sources



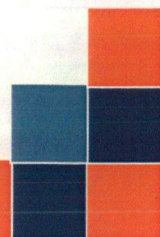
Council must generate sufficient revenue to enable it to satisfy ratepayer expectations, replace or improve its infrastructure and achieve its strategic goals. The above graph illustrates that revenue is trending upwards so that Council can continue to satisfy its community and statutory obligations.

3.3 Capital Revenue

Grants and Contributions

Capital grants received during the year amounted to \$3,173,000 whilst capital contributions received totalled \$19,526,000. Capital contributions comprised the following:

| | 2010 \$'000 | 2011 \$'000 | 2012 \$'000 |
|--------------------------------------|----------------|----------------|----------------|
| Section 94 contributions | 1,552 | 2,637 | 1,372 |
| Section 64 contributions | 882 | 2,677 | 1,001 |
| Roadworks | 650 | 859 | 557 |
| RMS contributions | 1,641 | 553 | 2,178 |
| Non cash dedications from developers | 4,007 | 16,189 | 14,173 |
| Other contributions | 611 | 482 | 245 |
| | <u>9,343</u> | <u>23,397</u> | <u>19,526</u> |



The downturn in economic activity has contributed to a reduction in Section 94 and 64 contributions as well as developer dedications transferred to Council on the completion of a development. Developer asset dedications received during the 2012 financial year comprised the following infrastructure:

| | \$'000 |
|---------------------------|--------|
| Roads infrastructure | 7,809 |
| Sewer infrastructure | 1,049 |
| Stormwater infrastructure | 1,757 |
| Water infrastructure | 1,027 |
| Land under roads | 2,531 |

4. BALANCE SHEET

We provide commentary on some of the material assets and liabilities appearing on Council's balance sheet as at 30 June 2012.

4.1 Cash and Investments

At balance date Council had \$78,985,000 in cash and investments. Council's cash and investments consist of:

| | 2011 \$'000 | 2012 \$'000 |
|--------------------------------|----------------|----------------|
| Cash on hand and at bank | 848 | 2,099 |
| Deposits at call | 2,334 | 1,172 |
| Short term deposits | 4,000 | 24,000 |
| Financial assets at fair value | 22,921 | 18,714 |
| Held to maturity investments | 26,777 | 33,000 |
| | 56,880 | 78,985 |

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

| | 2011 \$'000 | 2012 \$'000 |
|-----------------------|----------------|----------------|
| Externally restricted | 36,640 | 56,361 |
| Internally restricted | 18,270 | 21,527 |
| Unrestricted | 1,970 | 1,097 |
| | 56,880 | 78,985 |



Externally Restricted Cash

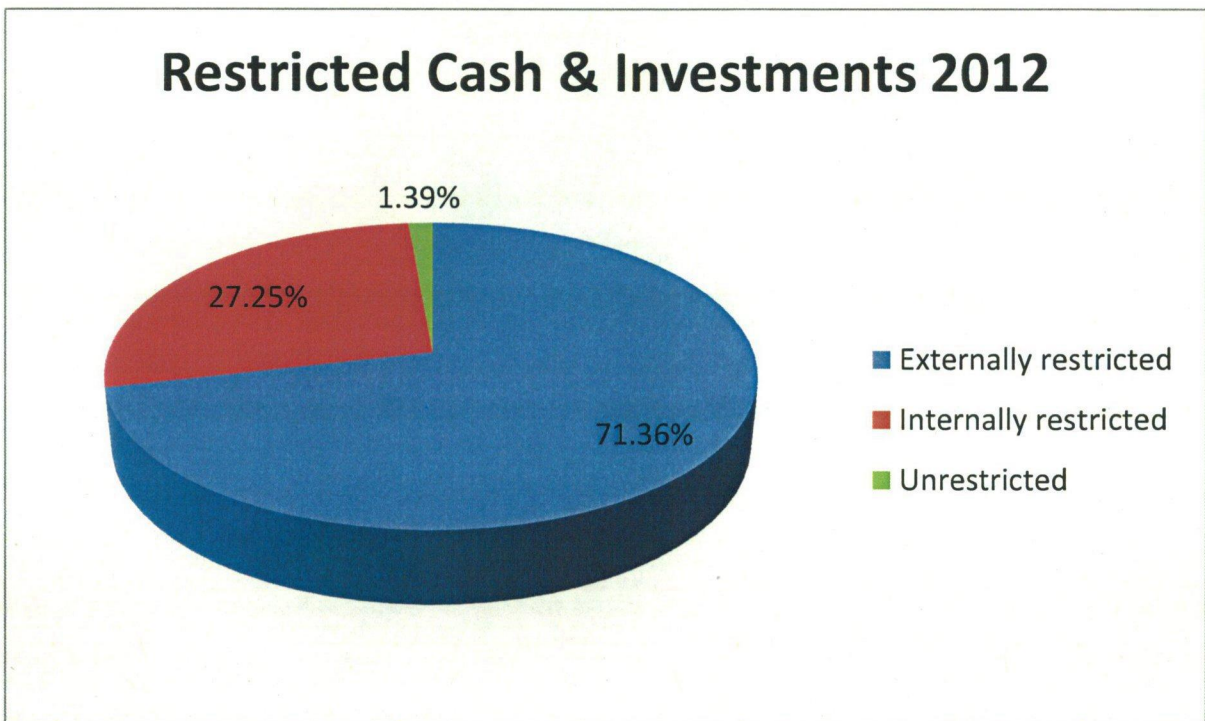
Externally restricted cash consists of unspent monies such as developer contributions, grants and contributions as well as water and sewer funds. These funds are limited in their use under legislation or specific funding agreements and are not available for general Council operations.

Internally Restricted Cash

Internally restricted reserves are tied to specific Council projects under Council resolution and are generally not available to fund day-to-day operations.

Unrestricted Cash

The above table illustrates that Council has approximately \$1,097,000 unrestricted cash at balance date. This money is used to conduct Council's day-to-day operations.



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

4.2 Infrastructure, Property, Plant and Equipment (IPP&E)

The largest asset or liability appearing on Council's balance sheet 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 in excess of \$1billion.

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

| | 2010 \$'000 | 2011 \$'000 | 2012 \$'000 |
|---|----------------|----------------|----------------|
| Non-cash developer dedications | | | |
| Roads and Drainage Network | 2,360 | 11,185 | 9,566 |
| Water Supply Network | 598 | 1,658 | 1,027 |
| Sewerage Network | 1,048 | 2,954 | 1,049 |
| Buildings | - | 392 | - |
| Land Under Roads | - | - | 2,531 |
| Council constructed / purchased assets | | | |
| Land, Buildings and Other Structures | 6,321 | 9,661 | 4,495 |
| Plant and Equipment | 1,001 | 1,257 | 2,411 |
| Bridges, Roads and Drainage Network | 5,816 | 12,408 | 9,971 |
| Water Supply Network | 343 | 794 | 694 |
| Sewerage Network | 6,621 | 9,875 | 27,831 |
| Land Under Roads | - | 1,696 | - |
| | <u>24,108</u> | <u>51,880</u> | <u>59,575</u> |

Council Constructed / Purchased Additions

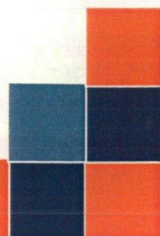
The material assets constructed or purchased by Council during the financial year were:

- Land
In 2012 Council purchased land for the establishment of the Wollongbar Sportsfield at a cost of approximately \$1.5 million.
- Bridges, Roads, Drainage
During the year Council finalised the construction of the Teven Bridges.
- Sewerage Network
Sewerage network capital expenditure relates to sewerage treatment plants being constructed at Lennox Head and Ballina.

Asset Revaluations 2012

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

During the year Council revalued water and sewer infrastructure assets. This revaluation process, together with fair value indexing to other infrastructure assets has resulted in the asset revaluation reserve increasing by \$90 million.



Prior Period Adjustment

During the 2012 revaluation process, Council identified an error in the valuation methodology used for sewer pipes resulting in the carrying value being understated by \$35 million. As required by Australian Accounting Standards, Council has identified and described this error at Note 20 to the general purpose financial statements and adjusted comparative information where necessary.

Reassessment of Asset Useful Lives

The revaluation process included a reassessment of water and sewer infrastructure remaining useful lives and residual values. This reassessment has had the effect of reducing depreciation in future years by approximately \$396,000 for water and \$1,487,000 for sewer. Note 1 to the financial report provides details.

Asset Management

Infrastructure, property, plant and equipment represent the largest asset group on the Council's balance sheet. The management of infrastructure, property, plant and equipment is an important part of Council's objectives. To ensure Council is able to manage its large infrastructure portfolio it is important that it continues to develop asset management systems and associated resources so that revenue and borrowings are utilised effectively and efficiently and integrated strategic planning goals are achieved.

4.3 Loans Liability

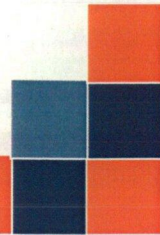
Council has total borrowings at balance date of \$67,675,000 increasing from \$24,468,000 in 2011. The total loan liability at balance date is attributable to the Council's operating funds as follows:

| | 2010 \$'000 | 2011 \$'000 | 2012 \$'000 |
|--------------|----------------|----------------|----------------|
| General | 16,775 | 18,196 | 16,498 |
| Sewer | 6,939 | 6,265 | 51,173 |
| Water | 11 | 7 | 4 |
| Total | 23,725 | 24,468 | 67,675 |

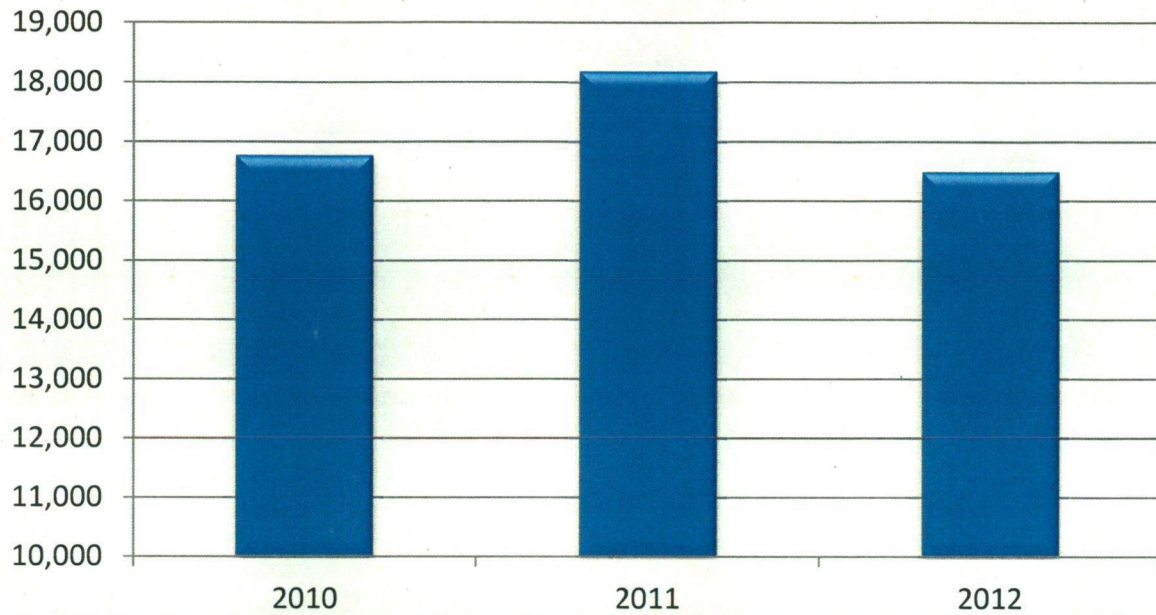
During the 2012 financial year, Sewer Fund borrowed \$45,418,587 to fund the construction of the Lennox Head and Ballina Sewerage treatment plants.

Debt totalling \$2,825,465 was repaid by all funds during the financial year and Council is projecting to repay a further \$3,095,457 in principal in the 2013 financial year.

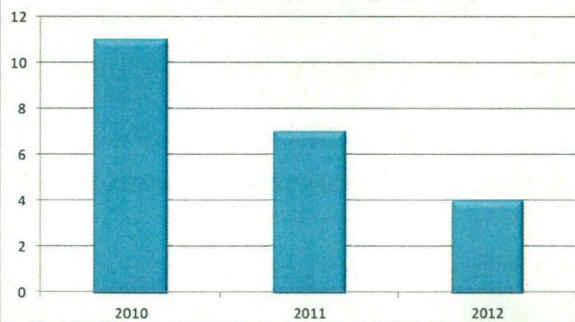
The graphs below provide an understanding of the movement in borrowings for General, Sewer and Water funds over the past three years.



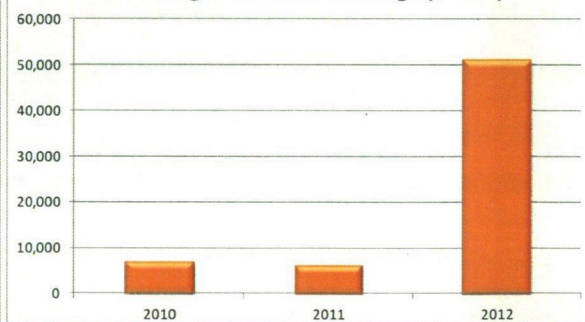
General Fund Borrowings (\$'000)



Water Fund Borrowings (\$'000)



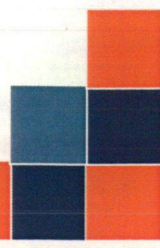
Sewerage Fund Borrowings (\$'000)



5. 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.



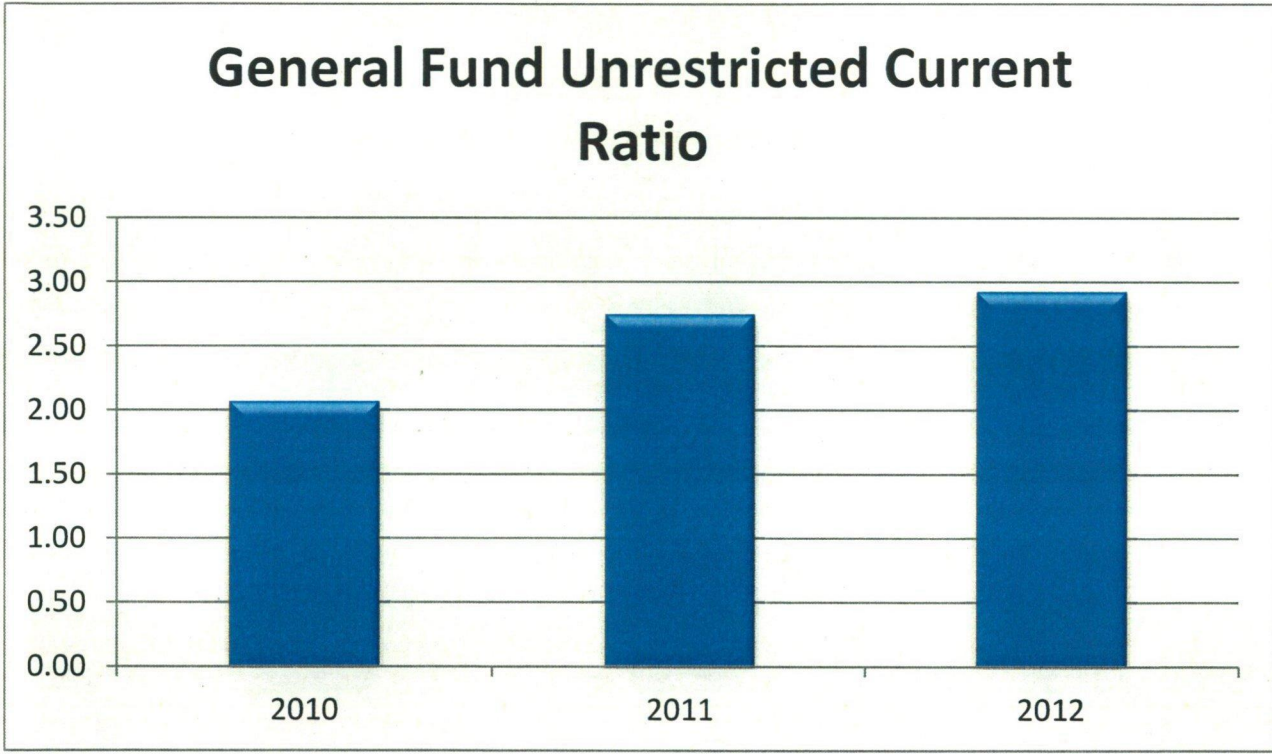
Unrestricted Current Ratio

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
- Credit management policies and economic circumstances

General Fund Unrestricted Current Ratio



The general fund unrestricted current ratio has increased from 2.75 as at 30 June 2011 to 2.90 at balance date 2012. This means that Council has \$2.90 in liquid current assets for every \$1 of current liabilities.

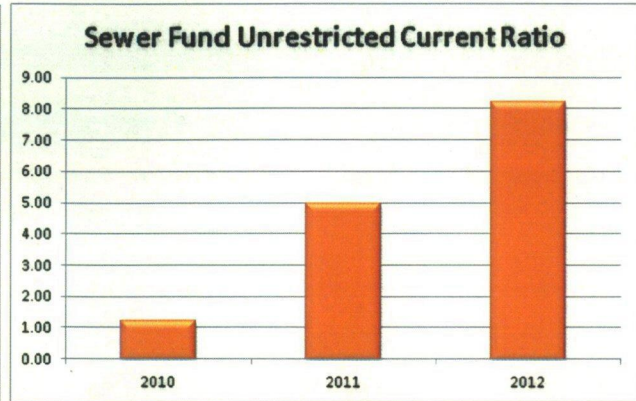
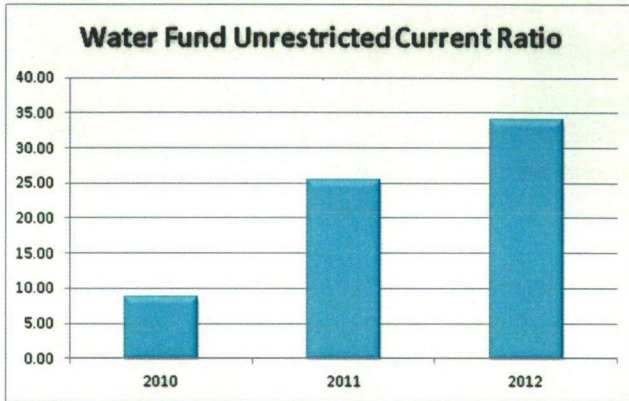
An unrestricted current ratio of at least 1.5 is considered to be an appropriate level to allow Council to satisfy its day-to-day commitments and absorb any unforeseen expenses or reductions in revenue.



Sewer and Water Fund Unrestricted Current Ratio

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

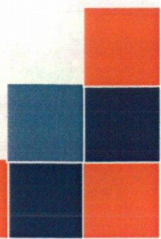
The water fund unrestricted current ratio has increased from 25.5 to 33.96 and the sewer fund unrestricted current ratio has increased from 4.98 to 8.19.



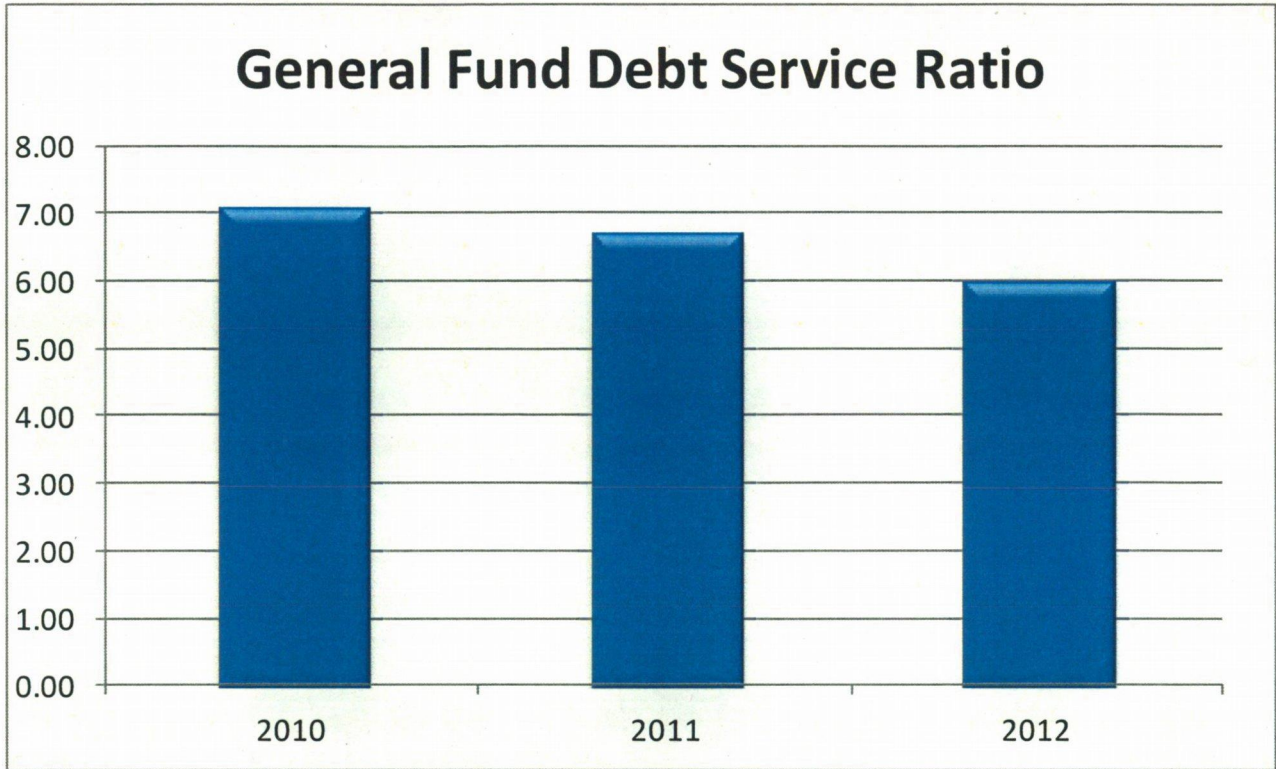
Debt Service Ratio

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

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



General Fund Debt Service Ratio

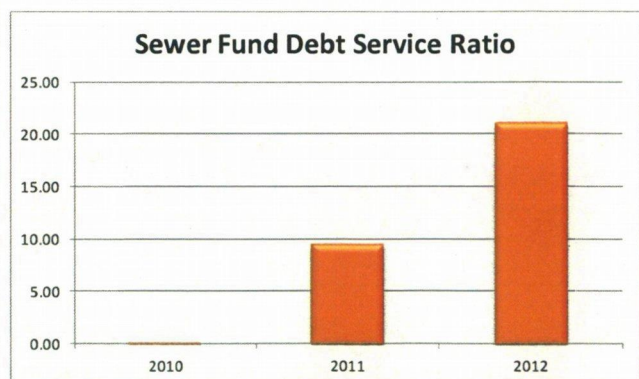
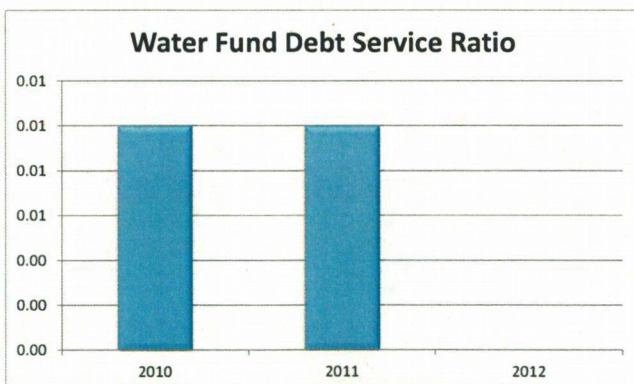


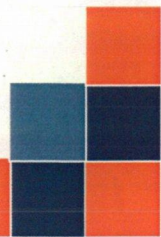
The above graph illustrates the fall in Council's general fund debt service levels over the past three years as Council repays recent borrowings and income from operating activities increases. It is anticipated that the general fund debt service ratio will increase markedly in the 2013 and future years based on planned borrowings for various infrastructure construction.

The current general fund debt service ratio is acceptable for a council with high population growth and corresponding infrastructure needs.

Sewer and Water Fund Debt Service Ratio

Water and sewer fund debt service ratios have remained low for 2012. The debt service ratio for sewer fund will increase in 2013 as repayment on borrowings of \$45million drawn down in 2012 commence.

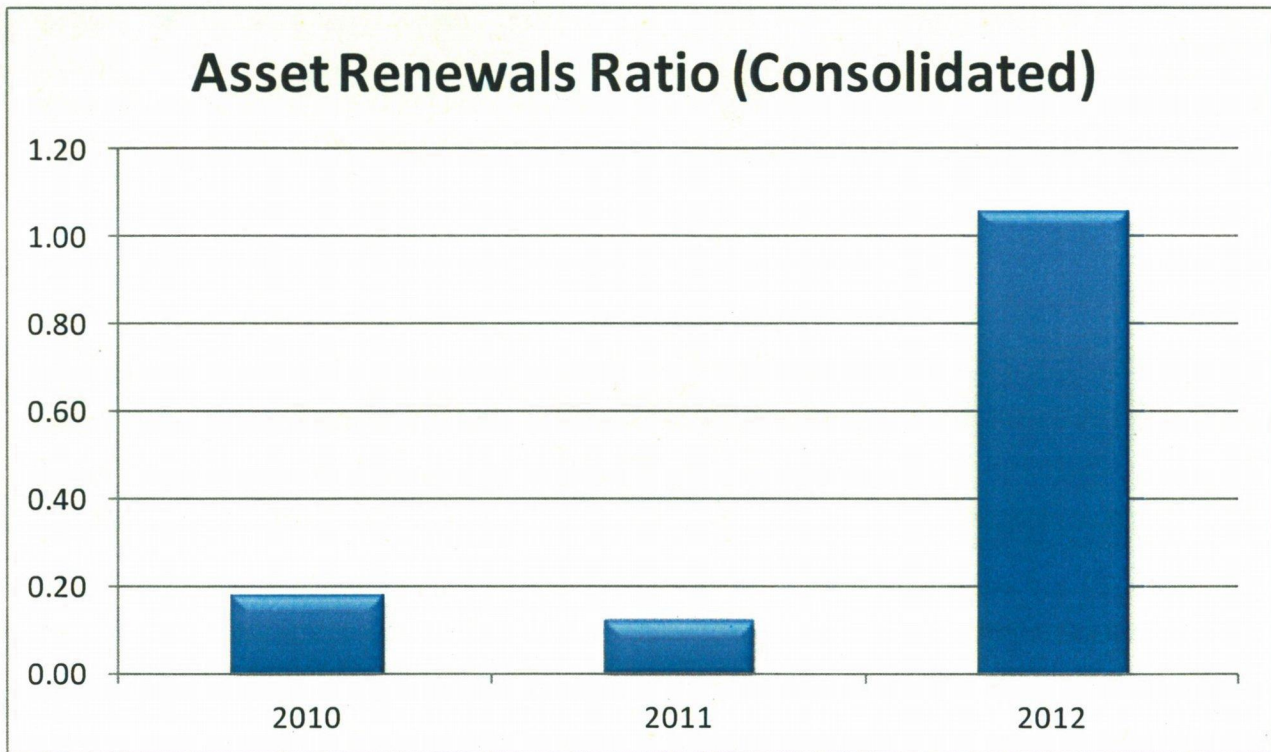




Buildings and Infrastructure Renewals Ratio

The purpose of this ratio is to assess the rate at which these assets are being renewed against the rate at which they are depreciating.

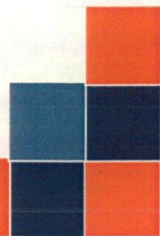
This ratio is calculated based on replacement of existing assets with assets of equivalent capacity or performance as opposed to the acquisition of new assets. It should be noted that Council has incurred expenditure during the year to increase the capacity of existing assets. By definition, this type of expenditure is not included in the asset renewal ratio to the extent of the increased capacity.



The table above shows that Council's consolidated building and infrastructure renewals ratio has improved significantly when compared to prior years however it is greatly influenced by Sewer fund asset renewal expenditure. When analysed by Fund the asset renewals ratios are as follows:

| | % |
|--------------|-----|
| General Fund | 70 |
| Sewer Fund | 294 |
| Water Fund | 27 |

A buildings and infrastructure renewals ratio of less than 100% is considered to be below industry benchmarks. We understand the Council has reviewed its information systems to ensure all asset renewal expenditure is captured each year. This ratio continues to be monitored by Council's management team.

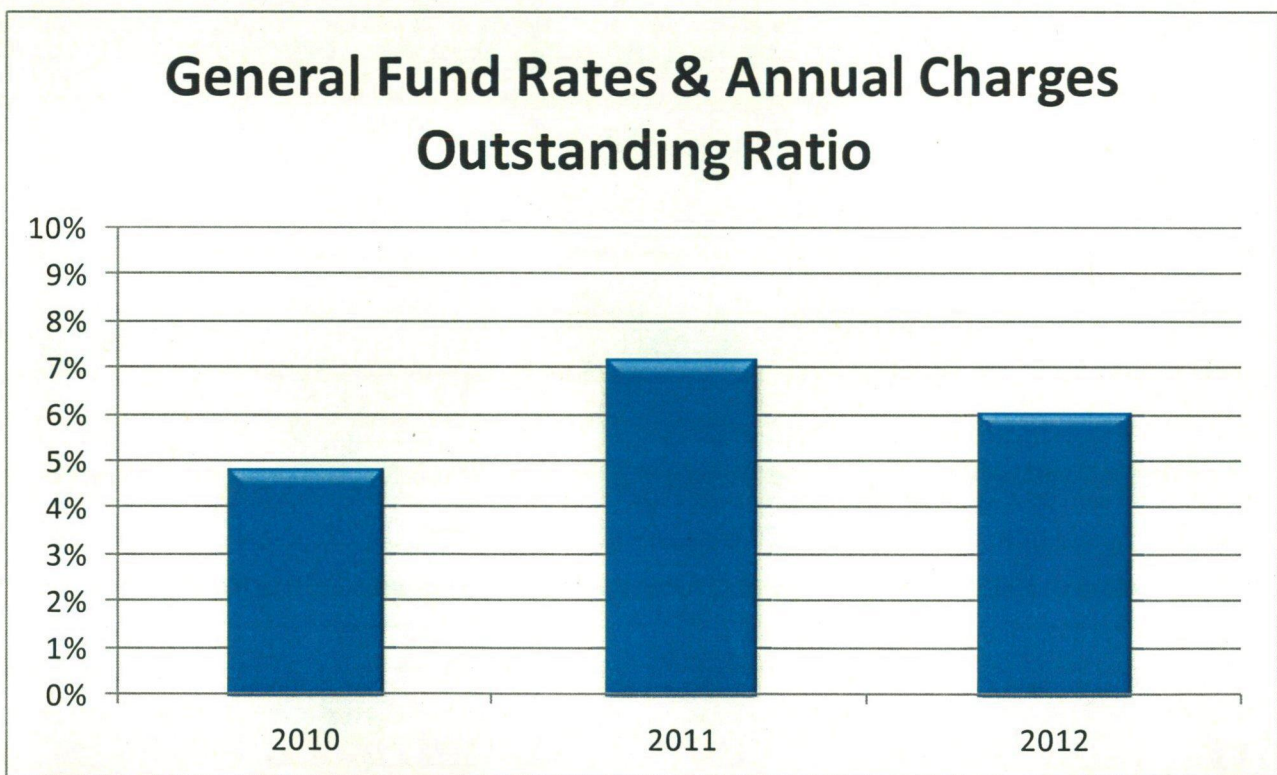


Rates and Annual Charges Outstanding Percentage

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

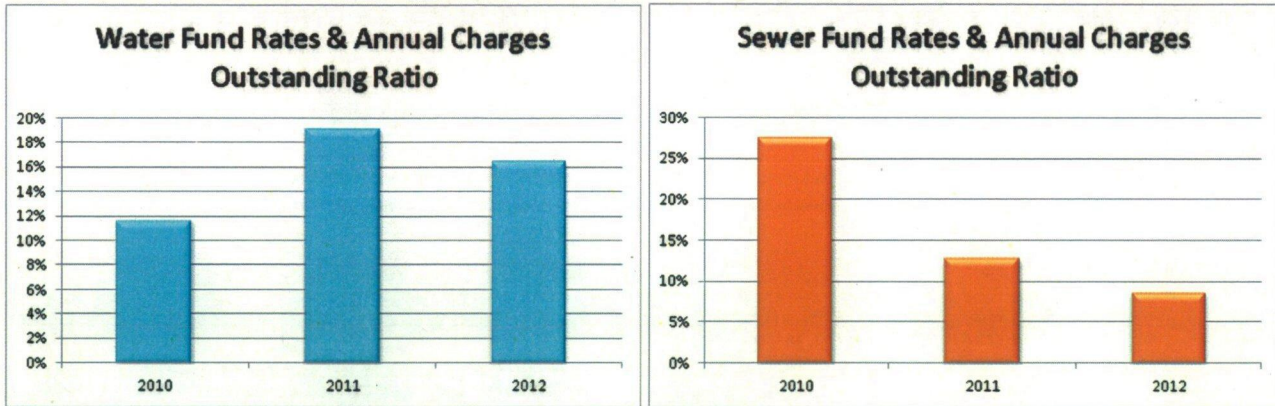
- Council's rating policy;
- Credit management policies;
- The socioeconomic characteristics of the area; and
- Environmental factors influencing ratepayers ability to satisfy their obligations.

General Fund Rates and Annual Charges Outstanding Ratio



Council's General Fund rates and annual charges outstanding has decreased slightly and this is a positive reflection of Council debt collection management practices to ensure cashflow is maximised.

Sewer and Water Fund Rates and Annual Charges Outstanding Ratio



The above graphs illustrate the rates and annual charges outstanding ratio for water and sewer funds which also reflect sound collections management.

6. INTERNAL CONTROL ENVIRONMENT

No significant breakdowns of internal control were encountered during the course of our audit nor did we become aware of the existence of items comprising material error, sufficient to cause us to issue a qualified audit opinion.

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 Council staff.

Yours faithfully

**THOMAS NOBLE & RUSSELL
CHARTERED ACCOUNTANTS**

Per:

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

25 October 2012



**BALLINA SHIRE COUNCIL
GENERAL PURPOSE FINANCIAL REPORT
INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial report of Ballina Shire Council (the Council), which comprises the balance sheet as at 30 June 2012, 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.

XX

| | | |
|---|--|--|
| 31 Keen Street (PO Box 106) Lismore NSW 2480 | Email: enquiries@tnr.com.au Phone: Business Services +61 (0)2 6621 8544 Audit & Assurance +61 (0)2 6626 3000 | Website: www.tnr.com.au Facsimile: +61 (0)2 6621 9035 |
|---|--|--|

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



Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the general purpose financial report of Ballina Shire Council for the year ended 30 June 2012 published in the annual report and included on Council's website. The Council is responsible for the integrity of the website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

Independence

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

Auditor's Opinion

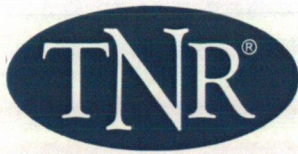
In our opinion:

- 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 2012, the results of its operations and its cash flows for the year then ended; and
 - iv. are in accordance with applicable Accounting Standards, Interpretations and other mandatory professional reporting requirements in Australia;
- c) all information relevant to the conduct of the audit has been obtained; and
- d) there are no material deficiencies in the accounting records or financial report that have come to light during the course of the audit.

**THOMAS NOBLE & RUSSELL
CHARTERED ACCOUNTANTS**

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

Dated at Ballina this 25th day of October 2012



**BALLINA SHIRE COUNCIL
SPECIAL PURPOSE FINANCIAL REPORT
INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial report, being a special purpose financial report, of Ballina Shire Council (the Council), which comprises the balance sheet as at 30 June 2012, 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.



Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the special purpose financial report of Ballina Shire Council for the year ended 30 June 2012 included on Council's website. The Council is responsible for the integrity of the website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

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 Ballina Shire 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 2012 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 describes 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

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

Dated at Ballina this 25th day of October 2012.



15 October 2012

Mayor and Councillors
Ballina Shire Council
P O Box 450
BALLINA NSW 2478

Dear Councillors

We advise that we have completed our audit of the Council's general purpose and special purpose financial reports for the year ended 30 June 2012.

In accordance with section 417 of the Local Government Act 1993, we now report on the conduct of the audit.

Yours faithfully
THOMAS NOBLE & RUSSELL

Per:

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

PART B

GENERAL PURPOSE STATEMENTS

BALLINA SHIRE COUNCIL
GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30th June 2012

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| General purpose financial statements | |
| Statement by Councillors and Management | 1 |
| Income statement | 2 |
| Statement of comprehensive income | 3 |
| Balance sheet | 4 |
| Statement of changes in equity | 5 |
| Statement of cash flows | 6 |
| Notes to the financial statements | N1 - N47 |
| Auditor's reports | i - xxi |

These financial statements are general purpose financial statements of Ballina Shire Council and its controlled entities and are presented in the Australian currency.

Ballina Shire Council is constituted under the Local Government Act (1993) and has its principal place of business at:

Ballina Shire Council
Cnr Cherry and Tamar Streets
Ballina NSW 2478

The financial statements are authorised for issue by the Council on 25 October 2012. Council has the power to amend and reissue the financial statements.

Through the use of the internet, we have insured that our reporting is timely, complete, and available at minimum cost. The financial statements and other information is available on our website:

www.ballina.nsw.gov.au

BALLINA SHIRE COUNCIL

GENERAL PURPOSE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

STATEMENT BY COUNCILLORS AND MANAGEMENT MADE PURSUANT TO SECTION 413 (2)(c) OF THE LOCAL GOVERNMENT ACT 1993 (as amended)

The attached General Purpose Annual Financial Statements have been drawn up 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
- Accord with Council's accounting and other records

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

Signed in accordance with a resolution of Council made on Thursday 25 October 2012.

.....
Cr David Wright

MAYOR

.....
COUNCILLOR

.....
Paul Hickey

GENERAL MANAGER

.....
Peter Morgan

RESPONSIBLE ACCOUNTING OFFICER

BALLINA SHIRE COUNCIL

INCOME STATEMENT for the year ended 30th June 2012

| Budget (1) 2012 \$'000 | | Notes | Actual 2012 \$'000 | Actual 2011 \$'000 |
|--|--|--------|--------------------------|--------------------------|
| INCOME FROM CONTINUING OPERATIONS | | | | |
| <i>Revenue:</i> | | | | |
| 33,053 | Rates and annual charges | 3(a) | 33,273 | 29,625 |
| 16,702 | User charges and fees | 3(b) | 14,582 | 14,987 |
| 3,414 | Interest and investment revenues | 3(c) | 4,365 | 4,580 |
| 3,763 | Other revenues | 3(d) | 3,543 | 6,625 |
| 5,945 | Grants and contributions provided for operating purposes | 3(e,f) | 7,744 | 7,117 |
| 11,082 | Grants and contributions provided for capital purposes | 3(e,f) | 22,699 | 24,045 |
| <i>Other Income:</i> | | | | |
| 580 | Net gain from the disposal of assets | 5 | 464 | - |
| <u>74,539</u> | Total income from continuing operations | | <u>86,670</u> | <u>86,979</u> |
| EXPENSES FROM CONTINUING OPERATIONS | | | | |
| 19,255 | Employee benefits and oncosts | 4(a) | 19,024 | 18,473 |
| 2,945 | Borrowing costs | 4(b) | 2,526 | 1,947 |
| 24,782 | Materials and contracts | 4(c) | 24,588 | 20,615 |
| 17,942 | Depreciation and amortisation | 4(d) | 21,701 | 19,658 |
| 6,078 | Other expenses | 4(e) | 6,261 | 5,969 |
| - | Net loss from the disposal of assets | 5 | - | 1,751 |
| <u>71,002</u> | Total expenses from continuing operations | | <u>74,100</u> | <u>68,413</u> |
| <u>3,537</u> | OPERATING RESULT FROM CONTINUING OPERATIONS | | <u>12,570</u> | <u>18,566</u> |
| <u>3,537</u> | NET OPERATING RESULT FOR THE YEAR | | <u>12,570</u> | <u>18,566</u> |
| Attributable to: | | | | |
| <u>3,537</u> | BALLINA SHIRE COUNCIL | | <u>12,570</u> | <u>18,566</u> |
| <u>3,537</u> | | | <u>12,570</u> | <u>18,566</u> |
| <u>(7,545)</u> | Net operating result for the year before grants and contributions provided for capital purposes | | <u>(10,129)</u> | <u>(5,479)</u> |

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

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

BALLINA SHIRE COUNCIL

STATEMENT OF COMPREHENSIVE INCOME for the year ended 30th June 2012

| | Notes | 2012 \$'000 | 2011 \$'000 |
|--|-------|-------------------|------------------|
| Net operating result for year - from income statement | | 12,570 | 18,566 |
| Other comprehensive income | | | |
| Gain on revaluation of infrastructure, property, plant & equipment | 20(b) | 88,360 | 76,620 |
| Total other comprehensive income for the year | | <u>88,360</u> | <u>76,620</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | <u>100,930</u> | <u>95,186</u> |
| Attributable to: BALLINA SHIRE COUNCIL | | <u>100,930</u> | <u>95,186</u> |
| | | <u>\$ 100,930</u> | <u>\$ 95,186</u> |

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

BALLINA SHIRE COUNCIL

BALANCE SHEET as at 30th June 2012

| | | 2012 | 2011 | 1/7/2010 |
|---|--------------|---------------------|--------------------|--------------------|
| | <u>Notes</u> | \$'000 | Restated \$'000 | Restated \$'000 |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 6(a) | 27,271 | 7,182 | 25,326 |
| Investments | 6(b) | 40,157 | 28,426 | 20,451 |
| Receivables | 7 | 9,155 | 7,502 | 9,389 |
| Inventories | 8 | 1,162 | 4,050 | 2,940 |
| Other | 8 | 157 | 557 | 539 |
| Total current assets | | <u>77,902</u> | <u>47,717</u> | <u>58,645</u> |
| Non-current assets | | | | |
| Investments | 6(b) | 11,557 | 21,272 | 27,206 |
| Receivables | 7 | 690 | 594 | 720 |
| Inventories | 8 | 2,651 | 2,456 | 2,481 |
| Infrastructure, property, plant and equipment | 9(a) | 1,022,389 | 900,603 | 793,725 |
| Investment property | 14 | 22,030 | 22,030 | 16,030 |
| Total non-current assets | | <u>1,059,317</u> | <u>946,955</u> | <u>840,162</u> |
| TOTAL ASSETS | | <u>1,137,219</u> | <u>994,672</u> | <u>898,807</u> |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Payables | 10 | 4,048 | 4,764 | 6,582 |
| Borrowings | 10 | 3,095 | 2,825 | 7,867 |
| Provisions | 10 | 7,678 | 7,575 | 7,861 |
| Total current liabilities | | <u>14,821</u> | <u>15,164</u> | <u>22,310</u> |
| Non-current liabilities | | | | |
| Payables | 10 | 459 | 1,106 | 1,373 |
| Borrowings | 10 | 64,580 | 21,643 | 15,858 |
| Provisions | 10 | 5,560 | 5,890 | 5,648 |
| Total non-current liabilities | | <u>70,599</u> | <u>28,639</u> | <u>22,879</u> |
| TOTAL LIABILITIES | | <u>85,420</u> | <u>43,803</u> | <u>45,189</u> |
| NET ASSETS | | <u>\$ 1,051,799</u> | <u>950,869</u> | <u>853,618</u> |
| EQUITY | | | | |
| Retained earnings | 20(a) | 606,166 | 593,596 | 572,965 |
| Revaluation reserves | 20(b) | 445,633 | 357,273 | 280,653 |
| TOTAL EQUITY | | <u>\$ 1,051,799</u> | <u>950,869</u> | <u>853,618</u> |

The above balance sheet should be read in conjunction with the accompanying notes.

BALLINA SHIRE COUNCIL

STATEMENT OF CHANGES IN EQUITY for the year ended 30th June 2012

| 2012 | Retained Earnings | Asset Reval. Reserve | Council Equity Interest | Total |
|---|-------------------|----------------------|-------------------------|-----------|
| | Note \$'000 | | | |
| Balance at end of previous reporting period | 20 557,588 | 357,273 | 914,861 | 914,861 |
| Effect of correction of errors in previous years on retained earnings | 20 36,008 | | 36,008 | 36,008 |
| Restated opening balance | 20 593,596 | 357,273 | 950,869 | 950,869 |
| Net operating result for the year | 12,570 | | 12,570 | 12,570 |
| Other comprehensive income | | | | |
| Revaluation of infrastructure, property, plant & equipment | 20 - | 88,360 | 88,360 | 88,360 |
| Total other comprehensive income | 20 - | 88,360 | 88,360 | 88,360 |
| Balance at end of the reporting period | 20 606,166 | 445,633 | 1,051,799 | 1,051,799 |
| | Note \$'000 | | | |
| | Retained Earnings | Asset Reval. Reserve | Council Equity Interest | Total |
| 2011 | Note \$'000 | | | |
| Balance at end of previous reporting period | 20 499,755 | 280,653 | 780,408 | 780,408 |
| Effect of correction of errors in previous years on retained earnings | 20 39,267 | | 39,267 | 39,267 |
| Restated opening balance | 20 539,022 | 280,653 | 819,675 | 819,675 |
| Net Operating Result for the year | 18,566 | | 18,566 | 18,566 |
| Other comprehensive income | | | | |
| Revaluation of infrastructure, property, plant & equipment | 20 - | 76,620 | 76,620 | 76,620 |
| Total other comprehensive income | 20 - | 76,620 | 76,620 | 76,620 |
| Balance at end of the reporting period | 20 557,588 | 357,273 | 914,861 | 914,861 |

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

BALLINA SHIRE COUNCIL

STATEMENT OF CASH FLOWS for the year ended 30th June 2012

| Budget 2012 \$'000 | | <u>Notes</u> | Actual 2012 \$'000 | Actual 2011 \$'000 |
|--------------------------|---|--------------|--------------------------|--------------------------|
| | CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| | <i>Receipts</i> | | | |
| 33,053 | Rates and annual charges | | 33,814 | 29,997 |
| 16,702 | User charges and fees | | 15,010 | 16,919 |
| 3,414 | Investment revenue and interest | | 3,955 | 3,884 |
| 17,027 | Grants and contributions | | 14,465 | 17,489 |
| - | Deposits and retentions received | | 263 | - |
| 3,763 | Other | | 3,543 | 7,239 |
| | <i>Payments</i> | | | |
| (19,255) | Employee benefits and oncosts | | (19,012) | (18,693) |
| (24,782) | Materials and contracts | | (24,943) | (24,411) |
| (2,945) | Borrowing costs | | (2,241) | (1,002) |
| - | Deposits and retentions refunded | | (885) | - |
| (6,078) | Other | | (6,274) | (9,461) |
| 20,899 | Net cash provided by (or used in) operating activities | 11 | 17,695 | 21,961 |
| | CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| | <i>Receipts</i> | | | |
| 580 | Proceeds from sale of infrastructure, property, plant and equipment | | 1,248 | 289 |
| - | Proceeds from sale of real estate assets | | 6,026 | 703 |
| - | Proceeds from sale of investments | | 10,241 | 6,483 |
| - | Repayments from deferred debtors | | 78 | 114 |
| | <i>Payments</i> | | | |
| (82,483) | Purchase of infrastructure, property, plant and equipment | | (45,236) | (35,535) |
| - | Purchase of investment property | | - | (1,822) |
| (400) | Purchase of real estate assets | | (384) | (2,659) |
| - | Purchase of investments | | (12,172) | (7,777) |
| (82,303) | Net cash provided by (or used in) investing activities | | (40,199) | (40,204) |
| | CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| | <i>Receipts</i> | | | |
| 53,300 | Proceeds from borrowings and advances | | 45,419 | 3,000 |
| | <i>Payments</i> | | | |
| (3,368) | Repayments of borrowings and advances | | (2,826) | (2,901) |
| 49,932 | Net cash provided by (or used in) financing activities | | 42,593 | 99 |
| (11,472) | Net increase (decrease) in cash held | | 20,089 | (18,144) |
| 7,182 | Cash assets at beginning of reporting period | 11 | 7,182 | 25,326 |
| (4,290) | Cash assets at end of reporting period | 11 | 27,271 | 7,182 |

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

BALLINA SHIRE COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th June 2012

Contents of the notes to the financial statements

| | |
|--|-----|
| Note 1 - Summary of significant accounting policies | N1 |
| Note 2 - Functions or activities | N11 |
| Note 3 - Income from continuing operations | N13 |
| Note 4 - Expenses from continuing operations | N17 |
| Note 5 - Gain or loss from the disposal of assets | N19 |
| Note 6 - Cash, cash equivalents and investments | N20 |
| Note 7 - Receivables | N23 |
| Note 8 - Inventories and other assets | N24 |
| Note 9 - Infrastructure, property, plant and equipment | N25 |
| Note 10 - Payables, borrowings and provisions | N27 |
| Note 11 - Reconciliation of operating result to net cash movement from operating activities | N29 |
| Note 12 - Commitments | N30 |
| Note 13 - Statement of performance measures | N31 |
| Note 14 - Investment properties | N32 |
| Note 15 - Financial risk management | N33 |
| Note 16 - Material budget variations | N36 |
| Note 17 - Statement of developer contributions | N37 |
| Note 18 - Contingencies | N40 |
| Note 19 - Interests in joint ventures and associates | N41 |
| Note 20 - Revaluation reserves and retained earnings | N42 |
| Note 21 - Results by Fund | N43 |
| Note 22 - Non-current assets classified as held for sale | N45 |
| Note 23 - Events occurring after balance sheet date | N45 |
| Note 24 - Reinstatement, rehabilitation and restoration liabilities | N46 |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2012

Note 1 – Summary of significant accounting policies

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

1. Basis of preparation

1.1 Compliance with Australian equivalents to International Financial Reporting Standards

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board, the NSW Local Government Act (1993) and regulations and the Local Government Code of Accounting Practice and Financial Reporting. Ballina Shire Council is a not for-profit entity for the purpose of preparing the financial statements.

1.2 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 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

1.3 Early adoption of standards

Ballina Shire Council has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

1.4 Historical cost convention

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

1.5 Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates and requires management to exercise its judgement in applying 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*

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

- (i) Estimated fair values of investment properties.
- (ii) Estimated fair values of infrastructure, property, plant and equipment.
- (iii) Estimated tip and quarry remediations.

- *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 64 and 94 commitments

Council has used significant judgement in determining future Section 64 and 94 income and expenditure in Note 17.

2. 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

Note 1 – (cont) Summary of significant accounting policies

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

2.1 Rates, annual charges, grants and contributions

Rates, annual charges, grants and contributions (including developer contributions) are recognised as revenues when the Council obtains control over the assets comprising these receipts. Developer contributions may only be expended for the purposes for which the contributions were required but the Council may apply contributions according to the priorities established in work schedules.

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

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

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.

2.2 User charges and fees

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

A provision for doubtful debts is recognised when collection in full is no longer probable.

2.3 Sale of property, infrastructure plant and equipment

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

2.4 Interest and rents

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

3. Principles of consolidation

3.1 The Consolidated Fund

As required by Section 409(1) of the Local Government Act 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.

Other joint ventures and associated entities in which Council is involved are included to the extent set out in paragraph 3.3 below and in Note 19.

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

- General purpose operations
- Water supply
- Sewerage service

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

Note 1 – (cont) Summary of significant accounting policies

3.2 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 moneys held in the Trust Fund is available for inspection at the Council Office by any person free of charge.

3.3 Joint ventures

The Council's interest in joint ventures has been recognised in the financial statements by including its share of any assets, liabilities, revenues and expenses of the joint venture within the relevant items reported in the balance sheet and income statement. Details of the joint venture are set out in Note 19.

4. Leases

Council has no finance leases.

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

5. Acquisition of assets

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

6. Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are reviewed annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For non-cash generating assets of the Council such as roads, drains, public buildings and other infrastructure – value in use is represented by the asset's written down replacement cost.

7. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

8. 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 due for settlement no more than 30 days from the date of recognition.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

Note 1 – (cont) Summary of significant accounting policies

Collectibility 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.

9. Inventories

9.1 Raw materials and stores

Inventories held in respect of stores have been valued by using the weighted average cost on a continual basis, after adjustment for loss of service potential. Inventories held in respect of business undertakings have been valued at the lower of cost and net realisable value.

9.2 Real Estate assets developments

Real Estate Assets developments have been classified as Inventory in accordance with AASB 102 and are valued at the lower of cost or net realisable value. Cost includes the costs of acquisition, development, borrowing and other costs incurred on financing of that acquisition and up to the time of sale. Any amount by which cost exceeds the net realisable value has been recognised as an expense.

Revenues arising from the sale of property are recognised in the income statement when settlement is completed. See Note 5.

10. Non-current assets held for sale and discontinued operations

Ballina Shire Council does not hold any non-current assets which are classified as held for sale.

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 separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. There are no discontinued operations presented in this set of statements.

11. Investments and other financial assets

Council classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables and held to maturity 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.

11.1 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset in this category if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the reporting date.

11.2 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 receivables (Note 7) in the balance sheet.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

Note 1 – (cont) Summary of significant accounting policies

11.3 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. 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.

11.4 Recognition and de-recognition

Purchases and sales of financial assets are recognised on trade-date – the date on which the 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 de-recognised 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.

11.5 Subsequent measurement

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

Financial assets at fair value through profit and loss are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement 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 when Council's right to receive payment is established.

11.6 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 in determining whether the security is impaired.

11.7 Investment Policy

Council has an approved investment policy complying with Section 625 of the Local Government Act and S212 of the LG (General) Regulations 2005. Investments are placed and managed in accordance with that policy and having particular regard to authorised investments prescribed under the 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 equity linked notes and sub-debt FRN's – however they have been retained under grandfathering provisions of the Order. These will be disposed of when most financially advantageous to Council.

12. Fair value estimation

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

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Council uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

Note 1 – (cont) Summary of significant accounting policies

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.

13. Infrastructure, property, plant and equipment (IPPE)

Council's assets have been progressively re-valued 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:

- Water and Sewerage Networks (Internal valuation)
- Operational land (External valuation)
- Buildings – specialised and non-specialised (External valuation)
- Other Structures (External valuation)
- Plant and equipment (as approximated by depreciated historical cost).
- Road assets – roads, bridges and footpaths (Internal valuation).
- Drainage assets (Internal valuation)
- Community land (Internal valuation)
- Land Improvements (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 revalue's the asset to that amount. Full revaluations are undertaken for all assets on a five year cycle.

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

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

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

| | |
|------------------------------|-----------------|
| Vehicles | 8 to 12 years |
| Office Furniture & Equipment | 5 to 10 years |
| Other Plant & Equipment | 5 to 15 years |
| Buildings | 50 to 100 years |
| Playground Equipment | 10 to 15 years |
| Roads | 10 to 80 years |
| Concrete Bridges | 50 to 80 years |
| Stormwater Drainage | 70 years |
| Water Network | 25 to 80 years |
| Sewerage Network | 25 to 70 years |

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

Note 1 – (cont) Summary of significant accounting policies

A reassessment of the useful life of Water and Sewerage infrastructure assets was undertaken with the revaluation of those infrastructure assets as at 30 June 2012. The change in useful life will result in the depreciation expense reported for Water and Wastewater infrastructure assets to decrease in future years. A summary of the reduced depreciation expense and the impact on the Net Operating result for the year is shown below:

| Assets | Current year (\$'000) | 2012/13 (\$'000) | Net Operating Result impact (\$'000) |
|----------|--------------------------|---------------------|---|
| Water | 2,205 | 1,809 | (396) |
| Sewerage | 4,198 | 2,711 | (1,487) |

14. Investment property

Investment property, comprising freehold land and buildings, is held for long-term capital appreciation and rental yields and is not occupied by the Council. Investment property is carried at fair value, which is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the income statement as part of other income. Full revaluations are carried out every three years with a review annually.

15. Payables

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

16. Borrowings

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

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

17. 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.

18. Provisions

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

Note 1 – (cont) Summary of significant accounting policies

19. Employee Benefits

19.1 Short term obligations

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

19.2 Other long-term employee obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees' render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the 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 reporting date on national government bonds with terms to maturity and currency that match as closely as possible, the estimated future cash outflows. Where council does not have the unconditional right to defer settlement beyond 12 months, the liability is recognised as a current liability.

19.3 Retirement benefit obligations

All employees of the Council are entitled to benefits on retirement, disability or death. Council contributes to various defined benefit plans and defined contribution plans on behalf of its employees.

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

The Local Government Superannuation Scheme has advised that, 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 to recover that deficiency. Council's share of that deficiency cannot be accurately calculated as the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils. For this reason, no liability for the deficiency has been recognised in Council's accounts. Council has, however, disclosed a contingent liability in Note 18 to reflect the possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

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

20. Rounding of amounts

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

21. Land under roads

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

Land under roads acquired after 1 July 2008 is recognised in accordance with AASB116 – Property, Plant and Equipment.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

Note 1 – (cont) Summary of significant accounting policies

22. Provisions for close down and restoration and for environmental clean up costs – Tips and quarries

22.1 Restoration

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Estimated close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the development or during the operation phase, based on the net present value of estimated future costs. Provisions for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, eg updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals.

Close down and restoration costs are a normal consequence of tip and quarry operations, and the majority of close down and restoration expenditure is incurred at the end of the life of the operations. Although the ultimate cost to be incurred is uncertain, Council estimates the respective costs based on feasibility and engineering studies using current restoration standards and techniques.

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

22.2 Rehabilitation

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

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

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

23. 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 next 12 months, being the Council's operational cycle. In the case of liabilities where Council does not have the unconditional right to defer settlement beyond 12 months, such as vested employee entitlements, 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.

24. New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2012 reporting period. Ballina Shire Council's assessment of the impact of these new standards and interpretations is set out below.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

Note 1 – (cont) Summary of significant accounting policies

- AASB 2009-11 Amendments to AASB 9 Classification of financial instruments – Affects accounting for available-for-sale financial assets, as Council does not hold any assets in the this class it has no impact on Council.
- AASB 10 Replaces all of the guidance on control and consolidation in AASB 127. Council does not expect the new standard to have a significant impact on its composition.
- AASB 11 Joint arrangements. 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. Council currently accounts for a Joint operation in this way (see Note 19) and no change is expected.
- AASB 12 Sets out the required disclosures for entities reporting under the two new standards AASB 10 & 11 and replaces the disclosures requirements currently found in AASB 127 & 128. No impact on Council.
- AASB 2011-8 Amendments to AASB 13 Fair value Measurement. (effective 1 January 2013). Council has yet to determine if any of its measurement techniques will have to change as a result of this new guidance. Council does not intend to adopt the new standard before its operative date, which means that it would first be applied in the annual reporting period ending 30 June 2014.
- AASB 2011-11 Amendments to AASB119 Employee Benefits. No impact on Council as defined assets and liabilities are not recognised for the reasons set out in Note 1 (19.3).

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.\

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

26. 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 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 balance sheet.

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

Revenue, expenses and assets are recognised net of the amount of associated GST, unless the GST

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 2 (a) - FUNCTIONS OR ACTIVITIES

| REVENUES, EXPENSES AND ASSETS HAVE BEEN DIRECTLY ATTRIBUTED TO THE FOLLOWING FUNCTIONS & ACTIVITIES | | | | | | | | | | | | | |
|---|-----------------------------------|----------------|----------------|-------------------------------------|----------------|----------------|---|----------------|----------------|---------------------------|----------------|---|----------------|
| | Income from continuing operations | | | Expenses from continuing operations | | | Operating result from continuing operations | | | Grants included in income | | Total assets held (current and non-current) | |
| | ORIGINAL BUDGET | ACTUAL | ACTUAL | ORIGINAL BUDGET | ACTUAL | ACTUAL | ORIGINAL BUDGET | ACTUAL | ACTUAL | 2012 | 2011 | 2012 | 2011 |
| | 2012 \$'000 | 2012 \$'000 | 2011 \$'000 | 2012 \$'000 | 2012 \$'000 | 2011 \$'000 | 2012 \$'000 | 2012 \$'000 | 2011 \$'000 | 2012 \$'000 | 2011 \$'000 | 2012 \$'000 | 2011 \$'000 |
| GOVERNANCE | - | - | - | 952 | 817 | 760 | (952) | (817) | (760) | - | - | - | - |
| ADMINISTRATION | 3,909 | 2,264 | 3,409 | 5,017 | 4,876 | 4,597 | (1,108) | (2,612) | (1,188) | 69 | - | 27,194 | 28,575 |
| PUBLIC ORDER AND SAFETY | 270 | 283 | 303 | 1,661 | 1,609 | 1,557 | (1,391) | (1,326) | (1,254) | 212 | 243 | 2,451 | 1,686 |
| HEALTH | 176 | 184 | 273 | 664 | 570 | 703 | (488) | (386) | (430) | - | - | 514 | 514 |
| ENVIRONMENT | 10,339 | 11,000 | 11,614 | 11,726 | 10,212 | 8,676 | (1,387) | 788 | 2,938 | 166 | 183 | 85,184 | 85,876 |
| COMMUNITY SERVICES AND EDUCATION | 45 | 117 | 132 | 515 | 936 | 691 | (470) | (819) | (559) | 60 | 101 | 9,545 | 9,817 |
| HOUSING AND COMMUNITY AMENITIES | 749 | 870 | 896 | 3,428 | 3,415 | 3,841 | (2,679) | (2,545) | (2,945) | 96 | 94 | 7,377 | 7,027 |
| WATER SUPPLIES | 9,485 | 9,234 | 9,973 | 10,620 | 10,156 | 9,544 | (1,135) | (922) | 429 | 148 | 191 | 118,895 | 102,194 |
| SEWERAGE SERVICES | 12,968 | 13,982 | 15,331 | 13,412 | 14,756 | 12,243 | (444) | (774) | 3,088 | 150 | 150 | 262,649 | 164,018 |
| RECREATION AND CULTURE | 1,347 | 3,247 | 2,312 | 5,436 | 7,087 | 6,334 | (4,089) | (3,840) | (4,022) | 2,348 | 599 | 166,287 | 164,106 |
| MINING, MANUFACTURING AND CONSTRUCTION | 1,160 | 844 | 1,348 | 1,059 | 839 | 917 | 101 | 5 | 431 | - | - | 3,224 | 3,390 |
| TRANSPORT AND COMMUNICATION | 8,830 | 17,366 | 15,130 | 13,333 | 16,481 | 16,607 | (4,503) | 885 | (1,477) | 1,175 | 432 | 407,343 | 379,701 |
| ECONOMIC AFFAIRS | 4,816 | 5,751 | 5,970 | 3,179 | 2,346 | 1,943 | 1,637 | 3,405 | 4,027 | 25 | - | 46,556 | 47,768 |
| TOTALS - FUNCTIONS | 54,094 | 65,142 | 66,691 | 71,002 | 74,100 | 68,413 | (16,908) | (8,958) | (1,722) | 4,449 | 1,993 | 1,137,219 | 994,672 |
| GENERAL PURPOSE REVENUES | 20,445 | 21,528 | 20,288 | | | | 20,445 | 21,528 | 20,288 | 4,628 | 3,650 | | |
| TOTALS | 74,539 | 86,670 | 86,979 | 71,002 | 74,100 | 68,413 | 3,537 | 12,570 | 18,566 | 9,077 | 5,643 | 1,137,219 | 994,672 |

The above functions conform to those used by the Australian Bureau of Statistics and provide a basis for comparison with other Councils.

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2012

Note 2 (b) – Components of functions or activities

Details of the functions or activities reported on in Note 2(a) are as follows:

Governance

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

Administration

Which includes corporate support and other support services.

Public order and safety

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

Health

Administration and inspection, immunisations, food control, 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, family day care, child-care, youth services, other services to families and children, aged and disabled, Aboriginal services, other community services, education.

Housing and community amenities

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

Water supplies

Sewerage services

Recreation and culture

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

Mining, manufacturing and construction

Building control, quarries and pits, other.

Transport and communication

Roads and streets, bridges, footpaths, aerodromes, parking areas, bus shelters and services, water transport, works undertaken for roads and maritime services, other.

Economic affairs

Camping areas, tourism and area promotion, industrial development promotion, markets, real estate development, investment properties, private works, other business undertakings.

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 3 - INCOME FROM CONTINUING OPERATIONS

| (a) Rates and annual charges | 2012 \$'000 | 2011 \$'000 |
|---|----------------|----------------|
| <u>Ordinary rates</u> | | |
| Residential | 10,633 | 9,925 |
| Farmland | 1,215 | 1,156 |
| Business | 2,940 | 2,699 |
| Total ordinary rates | 14,788 | 13,780 |
| <u>Annual charges (pursuant to s496, 496A, 496B, 501 & 611)</u> | | |
| Domestic waste management | 5,631 | 4,804 |
| Water supply | 2,433 | 2,158 |
| Sewerage services | 9,758 | 8,247 |
| Stormwater management | 277 | 273 |
| Other waste management services | 386 | 363 |
| Total annual charges | 18,485 | 15,845 |
| Total rates and annual charges | 33,273 | 29,625 |
| Council has used 2008 valuations provided by the NSW Valuer General in calculating its rates. | | |
| (b) User charges and fees | | |
| <u>User charges</u> | | |
| Water supply | 4,560 | 4,373 |
| Sewerage services | 839 | 811 |
| Other waste management services | 1,594 | 2,343 |
| | 6,993 | 7,527 |
| <u>Fees</u> | | |
| Private works | 116 | 214 |
| RMS works (State roads not controlled by Council) | 990 | 848 |
| Planning and building - regulatory | 871 | 1,091 |
| Plant hire | 198 | 121 |
| Aerodrome | 3,464 | 2,708 |
| Ferry tolls | 356 | 354 |
| Quarries | 275 | 585 |
| Swimming pools | 280 | 265 |
| Cemeteries | 368 | 374 |
| Other | 671 | 900 |
| | 7,589 | 7,460 |
| Total user charges and fees | 14,582 | 14,987 |
| (c) Interest and investment revenue | | |
| Interest receivable | | |
| - overdue rates and charges | 138 | 96 |
| - cash and investments | 4,193 | 3,737 |
| Fair value adjustments - investments | 34 | 747 |
| Total interest and investment revenue | 4,365 | 4,580 |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 3 - INCOME FROM CONTINUING OPERATIONS (cont)

| | 2012 \$'000 | 2011 \$'000 |
|---|---------------------|---------------------|
| (d) Other revenues | | |
| Fair value adjustments - investment property | - | 2,567 |
| Parking fines | 50 | 77 |
| Other fines | 44 | 46 |
| Recycling income (non domestic) | 85 | 146 |
| Rental income - Investment property | 1,784 | 1,758 |
| - Other property | 1,094 | 991 |
| Insurance claims | 104 | 130 |
| Commissions and Agency fees | 37 | 32 |
| Legal fees recovered | 29 | 542 |
| Miscellaneous sales | 84 | 105 |
| Miscellaneous charges - overdue rates and charges | - | 4 |
| Other | 232 | 227 |
| Total other revenues | <u>3,543</u> | <u>6,625</u> |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 3 - INCOME FROM CONTINUING OPERATIONS (cont)

| | Notes | OPERATING | | CAPITAL | |
|---|-----------|----------------|----------------|----------------|----------------|
| | | 2012 \$'000 | 2011 \$'000 | 2012 \$'000 | 2011 \$'000 |
| (e) Grants | | | | | |
| <u>General purpose (Untied)</u> | | | | | |
| Financial assistance | | 2,555 | 2,482 | - | - |
| Individually significant item | see below | 1,757 | 846 | - | - |
| - additional Grants Commission payment | | | | | |
| Pensioner rates subsidies (general) | | 316 | 323 | | |
| <u>Specific purpose</u> | | | | | |
| Pensioners' rates subsidies | | | | | |
| Water supplies | | 147 | 140 | - | - |
| Sewerage services | | 150 | 150 | - | - |
| Domestic waste management | | 167 | 155 | - | - |
| Water supplies | | - | 51 | - | - |
| Library | | 115 | 113 | - | - |
| Street lighting | | 96 | 94 | - | - |
| Roads and bridges | | - | - | - | 180 |
| Wollongbar sportsfield | | - | - | 2,000 | - |
| Aerodrome improvements | | - | - | 1,156 | - |
| NSW Rural Fire Services | | 158 | 120 | - | - |
| Bushfire and Emergency Services | | 54 | 93 | - | - |
| Other | | 389 | 428 | 17 | 468 |
| Total grants | | 5,904 | 4,995 | 3,173 | 648 |
| Comprising: | | | | | |
| - Commonwealth funding | | 4,468 | 3,363 | 3,156 | 190 |
| - State funding | | 1,431 | 1,591 | 17 | 458 |
| - Other funding | | 5 | 41 | - | - |
| | | 5,904 | 4,995 | 3,173 | 648 |
| Individually significant item | | | | | |
| <i>On 21 June 2011 Council received payment of the first quarter instalment of the 2011/12 Grant Commission (FAG) grant. Similarly, on 12 June 2012 Council received payment of the first two instalments of the 2012/13 grant. It is not known when the timing of these grant payments will return to normal schedule, but this will materially adversely affect Council's operating results as these amounts are recognised as income upon receipt.</i> | | 1,757 | 846 | - | - |
| (f) Contributions | | | | | |
| Developer contributions - Section 94 | 17 | - | - | 1,372 | 2,637 |
| RMS contributions | | 756 | 1,142 | 2,178 | 553 |
| <u>Section 64:</u> | | | | | |
| Water | 17 | - | - | 204 | 718 |
| Sewerage | 17 | - | - | 797 | 1,959 |
| Subdivider dedications | 11 | - | - | 14,173 | 16,189 |
| Management plans and studies | | 175 | 198 | - | - |
| Employment and training programs | | 377 | 315 | - | - |
| Roadworks | | - | - | 557 | 859 |
| Other | | 532 | 467 | 245 | 482 |
| Total contributions | | 1,840 | 2,122 | 19,526 | 23,397 |
| Total grants and contributions | | 7,744 | 7,117 | 22,699 | 24,045 |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 3 - INCOME FROM CONTINUING OPERATIONS (cont)

(g) Restrictions relating to grants and contributions

Grants and contributions which were obtained on the condition that they be expended for specified purposes or in a future period, but which are not yet expended in accordance with those conditions, are as follows:

| | 2012 \$'000 | | 2011 \$'000 | |
|---|----------------|----------------|----------------|----------------|
| | <u>Grants</u> | <u>Contrib</u> | <u>Grants</u> | <u>Contrib</u> |
| Unexpended at the close of the previous reporting period | | | | |
| Section 94/64 Developer Contributions | 0 | 17,669 | 0 | 18,730 |
| Roads Infrastructure | 0 | 483 | 0 | 536 |
| Other | 992 | 0 | 861 | 0 |
| <i>Total</i> | <u>992</u> | <u>18,152</u> | <u>861</u> | <u>19,266</u> |
| Less: expended during the current period from revenues recognised in previous reporting periods | | | | |
| Section 94/64 Developer Contributions | 0 | 1,327 | 0 | 8,118 |
| Roads Infrastructure | 0 | 82 | 0 | 258 |
| Other | 414 | 0 | 654 | 0 |
| <i>Subtotal</i> | <u>414</u> | <u>1,409</u> | <u>654</u> | <u>8,376</u> |
| Plus: amounts recognised as revenues in this reporting period but not yet expended in accordance with the conditions | | | | |
| Section 94/64 Developer Contributions | 0 | 3,391 | 0 | 7,057 |
| Roads Infrastructure | 0 | 178 | 0 | 205 |
| Other | 2,786 | 0 | 785 | 0 |
| <i>Subtotal</i> | <u>2,786</u> | <u>3,569</u> | <u>785</u> | <u>7,262</u> |
| Unexpended at the close of this reporting period and held as restricted assets | | | | |
| Section 94/64 Developer Contributions | 0 | 19,733 | 0 | 17,669 |
| Roads Infrastructure | 0 | 579 | 0 | 483 |
| Other | 3,364 | 0 | 992 | 0 |
| <i>Total</i> | <u>3,364</u> | <u>20,312</u> | <u>992</u> | <u>18,152</u> |
| Net increase (decrease) in restricted grants and contributions | <u>2,372</u> | <u>2,160</u> | <u>131</u> | <u>-1,114</u> |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 4 - EXPENSES FROM CONTINUING OPERATIONS

| | 2012 \$'000 | 2011 \$'000 |
|---|----------------------|----------------------|
| (a) Employee benefits and on costs | | |
| Salaries and wages | 14,552 | 14,096 |
| Employee leave entitlements | 2,911 | 2,690 |
| Superannuation - defined contribution plan contributions | 1,146 | 1,010 |
| Superannuation - defined benefit plan contributions | 828 | 1,027 |
| Workers' Compensation Insurance | 804 | 653 |
| Fringe Benefits Tax | 5 | 24 |
| Payroll tax | 235 | 235 |
| Training costs (excluding salaries) | 240 | 253 |
| Other | 23 | 28 |
| Less: Capitalised costs | <u>(1,720)</u> | <u>(1,543)</u> |
| Total employee costs expensed | <u>19,024</u> | <u>18,473</u> |
| Total number of employees | 269 | 268 |
| <i>(Full time equivalent at end of reporting period)</i> | | |
| (b) Borrowing costs | | |
| Interest on loans | 2,259 | 1,058 |
| Unwinding of present value discounts & premiums | <u>267</u> | <u>889</u> |
| Total borrowing costs expensed | <u>2,526</u> | <u>1,947</u> |
| (c) Materials and contracts | | |
| Raw materials & consumables | 23,742 | 19,264 |
| Contractor and consultancy costs | 198 | 130 |
| Remuneration of Auditors (1) | 86 | 92 |
| Legal expenses | | |
| - Planning and development | 47 | 467 |
| - Other legal expenses | 90 | 302 |
| Operating leases | | |
| - Computers | 302 | 262 |
| - Motor vehicles | 123 | 98 |
| Total materials and contracts | <u>24,588</u> | <u>20,615</u> |
| (1) During the year the following fees were paid or payable for services provided by the Council's auditor firms: | | |
| - Thomas Noble & Russell: | | |
| Audit and review of financial statements | <u>48</u> | <u>48</u> |
| Total remuneration of Thomas Noble & Russell | <u>48</u> | <u>48</u> |
| - BDO Kendells | | |
| Internal Auditing | <u>38</u> | <u>44</u> |
| Total remuneration of BDO Kendells | <u>38</u> | <u>44</u> |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 4 - EXPENSES FROM CONTINUING OPERATIONS (cont)

| | 2012 \$'000 | 2011 \$'000 |
|--|----------------|----------------|
| (d) Depreciation and amortisation | | |
| Plant and equipment | 1,606 | 1,718 |
| Office equipment | 67 | 61 |
| Furniture and fittings | 10 | 10 |
| Land improvements | 886 | 863 |
| Buildings - non-specialised | 349 | 201 |
| Buildings - specialised | 2,465 | 1,341 |
| Other structures | 511 | 336 |
| Infrastructure | | |
| - roads, bridges & footpaths | 7,668 | 7,098 |
| - stormwater drainage | 1,615 | 1,532 |
| - water supply network not elsewhere included | 2,205 | 2,188 |
| - sewerage network not elsewhere included | 4,198 | 4,128 |
| Future reinstatement costs | | |
| - Tips | 206 | 256 |
| - Quarries | 81 | 82 |
| Less: Capitalised costs | (166) | (156) |
| Total depreciation and amortisation costs | <u>21,701</u> | <u>19,658</u> |
| (e) Other expenses | | |
| Bad and doubtful debts | 2 | 3 |
| Mayoral fee | 30 | 35 |
| Councillors' fees and allowances | 173 | 160 |
| Councillors' (incl. Mayor) expenses | 78 | 55 |
| Insurances | 1,145 | 1,074 |
| Street lighting | 465 | 467 |
| Light, power and heating | 1,436 | 1,307 |
| Telephone and communications | 188 | 196 |
| Donations and contributions | 1,541 | 1,574 |
| Waste levy | 659 | 576 |
| Emergency services levy | 26 | - |
| Advertising | 277 | 306 |
| Bank Fees | 96 | 80 |
| Other | 145 | 136 |
| Total other expenses | <u>6,261</u> | <u>5,969</u> |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 5 - GAIN OR LOSS FROM THE DISPOSAL OF ASSETS

| | 2012 \$'000 | 2011 \$'000 |
|---|----------------|----------------|
| Gain (or loss) on disposal of Plant and Equipment | | |
| Proceeds from disposal | 848 | 259 |
| Less: Carrying amount of assets sold | <u>144</u> | <u>335</u> |
| Gain (or loss) on disposal | <u>704</u> | <u>(76)</u> |
| Gain (or loss) on disposal of Land, Buildings and Infrastructure | | |
| Proceeds from disposal | 400 | 30 |
| Less: Carrying amount of assets sold | <u>3,542</u> | <u>1,927</u> |
| Gain (or loss) on disposal | <u>(3,142)</u> | <u>(1,897)</u> |
| Gain (or loss) on disposal of Real estate assets held for sale | | |
| Proceeds from sales | 6,026 | 703 |
| Less: Cost of sales | <u>3,124</u> | <u>481</u> |
| Gain (or loss) on disposal | <u>2,902</u> | <u>222</u> |
| NET GAIN (OR LOSS) FROM DISPOSAL OF ASSETS | <u>464</u> | <u>(1,751)</u> |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 6 - CASH, CASH EQUIVALENTS AND INVESTMENTS

| | 2012 \$'000 | | 2011 \$'000 | |
|--------------------------------------|----------------|-------------|----------------|-------------|
| | Current | Non-Current | Current | Non-Current |
| (a) Cash and cash equivalents | | | | |
| Cash on hand and at Bank | 2,099 | | 848 | |
| Deposits at call | 1,172 | | 2,334 | |
| Short Term Deposits & Bills, etc | 24,000 | | 4,000 | |
| Total cash assets | <u>27,271</u> | | <u>7,182</u> | |

(b) Investments

The following financial assets are held as investments:

Summary

| | | | | |
|--|---------------|---------------|---------------|---------------|
| Financial assets at fair value through profit and loss | 8,157 | 10,557 | 6,649 | 16,272 |
| Held to maturity investments | 32,000 | 1,000 | 21,777 | 5,000 |
| Total | <u>40,157</u> | <u>11,557</u> | <u>28,426</u> | <u>21,272</u> |

Financial assets at fair value through profit and loss

| | | | | |
|---------------------------------|--------------|---------------|--------------|---------------|
| At beginning of year | 6,649 | 16,272 | 6,451 | 22,206 |
| Revaluation to Income Statement | - | 34 | 288 | 459 |
| Additions | - | 1,000 | - | - |
| Disposals | (5,241) | - | (6,483) | - |
| Transfers current/non-current | 6,749 | (6,749) | 6,393 | (6,393) |
| At end of year | <u>8,157</u> | <u>10,557</u> | <u>6,649</u> | <u>16,272</u> |

Comprising of:

| | | | | |
|-----------------------|--------------|---------------|--------------|---------------|
| - Managed Funds | - | - | 1,242 | - |
| - FRNs | 8,157 | 9,589 | 5,407 | 15,357 |
| - Equity linked notes | - | 968 | - | 915 |
| | <u>8,157</u> | <u>10,557</u> | <u>6,649</u> | <u>16,272</u> |

Fair values for financial assets at fair value through profit or loss are determined by quoted prices in active markets for identical investments.

Held to maturity investments

| | | | | |
|----------------------|---------------|--------------|---------------|--------------|
| At beginning of year | 21,777 | 5,000 | 14,000 | 5,000 |
| Additions | 32,000 | 1,000 | 16,777 | - |
| Disposals | (21,777) | (5,000) | (9,000) | - |
| At end of year | <u>32,000</u> | <u>1,000</u> | <u>21,777</u> | <u>5,000</u> |

Comprising of:

| | | | | |
|-----------------|---------------|--------------|---------------|--------------|
| - Term Deposits | 32,000 | 1,000 | 21,777 | 5,000 |
| | <u>32,000</u> | <u>1,000</u> | <u>21,777</u> | <u>5,000</u> |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 6 - CASH, CASH EQUIVALENTS AND INVESTMENTS (cont)

(c) Restricted cash, cash equivalents and investments

| | 2012 \$'000 | | 2011 \$'000 | |
|---|----------------|---------------|----------------|---------------|
| | Current | Non-Current | Current | Non-Current |
| Cash & cash equivalent assets | 27,271 | - | 7,182 | - |
| Investments | 40,157 | 11,557 | 28,426 | 21,272 |
| Total cash, cash equivalents and investments | 67,428 | 11,557 | 35,608 | 21,272 |
| External restrictions | 50,361 | 6,000 | 24,340 | 12,300 |
| Internal restrictions | 15,970 | 5,557 | 9,298 | 8,972 |
| Unrestricted | 1,097 | - | 1,970 | - |
| | 67,428 | 11,557 | 35,608 | 21,272 |

Details of movements of restricted cash, cash equivalents and investments

| Notes | Opening balance 30 June 2011 \$'000 | Movements | | Closing balance 30 June 2012 \$'000 |
|------------------------------------|--|-------------------------------------|---------------------------------------|--|
| | | Transfers to restrictions \$'000 | Transfers from restrictions \$'000 | |
| External restrictions | | | | |
| Included in liabilities | | | | |
| Unexpended loans (A) | 4,729 | 18,000 | 4,729 | 18,000 |
| Deposits and retentions (B) | 1,625 | 263 | 885 | 1,003 |
| Water and sewer ELE's (C) | 611 | - | 35 | 576 |
| | 6,965 | 18,263 | 5,649 | 19,579 |
| Other | | | | |
| Developer contributions (D) 17 | 17,669 | 3,839 | 1,775 | 19,733 |
| RMS contributions (E) | 483 | 178 | 82 | 579 |
| Unexpended grants (F) | 992 | 2,786 | 414 | 3,364 |
| Water supply funds (G) | 3,246 | - | 524 | 2,722 |
| Sewerage funds (H) | 5,681 | 3,706 | - | 9,387 |
| Domestic waste management (I) | 997 | 760 | 1,418 | 339 |
| Stormwater management (J) | 336 | - | 336 | - |
| Crown land rentals (K) | 144 | 30 | - | 174 |
| Other | 127 | 484 | 127 | 484 |
| | 29,675 | 11,783 | 4,676 | 36,782 |
| Total external restrictions | 36,640 | 30,046 | 10,325 | 56,361 |

- A Loan moneys which must be applied for the purposes for which the loans were raised.
- B Moneys held in Trust Account such as works bonds and deposits.
- C Funds set aside to cover Employee leave entitlements provisions in restricted activities.
- D Development contributions which are not yet expended for the provision of services and amenities in accordance with contribution plans.
- E RMS contributions which are not yet expended for the provision of services and amenities in accordance with those contributions.
- F Grants which are not yet expended for the purposes for which the grants were obtained (See Note 1).
- G-J Water, sewerage, stormwater and domestic waste management funds are externally restricted assets which must be applied for the purposes for which they were raised.
- K Funds raised from lease and rental of crown land properties must be expended on provision of services and amenities on crown land.

BALLINA SHIRE COUNCIL

Note 6 - CASH, CASH EQUIVALENTS AND INVESTMENTS (cont)

Details of movements of restricted cash, cash equivalents and investments (cont)

| Notes | Opening balance 30 June 2011 | Movements | | Closing balance 30 June 2012 |
|-------------------------------------|------------------------------------|------------------------------|--------------------------------|------------------------------------|
| | | Transfers to restrictions | Transfers from restrictions | |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| <u>Internal restrictions</u> | | | | |
| Employee leave entitlements | 1,611 | 319 | 215 | 1,715 |
| Plant replacement | 825 | 915 | 880 | 860 |
| Quarries | 1,626 | 283 | 358 | 1,551 |
| Carry-over works | 697 | 876 | 339 | 1,234 |
| Land development | 3,591 | 9,810 | 7,230 | 6,171 |
| Strategic studies | 290 | 92 | 70 | 312 |
| Civil works | 5,973 | 4,610 | 5,233 | 5,350 |
| Rental properties refurbishment | 286 | 131 | 57 | 360 |
| Management plans and studies | 259 | 78 | 17 | 320 |
| Cemeteries | 239 | 121 | 159 | 201 |
| Unexpended federal assist grant | 847 | 1,757 | 847 | 1,757 |
| Waste disposal facility | 1,729 | 396 | 576 | 1,549 |
| Other | 297 | 152 | 302 | 147 |
| Total internal restrictions | 18,270 | 19,540 | 16,283 | 21,527 |
| Total restrictions | 54,910 | 49,586 | 26,608 | 77,888 |

Internal restrictions arise pursuant to resolutions of Council to set aside reserves of cash resources either relating to liabilities recognised in these reports or to fund future expenditure for the stated purpose. Such reserves are not permitted to exceed the amounts of cash assets and cash investments not otherwise restricted.

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 7 - RECEIVABLES

| Purpose | 2012 \$'000 | | 2011 \$'000 | |
|---------------------------------|----------------|-------------|----------------|-------------|
| | Current | Non-Current | Current | Non-Current |
| Rates and annual charges | 2,328 | 202 | 2,829 | 242 |
| Interest and extra charges | 172 | 92 | 144 | 50 |
| User charges and fees | 1,716 | 149 | 1,256 | - |
| Accrued revenues | 759 | - | 453 | - |
| Deferred debtors | 80 | 247 | 103 | 302 |
| Government grants and subsidies | 3,187 | - | 1,382 | - |
| Airport charges | 260 | - | 316 | - |
| Waste centre fees | 144 | - | 216 | - |
| Private works | 141 | - | 162 | - |
| Other | 383 | - | 688 | - |
| Total | 9,170 | 690 | 7,549 | 594 |
| Less: Provision for impairment | | | | |
| User charges and fees | 15 | - | 47 | - |
| | 9,155 | 690 | 7,502 | 594 |

Rates, annual charges, interest and extra charges

Overdue rates and annual charges (being amounts not paid on or before the due date determined in accordance with the Local Government Act) are secured over the relevant land and are subject to simple interest at a rate of 11.00% (2011: 9.00%). Although Council is not materially exposed to any individual ratepayer, credit risk exposure is concentrated within the Council boundaries in the State of New South Wales.

Deferred debtors

Deferred payment for sewerage connection fees has been extended to new connections in several fringe urban areas throughout the Shire. The properties concerned have ten years over which to pay the connection fee. Repayment is required in ten equal yearly instalments with no interest payable. The debt is secured over the relevant land.

Government grants and subsidies

Amounts due have been calculated in accordance with the terms and conditions of the respective programs following advice of approvals, and do not bear interest. All amounts are due by Departments and Agencies of the Government of New South Wales and the Government of Australia.

Other receivables

Amounts due (other than user charges which are secured over the relevant land) are unsecured and do not bear interest. Although Council is not materially exposed to any individual debtor, credit risk exposure is concentrated within the Council's boundaries in the State of New South Wales.

Restricted receivables

| | | | | |
|--|--------------|------------|--------------|------------|
| Water supply | 1,837 | 149 | 1,820 | 36 |
| Sewerage services | 1,841 | 322 | 1,489 | 409 |
| Domestic waste management | 284 | 25 | 263 | 23 |
| Stormwater management services | 15 | 1 | 17 | 2 |
| Total externally restricted receivables | 3,977 | 497 | 3,589 | 470 |
| Unrestricted receivables | 5,178 | 193 | 3,913 | 124 |
| Total receivables | 9,155 | 690 | 7,502 | 594 |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 8 - INVENTORIES AND OTHER ASSETS

| | 2012 \$'000 | | 2011 \$'000 | |
|---|----------------|--------------------|----------------|--------------------|
| | <u>Current</u> | <u>Non-Current</u> | <u>Current</u> | <u>Non-Current</u> |
| Inventories | | | | |
| Stores and materials | 454 | - | 356 | - |
| Trading stock | 41 | - | 92 | - |
| Real estate development | 667 | 2,651 | 3,602 | 2,456 |
| Total inventories | <u>1,162</u> | <u>2,651</u> | <u>4,050</u> | <u>2,456</u> |
| <i>Inventories not expected to be realised within the next 12 months.</i> | - | 2,651 | - | 2,456 |
| Other assets | | | | |
| Prepayments | 157 | - | 557 | - |
| Total other assets | <u>157</u> | <u>-</u> | <u>557</u> | <u>-</u> |
| Real estate development <i>(Valued at the lower of cost and net realisable value)</i> | | | | |
| Residential | - | 735 | - | 735 |
| Industrial and commercial | 667 | 1,916 | 3,602 | 1,721 |
| Total real estate held for sale | <u>667</u> | <u>2,651</u> | <u>3,602</u> | <u>2,456</u> |
| <i>Represented by:</i> | | | | |
| Acquisition costs | - | 937 | - | 1,255 |
| Development costs | 667 | 1,714 | 3,602 | 1,201 |
| Total real estate held for sale | <u>667</u> | <u>2,651</u> | <u>3,602</u> | <u>2,456</u> |
| Externally restricted inventories and other assets | | | | |
| Other Assets | | | | |
| Sewerage services | 123 | - | - | - |
| Total externally restricted inventories and other assets | <u>123</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Unrestricted inventories and other assets | 1,196 | 2,651 | 4,607 | 2,456 |
| Total inventories and other assets | <u>1,319</u> | <u>2,651</u> | <u>4,607</u> | <u>2,456</u> |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 9(a) - INFRASTRUCTURE, PROPERTY, PLANT AND EQUIPMENT

| By asset type | At 30 June 2011 \$'000 | | | | Movements during year \$'000 | | | | | At 30 June 2012 \$'000 | | | |
|------------------------------------|---------------------------|------------------|------------------|--------------------|---------------------------------|--------------------|-----------------|--------------------|--------------------|---------------------------|------------------|------------------|--------------------|
| | AT COST | AT FAIR VALUE | ACCUM DEPN | CARRYING AMOUNT | Asset Purchases | Asset Disposals | Depreciation | Transfers, etc. | Net Revaluation | AT COST | AT FAIR VALUE | ACCUM DEPN | CARRYING AMOUNT |
| Capital work-in-progress | 26,021 | - | - | 26,021 | 31,921 | - | - | (10,029) | - | 47,913 | - | - | 47,913 |
| Plant and equipment | - | 16,003 | (8,712) | 7,291 | 2,410 | (144) | (1,606) | - | - | - | 17,646 | (9,695) | 7,951 |
| Office equipment | - | 1,327 | (616) | 711 | 58 | - | (67) | - | - | - | 1,385 | (683) | 702 |
| Furniture and fittings | - | 407 | (356) | 51 | - | - | (10) | - | - | - | 407 | (366) | 41 |
| Land | | | | | | | | | | | | | |
| - Operational land | - | 40,188 | - | 40,188 | 1,952 | (400) | - | 646 | - | - | 42,386 | - | 42,386 |
| - Community land | - | 122,666 | - | 122,666 | - | - | - | (2) | - | - | 122,664 | - | 122,664 |
| Land under roads | | | | | | | | | | | | | |
| - post 1 July 2008 | - | 1,696 | - | 1,696 | 2,531 | - | - | - | - | - | 4,227 | - | 4,227 |
| Land Improvements - non-depreciabl | - | 4,703 | - | 4,703 | - | - | - | - | - | - | 4,703 | - | 4,703 |
| Land Improvements - depreciable | - | 15,903 | (6,430) | 9,473 | - | - | (886) | - | - | - | 15,903 | (7,316) | 8,587 |
| Buildings - non-specialised | - | 10,604 | (4,818) | 5,786 | 16 | - | (349) | 50 | - | - | 10,670 | (5,167) | 5,503 |
| Buildings - specialised | - | 78,521 | (25,350) | 53,171 | 1,024 | (35) | (2,465) | - | - | - | 79,474 | (27,779) | 51,695 |
| Other structures | - | 11,425 | (3,191) | 8,234 | 484 | - | (511) | (151) | - | - | 11,750 | (3,694) | 8,056 |
| Infrastructure | | | | | | | | | | | | | |
| - Roads, bridges, footpaths | - | 482,946 | (149,553) | 333,393 | 14,054 | (2,667) | (7,668) | 6,758 | 16,906 | - | 519,118 | (158,342) | 360,776 |
| - Stormwater drainage | - | 109,940 | (40,430) | 69,510 | 2,039 | (95) | (1,615) | 210 | - | - | 111,972 | (41,923) | 70,049 |
| - Water supply network | - | 151,833 | (65,965) | 85,868 | 1,721 | (74) | (2,205) | 736 | 17,304 | - | 155,723 | (52,373) | 103,350 |
| - Sewerage network | - | 236,762 | (106,217) | 130,545 | 1,365 | (271) | (4,198) | 1,186 | 54,150 | - | 243,789 | (61,012) | 182,777 |
| Future reinstatement costs | | | | | | | | | | | | | |
| - Tips | - | 3,442 | (2,391) | 1,051 | - | - | (206) | - | - | - | 3,442 | (2,597) | 845 |
| - Quarries | - | 819 | (574) | 245 | - | - | (81) | - | - | - | 819 | (655) | 164 |
| Totals | 26,021 | 1,289,185 | (414,603) | 900,603 | 59,575 | (3,686) | (21,867) | (596) | 88,360 | 47,913 | 1,346,078 | (371,602) | 1,022,389 |

Asset acquisitions were apportioned between:

| | |
|--------------------------------------|--------|
| Building & Infrastructure Renewals | 19,519 |
| Building & Infrastructure New Assets | 14,488 |
| Other Assets | 25,568 |

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

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 9(b) - RESTRICTED PROPERTY, PLANT AND EQUIPMENT

| | Actual 2012 \$'000's | | | Actual 2011 \$'000's | | |
|---|----------------------------|------------------|--------------------|----------------------------|------------------|--------------------|
| | AT FAIR VALUE | ACCUM DEPN | CARRYING AMOUNT | AT FAIR VALUE | ACCUM DEPN | CARRYING AMOUNT |
| <u>Water supply</u> | | | | | | |
| Plant and equipment | 395 | (246) | 149 | 395 | (188) | 207 |
| Land | | | | | | |
| - Operational | 1,168 | - | 1,168 | 1,168 | - | 1,168 |
| - Community | 1,310 | - | 1,310 | 1,310 | - | 1,310 |
| Buildings | 127 | (68) | 59 | 183 | (66) | 117 |
| Water supply infrastructure | 155,927 | (52,373) | 103,554 | 151,833 | (65,965) | 85,868 |
| Total water supply | 158,927 | (52,687) | 106,240 | 154,889 | (66,219) | 88,670 |
| <u>Sewerage services</u> | | | | | | |
| Plant and equipment | 461 | (323) | 138 | 461 | (261) | 200 |
| Land | | | | | | |
| - Operational | 3,158 | - | 3,158 | 2,381 | - | 2,381 |
| - Community | 77 | - | 77 | 77 | - | 77 |
| Buildings | 2,924 | (1,284) | 1,640 | 2,881 | (1,208) | 1,673 |
| Sewerage infrastructure | 283,348 | (61,012) | 222,336 | 251,300 | (106,217) | 130,145 |
| Total sewerage services | 289,968 | (62,619) | 227,349 | 257,100 | (107,686) | 134,476 |
| <u>Domestic waste management</u> | | | | | | |
| Plant and equipment | 3,728 | (2,221) | 1,507 | 2,310 | (2,111) | 199 |
| Total domestic waste | 3,728 | (2,221) | 1,507 | 2,310 | (2,111) | 199 |
| TOTAL RESTRICTIONS | 452,623 | (117,527) | 335,096 | 414,299 | (176,016) | 223,345 |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 10 - PAYABLES, BORROWINGS AND PROVISIONS

| | 2012 \$'000 | | 2011 \$'000 | |
|--------------------------------|----------------|-------------|----------------|--------------|
| | Current | Non-Current | Current | Non-Current |
| Payables | | | | |
| Goods and services | 2,305 | - | 3,013 | - |
| Payments received in advance | 451 | - | 413 | - |
| Accrued salaries & wages | 548 | - | 656 | - |
| Accrued interest payable | 132 | - | 114 | - |
| Accrued expenses - other | 68 | - | 49 | - |
| Deposits, retentions and bonds | 544 | 459 | 519 | 1,106 |
| Total payables | 4,048 | 459 | 4,764 | 1,106 |

Borrowings

| | | | | |
|---|--------------|---------------|--------------|---------------|
| Loans | | | | |
| - Secured | 3,095 | 64,580 | 2,825 | 21,643 |
| Total interest bearing liabilities | 3,095 | 64,580 | 2,825 | 21,643 |

All interest bearing liabilities are secured over the future revenues of the Council.

Provisions

| | | | | |
|--------------------------------------|--------------|--------------|--------------|--------------|
| Employee benefits - annual leave | 1,918 | - | 1,750 | - |
| - sick leave | 2,272 | - | 2,129 | - |
| - long service leave | 3,488 | 143 | 3,696 | 126 |
| Asset remediation (see also Note 24) | - | 5,417 | - | 5,764 |
| Total provisions | 7,678 | 5,560 | 7,575 | 5,890 |

Current provisions not expected to be settled within the next 12 months.

4,881

5,966

Provision for asset remediation liabilities

Council is required by law to reinstate/ rehabilitate the areas of certain tips and quarries for roadmaking materials when it ceases to use each facility. Engineering estimates have been made based on current reinstatement standards and discounted to its present value over the estimated remaining life of each facility at the rates applicable to government securities.

Liabilities relating to restricted assets

Domestic waste management

| | | | | |
|------------------------------|------------|------------|------------|------------|
| Interest bearing liabilities | 134 | 458 | 126 | 592 |
| Provisions | 151 | - | 148 | - |
| Subtotal | 285 | 458 | 274 | 592 |

Water supplies

| | | | | |
|------------------------------|------------|----------|------------|----------|
| Interest bearing liabilities | 4 | - | 3 | 4 |
| Provisions | 134 | - | 202 | - |
| Subtotal | 138 | - | 205 | 4 |

Sewerage services

| | | | | |
|------------------------------|--------------|---------------|--------------|--------------|
| Payables | 8 | - | 8 | - |
| Interest bearing liabilities | 985 | 50,188 | 985 | 5,280 |
| Provisions | 448 | - | 538 | - |
| Subtotal | 1,441 | 50,188 | 1,531 | 5,280 |
| TOTAL | 1,864 | 50,646 | 2,010 | 5,876 |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

NOTE 10 - PAYABLES, BORROWINGS AND PROVISIONS (cont)

| Description of and movements in provisions | 2012 | 2012 | 2012 | 2012 |
|--|--------------|--------------------|--------------------|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| | Annual leave | Vesting sick leave | Long service leave | Reinstatements |
| Opening balance | 1,750 | 2,129 | 3,822 | 5,764 |
| Add Additional amounts recognised | 1,217 | 506 | 198 | - |
| Unwinding of present value discounts | - | - | - | (347) |
| (Less) Payments | (1,049) | (363) | (389) | - |
| Closing Balance | 1,918 | 2,272 | 3,631 | 5,417 |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 11 - RECONCILIATION OF OPERATING RESULT TO NET CASH MOVEMENT FROM OPERATING ACTIVITIES

| | 2012 \$'000 | 2011 \$'000 |
|--|----------------|----------------|
| (a) Reconciliation of cash assets | | |
| Total cash and cash equivalents (Note 6) | <u>27,271</u> | <u>7,182</u> |
| Balance as per cash flow statement | <u>27,271</u> | <u>7,182</u> |
| (b) Reconciliation of net operating result to cash provided from operating activities | | |
| Net operating result from Income statement | 12,570 | 18,566 |
| Add: Depreciation and impairment | 21,701 | 19,658 |
| Unwinding of present value discounts & premiums | 267 | 889 |
| Increase in employee benefits provisions | 120 | - |
| Increase in other provisions | - | 1,089 |
| Decrease in receivables | - | 1,933 |
| Decrease in inventories | - | 4 |
| Decrease in other assets | 400 | - |
| Increase in accrued interest payable | 18 | 56 |
| Loss on sale of assets | - | 1,751 |
| | <u>35,076</u> | <u>43,946</u> |
| Less: Decrease in provision for doubtful debts | 32 | 34 |
| Decrease in employee benefits provisions | - | 289 |
| Increase in receivables | 1,250 | - |
| Increase in inventories | 47 | - |
| Increase in other assets | - | 18 |
| Decrease in trade creditors & other accruals | 759 | 1,443 |
| Decrease in other payables | 622 | 698 |
| Gain on Sale of Assets | 464 | - |
| Fair value adjustments to financial assets at fair value through profit and loss | 34 | 747 |
| Fair value adjustments to investment property | - | 2,567 |
| Non-cash contributions and dedications | 14,173 | 16,189 |
| Net cash provided from (or used in) operating activities from Cash flow statement | <u>17,695</u> | <u>21,961</u> |
| (c) Non-cash financing and investing activities | | |
| Acquisition of assets by means of: | | |
| - Developer contributions received in kind | <u>14,173</u> | <u>16,189</u> |
| | <u>14,173</u> | <u>16,189</u> |
| (d) Financing arrangements | | |
| Unrestricted access was available at balance date to the following lines of credit: | | |
| Loan facilities | | |
| Approved for drawing during the year | 53,300 | 43,365 |
| Actual amount drawn during the year | 45,419 | 3,000 |
| Corporate credit cards - available limit | 750 | 750 |
| Corporate credit cards - facilities used | 46 | 13 |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 12 - COMMITMENTS

| | 2012 \$'000 | 2011 \$'000 |
|--|----------------------|----------------------|
| (a) Capital commitments (exclusive of GST) | | |
| Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities: | | |
| Land | - | 2,004 |
| Infrastructure | <u>21,658</u> | <u>45,543</u> |
| Total | <u>21,658</u> | <u>47,547</u> |
| These expenditures are payable: | | |
| - Not later than one year | 21,658 | 41,547 |
| - Later than one year and not later than 5 years | - | 6,000 |
| - Later than 5 years | - | - |
| Total | <u>21,658</u> | <u>47,547</u> |

(b) Finance lease commitments

Council does not have any commitments under finance lease at reporting date.

(c) Non-cancellable operating lease commitments

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

| | | |
|--|-------------------|---------------------|
| - Not later than one year | 278 | 404 |
| - Later than one year and not later than 5 years | 416 | 706 |
| - Later than 5 years | - | - |
| Total | <u>694</u> | <u>1,110</u> |

Council has entered into non-cancellable operating leases for various items of information technology and other plant and equipment.

There are no contingent rental payments. No lease imposes any additional restrictions on Council in relation to additional debt or further leasing.

Leases in relation to computer and office equipment permit Council, at expiry of the lease, to elect to re-lease, return or acquire the equipment leased.

No lease contains any escalation clause.

(d) Repairs and maintenance: investment property

Council does not have any contractual obligations for repairs or maintenance of investment property at reporting date.

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 13 - STATEMENT OF PERFORMANCE MEASURES

| (a) Consolidated results | <u>Amounts</u> | <u>2012 Indicators</u> | 2011 | 2010 |
|---|----------------|--------------------------------|--------------|--------------|
| 1. Unrestricted current ratio | | | | |
| <u>Current assets less all external restrictions</u> | \$23,441 | 2.90 | 2.75 | 2.07 |
| Current liabilities less specific purpose liabilities | \$8,076 | | | |
| 2. Debt service ratio | | | | |
| <u>Debt service cost</u> | \$5,085 | 0.08 | 0.06 | 0.05 |
| Income from continuing operations excluding capital items & specific purpose grants/contributions | \$60,855 | | | |
| 3. Rate coverage ratio | | | | |
| <u>Rates and annual charges</u> | \$33,273 | 0.38 | 0.34 | 0.36 |
| Income from continuing operations | \$86,670 | | | |
| 4. Rates and annual charges outstanding percentage | | | | |
| <u>Rates and annual charges outstanding</u> | \$2,794 | 7.62% | 9.81% | 12.17% |
| Rates and annual charges collectible | \$36,676 | | | |
| 5. Building and infrastructure renewals ratio | | | | |
| <u>Asset renewals (building and infrastructure)</u> | \$19,519 | 1.06 | 0.12 | 0.18 |
| Depreciation, amortisation and impairment (building and infrastructure) | \$18,500 | | | |
| (b) Fund results | | | | |
| | | <u>Current Year Indicators</u> | | |
| | | <u>General (1)</u> | <u>Water</u> | <u>Sewer</u> |
| 1. Unrestricted current ratio | | | | |
| <u>Current assets less all external restrictions</u> | | 2.89 | 33.96 | 8.19 |
| Current liabilities less specific purpose liabilities | | | | |
| 2. Debt service ratio | | | | |
| <u>Debt service cost</u> | | 0.06 | 0.00 | 0.21 |
| Income from continuing operations excluding capital items & specific purpose grants/contributions | | | | |
| 3. Rate coverage ratio | | | | |
| <u>Rates and annual charges</u> | | 0.34 | 0.25 | 0.68 |
| Income from continuing operations | | | | |
| 4. Rates and annual charges outstanding percentage | | | | |
| <u>Rates and annual charges outstanding</u> | | 6.07% | 16.42% | 8.48% |
| Rates and annual charges collectible | | | | |
| 5. Building and infrastructure renewals ratio | | | | |
| <u>Asset renewals (building and infrastructure)</u> | | 0.70 | 0.27 | 2.48 |
| Depreciation, amortisation and impairment (building and infrastructure) | | | | |

Note (1) General fund refers to all Council activities except water and sewer.

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 14 - INVESTMENT PROPERTIES

| | 2012 \$'000 | 2011 \$'000 |
|---|----------------|----------------|
| At fair value | | |
| Opening balance at 1 July | 22,030 | 16,030 |
| Capitalised subsequent expenditure | - | 1,822 |
| Net gain (loss) from fair value adjustment | - | 2,567 |
| Transfer (to) from inventories or infrastructure, property, plant & equipment | - | 1,611 |
| Closing balance at 30 June | 22,030 | 22,030 |

(a) Amounts recognised in profit and loss for investment property

| | | |
|--|-------|-------|
| Rental income | 1,727 | 1,704 |
| Outgoings recouped | 57 | 54 |
| Net gain (loss) from fair value adjustment | - | 3,712 |
| Direct operating expenses from property that generated rental income | (257) | (191) |
| | 1,527 | 5,279 |

(b) Valuation basis

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

The 2012 valuation were based on a 2011 independent assessments made by Mr Scott Fullerton, FAPI, of Scott Fullerton Valuations Pty Ltd.

(c) Contractual obligations

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

(d) Leasing arrangements

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

| | | |
|---|-------|-------|
| - Not later than one year | 1,440 | 1,771 |
| - Later than one year and not later than five years | 1,471 | 3,089 |
| - Later than five years | - | - |
| Total | 2,911 | 4,860 |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 15 - FINANCIAL RISK MANAGEMENT

Council's activities expose it to a variety of financial risks including price risk, credit risk, liquidity risk and interest rate risk. All financial instruments are denominated in Australian dollars, and hence currency risk does not apply.

Financial risk management is carried out by Finance section in accordance with policies approved by Council and in accordance with statutory requirements, and seeks to maximise revenue while protecting the corpus of the funds invested.

Council held the following financial instruments at balance date:

| | Carrying value | | Fair value | |
|--|----------------|----------------|----------------|----------------|
| | 2012 \$'000 | 2011 \$'000 | 2012 \$'000 | 2011 \$'000 |
| Financial assets | | | | |
| Cash and cash equivalents | 27,271 | 7,182 | 27,271 | 7,182 |
| Receivables | 9,845 | 8,096 | 9,845 | 8,096 |
| Financial assets at fair value through profit & loss | 18,714 | 22,921 | 18,714 | 22,921 |
| Held-to-maturity investments | 33,000 | 26,777 | 33,000 | 26,777 |
| | <u>88,830</u> | <u>64,976</u> | <u>88,830</u> | <u>64,976</u> |
| Financial liabilities | | | | |
| Payables | 4,507 | 5,870 | 4,507 | 5,870 |
| Borrowings | 67,675 | 24,468 | 82,503 | 26,174 |
| | <u>72,182</u> | <u>30,338</u> | <u>87,010</u> | <u>32,044</u> |

Fair value is estimated as follows:

- * Cash and cash equivalents, receivables & payables - due to the short-term nature, face value (carrying value) approximates fair value.
- * Held-to-maturity investments and borrowings - anticipated future cash flows discounted by current market interest rates applicable to assets and liabilities with similar risk profiles.
- * Financial assets at fair value through profit & loss - based on quoted market prices in active markets for identical investments.

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

Level 1

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

Level 2

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

| 2012 | Level 1 \$'000 | Level 2 \$'000 | Total \$'000 |
|--|-------------------|-------------------|-----------------|
| Financial Assets | | | |
| Financial assets at fair value through profit & loss | 17,746 | 968 | 18,714 |
| Held-to-maturity investments | 33,000 | - | 33,000 |
| Total | <u>50,746</u> | <u>968</u> | <u>51,714</u> |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 15 - FINANCIAL RISK MANAGEMENT (cont)

(a) Cash and cash equivalents

Financial assets at fair value through profit & loss

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 investments portfolio with the assistance of independent advisers. Council has an investment policy which complies with the Local Government Act and Ministers 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 in approved Australian Deposit Institutions (Banks, Credit Unions and Building Society's). Council obtains three quotes before placing an investment and also seeks advice from its independent advisers when considered relevant.

| Interest sensitivity analysis | 2012 | 2011 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Impact of a 10% movement in price of investments (for assets subject to price risk only) | | |
| - Equity | 1,871 | 2,292 |
| - Income statement | 1,871 | 2,292 |
| Impact of a 1% change in interest rates on cash and investments | | |
| - Equity | 790 | 570 |
| - Income statement | 790 | 570 |

(b) Receivables

Credit risk on receivables for rates, annual charges and service charges made under section 502 is minimised as these are secured over the subject land. The security extends to interest levied for late payment.

Other receivables are subject to a range of credit risk minimisation procedures as appropriate, varying from credit checks to specific security pledges. Council is not materially exposed to any individual debtor, and credit risk exposure is concentrated within the Council boundaries in the State of New South Wales. There are no material receivables that have been subject to re-negotiation of repayment terms.

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

Council receives regular summary reports of receivables due, and detailed reports where appropriate.

At reporting date, all amounts receivable were reviewed, and adequate allowance made for amounts considered doubtful.

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 15 - FINANCIAL RISK MANAGEMENT (cont)

| | | |
|---|--------|--------|
| The profile of the Council's credit risk at balance date was: | 2012 | 2011 |
| | \$'000 | \$'000 |
| Percentage of rates and annual charges | | |
| - Current | 90% | 91% |
| - Overdue | 10% | 9% |
| Percentage of other receivables | | |
| - Current | 95% | 55% |
| - Overdue | 5% | 45% |

(c) Payables Borrowings

Payables and borrowings are subject to liquidity risk - the risk that insufficient funds may be on hand to meet payment obligations as they fall due. Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer. As well, the investment portfolio is managed so as to provide adequate liquidity at all times, particularly during the periods between the quarterly receipt of rates instalments and grants.

Liquidity sensitivity table

The contractual undiscounted cash flows of Council's payables and borrowings are shown below:

| 2012 | Due | | | Total Contractual Cash Flows | Carrying Value |
|------------|--------------|---------------|---------------|------------------------------------|-------------------|
| | ≤ 1 year | 2 - 5 years | > 5 years | | |
| '000 | | | | | |
| Payables | 4,048 | 459 | - | 4,507 | 4,507 |
| Borrowings | 3,095 | 22,958 | 44,506 | 70,559 | 67,675 |
| | <u>7,143</u> | <u>23,417</u> | <u>44,506</u> | <u>75,066</u> | <u>72,182</u> |
| | | | | | |
| 2011 | Due | | | Total Contractual Cash Flows | Carrying Value |
| | ≤ 1 year | 2 - 5 years | > 5 years | | |
| '000 | | | | | |
| Payables | 4,764 | 1,106 | - | 5,870 | 5,870 |
| Borrowings | 2,825 | 17,047 | 8,094 | 27,966 | 24,468 |
| | <u>7,589</u> | <u>18,153</u> | <u>8,094</u> | <u>33,836</u> | <u>30,338</u> |

Borrowings are also subject to interest rate risk - the risk that changes in interest rates could adversely affect funding costs. Council manages this risk by generally borrowing long term, commonly at rates fixed for four years or for the duration of the loan. Council has no borrowings that are at variable rates; the associated interest rate risk is not considered material.

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

| | 2012 | | 2011 | |
|-----------------------------|---|---------------|---|---------------|
| | Weighted average interest rate | Balance | Weighted average interest rate | Balance |
| Loans - fixed interest rate | 6.32% | <u>67,675</u> | 4.02% | <u>24,468</u> |
| | | <u>67,675</u> | | <u>24,468</u> |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS For the year ended 30th June 2012

Note 16 – MATERIAL BUDGET VARIATIONS

Council's original budget comprised part of the Management Plan adopted by Council on 23 June 2011. 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 the Council. Material variations of more than 10% are explained below:

1 REVENUES

1.1 User charges and fees

User charges were down \$2.1m on budget (13% unfavourable). User fees and charges covers a wide range of Council services, the main shortfalls were, private works \$711,000, aerodrome \$557,000, water charges, \$151,000, landfill fees \$201,000 and building & town planning fees \$259,000.

1.2 Interest and investment revenue

Investment Revenues exceed budget by \$951,000 (28% favourable). This was mainly attributable to sewer fund having large amounts of unexpended loan funds during the year, including \$18m at balance date.

1.3 Grants and contributions operating

Operating grants and contributions are applied for and received throughout the year for various projects which are not included in original budgets, during the last financial reporting period Council received \$1.8m more funds than budget (30% favourable). The principal differences were Federal assistance grant \$934,000 and RTA contributions \$116,000.

1.4 Grants and contributions capital

Capital grants and contributions received during the year, exceeded budget by \$11.6m (105% favourable). Included in this amount is \$14.2m of un-budgeted developer provided assets accounted for as capital income. Contributing to reduce income were developer cash contributions, which were down \$3.9m on budget due to a decrease in developer activity.

1.5 Profit from disposal of assets

Council budgeted for a net profit from sale of assets of \$580,000 from Industrial land sales, however a \$2.9m profit was realised on the sale of real estate land plus \$0.7m on the sale of plant and equipment. This was offset by the loss on disposal of infrastructure of \$3.1m leaving a profit from disposal of assets of \$464,000, which is \$116,000 or 20% below budget.

2 EXPENSES

2.1 Borrowing costs

Borrowing costs were under budget by \$384,000 (13% favourable). This is mainly due to changes to the discount rate used in unwinding of present value discounts on remediation assets.

2.2 Depreciation and Amortisation

The expense for this item exceeded budget by \$3.7m (20% unfavourable). This is due to the difficulties in estimating depreciation costs following the annual revaluation of assets such roads, stormwater, water and sewer infrastructure, resulting in unbudgeted increases in depreciation expenses. The 2011/12 depreciation expense is \$2m more than 2010/11, which in turn was \$4.5m higher than the 2009/10 expense.

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 17 - SUMMARY OF DEVELOPER CONTRIBUTIONS

(a) Summary of developer contributions

| PURPOSE | OPENING BALANCE | CONTRIBUTIONS RECEIVED DURING YEAR | | INTEREST EARNED DURING YEAR | EXPENDE D DURING YEAR | INTERNAL BORROW- INGS (to)/from | HELD AS RESTR- ICTED ASSET | EST. FUTURE CONTRIBS | EST. WORKS OUT- STANDING | EST. OVER/ (UNDER) FUNDING | BALANCE INTERNAL BORROW- INGS |
|----------------------------|--------------------|--|----------|--------------------------------------|--------------------------------|--|-------------------------------------|----------------------------|-----------------------------------|-------------------------------------|--|
| | | CASH | NON-CASH | | | | | | | | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Roads | 2,458 | 410 | | 143 | (158) | | 2,853 | 98,599 | 101,452 | | |
| Open space (old) | 106 | 16 | | 5 | (62) | | 65 | | 65 | | |
| Open space | 223 | 216 | | 19 | (997) | 696 | 157 | 9,078 | 6,754 | 2,481 | 2,481 |
| Parking | 2,101 | | | 120 | | | 2,221 | 2,821 | 5,042 | | |
| Community facilities (old) | 273 | 18 | | 16 | | | 307 | | 307 | | |
| Community facilities | 132 | 198 | | 13 | | (146) | 197 | 16,289 | 12,604 | 3,882 | 3,882 |
| Heavy vehicles | 922 | 410 | | 55 | (360) | | 1,027 | | 1,027 | | |
| Wollongbar Expansion | 18 | 104 | | 3 | | (50) | 75 | 3,303 | 954 | 2,424 | 2,374 |
| Subtotal S94 under plans | 6,233 | 1,372 | | 374 | (1,577) | 500 | 6,902 | 130,090 | 128,205 | 8,787 | 8,737 |
| Sec 64 Contributions | 11,436 | 1,001 | | 644 | (250) | | 12,831 | | | | |
| Total Contributions | 17,669 | 2,373 | | 1,018 | (1,827) | 500 | 19,733 | | | | 8,737 |

Note: The above summary of contribution plans represents the total of Council's individual contribution plans. Individual plan details are shown below.

(b) Contribution plan - roads

| PURPOSE | OPENING BALANCE | CONTRIBUTIONS RECEIVED DURING YEAR | | INTEREST EARNED DURING YEAR | EXPENDE D DURING YEAR | INTERNAL BORROW- INGS (to)/from | HELD AS RESTR- ICTED ASSET | EST. FUTURE CONTRIBS | EST. WORKS OUT- STANDING | EST. OVER/ (UNDER) FUNDING | BALANCE INTERNAL BORROW- INGS |
|---------------------------|--------------------|--|----------|--------------------------------------|--------------------------------|--|-------------------------------------|----------------------------|-----------------------------------|-------------------------------------|--|
| | | CASH | NON-CASH | | | | | | | | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Roads (2002) - shire wide | 2,174 | 199 | | 122 | (158) | | 2,337 | 100 | 2,437 | | |
| Roads (2010) - shire wide | 284 | 211 | | 21 | - | | 516 | 98,499 | 99,015 | | |
| Total | 2,458 | 410 | | 143 | (158) | | 2,853 | 98,599 | 101,452 | | |

(c) Contribution plan - open space (old)

| PURPOSE | OPENING BALANCE | CONTRIBUTIONS RECEIVED DURING YEAR | | INTEREST EARNED DURING YEAR | EXPENDE D DURING YEAR | INTERNAL BORROW- INGS (to)/from | HELD AS RESTR- ICTED ASSET | EST. FUTURE CONTRIBS | EST. WORKS OUT- STANDING | EST. OVER/ (UNDER) FUNDING | BALANCE INTERNAL BORROW- INGS |
|--------------|--------------------|--|----------|--------------------------------------|--------------------------------|--|-------------------------------------|----------------------------|-----------------------------------|-------------------------------------|--|
| | | CASH | NON-CASH | | | | | | | | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Ballina | 98 | - | | 5 | (53) | | 50 | | 50 | | |
| East Ballina | 7 | - | | - | (7) | | - | | - | | |
| West Ballina | - | 15 | | - | - | | 15 | | 15 | | |
| Lennox Head | - | 1 | | - | (1) | | - | | - | | |
| Wardell | 1 | - | | - | (1) | | - | | - | | |
| Alstonville | - | - | | - | - | | - | | - | | |
| Wollongbar | - | - | | - | - | | - | | - | | |
| Total | 106 | 16 | | 5 | (62) | | 65 | | 65 | | |

(d) Contribution plan - open space

| PURPOSE | OPENING BALANCE | CONTRIBUTIONS RECEIVED DURING YEAR | | INTEREST EARNED DURING YEAR | EXPENDE D DURING YEAR | INTERNAL BORROW- INGS (to)/from | HELD AS RESTR- ICTED ASSET | EST. FUTURE CONTRIBS | EST. WORKS OUT- STANDING | EST. OVER/ (UNDER) FUNDING | BALANCE INTERNAL BORROW- INGS |
|------------------|--------------------|--|----------|--------------------------------------|--------------------------------|--|-------------------------------------|----------------------------|-----------------------------------|-------------------------------------|--|
| | | CASH | NON-CASH | | | | | | | | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Ballina district | 123 | 21 | | 11 | - | - | 155 | 1,432 | 1,587 | - | - |
| Lennox district | 1 | 24 | | - | - | (25) | - | 1,226 | 1,050 | 176 | 176 |
| Plateau district | 96 | 129 | | 8 | (997) | 764 | - | 1,812 | 1,047 | 765 | 765 |
| Wardell district | 2 | - | | - | - | - | 2 | 24 | 26 | - | - |
| Regional | 1 | 42 | | - | - | (43) | - | 4,584 | 3,044 | 1,540 | 1,540 |
| Total | 223 | 216 | | 19 | (997) | 696 | 157 | 9,078 | 6,754 | 2,481 | 2,481 |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 17 - SUMMARY OF DEVELOPER CONTRIBUTIONS (cont)

(e) Contribution plan - car parking

| PURPOSE | OPENING BALANCE \$'000 | CONTRIBUTIONS RECEIVED DURING YEAR | | INTEREST EARNED DURING YEAR \$'000 | EXPENDE D DURING YEAR \$'000 | INTERNAL BORROW- INGS (to)/from \$'000 | HELD AS RESTR- ICTED ASSET \$'000 | EST. FUTURE CONTRIBS \$'000 | EST. WORKS OUT- STANDING \$'000 | EST. OVER/ (UNDER) FUNDING \$'000 | BALANCE INTERNAL BORROW- INGS \$'000 |
|--------------|------------------------------|--|--------------------|--|--|--|---|--------------------------------------|---|---|--|
| | | CASH \$'000 | NON-CASH \$'000 | | | | | | | | |
| Ballina | 2,020 | | | 115 | | | 2,135 | 1,670 | 3,805 | | |
| Lennox Head | 81 | | | 5 | | | 86 | 1,151 | 1,237 | | |
| Total | 2,101 | | | 120 | | | 2,221 | 2,821 | 5,042 | | |

(f) Contribution plan - community facilities (old)

| PURPOSE | OPENING BALANCE \$'000 | CONTRIBUTIONS RECEIVED DURING YEAR | | INTEREST EARNED DURING YEAR \$'000 | EXPENDE D DURING YEAR \$'000 | INTERNAL BORROW- INGS (to)/from \$'000 | HELD AS RESTR- ICTED ASSET \$'000 | EST. FUTURE CONTRIBS \$'000 | EST. WORKS OUT- STANDING \$'000 | EST. OVER/ (UNDER) FUNDING \$'000 | BALANCE INTERNAL BORROW- INGS \$'000 |
|------------------------|------------------------------|--|--------------------|--|--|--|---|--------------------------------------|---|---|--|
| | | CASH \$'000 | NON-CASH \$'000 | | | | | | | | |
| Ballina | - | 16 | | - | | | 16 | | 16 | | |
| Skennars Head | - | - | | - | | | - | | - | | |
| Lennox Head | - | 2 | | - | | | 2 | | 2 | | |
| Alstonville/Wollongbar | 83 | - | | 4 | | | 87 | | 87 | | |
| Cumalung | 150 | - | | 9 | | | 159 | | 159 | | |
| Wardell | 40 | - | | 3 | | | 43 | | 43 | | |
| Total | 273 | 18 | | 16 | | | 307 | | 307 | | |

(g) Contribution plan - community facilities

| PURPOSE | OPENING BALANCE \$'000 | CONTRIBUTIONS RECEIVED DURING YEAR | | INTEREST EARNED DURING YEAR \$'000 | EXPENDE D DURING YEAR \$'000 | INTERNAL BORROW- INGS (to)/from \$'000 | HELD AS RESTR- ICTED ASSET \$'000 | EST. FUTURE CONTRIBS \$'000 | EST. WORKS OUT- STANDING \$'000 | EST. OVER/ (UNDER) FUNDING \$'000 | BALANCE INTERNAL BORROW- INGS \$'000 |
|------------------|------------------------------|--|--------------------|--|--|--|---|--------------------------------------|---|---|--|
| | | CASH \$'000 | NON-CASH \$'000 | | | | | | | | |
| Ballina district | 84 | 18 | | 8 | | - | 110 | 2,897 | 3,007 | - | - |
| Lennox district | 1 | 11 | | - | | (12) | - | 1,848 | 582 | 1,266 | 1,266 |
| Plateau district | 46 | 35 | | 5 | | - | 86 | 1,028 | 1,114 | - | - |
| Wardell district | 1 | - | | - | | - | 1 | 30 | 31 | - | - |
| Regional | | 134 | | - | | (134) | - | 10,486 | 7,870 | 2,616 | 2,616 |
| Total | 132 | 198 | | 13 | | (146) | 197 | 16,289 | 12,604 | 3,882 | 3,882 |

(h) Contribution plan - heavy vehicles

| PURPOSE | OPENING BALANCE \$'000 | CONTRIBUTIONS RECEIVED DURING YEAR | | INTEREST EARNED DURING YEAR \$'000 | EXPENDE D DURING YEAR \$'000 | INTERNAL BORROW- INGS (to)/from \$'000 | HELD AS RESTR- ICTED ASSET \$'000 | EST. FUTURE CONTRIBS \$'000 | EST. WORKS OUT- STANDING \$'000 | EST. OVER/ (UNDER) FUNDING \$'000 | BALANCE INTERNAL BORROW- INGS \$'000 |
|--------------|------------------------------|--|--------------------|--|--|--|---|--------------------------------------|---|---|--|
| | | CASH \$'000 | NON-CASH \$'000 | | | | | | | | |
| Shire wide | 922 | 410 | | 55 | (360) | | 1,027 | | 1,027 | | |
| Total | 922 | 410 | | 55 | (360) | | 1,027 | | 1,027 | | |

(i) Contribution plan - Wollongbar urban expansion area

| PURPOSE | OPENING BALANCE \$'000 | CONTRIBUTIONS RECEIVED DURING YEAR | | INTEREST EARNED DURING YEAR \$'000 | EXPENDE D DURING YEAR \$'000 | INTERNAL BORROW- INGS (to)/from \$'000 | HELD AS RESTR- ICTED ASSET \$'000 | EST. FUTURE CONTRIBS \$'000 | EST. WORKS OUT- STANDING \$'000 | EST. OVER/ (UNDER) FUNDING \$'000 | BALANCE INTERNAL BORROW- INGS \$'000 |
|-----------------|------------------------------|--|--------------------|--|--|--|---|--------------------------------------|---|---|--|
| | | CASH \$'000 | NON-CASH \$'000 | | | | | | | | |
| Link road | 2 | 91 | | - | | (50) | 43 | 2,869 | 488 | 2,424 | 2,374 |
| Transport works | 16 | 13 | | 3 | | | 32 | 434 | 466 | - | - |
| Total | 18 | 104 | | 3 | | (50) | 75 | 3,303 | 954 | 2,424 | 2,374 |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30th June 2012

Note 17 - SUMMARY OF DEVELOPER CONTRIBUTIONS (cont)

(j) Contribution plan - Section 64 water

| PURPOSE | OPENING BALANCE | CONTRIBUTIONS RECEIVED DURING YEAR | | INTEREST EARNED DURING YEAR | EXPENDE D DURING YEAR | INTERNAL BORROW- INGS (to)/from | HELD AS RESTR- ICTED ASSET | BALANCE INTERNAL BORROW- INGS |
|---------------|--------------------|--|----------|--------------------------------------|--------------------------------|--|-------------------------------------|--|
| | | CASH | NON-CASH | | | | | |
| | | \$'000 | \$'000 | | | | | |
| Ballina | 2,160 | 11 | | 116 | (1) | | 2,286 | |
| East Ballina | 616 | 43 | | 33 | - | | 692 | |
| West Ballina | 825 | 50 | | 44 | - | | 919 | |
| North Ballina | 553 | 20 | | 30 | - | | 603 | |
| Lennox Head | 2,533 | 27 | | 136 | - | | 2,696 | |
| Wardell | 68 | - | | 3 | - | | 71 | |
| Alstonville | 270 | 2 | | 14 | - | | 286 | |
| Wollongbar | 93 | 1 | | 5 | (99) | | - | |
| Skennars Head | 177 | 1 | | 10 | - | | 188 | |
| Cumbalum | 127 | 3 | | 7 | - | | 137 | |
| WUEA | 100 | 46 | | 4 | (150) | | - | |
| Total | 7,522 | 204 | | 402 | (250) | | 7,878 | |

(k) Contribution plan - Section 64 sewer

| PURPOSE | OPENING BALANCE | CONTRIBUTIONS RECEIVED DURING YEAR | | INTEREST EARNED DURING YEAR | EXPENDE D DURING YEAR | INTERNAL BORROW- INGS (to)/from | HELD AS RESTR- ICTED ASSET | BALANCE INTERNAL BORROW- INGS |
|---------------|--------------------|--|----------|--------------------------------------|--------------------------------|--|-------------------------------------|--|
| | | CASH | NON-CASH | | | | | |
| | | \$'000 | \$'000 | | | | | |
| Ballina | 64 | 38 | | 4 | | | 106 | |
| East Ballina | - | 126 | | - | | | 126 | |
| West Ballina | - | 106 | | - | | | 106 | |
| North Ballina | 1,195 | 44 | | 74 | | | 1,313 | |
| Pacific Pines | 1 | 1 | | - | | | 2 | |
| Lennox Head | - | 66 | | - | | | 66 | |
| Wardell | 24 | - | | 1 | | | 25 | |
| Alstonville | 1,216 | 6 | | 75 | | | 1,297 | |
| Wollongbar | 948 | 2 | | 59 | | | 1,009 | |
| Skennars Head | - | 92 | | - | | | 92 | |
| Cumbalum | 133 | 9 | | 9 | | | 151 | |
| WUEA | 333 | 307 | | 20 | | | 660 | |
| Total | 3,914 | 797 | | 242 | | | 4,953 | |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 18 - CONTINGENCIES

Contingent liabilities

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 liabilities over assets 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 payment is not able to be reliably quantified.

Contingent assets

In regards to the Lennox Head Cultural and Community Centre, Council has lodged a professional indemnity claim for \$1,264,000 against the original project architect (whose contract was terminated during construction) for damages relating to inadequacies in the design and documentation for the project that resulted in cost variations. Both parties have agreed the claim is to go to a mediation session in September 2012.

Richmond - Tweed Regional Library

Council, together with other Local Government authorities, originally entered into an agreement to operate a regional library known as Richmond - Tweed Regional Library (RTRL). Annually the Council contributes to the library to fund its activities based upon a prescribed formula.

The RTRL is administered by the Lismore City Council and currently there is some doubt over the continuance of the existing agreement. The member councils are currently reviewing the existing arrangements to determine a preferred future model. In the event that the Council wishes to withdraw from the arrangement, the assets and liabilities of the regional library attributable to Council will be determined either by the members or by the Library Board of New South Wales.

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 19 - INTERESTS IN JOINT VENTURES AND ASSOCIATES

Jointly controlled entity

NEWLOG

The Council is a member of the North East Weight of Loads Group (NEWLOG) and is the administering Council. The constitution of the Group specifies the Council as having a share of the assets and liabilities proportionate to its shareholding in the venture. The stated objectives of the Group include, to generally promote the aims of reducing damage to Council and classified roads by the policing of vehicle weight limits. The agreement between eight (8) local Councils, lapsed as at June 3, 2001, but the conditions are expected to continue on a "year to year" basis.

The interest in NEWLOG is accounted for in the financial statements using the equity method of accounting and is carried at cost. Information relating to the joint venture partnership is set out below.

| Carrying amount of investment in partnership | Actual 2012 \$'000 | Actual 2011 \$'000 |
|---|--------------------------|--------------------------|
| Share of partnership's assets and liabilities | | |
| Current assets | 41 | 42 |
| Non-current assets | 11 | 14 |
| Total assets | <u>52</u> | <u>56</u> |
| Current liabilities | (17) | (18) |
| Total liabilities | <u>(17)</u> | <u>(18)</u> |
| Net assets | <u>35</u> | <u>38</u> |
| Share of partnership's revenue, expenses and results | | |
| Revenues | 38 | 37 |
| Expenses | (63) | (59) |
| Operating result | <u>(25)</u> | <u>(22)</u> |
| Council's respective interests are: | | |
| - interest in outputs of the partnership operation | 13% | 13% |
| - ownership interest in the partnership operation | 13% | 13% |
| - the proportion of voting power in the partnership operation | 11% | 11% |
| Movements in investment in partnership operation | | |
| | \$'000 | \$'000 |
| Opening balance | 38 | 38 |
| New capital contributions | 22 | 22 |
| Share in operating result | (25) | (22) |
| Share in equity of partnership operation | <u>35</u> | <u>38</u> |

In accordance with the Code of Accounting Practice, reserves other than Asset Revaluation Reserve have been treated as internal restrictions of cash and investments, and are included in the Share in Equity of the partnership operation.

Expenditure commitments

There was no expenditure (including capital expenditure) committed for at the reporting date but not recognised in the financial statements as liabilities.

Contingent Liabilities

Each of the partners in the Newlog joint venture are jointly and severally liable for the debts of the partnership. The assets of the joint venture exceed its debts.

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 20 - REVALUATION RESERVES AND RETAINED EARNINGS

| (a) Retained earnings | 2012 \$'000 | 2011 \$'000 |
|--|----------------|----------------|
| Balance at end of previous reporting period | 557,588 | 499,755 |
| Effect of correction of errors in previous years (see below) | <u>36,008</u> | <u>39,267</u> |
| Restated opening balance | 593,596 | 539,022 |
| Net operating result for the year | <u>12,570</u> | <u>18,566</u> |
| Balance at end of the reporting period | <u>606,166</u> | <u>557,588</u> |

| (b) Revaluation reserves <i>Infrastructure, property, plant and equipment</i> | | |
|--|----------------|----------------|
| Balance at end of previous reporting period | 357,273 | 280,653 |
| Revaluation of infrastructure, property, plant and equipment (Note 9) | <u>88,360</u> | <u>76,620</u> |
| Balance at end of reporting period | <u>445,633</u> | <u>357,273</u> |

At the end of the reporting period, the amount held in the reserve related to the following asset classes:

| | | |
|---|----------------|----------------|
| Operational land | 25,697 | 25,697 |
| Community land | 49,513 | 49,513 |
| Buildings | 29,270 | 29,270 |
| Other structures | 2,884 | 2,884 |
| Infrastructure | | |
| - Roads, bridges, footpaths | 123,511 | 106,606 |
| - Stormwater drainage | 33,475 | 33,475 |
| - Water Supply Network | 81,162 | 63,857 |
| - Sewerage Network | <u>100,121</u> | <u>45,971</u> |
| Balance at end of reporting period | <u>445,633</u> | <u>357,273</u> |

(c) Nature and purpose of reserves

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

(d) Correction of errors in previous years

| | | | |
|--|--------|--------|--|
| (i) Due to the sale of a parcel of operating land in the current reporting period, it was found that the land was not included in the land asset register. | 400 | - | |
| (ii) In the course of revaluations carried out in the current reporting period a sewer plant building was found, which had not previously been included in the building asset register. | 13 | - | |
| (iii) In the course of revaluations carried out in the current reporting period, it was found that some sewer infrastructure assets had been undervalued in the 30 June 2007 revaluations. The depreciation expense for 2011 comparatives has been increased by \$634,000 reflecting additional depreciation arising from the change in values to the abovementioned sewer | 35,595 | - | |
| (iv) previous reporting period, it was found that a number of community land parcels had not previously been recognised. | - | 39,267 | |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

NOTE 21 - RESULTS BY FUND

Amounts are shown on a gross basis (before consolidation eliminations) and do NOT reconcile to the General Purpose Financial Statements, and are shown for the current year only.

| INCOME STATEMENT BY FUND | General (1) \$'000 | Water \$'000 | Sewer \$'000 |
|---|-----------------------|-----------------|-----------------|
| Income from continuing operations | | | |
| Rates and annual charges | 21,047 | 2,432 | 9,794 |
| User charges and fees | 8,511 | 5,265 | 806 |
| Interest and investment revenues | 2,322 | 768 | 1,275 |
| Other revenues | 3,129 | 0 | 414 |
| Grants and contributions - operating | 7,284 | 148 | 312 |
| Grants and contributions - capital | 19,599 | 1,254 | 1,846 |
| Net gain from the disposal of assets | 815 | 0 | 0 |
| Total Income from continuing operations | <u>62,707</u> | <u>9,867</u> | <u>14,447</u> |
| Expenses from continuing operations | | | |
| Employee benefits and on-costs | 14,148 | 1,380 | 3,496 |
| Materials and contracts | 13,251 | 6,818 | 4,519 |
| Borrowing costs | 878 | 0 | 1,648 |
| Depreciation and amortisation | 15,092 | 2,266 | 4,343 |
| Other expenses | 5,108 | 9 | 1,144 |
| Interest and investment losses | 0 | 0 | 0 |
| Net loss from disposal of assets | 0 | 75 | 276 |
| Total expenses from continuing operations | <u>48,477</u> | <u>10,548</u> | <u>15,426</u> |
| Operating result from continuing operations | <u>14,230</u> | <u>(681)</u> | <u>(979)</u> |
| Net operating result for the year | <u>14,230</u> | <u>(681)</u> | <u>(979)</u> |
| Attributable to: | | | |
| Ballina Shire Council | <u>14,230</u> | <u>(681)</u> | <u>(979)</u> |
| | <u>14,230</u> | <u>(681)</u> | <u>(979)</u> |
| Net operating result before grants and contributions provided for capital purposes | (5,369) | (1,935) | (2,825) |

Note (1) General fund refers to all activities except water and sewer

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 21 - RESULTS BY FUND (cont)

| BALANCE SHEET BY FUND | General (1) \$'000 | Water \$'000 | Sewer \$'000 |
|---|------------------------------|------------------------|------------------------|
| Current assets | | | |
| Cash and cash equivalents | 25,686 | 486 | 1,099 |
| Investments | 3,830 | 9,591 | 26,736 |
| Receivables | 5,477 | 1,837 | 1,841 |
| Inventories | 1,162 | 0 | 0 |
| Other | 34 | 0 | 123 |
| Non-current assets held for sale | 0 | 0 | 0 |
| Total current assets | <u>36,189</u> | <u>11,914</u> | <u>29,799</u> |
| Non-current assets | | | |
| Investments | 5,953 | 651 | 4,953 |
| Receivables | 219 | 149 | 322 |
| Inventories | 2,651 | 0 | 0 |
| Infrastructure, property, plant and equipment | 688,800 | 106,240 | 227,349 |
| Investment Property | 22,030 | 0 | 0 |
| Total non-current assets | <u>719,653</u> | <u>107,040</u> | <u>232,624</u> |
| Total assets | <u>755,842</u> | <u>118,954</u> | <u>262,423</u> |
| Current liabilities | | | |
| Payables | 4,040 | 0 | 8 |
| Borrowings | 2,106 | 4 | 985 |
| Provisions | 7,096 | 134 | 448 |
| Total current liabilities | <u>13,242</u> | <u>138</u> | <u>1,441</u> |
| Non-current liabilities | | | |
| Payables | 459 | 0 | 0 |
| Borrowings | 14,392 | 0 | 50,188 |
| Provisions | 5,560 | 0 | 0 |
| Total non-current liabilities | <u>20,411</u> | <u>0</u> | <u>50,188</u> |
| Total liabilities | <u>33,653</u> | <u>138</u> | <u>51,629</u> |
| NET ASSETS | <u>722,189</u> | <u>118,816</u> | <u>210,794</u> |
| EQUITY | | | |
| Accumulated Surplus | 457,839 | 37,654 | 109,268 |
| Revaluation Reserves | 264,350 | 81,162 | 101,526 |
| Total equity | <u>722,189</u> | <u>118,816</u> | <u>210,794</u> |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 22 – NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Council did not classify any non current assets or disposal groups as "Held for Sale".

Note 23 – EVENTS OCCURRING AFTER BALANCE SHEET DATE

Events that occur after the reporting date of 30 June 2012, 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 adopted the date of receipt of the Auditor's Report as the appropriate "authorised for issue" date relating to this General Purpose Financial Report.

Accordingly, the "authorised for issue" date is 25/10/2012.

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 24 - REINSTATEMENT, REHABILITATION AND RESTORATION LIABILITIES

Tip and quarry site remediations

Council is required by law to restore tip and quarry sites to a form that meets relevant environmental standards and licencing requirements. The projected costs of these restorations has been based on feasibility and engineering studies and estimates and has been discounted to their present value. The following sites make up the provision for remediation in Note 10:

| | 2012 \$'000 | 2011 \$'000 |
|--|----------------|----------------|
| Tuckombil quarry remediation | | |
| At beginning of year | 817 | 782 |
| Amounts capitalised to remediation asset: | | |
| Revised discount rate | (97) | (2) |
| Amortisation of discount - expensed to borrowing costs | 39 | 37 |
| At end of year | 759 | 817 |
| Stokers quarry remediation | | |
| At beginning of year | 444 | 425 |
| Amounts capitalised to remediation asset: | | |
| Revised discount rate | (53) | (1) |
| Amortisation of discount - expensed to borrowing costs | 21 | 20 |
| At end of year | 412 | 444 |
| Canal tip (Ballina) remediation | | |
| At beginning of year | 1,615 | 1,551 |
| Amounts capitalised to remediation asset: | | |
| Revised life | (260) | - |
| Revised discount rate | - | (6) |
| Amortisation of discount - expensed to borrowing costs | 76 | 70 |
| At end of year | 1,431 | 1,615 |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30th June 2012

Note 24 - REINSTATEMENT, REHABILITATION AND RESTORATION LIABILITIES (Cont)

| | 2012 \$'000 | 2011 \$'000 |
|--|----------------|----------------|
| Sth cross tip (Ballina) remediation | | |
| At beginning of year | 2,009 | 1,919 |
| Amounts capitalised to remediation asset: | | |
| Revised discount rate | (106) | (5) |
| Amortisation of discount - expensed to borrowing costs | 100 | 95 |
| At end of year | <u>2,003</u> | <u>2,009</u> |
| Wardell tip remediation | | |
| At beginning of year | 613 | 587 |
| Amounts capitalised to remediation asset: | | |
| Revised discount rate | (79) | (1) |
| Amortisation of discount - expensed to borrowing costs | 29 | 27 |
| At end of year | <u>563</u> | <u>613</u> |
| Lennox Head tip remediation | | |
| At beginning of year | 266 | 255 |
| Amounts capitalised to remediation asset: | | |
| Revised discount rate | (30) | (1) |
| Amortisation of discount - expensed to borrowing costs | 13 | 12 |
| At end of year | <u>249</u> | <u>266</u> |
| Total remediation provisions at end of year (Note 10) | <u>5,417</u> | <u>5,764</u> |

PART C

SPECIAL PURPOSE STATEMENTS

BALLINA SHIRE COUNCIL
Special Purpose Financial Statements
for the year ended 30th June 2012

CONTENTS

Page

| | |
|--|----|
| Statement by Councillors and Management | P1 |
| Income statement of Water Supply business activity | P2 |
| Income statement of Sewerage business activity | P3 |
| Income statement of Other business activities | P4 |
| Balance sheet of Water Supply business activity | P5 |
| Balance sheet of Sewerage business activity | P6 |
| Balance sheet of Other business activities | P7 |
| Notes to the Special Purpose Financial Statements | P8 |
| Auditor's report | i |

BALLINA SHIRE COUNCIL

SPECIAL PURPOSE FINANCIAL STATEMENTS For the year ended 30 June 2012

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 drawn up 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 Statements

- 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 25 October 2012

.....
MAYOR

.....
COUNCILLOR

.....
GENERAL MANAGER

.....
RESPONSIBLE ACCOUNTING OFFICER

BALLINA SHIRE COUNCIL

INCOME STATEMENT
WATER SUPPLY BUSINESS ACTIVITY
for the year ended 30th June 2012

| | Notes | 2012 '000 | 2011 '000 | 2010 '000 |
|--|-------|----------------|----------------|----------------|
| INCOME FROM CONTINUING OPERATIONS | | | | |
| Access charges | A4 | 2,432 | 2,159 | 1,806 |
| User charges | A4 | 4,919 | 4,551 | 4,615 |
| Fees | A4 | 346 | 436 | 305 |
| Interest | A4 | 768 | 562 | 532 |
| Grants and contributions - operating | A4 | 148 | 191 | 146 |
| Total income from continuing operations | | 8,613 | 7,899 | 7,404 |
| EXPENSES FROM CONTINUING OPERATIONS | | | | |
| Employee benefits and on-costs | A3 | 1,380 | 1,546 | 1,452 |
| Materials and contracts | A3 | 1,783 | 1,750 | 1,583 |
| Borrowing costs | A3 | - | 1 | 1 |
| Depreciation and impairment | A3 | 2,266 | 2,246 | 2,132 |
| Water purchase charges | | 5,035 | 4,264 | 3,680 |
| Loss on disposal of assets | A5 | 75 | - | - |
| Calculated taxation equivalents | 1 | 34 | 34 | 33 |
| Other expenses | A3 | 9 | 8 | 10 |
| Total expenses from continuing operations | | 10,582 | 9,849 | 8,891 |
| Surplus (deficit) from continuing operations before capital amounts | | (1,969) | (1,950) | (1,487) |
| Grants and contributions - capital | A4 | 1,254 | 2,674 | 862 |
| Surplus (deficit) from all operations before tax | | (715) | 724 | (625) |
| Corporate Taxation Equivalent | 1 | - | - | - |
| Surplus (deficit) after tax | | (715) | 724 | (625) |
| Add: Opening retained profits | | 38,369 | 37,645 | 38,270 |
| <i>Adjustments for amounts unpaid</i> | | | | |
| Taxation equivalent payments | 1 | 34 | 34 | 33 |
| Less: TER dividend paid | 1 | (34) | (34) | (33) |
| CLOSING RETAINED PROFITS | | 37,654 | 38,369 | 37,645 |
| RATE OF RETURN ON CAPITAL | 1 | -1.85% | -2.17% | -1.74% |
| NOTIONAL SUBSIDY FROM COUNCIL | 1 | N/A | N/A | N/A |
| <i>Calculation of Dividend Payable during next financial year</i> | | | | |
| Surplus (deficit) after tax | | -715 | 724 | -625 |
| Less: Capital grants and contribs from LWUs | | 171 | 18 | 146 |
| Surplus for dividend calculation purposes | | <u>0</u> | <u>706</u> | <u>0</u> |
| Dividend calculated from surplus | | 0 | 353 | 0 |

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

BALLINA SHIRE COUNCIL
INCOME STATEMENT
SEWERAGE BUSINESS ACTIVITY
for the year ended 30th June 2012

| | Notes | 2012 '000 | 2011 '000 | 2010 '000 |
|--|-------|----------------|----------------|----------------|
| INCOME FROM CONTINUING OPERATIONS | | | | |
| Access charges | A4 | 9,794 | 8,408 | 7,175 |
| User charges | A4 | 697 | 652 | 648 |
| Liquid trade waste charges | A4 | 78 | 77 | 74 |
| Fees | A4 | 31 | 52 | 47 |
| Interest | A4 | 1,275 | 914 | 3,774 |
| Grants and contributions - operating | A4 | 312 | 166 | 599 |
| Gain on disposal of assets | A5 | - | - | 365 |
| Other income | A4 | 414 | 466 | - |
| Total income from continuing operations | | 12,601 | 10,735 | 12,682 |
| EXPENSES FROM CONTINUING OPERATIONS | | | | |
| Employee benefits and on-costs | A3 | 3,496 | 3,521 | 3,591 |
| Materials and contracts | A3 | 4,519 | 3,987 | 3,914 |
| Borrowing costs | A3 | 1,648 | 518 | 21 |
| Depreciation and impairment | A3 | 4,343 | 4,237 | 3,992 |
| Loss on disposal of assets | A5 | 276 | 2 | - |
| Calculated taxation equivalents | 1 | 27 | 20 | 17 |
| Debt guarantee fee | | 533 | 66 | 2 |
| Other expenses | A3 | 1,144 | 315 | 173 |
| Total expenses from continuing operations | | 15,986 | 12,666 | 11,710 |
| Surplus (deficit) from continuing operations before capital amounts | | (3,385) | (1,931) | 972 |
| Grants and contributions - capital | A4 | 1,846 | 5,393 | 1,666 |
| Surplus (deficit) from all operations before tax | | (1,539) | 3,462 | 2,638 |
| Corporate Taxation Equivalent | 1 | - | - | 292 |
| Surplus (deficit) after tax | | (1,539) | 3,462 | 2,346 |
| Add: Opening retained profits | | 111,672 | 108,144 | 105,317 |
| Adjustments for amounts unpaid | | | | |
| Taxation equivalent payments | 1 | 27 | 20 | 17 |
| Debt guarantee fees | | 533 | 66 | 2 |
| Corporate taxation equivalent | | - | - | 481 |
| Less: TER dividend paid | 1 | (20) | (20) | (19) |
| CLOSING RETAINED PROFITS | | 110,673 | 111,672 | 108,144 |
| RATE OF RETURN ON CAPITAL | 1 | -0.76% | -0.68% | 1.59% |
| NOTIONAL SUBSIDY FROM COUNCIL | 1 | N/A | N/A | N/A |
| <i>Calculation of dividend payable during next financial year</i> | | | | |
| Surplus after tax | | -1,539 | 4,096 | 2,787 |
| Less: Capital grants and contribs from LWUs | | 162 | 16 | 149 |
| Surplus for dividend calculation purposes | | 0 | 4,080 | 2,638 |
| Dividend calculated from surplus | | 0 | 2,040 | 1,319 |

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

BALLINA SHIRE COUNCIL

INCOME STATEMENT OF OTHER BUSINESS ACTIVITIES
for the year ended 30th June 2012

| | | BUSINESS ACTIVITIES | | | | | | | | | | | |
|--|----|---------------------|--------------|-----------------|--------------|-----------------|--------------|--------------------------|---------------|---|--------------|-----------------------|------------|
| | | Quarry '000 | | Airport '000 | | Wigmore '000 | | Land Development '000 | | Landfill & Resource Recovery '000 | | Private Works '000 | |
| Notes | | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| INCOME FROM CONTINUING OPERATIONS | | | | | | | | | | | | | |
| User Charges and fees | A4 | 304 | 585 | 3,483 | 2,729 | 571 | 634 | 6,732 | 2,049 | 5,668 | 6,970 | 116 | 215 |
| Interest | A4 | 89 | 86 | 15 | - | 8 | 9 | 19 | 37 | 50 | 64 | - | - |
| Fair value adjustment on investment property | A5 | - | - | - | - | - | 300 | - | 1,388 | - | - | - | - |
| Other income | A4 | - | - | - | - | - | - | - | - | 643 | - | - | 13 |
| Total income from continuing operations | | 393 | 671 | 3,498 | 2,729 | 579 | 943 | 6,751 | 3,474 | 6,361 | 7,034 | 116 | 228 |
| EXPENSES FROM CONTINUING OPERATIONS | | | | | | | | | | | | | |
| Employee benefits and on-costs | A3 | - | - | 558 | 601 | - | - | - | - | 3,686 | 691 | - | - |
| Materials and contracts | A3 | 77 | 50 | 1,984 | 1,554 | 253 | 208 | 4,596 | 1,117 | 752 | 3,837 | 115 | 228 |
| Borrowing costs | A3 | (90) | 60 | 235 | 217 | - | - | - | - | 435 | 244 | - | - |
| Depreciation and impairment | A3 | 90 | 82 | 782 | 708 | - | - | - | - | 1,217 | 1,015 | - | - |
| Loss on disposal of assets | A5 | - | - | - | 109 | - | - | - | - | - | - | - | - |
| Calculated taxation equivalents | 2 | 29 | 9 | 6 | 6 | 58 | 62 | 399 | 567 | 20 | 37 | - | - |
| Debt guarantee fees | 1 | - | - | 37 | 38 | - | - | - | - | 57 | 60 | - | - |
| Total expenses from continuing operations | | 106 | 201 | 3,602 | 3,233 | 311 | 270 | 4,995 | 1,684 | 6,167 | 5,884 | 115 | 228 |
| Surplus (deficit) from continuing operations before capital amounts | | 287 | 470 | (104) | (504) | 268 | 673 | 1,756 | 1,790 | 194 | 1,150 | 1 | - |
| Grants and contributions - capital | A4 | - | - | 1,156 | - | - | - | 4,220 | 1,611 | - | - | - | - |
| Surplus (deficit) from all operations before tax | | 287 | 470 | 1,052 | (504) | 268 | 673 | 5,976 | 3,401 | 194 | 1,150 | 1 | - |
| Corporate Taxation Equivalent | 2 | 86 | 141 | - | - | 80 | 202 | 527 | 537 | 58 | 345 | - | - |
| Surplus (deficit) after tax | | 201 | 329 | 1,052 | (504) | 188 | 471 | 5,449 | 2,864 | 136 | 805 | 1 | - |
| Add: Opening retained profits | | 1,092 | 949 | 6,896 | 7,357 | 6,194 | 5,916 | 10,007 | 6,857 | 715 | (468) | - | - |
| Taxation equivalent payments | 1 | 115 | 150 | 6 | 6 | 138 | 264 | 926 | 1,104 | 78 | 382 | - | - |
| Debt guarantee fees | | - | - | 37 | 38 | - | - | - | - | 57 | 60 | - | - |
| Less: TER dividend paid | | - | - | - | - | - | - | - | - | - | - | - | - |
| Surplus dividend paid | 2 | (391) | (336) | (15) | - | (319) | (457) | (542) | (818) | - | (64) | (1) | - |
| CLOSING RETAINED PROFITS | | 1,017 | 1,092 | 7,976 | 6,897 | 6,201 | 6,194 | 15,840 | 10,007 | 986 | 715 | - | - |
| RATE OF RETURN ON CAPITAL | 2 | 18.94% | 53.75% | 0.69% | -1.59% | 4.41% | 11.12% | NIL | NIL | 6.78% | 13.79% | N/A | N/A |
| NOTIONAL SUBSIDY FROM COUNCIL | 2 | N/A | N/A | 443 | 1,146 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

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

BALLINA SHIRE COUNCIL
BALANCE SHEET
WATER SUPPLY BUSINESS ACTIVITY
for the year ended 30th June 2012

| | Notes | 2012 '000 | 2011 '000 |
|---|-----------|----------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | A6 | 486 | 509 |
| Investments | A6 | 9,591 | 7,389 |
| Receivables | A7 | 1,837 | 1,820 |
| Total current assets | | <u>11,914</u> | <u>9,718</u> |
| Non-current assets | | | |
| Investments | A6 | 651 | 3,032 |
| Receivables | A7 | 149 | 36 |
| Infrastructure, property, plant and equipment | A9 | 106,240 | 89,650 |
| Total non-current assets | | <u>107,040</u> | <u>92,718</u> |
| TOTAL ASSETS | | <u>118,954</u> | <u>102,436</u> |
| Current liabilities | | | |
| Interest bearing liabilities | A10 | 4 | 3 |
| Provisions | A10 | 134 | 202 |
| Total current liabilities | | <u>138</u> | <u>205</u> |
| Non-current liabilities | | | |
| Interest bearing liabilities | A10 | - | 4 |
| Total non-current liabilities | | <u>-</u> | <u>4</u> |
| TOTAL LIABILITIES | | <u>138</u> | <u>209</u> |
| NET ASSETS | \$ | <u>118,816</u> | <u>102,227</u> |
| EQUITY | | | |
| Retained earnings | | 37,654 | 38,369 |
| Revaluation reserve | | 81,162 | 63,858 |
| TOTAL EQUITY | \$ | <u>118,816</u> | <u>102,227</u> |

The above Balance sheet should be read in conjunction with the accompanying notes.

BALLINA SHIRE COUNCIL**BALANCE SHEET
SEWERAGE BUSINESS ACTIVITY
for the year ended 30th June 2012**

| | Notes | 2012 '000 | 2011 '000 |
|---|-------|-------------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | A6 | 1,099 | 1,619 |
| Investments | A6 | 26,736 | 8,812 |
| Receivables | A7 | 1,841 | 1,489 |
| Other | A8 | 123 | - |
| Total current assets | | <u>29,799</u> | <u>11,920</u> |
| Non-current assets | | | |
| Investments | A6 | 4,953 | 2,724 |
| Receivables | A7 | 322 | 409 |
| Infrastructure, property, plant and equipment | A9 | 227,349 | 149,401 |
| Total non-current assets | | <u>232,624</u> | <u>152,534</u> |
| TOTAL ASSETS | | <u>262,423</u> | <u>164,454</u> |
| Current liabilities | | | |
| Payables | A10 | 8 | 8 |
| Interest bearing liabilities | A10 | 985 | 985 |
| Provisions | A10 | 448 | 538 |
| Total current liabilities | | <u>1,441</u> | <u>1,531</u> |
| Non-current liabilities | | | |
| Interest bearing liabilities | A10 | 50,188 | 5,280 |
| Total non-current liabilities | | <u>50,188</u> | <u>5,280</u> |
| TOTAL LIABILITIES | | <u>51,629</u> | <u>6,811</u> |
| NET ASSETS | | <u>\$ 210,794</u> | <u>157,643</u> |
| EQUITY | | | |
| Retained earnings | | 110,673 | 111,672 |
| Revaluation reserve | | 100,121 | 45,971 |
| TOTAL EQUITY | | <u>\$ 210,794</u> | <u>157,643</u> |

The above Balance sheet should be read in conjunction with the accompanying notes.

BALLINA SHIRE COUNCIL

BALANCE SHEET OF OTHER BUSINESS ACTIVITIES
for the year ended 30th June 2012

| | | BUSINESS ACTIVITIES | | | | | | | | | | | | |
|--------------------------------|--------------------------------------|---------------------|--------------|-----------------|---------------|-----------------|--------------|--------------------------|---------------|--------------------------------------|---------------|-----------------------|------|---|
| | | Quarry '000 | | Airport '000 | | Wigmore '000 | | Land Development '000 | | Landfill & Resource Recovery '000 | | Private Works '000 | | |
| Notes | | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | |
| Current assets | | | | | | | | | | | | | | |
| | Cash and cash equivalents | A6 | 1,552 | 1,626 | 541 | - | 124 | 144 | 4,438 | 304 | 1,979 | 1,728 | - | - |
| | Investments | A6 | - | - | - | - | - | - | 269 | - | - | - | - | - |
| | Receivables | A7 | - | - | - | - | - | - | 6,048 | - | - | - | - | - |
| | Inventories | A8 | - | - | - | - | - | - | - | 48 | 31 | - | - | |
| | Other | A8 | 164 | 246 | - | - | - | - | - | 768 | 922 | - | - | |
| | Total current assets | | 1,716 | 1,872 | 541 | | 124 | 144 | 4,438 | 6,621 | 2,795 | 2,681 | | |
| Non-current assets | | | | | | | | | | | | | | |
| | Inventories | A8 | - | - | - | - | - | - | 5,287 | 3,271 | - | - | - | - |
| | Property, plant and equipment | A9 | 1,040 | 986 | 18,957 | 18,076 | 6,077 | - | - | 9,273 | 10,106 | - | - | |
| | Investment Property | | - | - | - | - | - | 6,050 | 6,115 | - | - | - | - | |
| | Total non-current assets | | 1,040 | 986 | 18,957 | 18,076 | 6,077 | 6,050 | 11,402 | 9,386 | 10,106 | | | |
| | TOTAL ASSETS | | 2,756 | 2,858 | 19,498 | 18,076 | 6,201 | 6,194 | 15,840 | 16,007 | 12,068 | 12,787 | | |
| Current liabilities | | | | | | | | | | | | | | |
| | Interest bearing liabilities | A10 | - | - | 251 | 379 | - | - | - | 6,000 | 982 | 1,210 | - | - |
| | Provisions | A10 | 1,171 | 1,261 | 167 | 158 | - | - | - | - | - | - | - | - |
| | Total current liabilities | | 1,171 | 1,261 | 418 | 537 | | | | 6,000 | 982 | 1,210 | | |
| Non-current liabilities | | | | | | | | | | | | | | |
| | Interest bearing liabilities | A10 | - | - | 3,432 | 3,402 | - | - | - | 4,691 | 5,673 | - | - | |
| | Provisions | A10 | - | - | - | - | - | - | - | 2,002 | 2,009 | - | - | |
| | Total non-current liabilities | | | | 3,432 | 3,402 | | | | 6,693 | 7,682 | | | |
| | TOTAL LIABILITIES | | 1,171 | 1,261 | 3,850 | 3,939 | | | | 6,000 | 7,675 | 8,892 | | |
| | NET ASSETS | \$ | 1,585 | 1,597 | 15,648 | 14,137 | 6,201 | 6,194 | 15,840 | 10,007 | 4,393 | 3,895 | | |
| EQUITY | | | | | | | | | | | | | | |
| | Retained earnings | | 1,017 | 1,092 | 7,976 | 6,897 | 6,201 | 6,194 | 15,840 | 10,007 | 986 | 715 | - | - |
| | Revaluation reserve | | 568 | 505 | 7,672 | 7,240 | - | - | - | - | 3,407 | 3,180 | - | - |
| | TOTAL EQUITY | \$ | 1,585 | 1,597 | 15,648 | 14,137 | 6,201 | 6,194 | 15,840 | 10,007 | 4,393 | 3,895 | | |

The above Balance sheet should be read in conjunction with the accompanying notes.

BALLINA SHIRE COUNCIL

Notes to the Special Purpose Financial Statements

for the year ended 30th June 2012

CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

| | <u>Page</u> |
|---|-------------|
| Note 1 Significant accounting policies | P9 |
| Note 2 Water Supply business best practice management disclosure requirements | P13 |
| Note 3 Sewerage business best practice management disclosure requirements | P14 |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS for the year ended 30 June 2012

Note 1 - SIGNIFICANT ACCOUNTING POLICIES

1. The Special Purpose Financial Statements

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

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

2. Basis of Accounting

2.1 Compliance

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

2.2 Basis

The statements are also prepared on an accrual basis. They are also 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.

3. 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 & 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.

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 One

Water Supplies

The supply of water to households and business in Ballina shire.

Sewerage Service

The collection and treatment of sewerage from households and businesses in Ballina Shire.

Landfill & Resource Recovery

The Waste Management Centre is owned by Landfill and resource Recovery and is located at Southern Cross Drive Ballina. The Waste Management Centre receives, disposes and recycles waste that is brought to the centre from private and commercial sources. It also includes the collection of commercial waste in the Ballina shire by council but does not include the collection of domestic waste in Ballina shire by council.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note 1 - Significant Accounting Policies (cont)

Airport

Provide for commercial and private air traffic. The airport is situated at Southern Cross drive Ballina.

Category Two

Quarries

Extraction and sale of sand, gravel and shale from 'Tuckombil quarry', 'Airport Sandpit' and Stokers Shale Quarry.

Wigmore arcade

Attractive and competitive shopping centre in central Ballina.

Land Development

The construction of industrial and residential land estates. Council is progressively developing an industrial estate at Wollongbar and another in Ballina. Council also has residential land inventory at Wollongbar.

Private works

Various works conducted on private land.

3.1 Taxation Equivalent Payments

Council does not pay certain taxes and duties that are paid by equivalent private sector operations, but is liable for others. The Special Purpose Financial Statements disclose the effect of imputing these taxes to the declared business units at the several rates that would have applied to equivalent private sector operations. 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.

Details of the rates of each tax or duty applicable to each different business unit are set out in the table forming item 7 of this Note. The narration "applies" indicates that the tax or duty has in fact been paid to the taxing authority by the Business Unit, and that these costs have been included in actual Operating Expenses, and the narration "various" indicates that Council has based the calculation of imputed tax on the differing rates of tax or duty applicable to different purchases.

3.2 Council Rates, Charges & Fees

Council rates have been *imputed* in relation to all non-rateable land, and *applied* in relation to all rateable land, owned or exclusively used by all business units. Annual and User Charges, and Regulatory and Other Fees, have been *applied* in relation to all services supplied to business units by Council or other business units.

3.3 Loan & Debt Guarantee Fees

The debt guarantee fee is designed to ensure that Council's business units face equivalent commercial borrowing costs to private sector competitors. In order to calculate the debt guarantee fees, Council has determined the average differential between actual and commercial borrowing rates for each business unit.

3.4 Corporate Taxation Equivalent

In accordance with the Code of Local Government Accounting Practice and Financial Reporting, income taxation has been calculated on the Operating Result before Capital Amounts disclosed in the Statements of

Financial Performance of the Special Purpose Financial Reports. No allowance has been made for non-deductible items, timing differences or carried forward losses. Australian Accounting Standard AASB 112 "Income Taxes" has not been applied.

3.5 Dividends Paid

In accordance with National Competition Policy guidelines, it is expected that business units will pay dividends to its owner, Council, equivalent to those paid by private sector competitors. In accordance with the Code of Local Government Accounting Practice and Financial Reporting, the rate of dividend paid has been expressed as a percentage of the Change in Net Assets Resulting from Operations after Taxation.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note 1 - Significant Accounting Policies (cont)

Council is required to pay a dividend from the water and sewer businesses. This compulsory dividend is calculated as the lesser of the number of rateable properties multiplied by \$3 or tax equivalents payable by the business. Typically the lesser of the two is tax equivalents and this calculation can be seen in notes two and three.

Council is permitted, but not required, to pay a dividend to the general funds of the Council from surpluses generated by the business operations. In regard to the water and sewer businesses the maximum amount of such dividend permitted under the "*Best-Practice Management of Water Supply and Sewerage*" guidelines is set out at the foot of the relevant Statements of Financial Performance. Actual payment of the dividend is subject to compliance with the procedures set out in the guidelines.

3.6 Return on Investment (Rate of Return)

The Policy statement states that 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." In accordance with the Code of Accounting Practice, the rate of return on monopoly businesses such as water and sewerage services has been set at an amount sufficient to cover costs and replace assets needed to maintain services. For competitive markets, the rate of return has been set equal to or better than the return on Commonwealth 10 year bonds.

In accordance with the Code of Accounting Practice, the rate of return has been calculated as the Operating Result before Capital Amounts plus Interest Expense expressed as a percentage of the carrying value of Property, Plant & Equipment at the reporting date.

3.7 Notional Subsidy from Council

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, or accepts a lower rate of return on its investment in the business unit than would be acceptable to a private sector competitor.

In accordance with the Code of Accounting Practice, this amount has been calculated as the dollar difference between the required and actual rates of return.

4. Special Rate Funds

The Local Government Act 1993 (as amended) requires that moneys raised by way of Special Rates (or for Domestic Waste Management) be used only for those purposes, except for "dividends" payable in accordance with the "*Best-Practice Management of Water Supply and Sewerage*" guidelines, which also impose limits on the amounts payable. Accordingly, *imputed* amounts in excess of the permitted limits have been retained in those funds, and added back to Accumulated Surplus.

All such amounts have been eliminated in the course of preparation of the Council's general purpose Annual Financial Statements.

5. Other Accounting Policies and Notes

Other accounting policies relating to the determination of revenues and expenses, and assets and liabilities, not specifically referred to above are reported in Note 1 to the Council's Annual Financial Statements, and should be read in conjunction with this Note. Note references in the Statements of Financial Performance of Business Activities and the Statement of Financial Position of Business Activities that are prefixed "A" refer to the Notes to the Annual Financial Statements.

6. Rounding

In accordance with the Code of Accounting Practice all amounts shown in these statements are in Australian currency and, other than Notes 2 & 3, have been rounded to the nearest thousand dollars, amounts in Notes 2 & 3 are shown in whole dollars.

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS

NOTE 1 Table - NATIONAL COMPETITION POLICY NOTIONAL PAYMENTS
for the year ended 30th June 2012

| Category | BUSINESS ACTIVITIES | | | | | | | | | | | | | | | |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | Water | | Sewer | | Quarry | | Airport | | Wigmore | | Land Development | | Landfill & Resource Recovery | | Private Works | |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Category | 1 | 1 | 1 | 1 | 2 | 2 | 1 | 1 | 2 | 2 | 2 | 2 | 1 | 1 | 2 | 2 |
| TAXATION EQUIVALENT PAYMENTS | <i>Rate</i> | <i>Rate</i> | <i>Rate</i> | <i>Rate</i> | <i>Rate</i> | <i>Rate</i> | <i>Rate</i> | <i>Rate</i> | <i>Rate</i> | <i>Rate</i> | <i>Rate</i> | <i>Rate</i> | <i>Rate</i> | <i>Rate</i> | <i>Rate</i> | <i>Rate</i> |
| Land Tax | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated |
| Stamp Duty | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated |
| Payroll Tax | Applies | Applies | Applies | Applies | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated |
| Fringe Benefits Tax | Applies | Applies | Applies | Applies | Applies | Applies | Applies | Applies | Applies | Applies | Applies | Applies | Applies | Applies | Applies | Applies |
| COUNCIL RATES, CHARGES & FEES | See Note 1, Item 3.2 | | | | | | | | | | | | | | | |
| LOAN AND DEBT GUARANTEE FEES | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |
| CORPORATE TAXATION EQUIVALENT | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% |
| DIVIDENDS PAID | N/A | 4.70% | N/A | 0.58% | 194.53% | 102.13% | N/A | N/A | 169.68% | 97.03% | 9.95% | 28.56% | 0.00% | 7.95% | 100.00% | N/A |
| RATE OF RETURN ON CAPITAL | <i>Required rate of return</i> | <i>Required rate of return</i> | <i>Required rate of return</i> | <i>Required rate of return</i> | <i>Required rate of return</i> | <i>Required rate of return</i> | <i>Required rate of return</i> | <i>Required rate of return</i> | <i>Required rate of return</i> | <i>Required rate of return</i> | <i>Required rate of return</i> | <i>Required rate of return</i> | <i>Required rate of return</i> | <i>Required rate of return</i> | <i>Required rate of return</i> | <i>Required rate of return</i> |
| Actual rate of return | 0.00% | 0.00% | 0.00% | 0.00% | 3.03% | 4.75% | 3.03% | 4.75% | 3.03% | 4.75% | 3.03% | 4.75% | 3.03% | 4.75% | 3.03% | 4.75% |
| | -1.85% | -2.17% | -0.76% | -0.68% | 18.94% | 53.75% | 0.69% | -1.59% | 4.41% | 11.12% | NIL | NIL | 6.78% | 13.79% | N/A | N/A |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE STATEMENTS for the year ended 30th June 2012

Note 2 - BEST PRACTICE MANAGEMENT DISCLOSURES - WATER SUPPLY

| | | 2012 \$ |
|---|--------|------------|
| <i>Values shown in this Note are expressed in WHOLE DOLLARS</i> | | |
| Calculation and Payment of Tax-Equivalents | | |
| (i) Calculated Tax Equivalents | | 34,000 |
| (ii) No of assessments multiplied by \$3/assessment | | 44,814 |
| (iii) Amounts payable for Tax Equivalents | | 34,000 |
| (iv) Tax Equivalents paid | | 34,000 |
| 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 | | 414,140 |
| (iii) Cumulative Surplus before Dividends for 3 years to 30 June 2012, less cumulative dividends paid for 2 years to 30 June 2011 | | 0 |
| (iv) Maximum Dividend from Surplus <i>(least of (i), (ii) and (iii))</i> | | 0 |
| (v) Dividend paid from Surplus | | 0 |
| Required Outcomes for 6 Criteria | | |
| (i) Completion of 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 22 of Best Practice 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) Complete Integrated Water Cycle Management Evaluation | | YES |
| (vii) Complete and implement Integrated Water Cycle Management Strategy | | YES |
| National Water Initiative (NWI) Financial Performance Indicators | | |
| NWI F1 Total Revenue (Water) | \$'000 | 9,076 |
| NWI F4 Residential Revenue from Usage Charges (Water) | % | 65.58 |
| NWI F9 Written Down Replacement Cost of Fixed Assets (Water) | \$'000 | 103,554 |
| NWI F1' Operating Cost (OMA) (Water) | \$'000 | 8,198 |
| NWI F1' Capital Expenditure (Water) | \$'000 | 1,720 |
| NWI F1' Economic Real Rate of Return (Water) | % | -1.31 |
| NWI F2(Capital Works Grants (Water) | \$'000 | 23 |

BALLINA SHIRE COUNCIL

NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE STATEMENTS for the year ended 30th June 2012

Note 3 - BEST PRACTICE MANAGEMENT DISCLOSURES - SEWERAGE

| | | 2012 |
|--|--------|---------|
| <i>Values shown in this Note are expressed in WHOLE DOLLARS</i> | | \$ |
| Calculation and Payment of Tax-Equivalents | | |
| (i) Calculated Tax Equivalents | | 27,000 |
| (ii) No of assessments multiplied by \$3/assessment | | 44,061 |
| (iii) Amounts payable for Tax Equivalents (lesser of (i) and (ii)) | | 27,000 |
| (iv) Tax Equivalents paid | | 20,000 |
| 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 | | 413,610 |
| (iii) Cumulative Surplus before Dividends for 3 years to 30 June 2012, less cumulative dividends paid for 2 years to 30 June 2011 | | 5,341 |
| (iv) Maximum Dividend from Surplus (least of (i), (ii) and (iii)) | | 0 |
| (v) Dividend paid from Surplus | | 0 |
| Required Outcomes for 4 Criteria | | |
| (i) Complete current Strategic Business Plan (including Financial Plan) | | YES |
| (ii) Pricing with full cost-recovery, without significant cross subsidies (Item 2(a) in Table 1 on page 18 of Best practice guidelines) | | YES |
| Complying charges (a) Residential (Item 2(c) in Table 1) | | YES |
| (b) Non-Residential (Item 2(c) in Table 1) | | YES |
| (c) Trade Waste (Item 2(d) in Table 1) | | YES |
| DSP with Commercial Developer Charges (Item 2(e) in Table 1) | | YES |
| Liquid Trade Waste Approvals & Policy (Item 2(f) in Table 1) | | YES |
| (iii) Complete Performance Reporting Form (by 15 September each year) | | YES |
| (iv) a. Complete Integrated Water Cycle Management Evaluation | | YES |
| (iv) b. Complete and implement Integrated Water Cycle Management Strategy | | YES |
| National Water Initiative (NWI) Financial Performance Indicators | | |
| NWI F2 Total Revenue (Sewerage) | \$'000 | 13,172 |
| NWI F1C Written Down Replacement Cost of Fixed Assets (Sewerage) | \$'000 | 222,336 |
| NWI F1Z Operating Cost (Sewerage) | \$'000 | 8,015 |
| NWI F1E Capital Expenditure (Sewerage) | \$'000 | 28,880 |
| NWI F1F Economic Real Rate of Return (Sewerage) | % | 0 |
| NWI F2I Capital Works Grants (Sewer) | \$'000 | 0 |
| | | |
| NWI F3 Total Income (Water & Sewerage) | \$'000 | 21,897 |
| NWI F5 Revenue from Community Service Obligations (Water & Sewerage) | % | 1 |
| NWI F1E Capital Expenditure (Water & Sewerage) | \$'000 | 30,600 |
| NWI F1F Economic Real Rate of Return (Water & Sewerage) | % | -0 |
| NWI F2C Dividend (Water & Sewerage) | \$'000 | 0 |
| NWI F2I Dividend Payout Ratio (Water & Sewerage) | % | 0 |
| NWI F2Z Net Debt to Equity (Water & Sewerage) | % | 2 |
| NWI F2E Interest Cover (Water & Sewerage) | times | 0 |
| NWI F2F Net Profit after Tax (Water & Sewerage) | \$'000 | -1,791 |
| NWI F2E Community Service Obligations (Water & Sewerage) | \$'000 | 298 |



Thomas Noble & Russell

Accountants | Auditors | Business Advisers

**BALLINA SHIRE COUNCIL
SPECIAL PURPOSE FINANCIAL REPORT
INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial report, being a special purpose financial report, of Ballina Shire Council (the Council), which comprises the balance sheet as at 30 June 2012, 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.

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Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the special purpose financial report of Ballina Shire Council for the year ended 30 June 2012 included on Council's website. The Council is responsible for the integrity of the website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

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 Ballina Shire 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 2012 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 describes 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

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

Dated at Ballina this 25th day of October 2012.



15 October 2012

Mayor and Councillors
Ballina Shire Council
P O Box 450
BALLINA NSW 2478

Dear Councillors

We advise that we have completed our audit of the Council's general purpose and special purpose financial reports for the year ended 30 June 2012.

In accordance with section 417 of the Local Government Act 1993, we now report on the conduct of the audit.

Yours faithfully
THOMAS NOBLE & RUSSELL

Per:

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

PART D

SPECIAL SCHEDULES

BALLINA SHIRE COUNCIL

Special Schedules

for the year ended 30th June 2012

TABLE OF CONTENTS

Page

SPECIAL SCHEDULES (not Audited)

| | | |
|-----------------------|---|-----|
| Special Schedule 1 | - Net cost of services | S1 |
| Special Schedule 2(a) | - Statement of long term debt (all purpose) | S3 |
| Special Schedule 2(b) | - Statement of internal loans | S3 |
| Special Schedule 3 | - Water Supply Income Statement | S4 |
| Special Schedule 4 | - Water Supply - Balance sheet | S6 |
| Special Schedule 5 | - Sewerage Income Statement | S7 |
| Special Schedule 6 | - Sewerage Services - Balance sheet | S9 |
| Special Schedule 7 | - Condition of public works | S10 |
| Special Schedule 8 | - Financial projections | S13 |

BALLINA SHIRE COUNCIL
SPECIAL SCHEDULE NO 1
NET COST OF SERVICES
for the year ended 30th June 2012

\$'000

| Function or Activity | Expenses from continuing operations | Income from continuing operations (non-capital) | Income from continuing operations (capital) | NET COST OF SERVICES |
|--|-------------------------------------|---|---|----------------------|
| GOVERNANCE | 817 | - | - | 817 |
| ADMINISTRATION | 4,876 | 892 | 1,372 | 2,612 |
| PUBLIC ORDER & SAFETY | | | | |
| Fire Service Levy, Fire Protection, Emergency Services | 416 | 212 | - | 204 |
| Beach Control | 246 | - | - | 246 |
| Animal Control | 191 | 34 | - | 157 |
| Other | 756 | 37 | - | 719 |
| Total Public Order & Safety | 1,609 | 283 | - | 1,326 |
| HEALTH | 570 | 184 | - | 386 |
| ENVIRONMENT | | | | |
| Noxious Plants and Insect / Vermin Control | 64 | - | - | 64 |
| Other Environmental Protection | 418 | 145 | - | 273 |
| Solid Waste Management | 7,566 | 8,916 | - | (1,350) |
| Street Cleaning | 236 | - | - | 236 |
| Drainage | 1,928 | 182 | 1,757 | (11) |
| Total Environment | 10,212 | 9,243 | 1,757 | (788) |
| COMMUNITY SERVICES & EDUCATION | | | | |
| Administration & Education | 725 | 57 | - | 668 |
| Childrens Services | 211 | 60 | - | 151 |
| Total Community Services & Education | 936 | 117 | - | 819 |
| HOUSING & COMMUNITY AMENITIES | | | | |
| Public Cemeteries | 252 | 368 | - | (116) |
| Public Conveniences | 375 | - | - | 375 |
| Street Lighting | 467 | 96 | - | 371 |
| Town Planning | 2,157 | 406 | - | 1,751 |
| Other Community Amenities | 164 | - | - | 164 |
| Total Housing & Community Amenities | 3,415 | 870 | - | 2,545 |
| WATER SUPPLIES | 10,156 | 7,980 | 1,254 | 922 |
| SEWERAGE SERVICES | 14,756 | 11,985 | 1,997 | 774 |

BALLINA SHIRE COUNCIL

**SPECIAL SCHEDULE NO 1 - NET COST OF SERVICES (cont)
for the year ended 30th June 2012**

\$'000

| Function or Activity | Expenses from continuing operations | Income from continuing operations (non-capital) | Income from continuing operations (capital) | NET COST OF SERVICES |
|--|-------------------------------------|---|---|----------------------|
| RECREATION & CULTURE | | | | |
| Public Libraries | 1,479 | 115 | - | 1,364 |
| Museums | 25 | - | - | 25 |
| Art Galleries | 195 | 67 | - | 128 |
| Community Centres and Halls | 1,042 | 117 | 2,000 | (1,075) |
| Sporting Grounds | 973 | 1 | 36 | 936 |
| Swimming Pools | 715 | 281 | - | 434 |
| Parks & Gardens, Lakes | 2,628 | 630 | - | 1,998 |
| Other Sport & Recreation | 30 | - | - | 30 |
| Total Recreation & Culture | 7,087 | 1,211 | 2,036 | 3,840 |
| MINING, MANUFACTURING & CONSTRUCTION | | | | |
| Building Control | 761 | 540 | - | 221 |
| Other Mining Manufacturing & Construction | 78 | 304 | - | (226) |
| Total Mining Manufacturing & Construction | 839 | 844 | - | (5) |
| TRANSPORT & COMMUNICATION | | | | |
| Urban Roads: Local | 7,530 | (2,369) | 13,008 | (3,109) |
| Urban Roads: Regional | 225 | | - | 225 |
| Sealed Rural Roads: Local | 1,018 | | - | 1,018 |
| Sealed Rural Roads: Regional | 354 | | - | 354 |
| Unsealed Rural Roads: Local | 587 | | - | 587 |
| Bridges - Sealed Rural Roads: Local | 521 | | - | 521 |
| Parking Areas | 4 | | - | 4 |
| Footpaths | 1,342 | 31 | 119 | 1,192 |
| Aerodromes | 3,530 | 3,484 | 1,156 | (1,110) |
| Other Transport & Communication | 1,370 | 1,937 | - | (567) |
| Total Transport & Communication | 16,481 | 3,083 | 14,283 | (885) |
| ECONOMIC AFFAIRS | | | | |
| Camping Areas & Caravan Parks | 275 | 331 | - | (56) |
| Other Economic Affairs | 2,071 | 5,420 | - | (3,349) |
| Total Economic Affairs | 2,346 | 5,751 | - | (3,405) |
| TOTALS - FUNCTIONS | 74,100 | 42,443 | 22,699 | 8,958 |
| General Purpose Revenues | | | | 21,528 |
| | | | | 21,528 |
| NET OPERATING RESULT FOR YEAR (1) | | | | 12,570 |
| Note (1) As reported on the income statement | | | | |

BALLINA SHIRE COUNCIL

SPECIAL SCHEDULE NO 2 (a) STATEMENT OF LONG TERM DEBT (ALL PURPOSE) for the year ended 30th June 2012 \$'000

This Schedule excludes internal loans and refinancing of existing borrowings.

| Classification of debt | Principal outstanding at beginning of year | | | New loans raised | Debt redemption | | Tfrs 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) | | | | | | | | | | | |
| Treasury Corporation | 1,035 | 10,580 | 11,615 | | 1,035 | | | - | 1,285 | 9,295 | 10,580 |
| Financial Institutions | 1,790 | 14,561 | 16,351 | 45,419 | 1,791 | | | 2,259 | 1,810 | 58,169 | 59,979 |
| TOTAL LONG TERM DEBT | 2,825 | 21,643 | 27,966 | 45,419 | 2,826 | - | - | 2,259 | 3,095 | 67,464 | 70,559 |

SPECIAL SCHEDULE NO 2 (b) STATEMENT OF INTERNAL LOANS for the year ended 30th June 2012

| Borrower (by purpose) | Amount originally raised | Total repaid during the year Principal and Interest | Principal outstanding at end of year |
|-----------------------|--------------------------|--|--------------------------------------|
| General | 3,524 | 363 | 526 |
| Totals | 3,524 | 363 | 526 |

The above summary of internal loans represents the total of Council's internal loans categorised according to the purpose of the borrower. Details of individual internal loans are set out below.

| Borrower (by purpose) | Lender (by purpose) | Date of Minister's approval | Date raised | Term (years) | Maturity date | Rate of interest | Amount originally raised | Paid during year - Princ and Interest | Principal outstanding end of year |
|--------------------------|---------------------|-----------------------------|-------------|--------------|---------------|------------------|--------------------------|---------------------------------------|-----------------------------------|
| Landfill management | Land development | | 30/06/98 | 14 | 30/06/12 | 7% | 2,626 | 288 | - |
| Plant fund | Land development | | 30/06/05 | 8 | 30/06/13 | 6% | 210 | 34 | 32 |
| Airport | Land development | | 30/06/10 | 5 | 30/06/15 | 0% | 596 | - | 454 |
| Flat Rock Camping ground | Land development | | 30/06/10 | 3 | 30/06/13 | 5% | 92 | 41 | 40 |
| Totals | | | | | | | 3,524 | 363 | 526 |

BALLINA SHIRE COUNCIL

SPECIAL SCHEDULE NO 3 WATER SUPPLY OPERATIONS (Gross including Internal Transactions) for the year ended 30th June 2012

| A. EXPENSES AND INCOME | 2012 | 2011 |
|---|---------------|---------------|
| EXPENSES | \$'000 | \$'000 |
| 1.a. Management - Administration | 1,608 | 1,625 |
| b. - Engineering and Supervision | 257 | 214 |
| 2 Operation and Maintenance | | |
| a. - Dams & Weirs - Operation expenses | - | - |
| b. - Maintenance expenses | - | - |
| c. - Mains - Operation expenses | 210 | 299 |
| d. -Maintenance expenses | 317 | 364 |
| e. - Reservoirs - Operation expenses | - | - |
| f. - Maintenance expenses | 47 | 59 |
| g. - Pumping Stations - Operation expenses | 42 | 35 |
| h. - Energy costs | 36 | 36 |
| i. - Maintenance expenses | - | - |
| j. - Treatment - Operation expenses | 69 | 71 |
| k. - Chemical costs | - | - |
| l. - Maintenance expenses | - | - |
| m. - Other - Operation expenses | 154 | 204 |
| n. - Maintenance expenses | 423 | 389 |
| o. - Purchase of water | 5,035 | 4,264 |
| 3.a. Depreciation - System assets | 2,207 | 2,188 |
| b. - Plant and equipment | 59 | 58 |
| 4.a. Miscellaneous - Interest expenses | - | 1 |
| b. - Revaluation decrements | - | - |
| c. - Other expenses | 9 | 8 |
| c. - NCP Tax and other equivalents | 34 | 34 |
| 5 Total expenses | 10,507 | 9,849 |
| INCOME | | |
| 6 Residential charges | | |
| a. - Access (including rates) | 1,897 | 1,685 |
| b. - User charges | 3,614 | 3,279 |
| 7 Non-residential charges | | |
| a. - Access (including rates) | 535 | 474 |
| b. - User charges | 1,305 | 1,272 |
| 8 Extra charges | - | - |
| 9 Interest income | 768 | 562 |
| 10 Other income | 346 | 436 |
| 11.a. Grants - acquisition of assets | 23 | 18 |
| b. - Pensioner rebates | 148 | 140 |
| c. - Other | - | 51 |
| 12.a. Contributions - Developer charges | 204 | 931 |
| b. - Developer provided assets | 1,027 | 1,725 |
| c. - Other contributions | - | - |
| 13 Total income | 9,867 | 10,573 |
| 14 Gain or loss on disposal of assets | (75) | - |
| 15 OPERATING RESULT | (715) | 724 |
| 15a. Operating result less grants for acquisition of assets | (738) | 706 |

BALLINA SHIRE COUNCIL

SPECIAL SCHEDULE NO 3 - WATER SUPPLY OPERATIONS (cont)

| | 2012 \$'000 | 2011 \$'000 |
|---|---|----------------|
| <u>B. CAPITAL TRANSACTIONS</u> | | |
| <u>Non - operating expenditure</u> | | |
| 16 Acquisition of Fixed Assets | | |
| a. - New assets for improved standards | - | - |
| b. - New assets for growth | 1,122 | 2,452 |
| c. - Renewals | 598 | - |
| d. - Plant and equipment | - | 75 |
| 17 Repayment of debt | | |
| a. - Loans | 3 | 3 |
| b. - Advances | - | - |
| c. - Finance leases | - | - |
| 18 Transfers to sinking funds | - | - |
| 19 Total non-operating expenditure | 1,723 | 2,530 |
| <u>Non-operating funds employed</u> | | |
| 20 Proceeds from disposal of assets | - | - |
| 21 Borrowings utilised | | |
| a. - Loans | - | - |
| b. - Advances | - | - |
| c. - Finance leases | - | - |
| 22 Transfers from sinking funds | - | - |
| 23 Total non-operating funds employed | - | - |
| <u>C. RATES & CHARGES</u> | | |
| 24 Number of assessments | | |
| a. - Residential (occupied) | 13207 | |
| b. - Residential (unoccupied - vacant land) | 252 | |
| c. - Non-residential (occupied) | 1436 | |
| d. - Non-residential (unoccupied - vacant land) | 43 | |
| 25 Number of ETs for which developer charges were received | 62 ET | |
| 26 Total amount of pensioner rebates | 268 \$'000 | |
| <u>D. BEST PRACTICE ANNUAL CHARGES AND DEVELOPER CHARGES</u> | | |
| 27 Annual charges | | |
| a. Does Council have best-practice water supply annual charges and usage charges? | <input checked="" type="checkbox"/> YES | |
| If Yes, go to 28a. | | |
| If No, has Council removed land value from access charges (i.e. rates)? | <input type="checkbox"/> | |
| b. Cross subsidy from residential customers using less than allowance | | 0 |
| c. Cross subsidy to non-residential customers | | 0 |
| d. Cross subsidy to large connections in unmetered supplies | | 0 |
| 28 Developer charges | | |
| a. Has Council completed a water supply Development Servicing Plan? | <input checked="" type="checkbox"/> YES | |
| b. Total cross-subsidy in water supply developer charges | | 0 |
| 29 TOTAL OF CROSS SUBSIDIES | | - |

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 3 years.

BALLINA SHIRE COUNCIL
SPECIAL SCHEDULE NO 4
WATER SUPPLY - BALANCE SHEET
(Gross including Internal Transactions)
for the year ended 30th June 2012

| | <u>Current</u> \$'000 | <u>Non-Current</u> \$'000 | <u>Total</u> \$'000 |
|---|--------------------------|------------------------------|------------------------|
| ASSETS | | | |
| 30 Cash and Investments | | | |
| a. - Developer Charges | 7,227 | 651 | 7,878 |
| b. - Specific purpose grants | - | - | - |
| c. - Accrued leave | 128 | - | 128 |
| d. - Unexpended loans | - | - | - |
| e. - Sinking funds | - | - | - |
| f. - Other | 2,722 | - | 2,722 |
| 31 Receivables | | | |
| a. - Specific purpose grants | 10 | - | 10 |
| b. - Rates and charges | 436 | 38 | 474 |
| c. - Other | 1,391 | 111 | 1,502 |
| 32 Inventories | - | - | - |
| 33 Property, plant and equipment | | | |
| a. - System assets | | 103,554 | 103,554 |
| b. - Plant and equipment | | 2,686 | 2,686 |
| 34 Other | | | - |
| 35 Total assets | <u>11,914</u> | <u>107,040</u> | <u>118,954</u> |
| LIABILITIES | | | |
| 36 Bank overdraft | - | | - |
| 37 Creditors | - | | - |
| 38 Borrowings | | | |
| a. - Loans | 4 | - | 4 |
| b. - Advances | - | - | - |
| c. - Finance leases | - | - | - |
| 39 Provisions | | | |
| - Tax equivalents | - | | - |
| a. - Dividend | - | | - |
| b. - Other | 134 | - | 134 |
| 40 Total liabilities | <u>138</u> | <u>-</u> | <u>138</u> |
| 41 NET ASSETS COMMITTED | <u>11,776</u> | <u>107,040</u> | <u>118,816</u> |
| EQUITY | | | |
| 42 Accumulated surplus | | | 37,654 |
| 43 Asset revaluation reserve | | | 81,162 |
| 44 Total equity | | | <u>118,816</u> |
| Note to system assets: | | | |
| 45 Current replacement cost of system assets | | | 155,927 |
| 46 Accumulated current cost depreciation of system assets | | | 52,373 |
| 47 Written down current cost of system assets | | | <u>103,554</u> |

BALLINA SHIRE COUNCIL

SPECIAL SCHEDULE NO 5 SEWERAGE SERVICE OPERATIONS (Gross including Internal Transactions) for the year ended 30th June 2012

| A. EXPENSES AND INCOME | 2012 | 2011 |
|--|---------------|---------------|
| EXPENSES | \$'000 | \$'000 |
| 1.a. Management - Administration | 2,224 | 1,888 |
| b. - Engineering and Supervision | 620 | 863 |
| 2 Operations and Maintenance expenses | | |
| a. -Mains - Operation expenses | - | - |
| b. -Maintenance expenses | 523 | 575 |
| c. - Pumping Stations - Operation expenses | 99 | 281 |
| d. - Energy costs | 380 | 382 |
| e. - Maintenance expenses | 1,654 | 1,120 |
| f. - Treatment - Operation expenses | 1,279 | 1,307 |
| g. - Chemical costs | - | - |
| h. - Energy costs | 508 | 460 |
| i. - Effluent management | - | - |
| j. - Biosolids management | 132 | 103 |
| k. - Maintenance expenses | 307 | 295 |
| l. - Other - Operation expenses | 114 | 72 |
| m. - Maintenance expenses | 175 | 162 |
| 3.a. Depreciation - System assets | 4,197 | 4,176 |
| b. - Plant and equipment | 146 | 61 |
| 4.a. Miscellaneous - Interest expenses | 1,648 | 518 |
| b. - Revaluation decrements | - | - |
| c. - Other expenses | 1,144 | 315 |
| c. - NCP Tax and other equivalents | 20 | 20 |
| 5 Total expenses | 15,170 | 12,598 |
| INCOME | | |
| 6 Residential Charges (including rates) | 8,573 | 7,372 |
| 7 Non-Residential Charges | | |
| a Access (including rates) | 1,189 | 1,006 |
| b User Charges | 697 | 652 |
| 8 Trade Waste Charges | | |
| a Annual fees | 32 | 30 |
| b User charges | 78 | 77 |
| c Excess mass charges | 31 | 52 |
| Re-inspection charges | - | - |
| 9 Extra charges | - | - |
| 10 Interest income | 1,275 | 914 |
| 11 Other income | 414 | 466 |
| 12.a. Grants - acquisition of assets | - | - |
| b. - Pensioner rebates | 150 | 150 |
| c. - Other | 12 | - |
| 13.a Contributions - Developer charges | 797 | 2,421 |
| b. - Developer provided assets | 1,049 | 2,972 |
| c. - Other contributions | 150 | 16 |
| 14 Total income | 14,447 | 16,128 |
| 15 Gain or loss on disposal of assets | (276) | (2) |
| 16 OPERATING RESULT | (999) | 3,528 |
| 16.a. Operating result less grants for acquisition of assets | (999) | 3,528 |

BALLINA SHIRE COUNCIL

SPECIAL SCHEDULE NO 5 - SEWERAGE SERVICE OPERATIONS (cont)

| | 2012 \$'000 | 2011 \$'000 |
|--|----------------|----------------|
| <u>B. CAPITAL TRANSACTIONS</u> | | |
| <u>Non - operating expenditure</u> | | |
| 17 Acquisition of Fixed Assets | | |
| a. - New assets for improved standards | 795 | 8,734 |
| b. - New assets for growth | 17,658 | 4,095 |
| c. - Renewals | 10,427 | - |
| d. - Plant and equipment | - | 43 |
| 18 Repayment of debt | | |
| a. - Loans | 985 | 1,185 |
| b. - Advances | - | - |
| c. - Finance leases | - | - |
| 19 Transfers to sinking funds | - | - |
| 20 Total non-operating expenditure | 29,865 | 14,057 |
| <u>Non-operating funds employed</u> | | |
| 21 Proceeds of disposal of assets | - | 11 |
| 22 Borrowings utilised | | |
| a. - Loans | - | - |
| b. - Advances | - | - |
| c. - Finance leases | - | - |
| 23 Transfers from sinking funds | - | 200 |
| 24 Total non-operating funds employed | - | 211 |

| | | |
|---|------------|--|
| <u>C. RATES AND CHARGES</u> | | |
| 25 Number of assessments | | |
| a. - Residential (occupied) | 12846 | |
| b. - Residential (unoccupied - vacant land) | 419 | |
| c. - Non-residential (occupied) | 1379 | |
| d. - Non-residential (unoccupied - vacant land) | 43 | |
| 26 Number of ETs for which developer charges were | 111 ET | |
| 27 Total amount of pensioner rebates | 272 \$'000 | |

| | | |
|---|--|-----|
| <u>D. BEST PRACTICE ANNUAL CHARGES AND DEVELOPER CHARGES</u> | | |
| 28 Annual charges | | |
| Does Council have best-practice sewerage annual charges, usage charges and trade waste fees and charges? YES | | |
| a. If Yes, go to 29a. | | |
| If No, has Council removed land value from access charges (i.e. rates) | | |
| b. Cross subsidy to non-residential customers | | 0 |
| c. Cross subsidy to trade waste dischargers | | 0 |
| 29 Developer charges | | |
| a. Has Council completed a sewerage Development Servicing Plan? | | YES |
| b. Total cross-subsidy in sewerage developer charges | | 0 |
| 30 TOTAL OF CROSS SUBSIDIES | | - |

Councils which have not yet implemented best practice sewerage pricing and trade waste pricing should disclose cross subsidies in items 28b and 28c 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 3 years.

BALLINA SHIRE COUNCIL

**SPECIAL SCHEDULE NO 6
SEWERAGE SERVICES - BALANCE SHEET
(Gross including Internal Transactions)
for the year ended 30th June 2012**

| | <u>Current</u> \$'000 | <u>Non-Current</u> \$'000 | <u>Total</u> \$'000 |
|---|--------------------------|------------------------------|------------------------|
| <u>ASSETS</u> | | | |
| 31 Cash and investments | | | |
| a. - Developer charges | - | 4,953 | 4,953 |
| b. - Specific purpose grants | - | - | - |
| c. - Accrued leave | 448 | - | 448 |
| d. - Unexpended loans | 18,000 | - | 18,000 |
| e. - Sinking funds | - | - | - |
| f. - Other | 9,387 | - | 9,387 |
| 32 Receivables | | | |
| a. - Specific purpose grants | 2 | - | 2 |
| b. - Rates and charges | 868 | 75 | 943 |
| c. - Other | 971 | 247 | 1,218 |
| 33 Inventories | - | - | - |
| 34 Property, plant and equipment | | | |
| a. - System assets | | 222,336 | 222,336 |
| b. - Plant and equipment | | 5,013 | 5,013 |
| 35 Other assets | 123 | - | 123 |
| 36 Total assets | <u>29,799</u> | <u>232,624</u> | <u>262,423</u> |
| <u>LIABILITIES</u> | | | |
| 37 Bank overdraft | - | | - |
| 38 Creditors | 8 | - | 8 |
| 39 Borrowings | | | |
| a. - Loans | 985 | 50,188 | 51,173 |
| b. - Advances | - | - | - |
| c. - Finance leases | - | - | - |
| 40 Provisions | | | |
| - Tax equivalents | - | | - |
| a. - Dividend | - | | - |
| b. - Other | 448 | - | 448 |
| 41 Total liabilities | <u>1,441</u> | <u>50,188</u> | <u>51,629</u> |
| 42 NET ASSETS COMMITTED | <u>28,358</u> | <u>182,436</u> | <u>210,794</u> |
| <u>EQUITY</u> | | | |
| 43 Accumulated surplus | | | 110,673 |
| 44 Asset revaluation reserve | | | 100,121 |
| 45 Total equity | | | <u>210,794</u> |
| Note to system assets: | | | |
| 46 Current replacement cost of system assets | | | 283,348 |
| 47 Accumulated current cost depreciation of system assets | | | 61,012 |
| 48 Written down current cost of system assets | | | <u>222,336</u> |

BALLINA SHIRE COUNCIL

**SPECIAL SCHEDULE NO 7
CONDITION OF PUBLIC WORKS
as at 30th June 2012**

| Asset class | Asset category | Depreciation rate (%) | Depreciation expense '000 | Cost '000 | Valuation '000 | Accumulated depreciation '000 | Carrying value '000 | Asset condition (see Notes attached) | Estimated cost to bring to a satisfactory standard '000 | Estimated annual maintenance expense '000 | Program maintenance works for current year '000 |
|------------------|---------------------------|-----------------------|------------------------------|--------------|-------------------|----------------------------------|------------------------|---|--|--|--|
| | <i>References</i> | <i>Note 9</i> | <i>Note 4</i> | | | <i>Note 9</i> | | <i>Local Govt. Act 1993, Section 428 (2d)</i> | | | |
| Public Buildings | Council offices | 1 - 5% | 389 | | 11,831 | 4,854 | 6,977 | 3 | - | 81 | 106 |
| | Works depot | 1 - 5% | 142 | | 4,293 | 1,563 | 2,730 | 3 | - | 96 | 89 |
| | Halls | 1 - 5% | 274 | | 9,226 | 4,728 | 4,498 | 3 | - | 87 | 110 |
| | Dwellings | 1 - 5% | 91 | | 2,952 | 1,812 | 1,140 | 3 | - | 35 | 28 |
| | Airport | 1 - 5% | 217 | | 6,782 | 1,675 | 5,107 | 3 | - | 110 | 132 |
| | Shops/Offices | 1 - 5% | 275 | | 8,863 | 4,073 | 4,790 | 3 | - | 40 | 47 |
| | Library | 1 - 5% | 162 | | 4,549 | 1,202 | 3,347 | 1 - 3 | - | 11 | 13 |
| | Community centres | 1 - 5% | 407 | | 12,868 | 529 | 12,339 | 1 | - | 30 | 31 |
| | Childcare centres | 1 - 5% | 183 | | 5,233 | 2,917 | 2,316 | 3 | - | - | - |
| | Waste centre | 1 - 5% | 103 | | 3,573 | 1,205 | 2,368 | 3 | - | 73 | 97 |
| | Amenities/Toilets | 1 - 5% | 571 | | 19,974 | 8,388 | 11,586 | 3 - 4 | - | 297 | 262 |
| | Subtotal | | 2,814 | - | 90,144 | 32,946 | 57,198 | | - | 860 | 915 |
| Other structures | Not included in Buildings | 1 - 9% | 511 | | 11,750 | 3,694 | 8,056 | 3 | 70 | 204 | 176 |
| Public roads | Sealed roads | 1 - 2% | 6,011 | | 386,557 | 112,564 | 273,993 | 2 - 4 | 11,450 | 3,114 | 3,032 |
| | Unsealed roads | 1 - 2% | 265 | | 24,461 | 11,890 | 12,571 | 3 - 4 | 275 | 576 | 587 |
| | Bridges | 1 - 2% | 422 | | 36,167 | 11,901 | 24,266 | 2 - 3 | - | 38 | 42 |
| | Footpaths/Cycleways | 1 - 2% | 356 | | 21,778 | 4,797 | 16,981 | 2 - 3 | 50 | 168 | 178 |
| | Kerb and gutter | 1 - 2% | 498 | | 34,525 | 15,421 | 19,104 | 2 - 3 | - | - | - |
| | Road furniture | 1% | 116 | | 15,630 | 1,769 | 13,861 | 2 - 4 | - | 288 | 299 |
| | Subtotal | | 7,668 | - | 519,118 | 158,342 | 360,776 | | 11,775 | 4,184 | 4,138 |

This Schedule is to be read in conjunction with the explanatory notes following.

BALLINA SHIRE COUNCIL

SPECIAL SCHEDULE NO 7 - CONDITION OF PUBLIC WORKS (cont) as at 30th June 2012

| Asset class | Asset category | Depreciation rate (%) | Depreciation expense | Cost | Valuation | Accumulated depreciation | Carrying value | Asset condition (see Notes attached) | Estimated cost to bring to a satisfactory standard (1) | Estimated annual maintenance expense (2) | Program maintenance works for current year (3) |
|-----------------------------------|--------------------|-----------------------|----------------------|----------|------------------|--------------------------|----------------|---|--|--|--|
| | | | '000 | '000 | '000 | '000 | '000 | | '000 | '000 | '000 |
| | <i>References</i> | <i>Note 9</i> | <i>Note 4</i> | | | <i>Note 9</i> | | <i>Local Govt. Act 1993, Section 428 (2d)</i> | | | |
| Water | Treatment plants | 1% | 40 | | 4,259 | 1,176 | 3,083 | 2 - 3 | - | 108 | 69 |
| | Water connections | 4 - 5% | 70 | | 1,867 | 938 | 929 | 2 - 4 | - | 358 | 350 |
| | Reservoirs | 1 - 2% | 152 | | 13,639 | 4,339 | 9,300 | 2 - 3 | - | 51 | 47 |
| | Pipelines | 1 - 2% | 1,931 | | 135,306 | 45,707 | 89,599 | 2 - 4 | - | 373 | 242 |
| | Pump stations | 1 - 2% | 12 | | 652 | 213 | 439 | 2 - 3 | - | 50 | 42 |
| | Subtotal | | | 2,205 | - | 155,723 | 52,373 | 103,350 | | - | 940 |
| Sewerage | Pump stations | 1 - 2% | 557 | | 37,154 | 11,528 | 25,626 | 2 - 3 | - | 1,228 | 1,190 |
| | Pipelines | 2 - 3% | 2,757 | | 141,212 | 20,662 | 120,550 | 2 - 3 | - | 620 | 646 |
| | Pits | 2 - 3% | - | | 7,431 | 2,545 | 4,886 | 2 - 3 | - | - | - |
| | Treatment works | 1 - 2% | 884 | | 57,992 | 26,277 | 31,715 | 2 - 3 | - | 312 | 307 |
| Subtotal | | | 4,198 | - | 243,789 | 61,012 | 182,777 | | - | 2,160 | 2,143 |
| Drainage Works | Culverts | 1 - 2% | 144 | | 10,266 | 5,752 | 4,514 | 2 - 4 | 50 | - | - |
| | Reticulation | 1 - 2% | 1,432 | | 99,818 | 35,998 | 63,820 | 2 - 4 | 150 | 176 | 188 |
| | Pollution control | 2 - 3% | 35 | | 1,637 | 73 | 1,564 | 1 - 2 | - | 45 | 32 |
| | Outfall structures | 1 - 2% | 4 | | 251 | 100 | 151 | 3 - 4 | 20 | - | - |
| Subtotal | | | 1,615 | - | 111,972 | 41,923 | 70,049 | | 220 | 221 | 220 |
| Total classes - all assets | | | 19,011 | - | 1,132,496 | 350,290 | 782,206 | | 12,065 | 8,569 | 8,342 |

This Schedule is to be read in conjunction with the explanatory notes following.

BALLINA SHIRE COUNCIL

SPECIAL SCHEDULE NO 7 - CONDITION OF PUBLIC WORKS (cont)

as at 30th June 2012

NOTES

1. Satisfactory refers to estimated cost to bring the asset to a satisfactory condition as deemed by Council. It does not include any planned 'enhancements' to the existing asset.
2. Required annual maintenance is what should be spent to maintain assets in a satisfactory standard.
3. Current annual maintenance is what has been spent in the current year to maintain assets.
4. Asset condition assessment ((DLG intergrated Planning and Reporting Manual)
The following condition codes have been used in this Schedule.

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

BALLINA SHIRE COUNCIL

**SPECIAL SCHEDULE NO 8 - FINANCIAL PROJECTIONS
as at 30th June 2012**

| | 2012 \$'m | 2013 \$'m | 2014 \$'m | 2015 \$'m | 2016 \$'m | 2017 \$'m | 2018 \$'m | 2019 \$'m | 2020 \$'m | 2021 \$'m | 2022 \$'m |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Recurrent Budget | | | | | | | | | | | |
| Income from continuing operations | 86 | 92 | 89 | 85 | 90 | 91 | 99 | 99 | 102 | 106 | 110 |
| Expenses from continuing operations | 73 | 85 | 87 | 90 | 92 | 96 | 99 | 102 | 104 | 107 | 109 |
| Operating result from continuing operations | 13 | 7 | 2 | (5) | (2) | (5) | - | (3) | (2) | (1) | 1 |
| Capital Budget | | | | | | | | | | | |
| New Works | 38 | 49 | 11 | 2 | 4 | 21 | 18 | 5 | 1 | 1 | 1 |
| Replacement of existing assets | 22 | 37 | 15 | 6 | 7 | 6 | 7 | 6 | 10 | 7 | 8 |
| | 60 | 86 | 26 | 8 | 11 | 27 | 25 | 11 | 11 | 8 | 9 |
| <i>Funded by</i> | | | | | | | | | | | |
| - Loans | 27 | 26 | 7 | - | - | 5 | 8 | - | - | - | - |
| - Reserves | 6 | 45 | 14 | 4 | 7 | 18 | 13 | 7 | 6 | 3 | 4 |
| - Grants/Contributions | 23 | 12 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| - Recurrent revenue | 4 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 4 | 4 | 4 |
| | 60 | 86 | 26 | 8 | 11 | 27 | 25 | 11 | 11 | 8 | 9 |

PART E

FINANCIAL ANALYSIS

Foreword

This section of the document has been prepared to provide additional information to assist in evaluating and interpreting the annual financial reports.

It is intended that the comments and break down of information will assist the reader to gain an understanding of how the organisation performed in 2011/12 and the financial position as at June 30 2012.

Part 1: General Purpose Reports and Special Schedules

1. Income Statement

The Income Statement outlines the financial performance of the Council for the financial year. The Income statement presents the consolidated performance which means that all operations (general purpose, water, sewer and waste) are included in the results. The Income Statement provides two operating results for the year as per the following table. Also included for information is the Statement of Comprehensive Income.

Table One: Income Statement

| Item | 2010/11 (\$'000) | % Change | 2011/12 (\$'000) |
|--|-----------------------------|---------------------|-----------------------------|
| Operating Result from Continuing Operations | 18,566 | (32) | 12,570 |
| Net Operating Result before Capital Grants and Contributions | (5,479) | (85) | (10,129) |
| Total Comprehensive Income | 95,186 | (6) | 100,930 |

A detailed analysis of these results follows however it is important to identify the major components and differences of each of the results.

Operating Result from Continuing Operations includes all income and expenses for the year. Importantly income includes capital grants but expense does not include capital expenditure. However expense does include depreciation, which is a non cash item and the argument is that it is fair to include capital income but exclude capital expense if you include depreciation.

One concern with this format is that capital income is often used to create new assets as opposed to renewing existing assets so in this instance you may not have matched income with the expense to which it has been applied. Also the majority of the capital contribution is in fact developer provided assets such as roads or drainage that is not cash income but arguably a liability as Council must maintain the asset into the future.

Net Operating Result for the year before Capital Grants and Contribution excludes capital grants and contributions. As per the previous comment this figure is provided as the capital expenditure that relates to the income is not included in the statement, so this result provides a more transparent outcome with all capital transactions excluded.

Statement of Comprehensive Income includes the gain or loss on asset revaluations. Council revalues all assets on a regular basis and this statement shows the impact of the revaluation/s for that particular year.

Table Two: Consolidated Results from Continuing Operations of Council

| Item | 2010/11 (\$'000) | % Change | 2011/12 (\$'000) |
|-------------------------------------|-----------------------------|---------------------|-----------------------------|
| Income from Continuing Operations | 86,979 | 0 | 86,670 |
| Expenses from continuing Operations | 68,413 | 8 | 74,100 |
| Surplus/(Deficit) | 18,566 | (31) | 12,570 |

In comparison to 2010/11 total income remained comparatively stable and expenses increased by approximately \$5.6 million with most expenditure categories increasing. The largest expenditure increase relates to materials and contracts of almost \$4 million.

These variances are discussed in detail later in this report (refer to the Expenses and Revenues section).

The net operating result, before capital grants and contributions, as per table one, and as replicated in table three below, shows that there is a \$10.1 million dollar loss in 2011/12. An operating loss is typical for councils and indicates that over the long term the organisation may encounter sustainability issues, particularly in maintaining service levels at current standards.

Table Three: Net Operating Result before Capital Grants and Contributions

| Item | 2010/11 (\$'000) | % Change | 2011/12 (\$'000) |
|---|-----------------------------|---------------------|-----------------------------|
| Operating Result from Continuing Operations | 18,566 | (32) | 12,570 |
| Less Capital Grants and Contributions | 24,045 | (6) | 22,699 |
| Net operating result | (5,479) | | (10,129) |

Table three highlights a deterioration in the operating result from 2010/11 to 2011/12 of approximately \$4.7 million.

In comparing 2010/11 to 2011/12 there have been numerous variances between incomes and expenses. However significant non cash changes that assist in explaining the majority of the \$4.7 million increase to the deficit include:

- increased depreciation expense of approximately \$2 million. This increase is partly due to a revaluation of buildings in 2010/11 which reduced the estimated useful lives of buildings by 10 years for many structures. This has the effect of increasing depreciation in the next year (2011/12) by \$1.1 million.
- a decrease in revenue of approximately \$2.5 million from property revaluations. In 2010/11 a revaluation of investment property resulted in a paper increase to property values of \$2.5 million, which is reflected as income in the Operating Result for 2010/11. No property revaluation was required during 2011/12.

The next analysis in table four reviews the Net Operating Result before Capital Grants and Contributions, with all the major non-cash adjustments removed. These adjustments involve the exclusion of depreciation, the annual net present value adjustment for State Government approved interest free loans, revaluation of investment property (2010/11) and remediation expense estimates.

By removing all these non-cash items, which can vary significantly from year to year, Council is able to obtain a better handle on the operating result for our core operations.

Table Four: Adjusted Net Operating Result

| Item | 2010/11 (\$'000) | % Change | 2011/12 (\$'000) |
|--|---------------------|-------------|---------------------|
| Income from Ordinary Activities | 86,979 | 0 | 86,670 |
| Expense from Ordinary Activities | 68,413 | 8 | 74,100 |
| Operating Surplus | 18,566 | (31) | 12,570 |
| Exclude Capital Grants and Contributions | (24,045) | (6) | (22,699) |
| Remove NPV Calculation for Interest Free Loans | 644 | (70) | 614 |
| Exclude investment property revaluation | (2567) | 100 | 0 |
| Remove Depreciation from Expenses (Add Back) | 19,658 | 11 | 21,701 |
| Revised Result - Surplus on Operations | 12,256 | (1) | 12,186 |

The aim of any Council should be to try and maximise the surplus generated on operations, with those surplus funds then being used to finance capital works or to retire debt. The surplus in 2011/12 must be considered in the context of this being a consolidated result that includes water, waste and sewer operations.

The revised surplus in table four of \$12.1 million is quite similar to the previous year.

It is important to note that the 2011/12 surplus is not sufficient to finance the depreciation expense (\$21.7 million). This suggests that the organisation is struggling to maintain the existing asset base in its current state prior to providing for loan principal repayments and endeavouring to satisfy community expectations for new and improved services.

In fairness the bar has been lifted significantly over the last five years due to the implementation of fair value for assets. Each year as assets are revalued, depreciation increases in concert with the increased value. This makes it difficult to achieve an operating surplus, inclusive of depreciation. By way of illustration in 2007 the value of depreciation was \$9.6 million hence it has more than doubled in the last five years.

However the increasing depreciation expense reflects a more realistic estimate of the cost of doing business and shows the level of surplus required just to maintain existing assets.

The one major concern with the depreciation figure is that it is typically based on standard accounting treatments of estimated useful life of the asset, with the depreciation reflected on a straight line basis. There is considerable debate as to how accurate that type of measurement is in respect to asset deterioration and Council's Civil Services are pursuing improved methods of asset life condition assessment to further improve the depreciation expense figures, particularly for major assets such as roads, drainage, water and sewer infrastructure.

This continued refinement of asset life assessment has the potential to vary this depreciation expense figure extensively and until Council is confident that its asset condition measurement methods are reliable and realistic the depreciation expense figure should be treated as a rough guide only. Council has been endeavouring to improve the operating result each year with fees having been increased in areas such as water, sewer, waste and ordinary rates. However with depreciation increasing at such a rapid rate it has been difficult to improve the net operating result at the same time.

The Statement of Comprehensive Income starts with the Net Operating Result and includes gains or loss due to asset revaluations as shown below.

Table Five: Total Comprehensive Income for the Year

| Item | 2010/11 (\$'000) | % Change | 2011/12 (\$'000) |
|--|---------------------|-------------|---------------------|
| Net Operating Result for the Year | 18,566 | (32) | 12,570 |
| Gain on revaluation of assets and de-recognition of land under roads | 76,620 | 15 | 88,360 |
| Net operating result for the Year | 95,186 | 6 | 100,930 |

It can be seen that there was a gain in the value of assets of \$5.7 million. This increase relates to water, sewer and roads infrastructure. Further detail is provided on this issue in the next section of this report.

2. Statement of Financial Position

This statement is used to outline the total net assets under the control of Council. The major component of Council's assets relates to infrastructure assets. Infrastructure assets include the following categories:

Table Six: Value of Infrastructure Assets

| Infrastructure assets | 30 June 2011 (\$000) | 30 June 2012 (\$000) |
|------------------------------------|-------------------------|-------------------------|
| Plant and Equipment | 8,053 | 8,694 |
| Land | 178,726 | 182,567 |
| Buildings/ Structures | 67,191 | 65,254 |
| Roads, Bridges and Footpaths | 333,393 | 360,776 |
| Stormwater Drainage | 69,510 | 70,049 |
| Water Supply Network | 85,868 | 103,350 |
| Sewerage Network | 130,545 | 182,777 |
| Future Reinstatements | 1,296 | 1,009 |
| Capital Works in Progress | 26,021 | 47,913 |
| Total Infrastructure Assets | 900,603 | 1,022,389 |

The table shows that the asset base has increased by some \$122 million. This growth is the net of new assets purchased or constructed less depreciation plus the increases due to revaluations. Capital works in progress primarily relates to the sewer upgrade that is in progress. A summary of the actual asset movements from one year to another is shown in table seven.

Table Seven: Asset Movement Summary 2010/11 to 2011/12

| Asset Purchases (\$000) | Disposals and Transfers (\$000) | Depreciation (\$000) | Revaluation (\$000) | Total Asset Movement (\$000) |
|----------------------------|------------------------------------|-------------------------|------------------------|---------------------------------|
| 59,575 | (4,282) | (21,867) | 88,360 | 121,786 |

Purchases represent items such as new buildings, plant and vehicles acquired, land purchased, expense on acquiring new and refurbishing existing infrastructure assets (road/stormwater/water/sewer) and assets handed over by developers once new subdivisions are completed. The major purchases relate to roads and sewer as really significant expenditures have taken place during the year.

Disposals relate to assets that have been replaced such as road segments and pipes plus sales of land and equipment. The majority of disposals in 2011/12 relates to road segments which amounted to \$2.7 million.

Depreciation places a dollar value on the estimated annual fall in the service potential of our assets. The 2011/12 calculation for depreciation is \$21.7 million with the majority of this cost relating to roads, water and sewer infrastructure.

The revaluation increment of \$88 million relates to water (\$17 million), sewer (\$54 million) and roads (\$17 million) infrastructure. Water and sewer were completely revalued whilst roads was indexed. The new value reflects a better understanding of the true worth of the assets under Council's control.

During the revaluation of Sewer infrastructure an error was identified in the previous valuation methodology of sewer pipes, such that the value was understated by \$34 million. The original valuation of current replacement cost for sewer pipes reflected the renewal cost (relining of pipes) as opposed to the construction cost (creating of trench pipe/laying etc) This error has been corrected in previous year's comparative information and is noted as an accounting error in the 2011/12 Financial Statements.

Generally asset classes are revalued every five years although quite often there are annual increments via indexing as occurred with roads in 2012. As stated water and sewer assets were revalued and this occurs every five years. The revaluation of sewer assets includes a new method of replacing the asset which involves relining as opposed to replacing existing pipes.

As the value of assets rise, the depreciation expense also increases. This recognises that Council should be putting more funds aside to meet the cost of maintaining existing assets. The amount of funds applied to asset renewal in comparison to depreciation is an important test as the asset base under Council's control represents an inherent liability.

Special Schedule Seven of the annual financial statements estimates that a capital injection of some \$12 million is required to bring infrastructure assets to a satisfactory standard. This is a condition based internal assessment that references the original design standard of the asset. The majority of this estimate relates to roads infrastructure (\$11.5 million) which means that most other asset classes have been assessed as satisfactory or close to satisfactory.

The backlog of works to achieve a satisfactory standard for roads is becoming manageable in the context of Council's total annual expenditure. The focus on asset management and revaluation has raised corporate recognition of this shortfall as well as bringing attention to service standards and what is deemed to be satisfactory

The estimate to bring assets to a satisfactory standard has reduced from \$19.4 million in 2010/11 to \$12 million in 2011/12. The revised estimate takes into account latest information on asset conditions and expenditure on capital renewals in recent years, which have been considerable.

Asset Valuations

Council assets have traditionally been valued at cost however this approach has changed and assets are now valued at Fair Value. Fair Value is defined as the market value or 'the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms length transaction'. Alternatively where

there is no market available it is the written down replacement cost of the asset using modern day equivalent materials and design.

Table eight provides a schedule of revaluations to highlight the current position of each asset class as presented in the financial reports. It is essential that asset classes are revalued regularly to ensure that the carrying amount does not differ materially from the fair value at the balance sheet date.

The recommendation in the Local Government Code of Accounting Practice is to revalue an asset class every three to five years. However assets must be revalued more frequently if it considered that there has been a material change in value since the date of the last valuation.

Table Eight: Schedule of Asset Valuations

| Infrastructure assets | Valuation Method | Last Revaluation | Comment |
|--------------------------------|----------------------------------|-------------------------|---|
| Plant and equipment | Depreciated Historical Cost | Progressive | Equipment depreciated from purchase price |
| Buildings and Other Structures | Fair Value | 30/6/2011 | Revaluation conducted by external valuer |
| Roads, Bridges and Footpaths | Fair Value | 30/6/2010 | Values indexed annually |
| Stormwater Drainage | Fair Value | 30/6/2010 | Values internally assessed and no adjustment deemed necessary |
| Water Supply Network | Fair Value | 30/6/2012 | Values indexed annually |
| Sewerage Network | Fair Value | 30/6/2012 | Values indexed annually |
| Future reinstatements | Internal Valuation | Progressively monitored | Valuation depends on nature of reinstatement |
| Land Community | External Valuer (Valuer General) | 30/6/2011 | Valuer General's latest valuation used |
| Land Operational | Fair Value | 30/6/2011 | Revaluation conducted by external valuer |
| Land Improvements | Fair Value | 30/6/2011 | Valuation conducted internally |
| Investment Property | External Valuer (Independent) | 30/10/2011 | Investment property revalued externally |

The revaluation of assets does present an additional impost on the organisation although it is essential to have current and accurate information on which to base decisions.

Liabilities

The next table summarises current and non current liabilities for the Council as at the 30 June 2012.

Table Nine: Outstanding Liabilities as at June 30 2012

| Liability | 2010/11 (\$'000) | 2011/12 (\$'000) |
|--------------|------------------|------------------|
| Current | 15,164 | 14,821 |
| Non Current | 28,639 | 70,599 |
| Total | 43,803 | 85,420 |

Total liabilities have increased by \$41.6 million which is due to Council taking up new sewer loans. Council is in the process of raising loans for the current sewer upgrade of \$63 million (includes 2011/12 borrowings) which is by far the largest undertaking or Council. The borrowings represent an enormous commitment for the community

however the upgrade is essential and financial modelling has annual revenues on track to meet this commitment.

Whilst non-current liabilities have increased current liabilities have decreased. This is because the sewer loans discussed above are interest only for the first two years and no part of these loans is included as 'current'.

The provision for leave liability has reduced in comparison to the previous year from \$13.5 million to \$13.2 million. This is because staff are being encouraged to take leave in accordance with the award which means that large amounts of long service leave were taken during the year. This trend should continue over the next few years. The reserves section of this report has information on the amount of available cash reserve in comparison to the leave liability.

It should be noted that non current liabilities were reduced by \$4.1 million in 2009/10 due to the net present value adjustment for interest free loans provided by the NSW State Government. This is an accounting exercise that recognises the value of the interest that will not be paid on loans obtained from the Government as part of the stimulus package. Over the ten year life of the loans expense will be increased by the winding back of this adjustment (refer to table four regarding the value of the unwinding in expense).

Effectively the accounting adjustment has reduced the value of loans as at 30/6/2010 and over the next ten years the liability will be progressively increased by the \$4.1 million. Hence in 2011/12 loans were adjusted up by \$614,000 to unwind the 2009/10 adjustment.

Total Equity

The total equity of Council has increased by \$136 million during the year to \$1.052 billion (Council is now a billion dollar organisation. This represents a 15% increase in equity and is attributable to the operating result of \$13 million and the increase to the value of property plant and equipment of \$123 million.

3. Expenses from Ordinary Activities (Note Four)

As outlined below, operating expenses increased by approximately 8%t from the previous year.

Table Ten: Expenses from Ordinary Activities

| Type | 2010/11 (\$'000) | % Change | 2011/12 (\$'000) |
|----------------------------|---------------------|-------------|---------------------|
| Employee Costs | 18,473 | 3 | 19,024 |
| Materials and Contracts | 20,921 | 18 | 24,588 |
| Interest | 1,947 | 30 | 2,526 |
| Depreciation | 19,658 | 10 | 21,701 |
| Other | 5,663 | 11 | 6,261 |
| Loss on Disposal of Assets | 1,751 | (100) | 0 |
| Total | 68,413 | 8 | 74,100 |

Employee costs have increased by 3%. This is due to an award increase of 2.1% and the addition of three full time equivalent staff to the payroll. The net labour cost, in the context of Note Four of the financial statements, is reduced by the cost of labour working on capital works and this can sometimes explain why the labour cost comparison between years can vary whilst staff numbers remain similar.

Labour cost as per Note 4 also excludes people employed through contract labour companies and in 2011/12 Council paid approximately \$2 million to these organisations (the figure for 2010/11 was approximately \$2.7 million). This expenditure relates to trainees and apprentices, who are actually employed through specialist training companies, and casual staff engaged to assist with peak work loads and staff shortages due to leave or resignations.

Materials and contracts increased by \$3.7 million to \$24.5 million. The increase in comparison to the previous year has been influenced by the sewer upgrade where expense to some \$1.5 million, that is associated with the renewal program, has been deemed not to be capital (therefore an operating expense). This is an abnormal occurrence that is associated with the current renewal program.

There have also been large increases in operating expenses in comparison to 2010/11 in water (Rous bulk water levy), waste (various reasons), airport (various reasons), strategic planning (new LEP) and information services (Trim implementation).

Interest expense has increased by 30% which is due to the sewer loans being progressively taken up and depreciation has increased by 10% due to the revaluation of water, sewer and roads infrastructure.

Typically there is a loss on disposal of assets (\$1,751,000 in 2010/11) which relates to the renewal of infrastructure; i.e. as assets are replaced as they are removed from the asset register and often that asset has a residual value that needs to be written off. Whilst this did occur in 2011/12 the write off was exceeded by the profit achieved on the sale of real estate assets. Hence there is an entry in income for profit on sale of assets (refer to next section of the report).

4. Revenues from Ordinary Activities (Note Three)

Table 11 shows that revenues from ordinary activities have remained very similar in comparison to the previous year, although there have been movements within the categories.

Table 11: Revenues from Ordinary Activities

| Type | 2010/11 (\$'000) | % Change | 2011/12 (\$'000) |
|--------------------------------------|---------------------|-------------|---------------------|
| Rates and Annual Charges | 29,625 | 12 | 33,273 |
| User Charges and Fees | 14,987 | (3) | 14,582 |
| Interest | 4,580 | (5) | 4,365 |
| Other | 6,625 | (47) | 3,543 |
| Grants and Contributions - operating | 7,117 | 9 | 7,744 |
| Grants and Contributions - capital | 24,045 | (6) | 22,699 |
| Profit on Disposal of Assets | 0 | | 464 |
| Total | 86,979 | 0 | 86,670 |

Council received \$33.2 million from rates and annual charges, which is an increase of some 12%. Ordinary rates increased by 6.21%, charges for water 9.5%, sewer 14.5% and domestic waste annual charges by 17%. There was also growth in the number of rateable assessments.

The decrease in User Charges of 3% is primarily related to fees raised by the Landfill and Resource Management business. The reduction is a combination of the sale of

the bulk waste collection business and reduction to the fee for construction and demolition waste.

Whilst the size of the investment portfolio increased over the 12 months income from funds invested declined by 5%. The decline is due to steadily falling interest rates over the period.

Income from 'Other' includes items such as parking fines, recycling income and rental income. In comparison to the previous year income declined by 47% which is primarily due to the fact that in 2010/11 investment properties were revalued and increased by \$2.5 million, which is included as 'Other' income. This increase is an accounting entry only and does not reflect actual income. Also in 2010/11 there were legal costs recovered of \$542,000, which is abnormally high.

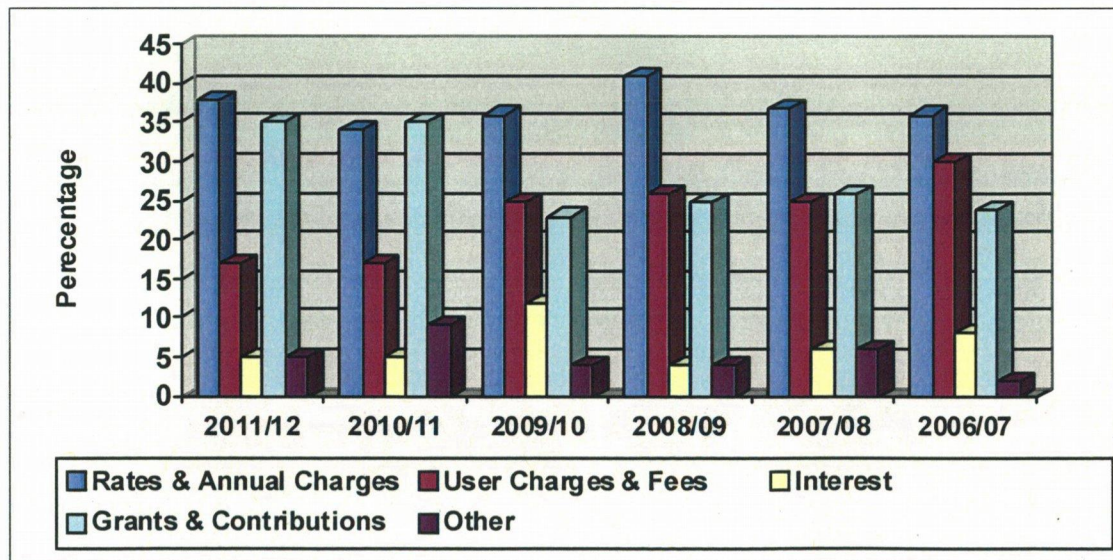
Operating grants and contributions increased by 9% in comparison to 2010/11 which is mainly because Council received early payment of over 50% of the 2012/13 Financial Assistance Grant amounting to \$1,757,000. In the previous year Council received advance payment of 25% of this grant of \$846,000. The advance payment commenced a few years ago as part of the Federal Government's stimulus package.

Income from capital grants and contributions is liable to fluctuate considerably from year to year depending on the capital works program and the level of development occurring. In 2011/12 Council received in the order of 112 grants varying from as little as \$100 to over \$1million. In terms of table 11 revenue was dominated by section 94 and section 64 developer non cash contributions which amounted to \$14.1 million. Non cash refers the value of a physical asset such as a road or sewer pipe which is part of a new subdivision.

Profit or loss on sale of assets is the net result of removing assets from the asset register. As discussed in the Expenses Section of this report this is quite often a loss as infrastructure assets are replaced. In 2011/12 a profit was achieved which is due to the sale of real estate assets at Southern Cross Estate where a gain on disposal of \$2.9 million was achieved.

The following two tables compare revenue and expense over six years.

Table 12: Revenues from Ordinary Activities

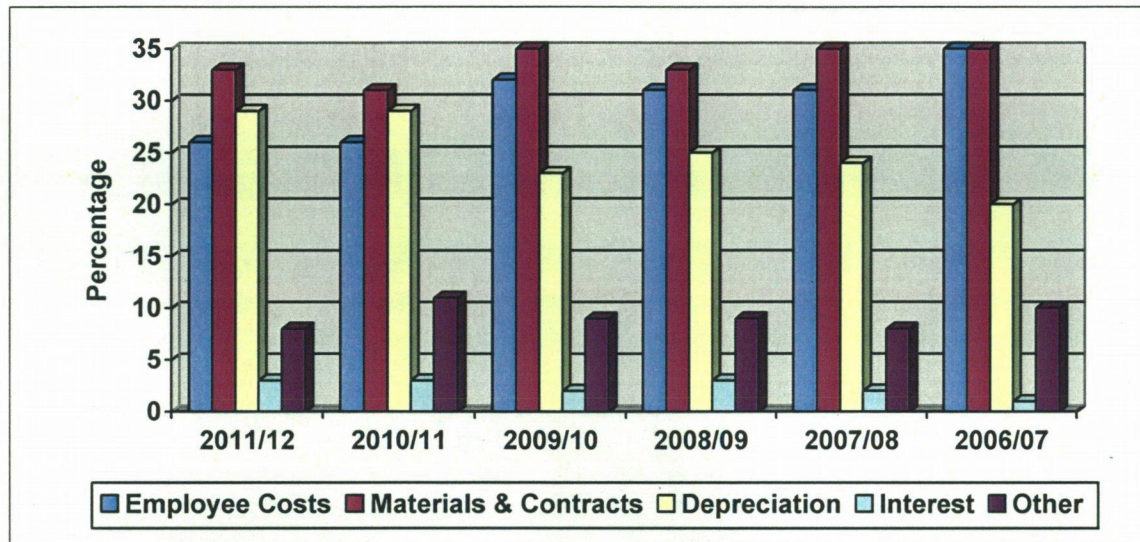


* Categories expressed as a percentage of total revenues

In regard to the revenue chart above it can be seen that the last two years have been relatively consistent with perhaps the exception of 'Other' income which was discussed earlier. Grant income, inclusive of \$14 million in developer non cash contributions tends to distort the figures however it remains the case that rates and annual charges are our most important income source.

Expenses remained relatively consistent although there can be annual fluctuations in respect of materials and contracts. It is also evident that depreciation has assumed a prominent position in the chart.

Table 13: Expenses from Ordinary Activities

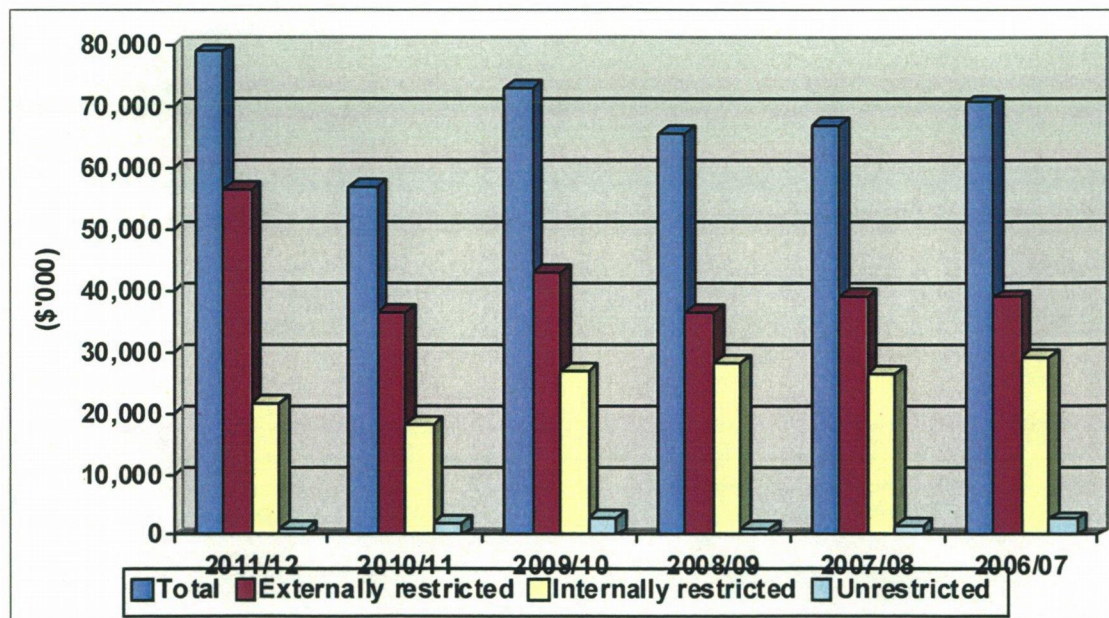


*Categories expressed as a percentage of total expenses

5. Cash and Investments (Note Six)

This note highlights that Council has total cash and investments of approximately \$79 million which is an increase in comparison to previous years.

Table 14: Restricted and Unrestricted Cash



Total reserves and external reserves have increased substantially. This is mainly due to the loan taken up for the sewer upgrade. Expenditure has not matched the agreed rate of payment of the loan with unexpended funds being invested. Internal reserves have increased by \$3.2 million and whilst there have been numerous movements in these reserves perhaps the largest positive movement is a \$6 million land sale.

Investment Position

Given the global financial perspective investments held by Council have proven to be conservative and robust. No capital losses have been realised and none are anticipated. However given the fragile financial position of several countries in Europe and America at the present time the outlook remains uncertain.

A brief summary of the portfolio is as follows:

- Approximately 77% of the portfolio is held in term deposits and committed rolling investments. This percentage is growing as floating rate notes mature and the funds are reinvested into term deposits.
- Council has no funds that are externally managed.
- In the order of 22% of the portfolio is in the form of floating rate notes and the majority of these funds are held by Australian deposit-taking institutions. Those that are not Australian based represent what have been some of the world's strongest financial institutions.

Each of these notes has a maturity date with the exception of one National Bank issued note that is in perpetuity. The note is currently below par value however it returns 1.25% above the bank bill swap rate (BBSW). While this return is reasonable and linked to the market it is less than could currently be achieved on the open market. The value of this note will be monitored with a view to sale at an appropriate time.

- One investment of \$1 million (1%) is an equity linked note and it is not providing a return. The note is capital protected by the issuing institution and matures in June 2014.

Notes in the portfolio are required to be valued at fair value. This assessment is based on quoted prices in active markets and the total value of the portfolio is currently \$1.1 million below par value, which reflects the uncertain state of the market. However it is important to note that this estimated value is if the note was sold at approximately year end 2012. There is no intent to sell prior to maturity and as the notes near maturity their value rises to meet the face value.

6. Statement of Performance Measures (Note 13)

Financial indicators are important in assessing the financial health of the organisation, particularly in terms of trends. However the indicators shown in Note 13, with the exception of the unrestricted current ratio, are for the organisation as a whole.

Council has adopted a Financial Planning policy which sets benchmarks for ratios and these benchmarks are referenced in the reporting below.

Table 15: Unrestricted Current Ratio = Unrestricted Current Assets / Current Liabilities (excludes those liabilities related to restricted assets)

| 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|------|------|------|------|------|------|
| 2.90 | 2.75 | 2.07 | 4.14 | 3.95 | 3.39 |

The adopted benchmark is a ratio of 2:1 with current assets being twice liabilities indicating an ability to meet short term commitments. The 2011/12 outcome meets this target.

The ratio improved in comparison to the previous year as debt was repaid, no new loans were taken up and unrestricted reserves increased. The \$63 million borrowing in sewer fund is deemed to be restricted and therefore does not impact on this ratio.

The ratio has been trending down from around the 4% mark to 3%. This is due to the conversion of general fund cash reserves (unrestricted current assets) into non current assets such as buildings and town centre upgrades. General fund internally restricted reserves have fallen from around \$29 million to \$22 million however as at the end of 2011/12 they remain strong.

Total general fund loans have remained quite similar over the last four years increasing from \$16.8 million to \$17.2 million which has assisted the ratio to remain in a strong position. The recent movements of reserves (excludes externally restricted) and general fund external debt are shown for information.

Table 16: Unrestricted Cash Reserves and General Fund External Debt (\$'000)

| Item | 2012 | 2011 | 2010 | 2009 |
|----------------------------|--------|--------|--------|--------|
| Unrestricted Cash Reserves | 22,624 | 20,240 | 29,810 | 29,116 |
| General Fund Loans | 17,200 | 19,100 | 17,800 | 16,800 |

Looking to the future, in 2012/13, it is proposed to take up borrowings in general fund for the airport and roads infrastructure totalling \$15.2 million. This means in one year General Fund external debt will almost double. It is also proposed to expend reserves on various projects including the Ballina Surf Club that will reduce unrestricted reserves by approximately \$10 million.

The forecast therefore is that the ratio may fall as low 1.1 which means that the adopted benchmark will not be achieved and places Council in a position that is not preferred in terms of liquidity. It is considered that the likelihood of this forecast is quite high and it indicates that Council needs to put in place strategies to work towards achieving benchmark.

Strategies may include not expanding debt beyond current commitments and endeavouring to increase cash reserves by retaining profits from entrepreneurial activities. Other considerations may be to sell commercial holdings to reduce debt, although this is not preferred given that General Fund relies on the income from most of these holdings to meet operational commitments and repay existing debt.

Table 17: Debt Service Ratio = Debt Service Cost / Operating Revenue less Specific Purpose Grants and Contributions

| 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|------|------|------|------|------|------|
| 0.08 | 0.06 | 0.05 | 0.05 | 0.05 | 0.03 |

Council's benchmark figure for General Fund is 0.12 and the consolidated benchmark for this ratio is less than 0.12; i.e. you should not have more than 12% of your operating revenue committed to repaying debt. In 2011/12 this benchmark has

been achieved. However as per this table it can be seen that the ratio is increasing as debt is rising at a faster pace than income.

The 2011/12 ratios on a fund basis for this benchmark are General = 0.06; Water = 0.00 and Sewer = 0.21. Hence General fund is quite comfortable, Water is nil which is exceptional and Sewer has exceeded the benchmark.

Looking forward the Sewer ratio will continue to climb as the rest of the loan program takes effect. This is catered for in the Sewer Fund financial model and annual charges are being elevated to accommodate the debt.

The General Fund ratio is predicted to rise to approximately 0.12 which equals the benchmark. This is indicating that further borrowings need to be avoided which accords with the unrestricted current ratio.

Table 18: Rates and Annual Charges Outstanding Percentage

| 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|------|------|-------|------|------|------|
| 7.62 | 9.81 | 12.17 | 9.42 | 8.83 | 8.79 |

The adopted benchmark for this ratio is less than 6% and the benchmark has not been achieved although it is trending in the right direction. The outcome is actually artificially high as it includes the fourth quarter water and sewer access charges for non residential customers. These charges are included in the ratio as a debt outstanding even though they are not due for payment until August.

The rise then fall in this percentage is partly due to the fact that for a period of time minimal debt recovery was undertaken whilst staff resource was consumed with introducing a new software system. Following bedding down of the system normal recovery procedures have been adopted which has resulted in a fall in the debt outstanding.

Part 2: Management Information – Fund Basis

Information in respect to the consolidated position is useful in gaining a global picture, however Council still needs to be aware of what is happening with respect to the individual funds; ie General, Sewer and Water as external legislation requires the Sewer and Water operations to be managed as distinct entities (i.e. funds from those activities must not be used on any other area of Council's operations).

This section of the document provides information with a "fund" emphasis.

1. Income Statement and Balance Sheets

This next section looks at General, Water and Sewer as single entities.

Income Statements

Council finances comprise a number of independent entities. It is important to assess the performance of each entity and the table below looks at the General, Water and Sewer funds.

In respect to General fund the figures include externally restricted entities such as Domestic Waste, Section 94 Contributions, the Stormwater Levy together with internally restricted entities including the Airport, Landfill and Resource Management (Ballina Waste Centre), Quarries, Land Development and Cemeteries.

Tables showing income statements per fund look to improve the comparability between years by eliminating some of the major non cash items.

Table 19: General Fund Income Statements (\$'000)

| Description | 2011/12 | 2010/11 | 2009/10 |
|-----------------------------------|----------------|----------------|----------------|
| Income | 62,707 | 60,296 | 51,402 |
| Expense | 48,477 | 46,018 | 42,937 |
| Net Operating result | 14,230 | 14,278 | 8,465 |
| Less Capital Grants | (19,599) | (15,996) | (7,397) |
| Result Excl Capital Grants | (5,369) | (1,718) | (1,068) |
| Eliminate Loan Unwind | 140 | 134 | (1,031) |
| Add Back Depreciation | 15,092 | 13,175 | 8,935 |
| Eliminate Invest Prop Reval | 0 | (2,567) | 0 |
| Revised Result | 9,863 | 9,024 | 8,972 |

General Fund has made a loss of \$5.4 million excluding capital grants and produced a surplus, excluding capital grants and non cash items of \$9.9 million. This indicates that there is not sufficient surplus to maintain / replace existing assets (i.e. to fund depreciation and assuming the depreciation expense figure is accurate) or add new assets or services. Over the long term this suggests that there may be sustainability issues.

Nevertheless it can be seen that 'Revised result' has been improving and a lot of this is associated with the increases to the ordinary rate which are increasing revenue by around \$450,000 annually. Also entrepreneurial activities have returned strong rental income and cash sales of industrial land.

There remains one more year for increases above the rate pegging limit and in total, by the end of 2013/14, this will mean that Council has received increases above the limit for seven of the previous eight years. Whilst this has been an impost on ratepayers Ballina Council still has a lower ordinary rate than most other councils in our category in the State, based on the latest available data.

It must also be said that Council typically does produce an operating loss inclusive of depreciation, and has done for a long time. Indeed this is common across the industry in New South Wales given the restrictions of rate pegging and the high levels of infrastructure that have to be maintained.

Table 20: Water Fund Income Statements (\$'000)

| Description | 2011/12 | 2010/11 | 2009/10 |
|-----------------------------------|----------------|----------------|----------------|
| Income | 9,867 | 10,555 | 8,266 |
| Expense | 10,548 | 9,815 | 8,891 |
| Net Operating result | (681) | 740 | (625) |
| Less Capital Grants | (1,254) | (2,656) | (862) |
| Result Excl Capital Grants | (1,935) | (1,916) | (1,487) |
| Eliminate Loan Unwind | 0 | 0 | 0 |
| Add Back Depreciation | 2,266 | 2,246 | 2,132 |
| Eliminate Invest Prop Reval | 0 | 0 | 0 |
| Revised Result | 331 | 330 | 645 |

Water Fund has recorded a loss of almost 2 million following the exclusion of capital grants and a modest surplus of \$331,000, exclusive of capital grants and non cash

items. This is well short of depreciation expense and leaves substantial room for improvement. Despite annual water charges being increased by 9.5% in 2011/12, a 15% increase to the cost of bulk water offset the revenue increase.

The operating position of the Fund has been ordinary for some years as the price of bulk water supply, as charged by Rous Council, has increased in excess of 10% annually. Ballina's tariff has been increased to match the cost increase to bulk water plus allow for inflation on other costs. One outcome of the continual price increases has been that demand for water has fallen and income has not increased in proportion to the tariff increase. The table below shows the gross billable kilolitres consumed in recent years.

Table 21: Gross Kilolitres Levied as Water Bills ('000)

| Year | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|------------|---------|---------|---------|---------|---------|---------|
| Kilolitres | 3,076 | 2,865 | 2,833 | 3,166 | 2,744 | 2,735 |

Gross billable water consumption in 2011/12 was less than in any of the previous five years. Whilst this reflects excellent demand management it is difficult from a financial perspective, especially when the proportion of income from consumption is approximately 60% of total operating revenue (excludes developer contributions).

2011/12 completed a five year period of price increases in excess of 10% by Rous Water. The cost of bulk water should now rise by amounts similar to cost of living increases so it may now be easier to improve the operating result.

Importantly Water has minimal debt and sufficient reserves to enable capital expenditure requirements in the near future. Therefore from a short to medium term perspective the poor operating performance has not been a real concern. Also Council has complete control of the charging structure which enables a high level of confidence that we can meet financial needs as required.

Table 22: Sewer Fund Income Statements (\$'000)

| Description | 2011/12 | 2010/11 | 2009/10 |
|-----------------------------------|----------------|----------------|--------------|
| Income | 14,447 | 16,128 | 14,348 |
| Expense | 15,426 | 12,580 | 11,710 |
| Net Operating Result | (979) | 3,548 | 2,638 |
| Less Capital Grants | (1,846) | (5,393) | (2116) |
| Result Excl Capital Grants | (2,825) | (1,845) | 522 |
| Eliminate Loan Unwind | 474 | 510 | (3,111) |
| Add Back Depreciation | 4,343 | 4,237 | 3,992 |
| Eliminate Invest Prop Reval | 0 | 0 | 0 |
| Revised result | 1,992 | 2,902 | 1,403 |

Sewer Fund has recorded a loss of \$2.8 million exclusive of capital grants and a surplus of \$2 million excluding capital grants and non cash items.

It was mentioned earlier in this report that expense of approximately \$1.5 million, associated with the system upgrade, was deemed to be operating expense as opposed to capital. This is an abnormal occurrence and clearly has a major impact on financial performance as a 'Revised result' of \$3.5 million would have been recorded exclusive of depreciation.

The operating performance has been improving annually, primarily due to tariff increases to prepare to repay loans that are currently being taken up to \$63 million.

From 2013/14 annual loan repayments of approximately \$5 million will be required. A recent history of the tariff increases and the residential sewer charge is shown below.

Table 23: Sewer Residential Annual Charge

| Year | 2012 | 2011 | 2010 | 2009 |
|---------------------------|-------------|-------------|-------------|-------------|
| Percentage increase | 14.5 | 14.5 | 9.0 | 10.0 |
| Residential annual charge | \$630 | \$550 | \$480 | \$440 |

Customers have been enduring hefty increases for some time in preparation for the works that are currently underway. At least the increases have occurred on a staged basis over several years.

During the year Council expended approximately \$27 million on the upgrade and accepted income from the loan facility to \$45.4 million. Unexpended loan funds to \$18 million have been invested. Council agreed to a finance arrangement with the bank which included payments based on an estimated cash flow. Actual expenditures did not meet forecast expenditures.

The first two years of the finance arrangement allows for interest only payments. This means that loan repayments will be considerably less over those two years than once capital and interest repayments commence.

This has allowed another two years to increase charges to provide sufficient surplus to meet loan repayments.

Balance Sheet

The next table presents a summary of the Balance Sheet per fund.

Table 24: Balance Sheet as at 30 June 2012 (\$'000)

| Fund | General | Water | Sewer |
|--------------------------|----------------|----------------|----------------|
| Current Assets | 36,189 | 11,914 | 29,799 |
| Non Current assets | 719,653 | 107,040 | 232,624 |
| Total Assets | 755,842 | 118,954 | 262,423 |
| Current Liabilities | 13,242 | 138 | 1,441 |
| Non Current Liab | 20,411 | 0 | 50,188 |
| Total Liabilities | 33,653 | 138 | 51,629 |
| Net Assets | 722,189 | 118,816 | 210,794 |

Assets are dominated by non current assets and this is common across all funds. Non current assets refer to roads, stormwater, land, buildings etc. Non current assets actually represent a latent liability in as much as they must be maintained to standards that meet community expectations.

The perennial challenge is to generate sufficient operating surplus to maintain and refurbish infrastructure. This is particularly the case for **General Fund** which has to suffer rate pegging and must manage non current assets valued at \$720 million. The cost to maintain/refurbish/replace these assets typically increases at a rate that is greater than the rate pegging maximum set by the State

Water Fund is in a privileged position in that it has no non current liabilities and very small current liabilities. This suggests that the infrastructure is in a middle or latter

part of the life cycle where up front costs have been met and the infrastructure is meeting community needs.

Water Fund has \$107 million in non current assets to maintain / replace. The question is to what extent should the current generation be paying (putting funds into reserve) to meet large refurbishment costs that will inevitably arise. Over the last five years the Fund has had to cope with substantial increases from the bulk water supply authority so there has been little opportunity to contemplate inter-generational issues. However now that those rises have ceased it is matter for consideration when setting future charging structures.

A significant feature of the **Sewer Fund** balance sheet is the \$50 million in non current liabilities. This represents loans taken out recently to primarily enable non current assets to be replaced and upgraded. This represents a significant impost on the current generation however it is the current generation that will receive the benefit of the new assets.

2. Internal Reserves

Within the General Fund operations of Council a number of specific reserves have been set aside to finance future activities and enable business' to function. The major reserves held by Council within General Fund as at 30 June 2012 are:

a) Employee Leave Entitlements - \$1,715,000

This reserve is used to finance long service leave, annual leave and gratuities and to assist with budgetary variations associated with wages and overheads. The strategy is to keep this reserve at a level that is approximately 20% - 30% of the total leave liability. The total General fund leave liability as at 30 June 2012 is \$7.2 million. Hence the cash reserve represents approximately 24% of the liability. This is a small improvement in comparison to 30 June 2011 as the liability was \$7.1 million which was 23% cash funded.

b) Plant Operations - \$860,000

Represents funds set aside to replace existing items of plant and equipment. These funds are derived by internally charging for the hire of the existing plant fleet. It is expected that the balance of this reserve will rise and fall depending on the plant replacement program. The reserve increased from \$825,000 to \$860,000 during the year. The fund achieved an operating surplus of \$850,000 in 2012 with the majority of these funds expended on plant replacements.

c) Landfill and Resource Management (LRM) – \$1,979,000

Funds held for the management, development and post closure remediation of waste disposal cells. At the commencement of the year the reserve balance was \$1,729,000 and it has increased by \$250,000 to \$1,979,000. This balance includes \$430,000 that is restricted as it is the State Government levy reimbursement and may only be expended for specific purposes.

LRM recorded an operating surplus of \$827,000 which is a relatively poor result given that the annual capital loan repayment (not included in the operating surplus) is \$1,210,000. Hence the surplus is not sufficient to meet loan repayments.

The operating result is well down on previous years. This is partially due to the fact that the gate fees for Domestic Waste Management (DWM) were reduced to assist DWM to purchase four new collection vehicles. In 2012/13 the DWM gate fee has been increased to 2010/11 levels which should see a vastly increased operating surplus for LRM in 2012/13.

Capital income for the year was \$643,000 from the sale of the bulk collection business. This income enabled LRM to actually increase reserves in a year when a substantial amount of funds were effectively transferred to DWM as mentioned previously via gate fees.

LRM has a forecast liability in the order of \$2 million to remediate the site following closure and the cash on hand is now close to funding this liability.

Unfortunately it is likely that fees will have to keep rising due to the State imposed waste levy that was \$30 per tonne in 2011/12 and will escalate by \$10 each year for the next four, plus cost of living adjustment. However this levy only applies to waste deposited in the landfill and waste minimisation strategies including transporting off site green waste, recyclates and construction/demolition material drastically reduces the amount of waste going into the landfill and therefore the levy.

Current estimates indicate that the life of existing cells will last until loans taken out to create the cells expire. This is good news however there are obligations on Council to pay for remediation of former tip sites at Ballina, Wardell and Lennox Head.

d) Quarry Management - \$1,552,000

Funds required for ongoing operations and environmental impact statements and future rehabilitation of three quarries. The reserve decreased by \$74,000 during the course of the year. There was a cash surplus from Stokers and Tuckombil quarries of \$283,000 and a loss of \$55,000 from the Sandpit.

The management of Tuckombil and Stokers quarries is leased out to Lismore City Council. The arrangement sees Council receiving royalties based on the quantity of material extracted. The Sandpit is not operational. The business has expended accumulated reserves on studies and applications to once again become operational or alternatively finalise remediation strategies. Accumulated reserves from Tuckombil and Stokers quarries are being used to fund the sandpit expenses.

Despite a combined cash surplus of \$228,000 the reserve decreased due to the extraction of contributions from the business. Dividends totalling \$302,000 were provided to general revenue, Emigrant Creek boat ramp, yacht club car park, ferry ramps, ARC link and the depot car park.

The latest estimates to remediate Tuckombil and Stokers quarries, once they have ended their useful life, is in the order of \$1.3 million. This cost excludes the Sandpit and care needs to be taken not to over tax the profitable quarries or the community will be left with a debt that is not cash funded.

e) Cemetery - \$201,000

This reserve is necessary to enable extensions to cemeteries, to provide for unexpected contingencies and for the cemetery maintenance liability that Council faces in perpetuity.

The reserve reduced from \$239,000 at the start of the year to \$201,000. Cemetery operations produced a cash surplus of \$121,000 which was applied to capital works \$109,000 (primarily relating to the Alstonville niche wall) and a dividend to general revenue of \$50,000.

f) Entrepreneurial Property Activities and Financial Reserve (Property Reserves) - \$6,171,000

The reserve balance has increased by \$2,580,000 and there have been numerous transfers to and from this reserve that combine to achieve this outcome.

In 2010/11 Council passed a policy that requires the reserve to maintain a minimum balance of \$1,000,000 to be available to meet budget shocks that occur from time to time. This reserve has been the corner stone of Council's financial security for decades and it is prudent to have a \$1 million buffer in place.

Future cash forecasts for this reserve indicate that there will continue to be some major incoming and outgoing movements. Council has numerous projects on the horizon that are to be funded from this reserve and it will be necessary to prioritise and plan the order of projects to suit the capacity of the reserve.

The reserve is split into three sub reserves and a summary of the movements for each sub reserve is described below.

Community Infrastructure \$909,000

Funds used to provide community infrastructure. During the year the reserve decreased by \$8,000.

Funds came into the reserve totalling \$3,852,000 via rental of 89 Tamar Street, rental of Fawcett Street café, part rental of Arc building, sales of land at Southern Cross estate, interest from monies invested and recoupments from section 94 plans. The recoupments relate to payments made by the reserve in previous years in respect to projects nominated in the section 94 plan.

Funds applied amounted to \$3,860,000 for loan repayments, Lennox Head Community Centre, Sharpes Beach master plan, Ballina Surf Club, regional Sports Centre, Animal shelter, Coastal Path, Captain Cook Park Plan and Ballina Town Centre.

Commercial Opportunities \$824,000

The reserve is used to enable participation in commercial opportunities as and when they become available. The reserve balance is misleading however because it includes the fair value adjustment for the entire investment portfolio.

The adjustment has been shown in the one reserve for simplicity and clarity. If a real loss did occur the amount of the loss would be adjusted across all reserves held by Council both internally and externally restricted. This is because the portfolio is managed as one entity and all reserves must share equitably in any loss or indeed surplus.

The table below summarises the reserve balance with the fair value adjustment excluded.

Table 25: Commercial Opportunities Reserve Balance (\$'000)

| Commercial Opportunities Reserve | Amount |
|---|---------------|
| Reserve Balance at Year End | 824 |
| Reverse Fair Value Adjustment | 1,072 |
| Adjusted Year End Balance | 1,896 |

Given that it is very unlikely that the fair value adjustment will ever be realised, the adjusted reserve balance is arguably a fairer reflection of the reserve. Based on this revised calculation the reserve decrease was approximately \$1,338,000. This reserve is also carrying the Airport Reserve's negative position of \$454,000. However this is an actual position and is duly attributable.

Incoming funds were received from internal loan repayments, interest on investments and section 94 recoupments.

Outgoings include purchase of land at Wollongbar, work on Skennars Head sports fields and an increase to the internal loan for the airport.

Industrial land Reserve \$4,438,000

This reserve is used to finance Council's land subdivisions at Russellton, Southern Cross and Wollongbar. The reserve has increased by \$4.1 million primarily due to part of the income (\$4.2 million) from the sale of one lot at Southern Cross estate.

Incoming revenue amounted to \$5,085,000 and related to rental from commercial properties at Southern Cross estate, repayment of loans from Waste Services, interest on funds invested and sale of land at Southern Cross estate. Funds applied totalled \$950,000 and related to development and overhead expenses at Russellton, Southern Cross and Wollongbar estates, north creek dredging study and provision of a commercial services dividend to general revenue.

g) Airport Improvements Reserve – (454,000)

Funds accumulated for refurbishment of existing assets and future improvements to the Airport business. The reserve balance was negative \$302,000 at the start of the year and this increased by \$152,000 to negative \$454,000. This is financed by an internal loan (non interest accruing) from the Entrepreneurial Property Activities and Financial Reserve.

The Airport achieved an operating surplus, excluding depreciation, of \$716,000 which was applied to an external loan repayment of \$250,000 and capital works. Capital works of approximately \$1,232,000 were carried out, funded via operating surplus, grant income and increasing the internal loan.

The operating surplus was a positive improvement in comparison to the previous year and continues a trend of increasing passenger numbers and operating revenue. Concerns include the fact that operating expenses increased by over \$400,000 in comparison to the previous year and the amount of funds required for capital improvements.

The short term future of the business requires substantial capital expenditure on the runway and apron. Some of these costs will be grant funded and the remainder will be funded via a subsidised loan.

It is the nature of airports that substantial capital expenditures are required at different times in their life cycle and it is the volatile nature of income streams that makes this a relatively risk orientated venture. However the community benefit derived from the town having an airport is a primary consideration in the decision making process.

3. Loan Indebtedness

Movements in total loan debt by fund, for 2011/12, are shown below. Figures relate to external loans only and are taken from Special Schedule 2 which excludes the accounting adjustments to unwind interest free loans.

Table 26: Loan Movements for 2011/12 (\$'000)

| Fund | Balance 1 July 2011 | New Loans Raised | Principal Repaid | Balance 30 June 2012 | Movement - Increase / (Decrease) |
|--------------|------------------------|------------------------|---------------------|----------------------------|--|
| General | 19,094 | 0 | 1,838 | 17,256 | (1,838) |
| Sewerage | 8,865 | 45,419 | 985 | 53,299 | 44,434 |
| Water | 7 | 0 | 3 | 4 | (3) |
| Total | 27,966 | 45,419 | 2,826 | 70,559 | 42,593 |

Council's overall loan debt has increased by \$42.6 million over the course of the year with new loans being taken up for the sewer infrastructure program.

It was a year of consolidation for General Fund with no new loans being taken up and repayments of principal amounting to \$1.8 million. As discussed in this report 2012/13 is forecast to see General Fund debt almost double due to capital expenditure to provide new and replace existing infrastructure assets.

Water has minimal debt and there is no borrowings forecast in the short to medium term.

4. Non-cash contributions from developers

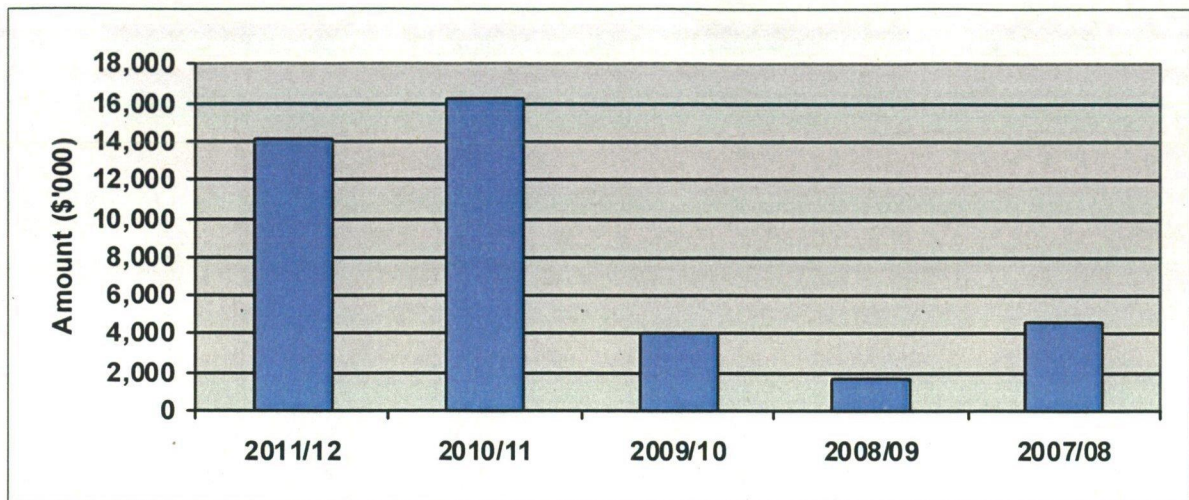
Council's are required to bring to account as revenue (capital contribution), the value of infrastructure constructed by developers that eventually transfers to a council's control; e.g. roads, kerb and gutter etc.

The 2011/12 financial year resulted in infrastructure to \$14,173,000 being brought to account. This non-cash contribution shows as income. The reality is that Council has not received revenue but an asset that must be maintained and therefore in terms of demands on available cash, a liability.

The graph below shows that developer non-cash contributions tend to be erratic and in one year Council may receive assets valued in the millions and in the next year receive next to nothing. The contribution is dependent on development.

Table 27: Non – Cash Capital Contributions (\$'000)

| Item | 2011/12 | 2010/11 | 2009/10 | 2008/09 | 2007/08 |
|------------------------|---------|---------|---------|---------|---------|
| Non-cash Contributions | 14,173 | 16,189 | 4,007 | 1,698 | 4,573 |



5. Points of Interest

Other major points of interest that are reflected in the 2012 financial reports include:

- a continuation of above average increases to annual rates and charges
- continued construction of major public buildings and facilities including the Ballina surf club, Alstonville, Ballina and Wardell town centre upgrades
- further development of the Southern Cross industrial estate to develop saleable industrial land
- sale of industrial land to \$6 million and receipt of rental income to \$2.2 million from property portfolio
- expansion of the Ballina Airport terminal and apron extension. Funding sources included a grant of \$1.1 million.
- increased passenger numbers and operating revenue for the Airport however a net increase to the internal loan supporting operations.
- purchase of land at Wollongbar for sports fields (\$1.5 million), receipt of a \$2 million grant to assist with development of the fields, and completion of Plateau drive at Wollongbar
- installation of a new document management system (TRIM) for \$220,000
- landslide on The Coast Road and grant of \$1.1 million to fund this work
- completion of Teven double bridges being a multi million dollar project over several years
- purchase of four new waste collection vehicles for \$1.4 million
- Department of Environment and Climate Change waste levy escalating to \$660,000
- sale of bulk waste collection business

- gross water consumption continues to fall annually contributing to an approximate cash break even position for the business. Final year of five years of large increases from Rous Water strategy to elevate income.
- Sewer fund capital works starting to escalate in accord with the urban water sewer strategy and receipt of loan income and
- asset revaluations increasing equity and depreciation expense.

Conclusion

Fund Overview

Council's financial arrangements are quite complicated with various internal and external restrictions. This complexity makes it difficult to decipher the annual financial statements and indeed communicate easily the outcomes.

Each of the three Funds discussed in the report are unique with their own financial circumstances. Both Water and Sewer Funds are in privileged positions in that Council has complete control over the process to set annual financial charges. This enables a confidence that the sustainability of the fund, including maintaining service levels, is not really in doubt.

A good example of this is Sewer Fund which is in the midst of a massive upgrade to infrastructure. The loans required to finance this upgrade have changed the face of the financial landscape however Council has been able to plan and prepare for this situation by progressively increasing annual charges.

General Fund, being subject to rate pegging, does not enjoy this same luxury. The funds primary source of income, the ordinary rate, is increased by a rate peg amount that typically does not match the real increase in Council's costs, let alone provide for new or expanded services. The process to increase the rate beyond the rate peg limit is arduous and ultimately subject to State Government approval.

Hence the financial stewardship of General Fund, in comparison to Water and Sewer, is a more risky business in terms of maintaining and or improving service levels to the community. It is also the case that General Fund has numerous influences in terms of different entities, income sources and expenditures that operate independently of each other. If one area does not meet expectations it can affect the entire Fund.

Fund Outcome

In most respects the position of each fund at year's end is satisfactory. However each of the three funds recorded operating losses (exclusive of capital grants/contributions and inclusive of depreciation). In terms of the long term sustainability of each fund this is a concern. This is not a new issue and it is something that Council has been looking to improve. Each Fund has individual issues that are discussed in the body of this report.

General Fund presents the biggest concern for issues discussed in 'Overview' above. Also in 2012/13 General Fund is forecast to fall below the liquidity benchmark as external loans almost double and cash reserves continue to fall. The debt service ratio is estimated to rise to approximately equal the benchmark. The outlook is very tight and indicates that Council needs to put in place a strategy to increase liquidity and avoid further borrowings.