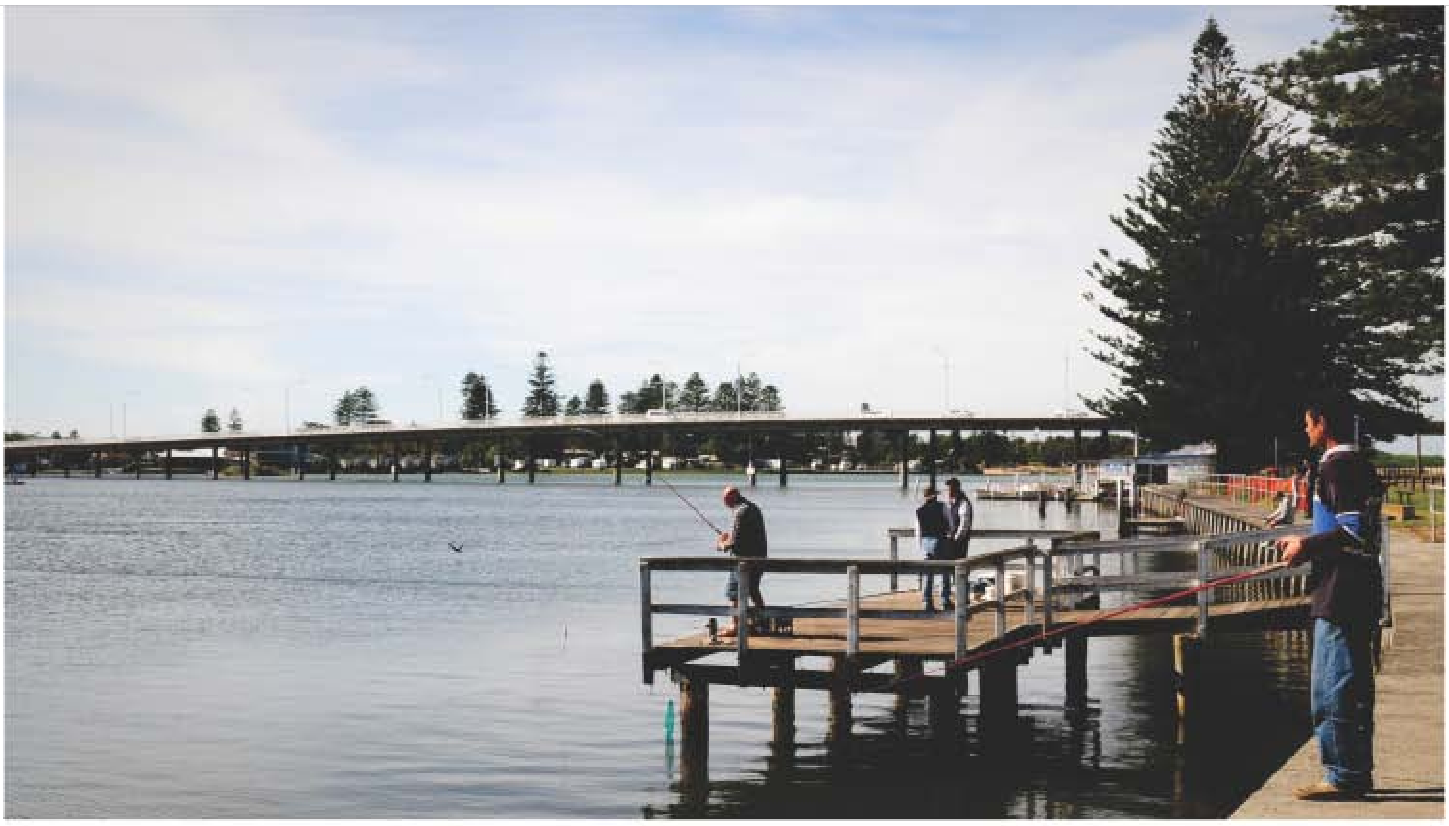

Wyong Shire Council Water Supply Authority

Financial Reports

2011/2012

Wyong Shire Council
CENTRAL COAST

Water Supply Authority Financial Reports 2011/2012
Version 2.0 Draft
Date: 25 September 2012
Approved by:
Date of Approval:

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Wyong Shire Council Water Supply Authority
Financial Statements for the year ended 30 June 2012

Contents:

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

Certificate

Wyong Shire Council Water Supply Authority
Income Statement
for the year ended 30 June 2012

	Notes	Actual 2012 $'000	Actual 2011 $'000
Income from continuing operations			
Annual charges	2(a)	**41,005**	39,408
User charges and fees	2(b)	**23,810**	22,147
Interest and investment revenue	2(c)	**3,828**	4,678
Other revenues	2(d)	**27**	18
Grants and contributions provided for operating purposes	2(e),(f)	**1,489**	1,708
Grants and contributions provided for capital purposes	2(e),(f)	**3,904**	31,330
Net gain from the disposal of assets	4	**-**	-
Total income from continuing operations		**74,063**	99,289
Expenses from continuing operations			
Employee benefits and on-costs	3(a)	**14,017**	14,025
Borrowing costs	3(b)	**16,513**	10,514
Materials and contracts	3(c)	**9,209**	10,257
Depreciation and amortisation	3(d)	**28,218**	28,116
Other expenses	3(e)	**19,120**	18,815
Net loss from the disposal of assets	4	**1,522**	1,638
Total expenses from continuing operations		**88,599**	83,365
Net operating result for the year		**(14,536)**	15,924
Attributable to Wyong Shire Council		**(14,536)**	15,924
Dividend payment		**369**	366
Surplus (deficit) after dividend payment		**(14,905)**	15,558

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

Wyong Shire Council Water Supply Authority
Statement of comprehensive income
for the year ended 30 June 2012

	Notes	Actual 2012 $'000	Actual 2011 $'000
Net operating result for the year - from income statement		**(14,536)**	15,924
Other comprehensive income			
Gain / (Loss) on revaluation of infrastructure, property, plant & equipment	15	**263,827**	27,224
Total other comprehensive income for the year		**263,827**	27,224
Total comprehensive income for the year		**249,291**	43,148
Attributable to			
Wyong Shire Council		**249,291**	43,148

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

Wyong Shire Council Water Supply Authority
Balance sheet
as at 30 June 2012

	Notes	Actual 2012 $'000	Actual 2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents	5	**27,885**	24,486
Investments	5	**29,409**	41,574
Receivables	6	**18,968**	21,881
Inventories & Other Assets	7	**493**	392
Total current assets		**76,755**	88,333
Non-current assets			
Investments	5	**2,287**	-
Receivables	6	**543**	595
Infrastructure, property, plant and equipment	8	**1,459,666**	1,199,400
Investments accounted for using the equity method	12	**-**	-
Intangible assets	16	**443**	689
Total non-current assets		**1,462,939**	1,200,684
Total assets		**1,539,694**	1,289,017
LIABILITIES			
Current liabilities			
Payables	9	**13,952**	20,280
Borrowings	9	**10,452**	9,964
Provisions	9	**4,389**	4,661
Total current liabilities		**28,793**	34,905
Non-current liabilities			
Payables	9	**-**	-
Borrowings	9	**184,628**	176,948
Provisions	9	**1,074**	887
Total non-current liabilities		**185,702**	177,835
Total liabilities		**214,495**	212,740
Net assets		**1,325,199**	1,076,277
EQUITY			
Retained earnings	15	**612,231**	627,136
Revaluation reserves	15	**712,968**	449,141
Total equity		**1,325,199**	1,076,277

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

Wyong Shire Council Water Supply Authority

Statement of changes in equity for the year ended 30 June 2012

	Note	2012 Retained Earnings $'000s	2012 Asset Revaluation Reserve $'000s	2012 Authority Equity Interests $'000s	2012 Council Equity Interests $'000s	2012 Total Equity $'000s	2011 Retained Earnings $'000s	2011 Asset Revaluation Reserve $'000s	2011 Authority Equity Interests $'000s	2011 Council Equity Interests $'000s	2011 Total Equity $'000s
Opening balance	15	**627,136**	**449,141**	**1,076,277**	**-**	**1,076,277**	611,578	421,917	1,033,495	-	1,033,495
Correction of errors	15	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Changes in accounting policy		**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Restated opening balance	15	**627,136**	**449,141**	**1,076,277**	**-**	**1,076,277**	611,578	421,917	1,033,495	-	1,033,495
Net operating result for the year		**(14,536)**	**-**	**(14,536)**	**-**	**(14,536)**	15,924	-	15,924	-	15,924
Other comprehensive income		**-**	**263,827**	**263,827**	**-**	**263,827**	-	27,224	27,224	-	27,224
Total comprehensive income	15	**(14,536)**	**263,827**	**249,291**	**-**	**249,291**	15,924	27,224	43,148	-	43,148
Taxation equivalent dividend payment	15	**(369)**	**-**	**(369)**	**-**	**(369)**	(366)	-	(366)	-	(366)
Closing balance		**612,231**	**712,968**	**1,325,199**	**-**	**1,325,199**	627,136	449,141	1,076,277	-	1,076,277

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

Wyong Shire Council Water Supply Authority
Statement of cash flows
for the year ended 30 June 2012

	Notes	Actual 2012 $'000	Actual 2011 $'000
Cash flows from operating activities			
Receipts:			
Receipts from customers		**65,235**	56,711
Investment revenue and interest		**3,885**	3,312
Grants		**8,703**	28,460
Contributions and donations		**3,171**	2,987
Other		**2,593**	7,874
Payments :			
Employee benefits and on-costs		**(14,155)**	(14,128)
Materials and contracts		**(18,019)**	(9,482)
Borrowing costs		**(16,282)**	(10,534)
Other		**(19,168)**	(18,829)
Net cash provided (or used) in operating activities	10(b)	**15,963**	46,371
Cash flows from investing activities			
Receipts:			
Sale of investments		**55,386**	6,528
Sale of infrastructure, property, plant & equipment		**-**	15
Payments:			
Purchase of investments		**(45,571)**	(11,635)
Purchase of infrastructure, property, plant and equipment		**(30,178)**	(57,916)
Purchase of real estate		**-**	-
Purchase of interest in associates	12	**-**	-
Net cash provided by (or used) in investing activities		**(20,363)**	(63,008)
Cash flows from financing activities			
Receipts:			
Borrowings and advances		**18,125**	26,000
Payments:			
Borrowings and advances		**(9,957)**	(9,809)
Dividend payment		**(369)**	(366)
Net cash provided by (or used) in financing activities		**7,799**	15,825
Net increase / (decrease) in cash held		**3,399**	(812)
Cash and cash equivalents at beginning of reporting period		**24,486**	25,298
Cash and cash equivalents at end of reporting period	10(a)	**27,885**	24,486

This statement of cash flows is to be read in conjunction with the accompanying notes.

Notes to 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 financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Wyong Shire Council, within its overall statutory responsibilities, is a statutory authority for water supply and related purposes, under the *Water Management Act* 2000. The principal business office of the Wyong Shire Council is at 2 Hely St Wyong NSW 2259. The Water Supply Authority (the "Authority") controls resources to carry out water supply, sewerage, stormwater drainage and ancillary activities within the Wyong local government area and these functions have been consolidated in these financial statements.

The financial statements have been authorised for use in accordance with the resolution of Council on 10 October 2012.

The security for new loans for water and sewerage functions is a charge on the general revenues of the Council, in accordance with section 229 of the *Local Government (General) Regulation* (2005).

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements and interpretations of the Australian Accounting Standards Board, the *Local Government Act 1993*, the *Public Finance and Audit Act 1983*, and the *Public Finance and Audit Regulation 2010*.

New and amended standards adopted by the Water Supply Authority

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.

Early adoption of standards

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

Historical cost convention

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

Critical accounting estimates

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

The Authority 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.

(iii) Estimated fair values of infrastructure, property, plant and equipment.

Critical judgements in applying the entity's accounting policies

(i) Impairment of Receivables
The Authority has made a significant judgement about the impairment of a number of its receivables in Note 7.

(b) Revenue recognition

The Authority 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 Authority's activities as described below. The Authority bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

Rates, annual charges, grants and contributions

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

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

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 Authority 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 Authority and the amount of the contribution can be measured reliably.

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

User charges and fees

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

Sale of plant, property, infrastructure and equipment

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

Interest

Interest is 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.

(c) Principles of Consolidation

The Consolidated Fund

Wyong Shire Council is legally required to maintain a Consolidated Fund under the *Local Government Act 1993* s 409(1). The fund is to receive all Council cash and property income except for those assets specifically required to be held in a Trust Fund. The accounting for Water Supply Authority functions is maintained by keeping separate accounting funds, subordinate to the Consolidated fund, in the general ledger, for Water (including drainage) and for Sewerage.

These financial statements represent the consolidation of the Water and Sewerage funds.

The notional cash and investment assets of the Authority are represented in practice by an equity interest in the general cash and investment assets of the Wyong Shire Council as a whole, and all investment assets and bank accounts are held in the name of the Wyong Shire Council.

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 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, in respect of Water and Sewerage have been included in these reports.

Trust monies and property not subject to the control of the Authority, have been excluded from these reports. A separate statement of monies held in the Trust Fund is available for inspection at the Council office by any person free of charge.

Joint ventures - jointly controlled assets

The Authority is a joint venturer in the provision of core water supply infrastructure serving both Gosford and Wyong council areas. The proportionate interests in the assets, liabilities and expenses of this joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint venture, including the Authority's share in assets and expenses, are set out in note 12 below.

Central Coast Water Corporation

Gosford and Wyong Councils have agreed to implement the Central Coast Water Corporation (CCWC) and a Joint Services Business (JSB) in a staged approach over the following five years to minimise service disruption to the community.

The project aims to:

- provide a co-ordinated regional management approach to water and sewerage services and decision-making
- reduce costs through the creation of common administrative systems, improve efficiency by aligning policies and procedures
- reinvest savings in community services and projects
- create greater organisational resilience through pooled resources and reduce IT costs which can be reinvested in other service areas

Critical dates over the next five years include:

- 1 July 2013 – commence trials of selected business processes
- 1 July 2014 – Asset Management and Regulatory staff to transfer to the CCWC
- 1 July 2014 ~ 1 July 2017 – remaining water and wastewater functions and staff to transfer over the following three years
- 1 July 2017 – commence long term lease of water and wastewater assets; JSB to formally commence.

All permanent award staff affected by structural change will be protected from redundancy until 30 June 2020.

(d) Leases

Leases of property, plant and equipment, where the lessee has substantially all the risks and rewards of ownership, are classified as finance leases. The Authority presently has no obligations under finance leases.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the lessee are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

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

(e) Acquisition of assets

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

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

(f) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment, or more often if events or changes in circumstances indicate that they might be impaired.

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable.

An impairment loss is for the amount by which the asset's carrying amount exceeds the higher of the *present value of future cash inflows* or *value in use.* For the purpose of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units).

Non-financial assets other than impaired goodwill are reviewed for a possible reversal of the impairment at each reporting date.

(g) Cash and cash equivalents

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

(h) Receivables

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

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 Authority will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

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

(i) Inventories

Raw materials and stores, works in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Council has three centralised store facilities. Inventories held in store have been valued by using the weighted average cost on a continual basis, after any necessary adjustment for loss of service potential. Discounts and premiums on purchase are included in the calculation of average cost.

Land held for resale

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

(j) Non current assets (or disposal groups) held for sale and discontinued operations

As at the reporting dates 30 June 2011 and 30 June 2012 the Authority carried no amount on its balance sheet in respect of non current assets held for sale or in respect of discontinued operations, and has not recorded any income or expense transactions related to these categories in the financial years ending on those dates.

Non current assets are classified as held for resale if their carrying amount will be principally recovered through a sale transaction.

Discontinued operations are the Authority functions or projects which will be, or have been transferred, to another entity. Generally, the Authority I would receive some amount of compensation for the value of assets transferred.

(k) Investments and other financial assets

Classification

The Authority classifies its investments and financial assets under the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The Authority does not hold, and never has held, any derivative financial assets. 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.

Financial assets at fair value through profit and loss

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

Loans and receivables

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Authority's management has the positive intention and ability to hold to maturity. If the Authority were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

Available-for-sale assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Financial assets – reclassification

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

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

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade-date - the date on which the Authority commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Authority has transferred substantially all the risks and rewards of ownership.
When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Subsequent measurement

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

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

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

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

Financial assets – impairment

The Authority 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 investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

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

Investment policy

The Authority has an approved investment policy complying with Section 625 of the Local Government Act and S212 of the LG (General) Regulation 2005. Investments are placed and managed in accordance with that policy and having particular regard to authorised investments prescribed under the Ministerial Local Government Investment Order. The Authority 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 the Authority's funds.

The Authority amended its policy following revisions to the Ministerial Local Government Investment Order arising from the Cole Inquiry recommendations. Certain investments the Authority holds are no longer prescribed, however they have been retained under grandfathering provisions of the Order. These will be disposed of when most financially advantageous to the Authority.

(l) Fair value estimation

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

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

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

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Authority for similar financial instruments.

(m) Infrastructure, property, plant & equipment (IPPE)

The Authority's assets have been progressively revalued to fair value in accordance with a staged implementation advised by the Division of Local Government. At balance date all classes of IPPE were stated at their fair value, including:

- Operational land (External Valuation).

- Buildings – Specialised/Non Specialised (External Valuation).
- Water/Sewerage Networks (internal valuation)
- Plant and equipment (as approximated by depreciated historical cost).
- Drainage assets – (external valuation)
- Land improvements and other structures (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, The Authority 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, the Authority determines the asset's fair value and revalues the asset to that amount. Full revaluations are undertaken for all assets on a 5 year cycle. The Authority does not at present have sufficient data to assess the valuation of earthworks under roads but will be progressively carrying out measurements of earthworks as part of its regular inspection program.

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 the Authority 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 in the table below.

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 8.

Buildings	20 to 100 years
Vehicles	6 to 10 years
Heavy Plant	6 to 10 years
Office Equipment	5 to 10 years
Dams	150 years
Drainage Assets	80 to 120 years
Water Mains	50 to 80 years
Water Treatment Plants - Civil	50 to 100 years
Water Treatment Plants - Other	20 to 40 years
Sewerage Treatment Plants - Civil	50 to 100 years
Sewerage Treatment Plants - Other	20 to 40 years
Sewerage Pipelines and Mains	50 to 80 years

(n) Investment property

In the period ended 30 June 2012 the Authority had no investment properties.

(o) Payables

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

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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

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

(q) Borrowing costs

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

(r) Provisions

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

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

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

(s) Employee benefits

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.

Other long-term employee benefit 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 end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

Retirement benefit obligations

All employees of the Authority are entitled to benefits on retirement, disability or death. The Authority 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, the Authority 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 member councils that, as a result of the global financial crisis, it has a significant deficiency of assets over liabilities. As a result, they have asked for significant increases in contributions to recover that deficiency. The Authority'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 the Authority's accounts. The Authority has, however, disclosed a contingent liability in note 13 to reflect the possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

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

(t) Rounding of amounts

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

(u) 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 ensuring 12 months, being the Authority's operational cycle. In the case of liabilities where the Authority does not have the unconditional right to defer settlement beyond 12 months, such as vested long service leave, the liability is classified as current even if not expected to be settled within the next 12 months. Inventories held for trading are classified as current even if not expected to be realised in the next 12 months.

(v) New accounting standards and interpretations

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

(i) AASB 9 Financial Instruments, AASB 2009 11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013*)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013* but is available for early adoption. When adopted, the standard will affect in particular the Authority's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

There will be no impact on the Authority's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Authority does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed.

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

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

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

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

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

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

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a “partial disposal” concept. The Authority is still assessing the impact of these amendments.

The Authority does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

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

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

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

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

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.

(w) Self insurance

The Authority has determined to self-insure for workers’ compensation risks. A provision for self-insurance has been made to recognise outstanding claims the amount of which is detailed in Note 9.

(x) Intangible assets

IT development and software

The Authority has acquired, under a managed service arrangement, a licence to access information technology services. In conjunction with this contract, the Authority has incurred a number of costs including system build cost and software and hardware licenses, as well as direct labour and material costs. These will give rise to future economic benefits. The Authority's contribution to these costs has been capitalised as an intangible asset to be amortised over the period of the contract.

(y) Goods and Services Tax

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.

Notes to the financial statements
for the year ended 30 June 2012

Note 2 – Income from continuing operations

	Actual 2012 $'000	Actual 2011 $'000
(a) Annual charges		
Water supply	**8,592**	8,192
Sewerage services	**26,787**	25,803
Drainage	**5,626**	5,413
Total annual charges	**41,005**	39,408
(b) User charges and fees		
User charges		
Water supply	**21,836**	20,289
Sewerage services	**1,481**	1,162
Total user charges	**23,317**	21,451
Fees		
Water connection fees	**196**	322
Sewer application fees	**79**	165
Certificate fees water	**26**	28
Fees other	**192**	181
Total fees	**493**	696
Total user charges and fees	**23,810**	22,147
(c) Interest and investment revenue		
Water interest	**1,844**	1,819
Water fair value adjustment	**(43)**	371
Sewer interest	**2,046**	1,512
Sewer fair value adjustment	**(19)**	976
Total interest revenue	**3,828**	4,678
(d) Other revenues		
Other revenue	**27**	18
Total other operating revenue	**27**	18

Note 2 – Income from continuing operations (continued)

	Operating		Capital	
	Actual 2012 $'000	Actual 2011 $'000	Actual 2012 $'000	Actual 2011 $'000
(e) Grants				
Pensioners rate subsidies				
- Water	**674**	681	-	-
- Sewer	**663**	663	-	-
Water supplies	**-**	150	**247**	27,660
Sewerage services	**-**	-	**-**	39
Other	**67**	130	**1**	8
Total grants	**1,404**	1,624	**248**	27,707
(f) Contributions				
Developer contributions				
- Drainage	-	**-**	**626**	334
- Water	**-**	-	**684**	401
- Sewerage	**-**	-	**530**	290
Dedications	**-**	-	**1,214**	1,878
Contributed assets				
- Drainage	**-**	-	**167**	351
- Water	**-**	-	**319**	297
- Sewerage	**-**	-	**84**	72
Other	**85**	84	**32**	-
Total contributions and donations	**85**	84	**3,656**	3,623
Total grants and contributions	**1,489**	1,708	**3,904**	31,330

Notes to the financial statements
for the year ended 30 June 2012

Note 3 – Expenses from continuing operations

	Actual 2012 $'000	Actual 2011 $'000
(a) Employee benefits and oncosts		
Salaries and wages	**12,553**	12,717
Employee leave entitlements	**2,171**	1,942
Superannuation	**1,330**	1,128
Workers' compensation insurance	**280**	266
Payroll tax	**1,009**	1,115
Training costs (excluding salaries)	**11**	8
Less: Capitalised costs	**(3,337)**	(3,151)
Total employee costs expensed	**14,017**	14,025
(b) Borrowing costs		
Interest on loans	**16,390**	10,288
Interest on other debts	**123**	226
Less: Capitalised Costs	**-**	-
Total borrowing costs expensed	**16,513**	10,514
(c) Materials and contracts		
Raw materials and consumables	**5,541**	5,830
Contractor and consultancy costs	**3,509**	4,321
Remuneration of Auditors (1)	**74**	68
Legal fees	**-**	-
Operating leases		
- Buildings	**42**	-
- Computers (including printers)	**44**	38
- Motor vehicles	**-**	-
- Other	**-**	-
Total materials and contracts	**9,210**	10,257

Notes to the financial statements
for the year ended 30 June 2012

Note 3 – Expenses from continuing operations (continued)

	Actual 2012 $'000	Actual 2011 $'000
(1) During the year the following fees were paid or payable for services provided by the Authority's auditor - NSW Audit Office		
(i) Audit and other assurance services		
Audit and review of financial statements	**74**	68
Other assurance services:	**-**	-
- Audit of regulatory returns	**-**	-
- Due diligence services	**-**	-
Total remuneration for audit and other assurance services	**74**	68
(ii) Taxation services		
Tax compliance services	-	-
Total remuneration for taxation services	-	-
(iii) Other services		
Remuneration advice	**-**	-
Cost Benefit Analysis	**-**	-
Total remuneration for other services	-	-
Total remuneration of NSW Audit Office	**74**	68
(d) Depreciation, amortisation and impairment		
Intangibles - software	**246**	206
Plant and equipment	**328**	59
Office equipment	**33**	24
Furniture and fittings	**14**	14
Other structures	**34**	-
Infrastructure:		
- Storm water drainage	**2,440**	2,303
- Water supply network	**12,124**	11,584
- Sewerage network	**12,998**	13,941
Other assets	**1**	(15)
Total depreciation and impairment	**28,218**	28,116
(e) Other expenses		
Insurance	**1**	3
Contributions and donations	**209**	162
Electricity	**3,294**	3,328
Gas charges	**46**	42
Bank fees and charges	**1**	17
Water tank, washing machine rebate scheme	**1**	3
Plant hire	**2,662**	2,431
Telephone charges	**66**	73
Tipping fees	**1,660**	1,219
Administration support	**10,934**	10,743
Other expenses	**246**	794
Total other operating expenses	**19,120**	18,815

Notes to the financial statements
for the year ended 30 June 2012

Note 4 – Gain or loss on disposal of assets

	Actual 2012 $'000	Actual 2011 $'000
Gain (or loss) on disposal of Infrastructure, Property, Plant and Equipment		
Proceeds from disposal	**-**	15
Less: Carrying amount of assets sold	**1,522**	1,653
Gain (or loss) on disposal	**(1,522)**	(1,638)
Gain (or loss) on disposal of real estate assets held for sale		
Proceeds from sales	**-**	-
Less: Cost of sales	**-**	-
Gain (or loss) on disposal	**-**	-
Gain (or loss) on disposal of Investment Property		
Proceeds from disposal	**-**	-
Less: Carrying value of Investment Property	**-**	-
Gain (or loss) on disposal	**-**	-
Gain (or loss) on disposal of Financial assets		
Proceeds from disposal	**55,386**	6,528
Less: Carrying amount of Financial assets	**55,386**	6,528
Gain (or loss) on disposal	**-**	-
Net gain (or loss) from disposal of assets	**(1,522)**	(1,638)

Notes to the financial statements
for the year ended 30 June 2012

Note 5 – Cash and cash equivalents

	Actual 2012		Actual 2011	
	Current $'000	Non-current $'000	Current $'000	Non-current $'000
Cash				
Cash at bank and on hand	-	-	-	-
Deposits at call	27,885	-	24,486	-
Total cash assets	27,885	-	24,486	-
Financial assets at fair value through profit and loss				
Managed funds				
At beginning of year	6,304	-	6,647	-
Revaluation adjustments	(63)	-	1,347	-
Additions	-	-	2,454	-
Disposals	(3,954)	-	(4,144)	-
Transfer to Non Current	(2,287)	2,287		
At end of year	-	2,287	6,304	-
Held to maturity investments*				
At beginning of year	35,270	-	27,195	1,278
Additions	45,571	-	9,181	-
Disposals	(51,432)	-	(1,106)	(1,278)
At end of year	29,409	-	35,270	-
**includes Term Deposits, Bank Bills, Bank Bonds*				
Total investment securities	29,409	2,287	41,574	-
Total cash assets and investment securities	57,294	2,287	66,060	-

Note 5 – Cash and cash equivalents (continued)

Restricted cash assets and investments

Summary

	2012		2011	
	Current	Non-current	Current	Non-current
	$'000	$'000	$'000	$'000
External restrictions				
- Included in liabilities	**9,715**	**-**	16,268	-
- Included in revenue	**39,643**	**-**	38,690	-
Total external restrictions	**49,358**	**-**	54,958	-
Internal restrictions				
- Included in liabilities	**792**	**-**	845	-
- Other	**801**	**-**	9,313	-
Total internal restrictions	**1,593**	**-**	10,158	-
Total unrestricted	**6,343**	**2,287**	944	-
Total cash assets and investment securities	**57,294**	**2,287**	66,060	-

Notes to the financial statements
for the year ended 30 June 2012

Note 5 – Cash and cash equivalents (continued)

Restricted cash assets and investments
Detail

	2012 Current $'000	2012 Non-current $'000	2011 Current $'000	2011 Non-current $'000
External restrictions				
- included in liabilities				
Specific purpose unexpended loans	**6,861**	**-**	14,771	-
Self insurance claims	**1,904**	**-**	1,497	-
Climate Change Fund	**950**	**-**	-	-
Other				
- included in revenue				
Specific purpose unexpended grants	**184**	**-**	269	-
Water contributions	**10,270**	**-**	8,908	-
Drainage contributions	**13,238**	**-**	13,154	-
Sewerage contributions	**15,822**	**-**	16,359	-
Other	**129**	**-**	-	-
Total external restrictions	**49,358**	**-**	**54,958**	**-**
Internal restrictions				
-included in liabilities				
Self insurance claims	**-**	**-**	-	-
Deposit on Sale of Land	**-**	**-**	-	-
Employee leave entitlements	**792**	**-**	845	-
-other				
Public Liability Insurance	**1**	**-**	3	-
Unexpended budgets	**-**	**-**	510	-
Water equalisation	**-**	**-**	-	-
Other	**-**	**-**	-	-
Sewer refurbishment	**-**	**-**	-	-
Working capital	**800**	**-**	8,800	-
Total internal restrictions	**1,593**	-	10,158	-

Notes to the financial statements
for the year ended 30 June 2012

Note 6 – Receivables

Purpose	Actual 2012 Current $'000	Actual 2012 Non-current $'000	Actual 2011 Current $'000	Actual 2011 Non-current $'000
Annual charges	**2,855**	**34**	2,793	54
Interest and extra charges	**340**	**-**	334	-
Government grants and subsidies	**37**	**-**	7,088	-
Accrued revenues	**696**	**-**	583	-
Joint Water Equalisation	**4,815**	-	-	-
User charges and fees	**9,892**	-	10,354	-
Other	**338**	**509**	734	541
Total	**18,973**	**543**	21,886	595
Less : Provision for impairment				
- Other	**5**	**-**	5	-
Total	**18,968**	**543**	21,881	595

Notes:

Water & Sewer Charges & Interest & Extra Charges

Overdue water and sewer charges are secured over the relevant land and are subject to simple interest at a rate of 10.75% during 2011/12.

Other levels of Government

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.

Notes to the financial statements
for the year ended 30 June 2012

Note 7 – Inventories and other assets

	Actual 2012 Current $'000	Actual 2012 Non-current $'000	Actual 2011 Current $'000	Actual 2011 Non-current $'000
Inventories				
Trading stock	**448**	**-**	392	-
Prepayments	**45**	**-**	-	-
Real Estate Assets Held for Resale	**-**	**-**	-	-
	493	**-**	392	-

Notes to the financial statements
for the year ended 30 June 2012

Note 8 – Infrastructure, property, plant and equipment

By Asset Type	At 30 June 2011				Movements during year					At 30 June 2012			
	Cost/ Deemed Cost $'000	Fair value $'000	Accum depn and impairment $'000	WDV $'000	Additions $'000	WDV of Disposals $'000	Depn and impairment $'000	Transfers/ Adjustments $'000	Revaluation increments/ (decrements) $'000	Cost/ Deemed Cost $'000	Fair value $'000	Accum depn and impairment $'000	WDV $'000
Water supply													
Capital WIP	65,047	-	-	65,047	17,616	-	-	(79,528)	-	3,135	-	-	3,135
Plant - equipment		629	596	33	-	-	93	254	-	-	883	689	194
Office equipment		325	286	39	-	-	27	151	-	-	477	314	163
Furniture and fittings		155	110	45	-	-	11	-	-	-	155	121	34
Land													
-authority owned		14,799	-	14,799	-	-	-	-	362	-	15,161	-	15,161
-council controlled				-	-	-	-	-	-	-	-	-	-
-non depreciable land improvements				-	-	-	-	-	-	-	-	-	-
Land improvements - depreciable				-	-	-	-	-	-	-	-	-	-
Buildings				-	-	-	-	-	-	-	-	-	-
Other structures		11	2	9	-	-	21	513	-	-	523	22	501
Infrastructure													-
-water supply*		712,823	220,660	492,163	235	1,522	12,123	66,337	6,143	-	885,802	334,569	551,233
-stormwater drainage		284,015	66,243	217,772	2,526	-	2,436	12,273	-	-	298,814	68,679	230,135
Other Assets			-	-	-	-	-	-	-	-	-	-	-
Total water supply	**65,047**	**1,012,757**	**287,897**	**789,907**	**20,377**	**1,522**	**14,711**	**-**	**6,505**	**3,135**	**1,201,815**	**404,394**	**800,556**
											-		-
Sewerage services													
Capital WIP	7,455	-	-	7,455	5,051	-	-	(10,552)	-	1,954	-	-	1,954
Plant - equipment	-	586	579	7	-	-	236	774	-	-	1,360	815	545
Office equipment	-	451	434	17	-	-	6	-	-	-	451	440	11
Furniture and fittings	-	55	49	6	-	-	3	6	-	-	61	52	9
Land													
-authority owned	-	9,016	-	9,016	-	-	-	-	-	-	9,016	-	9,016
-council controlled	-	-	-	-	-	-	-	-	-	-	-	-	-
-non depreciable land improvements	-	-	-	-	-	-	-	-	-	-	-	-	-
Land improvements - depreciable	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings		-	-	-	-	-	-	-	-	-	-	-	-
Other structures	-	-	-	-	-	-	13	230	-	-	230	13	217
Infrastructure													-
-sewerage assets*	-	583,673	190,681	392,992	498	-	12,998	9,542	257,322	-	937,285	289,928	647,357
Total sewerage services	**7,455**	**593,781**	**191,743**	**409,493**	**5,549**	**-**	**13,256**	**-**	**257,322**	**1,954**	**948,403**	**291,248**	**659,109**
Total	**72,502**	**1,606,538**	**479,640**	**1,199,400**	**25,926**	**1,522**	**27,967**	**-**	**263,827**	**5,089**	**2,150,218**	**695,642**	**1,459,665**

Notes to the financial statements
for the year ended 30 June 2012

Note 9 (a) – Payables, borrowings and provisions

Item	Actual 2012 Current $'000	Actual 2012 Non-current $'000	Actual 2011 Current $'000	Actual 2011 Non-current $'000
Payables				
Goods and services	**1,085**	**-**	723	-
Payments received in advance	**5,027**	**-**	3,727	-
Accrued expenses	**5,070**	**-**	14,186	-
Accrued interest	**1,411**	**-**	1,180	-
Accrued salaries and wages	**193**	**-**	248	-
Unearned revenue	**951**	**-**	-	-
Bonds	**215**	**-**	216	-
Total payables	**13,952**	**-**	20,280	-
Current payables not expected to be settled within the next 12 months	**5,027**	**-**	3,727	-
Interest bearing liabilities				
Loans	**10,452**	**184,628**	9,964	176,948
Total interest bearing liabilities	**10,452**	**184,628**	9,964	176,948
Provisions				
Annual leave	**895**	**-**	962	-
Sick leave	**1,243**	**-**	1,516	-
Long service leave	**1,798**	**27**	1,748	58
Self insurance claims	**238**	**1,046**	178	826
Payroll tax	**214**	**1**	254	3
Insurance	**1**	**-**	3	-
Total provisions	**4,389**	**1,074**	4,661	887
Current provisions not expected to be settled within the next 12 months	**2,841**		2,818	

Notes to the financial statements
for the year ended 30 June 2012

Note 9 (b) – Description of and movements in provisions

Class of Provision	Opening balance $'000	Movement $'000	Closing balance $'000
Annual leave	962	(67)	895
Sick leave	1,516	(273)	1,243
Long service leave	1,806	19	1,825
Self insurance claims	1,004	280	1,284
Payroll tax	257	(42)	215
Insurance	3	(2)	1
Total	**5,548**	**(85)**	**5,463**

Notes to the financial statements
for the year ended 30 June 2012

Note 10 – Reconciliation of operating result to net cash movement from operating activities

	Notes	Actual 2012 $ '000	Actual 2011 $ '000
(a) Reconciliation of cash assets			
Cash and cash equivalents	5(a)	**27,885**	24,486
Less bank overdraft	9	**-**	-
Balances as per statement of cash flows		**27,885**	24,486
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income statement		**(14,536)**	15,924
Add:			
Depreciation and amortisation		**28,218**	28,116
Increase in other provisions		**236**	132
Decrease in receivables		**7,780**	1,169
Increase in payables		**362**	460
Increase in accrued interest payable		**231**	-
Increase in accrued salaries and wages		**-**	41
Increase in other current liabilities		**-**	1,287
Loss on sale of assets		**1,522**	1,638
		23,813	48,767
Less:			
Decrease in employee leave entitlements		**321**	290
Non cash donations		**570**	720
Increase in receivables		**-**	-
Increase in inventories		**56**	19
Increase in other current assets		**45**	
Decrease in accrued interest payable		**-**	20
Decrease in accrued salaries and wages		**55**	-
Fair Value revaluation of investment assets		**(63)**	1,347
Net cash provided from (or used in) operating activities from cashflow statement		**15,963**	46,371

Notes to the financial statements
for the year ended 30 June 2012

Note 10 – Reconciliation of operating result to net cash movement from operating activities (continued)

	Notes	Actual 2012 $ '000	Actual 2011 $ '000
(c) Non-cash financing and investing activities			
Acquisition of assets by means of developer contributions received in kind		**570**	720
		570	720

Notes to the financial statements
for the year ended 30 June 2012

Note 11 - Financial risk management

Risk Management

The Authority's activities expose it to a variety of financial risks including price risk, credit risk, liquidity risk and interest rate risk. The Authority's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Authority.

The Authority does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by the Finance Section of Wyong Shire Council under policies approved by the Council.

The Authority 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	**27,885**	24,486	**27,885**	24,486
Receivables	**19,511**	22,476	**19,511**	22,476
Financial assets at fair value through profit or loss	**2,287**	6,304	**2,287**	6,304
Held-to-maturity investments	**29,409**	35,270	**29,409**	35,270
	79,092	88,536	**79,092**	88,536

	Carrying Value		Fair Value	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000
Financial liabilities				
Payables	**13,952**	20,280	**13,952**	20,280
Borrowings	**195,080**	186,912	**198,231**	199,449
	209,032	207,192	**212,183**	219,729

Fair value is determined as follows:

Cash and Cash equivalents, Receivable, Payables – estimated to be the carrying value which approximates net market value.

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

Financial Assets at Fair Market Value through Profit and Loss – based on quoted market prices in active markets for identical investments.

Notes to the financial statements
for the year ended 30 June 2012

Note 11 – Financial risk management (continued)

(b) Cash and cash equivalents
Financial assets at fair value through profit and loss
Held-to-maturity investments

The Authority's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital. The Authority has an investment policy which complies with the Local Government Act, Local Government Regulations and Minister's Order. The policy is regularly reviewed by Council and an Investment Report 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.

The Authority manages these risks by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees.

	30.06.2012 $'000	30.06.2011 $'000
Impact of a 10%[1] movement in price of investments:		
- Equity	**229**	630
- Income statement	**229**	630
Impact of a 1%[1] movement in interest rates on cash and investments:		
- Equity	**571**	598
- Income statement	**571**	598

Notes:

(1) Sensitivity percentages based on future possible market movements. (Price movements calculated on investments subject to fair value adjustments. Interest rate movements calculated on cash, cash equivalents and managed funds.
(2) Maximum impact.

Note 11 – Financial risk management (continued)

(b) Receivables

The Authority's major receivables comprise annual charges and user charges and fees. The major risk associated with these receivables is credit risk – the risk that the debts may not be repaid. The Authority' manages this risk by monitoring outstanding debt and employing stringent debt recovery policies. It also encourages ratepayers to pay by the due date through incentives.

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

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

The Authority's makes suitable provision for doubtful receivables as required.

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

	30.06.2012	**30.06.2011**
Percentage of Rates and Annual charges:		
- Current		
- Overdue	100%	100%
Percentage of Other Receivables:		
- Current	84%	40%
- Overdue	16%	60%

Note 11 – Financial risk management (continued)

(c) Payables Borrowings

Payables and borrowings are both subject to liquidity risk – that is the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due. The Authority's manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer. Payment terms can be extended and overdraft facilities drawn upon in extenuating circumstances.

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

2012 $'000	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total contractual cash flows	Carrying values
Payables	13,952	-		13,952	13,952
Borrowings	21,812	84,661	193,449	299,922	195,080
	35,764	84,661	193,449	313,874	209,032

2011 $'000	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total contractual cash flows	Carrying values
Payables	20,280	-	-	20,280	20,280
Borrowings	23,089	105,616	165,757	294,462	186,912
	43,369	105,616	165,757	314,742	207,192

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs. The Authority manages this risk by borrowing long term and fixing the interest rate. The following interest rates were applicable to the Authority's borrowings at balance date:

	30 June 2012		30 June 2011	
	Weighted average interest rate	Balance $'000	Weighted average interest rate	Balance $'000
Overdraft				
Bank Loans - Fixed				
ANZ	6.7%	18,125		-
Commonwealth Bank	6.3%	61,203	6.3%	65,214
National Australia Bank	7.3%	31,740	7.3%	32,806
Westpac Banking Corporation	7.7%	83,688	7.7%	88,545
Bank Loans - Variable(1)				
Other Loans				
State Superannuation	5.9%	24	5.9%	47
Treasury Corporation	13.9%	300	13.9%	300
Land and Property Management Authority				
		195,080		186,912

Notes to the financial statements
for the year ended 30 June 2012

Note 12 – Joint Venture operation

The Council of Wyong Water Supply Authority is a joint venturer in the provision of water supply headworks servicing both Wyong and Gosford Council areas. The Councils jointly construct, operate and maintain headworks infrastructure which typically includes pipework, weirs, dams, treatment plants and bulk water distribution.

The Council of Wyong Water Supply Authority had a 49.61% interest in the output of the joint venture for the period ending 30 June 2012.

The value of Council's share of any liabilities, commitments and contingent liabilities of the joint venture is nil.

The Council's share of assets in the joint venture (as included in the Balance Sheet under the following classifications) and its share of day to day expenses, were as follows:

	Actual 2012 $'000	Actual 2011 $'000
Current assets		
Receivables	-	-
Investments	-	-
Inventories	-	-
	-	-
Non-current assets		
Receivables	-	-
Investments	-	-
Infrastructure, property, plant and equipment	**321,228**	228,071
	321,228	228,071
Share of assets employed in joint venture	**321,228**	228,071

Notes to the financial statements for
the year ended 30 June 2012

Note 13 – Contingencies

Contingent Liabilities

Central Coast Water Corporation

The Central Coast Water Corporation (CCWC) has been created to manage the Central Coast's water and sewerage services, replacing the former Gosford/Wyong Councils' Water Authority. The CCWC was created under legislation by the NSW Government and came into existence in February 2011. Under the legislation Gosford and Wyong Councils are equal (50%) shareholders in the CCWC and shares cannot be sold or transferred. The CCWC is governed by an independent Board of Directors according to a set of principal objectives outlined in the CCWC legislation.

The operating model the Councils have chosen for the CCWC includes the establishment of a Joint Services Business (JSB) where staff in IT, HR, finance and plant & fleet services will be brought together and provide services to both Councils and to the CCWC.

Key features include:

• **Staff and functions**: all water and sewerage staff and functions will be transferred to the CCWC in phases beginning on 1 July 2014 and completed by 1 July 2017.

• **Shared services**: a JSB will be established by 1 July 2017, although the finer details require further investigation by the Councils.

• **Assets**: Councils will maintain ownership of the water and sewerage assets and the CCWC will lease the assets via a long-term commercial arrangement. The CCWC is legally responsible for managing those assets and employees in the most cost-effective manner.

• **Fees and charges**: will continue to be regulated by the NSW Independent Pricing and Regulatory Tribunal (IPART) and the Councils will review and approve a budget each year.

At the time of preparing the financial statements more work is required to determine any possible future financial impacts that may arise as a result of CCWC and the JSB.

Notes to the financial statements
for the year ended 30 June 2012

Note 14 – Commitments

	Actual 2012 $'000	Actual 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:		
Buildings	-	-
Plant and Equipment	-	-
Total		
(b) Finance lease commitments		
Commitments under finance leases at the reporting date are payable as follows:		
- Not later than one year	-	-
- Later than one year but not later than five years	-	-
- Later than five years	-	-
Total		
Minimum lease payments	-	-
Less: Future finance charges	-	-
Lease Liability		
Representing lease liabilities:		
- Current	-	-
- Non-current	-	-
Total		
(c) Non-cancellable operating lease commitments		
Commitments under non-cancellable operating leases at the reporting date but not recognised as liabilities are payable as follows:		
- Not later than one year	8	8
- Later than one year but not later than five years	-	
- Later than five years	-	-
Total	8	8
(d) Repairs and maintenance: investment property		
Contractual obligations for future repairs and maintenance	-	-
Total		

Notes to the financial statements
for the year ended 30 June 2012

Note 15 – Revaluation reserves and retained earnings

	2012 $'000	2011 $'000
(a) Retained earnings		
Movments in retained earning were as follows:		
At beginning of year	**627,136**	611,578
Correction to errors:		
Correction of errors	**-**	-
Taxation equivalent dividend payment in accordance with National Competition Policy	**(369)**	(366)
Net operating result for the year	**(14,536)**	15,924
At end of year	**612,231**	627,136
(b) Revaluation Reserves		
Infrastructure, property, plant ant equipment revaluation reserve		
At beginning of year	**449,141**	421,917
Add: Revaluation increments transferred to reserve relating to:		
Water infrastructure assets	**6,143**	14,793
Sewerage infrastructure assets	**257,322**	12,223
Community land	**362**	208
Drainage		-
	263,827	27,224
Less: Revaluation decrements	**-**	-
At end of year	**712,968**	449,141

(c) Nature and purpose of reserves

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

(d) Correction of errors in previous years

Notes to the financial statements
for the year ended 30 June 2012

Note 16 – Intangible assets

	$ '000
Year ended 30 June 2011	
Opening net book amount	895
Additions - acquisition	-
Amortisation charge	(206)
Closing net book amount	689
At 30 June 2011	
Cost	2,469
Accumulated amortisation and impairment	(1,780)
Net book amount	689
Year ended 30 June 2012	
Opening net book amount	689
Additions - acquisition	-
Amortisation charge	(246)
Closing net book amount	443
At 30 June 2012	
Cost	2,469
Accumulated amortisation and impairment	(2,026)
Net book amount	443

Wyong Shire Council is contracted to acquire, on behalf of the Water Supply Authority, under a management service arrangement, a licence to access information technology services. The system solution was designed, developed and built by the contractor with assistance and input of Council employees. A number of costs including system build costs, software and hardware licenses incurred under the contract as well as Council's own costs will give rise to future economic benefits. These costs have been capitalised as an intangible asset to be amortised over the period of the contract.

Notes to the financial statements
for the year ended 30 June 2012

Note 17 – Events occurring after balance sheet date

The passage of the Clean Air Legislation (Clean Energy Act 2011 and supporting legislation) will have an impact on the Authority's operating results going forward. The Authority expects to pay more for its energy usage including electricity, gas and fuel. The Authority also expects construction materials such as concrete and asphalt to increase in price but is unable to quantify the effect of these increases at the present time. The financial effects of the Clean Air Legislation have not been brought to account at 30 June 2012.

--- end of audited financial statements---

Auditor’s Report