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**EUROBODALLA SHIRE COUNCIL
 INDEPENDENT AUDITORS' REPORT ON THE CONDUCT OF THE AUDIT
 (Local Government Act, 1993 – Sections 417 (1) 417(3))
 YEAR ENDED 30 JUNE 2015**

Eurobodalla Shire Council has prepared general and special purpose financial reports for the year ended 30 June 2015 on which we issued separate audit reports to the Council dated 29 October 2015. This report has been prepared in accordance with the requirements of the Division of Local Government, and the provisions of Sections 417(1) and 417(3) of the Local Government Act, 1993.

We disclaim any assumption of responsibility for any reliance on this report or on the financial statements to which it relates to any person other than the Council or the New South Wales Division of Local Government, or for any purpose other than that for which it was prepared.

Audit Conclusion

Our audit of the financial reports for the year ended 30 June 2015 resulted in unqualified independent audit reports for Council's General Purpose and Special Purpose Financial Statements.

Additional Audit Considerations and Comment

Income Statement

Summarised Income Statement

	2015 Actual \$'000	2015 Budget \$'000	* Budget Variance %	2014 Actual \$'000
Operating result	8,035	(238)	3,476.05%F	3,548
Operating result before capital revenue	1,576	(2,656)	159.34%F	(2,923)
Rates & annual charges	52,570	52,472	0.19%F	50,032
Operating grants & contributions	17,296	14,622	18.29%F	14,733
Capital grants & contributions	6,459	2,418	167.12%F	6,471
Depreciation & amortisation	29,110	30,287	3.89%F	27,095

* Detailed explanations for material favourable (F) and unfavourable (U) budget variations are provided in Note 16 to the financial statements

Operating Result. Council's operating surplus increased to \$8.035M from \$3.548M in 2014. This compared with a budgeted deficit of \$0.238M for 2015. The most significant variations impacting the operating result were:

- Recognition of all 4 quarters' Financial Assistance Grants in 2014/2015 has resulted in an increase in grants and contributions for operating purposes over 2013/2014. 2014/2015 actual is also greater than budget due to additional grants received for community and environmental areas.
- Employee benefit costs and on-costs have remained stable to 2014's actual and were considerably below the budgeted increase of 7.8%.

Operating Result before Capital. The operating result before capital grants and contributions was a surplus of \$1.576M compared with the prior year deficit of \$2.923M. This compared with the original budget deficit of \$2.656M. Capital grants and contributions remained at a similar level to 2014 actual despite a budgeted reduction of circa \$4.0M. The primary contributor is developer contributions of \$4.415M which were greater than anticipated.

Rates and Annual Charges. Revenue from rates and annual charges increased to \$52.570M from \$50.032M in the prior year, and was within 0.2% of budget for the 2015 year.

Grants and Contributions. Operating grants and contributions for the year totaled \$17.296M and represented 16.40% (2014: 14.60%) of total income from continuing operations. This is in excess of the budgeted amount of \$14.622M.

Capital grants and contributions amounted to \$6.459M for the 2014/2015 year and represented 6.12% (2014: 6.43%) of total income from continuing operations. This was in excess of the budget amount of \$2.418M as noted above.

Depreciation. Included in the operating result was \$29.110M for the depreciation of infrastructure, property, plant and equipment which increased from \$27.095M in the prior year and compared with the original budget of \$30.287M. Depreciation represents 29.88% (2014: 27.92%; 2013: 28.23%) of total expenses and 27.60% (2014: 26.94%; 2013: 28.00%) of total income for the year. Depreciation expense increased in accordance with budget after the 30 June 2014 fair valuation of road infrastructure assets.

Statement of Financial Position

Council's equity at 30 June 2015 amounted to \$1,368.402M comprised of retained earnings of \$719.330M and revaluation reserves for infrastructure assets valuations of \$649.072M.

The most significant impact on council equity for 2014/2015 was the gain on revaluation of infrastructure items. Road, road related and stormwater assets increased by \$65.073M whilst annual water and sewer indexation resulted in a further \$7.384M increase.

At balance date Council had not utilised any of its bank overdraft facility of \$2M.

Movements in Cash and Cash Equivalents

Summarised Statement of Cash Flows

Activities	2015 Actual \$'000	2015 Budget \$'000	* Budget Variance %	2014 Actual \$'000
Net cash flows from operations	39,939	29,189	36.83%F	32,614
Net cash flows from investing	(34,099)	(29,150)	16.98%U	(34,282)
Net cash flows from financing	(7,452)	(1,521)	389.94%U	(723)
Net movement in cash	(1,612)	(1,482)		(2,391)

* Detailed explanations for material budget variations are provided in Note 16 to the financial statements

Council's cash and cash equivalent balances decreased to a total of \$4,739M during the year, with \$39.939M being provided from operations, \$34.099M utilised in net investing activities for the acquisition of financial assets and non-current assets, and \$7.452M being utilised to repay borrowings. Included in investing activities was the net purchase of \$10.5M of investment securities.

Total Investments and Cash Balances

Council's total cash balance at 30 June 2015 was comprised of the following:

	2015	2014
	\$'000	\$'000
Externally restricted cash	41,141	36,760
Internally restricted cash	13,872	12,602
Unrestricted cash	29,227	25,997
<i>Total Cash, Cash Equivalents and Investments</i>	84,239	75,359

Externally restricted funds increased by \$4.381M. Increases in developer contributions for the sewer fund, as well as funds from specific levies for sewerage services and other waste management were the primary contributors for this. Unrestricted cash increased by more than \$3.0M from 30 June 2014.

Performance Indicators and Trends

Prescribed performance indicators are included in Note 13 to the financial report and provide a comparison of the 2015 year results with prior years.

Operating performance ratio. At 4.69% this ratio has improved significantly from 2014 and is above the long-term benchmark of break-even set by NSW TCorp and the Office of Local Government.

Own source operating revenue ratio. The ratio of 77.47% is consistent with comparative periods and is well above industry benchmarks and indicates that Council's reliance on external funding sources is minimal.

Unrestricted Current Ratio. The ratio of 3.09:1 has increased from 2.85:1 from 2014. It indicates that Council has sufficient working capital to fund day-to-day operations and is above the industry benchmark of 1.50:1 set by TCorp.

Debt Service Cover Ratio. Council's borrowings have reduced \$7.170M in 2014/2015. Increased repayment of principal has impacted on the ratio which, at 2.55, remains above the industry benchmark of 2.0.

Rates and Annual Charges Outstanding Percentage. The amount of rates uncollected at year end expressed as a percentage of the total rates and annual charges collectible was 3.07% a continued improvement from 3.56% in 2014 and 4.21% in 2013. The ratio remains well within the industry benchmark for regional/rural local government areas of 10%.

Cash expense cover ratio. This liquidity ratio indicates the number of months Council can continue paying for its immediate expenses without additional cash inflow. Council's ratio of 12.24 exceeds the industry benchmark of 3 and indicates that Council has sufficient liquidity to adequately fund its short term operations.

Legislative Compliance

As a result of our audit we advise that no material deficiencies in the accounting records or financial reports have come to our attention during the conduct of the audit, and that Council's accounting records have been kept accurately and conscientiously and in accordance with requirements of the Local Government Act, 1993, and Regulations.

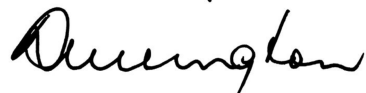
Council has complied with all statutory reporting requirements relating to Division 2 of Chapter 12 of the Local Government Act, 1993, the Code of Accounting Practice and Financial Reporting (Update 23), and other legislatively prescribed standards.

Conduct of the audit

During the conduct of our audit, a number of issues arose that required additional explanation and investigation, however we are able to report that all such issues have been appropriately attended to and there are no matters of audit significance, other than those already referred to in this report, that require mention in this or our statutory audit report.

We would like to commend the courteous and professional manner in which Council's staff has acted throughout the conduct of our audit, and their willingness to consider issues that we raised and assist us with our audit.


PITCHER PARTNERS


CARL MILLINGTON

Partner

Sydney, 29 October 2015