



# PITCHER PARTNERS

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26 October 2010

The Mayor  
Councillor Fergus Thomson  
Eurobodalla Shire Council  
PO Box 99  
Moruya NSW 2537

Dear Councillor Thomson

## **REPORT ON THE CONDUCT OF THE AUDIT Section 417(3) of the Local Government Act (1993) YEAR ENDED 30 JUNE 2010**

In accordance with the requirements of the Department of Local Government, and the provisions of Section 417(3) of the Local Government Act, 1993, we provide the following comments arising from our conduct of the audit of Council's books, records, and financial statements for the 2010 year.

### **Audit Conclusion**

Our audit of the financial statements for the year ended 30 June 2010 resulted in unmodified independent audit reports for Council's General Purpose and Special Purpose Financial Statements.

### **Additional Audit Considerations and Comment**

The following comments are provided in accordance with Section 415(3) of the Local Government Act, 1993 and Clause 227 of the Local Government (General) Regulation 2005.

### **Income Statement**

*Operating Result.* Council's operating surplus decreased from \$19.308M in 2009 to \$16.368M in 2010. This compared with a budgeted surplus of \$8.767M for the year.

*Operating Result before Capital.* The operating result before capital grants and contributions was a surplus of \$6.445M compared with a deficit of \$507K in 2009. This

compared with the original budget deficit of \$3.517M. Detailed explanations for the material variances from Council's original budget are provided in Note 16 to the general purpose financial statements.

*Depreciation.* Included in the operating result was \$16.148M for the depreciation and amortisation of assets which increased from \$15.372M in the prior year and compared with the original budget of \$18.523M.

*Operating Grants and Contributions.* Operating grants and contributions for the year totalled \$12.565M and represented 13% of total income from continuing operations. This compares with \$13.854M and 15% in 2009.

*Capital Grants and Contributions.* Capital grants and contributions amounted to \$9.923M for the 2010 year and represented 11% of total income from continuing operations. This compares with \$13.854M and 13% for the prior year.

*Rates and Annual Charges.* Revenue from rates and annual charges increased to \$44.357M from \$42.103M in the prior year. This represented a 5.4% increase and was \$1.04M less than the original budget for 2010.

### **Balance sheet - Financial Position**

Council's equity at 30 June 2010 amounted to \$1,142M and was increased by the net operating result for the year (\$16.368M surplus) and the net revaluation of infrastructure assets of \$235.18M.

The substantial movement in non-current assets was due to the revaluation of roads, bridges and drainage assets (\$235.18M), which was processed through equity.

The movement in non-current liabilities is due to the additional loan facility of \$23.26M drawn down during the year.

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

### **Movements in Cash and Cash Equivalents**

Council's cash and cash equivalent balances increased by \$2.15M during the year, with \$26.707M being provided from operations, \$42.494M utilised in investing activities for the acquisition and sale of non-current assets and \$17.937M provided from the net movement in loans.

### **Total Investments and Cash Balances**

Council's total cash balance at 30 June 2010 was comprised of the following:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Externally restricted cash	<b>25,955</b>	18,928	11,657
Internally restricted cash	<b>4,766</b>	4,370	5,449
Unrestricted cash	<b><u>22,808</u></b>	<u>14,374</u>	<u>15,847</u>
<i>Total Cash &amp; Cash Equivalents</i>	<b><u>53,529</u></b>	<u>36,595</u>	<u>32,953</u>

These figures include current and non-current balances

Externally restricted cash balances increased as a result of the net increase in various reserves such as specific purpose unexpended loans, sewerage services and other waste services.

Internally restricted balances increased mainly due to net movements in specific Council reserves as outlined on Note 6(c) such as unexpended general fund loans and the infrastructure fund.

### Working Capital (Net Current Assets)

	2010 \$'000	2009 \$'000	2008 \$'000
Current assets	63,227	43,776	42,617
Current liabilities	<u>29,840</u>	<u>19,932</u>	<u>21,907</u>
Net current assets	33,387	23,844	20,710
Add: liabilities not expected to be settled in 12 months	<u>4,545</u>	<u>3,994</u>	<u>3,477</u>
	37,932	27,838	24,187
<i>Less: Commitments against working capital</i>			
Net external restrictions	<u>24,451</u>	<u>16,074</u>	<u>14,611</u>
<i>Unrestricted Working Capital</i>	<u>13,481</u>	<u>11,764</u>	<u>9,576</u>

Council's balance of net current assets increased from \$23.844M in 2009 to \$33.387M at the end of the 2010 financial year.

Also included in net current assets are other commitments against the working capital balance which should be considered when assessing the adequacy or otherwise of Council's available (or uncommitted) working capital at 30 June 2010. The adjusted working capital after allowing for net external restrictions was \$13.481M (2009 - \$11.764M).

After taking into consideration Council's internal reserves, other liabilities that are anticipated to be funded from the 2010/11 operating budget and anticipated timing of rate revenues, the uncommitted working capital balance appears reasonable.

### Performance Indicators and Trends

Prescribed performance indicators are included in Note 13 to the financial report and provide a comparison of the 2010 year results with prior years.

	2010	2009	2008	2007
Unrestricted current ratio	1.61:1	1.95:1	1.9:1	2.1:1
Debt service ratio	10.65%	9.62%	6%	6%
Rate coverage ratio	47.22%	45.03%	47%	47%
Rates & annual charges outstanding ratio	2.84%	3.22%	3.01%	2.83%
Asset renewals ratio	47.41%	41.55%	45.0%	N/A

*Unrestricted Current Ratio.* The ratio is within industry guidelines, is below the Division of Local Government benchmark of 2:1, and has been trending down in recent years.

*Debt Service Ratio.* The debt service ratio has increased in line with recent loan raisings but remains within the industry benchmark of 10-15%.

*Rates and Annual Charges Coverage Ratio.* Council's rates and annual charges revenue represented 47.22% of 2010 total revenue, which is consistent with prior years and indicates the stability of Council's operations.

*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 2.84%. This is an improvement on the prior year but remains well within the industry benchmark of 5%.

*Asset Renewals Ratio.* The ratio improved on the prior year and is below the industry guidelines of 100%.

### **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.

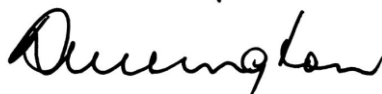
Council has complied with all statutory reporting requirements relating to Division 2 of Chapter 12 of the Local Government Act, 1993, the Code of Accounting Practice and Financial Reporting (Update 18), and other legislatively prescribed standards.

### **Conduct of the audit**

All matters arising during the conduct of our audit have been appropriately attended to and there are no matters of audit significance that require mention in this 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.

Yours faithfully  
PITCHER PARTNERS



CARL MILLINGTON  
Partner