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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 2014**

Eurobodalla Shire Council has prepared general and special purpose financial reports for the year ended 30 June 2014 on which we issued separate audit reports to the Council dated 4 November 2014. 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 2014 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

	2014 Actual \$'000	2014 Budget \$'000	* Budget Variance %	2013 Actual \$'000
Operating result	3,548	(806)	540.20%F	782
Operating result before capital revenue	(2,923)	(3,879)	25.11%F	(4,357)
Rates & annual charges	50,032	49,937	0.19%F	47,611
Operating grants & contributions	14,682	15,428	4.84%U	15,558
Capital grants & contributions	6,471	3,073	110.58%F	5,139
Depreciation & amortisation	27,095	27,104	0.03%F	26,735

* 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 from \$0.782M in 2013 to \$3.548M in 2014. This compared with a budgeted deficit of \$0.806M for the year. The most significant variations impacting the operating result were the increase in user charges related to water and the lower than anticipated increase in employee benefits and on-costs.

Operating Result before Capital. The operating result before Capital grants and contributions was a deficit of \$2.923M compared with the prior year deficit of \$4.357M. This compared with the original budget deficit of \$3.879M. Capital grant and contributions amounts were greater than anticipated with significant contributors including sub-divider dedications (\$1.781M) and emergency services (\$0.935M).

Rates and Annual Charges. Revenue from rates and annual charges increased to \$50.032M from \$47.611M in the prior year, and was within 0.2% of budget for the 2014 year.

Grants and Contributions. Operating grants and contributions for the year totaled \$14.682M and represented 14.60% of total income from continuing operations. This is less than the budget amount of \$15.428M as expected given the reduction in Financial Assistance Grants for 2013/2014.

Capital grants and contributions amounted to \$6.471M for the 2013/2014 year and represented 6.43% of total income from continuing operations. This was in excess of the budget amount of \$3.073M due to the items as noted above.

Depreciation. Included in the operating result was \$27.095M for the depreciation and amortisation of infrastructure, property, plant and equipment which increased from \$26.735M in the prior year and compared with the original budget of \$27.104M. Depreciation and amortisation represents 27.92% (2013: 28.23%) of total expenses and 26.94% (2013: 28.00%) of total income for the year. Depreciation expense has stabilised at the 2013 level which was expected given the result of the fair value for buildings at 30 June 2013 resulting in a marginal decrease in the value of the assets which were offset by the indexation related to water and sewer assets. Roads and road related infrastructure was fair valued at 30 June 2014 – the related impact on depreciation expense will be experienced in the 2014/2015 year.

Statement of Financial Position

Council's equity at 30 June 2014 amounted to \$1,289.729M comprised of retained earnings of \$712.949M and revaluation reserves infrastructure assets valuations of \$576.780M.

The most significant impact on council equity for 2013/2014 was the gain on revaluation of road assets of \$48.446M and water and sewer indexation of \$13.682M.

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	2014 Actual	2014 Budget	* Budget	2013 Actual
	\$'000	\$'000	Variance	\$'000
			%	
Net cash flows from operations	32,614	34,224	4.70%U	32,116
Net cash flows from investing	(34,282)	(31,216)	9.82%U	(31,591)
Net cash flows from financing	(723)	4,473	116.16%U	309
Net movement in cash	(2,391)	7,418		834

* 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 \$6.351M during the year, with \$32.614M being provided from operations, \$34.282M utilised in net investing activities for the acquisition of financial assets and non-current assets, and \$0.723M being utilised to repay borrowings. Included in investing activities was the purchase of \$10.394M (net) of cash and cash equivalents from the purchase and sale of investment securities.

Total Investments and Cash Balances

Council's total cash balance at 30 June 2014 was comprised of the following:

	2014	2013
	\$'000	\$'000
Externally restricted cash	36,764	30,698
Internally restricted cash	12,672	14,829
Unrestricted cash	25,923	21,432
<i>Total Cash, Cash Equivalents and Investments</i>	75,359	66,959

Externally restricted funds increased by \$6.066M with increases in specific purpose unexpended loans for sewer, as well as funds from levies for water supplies, sewerage services, domestic and other waste management.

Internal restrictions decreased due to the Financial Assistance Grant restriction of \$3.284M at 30 June 2014 not being repeated.

Performance Indicators and Trends

Prescribed performance indicators are included in Note 13 to the financial report and provide a comparison of the 2014 year results with prior years.

Operating performance ratio. At - 3.11% this ratio is below 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 78.37% 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 2.85:1 represents an increase over the 2013 ratio. It indicates that Council has sufficient working capital to fund day-to-day operations and is above the industry benchmark of 1.5:1 set by TCorp.

Debt Service Cover Ratio. Council's indebtedness has remained stable to 2013; the ratio at 3.51 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 3.56%, an improvement from 4.21% in 2013. The ratio remains within the industry benchmark of 5%.

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 10.57 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.

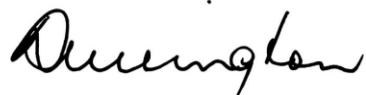
Council has complied with all statutory reporting requirements relating to Division 2 of Chapter 12 of the Local Government Act, 1993, the Code of Accounting Practice and Financial Reporting (Update 22), and other legislatively prescribed standards.

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, 4 November 2014