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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 2016**

Eurobodalla Shire Council has prepared general and special purpose financial reports for the year ended 30 June 2016 on which we issued separate audit reports to the Council dated 27 October 2016. 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 2016 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

	2016 Actual \$'000	2016 Budget \$'000	* Budget Variance %	2015 Actual \$'000
Operating result	23,485	9,215	156.47% F	8,035
Operating result before capital revenue	9,742	1,501	575.12% F	1,576
Rates & annual charges	55,083	55,040	0.08% F	52,570
Operating grants & contributions	21,201	16,709	26.88% F	17,296
Capital grants & contributions	13,742	7,714	78% F	6,459
Depreciation & amortisation	29,160	28,894	0.92% U	29,110

* 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 \$23.485M from \$8.035M in 2015. This compared with a budgeted surplus of \$9.215M for 2016. The most significant variations impacting the operating result were:

- A significant increase over budget and 2015 actual results for user charges and fees, primarily due to contract work performed for the RMS on state roads;
- A significant increase over budget and 2015 actual results for operating grants, - particularly related to the roads to recovery scheme and for environmental care; and for capital grants and contributions for water and sewer assets, transport (bridges) and for sub-division dedications (non-cash) to council;
- Profit on the disposal of long held financial instrument assets;
- Employee benefit costs and on-costs increased from 2015's actual however were considerably below the budgeted increase of 12%;
- A significant increase in raw material and consumables expense in line with the contract work council won, particularly related to state roads.

Operating Result before Capital. The operating result before capital grants and contributions was a surplus of \$9.742M compared with the prior year surplus of \$1.576M. This compared with the original budget surplus of \$1.443M. As noted above, there was improvement in the operating result before inclusion of capital grants and contributions.

Rates and Annual Charges. Revenue from rates and annual charges increased to \$55.083M from \$52.570M in the prior year, and was within 0.1% of budget for the 2016 year.

Grants and Contributions. Operating grants and contributions for the year totaled \$21.201M and represented 16.93% (2015: 16.40%) of total income from continuing operations. This is in excess of the budgeted amount of \$16.709M.

Capital grants and contributions amounted to \$13.742M for the 2015/2016 year and represented 10.97% (2015: 6.12%) of total income from continuing operations. This was in excess of the budget amount of \$7.714M as noted above.

Depreciation. Included in the operating result was \$29.160M for the depreciation of infrastructure, property, plant and equipment; this is parable with 2015 (\$29.110M) and is marginally greater of the budget amount of \$28.894M. Depreciation represents 28.65% (2015: 29.88%; 2014: 27.92%) of total expenses and 23.28% (2015: 27.60%; 2014: 26.94%) of total income for the year.

Statement of Financial Position

Council's equity at 30 June 2016 amounted to \$1,371.12M comprised of retained earnings of \$742.538M and revaluation reserves for infrastructure assets valuations of \$628.582M.

Council equity has remained stable in 2015/2016 with the surplus result offset by a reduction in the revaluation reserves resulting from the 2016 revaluation of council's community land.

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	2016 Actual \$'000	2016 Budget \$'000	* Budget Variance %	2015 Actual \$'000
Net cash flows from operations	47,257	33,430	41.36% F	39,939
Net cash flows from investing	(30,332)	(32,100)	5.51% F	(34,099)
Net cash flows from financing	(4,230)	3,253	30.03% U	(7,452)
Net movement in cash	12,695	4,583		(1,612)

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

Council's cash and cash equivalent balances increased to a total of \$17.434M during the year, with \$48.257M being provided from operations, \$30.332M utilised in net investing activities for the acquisition of financial assets and non-current assets, and \$4.230M being utilised to repay borrowings. Included in investing activities was the net sale of \$4.845M of investment securities.

Total Investments and Cash Balances

Council's total cash balance at 30 June 2016 was comprised of the following:

	2016	2015
	\$'000	\$'000
Externally restricted cash	48,772	41,141
Internally restricted cash	19,927	13,872
Unrestricted cash	25,736	29,227
<i>Total Cash, Cash Equivalents and Investments</i>	94,435	84,239

Cash restrictions increased by \$13.686M. Externally restricted funds increased by \$7.631M due to unexpended grants received and water supply revenue for which against which no 2015/16 expenditure had occurred. Internally restricted funds increased as a result of allocations related to the special rates variation and infrastructure renewals identified in the FFTF process.

Unrestricted cash decreased by more than \$3.0M from 30 June 2015.

Performance Indicators and Trends

Prescribed performance indicators are included in Note 13 to the financial report and provide a comparison of the 2016 year results with prior years.

Operating performance ratio. At 9.14% this ratio has continued the trend of improvement observed in 2015 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 72.10% 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 2.68:1 has declined from 3.09:1 from 2015. Despite this decline, the ratio remains a positive indicator 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 by \$3.992M in 2015/2016. Increased repayment of principal has impacted on the ratio which, at 2.92, 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 3.04% which is stable with 3.07% in 2015 and 3.56% in 2014. 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 13.08 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 24), and other legislatively prescribed standards.

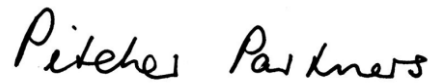
Conduct of the audit

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.



CARL MILLINGTON
Partner



PITCHER PARTNERS
Sydney, 27 October 2016