

Eurobodalla Shire Council

SPECIAL PURPOSE FINANCIAL REPORTS
for the year ended 30 June 2009

“Good Government, Better Living”



EUROBODALLA SHIRE COUNCIL

Good Government, better living

Eurobodalla Shire Council

Special Purpose Financial Reports for the financial year ended 30 June 2009

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Background

- (i) These Special Purpose Financial Reports have been prepared for the use by both Council and the Department of Local Government in fulfilling their requirements under National Competition Policy.
- (ii) The principle of competitive neutrality is based on the concept of a "level playing field" between persons/entities competing in a market place, particularly between private and public sector competitors.
- Essentially, the principle is that government businesses, whether Commonwealth, State or Local, should operate without net competitive advantages over other businesses as a result of their public ownership.
- (iii) For Council, the principle of competitive neutrality & public reporting applies only to declared business activities.
- These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation and **(b)** those activities with a turnover of over \$2 million that Council has formally declared as a Business Activity (defined as Category 1 activities).
- (iv) In preparing these financial reports for Council's self classified Category 1 businesses and ABS defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax equivalent regime payments & debt guarantee fees (where the business benefits from councils borrowing position by comparison with commercial rates).

Eurobodalla Shire Council

Special Purpose Financial Reports for the financial year ended 30 June 2009

Statement by Councillors and Management made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

The attached Special Purpose Financial Reports have been prepared in accordance with:

- The NSW Government Policy Statement "Application of National Competition Policy to Local Government"
- The Department of Local Government Guidelines "Pricing & Costing for Council Businesses - A Guide to Competitive Neutrality"
- The Local Government Code of Accounting Practice and Financial Reporting.
- The Department of Water and Energy Best-Practice Management of Water and Sewerage Guidelines.

To the best of our knowledge and belief, these Reports:

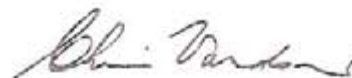
- Present fairly the Operating Result and Financial Position for each of Council's declared Business Activities for the year, and
- Accord with Council's accounting and other records.

We are not aware of any matter that would render these reports false or misleading in any way.

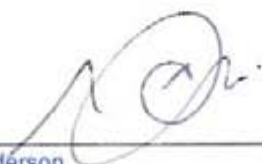
Signed in accordance with a resolution of Council made on 20th October 2009.



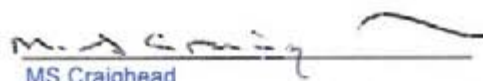
FD Thomson
MAYOR



CP Vardon OAM (Deputy Mayor)
COUNCILLOR



PJ Anderson
GENERAL MANAGER



MS Craighead
RESPONSIBLE ACCOUNTING OFFICER

Eurobodalla Shire Council

Income Statement of Council's Water Supply Business Activity

for the financial year ended 30 June 2009

| \$ '000 | Actual 2009 | Actual 2008 | Actual 2007 |
|--|----------------|----------------|----------------|
| Income from continuing operations | | | |
| Access charges | 5,959 | 5,700 | 4,720 |
| User charges | 4,996 | 4,885 | 4,108 |
| Fees | 165 | 196 | 184 |
| Interest | 116 | 857 | 704 |
| Grants and contributions provided for non capital purposes | 210 | 191 | 194 |
| Profit from the sale of assets | - | 8 | 26 |
| Other income | 21 | 52 | 27 |
| Total income from continuing operations | 11,467 | 11,889 | 9,963 |
| Expenses from continuing operations | | | |
| Employee benefits and on-costs | 2,490 | 2,292 | 2,524 |
| Borrowing costs | 179 | 31 | 42 |
| Materials and contracts | 2,699 | 3,091 | 2,807 |
| Depreciation and impairment | 2,828 | 2,404 | 2,387 |
| Loss on sale of assets | 1,176 | - | - |
| Calculated taxation equivalents | 22 | 23 | 1 |
| Other expenses | 913 | 1,754 | 886 |
| Total expenses from continuing operations | 10,307 | 9,595 | 8,647 |
| Surplus (deficit) from Continuing Operations before capital amounts | 1,160 | 2,294 | 1,316 |
| Grants and contributions provided for capital purposes | 9,172 | 5,598 | 1,708 |
| Surplus (deficit) from Continuing Operations after capital amounts | 10,332 | 7,892 | 3,024 |
| Surplus (deficit) from Discontinued Operations | - | - | - |
| Surplus (deficit) from ALL Operations before tax | 10,332 | 7,892 | 3,024 |
| less: Corporate Taxation Equivalent (30%) [based on result before capital] | (348) | (688) | (395) |
| SURPLUS (DEFICIT) AFTER TAX | 9,984 | 7,204 | 2,629 |
| plus Opening Retained Profits | 124,534 | 116,642 | 113,947 |
| Transfers (to)/from Asset Revaluation Reserve | 63 | - | - |
| plus Adjustments for amounts unpaid: | | | |
| - Taxation equivalent payments | - | - | 1 |
| - Corporate taxation equivalent | 348 | 688 | 395 |
| less: | | | |
| - Tax Equivalent Dividend paid | - | - | - |
| - Surplus dividend paid | - | - | (330) |
| Closing Retained Profits | 134,929 | 124,534 | 116,642 |
| Return on Capital % | 0.7% | 1.6% | 1.4% |
| Subsidy from Council | 8,627 | 562 | 2,752 |
| Calculation of dividend payable: | | | |
| Surplus (deficit) after tax | 9,984 | 7,204 | 2,629 |
| less: Capital grants and contributions (excluding developer contributions) | (8,242) | (4,718) | (1,004) |
| Surplus for dividend calculation purposes | 1,742 | 2,486 | 1,625 |
| Potential Dividend calculated from surplus | 871 | 1,243 | 813 |

Eurobodalla Shire Council

Income Statement of Council's Sewerage Business Activity

for the financial year ended 30 June 2009

| \$ '000 | Actual 2009 | Actual 2008 | Actual 2007 |
|--|----------------|----------------|----------------|
| Income from continuing operations | | | |
| Access charges | 11,853 | 10,415 | 9,719 |
| User charges | - | - | - |
| Liquid Trade Waste Charges | 118 | 118 | 129 |
| Fees | 11 | - | - |
| Interest | 264 | 278 | 207 |
| Grants and contributions provided for non capital purposes | 327 | 178 | 174 |
| Other income | 71 | 72 | 59 |
| Total income from continuing operations | 12,644 | 11,061 | 10,288 |
| Expenses from continuing operations | | | |
| Employee benefits and on-costs | 2,964 | 2,818 | 2,381 |
| Borrowing costs | 756 | 802 | 767 |
| Materials and contracts | 4,162 | 4,173 | 3,784 |
| Depreciation and impairment | 3,868 | 3,084 | 2,905 |
| Loss on sale of assets | 495 | 555 | 456 |
| Calculated taxation equivalents | 40 | 41 | 8 |
| Other expenses | 789 | 1,074 | 657 |
| Total expenses from continuing operations | 13,074 | 12,547 | 10,958 |
| Surplus (deficit) from Continuing Operations before capital amounts | (430) | (1,486) | (670) |
| Grants and contributions provided for capital purposes | 4,441 | 1,107 | 874 |
| Surplus (deficit) from Continuing Operations after capital amounts | 4,011 | (379) | 204 |
| Surplus (deficit) from discontinued operations | - | - | - |
| Surplus (deficit) from ALL Operations before tax | 4,011 | (379) | 204 |
| less: Corporate Taxation Equivalent (30%) [based on result before capital] | - | - | - |
| SURPLUS (DEFICIT) AFTER TAX | 4,011 | (379) | 204 |
| plus Opening Retained Profits | 94,776 | 95,155 | 94,943 |
| Transfers (to)/from Asset Revaluation Reserve | 12 | - | - |
| plus Adjustments for amounts unpaid: | | | |
| - Taxation equivalent payments | - | - | 8 |
| less: | | | |
| - Tax Equivalent Dividend paid | - | - | - |
| - Surplus dividend paid | - | - | - |
| Closing Retained Profits | 98,799 | 94,776 | 95,155 |
| Return on Capital % | 0.2% | Nil | -0.6% |
| Subsidy from Council | 8,714 | - | - |
| Calculation of dividend payable: | | | |
| Surplus (deficit) after tax | 4,011 | (379) | 204 |
| less: Capital grants and contributions (excluding developer contributions) | (3,822) | (177) | (358) |
| Surplus for dividend calculation purposes | 189 | - | - |
| Potential Dividend calculated from surplus | 95 | - | - |

Eurobodalla Shire Council

Balance Sheet of Council's Water Supply Business Activity

as at 30 June 2009

| \$ '000 | Actual 2009 | Actual 2008 |
|--|----------------|----------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | 3,927 | 3,452 |
| Investments | - | - |
| Receivables | 1,681 | 5,630 |
| Inventories | 376 | 5 |
| Other | - | 4 |
| Non-current assets classified as held for sale | - | - |
| Total Current Assets | 5,984 | 9,091 |
| Non-Current Assets | | |
| Investments | - | - |
| Receivables | - | - |
| Inventories | - | - |
| Infrastructure, property, plant and equipment | 179,893 | 144,380 |
| Investments accounted for using equity method | - | - |
| Investment property | - | - |
| Other | - | 20,154 |
| Total non-Current Assets | 179,893 | 164,534 |
| TOTAL ASSETS | 185,877 | 173,625 |
| LIABILITIES | | |
| Current Liabilities | | |
| Payables | 36 | 8 |
| Interest bearing liabilities | 128 | 2,240 |
| Provisions | 26 | - |
| Total Current Liabilities | 190 | 2,248 |
| Non-Current Liabilities | | |
| Payables | - | - |
| Interest bearing liabilities | 307 | 435 |
| Provisions | - | - |
| Total Non-Current Liabilities | 307 | 435 |
| TOTAL LIABILITIES | 497 | 2,683 |
| NET ASSETS | 185,380 | 170,942 |
| EQUITY | | |
| Retained earnings | 134,929 | 124,534 |
| Revaluation reserves | 50,451 | 46,408 |
| Council equity interest | 185,380 | 170,942 |
| Minority equity interest | - | - |
| TOTAL EQUITY | 185,380 | 170,942 |

Eurobodalla Shire Council

Balance Sheet of Council's Sewerage Business Activity

as at 30 June 2009

| \$ '000 | Actual 2009 | Actual 2008 |
|--|----------------|----------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | 8,818 | 3,284 |
| Investments | - | - |
| Receivables | - | - |
| Inventories | - | - |
| Other | - | 4 |
| Non-current assets classified as held for sale | - | - |
| Total Current Assets | 8,818 | 3,288 |
| Non-Current Assets | | |
| Investments | - | - |
| Receivables | - | - |
| Inventories | - | - |
| Infrastructure, property, plant and equipment | 163,172 | 159,183 |
| Investments accounted for using equity method | - | - |
| Investment property | - | - |
| Other | - | - |
| Total non-Current Assets | 163,172 | 159,183 |
| TOTAL ASSETS | 171,990 | 162,471 |
| LIABILITIES | | |
| Current Liabilities | | |
| Payables | 135 | 63 |
| Interest bearing liabilities | 2,988 | 663 |
| Provisions | - | - |
| Total Current Liabilities | 3,123 | 726 |
| Non-Current Liabilities | | |
| Payables | - | - |
| Interest bearing liabilities | 9,398 | 10,617 |
| Provisions | - | - |
| Total Non-Current Liabilities | 9,398 | 10,617 |
| TOTAL LIABILITIES | 12,521 | 11,343 |
| NET ASSETS | 159,469 | 151,128 |
| EQUITY | | |
| Retained earnings | 98,799 | 94,776 |
| Revaluation reserves | 60,670 | 56,352 |
| Council equity interest | 159,469 | 151,128 |
| Minority equity interest | - | - |
| TOTAL EQUITY | 159,469 | 151,128 |

Eurobodalla Shire Council

Special Purpose Financial Reports

for the financial year ended 30 June 2009

Contents of the Notes accompanying the Financial Statements

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Eurobodalla Shire Council

Notes to the Special Purpose Financial Reports

for the financial year ended 30 June 2009

Note 1. Significant Accounting Policies

These financial statements are a Special Purpose Financial Report (SPFR) prepared for use by the Council and the Department of Local Government.

For the purposes of these statements, the council's business activities (reported herein) are not reporting entities.

This special purpose financial report, unless otherwise stated, has been prepared in accordance with;

- applicable Australian Accounting Standards,
- other authoritative pronouncements of the Australian Accounting Standards Board,
- Urgent Issues Group Consensus Views,
- the Local Government Act and Regulations,
- the Local Government Code of Accounting Practice and Financial Reporting, and
- the Local Government Asset Accounting Manual.

The statements are also prepared on an accruals basis. They are based on historic costs and do not take into account changing money values nor current values of non-current assets (except where specifically stated).

Certain taxes and other costs (appropriately described) have been imputed for the purposes of the National Competition Policy.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' to its business activities as part of the national competition policy which is being applied throughout Australia at all levels of government.

The framework for its application is set out in the June 1996 Government Policy statement on the "Application of National Competition Policy to Local Government".

The "Pricing & Costing for Council Businesses A Guide to Competitive Neutrality" issued by the Department of Local Government in July 1997 has also been adopted.

The pricing & costing guidelines outline the process for identifying and allocating costs to activities and

provide a standard of disclosure requirements. These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents; council subsidies; return on investments (rate of return); and dividends paid.

Declared Business Activities

In accordance with *Pricing & Costing for Council Businesses - A Guide to Competitive Neutrality*, council has declared that the following are to be considered as business activities:

Category 1

(where gross operating turnover is over \$2 million)

a. Eurobodalla Water Supply

Comprising the whole of the operations and net assets of the water supply systems servicing the Shire of Eurobodalla, each of which are established as separate Special Rate Funds.

b. Eurobodalla Sewerage Fund

Comprising the whole of the operations and net assets of the sewerage reticulation & treatment system servicing the Shire of Eurobodalla, which is established as a separate Special Rate Fund.

Category 2

(where gross operating turnover is less than \$2 million)

Council has no Category 2 Business Activities

Monetary Amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest one thousand dollars, with the exception of some figures disclosed in Note 2 (Water Supply Best Practice Management Disclosures) and Note 3 (Sewerage Best Practice Management Disclosures).

As required by the Department of Water & Energy, some amounts shown in Notes 2 and Note 3 are shown in whole dollars.

Eurobodalla Shire Council

Notes to the Special Purpose Financial Reports

for the financial year ended 30 June 2009

Note 1. Significant Accounting Policies (continued)

(i) Taxation Equivalent Charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations (General Purpose Financial Report) just like all other costs.

However, where council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all council nominated business activities and are reflected in the SPFR.

For the purposes of disclosing comparative information relevant to the private sector equivalent the following taxation equivalents have been applied to all council nominated business activities (this does not include council's non-business activities):

Notional Rate Applied %

Corporate Income Tax Rate – 30%

Land Tax – The first **\$368,000** of combined land values attracts **0%**. From \$368,001 to \$2,250,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$2,250,000, a premium marginal rate of **2.0%** applies.

Payroll Tax – **5.875%** on the value of taxable salaries and wages in excess of \$623,000.

In accordance with the guidelines for Best Practice Management of Water Supply and Sewerage, a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from Water Supply and Sewerage Business activities.

The payment of taxation equivalent charges, referred in the Best Practice Management of Water Supply and Sewerage Guides to as a "Dividend for Taxation equivalent", may be applied for any purpose allowed under the Local Government Act, 1993.

Achievement of substantial compliance against the guidelines for Best Practice Management of Water Supply and Sewerage is not a prerequisite for the payment of the tax equivalent charges, however the payment must not exceed \$3 per assessment.

Income Tax

An income tax equivalent has been applied on the profits of the business.

Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account of in terms of assessing the rate of return required on capital invested.

Accordingly, the return on capital invested is set at a pre-tax level (gain/(loss) from ordinary activities before capital amounts) as would be applied by a private sector competitor – that is, it should include a provision equivalent to the corporate income tax rate, currently 30%.

Income Tax is only applied where a positive gain/(loss) from ordinary activities before capital amounts has been achieved.

Since the taxation equivalent is notional - that is, it is payable to the "Council" as the owner of business operations, it represents an internal payment and has no effect on the operations of the council. Accordingly, there is no need for disclosure of internal charges in the GPFR.

The rate applied of 30% is the equivalent company tax rate prevalent as at balance date. No adjustments have been made for variations that have occurred during the year.

Local Government Rates & Charges

A calculation of the equivalent rates and charges payable on all Category 1 businesses has been applied to all land assets owned or exclusively used by the business activity.

Loan & Debt Guarantee Fees

The debt guarantee fee is designed to ensure that council business activities face "true" commercial borrowing costs in line with private sector competitors.

In order to calculate a debt guarantee fee, council has determined what the differential borrowing rate would have been between the commercial rate and the council's borrowing rate for its business activities.

Eurobodalla Shire Council

Notes to the Special Purpose Financial Reports

for the financial year ended 30 June 2009

Note 1. Significant Accounting Policies (continued)

(ii) Subsidies

Government policy requires that subsidies provided to customers and the funding of those subsidies must be explicitly disclosed.

Subsidies occur where council provides services on a less than cost recovery basis. This option is exercised on a range of services in order for council to meet its community service obligations.

Accordingly, Subsidies disclosed (in relation to National Competition Policy) represents the difference between revenue generated from 'rate of return' pricing and revenue generated from prices set by the council in any given financial year.

The overall effect of subsidies is contained within the Income Statement of Business Activities.

(iii) Return on Investments (Rate of Return)

The Policy statement requires that councils with Category 1 businesses "would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field".

Such funds are subsequently available for meeting commitments or financing future investment strategies.

The Rate of Return on Capital is calculated as follows:

Operating Result before Capital Income + Interest Expense

Written Down Value of I,PP&E as at 30 June

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 5.54% at 30/6/09.

The actual rate of return achieved by each business activity is disclosed at the foot of each respective Income Statement.

(iv) Dividends

Council is not required to pay dividends to either itself as owner of a range of businesses or to any external entities.

Local Government Water Supply and Sewerage Businesses are permitted to pay an annual dividend from its water supply or sewerage business surplus.

The dividend, calculated and approved in accordance with the Best Practice Management Guidelines, must not exceed either **(i)** 50% of this surplus in any one year, or **(ii)** the number of water supply or sewerage assessments at 30 June 2009 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the guidelines for Best Practice Management of Water Supply and Sewerage, a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the Department of Water & Energy prior to making the dividend and only after the Department has approved its payment.

Eurobodalla Shire Council

Notes to the Special Purpose Financial Reports
for the financial year ended 30 June 2009Note 2. Water Supply Business
Best Practice Management disclosure requirements

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated)

2009

1. Calculation and Payment of Tax-Equivalents

[All Local Government Local Water Utilities must pay this dividend for tax-equivalents]

| | | |
|-------|--|--------|
| (i) | Calculated Tax Equivalents | 22,000 |
| (ii) | No of assessments multiplied by \$3/assessment | 60,978 |
| (iii) | Amounts payable for tax-equivalents [lesser of (i) and (ii)] | 22,000 |
| (iv) | Amounts actually paid for Tax Equivalents | 22,000 |

2. Dividend from Surplus

| | | |
|-------|---|-----------|
| (i) | 50% of Surplus before Dividends [Calculated in accordance with Best Practice Management for Water Supply and Sewerage Guidelines] | 871,000 |
| (ii) | No. of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment | 587,780 |
| (iii) | Cumulative surplus before Dividends for the 3 years to 30 June 2009, less the cumulative dividends paid for the 2 years to 30 June 2008 | 5,523,000 |

| | | | | | |
|--------------|-----------|---------------|-----------|---------------|-----------|
| 2009 Surplus | 1,742,000 | 2008 Surplus | 2,485,800 | 2007 Surplus | 1,625,200 |
| | | 2008 Dividend | - | 2007 Dividend | 330,000 |

| | | |
|------|---|---------|
| (iv) | Maximum Dividend from Surplus [least of (i), (ii) and (iii) above] | 587,780 |
| (v) | Dividend paid from Surplus [refer below for required pre-dividend payment Criteria] | - |

3. Required outcomes for 6 Criteria

[To be eligible for the payment of a "Dividend from Surplus", ALL the Criteria below need a "YES"]

| | | |
|-------|--|-----|
| (i) | Completion of Strategic Business Plan (including Financial Plan) | YES |
| (ii) | Full Cost Recovery, without significant cross subsidies [Refer Item 2(a) in Table 1 on page 22 of the Best Practice Guidelines] | YES |
| | - Complying charges [Item 2(b) in Table 1] | NO |
| | - DSP with Commercial Developer Charges [Item 2(e) in Table 1] | YES |
| | - If Dual Water Supplies, Complying Charges [Item 2(g) in Table 1] | YES |
| (iii) | Sound Water Conservation and Demand Management implemented | YES |
| (iv) | Sound Drought Management implemented | YES |
| (v) | Complete Performance Reporting Form (by 15 September each year) | YES |
| (vi) | a. Integrated Water Cycle Management Evaluation | YES |
| | b. Complete and implement Integrated Water Cycle Management Strategy | YES |

Eurobodalla Shire Council

Notes to the Special Purpose Financial Reports
for the financial year ended 30 June 2009Note 2. Water Supply Business
Best Practice Management disclosure requirements (continued)

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated) 2009

National Water Initiative (NWI) Financial Performance Indicators

| | | | |
|----------------|---|--------|---------|
| NWI F1 | Total Revenue (Water) Total Income (w13) - Grants for the Acquisition of Assets (w11a) - Interest Income (w9) | \$'000 | 12,872 |
| NWI F4 | Revenue from Residential Usage Charges (Water) Income from Residential Usage Charges (w6b) x 100 divided by the sum of [Income from Residential Usage Charges (w6a) + Income from Residential Access Charges (w6b)] | % | 40% |
| NWI F9 | Written Down Replacement Cost of Fixed Assets (Water) Written down current cost of system assets (w47) | \$'000 | 178,006 |
| NWI F11 | Operating Cost (OMA) (Water) Management Expenses (w1) + Operational & Maintenance Expenses (w2) | \$'000 | 5,987 |
| NWI F14 | Capital Expenditure (Water) Acquisition of fixed assets (w16) | \$'000 | 14,317 |
| NWI F17 | Economic Real Rate of Return (Water) [Total Income (w13) - Interest Income (w9) - Grants for acquisition of assets (w11a) - Operating Costs (NWI F11) - Current Cost Depreciation (w3)] x 100 divided by [Written Down Current Cost of System Assets (w47) + Plant & Equipment (w33b)] | % | 2.26% |
| NWI F26 | Capital Works Grants (Water) Grants for the Acquisition of Assets (w11a) | \$'000 | 7,650 |

- Notes:
- References to w (eg. w12) refer to item numbers within Special Schedules No. 3 & 4 of Council's Annual Financial Statements.
 - The NWI Performance Indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators & Definitions.

Eurobodalla Shire Council

Notes to the Special Purpose Financial Reports
for the financial year ended 30 June 2009Note 3. Sewerage Business
Best Practice Management disclosure requirements

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated)

2009

1. Calculation and Payment of Tax-Equivalents

[All Local Government Local Water Utilities must pay this dividend for tax-equivalents]

| | | |
|-------|--|--------|
| (i) | Calculated Tax Equivalents | 40,000 |
| (ii) | No of assessments multiplied by \$3/assessment | 56,139 |
| (iii) | Amounts payable for Tax Equivalents [lesser of (i) and (ii)] | 40,000 |
| (iv) | Amounts actually paid for Tax Equivalents | 40,000 |

2. Dividend from Surplus

| | | |
|-------|---|---------|
| (i) | 50% of Surplus before Dividends [Calculated in accordance with Best Practice Management for Water Supply and Sewerage Guidelines] | 94,500 |
| (ii) | No. of assessments x (\$30 less tax equivalent charges per assessment) | 521,390 |
| (iii) | Cumulative surplus before dividends for the 3 years to 30 June 2009, less the cumulative dividends paid for the 2 years to 30 June 2008 | 189,000 |

| | | | | | |
|--------------|---------|---------------|---|---------------|---|
| 2009 Surplus | 189,000 | 2008 Surplus | - | 2007 Surplus | - |
| | | 2008 Dividend | - | 2007 Dividend | - |

| | | |
|------|--|--------|
| (iv) | Maximum dividend from surplus [least of (i), (ii) and (iii) above] | 94,500 |
| (v) | Dividend actually paid from surplus [refer below for required pre-dividend payment Criteria] | - |

3. Required outcomes for 4 Criteria

[To be eligible for the payment of a "Dividend from Surplus", ALL the Criteria below need a "YES"]

| | | |
|-------|---|-----|
| (i) | Completion of Strategic Business Plan (including Financial Plan) | YES |
| (ii) | Pricing with full cost-recovery, without significant cross subsidies [Refer Item 2(a) in Table 1 on page 22 of the Best Practice Guidelines] | YES |
| | Complying charges | |
| | (a) Residential [Item 2(c) in Table 1] | YES |
| | (b) Non Residential [Item 2(c) in Table 1] | YES |
| | (c) Trade Waste [Item 2(d) in Table 1] | YES |
| | DSP with Commercial Developer Charges [Item 2(e) in Table 1] | YES |
| | Liquid Trade Waste Approvals & Policy [Item 2(f) in Table 1] | YES |
| (iii) | Complete Performance Reporting Form (by 15 September each year) | YES |
| (iv) | a. Integrated Water Cycle Management Evaluation | YES |
| | b. Complete and implement Integrated Water Cycle Management Strategy | YES |

Eurobodalla Shire Council

Notes to the Special Purpose Financial Reports
for the financial year ended 30 June 2009Note 3. Sewerage Business
Best Practice Management disclosure requirements (continued)

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated) 2009

National Water Initiative (NWI) Financial Performance Indicators

| | | | |
|----------------|---|--------|---------|
| NWI F2 | Total Revenue (Sewerage) Total Income (s14) - Grants for Acquisition of Assets (s12a) - Interest Income (s10) | \$'000 | 13,501 |
| NWI F10 | Written Down Replacement Cost of Fixed Assets (Sewerage) Written down current cost of system assets (s48) | \$'000 | 162,743 |
| NWI F12 | Operating Cost (Sewerage) Management Expenses (s1) + Operational & Maintenance Expenses (s2) | \$'000 | 7,806 |
| NWI F15 | Capital Expenditure (Sewerage) Acquisition of Fixed Assets (s17) | \$'000 | 4,019 |
| NWI F18 | Economic Real Rate of Return (Sewerage) [Total Income (s14) - Interest Income (s10) - Grants for acquisition of Assets (s12a) - Operating cost (NWI F12) - Current cost depreciation (s3)] x 100 divided by [Written down current cost (ie. WDCC) of System Assets (s48) + Plant & Equipment (s34b)] | % | 1.12% |
| NWI F27 | Capital Works Grants (Sewerage) Grants for the Acquisition of Assets (12a) | \$'000 | 3,320 |

**National Water Initiative (NWI) Financial Performance Indicators
Water & Sewer (combined)**

| | | | |
|----------------|---|--------|--------|
| NWI F3 | Total Income (Water & Sewerage) Total Income (w13 + s14) + Gain/Loss on disposal of assets (w14 + s15) minus Grants for acquisition of assets (w11a + s12a) - Interest Income (w9 + s10) | \$'000 | 24,702 |
| NWI F8 | Revenue from Community Service Obligations (Water & Sewerage) Community Service Obligations (NWI F25) x 100 divided by Total Income (NWI F3) | % | 1.51% |
| NWI F16 | Capital Expenditure (Water & Sewerage) Acquisition of Fixed Assets (w16 + s17) | \$'000 | 18,336 |
| NWI F19 | Economic Real Rate of Return (Water & Sewerage) [Total Income (w13 + s14) - Interest Income (w9 + s10) - Grants for acquisition of assets (w11a + s12a) - Operating Cost (NWI F11 + NWI F12) - Current cost depreciation (w3 + s3)] x 100 divided by [Written down replacement cost of fixed assets (NWI F9 + NWI F10) + Plant & equipment (w33b + s34b)] | % | 1.72% |
| NWI F20 | Dividend (Water & Sewerage) Dividend paid from surplus (2(v) of Note 2 + 2(v) of Note 3) | \$'000 | - |
| NWI F21 | Dividend Payout Ratio (Water & Sewerage) Dividend (NWI F20) x 100 divided by Net Profit after tax (NWI F24) | % | 0.00% |

Eurobodalla Shire Council

Notes to the Special Purpose Financial Reports
for the financial year ended 30 June 2009Note 3. Sewerage Business
Best Practice Management disclosure requirements (continued)

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated) 2009

National Water Initiative (NWI) Financial Performance Indicators
Water & Sewer (combined)

| | | | |
|---------|--|--------|-------|
| NWI F22 | Net Debt to Equity (Water & Sewerage) Overdraft (w36 + s37) + Borrowings (w38 + s39) - Cash & Investments (w30 + s31) x 100 divided by [Total Assets (w35 + s36) - Total Liabilities (w40 + s41)] | % | 0.02% |
| NWI F23 | Interest Cover (Water & Sewerage) Earnings before Interest & Tax (EBIT) divided by Net Interest Earnings before Interest & Tax (EBIT): 5,884 Operating Result (w15a + s16a) + Interest expense (w4a + s4a) - Interest Income (w9 + s10) - Gain/Loss on disposal of assets (w14 + s15) + Miscellaneous Expenses (w4b + w4c + s4b + s4c) Net Interest: 555 Interest Expense (w4a + s4a) - Interest Income (w9 + s10) | | 11 |
| NWI F24 | Net Profit After Tax (Water & Sewerage) Surplus before dividends (w15a + s16a) - Tax equivalents paid (Note 2-1(iv) + Note 3-1(iv)) | \$'000 | 3,310 |
| NWI F25 | Community Service Obligations (Water & Sewerage) Grants for Pensioner Rebates (w11b + s12b) | \$'000 | 373 |

- Notes:
- References to w (eg. s12) refer to item numbers within Special Schedules No. 5 & 6 of Council's Annual Financial Statements.
 - The NWI Performance Indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators & Definitions.



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CONSULTANTS
J S YOUNG
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EUROBODALLA SHIRE COUNCIL
Special Purpose Financial Report
Independent Auditors' Report to the Council for the Year ended 30 June 2009

Report on the Financial Report

We have audited the special purpose financial report, of Eurobodalla Shire Council for the financial year ended 30 June 2009, comprising the Statement by Councillors and Management, Income Statement of Other Business Activities, Balance Sheet of Other Business Activities, and accompanying notes to the special purpose financial report. The financial statements include the accounts of the declared business activities of the Council.

Council's Responsibilities for the Financial Report

Council is responsible for the preparation and fair presentation of the financial report and have determined that the accounting policies described in Note 1 to the financial reports, which form part of the financial report, are appropriate to their needs. Council's responsibility also includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibilities

Our responsibility is to express an opinion on the financial report based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 1, are appropriate to meet the needs of the members. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Council, as well as evaluating the overall presentation of the financial report.

The special purpose financial report has been prepared for distribution to Council and the New South Wales Department of Local Government for the purpose of fulfilling the requirements under the National Competition Policy. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the Council or the New South Wales Department of Local Government, or for any purpose other than that for which it was prepared.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Opinion

In our opinion, the financial report presents fairly, in all material respects, the financial position of Eurobodalla Shire Council as of 30 June 2009 and of its financial performance for the year then ended in accordance with the accounting policies described in Note 1 to the financial statements.

Pitcher Partners

PITCHER PARTNERS

Cr Millington

C R MILLINGTON
Partner

Sydney, 4 November 2009