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EUROBODALLA SHIRE COUNCIL INDEPENDENT AUDITORS' REPORT ON THE CONDUCT OF THE AUDIT (Local Government Act, 1993 - Section 417(3)) YEAR ENDED 30 JUNE 2013

Eurobodalla Shire Council has prepared general and special purpose financial reports for the year ended 30 June 2013 on which we issued separate audit reports to the Council dated 30 October 2013. This report has been prepared in accordance with the requirements of the Division of Local Government, and the provisions of Section 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 2013 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

	2013 Actual	2013 Budget	* Budget	2012 Actual
	\$'000	\$'000	Variance %	\$'000
Operating result	782	(3,634)	121.57%F	5,720
Operating result before capital revenue	(4,357)	(7,226)	65.85%F	(1,413)
Rates & annual charges	47,611	47,600	0%	45,639
Operating grants & contributions	15,558	14,650	6.20%F	17,821
Capital grants & contributions	5,139	3,592	43.07%F	7,133
Depreciation & amortisation	26,735	25,143	6.33%U	22,953

* 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 decreased from \$5.720M in 2012 to \$0.782M in 2013. This compared with a budgeted deficit of \$3.634M for the year. The most significant variations impacting the operating result were the lower than anticipated employee benefits and on-costs.

Operating Result before Capital. The operating result before Capital grants and contributions was a deficit of \$4.357M compared with the prior year deficit of \$1.413M. This compared with the original budget deficit of \$7.226M.

Rates and Annual Charges. Revenue from rates and annual charges increased to \$47.611M from \$45.639M in the prior year, and was within 0.01% of budget for the 2013 year.

Grants and Contributions. Operating grants and contributions for the year totalled \$15.558M and represented 16.30% of total income from continuing operations. This compares with budget of \$14.650M.

Capital grants and contributions amounted to \$5.139M for the 2013 year and represented 5.38% of total income from continuing operations. This compares with budget of \$3.592M.

Depreciation. Included in the operating result was \$26.735M for the depreciation and amortisation of infrastructure, property, plant and equipment which increased from \$22.953M in the prior year and compared with the original budget of \$25.143M. Depreciation and amortisation represents 28.23% (2012: 24.71%) of total expenses and 28.00% (2012: 23.28%) of total income for the year. This is a continuation of the increased depreciation expense experienced in recent years as a result of the introduction of the "Fair Value" model with depreciation as a percentage of operating expenses increasing from 18% in 2008 to 28% in 2013.

Statement of Financial Position

Council's equity at 30 June 2013 amounted to \$1,226.486M comprised of retained earnings, and reserves arising from revaluation of infrastructure assets in prior years.

The most significant impact on retained earnings during 2013 was the gain on revaluation of I,PP&E of \$7.012M.

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	2013 Actual \$'000	2013 Budget \$'000	* Budget Variance %	2012 Actual \$'000
Net cash flows from operations	32,116	22,408	43.32%F	32,883
Net cash flows from investing	(31,591)	(27,510)	14.83%U	35,811
Net cash flows from financing	309	5,150	94.00%U	2,738
Net movement in cash	834	48		(190)

* 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 \$8.742M during the year, with \$32.116M being provided from operations, \$31.591M utilised in net investing activities for the acquisition and sale of non-current assets, and \$0.309M being provided from borrowings and advances. Included in investing activities was the purchase of \$7.07m (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 2013 was comprised of the following:

	2013	2012
	\$'000	\$'000
Externally restricted cash	30,698	27,425
Internally restricted cash	14,829	13,780
Unrestricted cash	21,431	16,057
<i>Total Cash, Cash Equivalents and Investments</i>	66,959	57,262

Externally restricted funds increased by \$3.273M with increases in domestic waste management, sewerage services and water supplies and decreases in specific purpose unexpended grants – sewer fund. Internally restricted balances increase overall by \$1.049M.

Working Capital (Net Current Assets)

	2013	2012	2011	2010
	\$'000	\$'000	\$'000	\$'000
Current assets	77,273	68,575	64,540	63,327
Current liabilities	30,828	20,298	24,607	29,840
Net current assets	46,445	48,277	39,933	33,387
Add: anticipated longer term liabilities	5,020	4,049	4,898	4,545
Adjusted net Current Assets	51,465	52,326	44,831	37,932
<i>Less: Working Capital Commitments</i>				
Net external restrictions	28,292	27,265	27,850	24,451
<i>Unrestricted Working Capital</i>	23,173	25,061	16,981	13,481

Council's balance of unrestricted working capital has decreased from \$25.0611M in 2012 to \$23.173M at the end of the 2013 financial year.

After taking into consideration Council's internal reserves, other liabilities that are anticipated to be funded from the 2013/14 operating budget and anticipated timing of rate revenues, the unrestricted working capital balance appears to provide a reasonable basis for funding the coming year's operations.

Performance Indicators and Trends

Prescribed performance indicators are included in Note 13 to the financial report and provide a comparison of the 2013 year results with prior years.

	2013	2012	2011	2010
Unrestricted current ratio	2.15:1	2.91:1	2.07:1	1.95:1
Debt service ratio	9.68%	8.72%	9.18%	9.62%
Rate coverage ratio	49.87%	46.29%	45.84%	45.03%
Rates & annual charges outstanding ratio	4.21%%	4.65%	3.41%	3.22%
Asset renewals ratio	48.76%	76.46%	42.36%	42.68%

Unrestricted Current Ratio. The ratio declined on the 2012 ratio and reversed the increase experienced in prior years. However at 2.15:1 the 2013 ratio is solid and remains above the industry benchmark of 2:1.

Debt Service Ratio. The debt service ratio increased on the prior year but still remains below the industry benchmark of 10%.

Rates and Annual Charges Coverage Ratio. Council's rates and annual charges revenue represented 49.87% of 2013 total revenue, and is higher than the prior year due to the increase in revenue from that source and the impact of lower capital grants.

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 4.21%. The ratio has improved on the prior year 2012 ratio, and the ratio still remains within the industry benchmark of 5%.

Asset Renewals Ratio. The ratio declined after large capital projects in the prior year and remains below the industry guidelines of 100%. However, with the revaluation of Council's infrastructure assets, depreciation expense has increased and adversely impacted this ratio.

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 21), 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, 30 October 2013