

Eurobodalla Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2012



Eurobodalla Shire Council

Special Purpose Financial Statements

for the financial year ended 30 June 2012

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Background

(i) These Special Purpose Financial Statements have been prepared for the use by both Council and the Division 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 statements 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 Statements for the financial year ended 30 June 2012

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

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

- The NSW Government Policy Statement "Application of National Competition Policy to Local Government".
- The Division 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 NSW Office of Water (Department of Environment, Climate Change and Water) Guidelines - "Best Practice Management of Water and Sewerage".

To the best of our knowledge and belief, these Financial Statements:

- 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 Statements false or misleading in any way.

Signed in accordance with a resolution of Council made on 23 October 2012.



L Brown
MAYOR



F Thomson
COUNCILLOR



P Anderson
GENERAL MANAGER



A O'Reilly
RESPONSIBLE ACCOUNTING OFFICER

Eurobodalla Shire Council

Income Statement of Council's Water Supply Business Activity

for the financial year ended 30 June 2012

\$ '000	Actual 2012	Actual 2011	Actual 2010
Income from continuing operations			
Access charges	3,288	4,713	6,207
User charges	7,355	6,303	5,517
Fees	224	199	233
Interest	74	201	355
Grants and contributions provided for non capital purposes	387	267	251
Profit from the sale of assets	-	-	-
Other income	20	36	20
Total income from continuing operations	11,348	11,719	12,583
Expenses from continuing operations			
Employee benefits and on-costs	2,761	2,547	2,564
Borrowing costs	632	540	30
Materials and contracts	3,946	3,448	2,958
Depreciation and impairment	3,359	3,227	2,836
Water purchase charges	-	-	-
Loss on sale of assets	697	461	483
Calculated taxation equivalents	16	23	22
Debt guarantee fee (if applicable)	-	-	-
Other expenses	967	942	977
Total expenses from continuing operations	12,378	11,188	9,870
Surplus (deficit) from Continuing Operations before capital amounts	(1,030)	531	2,713
Grants and contributions provided for capital purposes	1,095	4,280	3,757
Surplus (deficit) from Continuing Operations after capital amounts	65	4,811	6,470
Surplus (deficit) from discontinued operations	-	-	-
Surplus (deficit) from ALL Operations before tax	65	4,811	6,470
less: Corporate Taxation Equivalent (30%) [based on result before capital]	-	(159)	(814)
SURPLUS (DEFICIT) AFTER TAX	65	4,652	5,656
plus Opening Retained Profits	147,247	141,494	134,929
plus/less: Prior Period Adjustments	312	1,242	95
plus Adjustments for amounts unpaid:			
- Taxation equivalent payments	16	23	22
- Debt guarantee fees	-	-	-
- Corporate taxation equivalent	-	159	814
less:			
- Tax Equivalent Dividend paid	(16)	(23)	(22)
- Surplus dividend paid	(375)	(300)	-
Closing Retained Profits	147,249	147,247	141,494
Return on Capital %	-0.1%	0.5%	1.4%
Subsidy from Council	8,895	9,803	7,375
Calculation of dividend payable:			
Surplus (deficit) after tax	65	4,652	5,656
less: Capital grants and contributions (excluding developer contributions)	(100)	(3,006)	(2,186)
Surplus for dividend calculation purposes	-	1,646	3,470
Potential Dividend calculated from surplus	-	823	1,735

Eurobodalla Shire Council

Income Statement of Council's Sewerage Business Activity

for the financial year ended 30 June 2012

\$ '000	Actual 2012	Actual 2011	Actual 2010
Income from continuing operations			
Access charges	15,291	13,844	12,816
User charges	400	276	177
Liquid Trade Waste charges	103	103	116
Fees	13	20	12
Interest	75	866	2,997
Grants and contributions provided for non capital purposes	261	175	189
Profit from the sale of assets	-	-	-
Other income	66	76	51
Total income from continuing operations	16,209	15,360	16,358
Expenses from continuing operations			
Employee benefits and on-costs	3,428	3,278	3,059
Borrowing costs	1,340	1,203	822
Materials and contracts	4,628	4,768	3,843
Depreciation and impairment	4,260	4,242	3,994
Loss on sale of assets	1,324	133	146
Calculated taxation equivalents	41	42	40
Debt guarantee fee (if applicable)	-	-	-
Other expenses	917	794	977
Total expenses from continuing operations	15,938	14,460	12,881
Surplus (deficit) from Continuing Operations before capital amounts	271	900	3,477
Grants and contributions provided for capital purposes	1,905	1,379	1,587
Surplus (deficit) from Continuing Operations after capital amounts	2,176	2,279	5,064
Surplus (deficit) from discontinued operations	-	-	-
Surplus (deficit) from ALL Operations before tax	2,176	2,279	5,064
less: Corporate Taxation Equivalent (30%) [based on result before capital]	(81)	(270)	(1,043)
SURPLUS (DEFICIT) AFTER TAX	2,095	2,009	4,021
plus Opening Retained Profits	105,579	103,493	98,799
plus/less: Prior Period Adjustments/ARR Tfrrs	1,001	107	(25)
plus Adjustments for amounts unpaid:			
- Taxation equivalent payments	41	42	40
- Debt guarantee fees	-	-	-
- Corporate taxation equivalent	81	270	1,043
less:			
- Tax Equivalent Dividend paid	(41)	(42)	(40)
- Surplus dividend paid	(375)	(300)	(345)
Closing Retained Profits	108,381	105,579	103,493
Return on Capital %	0.7%	1.2%	2.5%
Subsidy from Council	5,510	7,338	4,362
Calculation of dividend payable:			
Surplus (deficit) after tax	2,095	2,009	4,021
less: Capital grants and contributions (excluding developer contributions)	(555)	-	-
Surplus for dividend calculation purposes	1,540	2,009	4,021
Potential Dividend calculated from surplus	770	1,005	2,010

Eurobodalla Shire Council

Income Statement of Council's Other Business Activities

for the financial year ended 30 June 2012

Batemans Bay
Beach Resort

Category 1

\$ '000	Actual 2012	Actual 2011
Income from continuing operations		
Access charges	-	-
User charges	2,117	2,104
Fees	-	-
Interest	-	-
Grants and contributions provided for non capital purposes	-	-
Profit from the sale of assets	-	-
Other income	44	63
Total income from continuing operations	2,161	2,167
Expenses from continuing operations		
Employee benefits and on-costs	-	-
Borrowing costs	736	760
Materials and contracts	748	725
Depreciation and impairment	462	403
Loss on sale of assets	-	-
Calculated taxation equivalents	14	14
Debt guarantee fee (if applicable)	-	-
Other expenses	403	398
Total expenses from continuing operations	2,363	2,300
Surplus (deficit) from Continuing Operations before capital amounts	(202)	(133)
Grants and contributions provided for capital purposes	-	-
Surplus (deficit) from Continuing Operations after capital amounts	(202)	(133)
Surplus (deficit) from discontinued operations	-	-
Surplus (deficit) from ALL Operations before tax	(202)	(133)
less: Corporate Taxation Equivalent (30%) [based on result before capital]	-	-
SURPLUS (DEFICIT) AFTER TAX	(202)	(133)
plus Opening Retained Profits	(3,143)	(3,024)
plus/less: Prior Period Adjustments	-	-
plus Adjustments for amounts unpaid:		
- Taxation equivalent payments	14	14
- Debt guarantee fees	-	-
- Corporate taxation equivalent	-	-
add:		
- Subsidy Paid/Contribution To Operations	-	-
less:		
- TER dividend paid	-	-
- Dividend paid	-	-
Closing Retained Profits	(3,331)	(3,143)
Return on Capital %	4.9%	5.5%
Subsidy from Council	-	-

Eurobodalla Shire Council

Balance Sheet of Council's Water Supply Business Activity

as at 30 June 2012

\$ '000	Actual 2012	Actual 2011
ASSETS		
Current Assets		
Cash and cash equivalents	3,337	2,401
Investments	1,439	1,932
Receivables	2,701	2,267
Inventories	59	63
Other	124	-
Total Current Assets	7,660	6,663
Non-Current Assets		
Infrastructure, property, plant and equipment	280,433	208,707
Total non-Current Assets	280,433	208,707
TOTAL ASSETS	288,093	215,370
LIABILITIES		
Current Liabilities		
Payables	9	34
Interest bearing liabilities	531	585
Total Current Liabilities	540	619
Non-Current Liabilities		
Interest bearing liabilities	8,849	8,389
Total Non-Current Liabilities	8,849	8,389
TOTAL LIABILITIES	9,389	9,008
NET ASSETS	278,704	206,362
EQUITY		
Retained earnings	147,249	147,247
Revaluation reserves	131,455	59,115
Council equity interest	278,704	206,362
Minority equity interest	-	-
TOTAL EQUITY	278,704	206,362

Eurobodalla Shire Council

Balance Sheet of Council's Sewerage Business Activity

as at 30 June 2012

\$ '000	Actual 2012	Actual 2011
ASSETS		
Current Assets		
Cash and cash equivalents	5,924	4,695
Investments	6,618	10,143
Receivables	106	79
Other	-	12
Total Current Assets	12,648	14,929
Non-Current Assets		
Infrastructure, property, plant and equipment	235,012	181,215
Total non-Current Assets	235,012	181,215
TOTAL ASSETS	247,660	196,144
LIABILITIES		
Current Liabilities		
Payables	41	38
Interest bearing liabilities	2,009	2,156
Total Current Liabilities	2,050	2,194
Non-Current Liabilities		
Interest bearing liabilities	21,429	17,773
Total Non-Current Liabilities	21,429	17,773
TOTAL LIABILITIES	23,479	19,967
NET ASSETS	224,181	176,177
EQUITY		
Retained earnings	108,381	105,579
Revaluation reserves	115,800	70,598
Council equity interest	224,181	176,177
Minority equity interest	-	-
TOTAL EQUITY	224,181	176,177

Eurobodalla Shire Council

Balance Sheet of Council's Other Business Activities

as at 30 June 2012

Batemans Bay Beach
Resort
Category 1

\$ '000	Actual 2012	Actual 2011
ASSETS		
Current Assets		
Receivables	33	34
Total Current Assets	33	34
Non-Current Assets		
Infrastructure, property, plant and equipment	10,850	11,304
Total Non-Current Assets	10,850	11,304
TOTAL ASSETS	10,883	11,338
LIABILITIES		
Current Liabilities		
Bank Overdraft	1,648	1,488
Interest bearing liabilities	161	173
Total Current Liabilities	1,809	1,661
Non-Current Liabilities		
Interest bearing liabilities	11,466	11,881
Total Non-Current Liabilities	11,466	11,881
TOTAL LIABILITIES	13,275	13,542
NET ASSETS	(2,392)	(2,204)
EQUITY		
Retained earnings	(3,331)	(3,143)
Revaluation reserves	939	939
Council equity interest	(2,392)	(2,204)
TOTAL EQUITY	(2,392)	(2,204)

Eurobodalla Shire Council

Special Purpose Financial Statements

for the financial year ended 30 June 2012

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Eurobodalla Shire Council

Notes to the Special Purpose Financial Statements

for the financial year ended 30 June 2012

Note 1. Significant Accounting Policies

These financial statements are a Special Purpose Financial Statements (SPFS) prepared for use by Council and the Division of Local Government.

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

These special purpose financial statements, unless otherwise stated, have been prepared in accordance with;

- applicable Australian Accounting Standards,
- other authoritative pronouncements of the Australian Accounting Standards Board,
- Australian Accounting Interpretations,
- the Local Government Act and Regulation, and
- the Local Government Code of Accounting Practice and Financial Reporting.

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 Division 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.

c. Batemans Bay Beach Resort

Five star caravan park operated on Crown Reserve. Operated by contractor and owned by Council.

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 NSW Office of Water (Department of Environment, Climate Change and Water) some amounts shown in Notes 2 and Note 3 are disclosed in whole dollars.

Eurobodalla Shire Council

Notes to the Special Purpose Financial Statements

for the financial year ended 30 June 2012

Note 1. Significant Accounting Policies (continued)

(i) Taxation Equivalent Charges

Council is liable to pay various taxes and financial duties in undertaking its business activities. Where this is the case, they are disclosed in these statements as a cost of operations just like all other costs.

However, where Council is exempt from paying taxes which are generally paid by private sector businesses (such as income tax), equivalent tax payments have been applied to all Council nominated business activities and are reflected in these financial statements.

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 **\$396,000** of combined land values attracts **0%**. From \$396,001 to \$2,421,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$2,421,000, a premium marginal rate of **2.0%** applies.

Payroll Tax – **5.45%** on the value of taxable salaries and wages in excess of \$678,000.

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 this 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 Council's GPFS.

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 Statements

for the financial year ended 30 June 2012

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 3.03% at 30/6/12.

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 2012 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 NSW Office of Water prior to making the dividend and only after it has approved its payment.

Eurobodalla Shire Council

Notes to the Special Purpose Financial Statements
for the financial year ended 30 June 2012Note 2. Water Supply Business
Best Practice Management disclosure requirements

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

2012

1. Calculation and Payment of Tax-Equivalents

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

(i)	Calculated Tax Equivalents	16,000
(ii)	No of assessments multiplied by \$3/assessment	61,914
(iii)	Amounts payable for Tax Equivalents [lesser of (i) and (ii)]	16,000
(iv)	Amounts actually paid for Tax Equivalents	16,000

2. Dividend from Surplus

(i)	50% of Surplus before Dividends [Calculated in accordance with Best Practice Management for Water Supply and Sewerage Guidelines]	-												
(ii)	No. of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	603,140												
(iii)	Cumulative surplus before Dividends for the 3 years to 30 June 2012, less the cumulative dividends paid for the 2 years to 30 June 2011 & 30 June 2010	4,780,800												
<table border="1"> <tr> <td>2012 Surplus</td> <td>(35,000)</td> <td>2011 Surplus</td> <td>1,645,700</td> <td>2010 Surplus</td> <td>3,470,100</td> </tr> <tr> <td></td> <td></td> <td>2011 Dividend</td> <td>300,000</td> <td>2010 Dividend</td> <td>-</td> </tr> </table>			2012 Surplus	(35,000)	2011 Surplus	1,645,700	2010 Surplus	3,470,100			2011 Dividend	300,000	2010 Dividend	-
2012 Surplus	(35,000)	2011 Surplus	1,645,700	2010 Surplus	3,470,100									
		2011 Dividend	300,000	2010 Dividend	-									
(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	-												
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment Criteria]	375,000												

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]	YES
	- 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 Statements
for the financial year ended 30 June 2012Note 2. Water Supply Business
Best Practice Management disclosure requirements (continued)

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated)		2012
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 12,269
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)]	% 65.49%
NWI F9	Written Down Replacement Cost of Fixed Assets (Water) Written down current cost of system assets (w47)	\$'000 273,940
NWI F11	Operating Cost (OMA) (Water) Management Expenses (w1) + Operational & Maintenance Expenses (w2)	\$'000 8,370
NWI F14	Capital Expenditure (Water) Acquisition of fixed assets (w16)	\$'000 3,530
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)]	% 0.19%
NWI F26	Capital Works Grants (Water) Grants for the Acquisition of Assets (w11a)	\$'000 100

- 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 Statements
for the financial year ended 30 June 2012Note 3. Sewerage Business
Best Practice Management disclosure requirements

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

2012

1. Calculation and Payment of Tax-Equivalents

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

(i)	Calculated Tax Equivalents	41,000
(ii)	No of assessments multiplied by \$3/assessment	56,982
(iii)	Amounts payable for Tax Equivalents [lesser of (i) and (ii)]	41,000
(iv)	Amounts actually paid for Tax Equivalents	41,000

2. Dividend from Surplus

(i)	50% of Surplus before Dividends [Calculated in accordance with Best Practice Management for Water Supply and Sewerage Guidelines]	769,850
(ii)	No. of assessments x (\$30 less tax equivalent charges per assessment)	528,820
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2012, less the cumulative dividends paid for the 2 years to 30 June 2011 & 30 June 2010	6,924,600

2012 Surplus	1,539,700	2011 Surplus	2,009,000	2010 Surplus	4,020,900
		2011 Dividend	300,000	2010 Dividend	345,000

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	528,820
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment Criteria]	375,000

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 Statements

for the financial year ended 30 June 2012

Note 3. Sewerage Business

Best Practice Management disclosure requirements (continued)

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated) 2012

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	17,484
NWI F10	Written Down Replacement Cost of Fixed Assets (Sewerage) Written down current cost of system assets (s48)	\$'000	232,856
NWI F12	Operating Cost (Sewerage) Management Expenses (s1) + Operational & Maintenance Expenses (s2)	\$'000	9,573
NWI F15	Capital Expenditure (Sewerage) Acquisition of Fixed Assets (s17)	\$'000	13,050
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)]	%	1.55%
NWI F27	Capital Works Grants (Sewerage) Grants for the Acquisition of Assets (12a)	\$'000	555

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	29,029
NWI F8	Revenue from Community Service Obligations (Water & Sewerage) Community Service Obligations (NWI F25) x 100 divided by Total Income (NWI F3)	%	1.34%
NWI F16	Capital Expenditure (Water & Sewerage) Acquisition of Fixed Assets (w16 + s17)	\$'000	16,580
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)]	%	0.81%
NWI F20	Dividend (Water & Sewerage) Dividend paid from surplus (2(v) of Note 2 + 2(v) of Note 3)	\$'000	750
NWI F21	Dividend Payout Ratio (Water & Sewerage) Dividend (NWI F20) x 100 divided by Net Profit after tax (NWI F24)	%	49.02%

Eurobodalla Shire Council

Notes to the Special Purpose Financial Statements

for the financial year ended 30 June 2012

Note 3. Sewerage Business

Best Practice Management disclosure requirements (continued)

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

2012

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)]	%	3.06%
NWI F23	Interest Cover (Water & Sewerage) Earnings before Interest & Tax (EBIT) divided by Net Interest Earnings before Interest & Tax (EBIT): 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: Interest Expense (w4a + s4a) - Interest Income (w9 + s10)		2
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	1,530
NWI F25	Community Service Obligations (Water & Sewerage) Grants for Pensioner Rebates (w11b + s12b)	\$'000	389

- 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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EUROBODALLA SHIRE COUNCIL Special Purpose Financial Report Independent Auditors' Report to the Council for the Year ended 30 June 2012

Report on the Financial Statements of Council's Declared Business Activities

We have audited the accompanying financial statements, being special purpose financial statements, of Eurobodalla Shire Council's declared business activities, which comprises the balance sheet as at 30 June 2012 and the income statement for the year then ended, a summary of significant accounting policies, and other explanatory notes and the Statement by Councilors and Management.

Council's Responsibilities for the Financial Statements

Council is responsible for the preparation and fair presentation of the financial statements and has determined that the accounting policies described in Note 1 to the financial statements which form part of the financial statements are appropriate to their needs. Council's responsibility also includes such internal controls as the Council determines are necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on the financial statements based on our audit. 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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

Auditor's Opinion

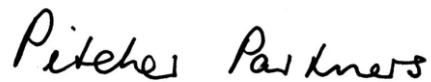
In our opinion, the financial statements present fairly, in all material respects, the financial position of Eurobodalla Shire Council as of 30 June 2012 and of its financial performance for the year then ended in accordance with the accounting policies described in Note 1 to the special purpose financial statements.

Basis of Accounting

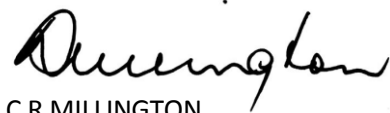
Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The special purpose financial statements have been prepared for distribution to the Council and the New South Wales Division of Local Government for the purpose of fulfilling the requirements of National Competition Policy reporting. We disclaim any assumption of responsibility for any reliance on this audit 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.

Other Matter

Eurobodalla Shire Council has prepared a separate financial report for the year ended 30 June 2012 in accordance with Australian Accounting Standards and the Code of Accounting Practice and Financial Reporting on which we issued a separate auditor's report to the Council dated 1 November 2012.



PITCHER PARTNERS



C R MILLINGTON
Partner

Sydney, 1 November 2012