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EUROBODALLA SHIRE COUNCIL INDEPENDENT AUDITORS' REPORT ON THE CONDUCT OF THE AUDIT YEAR ENDED 30 JUNE 2012

Eurobodalla Shire Council has prepared a general purpose financial report for the year ended 30 June 2012 on which we issued a separate audit report to the Council dated 1 November 2012. 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 report for the year ended 30 June 2012 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

	2012 Actual	2012 Budget	* Budget	2011 Actual
	\$'000	\$'000	Variance %	\$'000
Net operating result for the year	5,720	936	511%F	(49,362)
Operating result before capital revenue	(1,413)	(6,707)	79%F	778
Rates & annual charges	45,639	45,626	0.03%F	44,758
Operating grants & contributions	17,821	13,538	32%F	16,280
Capital grants & contributions	7,133	7,643	7%U	11,644
Depreciation & amortisation	22,953	25,033	8%U	21,955

* Detailed explanations for material favourable (F) and unfavourable (U) budget variations are provided in Note 16 to the financial statements

Net Operating Result

Council's net operating result for the 2012 year was a surplus of \$5.72M. This compares with the original budget of \$936K for the year, with major variations in the operating result being provided in Note 16 to the financial statements. The substantial operating deficit incurred in 2011 arose as a result of the re-valuation of Community Land and as such it is inappropriate to compare the two years without taking that adjustment into consideration.

Operating Result before Capital

The operating result before Capital grants and contributions was a deficit of \$1.413M compared with the prior year surplus of \$778K. This compared with the original 2012 budget deficit of \$6.707M.

Rates and Annual Charges.

Revenue from rates and annual charges increased to \$45.639M from \$44.758M in the prior year, and was within 1% of budget for the 2012 year.

Grants and Contributions.

Operating grants and contributions for the year totalled \$17.821M and represented 18% of total income from continuing operations. This compares with budget of \$13.538M.

Capital grants and contributions amounted to \$7.133M for the 2012 year and represented 7% of total income from continuing operations. This compares with budget of \$7.643M.

Depreciation.

Included in the operating result was \$22.953M for the depreciation and amortisation of infrastructure, property, plant and equipment which increased from \$21.955M in the prior year and compared with the original budget of \$25.033M. Depreciation is Council's second highest expense and represents approximately 23% of total income from operations.

Balance Sheet

Council's equity at 30 June 2012 amounted to \$1,218.770M comprised of retained earnings (\$698.772M), and reserves (\$519.998M) arising from revaluation of infrastructure assets.

The most significant impacts on retained earnings during 2012 were the operating surplus of \$5.72M, whilst the Asset Revaluation Reserve increased by a net \$118.855M as a result of the revaluation of other non-current assets.

At balance date Council had not utilised any of its bank overdraft facility of \$2.0M.

Movements in Cash and Cash Equivalents

Summarised Statement of Cash Flows

Activities	2012 Actual	2012 Budget	* Budget	2011 Actual
	\$'000	\$'000	Variance	\$'000
			%	
Net cash flows from operations	32,883	22,408	29%F	34,955
Net cash flows from investing	(35,811)	(27,510)	3%U	(44,950)
Net cash flows from financing	2,738	5,150	71%U	2,134
Net movement in cash	(190)	(48)		(7,861)

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

Council's cash and cash equivalent balances decreased to a total of \$7.908M during the year, with \$32.883M being provided from operations, \$35.811M utilised for acquisition of investments and assets, and \$2.738M provided from net proceeds of borrowings and advances. Investing activities included \$6.335M net increase in investments securities.

Total Investments and Cash Balances

Council's cash and investments balances totalled \$57.262M at 30 June 2012 compared to \$52.616M in 2011.

Of this total, \$27.425M (2011 - \$28.838M) is externally restricted for use as specified by legislation and/or other regulatory requirements, \$13.78M (2011 - \$5.708M) has been reserved for specific projects and purposes identified by Council, and \$16.057M (2011 - \$18.07M) is unrestricted.

Total external restrictions decreased overall by 5%, resulting from a combination of the utilisation of specific purpose sewer loans, and increases in specific purpose unexpended grants, water and sewerage balances, and other waste management.

The total of internally restricted balances increased by \$8.072M, with material increases in Council's IT Investment Fund, Works Income Equalisation Fund and the Real Estate Disposal Fund.

Details of all externally and internally restricted cash and investments, including the movements during the year, are provided in Note 6c.

Working Capital (Net Current Assets)

	2012	2011	2010
	\$'000	\$'000	\$'000
Current assets	68,575	64,540	63,227
Less: Current liabilities	20,298	24,607	29,840
Net current assets	48,277	39,933	33,387
Add: anticipated longer term liabilities included in current	4,049	4,898	4,545
Adjusted net Current Assets	52,326	44,831	37,932
<i>Less: Working Capital Commitments</i>			
Net external restrictions	27,265	27,850	24,451
<i>Unrestricted Working Capital</i>	25,061	16,981	13,481

Council's balance of unrestricted working capital has increased from \$16.981M in 2011 to \$25.061M at the end of the 2012 financial year. This balance represents approximately 29% of budgeted operating expenses for the 2012/13 financial year.

After taking into consideration Council's internal reserves, other liabilities that are anticipated to be funded from the 2012/13 operating budget and anticipated timing of rate revenues, Council's unrestricted working capital balance appears to provide a reasonable basis for funding the coming year's operations.

Performance Indicators and Trends

The following performance indicators are included in Note 13 to the financial report:-

Unrestricted Current Ratio.

At 2.91:1, the ratio has improved on the prior year and remains above industry guidelines of 2:1.

Debt Service Ratio.

The debt service ratio of 8.72% is lower than the prior year, but is well within the industry benchmark of 20%.

Rates and Annual Charges Coverage Ratio.

Council's rates and annual charges revenue represented 46.29% of 2012 total revenue, which is consistent with prior years.

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 4.65%. This ratio has again increased on the prior year but is still within industry guidelines of 5%.

Building & Infrastructure Renewals Ratio.

The ratio increased from 42.36% in the prior year to 76.46% for 2012, but remains below industry guidelines of 100%. These guidelines indicate that Council would have needed to spend an additional \$4.163M during the 2012 year to achieve a ratio of 100%.

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 20), and other legislatively prescribed standards.

Conduct of the audit

During the conduct of our audit, there were minimal issues requiring additional explanation and investigation. 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 commend the courteous and professional manner in which Council's staff have 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, 1 November 2012