



# PITCHER PARTNERS

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## **EUROBODALLA SHIRE COUNCIL**

### **INDEPENDENT AUDITORS' REPORT ON THE CONDUCT OF THE AUDIT**

#### **YEAR ENDED 30 JUNE 2011**

Eurobodalla Shire Council has prepared a general purpose financial report for the year ended 30 June 2011 on which we issued a separate audit report to the Council dated 3 November 2011. 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 2011 resulted in an unqualified independent audit report for Council's General Purpose and Special Purpose Financial Statements.

Council has re-valued Community Land in accordance with the requirements of the Division of Local Government. The revaluation was based on values provided by the NSW Valuer General and has resulted in a substantial decrease in the carrying value of Community Land. In accordance with Australian Accounting Standard AASB116 Property, Plant and Equipment, this decrease is included in the Income Statement, resulting in a substantial operating deficit. The approach taken by Eurobodalla Shire Council is technically correct and in accordance with current Australian Accounting Standards. This is an isolated event and in no way reflects on Council's operating performance for the 2011 year.

The additional disclosures included by Eurobodalla Shire Council report the operating result from Continuing Operations (surplus \$12.422M) without the impact of the one-off revaluation decrement of \$61.784M. The Net Operating Result for the Year (deficit \$49.362M) includes the revaluation decrement.

In our opinion the additional disclosures in the Income Statement are relevant and reliable in meeting the objectives of the financial statements.

## Additional Audit Considerations and Comment

### Income Statement

#### *Summarised Income Statement*

|   | 2011 Actual | 2011 Budget | * Budget   | 2010 Actual |
|---|-------------|-------------|------------|-------------|
|   | \$'000      | \$'000      | Variance % | \$'000      |
| Operating result from continuing operations                             | 12,422      | 7,191       | 73%F       | 17,510      |
| Community Land revaluation decrement                                    | (61,784)    | -           | -          | -           |
| Net operating result for the year                                       | (49,362)    | 7,191       |            | 17,510      |
| Operating result before capital revenue and<br>Community Land decrement | 778         | (2,835)     | 127%F      | 9,300       |
| Rates & annual charges  | 44,758      | 45,797      | 2%U        | 44,357      |
| Operating grants & contributions  | 16,280      | 11,963      | 36%F       | 14,278      |
| Capital grants & contributions  | 11,644      | 10,026      | 16% F      | 8,210       |
| Depreciation & amortisation   | 21,955      | 19,997      | 10%U       | 16,955      |

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

#### *Operating Result from Continuing Operations*

The operating result from continuing operations, which more accurately reflects the results of Council's operations for the 2011 year, decreased from \$17.510M in 2010 to \$12.422M in 2011. This compared with a budgeted surplus of \$7.191M for the year. The most significant variations impacting the operating result were improved investment performance and increased operating grants.

#### *Operating Result before Capital and Community Land Decrement.*

The operating result before Capital grants and contributions, and before including the revaluation decrement was a surplus of \$778K compared with the prior year surplus of \$9.300M. This compared with the original budget deficit of \$2.835M.

#### *Rates and Annual Charges.*

Revenue from rates and annual charges increased to \$44.758M from \$44.357M in the prior year, and was within 2% of budget for the 2011 year.

#### *Grants and Contributions.*

Operating grants and contributions for the year totalled \$16.28M and represented 17% of total income from continuing operations. This compares with budget of \$11.963M.

Capital grants and contributions amounted to \$11.644M for the 2011 year and represented 12% of total income from continuing operations. This compares with budget of \$10.026M.

#### *Depreciation.*

Included in the operating result was \$21.955M for the depreciation and amortisation of infrastructure, property, plant and equipment which increased from \$16.955M in the prior year and compared with the original budget of \$19.997M. This variance results from increased depreciation expense arising from the revaluation of infrastructure assets in accordance with the requirements of the Division of Local Government in recent years.

## Balance Sheet

Council's equity at 30 June 2011 amounted to \$1,094.195M comprised of retained earnings (\$686.287M), and reserves (\$407.908M) arising from revaluation of infrastructure assets.

The most significant impact on retained earnings during 2011 was the operating deficit of \$49.362M (which included \$61.784M revaluation decrement), whilst the Asset Revaluation Reserve increased by a net \$37.858M 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                     | 2011 Actual<br>\$'000 | 2011 Budget<br>\$'000 | * Budget<br>Variance<br>% | 2010 Actual<br>\$'000 |
|--------------------------------|-----------------------|-----------------------|---------------------------|-----------------------|
| Net cash flows from operations | 34,955                | 27,188                | 29%F                      | 28,656                |
| Net cash flows from investing  | (44,950)              | (43,596)              | 3%U                       | (44,443)              |
| Net cash flows from financing  | 2,134                 | 7,437                 | 71%U                      | 17,937                |
| <b>Net movement in cash</b>    | <b>(7,861)</b>        | <b>(8,971)</b>        |                           | <b>2,150</b>          |

\* 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 \$15.959M during the year, with \$34.955M being provided from operations, \$44.95M utilised for acquisition of investments and assets, and \$2.134M provided from net proceeds of borrowings and advances.

## Total Investments and Cash Balances

Council's cash and investments balances totaled \$52.616M at 30 June 2011 compared to \$53.029M in 2010.

Of this total, \$28.837M (2010 - \$25.955M) is externally restricted for use as specified by legislation and/or other regulatory requirements, \$5.709M (2010 - \$4.766M) has been reserved for specific projects and purposes identified by Council, and \$18.069M (2010 - \$22.808M) is unrestricted.

Total external restrictions increased overall by 11%, resulting from a combination of reductions in specific purpose unexpended loans, and increases in specific purpose unexpended grants, water and sewerage balances, and other waste management.

The total of internally restricted balances increased by \$3.826M, with the biggest movements being in the infrastructure replacement reserve and the energy and efficiency 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)

|  | <b>2011</b>   | <b>2010</b>   |
|--|---------------|---------------|
|  | <b>\$'000</b> | <b>\$'000</b> |
| Current assets   | 64,540        | 63,227        |
| Current liabilities  | 24,607        | 29,840        |
| Net current assets   | 39,933        | 33,387        |
| Add: anticipated longer term liabilities included in current | 4,898         | 4,545         |
| Adjusted net Current Assets                                  | 44,831        | 37,932        |
| <i>Less: Working Capital Commitments</i>                     |               |               |
| Net external restrictions                                    | 6,077         | 24,451        |
| <b><i>Unrestricted Working Capital</i></b>                   | <b>16,982</b> | <b>13,481</b> |

Council's balance of unrestricted working capital has increased from \$13.481M in 2010 to \$16.982M at the end of the 2011 financial year.

After taking into consideration Council's internal reserves, other liabilities that are anticipated to be funded from the 2011/12 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 2.07:1, the ratio has improved on the prior year and is above the industry benchmark of 2:1.

#### *Debt Service Ratio.*

The debt service ratio of 9.18% is higher 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 45.84% of 2011 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 3.41%. This ratio has increased on the prior year but is still within industry guidelines of 5%.

#### *Asset Renewals Ratio.*

The ratio decreased from 50.11% in the prior year to 42.36% for 2011, with a large part of the decrease attributable to the significant increase in depreciation.

### **Other Issues**

As a result of the ongoing process of identifying and revaluing all of Council's assets, it has been necessary to make adjustments to prior years due to identification of additional assets and corrections to previous valuation estimates. These adjustments have been disclosed on the Statement of Changes in Equity and Note 20.

### **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 19), 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, 3 November 2011