

Warrumbungle Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2016

"excellence in local government"



Warrumbungle Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2016

Contents	Page
1. Statement by Councillors and Management	2
2. Special Purpose Financial Statements:	
Income Statement – Water Supply Business Activity	3
Income Statement – Sewerage Business Activity	4
Income Statement – Other Business Activities	5
Statement of Financial Position – Water Supply Business Activity	6
Statement of Financial Position – Sewerage Business Activity	7
Statement of Financial Position – Other Business Activities	8
3. Notes to the Special Purpose Financial Statements	9
4. Auditor's Report	

Background

- (i) These Special Purpose Financial Statements have been prepared for the use by both Council and the Office 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 and 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 more than \$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 and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).
-

Warrumbungle Shire Council

Special Purpose Financial Statements for the year ended 30 June 2016

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 and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,
- the NSW Office of Water Best-Practice Management of Water and Sewerage Guidelines.

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 18 August 2016.



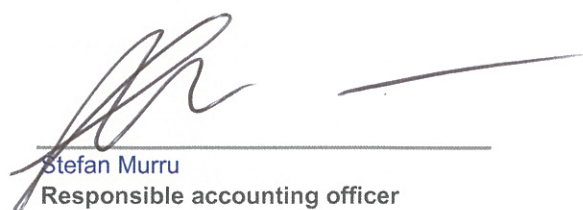
Peter Shinton
Mayor



Murray Coe
Councillor



Steve Loane
General manager



Stefan Murru
Responsible accounting officer

Warrumbungle Shire Council

Income Statement of Council's Water Supply Business Activity

for the year ended 30 June 2016

\$ '000	Actual 2016	Actual 2015
Income from continuing operations		
Access charges	1,268	1,250
User charges	1,627	1,343
Fees	8	24
Interest	109	81
Grants and contributions provided for non-capital purposes	40	41
Other income	235	59
Total income from continuing operations	3,287	2,798
Expenses from continuing operations		
Employee benefits and on-costs	985	974
Borrowing costs	36	39
Materials and contracts	484	622
Depreciation and impairment	801	853
Other expenses	862	702
Total expenses from continuing operations	3,168	3,190
Surplus (deficit) from continuing operations before capital amounts	119	(392)
Grants and contributions provided for capital purposes	40	12
Surplus (deficit) from continuing operations after capital amounts	159	(380)
Surplus (deficit) from discontinued operations	—	—
Surplus (deficit) from all operations before tax	159	(380)
Less: corporate taxation equivalent (30%) [based on result before capital]	(36)	—
SURPLUS (DEFICIT) AFTER TAX	123	(380)
Plus opening retained profits	20,609	20,989
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	36	—
Less:		
Closing retained profits	20,768	20,609
Return on capital %	0.5%	-1.2%
Subsidy from Council	441	1,258
Calculation of dividend payable:		
Surplus (deficit) after tax	123	(380)
Less: capital grants and contributions (excluding developer contributions)	(40)	(12)
Surplus for dividend calculation purposes	83	—
Potential dividend calculated from surplus	42	—

Warrumbungle Shire Council

Income Statement of Council's Sewerage Business Activity for the year ended 30 June 2016

\$ '000	Actual 2016	Actual 2015
Income from continuing operations		
Access charges	975	1,059
User charges	332	85
Liquid trade waste charges	62	—
Interest	133	145
Grants and contributions provided for non-capital purposes	28	59
Other income	11	10
Total income from continuing operations	1,541	1,358
Expenses from continuing operations		
Employee benefits and on-costs	632	592
Materials and contracts	179	191
Depreciation and impairment	334	339
Other expenses	500	306
Total expenses from continuing operations	1,645	1,428
Surplus (deficit) from continuing operations before capital amounts	(104)	(70)
Grants and contributions provided for capital purposes	—	—
Surplus (deficit) from continuing operations after capital amounts	(104)	(70)
Surplus (deficit) from discontinued operations	—	—
Surplus (deficit) from all operations before tax	(104)	(70)
Less: corporate taxation equivalent (30%) [based on result before capital]	—	—
SURPLUS (DEFICIT) AFTER TAX	(104)	(70)
Plus opening retained profits	12,175	12,245
Closing retained profits	12,071	12,175
Return on capital %	-0.5%	-0.3%
Subsidy from Council	544	733
Calculation of dividend payable:		
Surplus (deficit) after tax	(104)	(70)

Warrumbungle Shire Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2016

Warrumbungle
Quarry

\$ '000	Actual 2016	Actual 2015
Income from continuing operations		
User charges	1,178	1,116
Total income from continuing operations	1,178	1,116
Expenses from continuing operations		
Employee benefits and on-costs	172	217
Borrowing costs	14	4
Materials and contracts	81	434
Other expenses	796	477
Total expenses from continuing operations	1,063	1,132
Surplus (deficit) from continuing operations before capital amounts	115	(16)
Grants and contributions provided for capital purposes	—	—
Surplus (deficit) from continuing operations after capital amounts	115	(16)
Less: corporate taxation equivalent (30%) [based on result before capital]	(35)	—
SURPLUS (DEFICIT) AFTER TAX	81	(16)
Plus opening retained profits	260	276
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	35	—
Closing retained profits	375	260
Return on capital %	26.0%	-2.4%
Subsidy from Council	—	27

Warrumbungle Shire Council

Statement of Financial Position – Council's Water Supply Business Activity
as at 30 June 2016

\$ '000	Actual 2016	Actual 2015
ASSETS		
Current assets		
Cash and cash equivalents	2,372	1,880
Investments	–	209
Receivables	938	959
Inventories	6	6
Total current assets	3,316	3,054
Non-current assets		
Infrastructure, property, plant and equipment	29,972	29,971
Total non-current assets	29,972	29,971
TOTAL ASSETS	33,288	33,025
LIABILITIES		
Current liabilities		
Payables	6	6
Borrowings	75	71
Provisions	184	141
Total current liabilities	265	218
Non-current liabilities		
Borrowings	612	686
Provisions	4	2
Total non-current liabilities	616	688
TOTAL LIABILITIES	881	906
NET ASSETS	32,407	32,119
EQUITY		
Retained earnings	20,768	20,609
Revaluation reserves	11,639	11,510
Council equity interest	32,407	32,119
TOTAL EQUITY	32,407	32,119

Warrumbungle Shire Council

Statement of Financial Position – Council's Sewerage Business Activity
as at 30 June 2016

\$ '000	Actual 2016	Actual 2015
ASSETS		
Current assets		
Cash and cash equivalents	2,722	2,416
Investments	–	574
Receivables	459	441
Total Current Assets	3,181	3,431
Non-current assets		
Receivables	1,086	1,130
Infrastructure, property, plant and equipment	22,102	21,942
Total non-current assets	23,188	23,072
TOTAL ASSETS	26,369	26,503
LIABILITIES		
Current liabilities		
Provisions	73	46
Total current liabilities	73	46
Non-current liabilities		
Provisions	2	1
Total non-current liabilities	2	1
TOTAL LIABILITIES	75	47
NET ASSETS	26,294	26,456
EQUITY		
Retained earnings	12,071	12,175
Revaluation reserves	14,223	14,281
Council equity interest	26,294	26,456
TOTAL EQUITY	26,294	26,456

Warrumbungle Shire Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2016

Warrumbungle Quarry

\$ '000	Actual 2016	Actual 2015
ASSETS		
Current assets		
Receivables	28	93
Inventories	277	239
Total Current Assets	305	332
Non-current assets		
Infrastructure, property, plant and equipment	496	493
Total non-current assets	496	493
TOTAL ASSETS	801	825
LIABILITIES		
Current liabilities		
Payables	20	120
Borrowings	41	39
Total current liabilities	61	159
Non-current liabilities		
Borrowings	365	406
Total non-current liabilities	365	406
TOTAL LIABILITIES	426	565
NET ASSETS	375	260
EQUITY		
Retained earnings	375	260
Council equity interest	375	260
TOTAL EQUITY	375	260

Warrumbungle Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2016

Contents of the notes accompanying the financial statements

Note	Details	Page
1	Summary of significant accounting policies	10
2	Water Supply Business Best-Practice Management disclosure requirements	13
3	Sewerage Business Best-Practice Management disclosure requirements	15

Warrumbungle Shire Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2016

Note 1. Significant accounting policies

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

For the purposes of these statements, the Council is not a reporting not-for-profit entity.

The figures presented in the SPFS, unless otherwise stated, have been prepared in accordance with:

- the recognition and measurement criteria of relevant Australian Accounting Standards,
- other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and
- Australian Accounting Interpretations.

The disclosures in the SPFS have been prepared in accordance with:

- the Local Government Act (1993) NSW,
- the Local Government (General) Regulation, and
- the Local Government Code of Accounting Practice and Financial Reporting.

The statements are also prepared on an accruals basis, 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, *Application of National Competition Policy to Local Government*.

The *Pricing and Costing for Council Businesses, A Guide to Competitive Neutrality*, issued by the Office of Local Government in July 1997, has also been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide standards for disclosure. 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 and 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)

Nil

Category 2

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

a. Warrumbungle Shire Council Sewerage Service

All individual Sewerage Services are now combined into one entity known as Warrumbungle Sewerage Fund. This entity incorporates the previous individual Operations and Net Assets of the Sewerage Treatment and Reticulation Systems of the towns Baradine, Coonabarabran, Coolah and Dunedoo.

b. Warrumbungle Shire Council Combined Water Supply

All individual Water Funds are now combined into one entity known as Warrumbungle Water Fund. This entity incorporates the previous individual Operations and Net Assets of the Water Supply Systems of the towns of Baradine, Binnaway, Coonabarabran, Coolah, Dunedoo and Mendooran.

c. Warrumbungle Quarry

Monetary amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest 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).

Warrumbungle Shire Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2016

Note 1. Significant accounting policies (continued)

As required by the NSW Office of Water (Department of Primary Industries) the amounts shown in Note 2 and Note 3 are disclosed in whole dollars.

(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 **\$482,000** of combined land values attracts **0%**. For that valued from \$482,001 to \$2,947,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$2,947,000, a premium marginal rate of **2.0%** applies.

Payroll tax – **5.45%** on the value of taxable salaries and wages in excess of \$750,000.

In accordance with the Best-Practice Management of Water Supply and Sewerage Guidelines, 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 Guidelines 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 Best-Practice Management of Water Supply and Sewerage Guidelines 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 each reported business activity.

While income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account 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 or 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 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 General Purpose Financial Statements.

The 30% rate applied 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 and 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 and 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.

Warrumbungle Shire Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2016

Note 1. Significant accounting policies (continued)

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

(ii) Subsidies

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

Subsidies occur when 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 Council in any given financial year.

The overall effect of subsidies is contained within the Income Statement of each reported business activity.

(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 1.99% at 30/6/16.

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 of Water Supply and Sewerage 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 2016 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Best-Practice Management of Water Supply and Sewerage Guidelines, 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 the payment.

Warrumbungle Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2016

Note 2. Water supply business best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2016

1. Calculation and payment of tax-equivalents

[all local government local water utilities must pay this dividend for tax equivalents]

(i)	Calculated tax equivalents	–
(ii)	Number of assessments multiplied by \$3/assessment	10,041
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	–
(iv)	Amounts actually paid for tax equivalents	

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	41,650
(ii)	Number of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	100,410
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2016, less the cumulative dividends paid for the 2 years to 30 June 2015 and 30 June 2014	(370,700)

2016 Surplus	83,300	2015 Surplus	(392,000)	2014 Surplus	(62,000)
		2015 Dividend	–	2014 Dividend	–

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	n/a
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	–
(vi)	Are the overhead reallocation charges to the water business fair and reasonable? ^a	YES

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]	NO
	– If dual water supplies, complying charges [item 2 (g) in table 1]	NO
(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	NO

Warrumbungle Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2016

Note 2. Water supply business best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2016

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) – Aboriginal Communities W&S Program income (w10a)	\$'000	3,179
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)]	%	53.79%
NWI F9	Written down replacement cost of fixed assets (water) Written down current cost of system assets (w47)	\$'000	27,828
NWI F11	Operating cost (OMA) (water) Management expenses (w1) + operational and maintenance expenses (w2)	\$'000	2,244
NWI F14	Capital expenditure (water) Acquisition of fixed assets (w16)	\$'000	308
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 and equipment (w33b)]	%	0.48%
NWI F26	Capital works grants (water) Grants for the acquisition of assets (w11a)	\$'000	40

- Notes:
- References to w (e.g. w12) refer to item numbers within Special Schedules 3 and 4 of Council's Annual Financial Statements.
 - The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
- a refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007

Warrumbungle Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2016

Note 3. Sewerage business best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2016

1. Calculation and payment of tax-equivalents

[all local government local water utilities must pay this dividend for tax equivalents]

(i)	Calculated tax equivalents	–
(ii)	Number of assessments multiplied by \$3/assessment	7,635
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	–
(iv)	Amounts actually paid for tax equivalents	

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	–
(ii)	Number of assessments x (\$30 less tax equivalent charges per assessment)	76,350
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2016, less the cumulative dividends paid for the 2 years to 30 June 2015 and 30 June 2014	(183,000)

2016 Surplus	(104,000)	2015 Surplus	(70,000)	2014 Surplus	(9,000)
		2015 Dividend	–	2014 Dividend	–

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	n/a
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	–
(vi)	Are the overhead reallocation charges to the sewer business fair and reasonable? ^a	YES

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]	NO
	Liquid trade waste approvals and 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	NO

Warrumbungle Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2016

Note 3. Sewerage business best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2016

National Water Initiative (NWI) financial performance indicators

NWI F2	Total revenue (sewerage) Total income (s14) – grants for acquisition of assets (s12a) – interest income (s10) – Aboriginal Communities W&S Program income (w10a)	\$'000	1,408
NWI F10	Written down replacement cost of fixed assets (sewerage) Written down current cost of system assets (s48)	\$'000	21,251
NWI F12	Operating cost (sewerage) Management expenses (s1) + operational and maintenance expenses (s2)	\$'000	1,289
NWI F15	Capital expenditure (sewerage) Acquisition of fixed assets (s17)	\$'000	128
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 (i.e. WDCC) of system assets (s48) + plant and equipment (s34b)]	%	-1.00%
NWI F27	Capital works grants (sewerage) Grants for the acquisition of assets (12a)	\$'000	–

National Water Initiative (NWI) financial performance indicators Water and sewer (combined)

NWI F3	Total income (water and 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	4,587
NWI F8	Revenue from community service obligations (water and sewerage) Community service obligations (NWI F25) x 100 divided by total income (NWI F3)	%	1.48%
NWI F16	Capital expenditure (water and sewerage) Acquisition of fixed assets (w16 + s17)	\$'000	436
NWI F19	Economic real rate of return (water and 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 and equipment (w33b + s34b)]	%	-0.16%
NWI F20	Dividend (water and sewerage) Dividend paid from surplus (2 (v) of Note 2 + 2 (v) of Note 3)	\$'000	–
NWI F21	Dividend payout ratio (water and sewerage) Dividend (NWI F20) x 100 divided by net profit after tax (NWI F24)	%	0.00%

Warrumbungle Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2016

Note 3. Sewerage business best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2016

National Water Initiative (NWI) financial performance indicators Water and sewer (combined)

NWI F22	Net debt to equity (water and sewerage)	%	-7.64%
	Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]		
NWI F23	Interest cover (water and sewerage)		-
	Earnings before interest and tax (EBIT) divided by net interest		
	Earnings before interest and tax (EBIT):		- 80
	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:		- 205
	Interest expense (w4a + s4a) – interest income (w9 + s10)		
NWI F24	Net profit after tax (water and sewerage)	\$'000	15
	Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv))		
NWI F25	Community service obligations (water and sewerage)	\$'000	68
	Grants for pensioner rebates (w11b + s12b)		

- Notes:
- References to w (eg. s12) refer to item numbers within Special Schedules 5 and 6 of Council's Annual Financial Statements.
 - The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
- a refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007

Armidale

92 Rusden Street
PO Box 114
Armidale NSW 2350

p +61 2 6773 8400

f +61 2 6772 9957

e armidale@forsyths.com.au

Forsyths Business Services Pty Ltd
ABN 66 182 781 401

INDEPENDENT AUDIT REPORT
Report on the special purpose financial statements

To Warrumbungle Shire Council

SCOPE

We have audited the special purpose financial statements of Warrumbungle Shire Council for the year ended 30th June 2016 comprising the Statement by Councillors and Management, Income Statement of Business Activities, Statement of Financial Position by Business Activities, and Notes to the financial statements. The financial statements include the accounts of the business activities of the Council and the entities it controlled at the year's end or from time to time during the year.

Councils' responsibility for the financial statements

The Council is responsible for the preparation and fair presentation of the financial statements and have determined that the accounting policies described in Note 1 to the financial statements, which form part of the financial statements, are appropriate to meet the requirements of the Office of Local Government and Council. The Councils' responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial statements 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 responsibility

Our responsibility is to express an opinion on the financial statements 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 Council or the Office of Local Government. 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 judgment, 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 Council'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 Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial statements.

The special purpose financial statements have been prepared for distribution to the Council and the Office 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 report or on the financial statements to which it relates to any person other than the Council or the Office of Local Government or for any purpose other than for which the report was prepared.

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

INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

AUDIT OPINION

In our opinion, the Special Purpose Financial statements of the Warrumbungle Shire Council for the year ended 30th June 2016 are presented fairly, in all material respects, in accordance with the requirements of those applicable Accounting Standards detailed in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting.

BASIS OF ACCOUNTING

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describe the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the financial reporting requirements of the Office of Local Government. As a result, the financial statements may not be suitable for another purpose.

Forsyths

Forsyths Business Services Pty Ltd

P.R. Cornall

Paul Cornall
Principal

25th October 2016

92 Rusden Street Armidale