

# Warrumbungle Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2012

---

*"excellence in local government"*



# Warrumbungle Shire Council

## Special Purpose Financial Statements

for the financial year ended 30 June 2012

Contents	Page
<b>1. Statement by Councillors &amp; Management</b>	<b>2</b>
<b>2. Special Purpose Financial Statements:</b>	
- Income Statement of Water Supply Business Activity	3
- Income Statement of Sewerage Business Activity	4
- Balance Sheet of Water Supply Business Activity	5
- Balance Sheet of Sewerage Business Activity	6
<b>3. Notes to the Special Purpose Financial Statements</b>	<b>8</b>
<b>4. Auditor's Report</b>	

---

### 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).
-

## Warrumbungle 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:**

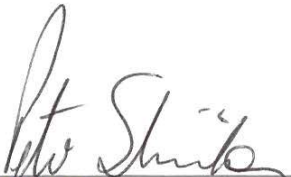
- The NSW Government Policy Statement "Application of National Competition Policy to Local Government".
- The Division of Local Government Guidelines "Pricing & Costing for Council Businesses - A Guide to Competitive Neutrality".
- The Local Government Code of Accounting Practice and Financial Reporting.
- 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 16 August 2012.**

  
Peter Shinton  
MAYOR  
Murray Coe  
COUNCILLOR  
Steve Loane  
GENERAL MANAGER  
Steve Loane  
RESPONSIBLE ACCOUNTING OFFICER

## Warrumbungle 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
<b>Income from continuing operations</b>			
Access charges	1,193	1,083	1,055
User charges	884	787	982
Fees	-	7	-
Interest	55	92	96
Grants and contributions provided for non capital purposes	40	54	39
Profit from the sale of assets	-	-	-
Other income	57	51	69
<b>Total income from continuing operations</b>	<b>2,229</b>	<b>2,074</b>	<b>2,241</b>
<b>Expenses from continuing operations</b>			
Employee benefits and on-costs	659	618	850
Borrowing costs	48	49	51
Materials and contracts	776	1,111	765
Depreciation and impairment	751	834	691
Water purchase charges	-	-	1
Loss on sale of assets	-	-	-
Calculated taxation equivalents	-	-	-
Debt guarantee fee (if applicable)	-	-	-
Other expenses	388	-	13
<b>Total expenses from continuing operations</b>	<b>2,622</b>	<b>2,612</b>	<b>2,371</b>
<b>Surplus (deficit) from Continuing Operations before capital amounts</b>	<b>(393)</b>	<b>(538)</b>	<b>(130)</b>
Grants and contributions provided for capital purposes	-	379	460
<b>Surplus (deficit) from Continuing Operations after capital amounts</b>	<b>(393)</b>	<b>(159)</b>	<b>330</b>
Surplus (deficit) from discontinued operations	-	-	-
<b>Surplus (deficit) from ALL Operations before tax</b>	<b>(393)</b>	<b>(159)</b>	<b>330</b>
less: Corporate Taxation Equivalent (30%) [based on result before capital]	-	-	-
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>(393)</b>	<b>(159)</b>	<b>330</b>
plus Opening Retained Profits	19,197	20,629	19,510
plus/less: Prior Period Adjustments	1,643	(1,273)	789
plus Adjustments for amounts unpaid:			
- Taxation equivalent payments	-	-	-
- Debt guarantee fees	-	-	-
- Corporate taxation equivalent	-	-	-
less:			
- Tax Equivalent Dividend paid	-	-	-
- Surplus dividend paid	-	-	-
<b>Closing Retained Profits</b>	<b>20,447</b>	<b>19,197</b>	<b>20,629</b>
<b>Return on Capital %</b>	<b>-1.2%</b>	<b>-2.1%</b>	<b>-0.4%</b>
<b>Subsidy from Council</b>	<b>1,238</b>	<b>1,706</b>	<b>1,168</b>
<b>Calculation of dividend payable:</b>			
Surplus (deficit) after tax	(393)	(159)	330
less: Capital grants and contributions (excluding developer contributions)	-	(378)	(460)
<b>Surplus for dividend calculation purposes</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Potential Dividend calculated from surplus</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Warrumbungle 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
<b>Income from continuing operations</b>			
Access charges	1,015	1,159	1,070
User charges	108	128	162
Liquid Trade Waste charges	-	-	-
Fees	-	-	-
Interest	55	154	94
Grants and contributions provided for non capital purposes	29	1	29
Profit from the sale of assets	-	-	-
Other income	24	7	11
<b>Total income from continuing operations</b>	<b>1,231</b>	<b>1,449</b>	<b>1,366</b>
<b>Expenses from continuing operations</b>			
Employee benefits and on-costs	441	389	451
Borrowing costs	-	2	10
Materials and contracts	345	430	255
Depreciation and impairment	412	318	308
Loss on sale of assets	-	-	-
Calculated taxation equivalents	-	-	-
Debt guarantee fee (if applicable)	-	-	-
Other expenses	79	-	21
<b>Total expenses from continuing operations</b>	<b>1,277</b>	<b>1,139</b>	<b>1,045</b>
<b>Surplus (deficit) from Continuing Operations before capital amounts</b>	<b>(46)</b>	<b>310</b>	<b>321</b>
Grants and contributions provided for capital purposes	-	-	-
<b>Surplus (deficit) from Continuing Operations after capital amounts</b>	<b>(46)</b>	<b>310</b>	<b>321</b>
Surplus (deficit) from discontinued operations	-	-	-
<b>Surplus (deficit) from ALL Operations before tax</b>	<b>(46)</b>	<b>310</b>	<b>321</b>
less: Corporate Taxation Equivalent (30%) [based on result before capital]	-	(93)	(96)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>(46)</b>	<b>217</b>	<b>225</b>
plus Opening Retained Profits	9,805	13,119	12,798
plus/less: Prior Period Adjustments	2,316	(3,624)	-
plus Adjustments for amounts unpaid:			
- Taxation equivalent payments	-	-	-
- Debt guarantee fees	-	-	-
- Corporate taxation equivalent	-	93	96
less:			
- Tax Equivalent Dividend paid	-	-	-
- Surplus dividend paid	-	-	-
<b>Closing Retained Profits</b>	<b>12,075</b>	<b>9,805</b>	<b>13,119</b>
<b>Return on Capital %</b>	<b>-0.2%</b>	<b>1.9%</b>	<b>2.1%</b>
<b>Subsidy from Council</b>	<b>698</b>	<b>535</b>	<b>466</b>
<b>Calculation of dividend payable:</b>			
Surplus (deficit) after tax	(46)	217	225
less: Capital grants and contributions (excluding developer contributions)	-	1	-
<b>Surplus for dividend calculation purposes</b>	<b>-</b>	<b>218</b>	<b>225</b>
<b>Potential Dividend calculated from surplus</b>	<b>-</b>	<b>109</b>	<b>112</b>

## Warrumbungle Shire Council

### Balance Sheet of Council's Water Supply Business Activity

as at 30 June 2012

\$ '000	Actual 2012	Actual 2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	132	-
Investments	465	876
Receivables	655	1,152
Inventories	37	37
Other	-	-
Non-current assets classified as held for sale	-	-
<b>Total Current Assets</b>	<b>1,289</b>	<b>2,065</b>
<b>Non-Current Assets</b>		
Investments	354	-
Receivables	-	-
Inventories	-	-
Infrastructure, property, plant and equipment	29,481	23,367
Investments accounted for using equity method	-	-
Investment property	-	-
Other	-	-
<b>Total non-Current Assets</b>	<b>29,835</b>	<b>23,367</b>
<b>TOTAL ASSETS</b>	<b>31,124</b>	<b>25,432</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Bank Overdraft	-	-
Payables	82	9
Interest bearing liabilities	36	34
Provisions	202	268
<b>Total Current Liabilities</b>	<b>320</b>	<b>311</b>
<b>Non-Current Liabilities</b>		
Payables	-	-
Interest bearing liabilities	860	896
Provisions	5	-
<b>Total Non-Current Liabilities</b>	<b>865</b>	<b>896</b>
<b>TOTAL LIABILITIES</b>	<b>1,185</b>	<b>1,207</b>
<b>NET ASSETS</b>	<b>29,939</b>	<b>24,225</b>
<b>EQUITY</b>		
Retained earnings	20,447	19,197
Revaluation reserves	9,492	5,028
Council equity interest	29,939	24,225
Minority equity interest	-	-
<b>TOTAL EQUITY</b>	<b>29,939</b>	<b>24,225</b>

## Warrumbungle Shire Council

## Balance Sheet of Council's Sewerage Business Activity

as at 30 June 2012

\$ '000	Actual 2012	Actual 2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	780	326
Investments	1,281	2,413
Receivables	482	458
Inventories	4	4
Other	-	-
Non-current assets classified as held for sale	-	-
<b>Total Current Assets</b>	<b>2,547</b>	<b>3,201</b>
<b>Non-Current Assets</b>		
Investments	974	-
Receivables	-	-
Inventories	-	-
Infrastructure, property, plant and equipment	21,512	16,259
Investments accounted for using equity method	-	-
Investment property	-	-
Other	-	-
<b>Total non-Current Assets</b>	<b>22,486</b>	<b>16,259</b>
<b>TOTAL ASSETS</b>	<b>25,033</b>	<b>19,460</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Bank Overdraft	-	-
Payables	48	-
Interest bearing liabilities	-	-
Provisions	70	56
<b>Total Current Liabilities</b>	<b>118</b>	<b>56</b>
<b>Non-Current Liabilities</b>		
Payables	-	-
Interest bearing liabilities	-	-
Provisions	1	2
<b>Total Non-Current Liabilities</b>	<b>1</b>	<b>2</b>
<b>TOTAL LIABILITIES</b>	<b>119</b>	<b>58</b>
<b>NET ASSETS</b>	<b>24,914</b>	<b>19,402</b>
<b>EQUITY</b>		
Retained earnings	12,075	9,805
Revaluation reserves	12,839	9,597
Council equity interest	24,914	19,402
Minority equity interest	-	-
<b>TOTAL EQUITY</b>	<b>24,914</b>	<b>19,402</b>

## Warrumbungle Shire Council

### Special Purpose Financial Statements for the financial year ended 30 June 2012

#### Contents of the Notes accompanying the Financial Statements

Note	Details	Page
1	Summary of Significant Accounting Policies	8
2	Water Supply Business Best Practice Management disclosure requirements	11
3	Sewerage Business Best Practice Management disclosure requirements	13



## Warrumbungle 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)

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 of 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.

#### 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).

## Warrumbungle Shire Council

### Notes to the Special Purpose Financial Statements

for the financial year ended 30 June 2012

#### Note 1. Significant Accounting Policies (continued)

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.

##### (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

## Warrumbungle Shire Council

### Notes to the Special Purpose Financial Statements

for the financial year ended 30 June 2012

#### Note 1. Significant Accounting Policies (continued)

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.

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.

#### (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**

#### (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.

# Warrumbungle Shire Council

## Notes to the Special Purpose Financial Statements for the financial year ended 30 June 2012

### Note 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	-
(ii)	No of assessments multiplied by \$3/assessment	10,044
(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)	No. of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	100,440
(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	(1,060,000)

2012 Surplus	(393,000)	2011 Surplus	(537,000)	2010 Surplus	(130,000)
		2011 Dividend	-	2010 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]	-

#### 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)	NO
(ii)	Full Cost Recovery, without significant cross subsidies [Refer Item 2(a) in Table 1 on page 22 of the Best Practice Guidelines]	NO
	- Complying charges [Item 2(b) in Table 1]	NO
	- 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	NO
(iv)	Sound Drought Management implemented	NO
(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 financial year ended 30 June 2012

### Note 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

<b>NWI F1</b>	Total Revenue (Water) Total Income (w13) - Grants for the Acquisition of Assets (w11a) - Interest Income (w9)	\$'000	2,174
<b>NWI F4</b>	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)]	%	40.90%
<b>NWI F9</b>	Written Down Replacement Cost of Fixed Assets (Water) Written down current cost of system assets (w47)	\$'000	26,758
<b>NWI F11</b>	Operating Cost (OMA) (Water) Management Expenses (w1) + Operational & Maintenance Expenses (w2)	\$'000	1,579
<b>NWI F14</b>	Capital Expenditure (Water) Acquisition of fixed assets (w16)	\$'000	382
<b>NWI F17</b>	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)]	%	-0.58%
<b>NWI F26</b>	Capital Works Grants (Water) Grants for the Acquisition of Assets (w11a)	\$'000	-

- 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.

# Warrumbungle 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

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	-
(ii)	No of assessments multiplied by \$3/assessment	7,689
(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)	No. of assessments x (\$30 less tax equivalent charges per assessment)	76,890
(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	396,700

2012 Surplus	(46,000)	2011 Surplus	218,000	2010 Surplus	224,700
		2011 Dividend	-	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]	-

#### 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)	No
(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]	NO
	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]	No
	DSP with Commercial Developer Charges [Item 2(e) in Table 1]	No
	Liquid Trade Waste Approvals & Policy [Item 2(f) in Table 1]	No
(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 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	1,175
NWI F10	Written Down Replacement Cost of Fixed Assets (Sewerage) Written down current cost of system assets (s48)	\$'000	20,726
NWI F12	Operating Cost (Sewerage) Management Expenses (s1) + Operational & Maintenance Expenses (s2)	\$'000	864
NWI F15	Capital Expenditure (Sewerage) Acquisition of Fixed Assets (s17)	\$'000	27
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)]	%	-0.49%
NWI F27	Capital Works Grants (Sewerage) Grants for the Acquisition of Assets (12a)	\$'000	-

#### 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	3,349
NWI F8	Revenue from Community Service Obligations (Water & Sewerage) Community Service Obligations (NWI F25) x 100 divided by Total Income (NWI F3)	%	2.06%
NWI F16	Capital Expenditure (Water & Sewerage) Acquisition of Fixed Assets (w16 + s17)	\$'000	409
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)]	%	-0.54%
NWI F20	Dividend (Water & Sewerage) Dividend paid from surplus (2(v) of Note 2 + 2(v) of Note 3)	\$'000	-
NWI F21	Dividend Payout Ratio (Water & 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 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)

<b>NWI F22</b>	Net Debt to Equity (Water & Sewerage)	%	-5.63%
	Overdraft (w36 + s37) + Borrowings (w38 + s39) - Cash & Investments (w30 + s31) x 100 divided by [Total Assets (w35 + s36) - Total Liabilities (w40 + s41)]		
<b>NWI F23</b>	Interest Cover (Water & Sewerage)		-
	Earnings before Interest & Tax (EBIT) divided by Net Interest		
	Earnings before Interest & Tax (EBIT):	-	257
	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:	-	62
	Interest Expense (w4a + s4a) - Interest Income (w9 + s10)		
<b>NWI F24</b>	Net Profit After Tax (Water & Sewerage)	\$'000	(439)
	Surplus before dividends (w15a + s16a) - Tax equivalents paid (Note 2-1(iv) + Note 3-1(iv))		
<b>NWI F25</b>	Community Service Obligations (Water & Sewerage)	\$'000	69
	Grants for Pensioner Rebates (w11b + s12b)		

- 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.



**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](mailto: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 30<sup>th</sup> June 2012 comprising the Statement by Councillors and Management, Income Statement of Business Activities, Balance Sheet by Business Activities, and Note 1 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 Division 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 Division 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.

**Knowledge with integrity**

Liability limited by a scheme approved under the Professional Standards Legislation

The special purpose financial statements have been prepared for distribution to the Council and the 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 report or on the financial statements to which it relates to any person other than the Council or the Department 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 30<sup>th</sup> June 2012 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 Division 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

28<sup>th</sup> September 2012

92 Rusden Street Armidale