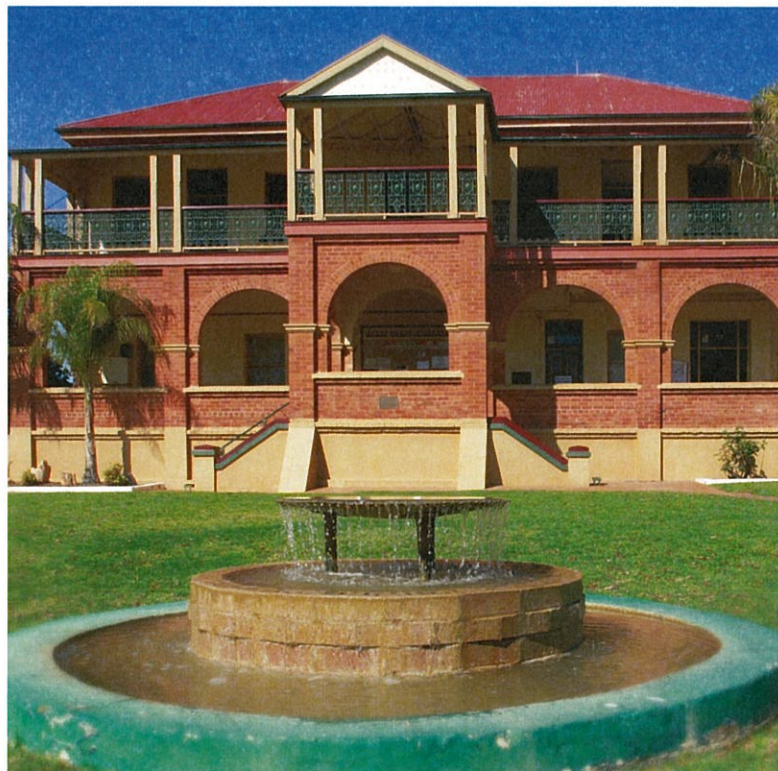




# SPECIAL PURPOSE FINANCIAL REPORTS ANNEXURE 2



COBAR SHIRE COUNCIL



# SPECIAL PURPOSE FINANCIAL REPORTS 2015/2016



COBAR SHIRE COUNCIL

# Cobar Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2016



## Cobar Shire Council

### Special Purpose Financial Statements

for the year ended 30 June 2016

Contents	Page
<b>1. Statement by Councillors and Management</b>	2
<b>2. Special Purpose Financial Statements:</b>	
Income Statement – Water Supply Business Activity	3
Income Statement – Sewerage Business Activity	4
Income Statement – Other Business Activities	n/a
Statement of Financial Position – Water Supply Business Activity	5
Statement of Financial Position – Sewerage Business Activity	6
Statement of Financial Position – Other Business Activities	n/a
<b>3. Notes to the Special Purpose Financial Statements</b>	7
<b>4. Auditor's Report</b>	16

---

#### 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).
-

## Cobar 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 27 October 2016.

  
LILLIANE O BRADY OAM  
Mayor

  
PETER ABBOTT  
Councillor

  
PETER VLATKO  
General manager

  
NEIL MITCHELL  
Responsible accounting officer

## Cobar Shire Council

## Income Statement of Council's Water Supply Business Activity

for the year ended 30 June 2016

\$ '000	Actual 2016	Actual 2015
<b>Income from continuing operations</b>		
Access charges	703	675
User charges	2,260	2,262
Fees	–	2
Interest	66	18
Grants and contributions provided for non-capital purposes	–	589
Profit from the sale of assets	–	–
Other income	–	–
<b>Total income from continuing operations</b>	<b>3,029</b>	<b>3,546</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	242	277
Borrowing costs	–	–
Materials and contracts	671	761
Depreciation and impairment	342	330
Water purchase charges	1,363	1,211
Loss on sale of assets	–	–
Calculated taxation equivalents	–	–
Debt guarantee fee (if applicable)	–	–
Other expenses	32	44
<b>Total expenses from continuing operations</b>	<b>2,650</b>	<b>2,623</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>379</b>	<b>923</b>
Grants and contributions provided for capital purposes	–	794
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>379</b>	<b>1,717</b>
Surplus (deficit) from discontinued operations	–	–
<b>Surplus (deficit) from all operations before tax</b>	<b>379</b>	<b>1,717</b>
Less: corporate taxation equivalent (30%) [based on result before capital]	(114)	(277)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>265</b>	<b>1,440</b>
Plus opening retained profits	13,803	12,086
Plus/less: prior period adjustments	–	–
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	–	–
– Debt guarantee fees	–	–
– Corporate taxation equivalent	114	277
Less:		
– Tax equivalent dividend paid	–	–
– Surplus dividend paid	–	–
<b>Closing retained profits</b>	<b>14,182</b>	<b>13,803</b>
Return on capital %	3.1%	8.0%
Subsidy from Council	–	–
Calculation of dividend payable:		
Surplus (deficit) after tax	265	1,440
Less: capital grants and contributions (excluding developer contributions)	–	(794)
<b>Surplus for dividend calculation purposes</b>	<b>265</b>	<b>646</b>
<b>Potential dividend calculated from surplus</b>	<b>133</b>	<b>323</b>

## Cobar Shire Council

## Income Statement of Council's Sewerage Business Activity

for the year ended 30 June 2016

\$ '000	Actual 2016	Actual 2015
<b>Income from continuing operations</b>		
Access charges	782	666
User charges	–	–
Liquid trade waste charges	4	–
Fees	16	16
Interest	36	36
Grants and contributions provided for non-capital purposes	–	–
Profit from the sale of assets	–	–
Other income	–	–
<b>Total income from continuing operations</b>	<b>838</b>	<b>718</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	4	3
Borrowing costs	–	–
Materials and contracts	328	436
Depreciation and impairment	367	367
Loss on sale of assets	–	–
Calculated taxation equivalents	–	–
Debt guarantee fee (if applicable)	–	–
Other expenses	14	9
<b>Total expenses from continuing operations</b>	<b>713</b>	<b>815</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>125</b>	<b>(97)</b>
Grants and contributions provided for capital purposes	163	–
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>288</b>	<b>(97)</b>
Surplus (deficit) from discontinued operations	–	–
<b>Surplus (deficit) from all operations before tax</b>	<b>288</b>	<b>(97)</b>
Less: corporate taxation equivalent (30%) [based on result before capital]	(38)	–
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>251</b>	<b>(97)</b>
Plus opening retained profits	3,373	3,470
Plus/less: prior period adjustments	–	–
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	–	–
– Debt guarantee fees	–	–
– Corporate taxation equivalent	38	–
Less:		
– Tax equivalent dividend paid	–	–
– Surplus dividend paid	–	–
<b>Closing retained profits</b>	<b>3,661</b>	<b>3,373</b>
Return on capital %	1.4%	-1.1%
Subsidy from Council	67	366
Calculation of dividend payable:		
Surplus (deficit) after tax	251	(97)
Less: capital grants and contributions (excluding developer contributions)	(163)	–
<b>Surplus for dividend calculation purposes</b>	<b>88</b>	<b>–</b>
<b>Potential dividend calculated from surplus</b>	<b>44</b>	<b>–</b>

## Cobar Shire Council

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

\$ '000	Actual 2016	Actual 2015
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,264	2,099
Investments	–	–
Receivables	523	544
Inventories	34	109
Other	–	–
Non-current assets classified as held for sale	–	–
<b>Total current assets</b>	<b>2,821</b>	<b>2,752</b>
<b>Non-current assets</b>		
Investments	–	–
Receivables	–	–
Inventories	–	–
Infrastructure, property, plant and equipment	12,049	11,589
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Other	–	–
<b>Total non-current assets</b>	<b>12,049</b>	<b>11,589</b>
<b>TOTAL ASSETS</b>	<b>14,870</b>	<b>14,341</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank overdraft	–	–
Payables	179	197
Borrowings	–	–
Provisions	–	–
<b>Total current liabilities</b>	<b>179</b>	<b>197</b>
<b>Non-current liabilities</b>		
Payables	–	–
Borrowings	–	–
Provisions	–	–
<b>Total non-current liabilities</b>	<b>–</b>	<b>–</b>
<b>TOTAL LIABILITIES</b>	<b>179</b>	<b>197</b>
<b>NET ASSETS</b>	<b>14,691</b>	<b>14,144</b>
<b>EQUITY</b>		
Retained earnings	14,182	13,803
Revaluation reserves	509	341
Council equity interest	14,691	14,144
Non-controlling equity interest	–	–
<b>TOTAL EQUITY</b>	<b>14,691</b>	<b>14,144</b>



## Cobar Shire Council

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

\$ '000	Actual 2016	Actual 2015
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,019	1,530
Investments	–	–
Receivables	102	43
Inventories	–	26
Other	–	–
Non-current assets classified as held for sale	–	–
<b>Total Current Assets</b>	<b>2,121</b>	<b>1,599</b>
<b>Non-current assets</b>		
Investments	–	–
Receivables	–	–
Inventories	–	–
Infrastructure, property, plant and equipment	8,828	8,909
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Other	–	–
<b>Total non-current assets</b>	<b>8,828</b>	<b>8,909</b>
<b>TOTAL ASSETS</b>	<b>10,949</b>	<b>10,508</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank overdraft	–	–
Payables	32	8
Borrowings	–	–
Provisions	–	–
<b>Total current liabilities</b>	<b>32</b>	<b>8</b>
<b>Non-current liabilities</b>		
Payables	–	–
Borrowings	2	–
Provisions	–	–
<b>Total non-current liabilities</b>	<b>2</b>	<b>–</b>
<b>TOTAL LIABILITIES</b>	<b>34</b>	<b>8</b>
<b>NET ASSETS</b>	<b>10,915</b>	<b>10,500</b>
<b>EQUITY</b>		
Retained earnings	3,661	3,373
Revaluation reserves	7,254	7,127
Council equity interest	10,915	10,500
Non-controlling equity interest	–	–
<b>TOTAL EQUITY</b>	<b>10,915</b>	<b>10,500</b>

## Cobar 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	8
2	Water Supply Business Best-Practice Management disclosure requirements	11
3	Sewerage Business Best-Practice Management disclosure requirements	13

## Cobar 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)

- a. **Cobar Water Supply** - Water Supply

##### Category 2

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

- a. **Cobar Sewerage** - Sewer Supply

#### 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).

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.

## Cobar Shire Council

### Notes to the Special Purpose Financial Statements

for the year ended 30 June 2016

#### Note 1. Significant accounting policies (continued)

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.

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

## Cobar Shire Council

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

#### Note 1. Significant accounting policies (continued)

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 2.17% 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.

## Cobar Shire Council

Notes to the Special Purpose Financial Statements  
for the year ended 30 June 2016Note 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	7,182
(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]	132,650
(ii) Number of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	71,820
(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	904,400

2016 Surplus	265,300	2015 Surplus	646,100	2014 Surplus	(7,000)
		2015 Dividend	-	2014 Dividend	-

(iv) Maximum dividend from surplus [least of (i), (ii) and (iii) above]	71,820
(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? <sup>a</sup>	<input type="checkbox"/>

**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]	YES
(iii) Sound water conservation and demand management implemented	YES
(iv) Sound drought management implemented	YES
(v) Complete performance reporting form (by 15 September each year)	YES
(vi) a. Integrated water cycle management evaluation	YES
b. Complete and implement integrated water cycle management strategy	NO

## Cobar Shire Council

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

<b>NWI F1</b>	<b>Total revenue (water)</b> Total income (w13) – grants for the acquisition of assets (w11a) – interest income (w9) – Aboriginal Communities W&S Program income (w10a)	\$'000	3,311
<b>NWI F4</b>	<b>Revenue from residential usage charges (water)</b> 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)]	%	76.62%
<b>NWI F9</b>	<b>Written down replacement cost of fixed assets (water)</b> Written down current cost of system assets (w47)	\$'000	12,049
<b>NWI F11</b>	<b>Operating cost (OMA) (water)</b> Management expenses (w1) + operational and maintenance expenses (w2)	\$'000	2,670
<b>NWI F14</b>	<b>Capital expenditure (water)</b> Acquisition of fixed assets (w16)	\$'000	–
<b>NWI F17</b>	<b>Economic real rate of return (water)</b> [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)]	%	2.48%
<b>NWI F26</b>	<b>Capital works grants (water)</b> Grants for the acquisition of assets (w11a)	\$'000	14

- Notes:
1. References to w (e.g. w12) refer to item numbers within Special Schedules 3 and 4 of Council's Annual Financial Statements.
  2. 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

## Cobar Shire Council

Notes to the Special Purpose Financial Statements  
for the year ended 30 June 2016Note 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	5,469
(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]	43,750
(ii) Number of assessments x (\$30 less tax equivalent charges per assessment)	54,690
(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	(129,500)

2016 Surplus	87,500	2015 Surplus	(97,000)	2014 Surplus	(120,000)
		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? <sup>a</sup>	<input type="checkbox"/>

**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]	NO
(c) Trade waste [item 2 (d) in table 1]	YES
DSP with commercial developer charges [item 2 (e) in table 1]	YES
Liquid trade waste approvals 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



## Cobar Shire Council

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

<b>NWI F2</b>	<b>Total revenue (sewerage)</b> Total income (s14) – grants for acquisition of assets (s12a) – interest income (s10) – Aboriginal Communities W&S Program income (w10a)	\$'000	802
<b>NWI F10</b>	<b>Written down replacement cost of fixed assets (sewerage)</b> Written down current cost of system assets (s48)	\$'000	8,828
<b>NWI F12</b>	<b>Operating cost (sewerage)</b> Management expenses (s1) + operational and maintenance expenses (s2)	\$'000	346
<b>NWI F15</b>	<b>Capital expenditure (sewerage)</b> Acquisition of fixed assets (s17)	\$'000	–
<b>NWI F18</b>	<b>Economic real rate of return (sewerage)</b> [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)]	%	1.01%
<b>NWI F27</b>	<b>Capital works grants (sewerage)</b> Grants for the acquisition of assets (12a)	\$'000	163

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

<b>NWI F3</b>	<b>Total income (water and sewerage)</b> 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	4,113
<b>NWI F8</b>	<b>Revenue from community service obligations (water and sewerage)</b> Community service obligations (NWI F25) x 100 divided by total income (NWI F3)	%	0.29%
<b>NWI F16</b>	<b>Capital expenditure (water and sewerage)</b> Acquisition of fixed assets (w16 + s17)	\$'000	–
<b>NWI F19</b>	<b>Economic real rate of return (water and sewerage)</b> [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)]	%	1.86%
<b>NWI F20</b>	<b>Dividend (water and sewerage)</b> Dividend paid from surplus (2 (v) of Note 2 + 2 (v) of Note 3)	\$'000	–
<b>NWI F21</b>	<b>Dividend payout ratio (water and sewerage)</b> Dividend (NWI F20) x 100 divided by net profit after tax (NWI F24)	%	0.00%

## Cobar Shire Council

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

<b>NWI F22</b>	Net debt to equity (water and sewerage) Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]	%	-16.65%
<b>NWI F23</b>	Interest cover (water and sewerage) Earnings before interest and tax (EBIT) divided by net interest  Earnings before interest and tax (EBIT): Operating result (w15a + s16a) + interest expense (w4a + s4a) – interest income (w9 + s10) – gain/loss on disposal of assets (w14 + s15) + miscellaneous expenses (w4b + w4c + s4b + s4c)  Net interest: Interest expense (w4a + s4a) – interest income (w9 + s10)		> 100
<b>NWI F24</b>	Net profit after tax (water and sewerage) Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv))	\$'000	490
<b>NWI F25</b>	Community service obligations (water and sewerage) Grants for pensioner rebates (w11b + s12b)	\$'000	12

- Notes:
1. References to w (eg. s12) refer to item numbers within Special Schedules 5 and 6 of Council's Annual Financial Statements.
  2. 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

INDEPENDENT AUDITOR'S REPORT  
ON THE SPECIAL PURPOSE FINANCIAL STATEMENTS OF  
COBAR SHIRE COUNCIL

## Report on the Financial Statements

We have audited the special purpose financial statements of Cobar Shire Council for the year ended 30 June 2016, comprising the Statement by Council, Income Statement by Business Activities, Statement of Financial Position by Business Activities and accompanying Notes to the Financial Statements. Our audit responsibility does not extend to the best practice management disclosures in Notes 2 and 3 and accordingly we express no opinion on them.

## Council's 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 financial reporting requirements of the Council and the Office of Local Government for the purpose of fulfilling the requirements of National Competition Policy reporting. The Council's responsibility also includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are 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. 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 is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council as well as evaluating the overall presentation of the financial statements.

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

## Independence

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

## Matters Relating to the Electronic Presentation of the Audited Financial statements

This auditor's report relates to the financial statements of Cobar Shire Council for the year ended 30 June 2016 included on Council's web site. Council is responsible for the integrity of Council's web site. We have not been engaged to report on the integrity of the web site. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements to confirm the information included in the audited financial statements presented on this web site.

## Audit Opinion

In our opinion, the special purpose financial statements of Cobar Shire Council are presented fairly in accordance with the requirements of those applicable accounting policies detailed in Note 1, the accounting requirements of the Local Government Act 1993 and the Local Government Code of Accounting Practice and Financial Reporting.

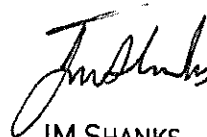
## Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describe the basis of accounting. The 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. As a result, the financial statements may not be suitable for another purpose. 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 statements were prepared.



LUKA GROUP

2 River Street  
Dubbo  
Dated: 28 October 2016



JM SHANKS  
PARTNER