



KEMPSEY
Shire Council

DIRECTOR CORPORATE SERVICES REPORT

21st November 2005

DCS3	PRESENTATION OF THE 2004 / 2005 FINANCIAL STATEMENTS AND AUDITOR'S REPORT
FILE: *	APC

SUMMARY:

Submission of the 2004 / 2005 financial statements and auditor's report.



Council's financial statements for the 2004/05 year have been audited. Copies of the financial statements including the Auditors Report are included with the Councillor's business paper.

The Local Government Act and Regulations provide that the general purpose financial reports were required to be lodged with the Department of Local Government by 7 November 2005. Council's reports were lodged on the 7 November 2005.

The regulations further provide the Financial Statements and Auditors Report must be presented at a public meeting within five weeks of the receipt of the auditors report.

The following comment is provided in respect of the financial statements:

Audit Report

The audit report for 2004/05 is unqualified.

Statement of Financial Performance

The operational surplus for the year is \$4.315m as compared to \$8.110m in the previous year. The principal factors contributing to the reduction in the surplus are:

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- Sewerage assets with a value of \$4.480m were recognised in the 2003/04 year whilst water assets of \$2.601 were recognised in the 2004/05 year, a net reduction of \$1.879m.
- Employee costs increased by \$1.041m, the increase is attributed to the impact of award increases (4% in November 2004) together with an increase of \$356,000 in workers compensation insurances.

STATEMENT OF FINANCIAL POSITION

Council's total equity as at 30 June 2005 is \$371,338m (\$367,023 as at 30 June 2004).

Working Funds

Working funds refer to the level of uncommitted funds held by Council, which by nature are convertible to cash in the short term. Working funds consists of current assets including unrestricted cash and investments, debtors and stock on hand less current liabilities, principally current creditors.

Whilst the concept of working funds are not directly addressed in the Statements an analysis reveals that working funds as at 30 June 2005 total \$1.732m made up as follows:

Current Assets

Cash & Investments unrestricted	Note 6	\$0.342m
Receivables	Note 7	\$4.947m
Less: Deferred Debtors	Note 7	\$0.047m
PWD Debtors Subsidised Scheme	Note 7	\$0.571m
Water Fund Section 64 Contributions	Note 17	\$0.805m
Stores and Materials	Note 8	\$0.495m
Work in Progress & Repayments	Note 8	\$0.044m

Less: Current Liabilities

Current Creditors	Note 10a	\$5.063m
Less: Advances (PWD and RTA)	Note 10a	\$2.390m
Total Working Funds		<u>\$1,732m</u>

Working Funds by Fund:

General Fund	\$0.297m
Water Fund	\$0.486m
Sewer Fund	\$0.949m

In addition to the General Fund Working Fund balance of \$296,488, Council has set aside \$125,000 as a provision for doubtful debt in respect of monies due to Council by Civicview. Payments of \$45,000 were received from Civicview during the 2004

/ 2005 year, the current balance due is \$177,755. Council has also received additional funding from the 2005/06 Financial Assistance Grant, the uncommitted amount of \$147,134 will reinstate Council's working funds account to \$568,622.

The audit report provides comment on the major component of Working Funds i.e. unrestricted cash and investments, which are disclosed in Note 6 at \$342,000 at 30 June 2005 as compared to \$1,410m (30/6/2004).

The reduction in Council's cash reserves reflects the level of works performed during the 2004/05 year together with the decision to defer loan borrowing of \$563 to the 2005/06 year.

Reserves

In addition to the above working fund balances, Council has set aside in reserve \$6.275m for specific future works and commitments at 30 June. The reserve balances are shown in Notes 6 and 6a, the reserves comprise:

General Fund

Employee Leave Entitlements Reserve	\$564k
Land Development Reserves	\$201k
Co-op Library Computer Reserve	\$35k
Computer Reserves	\$51k
Bridge Construction Reserve	\$99k
On Site Sewerage Reserve	\$8k
Homes for Aged Maintenance Reserve	\$6k
Sports Development Reserve	\$34k
DWM Reserve	\$9k
Election Reserve	\$20k
Loan Sinking Funds	\$100k
Quarry Restoration Reserve	\$41k
Equipment Reserves	\$54k
Caravan Park Reserve	\$606k
SWR Reserve	\$1K
Environmental Levy Reserve	\$413k
Uncompleted Works Reserve	\$419k

Water Fund

Water Augmentation Reserve	\$1204k
Water Tariff Equalisation Reserve	\$250k
Water Fleet Reserve	\$10K
Loan Sinking Fund	\$100k
Uncompleted Works Reserve	\$15k

Sewer Fund

Augmentation Reserve	\$1893k
Uncompleted Works Reserve	\$142k

The balance of funds in the Employees Leave Entitlements Reserve (ELE) at 30 June is \$563,454 which represents some 7.2% of the assessed liability of \$7,830m. The accepted level of funding in respect of ELE is 20%.

Council's 2005/06 Budget provides for a transfer to the ELE Reserve of \$370,000.

The level of funding within the reserve will need to be carefully managed in the short term given the age demographics of staff and the anticipated calls on the reserve.

Debt Service Ratio

The debt service ratio as disclosed in Note 13 of the Financial Statements is calculated by determining the total interest and principal loan repayments as a percentage of total operating revenue excluding capital and specific purpose operating grants and contributions.

Council's consolidated debt service ratio is 13.80% at 30 June 2005. A comparison of the consolidated and individual fund ratios is set out below:

	2004/05	2003/04	2002/03	2001/02	2000/01
Consolidated	13.80	13.68%	18.11%	21.92%	22.89%
General Fund	12.16	10.46%	10.52%	13.58%	13.12%
Water Fund	17.95	32.17%	37.46%	42.03%	45.59%
Sewer Fund	13.39	8.81%	23.39%	28.55%	33.77%

The increase in the General Fund ratio reflects the impact of the loan borrowings for works on the Caravan Parks and under the Environmental Levy. In the 2004/05 year additional loan repayments attributed to the above totalled \$345,000 resulting in a 1.72% increase in the General Fund ratio.

RATES & ANNUAL CHARGES OUTSTANDING

The percentage of rates and charges outstanding as at 30 June 2005 is 8.95%.

A comparison of the percentage over the preceding four years is set out below:

	2004/05	2003/04	2002/03	2001/02	2000/01
Consolidated	8.95%	7.51%	8.01%	8.77%	9.58%

As noted in the accounts, \$214,000 remained outstanding as at 30 June in respect of sewerage charges levied on the Mid North Coast Correctional Facility, this resulted in a 1.1% increase in the ratio. A

report in respect of the charge was considered by Council at its meeting of 15 November.

RATES & ANNUAL CHARGES COVERAGE RATIO

The ratio is essentially a measure of the extent to which Council is dependent upon revenue from rates and annual charges as compared to its total revenue.

A comparison of the percentage over the preceding four years is set out below:

	2004/05	2003/04	2002/03	2001/02	2000/01
Consolidated	42.5%	38.42%	41.63%	44.35%	45.47%

The Audit Report contains the recommendation "That Council continue to investigate options available to increase its revenue base from sources other than rates and annual charges".

The challenge to increase the revenue base is one faced by the whole of Local Government.

Auditors Council Presentation

Mr. Darren Turner from Council's auditors Pricewaterhouse Coopers will provide a presentation to the Council in respect of the audited financial accounts.

REPORT IMPLICATIONS

- ***Environmental***

Nil

- ***Social Implications***

Council's ability to provide services and infrastructure to the community is restricted by the availability of financial resources; the financial limitations imposed upon Local Government have an adverse impact on the social environment of the Kempsey Shire community. The 2004/2005 Financial Reports do not address the social implications arising from budgetary restrictions faced by Council.

- ***Economic***

The 2004 / 2005 Financial Reports reaffirms Council's financial position as previously reported in the June budget review.

- *Policy or Statutory*

The 2004/05 Financial Reports have been prepared in accordance with relevant statutory requirements.

RECOMMENDATION:

That the Auditors Report for the year ended 30 June 2005 be received.

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G B Snape
DIRECTOR CORPORATE SERVICES