



KEMPSEY
Shire Council

DIRECTOR CORPORATE AND COMMUNITY SERVICES REPORT

16th January 2007

DCCS12	PRESENTATION OF THE 2005 / 2006 FINANCIAL STATEMENTS AND AUDITOR'S REPORT
FILE:	APC

SUMMARY:

Report on the 2005 / 2006 financial statements and auditor's report.



Council's financial statements for the 2005/06 year have now been audited. Copies of the Income Statement, Balance Sheet and Auditors Report are attached [\(Appendix E\)](#).

A full copy of Councils Financial Statements for the year ended 30 June 2006 will be tabled at the January meeting.

As previously advised the Department of Local Government provided Council with an extension to the 30 November 2006 for lodgement of its audited accounts. The reports were lodged electronically on the 21 December 2006.

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 2005/06 is unqualified.

Income Statement

The operational surplus for the year is \$3.329m as compared to \$4.315m in the previous year. The principal factors contributing to the reduction in the surplus are:

- Water assets of \$2.601 were recognised in the 2004/05 year as other revenues through the income statement.
- A reduction in investment revenue of \$229k.
- Additional Grants and Contribution of \$973k in the 2005/06 year, including receipt of \$713k on the 27 June 2006 in respect of the 2006/07 year.
- A reduction in Depreciation expense of \$616K as a result of a number of assets principally plant and equipment together with sewer assets

becoming either fully depreciated or reaching their deemed residual value.

BALANCE SHEET

Council's total equity as at 30 June 2006 is \$374,667m (\$371,338 as at 30 June 2005).

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 2006 total \$0.828m made up as follows:

Current Assets

Cash & Investments unrestricted	Note 6c		\$0.329m
Receivables	Note 7	\$4.944m	
Less: Deferred Debtors	Note 7	\$0.075m	
PWD Debtors Subsidised Scheme Only	Note 7	\$0.553m	
Water/Sewer Fund	Note 17	\$1.471m	\$2.845m
Sec. 64 Contributions			
Stores and Materials	Note 8		\$0.467m
Work in Progress & Repayments	Note 8		\$0.030m

Less: Current Liabilities

Creditors	Note 10a	\$4.888m	
Less: Advances (PWD and RTA)	Note 10a	\$2.045m	\$2.843m
Total Working Funds			<u>\$0.828m</u>

Working Funds by Fund:

General Fund	\$0.194m
Water Fund	\$0.180m
Sewer Fund	\$0.454m

In addition to the General Fund Working Fund balance of \$194,446, Council has set aside \$125,000 as a provision for doubtful debt in respect of monies due to Council by Civicview. Following recent payments the Civicview debtor balance has been reduced to \$137,755.

The General Fund Working Fund balance as reported in the Budget Review to 30 June 2006 at the September Council meeting was \$376,803. Following finalisation of the accounts to the 30 June and in particular as a result of the reduced investment income due in respect of Section 64 and 94 Contribution the Working Fund balance is \$319,446.

It is considered prudent to maintain the General Fund Working Fund balance at approximately \$650,000. Council's 2006/07 budget provides

for a surplus in the General Fund of \$51,146 resulting in a current working fund surplus of \$370,592. Council's budget must be carefully monitored with a view to the restoring the level of Working Funds to the optimum balance.

The audit report provides comment on the major component of Working Funds i.e. unrestricted cash and investments, which are disclosed in Note 6c at \$329,000 at 30 June 2006 as compared to \$342,000m (30/6/2005).

Reserves

In addition to the above working fund balances, Council has set aside in reserve \$5.938m for specific future works and commitments at 30 June. The reserve balances are shown in Note 6c, the reserves comprise:

General Fund

Employee Leave Entitlements Reserve	\$72k
Land Development Reserves	\$181k
Co-op Library Computer Reserve	\$40k
Computer Reserves	\$91k
Bridge Construction Reserve	\$284k
On Site Sewerage Reserve	\$8k
Homes for Aged Maintenance Reserve	\$6k
Sports Development Reserve	\$19k
DWM Reserve	\$127k
Election Reserve	\$45k
Loan Sinking Funds	\$100k
Quarry Restoration Reserve	\$40k
Laboratory Equipment	\$20k
Equipment Reserves	\$75k
Caravan Park Reserve	\$80k
Cemetery Headstone Restoration	\$8k
Environmental Levy Reserve	\$393k
Uncompleted Works Reserve	\$49k

Water Fund

Water Augmentation Reserve	\$1108k
Water Tariff Equalisation Reserve	\$217k
Water Fleet Reserve	\$8K
Loan Sinking Fund	\$100k
Uncompleted Works Reserve	\$84k

Sewer Fund

Augmentation Reserve	\$2314k
Uncompleted Works Reserve	\$469k

The balance of funds in the Employees Leave Entitlements Reserve (ELE) at 30 June is \$71,814 which represents some 1% of the assessed liability of \$7.026m.

A breakdown of the nominal employee leave entitlements based upon age is as follows:

Age	Value	Number Staff
60+	\$480,000	15
55-60	\$1,635,000	30
50-55	\$1,567,000	51
40-50	\$1,787,000	96
-40	\$771,000	87

Council's 2006/07 Budget provides for a transfer to the ELE Reserve of \$500,000.

The acceptable level of funding in respect of ELE is 20% of the assessed liability, i.e. \$1.405m. Given Council's current reserve balance and the age demographics of staff it is envisaged that additional funding will be required over the next five year period to address funding requirements.

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 14.28% at 30 June 2006. A comparison of the consolidated and individual fund ratios is set out below:

	2005/06	2004/05	2003/04	2002/03	2001/02
Consolidated	14.28	13.80	13.68%	18.11%	21.92%
General Fund	11.83	12.16	10.46%	10.52%	13.58%
Water Fund	24.08	17.95	32.17%	37.46%	42.03%
Sewer Fund	11.43	13.39	8.81%	23.39%	28.55%

The General Fund debt ratio includes repayments made in respect of the self funded loans for the 4 Shore Tourist Park and works under the Environmental Levy, these represent 3.1% of the General Fund Ratio.

RATES & ANNUAL CHARGES OUTSTANDING

The percentage of rates and charges outstanding as at 30 June 2006 is 7.93%.

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

	2005/06	2004/05	2003/04	2002/03	2001/02
Consolidated	7.93%	8.95%	7.51%	8.01%	8.77%

Concerted efforts are presently underway with a view to a further reduction in the ratio during the current year.

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:

	2005/06	2004/05	2003/04	2002/03	2001/02
Consolidated	43.5%	42.5%	38.42%	41.63%	44.35%

The Audit Report as in previous years contains the recommendation "That Council should 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, strategies and opportunities continue to be addressed by Council and its management with a view to sourcing alternate revenue streams.

Auditors Council Presentation

Mr. Darren Turner from Council's auditors Pricewaterhouse Coopers is unable to attend Council's January meeting however he will provide a presentation to the Council in respect of the audited financial accounts at the February meeting.

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 2005/2006 Financial Reports do not address the social implications arising from budgetary restrictions faced by Council.

- *Economic*

The 2005 / 2006 Financial Reports outline Council's financial position as at 30 June 2006.

- *Policy or Statutory*

The 2005/06 Financial Reports have been prepared in accordance with relevant statutory requirements with the exception that their submission was outside the approved date of the 30 November 2006 as set by the Department of Local Government.

RECOMMENDATION:

That the Auditors Report for the year ended 30 June 2006 be received.

.....
G B Snape
DIRECTOR CORPORATE SERVICES