

**RICHMOND VALLEY COUNCIL
GENERAL PURPOSE FINANCIAL STATEMENTS
INDEPENDENT AUDIT REPORT**

Report on the Financial Statements

We have audited the accompanying financial statements of Richmond Valley Council (the Council), which comprises the statement of financial position as at 30 June 2013, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies, other explanatory notes and the statement by Councillors' and Management.

Council's Responsibility for the Financial Statements

The Council is responsible for the preparation of the financial statements that give a true and fair view in accordance with Australian Accounting Standards and the *Local Government Act 1993* and for such internal control as the Council determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those 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 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 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 Council, as well as evaluating the overall presentation of the financial statements.

Our audit responsibility does not extend to the original budget information included in the income statement, statement of cash flows, Note 2(a), Note 16 budget variation explanations and Note 17 forecast information, and accordingly, we do not express an opinion on such. In addition, our audit did not include an analysis of the prudence of business decisions made by Council or management.

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



Independence

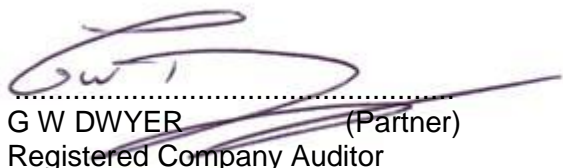
In conducting our audit, we have complied with the independence requirements of the Australian professional accounting bodies.

Audit Opinion

In our opinion:

- (a) The Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13 part 3 Division 2;
- (b) The Council's financial statements:
 - i. Have been presented in accordance with the requirements of that Division;
 - ii. Are consistent with the Council's accounting records;
 - iii. Present fairly, in all material respects, the Council's financial position as at 30 June 2013, and of its performance and its cash flows for the year then ended; and
 - iv. Are in accordance with applicable Accounting Standards.
- (c) All information relevant to the conduct of the audit has been obtained; and
- (d) There are no material deficiencies in the accounting records or financial statements that have come to light during the course of the audit.

THOMAS NOBLE & RUSSELL CHARTERED ACCOUNTANTS



G W DWYER (Partner)
Registered Company Auditor

Dated at Lismore this 15th day of October 2013.

Lismore, 15 October 2013

Mayor and Councillors
Richmond Valley Council
Council Chambers
Walker Street
CASINO NSW 2470

Dear Councillors

We advise that we have completed our audit of the Council's general purpose and special purpose financial statements for the year ended 30 June 2013 under section 417 of the *Local Government Act 1993*.

In accordance with that section we now report on the conduct of the audit.

Yours faithfully

THOMAS NOBLE & RUSSELL

Per:



G W DWYER (Partner)
Registered Company Auditor

Richmond Valley Council

Report to Council under s417 of the Local Government Act 1993 for the year ended 30 June 2013



Thomas
Noble &
Russell

Accountants | Auditors | Business Advisers



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1. COUNCIL'S FINANCIAL REPORTING REQUIREMENTS

Council is required to prepare two financial statements ready for audit each year:

General Purpose Financial Statements

These financial statements present the financial position and performance of the Council on a consolidated basis. The statements include all controlled Council operations such as general, water and sewer funds as well as domestic waste management activities. Council has prepared its general purpose financial statements in accordance with the Division of Local Government Code of Accounting Practice Manual which adopts applicable Australian Accounting Standards as the framework for financial reporting.

Special Purpose Financial Statements

These financial statements provide an understanding of the financial position and performance of Council's declared business activities as required under National Competition Policy. Council's declared business activities for the 2013 financial year are:

- Water Fund Operations;
- Sewer Fund Operations;
- Petersons Quarry; and
- Woodview Quarry.

During the 2013 financial year the Bridge and Pre-stressing operations were discontinued and as a result is no longer a declared business activity.

Council is not required to adopt Australian Accounting Standards when preparing these financial statements; however, the financial position and performance have been calculated by adopting applicable Accounting Standard requirements.

2. AUDITOR'S RESPONSIBILITIES

In order that your Councillors may appreciate our responsibilities as auditors, we take this opportunity to briefly discuss the scope of our audit.

In accordance with our contractual arrangements with Council we have undertaken to perform an attest (risk based) audit. The definition of an attest audit is:

"the minimum audit work necessary to enable an opinion to be expressed as to whether the financial statements are presented fairly in accordance with the requirements of the Local Government Act 1993, Australian Accounting Standards and Accounting Concepts so as to present a view which is consistent with an understanding of the Council's financial position, the results of its operations and its cash flows."

Forming an Opinion

Our function as auditors is to examine the general purpose and special purpose financial statements presented to us by the Council. Our audit responsibility does not extend to:

- The original budget information included in the income statement, statement of cash flows, Note 2(a) and Note 16 budget variation explanations in the general purpose financial statements;
- Information presented at Note 17 to the general purpose financial statements relating to projected future contributions, cost of works and over/(under) funding; and
- The best practice disclosures in Notes 2 & 3 to the special purpose financial statements.

Accordingly, we do not express an opinion on such. As auditors of the Council we are not responsible for the preparation of the financial statements or for the maintenance of proper and adequate accounting records and proper systems of internal control. These responsibilities, together with the requirement to present financial statements which give a true and fair view of the state of the Council's affairs and of its results, are imposed on the Councillors by the *Local Government Act and Regulations 1993*.

3. CONSOLIDATED OPERATING RESULT

Council's result from all activities for the year ended 30 June 2013 was a \$4,875,000 deficit compared to a deficit in the previous financial year of \$1,379,000. Council's financial result can be summarised as follows:

	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000
Revenues from continuing operations	38,049	38,966	47,132	41,820
Expenses from continuing operations	(27,663)	(30,695)	(38,144)	(33,608)
Result from continuing operations before depreciation and capital amounts	10,386	8,271	8,988	8,212
Depreciation	(12,920)	(13,486)	(14,570)	(13,665)
Result from continuing operations before capital amounts	(2,534)	(5,215)	(5,582)	(5,453)
Capital grants and contributions	15,162	6,683	7,439	3,707
(Loss)/Gain on disposal of assets	(1,027)	(4,810)	(3,236)	(1,327)
Assets recognised-Regional Library	-	524	-	-
Net Profit/(Loss) from Discontinued Operation	565	(12,733)	-	(1,802)
Surplus/(Deficit) from all activities	12,166	(15,551)	(1,379)	(4,875)

3.1. Variations to 2012 by Income / Expenditure

The surplus from continuing operations before depreciation and capital amounts has decreased by \$776,000, from \$8,988,000 to \$8,212,000. Some of the major movements from the 2012 year included:

Account	Increase / (Decrease) \$'000	Reason for Increase / Decrease
REVENUE		
Rates and Annual Charges		
Ordinary rates	201	The \$201,000 increase in ordinary rates, from \$7,636,000 in 2011/2012 to \$7,837,000 in 2012/2013, was primarily the result of the 3.6% rate pegged limit for the 2012/13 financial year.
Sewerage Services	222	The \$222,000 increase in sewerage annual charges, from \$5,307,000 in 2011/2012 to \$5,529,000 in 2012/2013, was primarily the result of an increase of 3.6% to annual charges for the 2012/2013 financial year.
Other Annual Charges	43	Other annual charges include Waste Management Services, Water Supply Services and Stormwater Management Services. The revenue from these charges remained reasonably consistent, increasing by \$43,000 from \$3,879,000 in 2011/2012 to \$3,922,000 in 2012/2013.
User Charges and Fees		
Water Supply Services	203	Water User Charges increased by \$203,000 from \$3,387,000 in 2011/2012 to \$3,590,000 in 2012/2013 due to increases in charges, consistent with rate increases of approximately 3.5%, coupled with a slight increase in water consumption.
Private Works – Section 67	646	Revenue for private works section 67 increased by \$646,000 from \$809,000 in 2011/2012 to \$1,455,000 in 2012/2013 as a result of the works performed on the Broadwater Sewerage Augmentation project. This included connecting North Woodburn residents to the scheme. Council's contractor undertook this work and the component that related to works on behalf of Lismore City Council was treated as private works and paid by Lismore City Council. This amount was \$762,000 which is the majority of the variance from 2012.



Account	Increase / (Decrease) \$'000	Reason for Increase / Decrease
Plant Hire (External)	(119)	Revenue decreased from \$221,000 in 2011/2012 to \$102,000 in 2012/2013. External plant hire is directly linked to the amount of works undertaken during the year. As discussed below there were reduced RMS works along with reduced natural disaster works carried out in 2013.
RMS Charges	(1,022)	Revenue for works on RMS State Roads decreased by \$1,022,000 during the year, from \$4,220,000 in 2011/2012 to \$3,198,000 in 2012/2013. State managed road contracts can vary from year to year. The 2011/2012 year included significant works performed on the Bruxner highway which amounted to \$1.29 million and increased works resulting from flood damage.
Saleyards	(157)	Revenue decreased from prior year from \$879,000 in 2011/2012 to \$722,000 in 2012/2013. The decrease is largely due to lower throughput figures at the Northern Rivers Livestock Exchange (96,000 head of cattle in 2012/2013 compared to a historical average of around 115,000 to 120,000 head of cattle). Some of the contributing factors as reported to Council in July 2013 were: (a) Some Northern Rivers producers have been keeping their livestock while the prices on offer are still low. (b) Processors have been able to purchase outside the Northern Rivers at a cheaper price (primarily North QLD).
Other	(159)	Revenue decreased from prior year from \$396,000 in 2011/2012 to \$237,000 in 2012/2013. This is primarily from a reduction in liquid septic waste fees of \$143,000 in 2012/2013.
Interest & Investment Revenue		
Interest Income	(406)	In 2012/2013, Council recognised interest revenue of \$1,150,000 compared to revenue of \$1,565,000 in 2011/2012. This decrease is largely attributable to a reduction in the level of interest rates available for Council's term deposit investments in 2012/2013. Also attributing to the reduction was the loan drawn down for the Broadwater Sewerage project, which was invested in term deposits, being progressively consumed for contractor payments during the year.



Account	Increase / (Decrease) \$'000	Reason for Increase / Decrease
Fair Value Adjustments	201	In 2012/2013, Council recognised fair value movements in investments revenue of \$841,000 compared to revenue of \$640,000 in 2011/2012. The increase is largely due to the \$480,000 gain on fair value for an investment previously written off.
Other Revenue		
Insurance Claim Recoveries	357	Council received a one off Insurance claim settlement from HIH in the 2012/2013 financial year which amounted to \$224,000.
Operating Grants and Contributions		
Financial Assistance	(1,353)	The Financial Assistance grants received in the 2012/2013 year were \$1,353,000 lower than that received in the 2011/2012 year. The revenue recognised in 2011/2012 represented 5 quarters as the Division of Local Government had paid 2 quarters in advance, whereas previously had paid 1 quarter in advance. The revenue recognised in the 2012/2013 year represents 4 quarters.
Natural Disaster Funding	(1,832)	Operating Grants of \$441,000 were received in the 2012/2013 year, compared to \$2,273,000 in the 2011/2012 year. The large amounts received in the 2011/2012 year were predominately due to the December 2010/January 2011 and the January 2012 flood events.
Evans Head Aerodrome Remediation	(739)	Operating grants of \$814,000 were received in the 2011/2012 year, compared to \$75,000 in the 2012/2013, for the major remediation works at the Evans Head Aerodrome. This was part funded by the Department of Defence.
Flood Restoration	(128)	A one off grant was received in the prior year for flood management projects of \$128,000 for which no such funding was received in the 2012/2013 financial year.

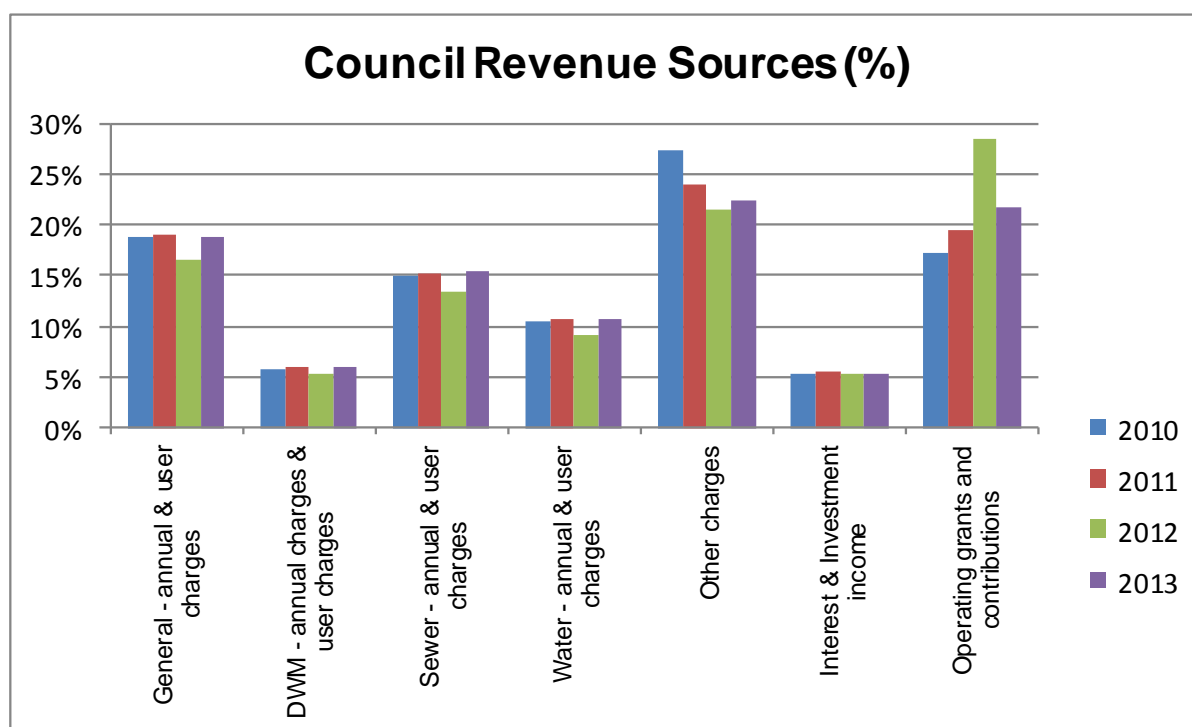
Account	Increase / (Decrease) \$'000	Reason for Increase / Decrease
EXPENSES		
Employee Benefits and On-Costs	(304)	<p>Salaries and wages increased by \$190,000 from \$9,620,000 to \$9,810,000 in 2012/2013. This increase is consistent with award increases of 3.25% and a slight decrease in employee numbers (7 FTE's).</p> <p>Employee leave entitlement expenses were \$540,000 lower, totalling \$2,054,000 in the 2012/2013 year. This decrease is attributable, in part, to a increase in the discount rate (government bond rates) used for the present value calculation of the leave liability at year end thereby decreasing the balance, as well as a reduction in the nominal value of the leave entitlements.</p>
Materials & Contracts	(2,368)	<p>Materials and contracts reduced by \$2,368,000 in the 2012/2013 year from \$15,453,000 to \$13,085,000. This is particularly linked to the decrease in Natural Disaster funding, RMS charges and Evans Head Aerodrome remediation funding.</p> <p>There has been a decrease of \$1,482,000 in Natural Disaster operating expenditure in the current year, from \$2,171,000 in the 2011/2012 year to \$689,000 in the 2012/2013 year.</p> <p>There has been a decrease of \$893,000 in expenditure in relation to the Road Maintenance Contract with State road maintenance decreasing from \$3,404,000 in the 2011/2012 year to \$2,511,000 in the 2012/2013 year.</p> <p>There has been a decrease of \$1,668,000 in remediation costs at the Evans Head Memorial Aerodrome, with \$1,800,000 incurred in the 2011/2012 year and only \$132,000 in the 2012/2013 year.</p> <p>The above decreases were offset in part by an increase of \$699,000 in contract crushing costs at Council's quarries, from \$353,000 in 2011/2012 to \$1,052,000 in the 2012/2013 year.</p>



Account	Increase / (Decrease) \$'000	Reason for Increase / Decrease
Other Expenses	148	<p>The NSW Rural Fire Service Levy decreased by \$113,000, from \$801,000 in 2010/2011 to \$688,000 in 2011/2012. The prior year contribution was higher as the 2011/2012 RFS budget included the establishment of the Casino Regional Fire Control Centre.</p> <p>The Waste Levy increased by \$191,000, from \$909,000 in 2011/2012 to \$1,100,000 in 2012/2013. This increase is attributable to an increase in the levy per tonne from \$31.10 per tonne in 2011/2012 to \$42.40 per tonne in 2012/2013, partly offset by a reduction in eligible waste going through Namoonna and Bora Ridge landfills.</p> <p>Electricity and heating costs increased by \$186,000 to \$891,000 in 2012/2013. This is largely due to increased electricity costs as well as the first full year operation of the Casino Cultural and Community centre and the Casino Regional Fire Control Centre increasing consumption.</p> <p>Insurance costs decreased by \$39,000 to \$849,000 in 2012/2013 and street lighting decreased by \$64,000 to \$283,000.</p>

3.2. Analysis of Income Sources

	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000
General - annual & user charges	7,139	7,391	7,636	7,837
DWM - annual charges & user charges	2,221	2,340	2,448	2,468
Sewer - annual & user charges	5,732	5,943	6,187	6,481
Water - annual & user charges	3,959	4,145	4,228	4,456
Sub - total	19,051	19,819	20,499	21,242
Other charges	10,451	9,360	11,214	9,335
Interest & Investment income	2,026	2,190	2,396	2,191
Operating grants and contributions	6,521	7,597	13,023	9,052
Total revenue from continuing operations before capital amounts	38,049	38,966	47,132	41,820



Council's relative reliance on various income streams as detailed has remained relatively steady on a long term trending basis.

Council has historically had a large stream of user charges, particularly private works and RMS charges under the Road Maintenance Contract for maintenance of State Roads.



Operating grants and contributions have decreased in 2012/2013 as detailed at Section 3.1.

Relative to other Councils in the region, Council has had a relatively low general rates and annual / user charges base.

3.3. Depreciation

Depreciation decreased \$757,000, from \$14,422,000 in 2011/2012 to \$13,665,000 in 2012/2013. The following movements were noted:

- Water and sewer infrastructure assets were revalued in 2011/2012 and are now depreciated using a methodology of consumption based condition assessment which means that less depreciation is incurred early on in an assets lifecycle and more in later stages of the assets lifecycle. Largely water and sewer infrastructure assets are still relatively early on in their lifecycle and as such depreciation is relatively low. Previously water and sewer infrastructure assets were depreciated using the straight line depreciation method. This change in methodology resulted in a decrease of water and sewer depreciation of \$1,238,000 in 2012/2013.
- Roads and Bridges depreciation increased by \$393,000. This is largely due to the revaluation increment of \$8,540,000 in 2011/2012 coupled with additions of \$4,565,000 in that year, which has resulted in increased depreciation expense in the current year.

3.4. Discontinued Operations

Council recorded a loss of \$1,802,000 in the 2012/2013 year (\$838,000 in 2011/2012) as a result of the discontinued Bridge and Pre-Stressing operations.

There were no discontinued operations in the 2011/12 financial year.

3.5. Capital Grants and Contributions

Council receives capital grants and contributions from various sources each financial year. The extent of revenue received each year is influenced by the nature and extent of Council's capital improvements programme and general economic activity.

Capital grants received during the year amounted to \$2,830,000 and largely consisted of grants for the construction of the Broadwater Sewerage project for an amount of \$745,000; natural disaster funding grants of \$896,000; and Roads to Recovery funding of \$694,000.

Capital contributions received during the year amounted to \$877,000. This can be broken down as follows:



	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000
Section 94 Contributions - cash	566	213	353	102
Section 64 Contributions - cash/debtors	816	280	156	512
Subdivider dedications	1,480	120	834	31
Other contributions	429	447	171	232
Roads & Bridges	-	-	185	-
	<u>3,291</u>	<u>1,060</u>	<u>1,699</u>	<u>877</u>

At 30 June 2013, Council held \$344,000 restricted cash assets for S94 contributions and \$3,965,000 as restricted cash assets for S64 contributions.

Unexpended S.94 and S.64 contributions comprised:

	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000
Roads	205	182	334	175
Parking	372	373	157	-
Open space	95	85	37	-
Community facilities	3	3	4	4
Infrastructure	247	117	107	-
Community services	334	174	166	46
Rec & Civil facilities	56	31	45	-
Quarry roads	90	55	16	-
Others	128	234	320	119
Restricted Assets S94	<u>1,530</u>	<u>1,254</u>	<u>1,186</u>	<u>344</u>
Sewer S64	2,064	2,178	2,379	2,470
Water S64	2,279	2,139	1,914	1,495
	<u>5,873</u>	<u>5,571</u>	<u>5,479</u>	<u>4,309</u>

3.6. Profit / (Loss) on Disposal of Assets

Council's profit / (loss) on disposal of assets comprise the following items:

Profit/loss on disposal of assets	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000
Infrastructure assets replaced/scrapped				
- Transport & Drainage	(926)	(1,061)	(607)	(788)
- Water	(583)	(665)	(464)	(392)
- Sewer	(140)	(2,485)	(2,431)	(503)
Profit/(Loss) on sale of plant and equipment	(12)	(104)	77	25
Profit/(Loss) on sale of other real estate	(6)	(642)	(126)	(213)
Profit on sale of developed real estate	640	147	315	544
Net profit on disposal of assets	(1,027)	(4,810)	(3,236)	(1,327)

The loss on disposal of assets largely represents the written-down value of infrastructure assets that have been disposed or rehabilitated in the normal course of Council's budgeted asset replacement program. This includes \$213,000 of building assets and \$1,683,000 of infrastructure assets disposed.

3.7. Financial Performance and Position by Fund

Included in the general purpose financial reports at Note 21, is a fund-by-fund analysis of the performance and position of Council. Care should be taken when reading this information as "General" activities also includes externally restricted activities of Council, other than water and sewer activities.

The information in this Note also balances in total to the general purposes financial reports and thus may not balance to the results shown elsewhere in other financial statements of Council, as other statements may be inclusive of internal transactions between activities of Council, including restricted activities.

4. DECLARED BUSINESS ACTIVITIES UNDER THE NATIONAL COMPETITION GUIDELINES

Under the National Competition guidelines Council is required to apply taxation equivalent principles to each business similar to those that would apply if they were operating in the commercial sector. Council declared business activities have been reported with operating details and assets disclosed on a gross basis in Council's special purpose financial statements.

Each activity has a required rate of return on its activities that is calculated as the operating result plus interest expense divided by the written down value of property, plant and equipment. Where the return on investment is below the required rate of return, the difference is disclosed as a notional subsidy from Council's General Fund activities. Dividends represent funds provided by the relevant business activity for other functions of Council.

A summary of the financial performance of Council's declared business activities is detailed below:

	Revenue from Activities \$'000	Expenses from Activities \$'000	Result prior to capital amounts \$'000	Return on capital %	Subsidy \$'000	Dividends Paid \$'000
2012/13						
Water	5,154	5,064	90	0.10	NA	-
Sewer	8,103	7,681	422	2.00	NA	-
Petersons Quarry	300	480	(180)	(16.70)	(196)	-
Woodview Quarry	843	623	220	25.90	-	224
Bridges & Pre-Stressing *	-	-	-	-	-	-
2011/12						
Water	4,800	5,700	(900)	(1.30)	N/A	-
Sewer	7,298	9,590	(2,292)	(0.70)	N/A	-
Petersons Quarry	569	604	(35)	(1.40)	(51)	305
Woodview Quarry	857	489	368	36.10	-	524
Bridges & Pre-Stressing	1,828	3,205	(1,377)	(25.90)	(1,507)	-

* Bridge & Pre-Stressing operations were discontinued in 2012/2013.

Water and Sewer Services

Council's water operations have improved in their financial performance when compared to 2011/2012, with a small surplus from continuing operations before capital amounts of \$90,000 in 2012/2013 compared to a \$900,000 deficit in 2011/2012. This is an overall net improvement of \$990,000.

Council's sewer operations have also improved in their financial performance when compared to 2011/2012, with a surplus from continuing operations before capital amounts of \$422,000 in 2012/2013 compared to a \$2,292,000 deficit in 2011/2012. This is an overall net improvement of \$2,714,000.

The more significant factors affecting the result in the water fund were:

- User charges revenue was relatively consistent, increasing by \$186,000 from the previous year to \$3,720,000.
- Interest income increased by \$124,000 to \$301,000, as a result of a fair value gain of \$133,000 on investments recognised in 2012/2013.
- A decrease in engineering & supervision employee expenses of \$106,000 to \$654,000 due, in part, to a restructure and loss of a position for part of the 2012/2013 year.
- A reduction in the amount of depreciation expense due to a change in the methodology for depreciating water assets in 2012/2013. Water assets are now depreciated using a consumption based model which resulted in a decrease of \$527,000 expense in 2012/2013 when compared to 2011/2012.

The more significant factors affecting the result in the sewer fund were:

- Access and user charges revenue was relatively consistent, increasing by \$295,000 from the previous year to \$6,635,000.
- Fees income increased by \$520,000 to \$974,000 due to private works provided to Lismore City Council in relation to the North Woodburn connection to Broadwater Sewerage.
- A reduction in the amount of depreciation expense due to a change in the methodology for depreciating sewer assets in 2012/2013. Sewer assets are now depreciated using a consumption based model which resulted in a decrease of \$716,000 expense in 2012/2013 when compared to 2011/2012.
- During the revaluation performed in the 2011/2012 year there was a significant amount of decommissioned assets which were written off. This resulted in a loss on disposal of assets of \$2,431,000. The loss on disposal for the 2012/2013 was only \$503,000 in comparison, a reduction in loss of \$1,928,000.
- Other maintenance expenses increased by \$542,000 to \$931,000. This increase was attributable to the private works associated with the North Woodburn scheme.

Water and sewer operations are recognised as monopolies under the National Competition Policy guidelines. As a provider of essential services water and sewer funds should generate enough profits to enable it to replace its infrastructure as required. For the 2012/2013 year, Council set the required rate of return for these operations as Nil. This has been consistently applied to the 2011/2012 results also. In 2012/2013, both Council's water and sewer operations have achieved a positive rate of return.

Petersons Quarry and Woodview Quarry

Council's quarry operations have returned a combined profit of \$40,000 in the 2012/2013 year, compared to \$333,000 for the 2011/2012 year.

The most significant movement was a decrease in fees revenue from the Petersons Quarry, decreasing from \$569,000 in 2011/2012 to \$298,000 in 2012/2013 due to a reduced amount of activity and sales through this quarry causing it to be run at a loss. Woodview quarry had similar level of sales in 2012/2013 when compared to the 2011/2012 but materials and contracts expenses increased by \$132,000 which was the result of contract crushing costs experienced during the year.

Council set the required rate of return for these operations equivalent to the 10 year Commonwealth bond rate. This is consistent with that of previous years.

5. FINANCIAL POSITION

5.1. Net Current Assets

5.1.1. Cash and Investments

Council has net current assets of \$27,564,000 as at 30 June 2013; however, this includes \$2,240,000 in leave entitlements which are not expected to be settled within twelve months. Net current assets, however, also contains \$21,571,000 of externally restricted cash in the form of special purpose grants, developer contributions and restricted water, sewer and domestic waste management funds. Developer contributions held under S.94 and S.64 are detailed in Section 3.5 of this report.

In addition, Council has allocated \$5,689,000 to internally restricted cash and investments to fund long term commitments. These internal reserves are detailed below.

	2012 \$'000	2013 \$'000
Employee entitlements	391	735
Plant & Vehicles	121	876
Petersons quarry	92	22
Woodview quarry	26	56
Quarry Rehabilitation	54	55
Insurance	52	52
Other waste management	1,862	1,747
Casino saleyards	445	391
Richmond Upper Clarence Regional Library	258	316
RMS roads contracts	-	266
Public cemeteries	365	391
Unexpended rates variation	49	18
Uncompleted works & Other	446	764
	<u>4,161</u>	<u>5,689</u>

We note that there has been an increase in internal reserves of \$1,528,000. Most notable has been the increase in plant and vehicles reserve of \$755,000 and employee entitlements reserve of \$344,000.

After funding internal and external restrictions Council has \$502,000 of unrestricted cash.

A summary of Council's investment securities is as follows:

Investments analysis (current & non-current)

	2012 \$'000	2013 \$'000
Opening balance of investments at fair value	8,176	4,626
Investments purchased	-	-
Investments sold	(4,190)	(1,409)
Fair value adjustments	640	841
Closing balance of investments at fair value	4,626	4,058

Closing balance of investments at fair value comprises:

Equity Linked Notes	1,805	1,921
Managed funds	1,550	1,234
CDOs	849	903
Other	422	-
	4,626	4,058
Deposits at call & TDs	26,011	27,040
	30,637	31,098

Local Government Investment Order

Council still holds investments, including Collateralised Debt Obligations (CDOs), which are no longer prescribed under the Local Government Investment Order, however, they have been retained under grandfathering provisions of the Order. These investments are gradually being disposed of when considered most financially advantageous to Council.

Liquidity

Based on information provided by Council management, which has not been subject to audit, the maturity profile of investments held at balance date should not materially impact Council's budgeted operations for the 2012/2013 financial year from a liquidity perspective.

5.1.2. Receivables

Council's current receivables have decreased from \$9,971,000 as at 30 June 2012 to \$6,924,000 as at 30 June 2013. The major components of the balances at the end of the financial year were:



	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000
Rates, etc	314	304	363	402
User charges	4,231	5,479	5,182	3,918
Deposits & bonds	310	310	230	21
Govt grants & subsidies	1,191	1,419	2,953	1,142
S64 water and sewer	8	8	2	2
Land sales	304	-	-	488
Accrued Interest on Investments	180	117	139	114
Other	425	910	1,224	921
Provision for Doubtful Debts	(124)	(84)	(122)	(84)
	<u>6,845</u>	<u>8,463</u>	<u>9,971</u>	<u>6,924</u>

The main contributor to the decrease in current receivables is government grants receivable, which included a large receivable in relation to January 2012 natural disaster flood relief and also a receivable in relation to the establishment of the Rural Fire Service Control Centre in 2011/2012.

Additionally there are RMS receivables for the state managed road contracts within user charges. In 2011/2012 there were balances totalling \$1,252,000 compared to \$140,000 in 2012/2013, resulting in a net decrease of \$1,112,000 in user charges receivables in 2012/2013.

5.2. Non-Current Assets and Liabilities

Council has a net non-current asset position of \$575,750,000, which consists largely of Council controlled investments, property, plant and equipment, water, sewer, road and drainage infrastructure and loans.

5.2.1. Property, Plant and Equipment

During the year Council capitalised the following property, plant and equipment:



	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000
<i>Non-cash Developer Contributions</i>				
Roads and Drainage Network	946	21	815	-
Sewerage Network	265	28	1	26
Water Supplies	269	71	18	5
<i>Non-cash Additions</i>				
Bush Fire Grants	107	53	74	182
<i>Council Constructed / Purchased Assets</i>				
Office Equipment	28	5	75	34
Furniture & Fittings	106	15	133	28
Non-Depreciable land improvements	395	-	322	-
Depreciable land improvements	311	70	579	125
Land and Buildings	1,579	907	2,411	417
Other Structures	431	465	506	514
Tips & quarries	180	-	512	-
Plant and Equipment/Vehicles	1,824	2,462	2,636	1,838
Roads and Drainage Network	4,001	2,027	3,720	2,702
Water Supply Network	973	1,409	569	771
Sewerage Network	421	4,536	490	1,270
Land-Operational	-	-	-	443
Land Under Roads	-	12	-	-
Library Books	-	107	85	83
Capital Work In Progress	10,102	6,326	5,136	6,339
	<u>21,938</u>	<u>18,514</u>	<u>18,082</u>	<u>14,777</u>

Capital Work in Progress at 30 June 2013 includes 2012/2013 costs incurred of \$3,507,000 for the Broadwater Sewerage Plant as well as \$698,000 for upgrades to sewer pump stations.

Roads and Drainage had additions totalling \$2,702,000 which includes resealing programs \$1,085,000 and the Evans Head CBD upgrade of \$494,000.

Sewer Network asset additions include relining projects which amounted to \$829,000 in 2012/2013.

Asset Revaluations 2013

The Division of Local Government has mandated that all infrastructure assets are to be recognised in Council's financial records at their fair value. Fair value represents the written-down replacement cost of each asset using modern day equivalent materials, design and capacity.

During the year Council performed a full revaluation of the Roads, Bridges & Footpaths and Bulk Earthworks Infrastructure assets. As a result of the revaluation, a revaluation increment of \$37,404,000 was recognised for the Roads, Bridges and Footpaths assets and \$2,005,000 for Bulk Earthworks.

Where material, fair value adjustments are made each year to keep all infrastructure assets at fair value. As a result, a 2012/2013 increment of \$667,000 for drainage assets and \$1,587,000 and \$2,143,000 for water and sewer networks respectively was recognised.

Regular Re-assessment of Useful Lives

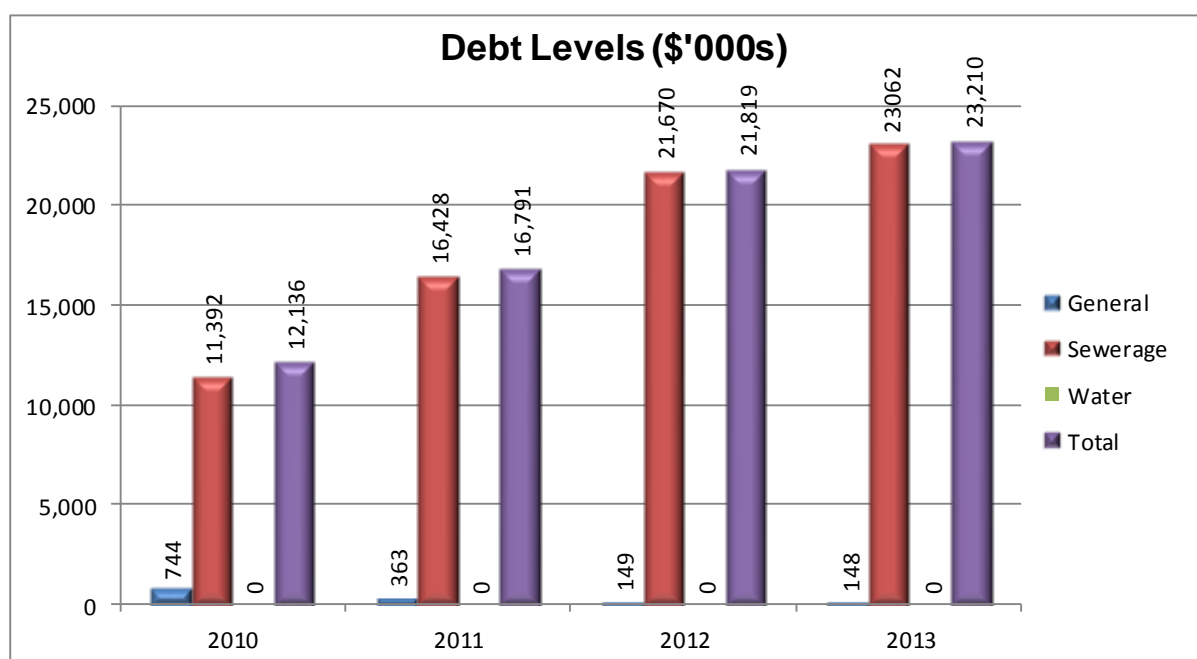
It is important that Council regularly re-assesses the remaining useful lives of assets and their condition in future revaluations. The depreciation charge should reflect the consumption of the asset over its useful life. Fair value reporting of assets will require adequate internal resources in order to ensure the information from asset management reporting systems is accurate, timely and reflects the consumption of the assets.

5.2.2. Loans

Council's overall debt position has increased during the year by \$1,391,000. Council drew on a new loan of \$2,418,000 in 2012/2013 for the Broadwater Sewerage Scheme and a new loan of \$290,000 for the general fund.

Council's general fund has loans totalling \$148,000 and sewer fund has loans totalling \$23,062,000 as at 30 June 2013. Council's water fund remains debt-free.

Council is projecting to repay \$1,218,000 of these loans in the forthcoming year.



Council is not projecting to borrow any additional loan funds for the next 3 years until 2016/2017, when Council projects borrowings of \$2,300,000 for additional sewer infrastructure.

6. KEY PERFORMANCE INDICATORS

Council's performance can be measured using selected financial indicators. The local government sector utilises certain key performance indicators to measure some aspects of its financial position and performance. Note 13 to the general purpose financial statements provides details of local government sector key performance indicators. We provide an analysis of some of these key performance indicators on a fund-by-fund basis.

When interpreting the ratios below it is important to recognise that they represent a measure of certain aspects of Council's operations at a particular point in time and do not provide a complete assessment of Council's financial performance or position nor do they consider the plans Council has in place to manage its operations into the future.

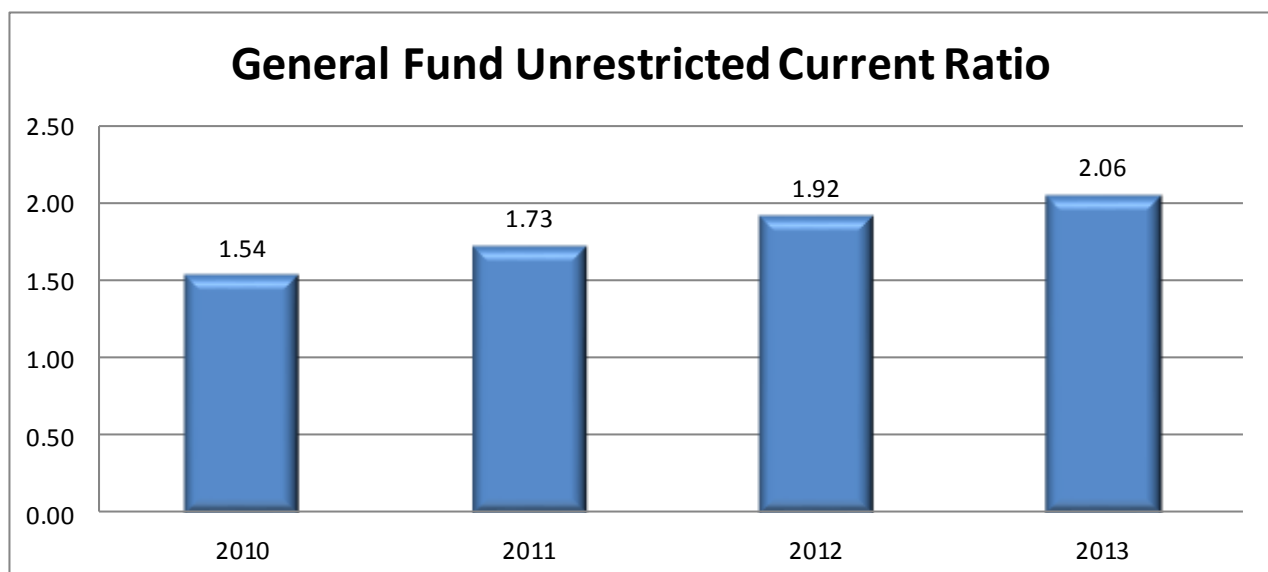
Unrestricted Current Ratio

The unrestricted current ratio represents Council's capacity to meet its commitments from current assets net of externally restricted cash, investments and receivables.

Factors influencing Council's unrestricted current assets ratio include:

- Planning and budgetary controls;
- Cash management and the timing of cash flows;
- The level of internally restricted assets; and
- Credit management policies and economic circumstances.

General Fund Unrestricted Current Ratio

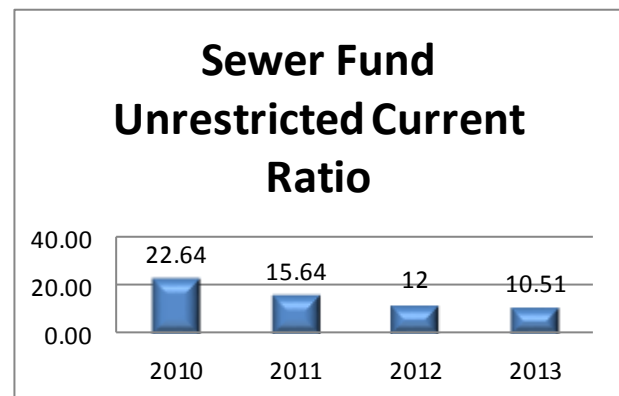
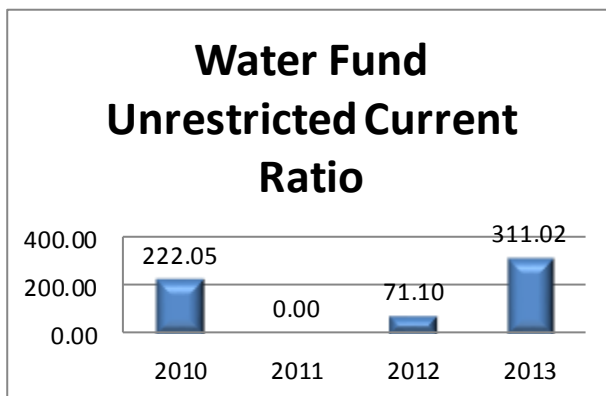


Council's general fund unrestricted current ratio has increased from 1.92 to 2.06, due to an increase in unrestricted current assets offset only slightly by an increase in unrestricted current liabilities. This means that Council has \$2.06 in unrestricted net current assets for every \$1 of unrestricted current liabilities.

An unrestricted current ratio of at least 1.5 is considered to be an appropriate level to allow Council to satisfy its day to day commitments and absorb any unforeseen expenses or reductions in revenue.

It is important to note that the unrestricted current ratio does not reflect Council's capacity to fund long term infrastructure needs nor the state of the infrastructure itself. As part of its asset management processes, Council needs to assess its infrastructure requirements and develop strategies to ensure the long-term viability (ability to provide services) of its assets.

Water and Sewer Fund Unrestricted Current Ratio



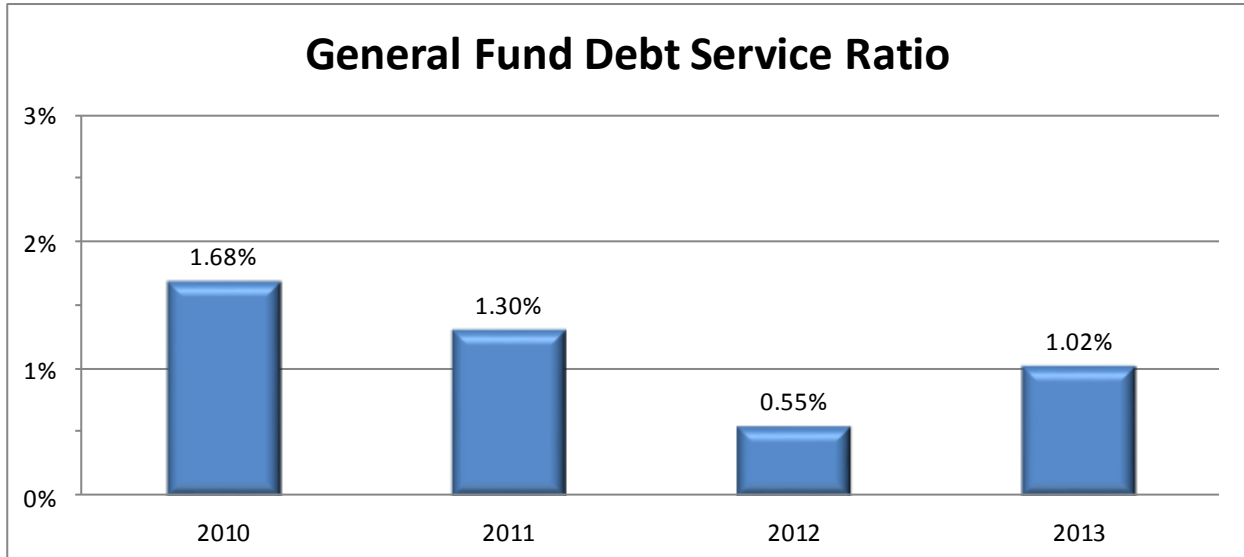
We note that the unrestricted current ratio for water and sewer activities may fluctuate significantly. Yearly fluctuations may result from the accumulation of internal reserves and the impact of debt levels and will continue to fluctuate in the future as further funds are collected and expended on infrastructure improvements.

Debt Service Ratio

This indicator assesses the degree to which revenues from continuing operations are committed to the repayment of debt. Factors influencing a council's debt service ratio include:

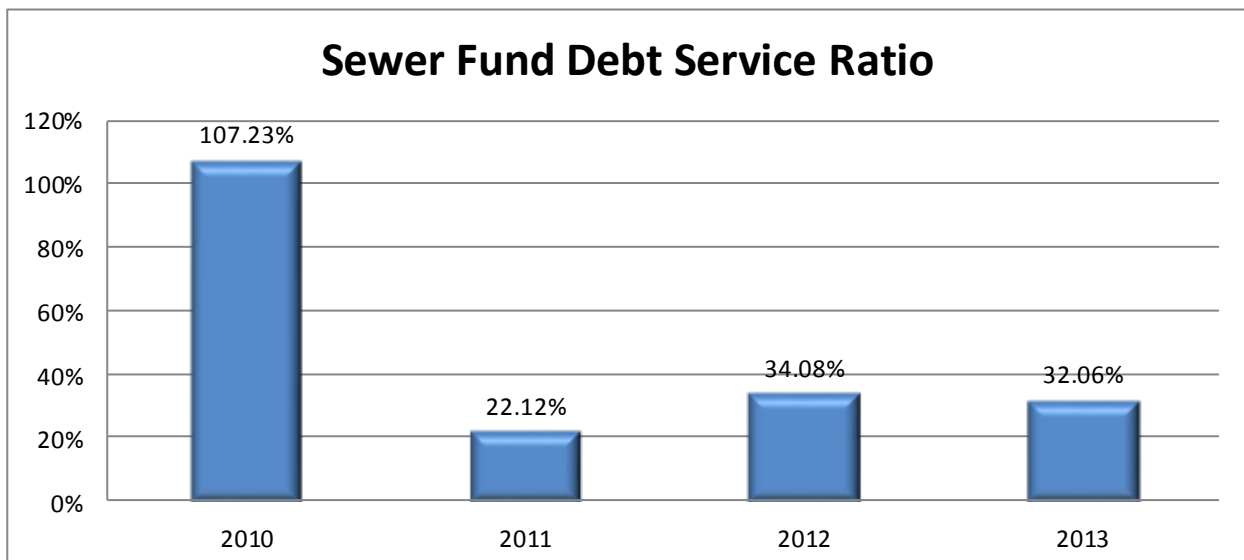
- The rate of new development in the Council area and the need to borrow to fund new infrastructure;
- Council's debt policy;
- Interest rate movements and loan terms;
- Capital investment strategies and capital contributions policies;
- The level of cash reserves available to reduce the level of borrowings; and
- The state of Council's infrastructure assets and the need to borrow to replace them.

General Fund Debt Service Ratio



Council's debt service ratio for general fund remained at a low level.

Sewer Fund Debt Service Ratio



Sewer fund has a slightly decreased debt service ratio from 34.08% at 2012 to 32.06% at 2013.

As noted at 5.2.2 of this report, sewer fund drew a new loan of \$2,418,000 in 2012/2013.

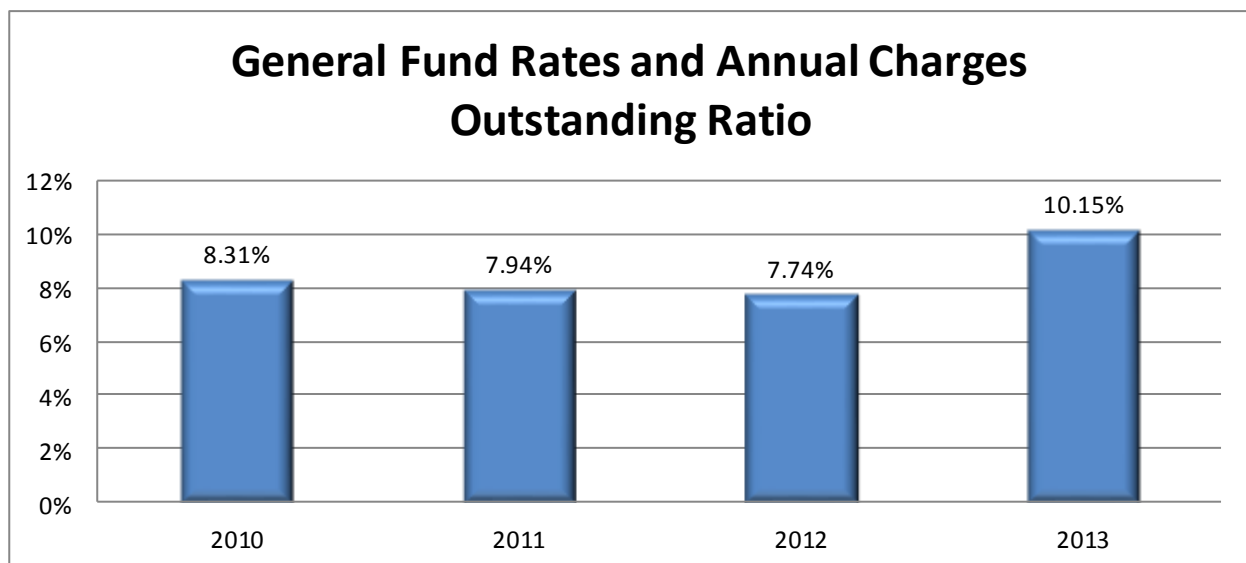
Water fund does not have any debt.

Rates and Annual Charges Outstanding Ratio

This indicator assesses the effectiveness of Council's revenue collection. Factors influencing Council's rates and annual charges outstanding ratio include:

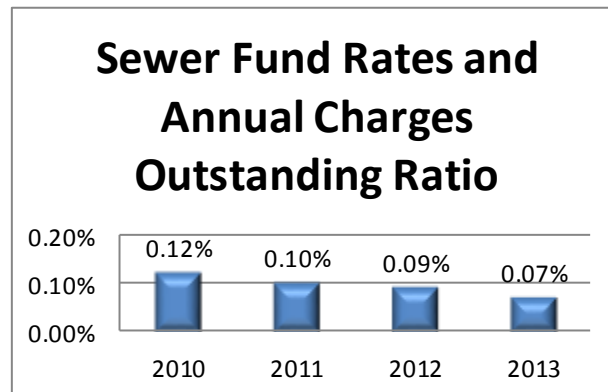
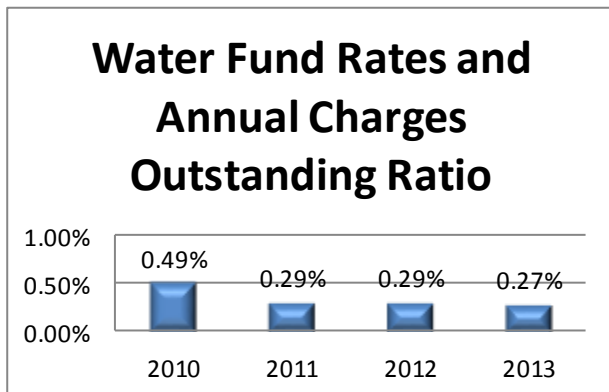
- Council's rating policy;
- Credit management policies;
- The socio-economic characteristics of the area; and
- Environmental factors influencing ratepayers' ability to satisfy their obligations.

General Fund Rates & Annual Charges Outstanding Ratio



Council's general fund rates and annual charges outstanding percentage has increased to 10.15% as at 30 June 2013. We suggest that it would be prudent for Council to review its policies and procedures to determine the level of outstanding rates and annual charges it wishes to maintain.

Water and Sewer Funds Rates & Annual Charges Outstanding Ratio



The above graphs illustrate the rates and annual charges outstanding ratio for water and sewer funds, which have remained relatively stable.

Buildings and Infrastructure Renewals Ratio

The purpose of this ratio is to assess the rate at which building and infrastructure assets are being renewed against the rate at which they are depreciating. Renewals are defined as replacement of existing assets with equivalent capacity or performance as opposed to the acquisition of new assets.

The consolidated building and infrastructure renewals ratio has increased from 32.77% to 42.28%.

This ratio should also be considered in conjunction with the level of new asset additions.


7. INTERNAL CONTROL ENVIRONMENT

No significant breakdowns of internal control were encountered during the course of our audit nor did we become aware of the existence of items comprising material error, sufficient to cause us to issue a modified audit opinion.

Subject to the foregoing comments the books of account and records of the Council were maintained in good order and condition and the information and explanations required during the course of our work were readily supplied by the General Manager and his staff.

Yours faithfully

THOMAS NOBLE & RUSSELL


G W DWYER (Partner)
Registered Company Auditor

**RICHMOND VALLEY COUNCIL
SPECIAL PURPOSE FINANCIAL STATEMENTS
INDEPENDENT AUDIT REPORT**

Report on the Financial Statements

We have audited the accompanying financial statements, being special purpose financial statements, of Richmond Valley Council (the Council), which comprises the statement of financial position as at 30 June 2013, the income statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the statement by Councillors' and Management.

Councils' Responsibility for the Financial Statements

The Council is responsible for the preparation of the financial statements and has determined that the basis of preparation described in Note 1 to the financial statements is appropriate to meet the requirements of the *Local Government Act 1993* and meet the needs of the Division of Local Government. The Council's responsibility also includes such internal control as the Council determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those 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 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 Council's preparation of the financial statements that gives a true and fair view 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 Council, as well as evaluating the overall presentation of the financial statements.

Our audit responsibility does not extend to the best practice management disclosures in note 2 and note 3, and accordingly, we do not express an opinion on such. In addition, our audit did not include an analysis of the prudence of business decisions made by Council or management.

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 have complied with the independence requirements of the Australian professional accounting bodies.

Audit Opinion

In our opinion, the special purpose financial statements of Richmond Valley Council:

- a) Have been prepared in accordance with the requirements of those applicable Australian Accounting Standards detailed in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting;
 - i. Are consistent with the Council's accounting records;
 - ii. Present fairly, in all material respects, the financial position of Council's nominated Business Activities as at 30 June 2013 and the results of their operations for the year then ended;
- b) All information relevant to the conduct of the audit has been obtained; and
- c) There are no material deficiencies in the accounting records or financial statements that we have become aware of in the course of the audit.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describes 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.

**THOMAS NOBLE & RUSSELL
CHARTERED ACCOUNTANTS**

A handwritten signature in dark ink, appearing to read 'G W Dwyer', is written over a horizontal dotted line.

G W DWYER (Partner)
Registered Company Auditor

Dated at Lismore this 15th day of October 2013.