



WALCHA COUNCIL ANNUAL REPORT

SPECIAL PURPOSE FINANCIAL REPORTS

FOR THE YEAR ENDED

30 JUNE 2012

WALCHA COUNCIL
Special Purpose Financial Statements
for the year ended 30th June 2012

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WALCHA NSW COUNCIL

SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

STATEMENT BY COUNCILLORS AND MANAGEMENT MADE PURSUANT TO THE LOCAL GOVERNMENT CODE OF ACCOUNTING PRACTICE AND FINANCIAL REPORTING

The attached special purpose Financial Statements have been drawn up in accordance with the Local Government Code of Accounting Practice and Financial Reporting and the

- NSW Government Policy Statement "*Application of National Competition Policy to Local Government*"
- Department of Local Government guidelines "*Pricing & Costing for Council Businesses: A Guide to Competitive Neutrality*".
- The NSW Office of Water, Department of Environment, Climate Change and Water "*Best Practice Management of Water Supply and Sewerage*" guidelines.

To the best of our knowledge and belief, these reports

- Present fairly the financial position and operating result for each of Council's declared Business Units for the year, and
- Accord with Council's accounting and other records

We are not aware of any matter that would render the reports false or misleading in any way.


Signed in accordance with a resolution of Council made on 29th August 2012



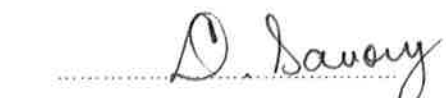
Clr William J Heazlett
MAYOR



Clr Kevin W Ferrier
COUNCILLOR



John G O'Hara
GENERAL MANAGER



David F. Savory
RESPONSIBLE ACCOUNTING OFFICER

| Special Purpose Financial Reports | | | | |
|--|------|--------------|--------------|--------------|
| WALCHA COUNCIL | | | | |
| INCOME STATEMENT | | | | |
| WATER SUPPLY BUSINESS ACTIVITY | | | | |
| for the year ended 30th June 2012 | | | | |
| | Note | 2012 '000 | 2011 '000 | 2010 '000 |
| INCOME FROM CONTINUING OPERATIONS | | | | |
| Access Charges | | 169 | 148 | 148 |
| User Charges | | 322 | 285 | 335 |
| Fees | | - | - | - |
| Interest Received | | 22 | 31 | 27 |
| Grants & Contributions - Operating | | 19 | 9 | 9 |
| Gain on Disposal of Assets | | 14 | - | 2 |
| Other Operating Revenues | | - | - | - |
| TOTAL | | <u>546</u> | <u>473</u> | <u>521</u> |
| EXPENSES FROM CONTINUING OPERATIONS | | | | |
| Employee Costs | | 273 | 264 | 270 |
| Materials & Contracts | | 254 | 212 | 213 |
| Borrowing Costs | | - | - | - |
| Depreciation & Amortisation | | 161 | 132 | 131 |
| Water Purchase Charges | | - | - | - |
| Loss on Disposal of Assets | | - | - | - |
| NCP Tax Equivalents | 1 | - | - | - |
| Debt Guarantee Fee | | - | - | - |
| Other Operating Expenses | | - | - | - |
| TOTAL | | <u>688</u> | <u>608</u> | <u>614</u> |
| CONTINUING OPERATIONS RESULT BEFORE CAPITAL AMOUNTS | | | | |
| | | (142) | (135) | (93) |
| Grants & Contributions - Capital | | 278 | - | - |
| RESULT FROM CONTINUING OPERATIONS | | <u>136</u> | <u>(135)</u> | <u>(93)</u> |
| Discontinued Operations | | - | - | - |
| SURPLUS (DEFICIT) BEFORE TAX | | <u>136</u> | <u>(135)</u> | <u>(93)</u> |
| Corporate Taxation Equivalent | 1 | - | - | - |
| SURPLUS (DEFICIT) FOR YEAR | | <u>136</u> | <u>(135)</u> | <u>(93)</u> |
| Add: Accumulated Surplus brought forward | | 5,694 | 5,829 | 5,921 |
| | | 841 | - | - |
| <i>Adjustments for amounts unpaid</i> | | - | - | - |
| NCP Tax Equivalents retained | 1 | - | - | - |
| Debt Guarantee Fee retained | 1 | 0 | - | - |
| Corporate Tax Equivalent retained | 1 | - | - | - |
| Less: Dividends Paid | 1 | - | - | - |
| ACCUMULATED SURPLUS | | <u>6,671</u> | <u>5,694</u> | <u>5,829</u> |
| RATE OF RETURN ON CAPITAL | 1 | NIL | N/A | N/A |
| NOTIONAL SUBSIDY FROM COUNCIL | 1 | N/A | N/A | N/A |
| <i>Calculation of Dividend Payable during next financial year</i> | | | | |
| Surplus after tax | | 0 | 0 | 0 |
| Less: Capital grants & contribs from LWUs | | 0 | 0 | 0 |
| Surplus for dividend calculation purposes | | <u>0</u> | <u>0</u> | <u>0</u> |
| Dividend calculated from surplus | | 0 | 0 | 0 |
| This Statement is to be read in conjunction with the attached Notes. | | | | |

| Special Purpose Financial Reports | | | | |
|---|-------|--------------|--------------|--------------|
| WALCHA COUNCIL | | | | |
| INCOME STATEMENT | | | | |
| SEWERAGE BUSINESS ACTIVITY | | | | |
| for the year ended 30th June 2012 | | | | |
| | Notes | 2012 '000 | 2011 '000 | 2010 '000 |
| INCOME FROM CONTINUING OPERATIONS | | | | |
| Access Charges | | 344 | 329 | 323 |
| User Charges | | - | - | - |
| Liquid Trade Waste Charges | | 13 | 14 | 16 |
| Fees | | - | - | - |
| Interest Received | | 50 | 47 | 28 |
| Grants & Contributions - Operating | | 9 | 9 | 9 |
| Gain on Disposal of Assets | | 7 | - | 1 |
| Other Operating Revenues | | - | - | - |
| TOTAL | | 423 | 399 | 377 |
| EXPENSES FROM CONTINUING OPERATIONS | | | | |
| Employee Costs | | 121 | 115 | 101 |
| Materials & Contracts | | 113 | 93 | 81 |
| Borrowing Costs | | 1 | 1 | 1 |
| Depreciation & Amortisation | | 76 | 66 | 64 |
| Loss on Disposal of Assets | | - | - | - |
| NCP Tax Equivalents | 1 | - | - | - |
| Debt Guarantee Fee | | - | - | - |
| Other Operating Expenses | | - | - | 1 |
| TOTAL | | 311 | 275 | 248 |
| CONTINUING OPERATIONS RESULT BEFORE CAPITAL AMOUNTS | | | | |
| | | 112 | 124 | 129 |
| Grants & Contributions - Capital | | - | - | - |
| RESULT FROM CONTINUING OPERATIONS | | 112 | 124 | 129 |
| Discontinued Operations | | - | - | - |
| SURPLUS (DEFICIT) BEFORE TAX | | 112 | 124 | 129 |
| Corporate Taxation Equivalent | 1 | 34 | 37 | 39 |
| SURPLUS (DEFICIT) FOR YEAR | | 78 | 87 | 90 |
| Add: Accumulated Profits brought forward | | 2,334 | 2,211 | 2,081 |
| Adjustments for amounts unpaid | | - | - | - |
| NCP Tax Equivalents retained | 1 | - | - | - |
| Debt Guarantee Fee retained | | - | - | - |
| Corporate Tax Equivalent retained | | 34 | 37 | 39 |
| Less: Dividends Paid | 1 | - | - | - |
| ACCUMULATED SURPLUS | | 2,446 | 2,335 | 2,210 |
| RATE OF RETURN ON CAPITAL | 1 | 2.70% | 1.69% | 1.80% |
| NOTIONAL SUBSIDY FROM COUNCIL | 1 | N/A | N/A | N/A |
| <i>Calculation of Dividend Payable during next financial year</i> | | | | |
| Surplus after tax | | 0 | 0 | 0 |
| Less: Capital grants & contribs from LWUs | | 0 | 0 | 0 |
| Surplus for dividend calculation purposes | | 0 | 0 | 0 |
| Dividend calculated from surplus | | 0 | 0 | 0 |

This Statement is to be read in conjunction with the attached Notes.

| Special Purpose Financial Reports | | | | | |
|--|---|--------------------------------|------------|---------------------------|------------|
| WALCHA COUNCIL | | | | | |
| INCOME STATEMENT BY BUSINESS ACTIVITIES | | | | | |
| for the year ended 30th June 2012 | | | | | |
| BUSINESS ACTIVITIES | | | | | |
| | | Private Contract Works '000 | | Concrete Batching '000 | |
| | | 2012 | 2011 | 2012 | 2011 |
| REVENUE FROM CONTINUING OPERATIONS | | | | | |
| Rates & Annual Charges | | - | - | - | - |
| User Charges & Fees | | 852 | 394 | 259 | 406 |
| Interest Received | | - | - | - | - |
| Grants & Contributions - Operating | | - | - | - | - |
| Gain on Disposal of Assets | | - | - | - | - |
| Other Operating Revenues | | - | - | - | - |
| TOTAL | | 852 | 394 | 259 | 406 |
| EXPENSES FROM CONTINUING OPERATIONS | | | | | |
| Employee Costs | | 182 | 91 | 30 | 37 |
| Materials & Contracts | | 543 | 243 | 227 | 353 |
| Borrowing Costs | | - | - | - | - |
| Depreciation & Amortisation | | - | - | 2 | 2 |
| Other Operating Expenses | | - | - | - | 2 |
| Loss on Disposal of Assets | | - | - | - | - |
| NCP Imputation Payments | | - | - | - | - |
| TOTAL | | 725 | 334 | 259 | 394 |
| CONTINUING OPERATIONS RESULT BEFORE CAPITAL AMOUNTS | | | | | |
| | | 127 | 60 | - | 12 |
| Grants & Contributions - Capital | | - | - | - | - |
| RESULT FROM ORDINARY ACTIVITIES | | 127 | 60 | - | 12 |
| Discontinued Operations | | - | - | - | - |
| SURPLUS (DEFICIT) BEFORE TAX | | 127 | 60 | - | 12 |
| Corporate Taxation Equivalent | 2 | 38 | 18 | - | 4 |
| SURPLUS (DEFICIT) FOR YEAR | | 89 | 42 | - | 8 |
| Add: Accumulated Profits brought forward | | 343 | 283 | 57 | 45 |
| NCP Imputation Payments retained | 1 | - | - | - | - |
| Less: Dividends Paid - TER | | - | - | - | - |
| - Surplus Dividend | 2 | - | 18 | - | 4 |
| ACCUMULATED SURPLUS | | 432 | 343 | 57 | 57 |
| RATE OF RETURN ON CAPITAL | 2 | N/A | N/A | NIL | N/A |
| NOTIONAL SUBSIDY FROM COUNCIL | 2 | N/A | N/A | N/A | N/A |

This Statement is to be read in conjunction with the attached Notes.

Special Purpose Financial Reports

WALCHA COUNCIL**BALANCE SHEET
WATER SUPPLY BUSINESS ACTIVITY
As at 30 June 2012**

| | Notes | 2012 '000 | 2011 '000 |
|---|-------|------------------|---------------|
| CURRENT ASSETS | | | |
| Cash & cash equivalents | | 407 | 379 |
| Investments | | - | - |
| Receivables | | 43 | 53 |
| Inventories | | - | - |
| Other | | - | - |
| Non-current assets held for sale | | - | - |
| TOTAL CURRENT ASSETS | | 450 | 432 |
| NON-CURRENT ASSETS | | | |
| Investments | | - | - |
| Receivables | | - | - |
| Inventories | | - | - |
| Infrastructure, Property, Plant & Equipment | | 15,873 | 15,382 |
| Investment Property | | - | - |
| Other | | - | - |
| TOTAL NON-CURRENT ASSETS | | 15,873 | 15,382 |
| TOTAL ASSETS | | 16,323 | 15,814 |
| CURRENT LIABILITIES | | | |
| Payables | | - | - |
| Interest bearing liabilities | | - | - |
| Provisions | | - | - |
| TOTAL CURRENT LIABILITIES | | - | - |
| NON-CURRENT LIABILITIES | | | |
| Payables | | - | - |
| Interest bearing liabilities | | - | - |
| Provisions | | - | - |
| TOTAL NON CURRENT LIABILITIES | | - | - |
| TOTAL LIABILITIES | | - | - |
| NET ASSETS | | \$ 16,323 | 15,814 |
| EQUITY | | | |
| Accumulated Surplus | | 6,671 | 5,694 |
| Asset Revaluation Reserve | | 9,652 | 10,120 |
| TOTAL EQUITY | | \$ 16,323 | 15,814 |

This Statement is to be read in conjunction with the attached Notes

Special Purpose Financial Reports

WALCHA COUNCIL
BALANCE SHEET
SEWERAGE BUSINESS ACTIVITY
As at 30th June 2012

| | Notes | 2012 '000 | 2011 '000 |
|---|-------|-----------------|--------------|
| CURRENT ASSETS | | | |
| Cash & cash equivalents | | 961 | 777 |
| Investments | | - | - |
| Receivables | | 29 | 29 |
| Inventories | | - | - |
| Other | | - | - |
| Non-current assets held for sale | | - | - |
| TOTAL CURRENT ASSETS | | <u>990</u> | <u>806</u> |
| NON-CURRENT ASSETS | | | |
| Investments | | - | - |
| Receivables | | - | - |
| Inventories | | - | - |
| Infrastructure, Property, Plant & Equipment | | 4,180 | 7,411 |
| Investment Property | | - | - |
| Other | | - | - |
| TOTAL NON-CURRENT ASSETS | | <u>4,180</u> | <u>7,411</u> |
| TOTAL ASSETS | | <u>5,170</u> | <u>8,217</u> |
| CURRENT LIABILITIES | | | |
| Payables | | - | - |
| Interest bearing liabilities | | 4 | 4 |
| Provisions | | - | - |
| TOTAL CURRENT LIABILITIES | | <u>4</u> | <u>4</u> |
| NON-CURRENT LIABILITIES | | | |
| Payables | | - | - |
| Interest bearing liabilities | | 7 | 12 |
| Provisions | | - | - |
| TOTAL NON CURRENT LIABILITIES | | <u>7</u> | <u>12</u> |
| TOTAL LIABILITIES | | <u>11</u> | <u>16</u> |
| NET ASSETS | | <u>\$ 5,159</u> | <u>8,201</u> |
| EQUITY | | | |
| Accumulated Surplus | | 2,446 | 2,335 |
| Asset Revaluation Reserve | | 2,713 | 5,866 |
| TOTAL EQUITY | | <u>\$ 5,159</u> | <u>8,201</u> |

This Statement is to be read in conjunction with the attached Notes

Special Purpose Financial Reports

WALCHA COUNCIL

BALANCE SHEET by BUSINESS ACTIVITIES
As at 30th June 2012

| | Notes | BUSINESS ACTIVITIES | | | |
|--------------------------------------|-------|--------------------------------|------------|---------------------------|-----------|
| | | Private Contract Works '000 | | Concrete Batching '000 | |
| | | 2012 | 2011 | 2012 | 2011 |
| CURRENT ASSETS | | | | | |
| Cash & cash equivalents | | 432 | 343 | 57 | 57 |
| Investments | | - | - | - | - |
| Receivables | | - | - | - | - |
| Inventories | | - | - | - | - |
| Other | | - | - | - | - |
| TOTAL CURRENT ASSETS | | 432 | 343 | 57 | 57 |
| NON-CURRENT ASSETS | | | | | |
| Investments | | - | - | - | - |
| Receivables | | - | - | - | - |
| Inventories | | - | - | - | - |
| Property, Plant & Equipment | | - | - | - | - |
| Equity accounted investments | | - | - | - | - |
| Investment Property | | - | - | - | - |
| Other | | - | - | - | - |
| TOTAL NON-CURRENT ASSETS | | - | - | - | - |
| TOTAL ASSETS | | 432 | 343 | 57 | 57 |
| CURRENT LIABILITIES | | | | | |
| Payables | | - | - | - | - |
| Interest bearing liabilities | | - | - | - | - |
| Provisions | | - | - | - | - |
| TOTAL CURRENT LIABILITIES | | - | - | - | - |
| NON-CURRENT LIABILITIES | | | | | |
| Payables | | - | - | - | - |
| Interest bearing liabilities | | - | - | - | - |
| Provisions | | - | - | - | - |
| TOTAL NON CURRENT LIABILITIES | | - | - | - | - |
| TOTAL LIABILITIES | | - | - | - | - |
| NET ASSETS | | \$ 432 | 343 | 57 | 57 |
| EQUITY | | | | | |
| Accumulated Surplus | | 432 | 343 | 57 | 57 |
| Asset Revaluation Reserve | | - | - | - | - |
| TOTAL EQUITY | | \$ 432 | 343 | 57 | 57 |

This Statement is to be read in conjunction with the attached Notes

WALCHA COUNCIL

NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE FINANCIAL REPORTS for the year ended 30 June 2012

Note 1 - SIGNIFICANT ACCOUNTING POLICIES

1. The Special Purpose Financial Reports

These financial statements are a Special Purpose Financial Report prepared for use by the Council, the Department of Local Government, and the NSW Office of Water, Department of Environment, Climate Change and Water. They have been prepared to report the results of business units determined by Council in accordance with the requirements of National Competition Policy guidelines, and the specific requirements relating to Best Practice Management of water and sewer business units.

In preparing these reports, each business unit has been viewed as a separate unit, and accordingly transactions between different business units, and between business units and other Council operations, have not been eliminated.

2. Basis of Accounting

2.1 Compliance

The financial reports comply with the Local Government Code of Accounting Practice and Financial Reporting, and with the principles of the June 1996 NSW Government Policy Statement "Application of National Competition Policy to Local Government", the Department of Local Government's July 1997 guidelines "Pricing & Costing for Council Businesses: A Guide to Competitive Neutrality" and the NSW Office of Water, Department of Environment, Climate Change and Water 2007 guidelines "Best-Practice Management of Water Supply and Sewerage".

Except where directed to the contrary by the above documents, the financial report also complies with all applicable Australian Accounting Standards and professional pronouncements, and is based on information consistent with that forming the basis of Council's general purpose Annual Financial Statements for the year.

2.2 Basis

The financial report has been prepared on the accrual basis of accounting and, except where specifically indicated in these Notes or in the Notes to the general purpose Annual Financial Statements, in accordance with the historical cost convention.

3. National Competition Policy

In accordance with the framework set out in the June 1996 NSW Government Policy Statement "Application of National Competition Policy to Local Government" and other guidelines and documentation in relation to this matter, Council has declared that the following are to be considered as Business Units:

Walcha Council Combined Water Supplies

Comprising the whole of the operations and assets of the water supply systems servicing the town of Walcha

Walcha Council Sewerage Service

Comprising the whole of the operations and assets of the sewerage reticulation and treatment system servicing the town of Walcha.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note 1 - Significant Accounting Policies (cont)

The Department of Local Government's July 1997 guidelines "*Pricing & Costing for Council Businesses: A Guide to Competitive Neutrality*" outline the process for identifying and allocating costs to activities and provide a standard disclosure requirements. These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, council subsidies, rate of return on investments in business units and dividends paid. The Department of Energy, Utilities and Sustainability's May 2004 guidelines "*Best-Practice Management of Water Supply and Sewerage*" include specific requirements relating to calculation and payment of "dividends" by water supply and sewerage business units.

3.1 Taxation Equivalent Payments

Council does not pay certain taxes and duties that are paid by equivalent private sector operations, but is liable for others. The Special Purpose Financial Reports disclose the effect of imputing these taxes to the declared business units at the several rates that would have applied to equivalent private sector operations. The NSW Office of Water, Department of Environment, Climate Change and Water's guidelines "*Best-Practice Management of Water Supply and Sewerage*" require that imputed amounts be paid into the general funds of the Council where it may be applied for any permitted purpose of the Local Government Act 1993 (as amended).

Details of the rates of each tax or duty applicable to each different business unit are set out in the table forming item 7 of this Note. The narration "applies" indicates that the tax or duty has in fact been paid to the taxing authority by the Business Unit, and that these costs have been included in actual Operating Expenses, and the narration "various" indicates that Council has based the calculation of imputed tax on the differing rates of tax or duty applicable to different purchases.

3.2 Council Rates, Charges & Fees

Council rates have been *imputed* in relation to all non-rateable land, and *applied* in relation to all rateable land, owned or exclusively used by all business units. Annual and User Charges, and Regulatory and Other Fees, have been *applied* in relation to all services supplied to business units by Council or other business units.

3.3 Loan & Debt Guarantee Fees

The debt guarantee fee is designed to ensure that Council's business units face equivalent commercial borrowing costs to private sector competitors. In order to calculate the debt guarantee fees, Council has determined the average differential between actual and commercial borrowing rates for each business unit.

3.4 Corporate Taxation Equivalent

In accordance with the Code of Local Government Accounting Practice and Financial Reporting, income taxation has been calculated on the Operating Result before Capital Amounts disclosed in the Statements of Financial Performance of the Special Purpose Financial Reports. No allowance has been made for non-deductible items, timing differences or carried forward losses. Australian Accounting Standard AASB 112 "Income Taxes" has not been applied.

3.5 Dividends Paid

In accordance with National Competition Policy guidelines, it is expected that business units will pay dividends to its owner, Council, equivalent to those paid by private sector competitors. In accordance with the Code of Local Government Accounting Practice and Financial Reporting, the rate of dividend paid has been expressed as a percentage of the Change in Net Assets Resulting from Operations after Taxation.

Council is permitted, but not required, to pay a dividend to the general funds of the Council from surpluses generated by water supply and sewerage operations. The maximum amount of such dividend permitted under the "*Best-Practice Management of Water Supply and Sewerage*" guidelines is set out at the foot of the relevant Statements of Financial Performance. Actual payment of the dividend is subject to compliance with the procedures set out in the guidelines.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note 1 - Significant Accounting Policies (cont)

3.6 Return on Investment (Rate of Return)

The Policy statement states that Category 1 businesses "would be expected to generate a rate of return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field." In accordance with the Code of Accounting Practice, the rate of return on monopoly businesses such as water and sewerage services has been set at an amount sufficient to cover costs and replace assets needed to maintain services. For competitive markets, the rate of return has been set equal to or better than the return on Commonwealth 10 year bonds.

In accordance with the Code of Accounting Practice, the rate of return has been calculated as the Operating Result before Capital Amounts plus Interest Expense expressed as a percentage of the carrying value of Property, Plant & Equipment at the reporting date.

3.7 Notional Subsidy from Council

Government policy requires that subsidies provided to customers and the funding of those subsidies must be explicitly disclosed. Subsidies occur where Council provides services on a less than cost recovery basis, or accepts a lower rate of return on its investment in the business unit than would be acceptable to a private sector competitor.

In accordance with the Code of Accounting Practice, this amount has been calculated as the dollar difference between the required and actual rates of return.

4. Special Rate Funds

The Local Government Act 1993 (as amended) requires that moneys raised by way of Special Rates (or for Domestic Waste Management) be used only for those purposes, except for "dividends" payable in accordance with the "Best-Practice Management of Water Supply and Sewerage" guidelines, which also impose limits on the amounts payable. Accordingly, *imputed* amounts in excess of the permitted limits have been retained in those funds, and added back to Accumulated Surplus.

For Business Units not involving Special Rate Funds, *imputed* amounts have been transferred to Council's General Fund and are available to Council for utilisation for other purposes.

All such amounts have been eliminated in the course of preparation of the Council's general purpose Annual Financial Statements.

5. Other Accounting Policies and Notes

Other accounting policies relating to the determination of revenues and expenses, and assets and liabilities, not specifically referred to above are reported in Note 1 to the Council's Annual Financial Statements, and should be read in conjunction with this Note. Note references in the Statements of Financial Performance of Business Activities and the Statement of Financial Position of Business Activities that are prefixed "A" refer to the Notes to the Annual Financial Statements.

6. Rounding

In accordance with the Code of Accounting Practice all amounts shown in these statements are in Australian currency and, other than Notes 2 & 3, have been rounded to the nearest thousand dollars; amounts in Notes 2 & 3 are shown in whole dollars to meet the requirements of the Department of Energy, Utilities and Sustainability.

7. National Competition Policy Notional Payments

The table forming part of this Note immediately follows.

Special Purpose Financial Reports

WALCHA COUNCIL

NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE FINANCIAL REPORTS

NOTE 1 Table - NATIONAL COMPETITION POLICY NOTIONAL PAYMENTS
for the year ended 30th June 2012

| BUSINESS ACTIVITIES | | | | | |
|---------------------|-------|------|------------------------|------|-------------------|
| | SEWER | | Private Contract Works | | Concrete Batching |
| | 2011 | 2012 | 2011 | 2012 | 2011 |
| WATER | | | | | |
| 2012 | | | | | 2011 |

| Category | 2 | 2 | 2 | 2 | 2 | 2 |
|----------|---|---|---|---|---|---|
|----------|---|---|---|---|---|---|

TAXATION EQUIVALENT PAYMENTS

Land Tax
Stamp Duty
Payroll Tax
Fringe Benefits Tax

| Rate | Rate | Rate | Rate | Rate | Rate |
|---------|---------|---------|---------|---------|---------|
| Applies | Applies | Applies | Applies | Applies | Applies |
| Applies | Applies | Applies | Applies | Applies | Applies |

COUNCIL RATES, CHARGES & FEES

See Note 1, Item 3.2

LOAN & DEBT GUARANTEE FEES

| | | | | | |
|-------|-------|-------|-------|-------|-------|
| 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
|-------|-------|-------|-------|-------|-------|

CORPORATE TAXATION EQUIVALENT

| | | | | | |
|-----|-----|-----|-----|-----|-----|
| 30% | 30% | 30% | 30% | 30% | 30% |
|-----|-----|-----|-----|-----|-----|

DIVIDENDS PAID

| | | | | | |
|-------|-------|-----|-------|-----|-----|
| 0.00% | 0.00% | N/A | 0.00% | N/A | N/A |
|-------|-------|-----|-------|-----|-----|

RATE OF RETURN ON CAPITAL

Required Rate of Return
Actual Rate of Return

| | | | | | |
|-----|-----|-------|-------|-----|-----|
| NIL | NIL | 2.70% | 1.69% | NIL | NIL |
| | | | | NIL | NIL |

| Special Purpose Financial Reports | | |
|---|-------------|--------|
| WALCHA COUNCIL | | |
| NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE STATEMENTS | | |
| for the year ended 30th June 2012 | | |
| Note 2 - BEST PRACTICE MANAGEMENT DISCLOSURES | | |
| - WATER SUPPLY | | |
| | 2012 | |
| | \$ | |
| <i>Values shown in this Note are expressed in WHOLE DOLLARS</i> | | |
| Calculation and Payment of Tax-Equivalents | | |
| (i) Calculated Tax Equivalents | | 0 |
| (ii) No of assessments multiplied by \$3/assessment | | 0 |
| (iii) Amounts payable for Tax Equivalents | | 0 |
| (iv) Tax Equivalents paid | | 0 |
| Dividend from Surplus | | |
| (i) 50% of Surplus before Dividends | | 0 |
| <i>(Calculated in accordance with Best Practice Management for Water Supply and Sewerage guidelines.)</i> | | |
| (ii) No of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment | | 0 |
| (iii) Cumulative Surplus before Dividends for 3 years to 30 June 2010, less cumulative dividends paid for 2 years to 30 June 2009 | | 0 |
| (iv) Maximum Dividend from Surplus | | 0 |
| <i>(least of (i), (ii) and (iii))</i> | | |
| (v) Dividend paid from Surplus | | 0 |
| Required Outcomes for 6 Criteria | | |
| (i) Completion of Strategic Business Plan (including Financial Plan) | | No |
| (ii) Pricing with full cost-recovery, without significant cross subsidies | | Yes |
| <i>(Item 2(a) in Table 1 on page 22 of Best Practice guidelines)</i> | | |
| Complying charges (Item 2(b) in Table 1) | | Yes |
| DSP with Commercial Developer Charges (Item 2(e) in Table 1) | | Yes |
| If Dual Water Supplies, Complying Charges (Item 2(g) in Table 1) | | Yes |
| (iii) Sound Water Conservation & Demand Management Implemented | | No |
| (iv) Sound Drought Management implemented | | Yes |
| (v) Complete Performance Reporting Form (by 15 September each year) | | Yes |
| (vi) Complete Integrated Water Cycle Management Evaluation | | Yes |
| (vii) Complete and implement Integrated Water Cycle Management Strategy | | No |
| National Water Initiative (NWI) Financial Performance Indicators | | |
| NWI F1 Total Revenue (Water) | \$'000 | 788 |
| NWI F4 Residential Revenue from Usage Charges (Water) | % | 65.58 |
| NWI F9 Written Down Replacement Cost of Fixed Assets (Water) | \$'000 | 15,873 |
| NWI F11 Operating Cost (OMA) (Water) | \$'000 | 527 |
| NWI F14 Capital Expenditure (Water) | \$'000 | |
| NWI F17 Economic Real Rate of Return (Water) | % | 0.63 |
| NWI F20 Capital Works Grants (Water) | \$'000 | |

Special Purpose Financial Reports

WALCHA COUNCIL**NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE STATEMENTS**
for the year ended 30th June 2012**Note 3 - BEST PRACTICE MANAGEMENT DISCLOSURES**
- SEWERAGEValues shown in this Note are expressed in **WHOLE DOLLARS**2012
\$**Calculation and Payment of Tax-Equivalents**

| | | |
|-------|--|-------|
| (i) | Calculated Tax Equivalents | 34 |
| (ii) | No of assessments multiplied by \$3/assessment | 2,529 |
| (iii) | Amounts payable for Tax Equivalents (lesser of (i) and (ii)) | 34 |
| (iv) | Tax Equivalents paid | 34 |

Dividend from Surplus

| | | |
|-------|---|---|
| (i) | 50% of Surplus before Dividends (Calculated in accordance with Best Practice Management for Water Supply and Sewerage guidelines.) | 0 |
| (ii) | No of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment | 0 |
| (iii) | Cumulative Surplus before Dividends for 3 years to 30 June 2010, less cumulative dividends paid for 2 years to 30 June 2009 | 0 |
| (iv) | Maximum Dividend from Surplus (least of (i), (ii) and (iii)) | 0 |
| (v) | Dividend paid from Surplus | 0 |

Required Outcomes for 4 Criteria

| | | |
|---------|---|-----|
| (i) | Complete current Strategic Business Plan (including Financial Plan) | No |
| (ii) | Pricing with full cost-recovery, without significant cross subsidies (Item 2(a) in Table 1 on page 18 of Best practice guidelines) | Yes |
| | Complying charges (a) Residential (Item 2(c) in Table 1) | Yes |
| | (b) Non-Residential (Item 2(c) in Table 1) | Yes |
| | (c) Trade Waste (Item 2(d) in Table 1) | Yes |
| | DSP with Commercial Developer Charges (Item 2(e) in Table 1) | No |
| | Liquid Trade Waste Approvals & Policy (Item 2(f) in Table 1) | Yes |
| (iii) | Complete Performance Reporting Form (by 15 September each year) | Yes |
| (iv) a. | Complete Integrated Water Cycle Management Evaluation | Yes |
| (iv) b. | Complete and implement Integrated Water Cycle Management Strategy | No |

National Water Initiative (NWI) Financial Performance Indicators

| | | |
|--|--------|-------|
| NWI F2 Total Revenue (Sewerage) | \$'000 | 366 |
| NWI F1C Written Down Replacement Cost of Fixed Assets (Sewerage) | \$'000 | 4,180 |
| NWI F1Z Operating Cost (Sewerage) | \$'000 | 234 |
| NWI F1E Capital Expenditure (Sewerage) | \$'000 | 0 |
| NWI F1E Economic Real Rate of Return (Sewerage) | % | 1 |
| NWI F2I Capital Works Grants (Sewer) | \$'000 | 0 |
| NWI F3 Total Income (Water & Sewerage) | \$'000 | 1,175 |
| NWI F5 Revenue from Community Service Obligations (Water & Sewerage) | % | 1 |
| NWI F1E Capital Expenditure (Water & Sewerage) | \$'000 | 0 |
| NWI F1E Economic Real Rate of Return (Water & Sewerage) | % | 1 |
| NWI F2C Dividend (Water & Sewerage) | \$'000 | 0 |
| NWI F2I Dividend Payout Ratio (Water & Sewerage) | % | 0 |
| NWI F2Z Net Debt to Equity (Water & Sewerage) | % | -6 |
| NWI F2Z Interest Cover (Water & Sewerage) | times | >100 |
| NWI F24 Net Profit after Tax (Water & Sewerage) | \$'000 | 248 |
| NWI F2E Community Service Obligations (Water & Sewerage) | \$'000 | 16 |

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Forsyths

Chartered Accountants

Armidale

92 Rusden Street
PO Box 114
Armidale NSW 2350

p +61 2 6773 8400
f +61 2 6772 9957
e armidale@forsyths.com.au

Forsyths Business Services Pty Ltd
ABN 46 182 781 401

INDEPENDENT AUDIT REPORT

Report on the special purpose financial statements

To Walcha Council

SCOPE

We have audited the special purpose financial statements of Walcha Council for the year ended 30th June 2012 comprising the Statement by Councillors and Management, Income Statement of Business Activities, Balance Sheet by Business Activities, and Note 1 to the Financial Statements. The financial statements include the results of the business activities of the Council and the entities it controlled at the year's end or from time to time during the year.

Councils' responsibility for the financial statements

The Council is responsible for the preparation and fair presentation of the financial statements and have determined that the accounting policies described in Note 1 to the financial statements, which form part of the financial statements, are appropriate to meet the requirements of the Division of Local Government and Council. The Councils' responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that 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 or the Division of Local Government. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

Knowledge with integrity

Liability limited by a scheme approved under the Professional Standards Legislation

ARMIDALE | COONABARABRAN | GUNNEDAH | TAMWORTH

The special purpose financial statements have been prepared for distribution to the Council and the Division of Local Government for the purpose of fulfilling the requirements of National Competition Policy reporting. We disclaim any assumption of responsibility for any reliance on this report or on the financial statements to which it relates to any person other than the Council or the Division of Local Government or for any purpose other than for which the report was prepared.

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

INDEPENDENCE

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

AUDIT OPINION

In our opinion, the Special Purpose Financial Statements of the Walcha Council for the year ended 30th June 2012 are presented fairly, in all material respects, in accordance with the requirements of those applicable Accounting Standards detailed in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting.

BASIS OF ACCOUNTING

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describe the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the financial reporting requirements of the Division of Local Government. As a result, the financial statements may not be suitable for another purpose.

Forsyths

Forsyths Business Services Pty Ltd

Paul Cornall

Paul Cornall
Principal

29th October 2012
92 Rusden Street Armidale

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