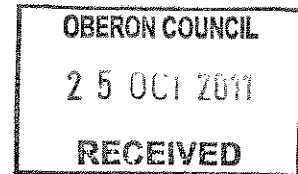


**MORSE | GROUP**  
ACCOUNTANTS & ADVISORS

C15.1  
FM(A)  
DCS(1)



MZS:804156

24 October 2011

General Manager  
Oberon Council  
PO Box 84  
OBERON NSW 2787

Dear Leanne

We advise having completed our audit of the Oberon Council's financial statements for the year ended 30 June 2011 and enclose the following:

- independent auditor's report on the general purpose financial report of Council;
- independent auditor's report on the special purpose financial report of Council; and
- independent auditor's report on the conduct of the audit of Council

Copies of the audit reports have been forwarded to the Division of Local Government as required by the Act.

If we can be of further assistance to you in relation to any of the above matters, please do not hesitate to contact me.

Yours faithfully  
MORSE GROUP

Per:

A handwritten signature in black ink, appearing to read "Leanne Smith".

LEANNE SMITH  
PARTNER



Liability limited by a scheme approved under  
Professional Standards Legislation

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INDEPENDENT AUDITOR'S REPORT TO THE COUNCIL  
ON THE GENERAL PURPOSE FINANCIAL STATEMENTS OF  
OBERON COUNCIL

Report on the Financial Statements

We have audited the accompanying general purpose financial statements of Oberon Council for the financial year ended 30 June 2011. The financial statements comprise the Statement by Councillors and Management, Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and accompanying Notes to the Financial Statements.

Council's Responsibility for the Financial Statements

The Council are responsible for the preparation and fair presentation of the financial statements in accordance with the Local Government Act 1993. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. Our audit responsibility does not extend to the original budget figures included in the Income Statement and Statement of Cash Flows, the original budget disclosures in Notes 2[a] and 16, nor the projected revenue and expenditure of developer contributions reported in Note 17 and accordingly, we express no opinion on them. 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Council, as well as evaluating the overall presentation of the financial statements.

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

Independence

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

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

This auditor's report relates to the general purpose financial statements of Oberon Council (Council) for the year ended 30 June 2011 included on Council's web site. Council is responsible for the integrity of Council's web site. We have not been engaged to report on the integrity of the web site. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements to confirm the information included in the audited financial statements presented on this web site.

### Audit Opinion

In our opinion:

- (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 prepared in accordance with the requirements of this Division;
  - (ii) are consistent with the Council's accounting records;
  - (iii) present fairly the Council's financial position, the results of its operations and cashflows; and
  - (iv) are in accordance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations).
- (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 in the course of the audit.

*Morse Group*  
MORSE GROUP

266 Howick Street  
Bathurst  
Dated: 24 October 2011

*Lianne Smith*  
LR SMITH  
PARTNER

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

Report on the Financial Statements

We have audited the special purpose financial statements of Oberon Council for the year ended 30 June 2011, comprising the Statement by Council, Income Statement by Business Activities, Balance Sheet by Business Activities, and accompanying Notes to the Financial Statements. Our audit responsibility does not extend to the best practice management disclosures in Notes 2 and 3 and accordingly we express no opinion on them.

Council's Responsibility for the Financial Statements

The Council are responsible for the preparation and fair presentation of the financial statements and have determined that the accounting policies described in Note 1 to the financial statements which form part of the financial statements are appropriate to meet the financial reporting requirements of the Council and the Division of Local Government for the purpose of fulfilling the requirements of National Competition Policy reporting. The Council's responsibility also includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 1, are appropriate to meet the needs of the Council. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council as well as evaluating the overall presentation of the financial statements.

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

Independence

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

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

This auditor's report relates to the special purpose financial statements of Oberon Council (Council) for the year ended 30 June 2011 included on Council's web site. Council is responsible for the integrity of Council's web site. We have not been engaged to report on the integrity of the web site. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements to confirm the information included in the audited financial statements presented on this web site.

## Audit Opinion

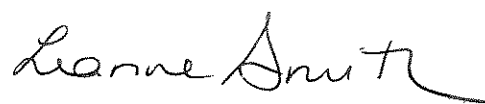
In our opinion, the special purpose financial statements of Oberon Council are presented fairly in accordance with the requirements of those applicable accounting policies detailed in Note 1, the accounting requirements of the Local Government Act 1993 and the Local Government Code of Accounting Practice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

## Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describes the basis of accounting. 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. As a result, the financial statements may not be suitable for another purpose. We disclaim any assumption of responsibility for any reliance on this report or on the financial statements to which it relates to any person other than the Council or the Division of Local Government or for any purpose other than for which the statements were prepared.

MORSE GROUP

266 Howick Street  
Bathurst  
Dated: 24 October 2011

  
LR SMITH  
PARTNER

24 October 2011

The Mayor  
Oberon Council  
PO Box 84  
OBERON NSW 2787

Dear Mr Mayor

**INDEPENDENT AUDITOR'S REPORT ON THE CONDUCT OF THE AUDIT - Section 417 (3)  
OBERON COUNCIL**

We advise having completed our audit of the financial statements of Oberon Council for the financial year ended 30 June 2011. Our audit resulted in the issuing of an unmodified audit report on both the general purpose and special purpose financial statements of Council.

In accordance with Section 417 of the Local Government Act 1993 we submit our report on the conduct of the audit of Oberon Council for the year ended 30 June 2011. Our audit reports on the general purpose financial statements of Council and the special purpose financial statements on Council's business units outline the legislative framework of our audit and should be referred to in order to establish the context in which our comments are made.

**Council's Responsibility for the Financial Statements**

The Council is responsible for the preparation and fair presentation of the financial statements in accordance with the Local Government Act 1993. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

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

The following comments are provided in accordance with Section 415 (3) of the Local Government Act 1993 and Regulation 227 of the Local Government (General) Regulation to assist in the understanding of the financial statements and our reports.

## Review of the Financial Statements

### (a) Operating Result

As disclosed in Council's Income Statement the year's operations resulted in a surplus from continuing operations after capital amounts of \$1,893,000 (2010 - \$3,263,000). Some items of note in the operating statement include:

#### Revenue

- The operating deficit from continuing operations *before* capital amounts was \$1,262,000 (2010 - \$696,000 surplus).
- Rates and annual charges increased by \$106,000 to \$3,679,000 (2010 - \$3,573,000). This increase reflects the 2.6% increase in rate pegging together with a slight increase in annual charges.
- User charges fees fell from \$4,519,000 in 2010 to \$4,326,000 in 2011 (decrease of \$193,000).

Whilst revenue from specific user charges (including water and sewerage) increased by \$262,000, income from private works and RTA charges for work on State Roads fell by a combined total of \$418,000.

- Operating grants and contributions increased to \$3,695,000, a \$508,000 increase on the prior year income of \$3,187,000.

Receipts under the Financial Assistance Grant were \$145,000 higher than 2010. In addition to this, RTA contributions increased by \$205,000, primarily due to upgrade works undertaken on Abercrombie Road.

- Capital grants and contributions increased by \$588,000 from \$2,567,000 in 2010 to \$3,155,000 for 2011.

The main contributor to this increase was \$644,000 received in bushfire and emergency services grant funding which related to RFS vehicles supplied to the Council area (2010 - nil). This was offset by reductions in other areas, including a decrease of \$183,000 in receipts from Forests NSW for work undertaken by Council on their behalf.

#### Expenditure

- Total employee costs increased by \$255,000 or 5.74%.

Whilst salaries and wages rose by just \$27,000 (0.67%), Council experienced increased costs in relation to its employee leave entitlements (increase of \$101,000) and workers compensation insurance (increase of \$85,000).

- At 30 June 2010, Council was required to revalue its roads, bridges, footpaths and stormwater drainage assets. Council's current year depreciation expense of \$3,487,000 is \$1,597,000 higher than the expense recorded for 2010 of \$1,870,000. Of this increase, \$1,486,000 relates to the asset classes which were revalued at the end of the 2009-'10 financial year.
- Council incurred net losses from the disposal of assets of \$500,000 for the 2011 year compared to a net gain for 2010 of \$224,000. The current year result is primarily due to the disposal of road infrastructure as a result of re-alignments on Abercrombie Road and Shooters Hill Road.

### (b) Financial Position

The Balance Sheet discloses that for the year ended 30 June 2011 Council's net assets stood at \$171,733,000 (2010 - \$167,505,000) which represents an increase of \$4,228,000. This comprised the surplus from continuing operations after capital amounts of \$1,893,000, and an adjustment to Council's asset revaluation reserve of \$2,335,000 which is primarily related to the indexation of Council's water and sewerage assets and the revaluation of Council's community land, land improvements, other structures, other assets and land under roads.

To assess the flexibility of Council's net current asset position it is necessary to review the level of restrictions placed against the use of Council's assets. The notes to the financial statements indicate clearly where restrictions exist and the effect of the restrictions is summarised on the below.

	2011 \$'000	2010 \$'000
Net current assets	3,749	3,177
Less: Amounts externally restricted for special purposes refer Notes 6; 7; & 8 of financial statements	(989)	(678)
Less: Council internally imposed restrictions [refer Note 6 of financial statements]	(1,392)	(1,360)
Less: Current real estate for resale not expected to be settled within 12 months	(1,104)	(783)
Add: Applicable current liabilities refer Note 10		
- Water	193	110
- Sewerage	10	16
- Other	320	258
- Current employee leave entitlements not expected to be paid within 12 months	730	1,008
	<u>730</u>	<u>1,008</u>
Unrestricted net current asset surplus/(deficit)	<u>1,517</u>	<u>1,748</u>
Unrestricted net current assets comprise:-		
<i>Assets</i>		
Cash	297	231
Receivables	2,076	1,648
Inventories	1,504	1,529
Other assets	10	204
Less: Current real estate for resale not expected to be settled within 12 months	(1,104)	(783)
	<u>2,783</u>	<u>2,829</u>
Less:		
<i>Liabilities</i>		
Payables	(1,019)	(749)
Provisions	(1,413)	(1,606)
Interest Bearing Liabilities	(87)	(118)
Add: Restricted liabilities per note 10	523	384
Add: Current employee leave entitlements not expected to be paid within 12 months	730	1,008
	<u>730</u>	<u>1,008</u>
	<u>(1,266)</u>	<u>(1,081)</u>
Unrestricted net current asset surplus/(deficit)	<u>1,517</u>	<u>1,748</u>

The positive unrestricted net current asset position of Oberon Council has decreased since the prior year, and will need continued management to ensure it remains positive in the subsequent financial years.

It is important to note that, as in the prior year, this result is underpinned by high levels of receivables and inventories. The realisation of these assets during 2011-'12 will impact Council's ability to provide services to the community. Until these assets are realised, Council's flexibility to respond to community needs as required may be restricted.



## Building and Infrastructure Renewals Ratio

The purpose of this ratio is to assess the rate at which infrastructure assets are being renewed against the rate at which they are depreciating.

Because the distinction between replacements, renewals and repairs is not well defined, it is difficult to make meaningful analysis from this ratio. Council's ratio at 30 June 2011 was 140.91% compared to 397.06% in 2010 and 316.80% in 2009. The impact of increased depreciation expense in the current year due to revaluations performed at 30 June 2010 needs to be considered in assessing this ratio.

## (d) Statement of Cash Flows

The Statement of Cash Flows reports a net decrease in cash assets held of \$551,000 (2010 - \$809,000) as follows:

	2011 \$'000	2010 \$'000
Cash flow provided by / (used in)		
Operating activities	5,018	3,971
Investing activities	(5,488)	(4,705)
Financing activities	(81)	(75)
Net increase / (decrease) in cash held	<u>(551)</u>	<u>(809)</u>

### Cash flows from Operating Activities

The cashflows from operating activities were higher than the previous year.

### Cash flows from Investing Activities

The net cash flow used in investing activities totalled \$5,488,000. The major cash outflows related to capital work on a number of roads throughout the Shire totaling \$2,356,000 plus an additional \$1,188,000 on bulk earthworks. The main road works undertaken during the year were Abercrombie Road and Shooters Hill Road. Plant and equipment additions for the year totalled \$1,112,000 which related primarily to the turnover of Council's motor vehicle fleet and purchases of heavy machinery.

### Cash flows from Financing Activities

The net cash flow used in financing activities was \$81,000. No borrowings were drawn in the current financial year.

Repayments were in line with the requirements of the loans.

## (e) Comparison of Actual and Budgeted Performance

Council's surplus from continuing operations after capital amounts of \$1,893,000 was \$3,304,000 less than Council's original estimated surplus of \$5,197,000.

The purpose of this report is not to provide detailed analysis of individual budget variations. Council's financial statements include Note 16, which addresses the contributing factors to these variations in detail.

## (f) Other Matters

### National Competition Policy

In accordance with the requirements of National Competition Policy guidelines, Oberon Council has prepared special purpose financial statements on its business units for the year ended 30 June 2011. Council has determined that it has two business units within its operations: Water and Sewerage.

## Liquidity

Note 6 to the accounts discloses total cash and investments (current and non-current) of \$3,797,000 (2010 - \$3,799,000). Of this amount \$2,108,000 (2010 - \$2,208,000) is subject to external restrictions requiring Council to commit those funds to the purposes for which they were provided and \$1,392,000 (2010- \$1,360,000) is subject to internal restrictions agreed upon by Council for designated purposes. These internal restrictions may be altered at the discretion of Council, consistent with their management plan.

The unrestricted balance of \$297,000 (2010 - \$231,000) represents funds available to cover non-budgeted discretionary expenditure and short-term cash flow requirements.

### (c) Performance Indicators

Note 13 to the Financial Statements provides a measure of Council's performance using a number of selected ratios as follows:

#### Unrestricted Current Ratio

The Unrestricted Current Ratio is a measure of Council's liquidity that demonstrates Council's ability to satisfy obligations out of short-term asset balances.

Council's ratio of 3.30:1 (2010 - 3.88:1) demonstrates a robust depth of liquidity. However, it could also indicate a need for Council to undertake a review and re-prioritisation of its major works, particularly those supported by internal restrictions.

As noted above, Council's current assets include high levels of receivables and inventories, which will need to be converted into cash before Council is able to fully utilise the value of these assets in its day to day operations.

We stress the importance of considering this ratio in conjunction with other performance indicators and not in isolation. The fact that this ratio is based upon consolidated funds should also be kept in mind as the ratios for individual funds (i.e. General, Water, Sewer and Town Improvement) may vary significantly.

#### Debt Service Ratio

The cost of repaying debt is reflected in the debt service ratio, which expresses that cost as a percentage of revenue from continuing operations.

Whilst there is no definitive guide on what constitutes an acceptable ratio it is generally accepted that a ratio of up to 20% depending on the level of long-term development (infrastructure) plans, is considered tolerable. At 1.05% (2010 - 1.05%) Oberon Council's ratio is well below this industry benchmark and the Council has the capacity to fund further debt should the growth in the need for infrastructure dictate. However, any future borrowings should be entered into only if Council can continue to meet its debt service requirements out of recurrent revenue.

#### Rates and Annual Charges Coverage Ratio

The ability of Council to meet community expectations for the delivery of services and provision of facilities is directly influenced by the discretion it can exercise in the allocation of resources.

In relation to rates, a high level of dependency on rates income provides Council with a degree of flexibility in the nature and timing of how funds are spent.

Oberon Council's ratio of 23.77% (2010 - 24.59%) is consistent with the prior year.

#### Rates and Annual Charges Outstanding Ratio

The rates and annual charges outstanding percentage is a measure of management efficiency. Whilst prevailing economic conditions may influence Council's ability to collect revenue, the efficiency and application of collection procedures are still the largest determinant of this ratio.

Oberon Council's rates and annual charges outstanding percentage of 8.99% (2010 - 8.99%) is consistent with the prior year, and will require concerted efforts in order to bring it back to a more acceptable level during the 2011-'12 financial year.

The Division of Local Government's July 1997 guidelines 'Pricing and Costing for Council Businesses: A Guide to Competitive Neutrality' outlines the process for identifying and allocating costs of activities and provide a standard of 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.

An unqualified audit report on the special purpose financial statements for the year ended 30 June 2011 has been issued.

#### Management letters

Interim management letters were issued on 21 March 2011 and 28 June 2011. Matters raised via management letters have been satisfactorily addressed.

A final report will be prepared upon completion of our year end review.

#### (g) Legislative compliance

As a result of our audit we advise that there are no material deficiencies in the accounting records or financial statements that have come to our attention during the conduct of the audit and that Oberon Council's accounting records have been kept in accordance with the requirements of the Local Government Act, 1993 and regulations.

#### (h) Matters Relating to the Electronic Presentation of the Audited Financial Statements

This auditor's report relates to the financial statements of Oberon Council (Council) for the year ended 30 June 2011 included on Council's web site. Council is responsible for the integrity of Council's web site. We have not been engaged to report on the integrity of the web site. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements to confirm the information included in the audited financial statements presented on this web site.

#### Conclusion

- (a) The Council's accounting records have been kept in a manner and form that facilitated the preparation of the general purpose financial statements and allowed proper and effective audit of this report;
- (b) The Council's accounting records have been kept in a manner and form that facilitated the preparation of the special purpose financial statements and allowed proper and effective audit of this report; and
- (c) All information relevant to the conduct of the audit has been obtained.

  
MORSE GROUP

266 Howick Street  
Bathurst  
Dated: 24 October 2011

  
LR SMITH  
PARTNER