

# Muswellbrook Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2011

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*“The ideal place to WORK, LIVE & PLAY”*



# Muswellbrook Shire Council

## Special Purpose Financial Statements

for the financial year ended 30 June 2011

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#### Background

- (i) These Special Purpose Financial Statements have been prepared for the use by both Council and the Division of Local Government in fulfilling their requirements under National Competition Policy.
- (ii) The principle of competitive neutrality is based on the concept of a "level playing field" between persons/entities competing in a market place, particularly between private and public sector competitors.

Essentially, the principle is that government businesses, whether Commonwealth, State or Local, should operate without net competitive advantages over other businesses as a result of their public ownership.

- (iii) For Council, the principle of competitive neutrality & public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation and **(b)** those activities with a turnover of over \$2 million that Council has formally declared as a Business Activity (defined as Category 1 activities).

- (iv) In preparing these financial statements for Council's self classified Category 1 businesses and ABS defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax equivalent regime payments & debt guarantee fees (where the business benefits from councils borrowing position by comparison with commercial rates).

## Muswellbrook Shire Council

### Special Purpose Financial Statements

for the financial year ended 30 June 2011

### 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 prepared in accordance with:**

- The NSW Government Policy Statement "Application of National Competition Policy to Local Government"
- The Division of Local Government Guidelines "Pricing & Costing for Council Businesses - A Guide to Competitive Neutrality"
- The Local Government Code of Accounting Practice and Financial Reporting.
- The NSW Office of Water (Department of Environment, Climate Change and Water) Guidelines - "Best Practice Management of Water and Sewerage".

**To the best of our knowledge and belief, these Financial Statements:**

- Present fairly the Operating Result and Financial Position for each of Council's declared Business Activities for the year, and
- Accord with Council's accounting and other records.

**We are not aware of any matter that would render these Statements false or misleading in any way.**

**Signed in accordance with a resolution of Council made on 10 October 2011.**

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Cr. M. Rush  
MAYOR

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Cr.K. Portolan  
COUNCILLOR

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Mr. S. McDonald  
GENERAL MANAGER

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Mr. G. O'Leary  
RESPONSIBLE ACCOUNTING OFFICER

## Muswellbrook Shire Council

## Income Statement of Council's Water Supply Business Activity

for the financial year ended 30 June 2011

\$ '000	Actual 2011	Actual 2010	Actual 2009
<b>Income from continuing operations</b>			
Access charges	1,222	1,191	1,181
User charges	2,651	3,080	2,648
Fees	-	-	-
Interest	875	672	442
Grants and contributions provided for non capital purposes	33	33	33
Profit from the sale of assets	-	1	17
Other income	300	383	190
<b>Total income from continuing operations</b>	<b>5,081</b>	<b>5,360</b>	<b>4,511</b>
<b>Expenses from continuing operations</b>			
Employee benefits and on-costs	582	659	597
Borrowing costs	252	246	256
Materials and contracts	2,093	2,362	1,708
Depreciation and impairment	1,107	1,066	1,024
Water purchase charges	164	114	161
Loss on sale of assets	-	-	-
Calculated taxation equivalents	5	8	3
Debt guarantee fee (if applicable)	33	32	19
Other expenses	253	316	215
<b>Total expenses from continuing operations</b>	<b>4,489</b>	<b>4,803</b>	<b>3,983</b>
<b>Surplus (deficit) from Continuing Operations before capital amounts</b>	<b>592</b>	<b>557</b>	<b>528</b>
Grants and contributions provided for capital purposes	960	806	608
<b>Surplus (deficit) from Continuing Operations after capital amounts</b>	<b>1,552</b>	<b>1,363</b>	<b>1,136</b>
Surplus (deficit) from discontinued operations	-	-	-
<b>Surplus (deficit) from ALL Operations before tax</b>	<b>1,552</b>	<b>1,363</b>	<b>1,136</b>
less: Corporate Taxation Equivalent (30%) [based on result before capital]	(178)	(167)	(158)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>1,374</b>	<b>1,196</b>	<b>978</b>
plus Opening Retained Profits	30,038	28,635	27,477
plus/less: Prior Period Adjustments	1,399	-	-
plus Adjustments for amounts unpaid:			
- Taxation equivalent payments	5	8	3
- Debt guarantee fees	33	32	19
- Corporate taxation equivalent	178	167	158
less:			
- Tax Equivalent Dividend paid	-	-	-
- Surplus dividend paid	-	-	-
<b>Closing Retained Profits</b>	<b>33,027</b>	<b>30,038</b>	<b>28,635</b>
<b>Return on Capital %</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.8%</b>
<b>Subsidy from Council</b>	<b>1,609</b>	<b>1,430</b>	<b>-</b>
<b>Calculation of dividend payable:</b>			
Surplus (deficit) after tax	1,374	1,196	978
less: Capital grants and contributions (excluding developer contributions)	-	-	-
<b>Surplus for dividend calculation purposes</b>	<b>1,374</b>	<b>1,196</b>	<b>978</b>
<b>Potential Dividend calculated from surplus</b>	<b>687</b>	<b>598</b>	<b>489</b>

## Muswellbrook Shire Council

## Income Statement of Council's Sewerage Business Activity

for the financial year ended 30 June 2011

\$ '000	Actual 2011	Actual 2010	Actual 2009
<b>Income from continuing operations</b>			
Access charges	2,547	2,131	2,108
User charges	275	489	304
Liquid Trade Waste charges	167	54	30
Fees	-	1	-
Interest	621	400	296
Grants and contributions provided for non capital purposes	33	33	33
Profit from the sale of assets	-	-	-
Other income	311	227	152
<b>Total income from continuing operations</b>	<b>3,954</b>	<b>3,335</b>	<b>2,923</b>
<b>Expenses from continuing operations</b>			
Employee benefits and on-costs	636	448	322
Borrowing costs	74	78	79
Materials and contracts	1,121	2,054	1,289
Depreciation and impairment	911	848	806
Loss on sale of assets	-	-	-
Calculated taxation equivalents	15	15	10
Debt guarantee fee (if applicable)	13	11	6
Other expenses	174	164	387
<b>Total expenses from continuing operations</b>	<b>2,944</b>	<b>3,618</b>	<b>2,899</b>
<b>Surplus (deficit) from Continuing Operations before capital amounts</b>	<b>1,010</b>	<b>(283)</b>	<b>24</b>
Grants and contributions provided for capital purposes	1,741	1,240	691
<b>Surplus (deficit) from Continuing Operations after capital amounts</b>	<b>2,751</b>	<b>957</b>	<b>715</b>
Surplus (deficit) from discontinued operations	-	-	-
<b>Surplus (deficit) from ALL Operations before tax</b>	<b>2,751</b>	<b>957</b>	<b>715</b>
less: Corporate Taxation Equivalent (30%) [based on result before capital]	(303)	-	(7)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>2,448</b>	<b>957</b>	<b>708</b>
plus Opening Retained Profits	27,301	26,318	25,587
plus/less: Prior Period Adjustments	-	-	-
plus Adjustments for amounts unpaid:			
- Taxation equivalent payments	15	15	10
- Debt guarantee fees	13	11	6
- Corporate taxation equivalent	303	-	7
less:			
- Tax Equivalent Dividend paid	-	-	-
- Surplus dividend paid	-	-	-
<b>Closing Retained Profits</b>	<b>30,080</b>	<b>27,301</b>	<b>26,318</b>
<b>Return on Capital %</b>	<b>2.5%</b>	<b>-0.5%</b>	<b>1.9%</b>
<b>Subsidy from Council</b>	<b>1,193</b>	<b>2,308</b>	<b>1,709</b>
<b>Calculation of dividend payable:</b>			
Surplus (deficit) after tax	2,448	957	708
less: Capital grants and contributions (excluding developer contributions)	(1)	-	-
<b>Surplus for dividend calculation purposes</b>	<b>2,447</b>	<b>957</b>	<b>708</b>
<b>Potential Dividend calculated from surplus</b>	<b>1,224</b>	<b>479</b>	<b>354</b>

## Muswellbrook Shire Council

## Income Statement of Council's Other Business Activities

for the financial year ended 30 June 2011

	Commercial Buildings			
	Actual 2011	Actual 2010	Actual 2011	Actual 2010
<b>\$ '000</b>				
<b>Income from continuing operations</b>				
Access charges	-	-	-	-
User charges	234	-	-	-
Fees	-	-	-	-
Interest	71	-	-	-
Grants and contributions provided for non capital purposes	-	-	-	-
Profit from the sale of assets	53	-	-	-
Other income	-	-	-	-
<b>Total income from continuing operations</b>	<b>358</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Expenses from continuing operations</b>				
Employee benefits and on-costs	-	-	-	-
Borrowing costs	11	-	-	-
Materials and contracts	124	-	-	-
Depreciation and impairment	65	-	-	-
Loss on sale of assets	-	-	-	-
Calculated taxation equivalents	75	-	-	-
Debt guarantee fee (if applicable)	6	-	-	-
Other expenses	171	-	-	-
<b>Total expenses from continuing operations</b>	<b>452</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Surplus (deficit) from Continuing Operations before capital amounts</b>	<b>(94)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Grants and contributions provided for capital purposes	-	-	-	-
<b>Surplus (deficit) from Continuing Operations after capital amounts</b>	<b>(94)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Surplus (deficit) from discontinued operations	-	-	-	-
<b>Surplus (deficit) from ALL Operations before tax</b>	<b>(94)</b>	<b>-</b>	<b>-</b>	<b>-</b>
less: Corporate Taxation Equivalent (30%) [based on result before capital]	-	-	-	-
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>(94)</b>	<b>-</b>	<b>-</b>	<b>-</b>
plus Opening Retained Profits	9,771	-	-	-
plus/less: Prior Period Adjustments	-	-	-	-
plus Adjustments for amounts unpaid:				
- Taxation equivalent payments	75	-	-	-
- Debt guarantee fees	6	-	-	-
- Corporate taxation equivalent	-	-	-	-
add:				
- Subsidy Paid/Contribution To Operations	-	-	-	-
less:				
- TER dividend paid	-	-	-	-
- Dividend paid	-	-	-	-
<b>Closing Retained Profits</b>	<b>9,758</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Return on Capital %</b>	<b>-2.2%</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<b>Subsidy from Council</b>	<b>284</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Muswellbrook Shire Council

## Balance Sheet of Council's Water Supply Business Activity

as at 30 June 2011

\$ '000	Actual 2011	Actual 2010
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	-	-
Investments	5,275	174
Receivables	2,669	2,092
Inventories	3	3
Other	-	-
Non-current assets classified as held for sale	-	-
<b>Total Current Assets</b>	<b>7,947</b>	<b>2,269</b>
<b>Non-Current Assets</b>		
Investments	9,021	12,941
Receivables	-	-
Inventories	-	-
Infrastructure, property, plant and equipment	47,083	43,788
Investments accounted for using equity method	-	-
Investment property	-	-
Other	-	-
<b>Total non-Current Assets</b>	<b>56,104</b>	<b>56,729</b>
<b>TOTAL ASSETS</b>	<b>64,051</b>	<b>58,998</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Bank Overdraft	-	-
Payables	167	162
Interest bearing liabilities	186	184
Provisions	251	212
<b>Total Current Liabilities</b>	<b>604</b>	<b>558</b>
<b>Non-Current Liabilities</b>		
Payables	-	-
Interest bearing liabilities	3,366	3,528
Provisions	22	22
<b>Total Non-Current Liabilities</b>	<b>3,388</b>	<b>3,550</b>
<b>TOTAL LIABILITIES</b>	<b>3,992</b>	<b>4,108</b>
<b>NET ASSETS</b>	<b>60,059</b>	<b>54,890</b>
<b>EQUITY</b>		
Retained earnings	33,027	30,038
Revaluation reserves	27,032	24,852
Council equity interest	60,059	54,890
Minority equity interest	-	-
<b>TOTAL EQUITY</b>	<b>60,059</b>	<b>54,890</b>

## Muswellbrook Shire Council

## Balance Sheet of Council's Sewerage Business Activity

as at 30 June 2011

\$ '000	Actual 2011	Actual 2010
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	-	-
Investments	4,076	5,042
Receivables	376	924
Inventories	-	-
Other	-	-
Non-current assets classified as held for sale	-	-
<b>Total Current Assets</b>	<b>4,452</b>	<b>5,966</b>
<b>Non-Current Assets</b>		
Investments	6,578	2,666
Receivables	-	-
Inventories	-	-
Infrastructure, property, plant and equipment	43,697	41,240
Investments accounted for using equity method	-	-
Investment property	-	-
Other	-	-
<b>Total non-Current Assets</b>	<b>50,275</b>	<b>43,906</b>
<b>TOTAL ASSETS</b>	<b>54,727</b>	<b>49,872</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Bank Overdraft	-	-
Payables	148	257
Interest bearing liabilities	46	43
Provisions	130	119
<b>Total Current Liabilities</b>	<b>324</b>	<b>419</b>
<b>Non-Current Liabilities</b>		
Payables	-	-
Interest bearing liabilities	1,065	1,111
Provisions	12	19
<b>Total Non-Current Liabilities</b>	<b>1,077</b>	<b>1,130</b>
<b>TOTAL LIABILITIES</b>	<b>1,401</b>	<b>1,549</b>
<b>NET ASSETS</b>	<b>53,326</b>	<b>48,323</b>
<b>EQUITY</b>		
Retained earnings	30,081	27,301
Revaluation reserves	23,245	21,022
Council equity interest	53,326	48,323
Minority equity interest	-	-
<b>TOTAL EQUITY</b>	<b>53,326</b>	<b>48,323</b>

## Muswellbrook Shire Council

## Balance Sheet of Council's Other Business Activities

as at 30 June 2011

\$ '000	Commercial Buildings			
	Category 2		Category 1/2	
	Actual 2011	Actual 2010	Actual 2011	Actual 2010
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	-	-	-	-
Investments	434	-	-	-
Receivables	30	-	-	-
Inventories	-	-	-	-
Other	-	-	-	-
Non-current assets classified as held for sale	-	-	-	-
<b>Total Current Assets</b>	<b>464</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non-Current Assets</b>				
Investments	701	-	-	-
Receivables	-	-	-	-
Inventories	1,312	-	-	-
Infrastructure, property, plant and equipment	3,858	-	-	-
Investments accounted for using equity method	-	-	-	-
Investment property	4,021	-	-	-
Other	-	-	-	-
<b>Total Non-Current Assets</b>	<b>9,892</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>10,356</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Bank Overdraft	-	-	-	-
Payables	-	-	-	-
Interest bearing liabilities	9	-	-	-
Provisions	-	-	-	-
<b>Total Current Liabilities</b>	<b>9</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non-Current Liabilities</b>				
Payables	-	-	-	-
Interest bearing liabilities	589	-	-	-
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
<b>Total Non-Current Liabilities</b>	<b>589</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>598</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET ASSETS</b>	<b>9,758</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EQUITY</b>				
Retained earnings	9,758	-	-	-
Revaluation reserves	-	-	-	-
Council equity interest	9,758	-	-	-
Minority equity interest	-	-	-	-
<b>TOTAL EQUITY</b>	<b>9,758</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Muswellbrook Shire Council

### Special Purpose Financial Statements

for the financial year ended 30 June 2011

#### Contents of the Notes accompanying the Financial Statements

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## Muswellbrook Shire Council

### Notes to the Special Purpose Financial Statements

for the financial year ended 30 June 2011

#### Note 1. Significant Accounting Policies

These financial statements are a Special Purpose Financial Statements (SPFS) prepared for use by Council and the Division of Local Government.

For the purposes of these statements, the Council's business activities (reported herein) are not reporting entities.

These special purpose financial statements, unless otherwise stated, have been prepared in accordance with;

- applicable Australian Accounting Standards,
- other authoritative pronouncements of the Australian Accounting Standards Board,
- Australian Accounting Interpretations,
- the Local Government Act and Regulation, and
- the Local Government Code of Accounting Practice and Financial Reporting.

The statements are also prepared on an accruals basis. They are based on historic costs and do not take into account changing money values nor current values of non-current assets (except where specifically stated).

Certain taxes and other costs (appropriately described) have been imputed for the purposes of the National Competition Policy.

#### National Competition Policy

Council has adopted the principle of 'competitive neutrality' to its business activities as part of the national competition policy which is being applied throughout Australia at all levels of government.

The framework for its application is set out in the June 1996 Government Policy statement on the "Application of National Competition Policy to Local Government".

The "Pricing & Costing for Council Businesses A Guide to Competitive Neutrality" issued by the Division of Local Government in July 1997 has also been adopted.

The pricing & costing guidelines outline the process for identifying and allocating costs to 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; return on investments (rate of return); and dividends paid.

#### Declared Business Activities

In accordance with *Pricing & Costing for Council Businesses - A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

##### Category 1

(where gross operating turnover is over \$2 million)

##### a. Water Supplies

Provision of potable water for the communities of Muswellbrook, Denman and Sandy Hollow

##### b. Sewerage Services

Provision of sewerage treatment and disposal for the communities of Muswellbrook and Denman.

##### Category 2

(where gross operating turnover is less than \$2 million)

##### a. Commercial Buildings

The provision of residential and commercial properties for lease and the sale of both development ready and surplus vacant land.

#### Monetary Amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest one thousand dollars, with the exception of some figures disclosed in Note 2 (Water Supply Best Practice Management Disclosures) and Note 3 (Sewerage Best Practice Management Disclosures).

As required by the NSW Office of Water (Department of Environment, Climate Change and Water) some amounts shown in Notes 2 and Note 3 are disclosed in whole dollars.

## Muswellbrook Shire Council

### Notes to the Special Purpose Financial Statements

for the financial year ended 30 June 2011

#### Note 1. Significant Accounting Policies (continued)

##### (i) Taxation Equivalent Charges

Council is liable to pay various taxes and financial duties in undertaking its business activities. Where this is the case, they are disclosed in these statements as a cost of operations just like all other costs.

However, where Council is exempt from paying taxes which are generally paid by private sector businesses (such as income tax), equivalent tax payments have been applied to all Council nominated business activities and are reflected in these financial statements.

For the purposes of disclosing comparative information relevant to the private sector equivalent, the following taxation equivalents have been applied to all council nominated business activities (this does not include council's non-business activities):

##### Notional Rate Applied %

###### Corporate Income Tax Rate – 30%

Land Tax – The first **\$387,000** of combined land values attracts **0%**. From \$387,001 to \$2,366,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$2,366,000, a premium marginal rate of **2.0%** applies.

Payroll Tax – **5.45%** on the value of taxable salaries and wages in excess of \$658,000.

In accordance with the guidelines for Best Practice Management of Water Supply and Sewerage, a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from Water Supply and Sewerage Business activities.

The payment of taxation equivalent charges, referred in the Best Practice Management of Water Supply and Sewerage Guides to as a “Dividend for Taxation equivalent”, may be applied for any purpose allowed under the Local Government Act, 1993.

Achievement of substantial compliance against the guidelines for Best Practice Management of Water Supply and Sewerage is not a prerequisite for the payment of the tax equivalent charges, however the payment must not exceed \$3 per assessment.

##### Income Tax

An income tax equivalent has been applied on the profits of the business.

Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account of in terms of assessing the rate of return required on capital invested.

Accordingly, the return on capital invested is set at a pre-tax level (gain/(loss) from ordinary activities before capital amounts) as would be applied by a private sector competitor – that is, it should include a provision equivalent to the corporate income tax rate, currently 30%.

Income Tax is only applied where a positive gain/(loss) from ordinary activities before capital amounts has been achieved.

Since this taxation equivalent is notional - that is, it is payable to the “Council” as the owner of business operations, it represents an internal payment and has no effect on the operations of the council. Accordingly, there is no need for disclosure of internal charges in Council's GPFS.

The rate applied of 30% is the equivalent company tax rate prevalent as at balance date. No adjustments have been made for variations that have occurred during the year.

##### Local Government Rates & Charges

A calculation of the equivalent rates and charges payable on all Category 1 businesses has been applied to all land assets owned or exclusively used by the business activity.

##### Loan & Debt Guarantee Fees

The debt guarantee fee is designed to ensure that council business activities face “true” commercial borrowing costs in line with private sector competitors.

In order to calculate a debt guarantee fee, council has determined what the differential borrowing rate would have been between the commercial rate and the council's borrowing rate for its business activities.

## Muswellbrook Shire Council

### Notes to the Special Purpose Financial Statements

for the financial year ended 30 June 2011

#### Note 1. Significant Accounting Policies (continued)

##### (ii) Subsidies

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. This option is exercised on a range of services in order for council to meet its community service obligations.

Accordingly, Subsidies disclosed (in relation to National Competition Policy) represents the difference between revenue generated from 'rate of return' pricing and revenue generated from prices set by the council in any given financial year.

The overall effect of subsidies is contained within the Income Statement of Business Activities.

##### (iii) Return on Investments (Rate of Return)

The Policy statement requires that councils with Category 1 businesses "would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field".

Such funds are subsequently available for meeting commitments or financing future investment strategies.

The Rate of Return on Capital is calculated as follows:

**Operating Result before Capital Income + Interest Expense**

**Written Down Value of I,PP&E as at 30 June**

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 5.21% at 30/6/11.

The actual rate of return achieved by each business activity is disclosed at the foot of each respective Income Statement.

##### (iv) Dividends

Council is not required to pay dividends to either itself as owner of a range of businesses or to any external entities.

Local Government Water Supply and Sewerage Businesses are permitted to pay an annual dividend from its water supply or sewerage business surplus.

The dividend, calculated and approved in accordance with the Best Practice Management Guidelines, must not exceed either **(i)** 50% of this surplus in any one year, or **(ii)** the number of water supply or sewerage assessments at 30 June 2011 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the guidelines for Best Practice Management of Water Supply and Sewerage, a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the NSW Office of Water prior to making the dividend and only after it has approved its payment.

## Muswellbrook Shire Council

### Notes to the Special Purpose Financial Statements for the financial year ended 30 June 2011

#### Note 2. Water Supply Business Best Practice Management disclosure requirements

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated)

2011

##### 1. Calculation and Payment of Tax-Equivalents

[All Local Government Local Water Utilities must pay this dividend for tax-equivalents]

(i)	Calculated Tax Equivalents	38,000
(ii)	No of assessments multiplied by \$3/assessment	17,604
(iii)	Amounts payable for Tax Equivalents [lesser of (i) and (ii)]	17,604
(iv)	Amounts actually paid for Tax Equivalents	

##### 2. Dividend from Surplus

(i)	50% of Surplus before Dividends [Calculated in accordance with Best Practice Management for Water Supply and Sewerage Guidelines]	687,200
(ii)	No. of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	158,436
(iii)	Cumulative surplus before Dividends for the 3 years to 30 June 2011, less the cumulative dividends paid for the 2 years to 30 June 2010 & 30 June 2009	3,547,900

2011 Surplus	1,374,400	2010 Surplus	1,195,900	2009 Surplus	977,600
		2010 Dividend	-	2009 Dividend	-

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	158,436
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment Criteria]	

##### 3. Required outcomes for 6 Criteria

[To be eligible for the payment of a "Dividend from Surplus", ALL the Criteria below need a "YES"]

(i)	Completion of Strategic Business Plan (including Financial Plan)	YES
(ii)	Full Cost Recovery, without significant cross subsidies [Refer Item 2(a) in Table 1 on page 22 of the Best Practice Guidelines]	YES
	- 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]	NO
(iii)	Sound Water Conservation and Demand Management implemented	YES
(iv)	Sound Drought Management implemented	YES
(v)	Complete Performance Reporting Form (by 15 September each year)	YES
(vi)	a. Integrated Water Cycle Management Evaluation	YES
	b. Complete and implement Integrated Water Cycle Management Strategy	YES

## Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements  
for the financial year ended 30 June 2011Note 2. Water Supply Business  
Best Practice Management disclosure requirements (continued)

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated)

2011

## National Water Initiative (NWI) Financial Performance Indicators

NWI F1	Total Revenue (Water) Total Income (w13) - Grants for the Acquisition of Assets (w11a) - Interest Income (w9)	\$'000	5,177
NWI F4	Revenue from Residential Usage Charges (Water) Income from Residential Usage Charges (w6b) x 100 divided by the sum of [Income from Residential Usage Charges (w6a) + Income from Residential Access Charges (w6b)]	%	63.09%
NWI F9	Written Down Replacement Cost of Fixed Assets (Water) Written down current cost of system assets (w47)	\$'000	46,879
NWI F11	Operating Cost (OMA) (Water) Management Expenses (w1) + Operational & Maintenance Expenses (w2)	\$'000	3,077
NWI F14	Capital Expenditure (Water) Acquisition of fixed assets (w16)	\$'000	827
NWI F17	Economic Real Rate of Return (Water) [Total Income (w13) - Interest Income (w9) - Grants for acquisition of assets (w11a) - Operating Costs (NWI F11) - Current Cost Depreciation (w3)] x 100 divided by [Written Down Current Cost of System Assets (w47) + Plant & Equipment (w33b)]	%	2.11%
NWI F26	Capital Works Grants (Water) Grants for the Acquisition of Assets (w11a)	\$'000	-

- Notes:
- References to w (eg. w12) refer to item numbers within Special Schedules No. 3 & 4 of Council's Annual Financial Statements.
  - The NWI Performance Indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators & Definitions.

## Muswellbrook Shire Council

### Notes to the Special Purpose Financial Statements for the financial year ended 30 June 2011

#### Note 3. Sewerage Business Best Practice Management disclosure requirements

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated)

2011

##### 1. Calculation and Payment of Tax-Equivalents

[All Local Government Local Water Utilities must pay this dividend for tax-equivalents]

(i)	Calculated Tax Equivalents	28,000
(ii)	No of assessments multiplied by \$3/assessment	16,800
(iii)	Amounts payable for Tax Equivalents [lesser of (i) and (ii)]	16,800
(iv)	Amounts actually paid for Tax Equivalents	

##### 2. Dividend from Surplus

(i)	50% of Surplus before Dividends [Calculated in accordance with Best Practice Management for Water Supply and Sewerage Guidelines]	1,223,500
(ii)	No. of assessments x (\$30 less tax equivalent charges per assessment)	151,200
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2011, less the cumulative dividends paid for the 2 years to 30 June 2010 & 30 June 2009	4,111,800

2011 Surplus	2,447,000	2010 Surplus	957,000	2009 Surplus	707,800
		2010 Dividend	-	2009 Dividend	-

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	151,200
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment Criteria]	

##### 3. Required outcomes for 4 Criteria

[To be eligible for the payment of a "Dividend from Surplus", ALL the Criteria below need a "YES"]

(i)	Completion of Strategic Business Plan (including Financial Plan)	YES
(ii)	Pricing with full cost-recovery, without significant cross subsidies [Refer Item 2(a) in Table 1 on page 22 of the 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]	YES
	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. Integrated Water Cycle Management Evaluation	YES
	b. Complete and implement Integrated Water Cycle Management Strategy	YES

## Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements  
for the financial year ended 30 June 2011Note 3. Sewerage Business  
Best Practice Management disclosure requirements (continued)

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Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated) 2011


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**National Water Initiative (NWI) Financial Performance Indicators**

<b>NWI F2</b>	Total Revenue (Sewerage) Total Income (s14) - Grants for Acquisition of Assets (s12a) - Interest Income (s10)	\$'000	5,087
<b>NWI F10</b>	Written Down Replacement Cost of Fixed Assets (Sewerage) Written down current cost of system assets (s48)	\$'000	43,611
<b>NWI F12</b>	Operating Cost (Sewerage) Management Expenses (s1) + Operational & Maintenance Expenses (s2)	\$'000	1,866
<b>NWI F15</b>	Capital Expenditure (Sewerage) Acquisition of Fixed Assets (s17)	\$'000	1,146
<b>NWI F18</b>	Economic Real Rate of Return (Sewerage) [Total Income (s14) - Interest Income (s10) - Grants for acquisition of Assets (s12a) - Operating cost (NWI F12) - Current cost depreciation (s3)] x 100 divided by [Written down current cost (ie. WDCC) of System Assets (s48) + Plant & Equipment (s34b)]	%	5.29%
<b>NWI F27</b>	Capital Works Grants (Sewerage) Grants for the Acquisition of Assets (12a)	\$'000	-

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**National Water Initiative (NWI) Financial Performance Indicators  
Water & Sewer (combined)**

<b>NWI F3</b>	Total Income (Water & Sewerage) Total Income (w13 + s14) + Gain/Loss on disposal of assets (w14 + s15) minus Grants for acquisition of assets (w11a + s12a) - Interest Income (w9 + s10)	\$'000	10,269
<b>NWI F8</b>	Revenue from Community Service Obligations (Water & Sewerage) Community Service Obligations (NWI F25) x 100 divided by Total Income (NWI F3)	%	0.64%
<b>NWI F16</b>	Capital Expenditure (Water & Sewerage) Acquisition of Fixed Assets (w16 + s17)	\$'000	1,973
<b>NWI F19</b>	Economic Real Rate of Return (Water & Sewerage) [Total Income (w13 + s14) - Interest Income (w9 + s10) - Grants for acquisition of assets (w11a + s12a) - Operating Cost (NWI F11 + NWI F12) - Current cost depreciation (w3 + s3)] x 100 divided by [Written down replacement cost of fixed assets (NWI F9 + NWI F10) + Plant & equipment (w33b + s34b)]	%	3.64%
<b>NWI F20</b>	Dividend (Water & Sewerage) Dividend paid from surplus (2(v) of Note 2 + 2(v) of Note 3)	\$'000	-
<b>NWI F21</b>	Dividend Payout Ratio (Water & Sewerage) Dividend (NWI F20) x 100 divided by Net Profit after tax (NWI F24)	%	0.00%

## Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements  
for the financial year ended 30 June 2011Note 3. Sewerage Business  
Best Practice Management disclosure requirements (continued)

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated)

2011

National Water Initiative (NWI) Financial Performance Indicators  
Water & Sewer (combined)

<b>NWI F22</b>	Net Debt to Equity (Water & Sewerage) Overdraft (w36 + s37) + Borrowings (w38 + s39) - Cash & Investments (w30 + s31) x 100 divided by [Total Assets (w35 + s36) - Total Liabilities (w40 + s41)]	%	-17.89%
<b>NWI F23</b>	Interest Cover (Water & Sewerage) Earnings before Interest & Tax (EBIT) divided by Net Interest  Earnings before Interest & Tax (EBIT): Operating Result (w15a + s16a) + Interest expense (w4a + s4a) - Interest Income (w9 + s10) - Gain/Loss on disposal of assets (w14 + s15) + Miscellaneous Expenses (w4b + w4c + s4b + s4c)  Net Interest: Interest Expense (w4a + s4a) - Interest Income (w9 + s10)		> 100
<b>NWI F24</b>	Net Profit After Tax (Water & Sewerage) Surplus before dividends (w15a + s16a) - Tax equivalents paid (Note 2-1(iv) + Note 3-1(iv))	\$'000	4,369
<b>NWI F25</b>	Community Service Obligations (Water & Sewerage) Grants for Pensioner Rebates (w11b + s12b)	\$'000	66

- Notes:
1. References to w (eg. s12) refer to item numbers within Special Schedules No. 5 & 6 of Council's Annual Financial Statements.
  2. The NWI Performance Indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators & Definitions.

**MUSWELLBROOK SHIRE COUNCIL**  
**SPECIAL PURPOSE FINANCIAL STATEMENTS**  
**INDEPENDENT AUDITORS' REPORT**

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**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying **special purpose financial statements** of **Muswellbrook Shire Council**, which comprises the Balance Sheet as at 30 June 2011, Income Statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the Statement by Councillors and Management.

**Responsibility of Council 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 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 Division of Local Government. This responsibility includes the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error; designing, implementing 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. 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. Our audit responsibility does not extend to the best practice management disclosures in Notes 2 and 3 and, accordingly, no opinion is expressed on these disclosures.

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 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.

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Our audit did not involve 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 followed applicable independence requirements of Australian professional ethical pronouncements.

***Auditor's Opinion***

In our opinion, the special purpose financial statements of the Council are presented fairly in accordance with the requirements of those applicable Accounting Standards detailed in Note I and the Local Government Code of Accounting Practice and Financial Reporting.

***Basis of Accounting***

Without modifying our opinion, we draw attention to Note I 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.

**HILL ROGERS SPENCER STEER**



**BRETT HANGER**

Partner

Dated at Sydney this 31st day of October 2011