

INDEPENDENT AUDITORS' REPORT

13 September 2006

The Administrator

Mr Dick Persson

Warringah Council

Pittwater Road

DEE WHY NSW 2099

Dear Sir,

Audit Report - Year Ended 30 June 2006

We are pleased to advise completion of the audit of Council's books and records for the year ended 30 June 2006 and that all information required by us was readily available. We have signed and attached our reports as required under Section 417(1) of the Local Government Act, 1993 and the Local Government Code of Accounting Practice and Financial Reporting to the General and Special Purpose Financial Reports.

Our audit has been conducted in accordance with Australian Auditing Standards so as to express an opinion on both the General and Special Purpose Financial Reports of the Council. We have ensured that the accounts have been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS) and the Local Government Code of Accounting Practice and Financial Reporting.

Australian equivalents to International Financial Reporting Standards (AIFRS) were applied for the first time in the preparation of Council's financial statements. The basis of the preparation is outlined in Note 1.1 of the financial statements. Reconciliations and explanations of the effect of the transition to AIFRS regarding the recognition, measurement and disclosure of assets and liabilities are disclosed in Note 21.

This report on the conduct of the audit is also issued under Section 417(1) and we now offer the following comments on the financial statements and the audit;

I. RESULTS FOR THE YEAR

1.1 Operating Result

The operating result for the year was a Surplus of \$6.829 million as compared with \$9.050 million in the previous year. The following table sets out the results for the year and the extent (%) that each category of revenue and expenses contributed to the total.

	2006	% of Total	2005	% of Total	Inc (Dec)
	\$000	\$000	\$000	\$000	\$000
Revenues before capital items					
Rates & annual charges	60,962	59%	59,468	60%	1,494
User charges, fees & other revenues	25,602	25%	24,651	25%	951
Grants & contributions provided for operating purposes	10,447	10%	8,796	9%	1,651
Interest & investment revenue	5,540	5%	5,385	5%	155
	102,551	100%	98,300	100%	4,251
Expenses					
Employee benefits & costs	38,676	40%	35,091	39%	3,585
Materials, contracts & other expenses	46,124	47%	42,903	47%	3,221
Depreciation, amortisation	11,785	12%	11,803	13%	(18)
Borrowing costs	942	1%	1,013	1%	(71)
	97,527	100%	90,810	100%	6,717
Surplus (Deficit) before minority interests	\$5,024		\$7,490		\$(2,466)
Grants & contributions provided for capital purposes	2,910		2,916		(6)
Surplus (Deficit) before minority interests	\$7,934		10,406		\$(2,472)
Attributable to minority interests	(1,105)		(1,356)		251
Net surplus (Deficit) for the year	\$6,829		\$9,050		\$(2,221)

The table above shows an overall decrease over the previous year of \$2.221 million. Fluctuations of note consisted of;

- > rates levied increased by \$2.115 million to \$51.176 million.
- > domestic waste management charges decreased by \$621,000 to \$9.786 million.
- > employee costs increased as a result of increased staff numbers - salary and wages increased (up \$2.325 million) along with employee leave entitlements and superannuation contributions (up \$1.559 million), however there were savings in workers compensation costs (down \$419,000) as a result of improved risk management practices and in legal fees (down \$592,000).

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1.2 Funding Result

The operating result does not take into account all revenues and all expenditures and in reviewing the overall financial performance of Council it is useful to take into account the total source of revenues and where they were spent during the year which is illustrated in the table below.

	2006	2005
<i>Funds were provided by:</i>	\$000	\$000
Operating result (as above)	6,829	9,050
Equity adjustments in the adoption of new accounting standards	161	0
Add back non funding items:		
Depreciation, amortisation & impairment	11,785	11,803
Book value of non current assets sold	3,899	2,706
(Gain) Loss of fair value to investment properties	(40)	20
(Surplus) Deficit in joint ventures	320	384
	22,954	23,963
Finance Leases	513	661
Transfers from externally restricted assets (net)	5,193	4,733
Increase in minority interests	0	206
Net changes in current/non current assets & liabilities	0	5,550
	28,660	35,113
<i>Funds were applied to:</i>		
Purchase & construction of assets	(19,420)	(16,905)
Increase/purchase in non current investments	(154)	(8,000)
Principal repaid on loans	(794)	(758)
Finance lease instalments	(665)	(794)
Transfers to internal reserves (net)	(733)	(6,418)
Capital contributions to joint ventures	(409)	(412)
Decrease in minority interests	(1,982)	0
Net charges in current/non current assets & liabilities	(253)	0
	(24,410)	(33,287)
Increase/(decrease) in available working capital	4,250	1,826

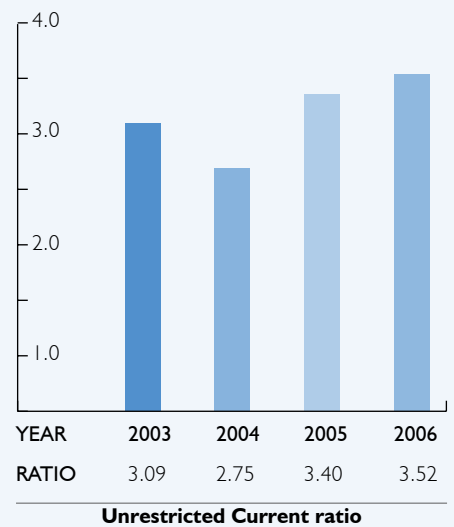
2 Financial Position

2.1 Current Ratios

The Current Ratio is a good indicator of the ability of a business to meet its debts and obligations as they fall due. Current assets exceeded current liabilities by \$58.5 million representing a factor of 3.23 to 1.

The *Unrestricted Current Ratio* is a more specific financial indicator used in local government. Current liabilities that are not expected to be paid within the following 12 months & externally restricted assets are excluded from the above measure of liquidity.

The *Unrestricted Current Ratio* at the close of the year was 3.52 to 1 and it in fact represents the general funds of Council.



2.2 Available Working Capital (Working funds)

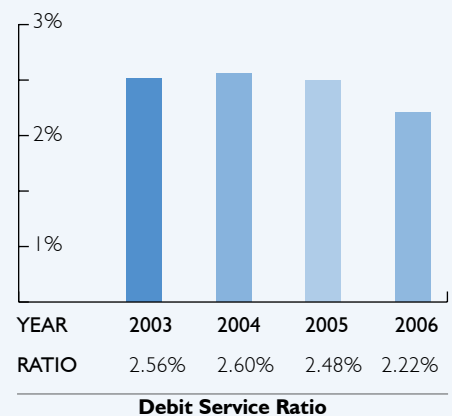
At the close of the year the Available Working Capital of Council stood at \$15.245 million as detailed below;

	2006 \$000	2005 \$000	Change \$000
Net Current Assets (Working Capital) as per accounts	58,500	60,340	(1,840)
Add: payables & provisions not expected to be realised in the next 12 months included above	9,090	9,439	(349)
Adjusted net current assets	67,590	69,779	(2,189)
Add: budget expected to pay in the next 12 months			
-Borrowings	2,814	1,472	1,342
-Employees leave entitlements	3,778	2,886	892
-Self insurance claims	327	445	(118)
-Deposits & retention moneys	1,478	1,615	(137)
Less: Externally restricted assets	(24,869)	(30,062)	5,193
Less: Internally restricted assets	(35,873)	(35,140)	(733)
Available Working Capital as at 30 June	15,245	10,995	\$4,250

The balance of Available Working Capital should be at a level to manage Council's day to day operations including the financing of hard core debtors, stores and to provide a buffer against unforeseen and unbudgeted expenditures. Taking into consideration the nature and level of the internally restricted assets (Reserves) set aside the Available Working Capital as at 30 June 2006 was, in our opinion, sound.

2.3 Debt

Operating revenue (excluding special purpose grants and contributions) required to service debt (loan repayments) was 2.22%.



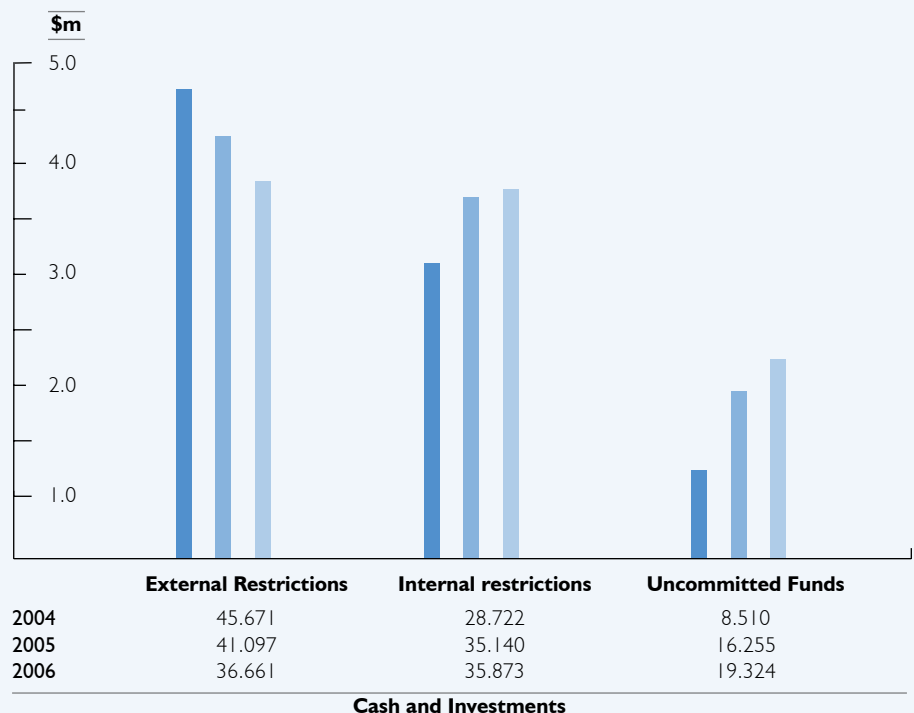
2.4 Summary

Council's overall financial position, when taking into account the above financial indicators is, in our opinion, sound.

3.1 Cash & Investment Securities

Highly liquid cash and investments (\$79.704 million) and investments held with maturity dates beyond 12 months (\$12.154 million) totalled \$91.858 million at the close of the year as compared with \$92.492 million in 2005 and \$82.903 million in 2004. The chart alongside summarises the purposes for which cash and investments securities were held.

Externally restricted cash and investments are restricted in their use by externally imposed requirements and consisted of unexpended development contributions under Section 94 (\$24.180 million), domestic waste management charges (\$2.588 million), sportsfield rectification levies (\$4.571 million), environmental stormwater management levies (\$2.834 million) and specific purpose grants and contributions (\$2.488 million).



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Internally restricted cash and investments

have been restricted in their use by resolution or policy of Council to reflect forward plans, identified programs of works, and are, in fact, Council's "Reserves". These Reserves totalled \$35.873 million and their purposes are more fully disclosed in Notes 6 of the financial statements.

Unrestricted cash and investments amounted to \$19.324 million, which are available to provide liquidity for day to day operations and form the basis of Council's sound financial position.

3.2 Cash Flows

The Statement of Cash Flows illustrates the flow of cash (highly liquid cash and investments) moving in and out of Council during the year and reveals that cash decreased by \$788,000 to \$79.704 million at the close of the year.

In addition to operating activities which contributed net cash of \$21.492 million were the proceeds from the sale of assets (\$2.221 million) and new finance lease commitments (\$513,000). Cash outflows other than operating activities were used to repay loans (\$794,000), pay finance lease installments (\$665,000), contribute capital to the Rural Fire Service (\$409,000), make distributions to minority interests in the Kimbriki joint venture (\$3.797 million) and to purchase and construct assets (\$19.349 million).

4. RECEIVABLES

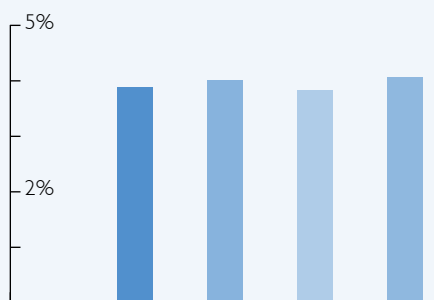
4.1 Rates & Annual Charges (excluding interest & extra charges)

Net rates and annual charges levied during the year totalled \$60.962 million and represented 57.81% (2005- 58.75%) of Council's total revenues.

Including arrears, the total rates and annual charges collectible was \$63.056 million of which \$60.795 million (96.4%) was collected.

4.2 Rates, Annual & Extra Charges

Arrears of rates, annual & extra charges stood at \$2.594 million at the end of the year & represented 4.08% of those receivables.



YEAR	2003	2004	2005	2006
RATIO	3.97%	4.01%	3.93%	4.08%

Rates, Annual & Extra Charges Outstanding

4.3 Other Receivables

Receivables (other than rates & annual charges) totalled \$2.514 million and mainly consisted of user charges and fees (\$1.565 million) and amounts due from government departments (\$734,000). Those considered to be uncertain of collection have been provided for as doubtful debts and this provision amounted to \$299,000.

5. PAYABLES

5.1 Self Insurance

Workers Compensation insurance claims have been actuarially assessed at \$1.021 million (2005- \$1.469 million) and a bank guarantee is held to cover these claims as required by the Workcover Authority of NSW.

Public Liability & Professional Indemnity claims payable by Council (ie up to the excess layer) have been actuarially assessed at \$636,000 (2005- \$1.171 million) and is fully funded with internally restricted cash and investments.

5.2 Employees Leave Entitlements

Council's provision for its liability toward employees leave entitlements and associated on costs amounted to \$9.668 million. Internally restricted cash and investments of \$2.738 million was held representing 28.32% of this liability and was, in our opinion, sufficient to meet unbudgeted and unanticipated retirements.

5.3 Deposits, Retentions & Bonds

Deposits, retentions and bonds held at year end amounted to \$5.098 million of which \$1.478 million was held in internally restricted cash and investments, representing 29% of the liability.

6. CONCLUSION

We wish to record our appreciation to your General Manager and his staff for their ready cooperation and the courtesies extended to us during the conduct of the audit.

Yours faithfully,
SPENCER STEER
Chartered Accountants
N. MAH CHUT
Partner

GENERAL PURPOSE FINANCIAL REPORT

Independent Auditors' Report

SCOPE

We have audited the *general purpose financial report* of Warringah Council for the year ended 30 June 2006, comprising the Statement by Councillors and Management, Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and accompanying Notes to the Financial Statements. The financial statements include the consolidated accounts of the economic entity comprising the Council and the entities it controlled at the year's end or from time to time during the year. The Council is responsible for the preparation and presentation of the financial statements and the information they contain. We have conducted an independent audit of these financial statements in order to express an opinion on them to the Council. In respect of the original budget figures disclosed in the Income Statement, Cash Flow Statement and Note 2(a), we have not examined the underlying basis of their preparation. Similarly, we have not examined the variations from the adopted budget disclosed in Note 16 nor the projected future developers contributions and costs disclosed in Note 17 and therefore express no opinion on them.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements under the Local Government Act 1993 so as to present a view which is consistent with our understanding of the Council's and the economic entity's financial position, the result of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

In our opinion,

- (a) the accounting records of the Council have been kept in accordance with the requirements of Division 2 of Part 3 of the Local Government Act, 1993;
- (b) the general purpose financial report
 - (i) has been prepared in accordance with the requirements of Division 2 of Part 3 of the Local Government Act, 1993;
 - (ii) is consistent with the Council's accounting records; and
 - (iii) presents fairly the Council's financial position and the results of its operations
- (c) we have been able to obtain all the information relevant to the conduct of our audit; and
- (d) there were no material deficiencies in the accounting records or financial reports.

SPENCER STEER



Chartered Accountants

N. MAH CHUT

Partner

Dated at Sydney this 13 September 2006