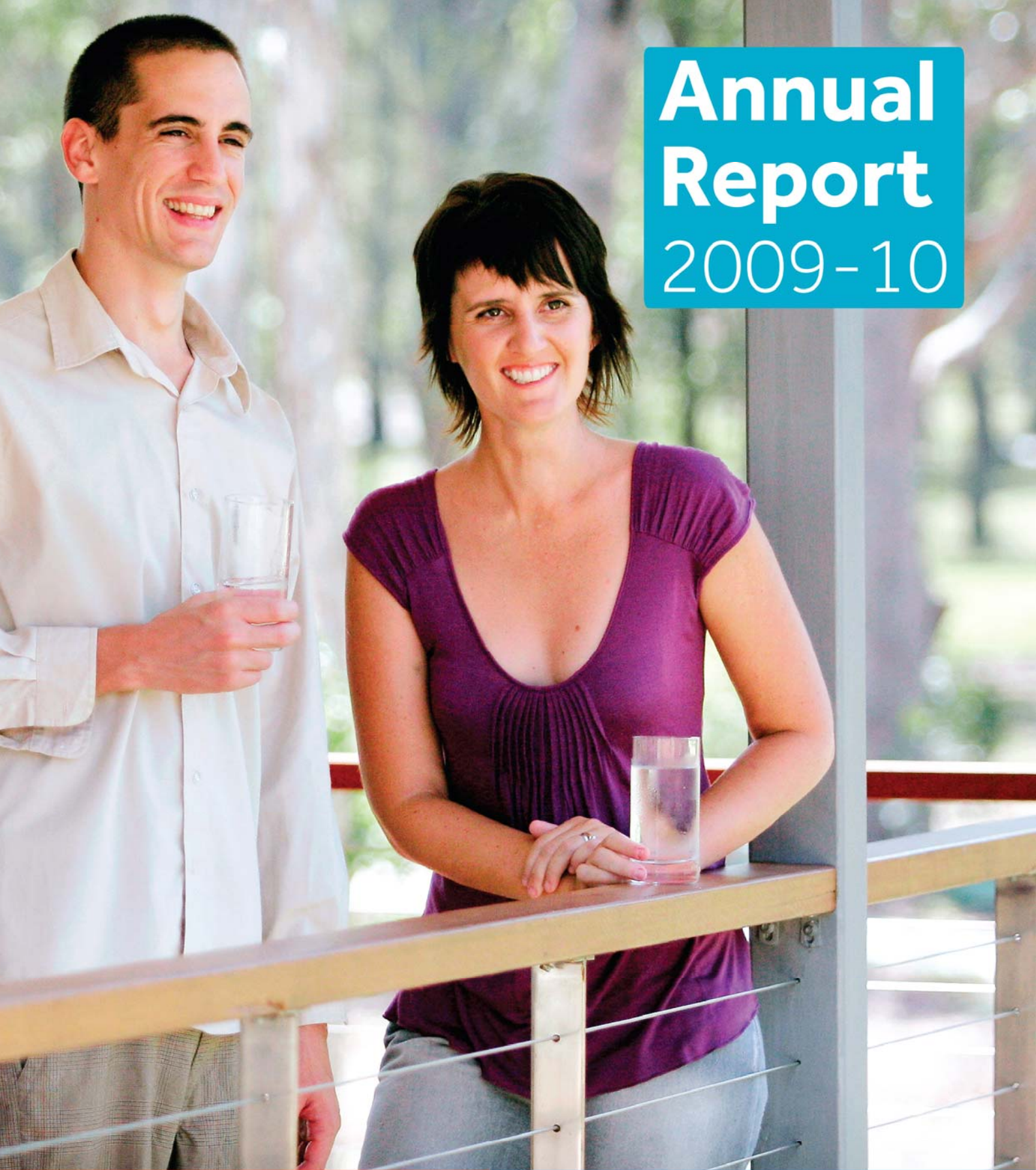


Annual Report 2009-10



all connected all for you all the time

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Gold Coast district:

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Nerang QLD 4211

Redland district:

Level 1, Library Building
Corner Middle and Bloomfield Streets
Cleveland QLD 4163

Copies of the 2009-10 annual report are available on Allconnex Water's Website at www.allconnex.com.au/annualreport. Allconnex Water is committed to providing accessible services to our customers and stakeholders from all culturally and linguistically diverse backgrounds. If you have difficulty in understanding the annual report, please contact us and we will arrange an interpreter to effectively communicate the report to you.

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Annual Report 2009-10

1 Letter of compliance

Date: 30 September 2010

The Honourable Stephen Robertson MP
Minister for Natural Resources,
Mines and Energy and
Minister for Trade
PO Box 15216 City East
BRISBANE QLD 4002

Dear Minister

Allconnex Water 2009-10 Annual Report

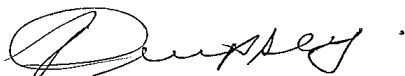
I am pleased to provide Allconnex Water's inaugural Annual Report for the 2009-10 financial year.

I certify this Annual Report complies with:

- the prescribed requirements of the Financial Accountability Act 2009 and the Financial and Performance Management Standard 2009, and
- the detailed requirements set out in the Annual Report Requirements for Queensland Government Agencies.

A checklist outlining the annual reporting requirements can be downloaded from the Allconnex Water website at: www.allconnexwater.com.au/annualreport

Yours faithfully



John Dempsey
Chairperson

2 Message from the Chairperson and CEO

Allconnex Water was established on 3 November 2009, as part of the State Government's South East Queensland (SEQ) Water Reform, under the South East Queensland Water (Distribution and Retail Restructuring) Act 2009.

Our first financial year focused on preparing for the successful transition of the Gold Coast, Logan and Redland City Councils' water businesses into a single water utility.

These initial months of operation have been a period of rapid progress. We have successfully coordinated service level agreements with the three Councils and arranged the transfer of employees and assets from the three existing water businesses to Allconnex Water. We have also established a new financial system and worked to address the loan application requirements of the Queensland Treasury Corporation. In addition, we have begun a work program that will ensure the utility can service one of the fastest growing regions in the country.

We would like to acknowledge the Chief Executive Officers of Gold Coast, Logan and Redland City Councils for their outstanding assistance in the establishment of this new business and for the time they served as interim members of the Allconnex Water Board.

Our thanks are also extended to the members of the Allconnex Water Board and the Executive Management Team who have guided the new utility through its establishment.

We also acknowledge the valuable contribution made by Allconnex Water employees.

Allconnex Water is the amalgamation of three strong and successful water businesses, including more than 800 employees, who provide a wealth of knowledge and expertise. We look forward to what can be achieved by this outstanding team in the future.

We have every confidence that in future years, Allconnex Water will establish itself as one of Australia's most admired water businesses.

Kim Wood



Chief Executive Officer

John Dempsey



Chairperson

3 Introduction – about Allconnex Water

Allconnex Water came into existence in November 2009 and is the distribution/retail water and wastewater service provider for the Gold Coast, Logan and Redland districts.

Our business represents one of a range of State Government objectives for the community to ensure SEQ is more resilient to severe and prolonged drought. Allconnex Water is owned by the Gold Coast, Logan and Redland City Councils (the participating Councils).

On 1 July 2010, Allconnex Water assumed responsibility from Gold Coast, Logan and Redland City Councils for the provision of water and wastewater services within their geographic areas and commenced operation as a water services provider.

Allconnex Water's operations and activities during the 2009-10 financial year were limited to establishing the necessary business functions to receive and operate the water businesses of the three participating Councils.

These preparations were essential to ensuring Allconnex Water was ready to assume operational management from 1 July 2010.

In 2009/10 Allconnex Water made an operating loss of approximately \$11.5 million reflecting the net cost of establishing the business.

Allconnex Water key facts

Allconnex Water:

- provides safe and reliable water services to more than 400,000 water customers
- is responsible for a distribution area of 2800 square kilometres
- services a population of around 850,000 people
- distributes around 75,000 mega litres of water each year
- owns and maintains more than \$4 billion in assets
- employs more than 800 people

The Allconnex Water service area



4 Our Board and organisational structure

As a council-owned statutory authority and water utility, Allconnex Water is accountable to our owners and customers, the people of the Gold Coast, Logan and Redland.

During the reporting period, Allconnex Water was working to build a robust corporate governance framework supported by the Board and the members of the Executive Management Team. In addition to input from the Board and Executive Management Team, Allconnex Water's governance systems will be shaped by the Southern SEQ Distribution – Retailer Authority Participation Agreement June 2010 (the participation agreement). This is an agreement between the participating Councils and Allconnex Water. This agreement sets out requirements for internal management, business planning and shareholder reporting requirements.

Allconnex Water's governance system will adhere to the corporate governance practices stipulated by the Queensland Government.

4.1 Our Board

As part of the establishment of Allconnex Water an interim board was appointed including:

- Chris Rose PSM Chairman of the Authority between 3 November 2009 and 15 April 2010.
- Dale Dickson a Director of the Authority between 3 November 2009 and 15 April 2010.
- Gary Stevenson PSM a Director of the Authority between 3 November 2009 and 15 April 2010.

The interim board meet four times in the 2009/10 financial year.

On 15 April 2010, the interim board was dissolved and the members of the Allconnex Water Board were appointed to guide the business' strategic direction on behalf of the participating Councils.

The Board members were appointed in accordance with the requirements of Part 4 of the South East Queensland Water (Distribution and Retail Restructuring) Act 2009.

The Allconnex Water board meet three times in the 2009/10 financial year.

John Dempsey (Chair), as current Chair of Energex Ltd, brings extensive and highly relevant experience to the position. He has broad experience in regulated industries, change management and business reform. He also has a strong understanding of local government, with previous experience as an Alderman and Deputy Mayor of Cairns. He has previously been Chair of organisations with large numbers of customers and brings a strong understanding of environmental and sustainability issues.



Andrea Staines holds a number of Board positions and non-executive Directorships, including organisations that deliver infrastructure. Her experience as former CEO of Qantas subsidiary Australian Airlines has developed her high level corporate, commercial and business leadership capabilities. She has strong commercial experience in a CEO position and extensive experience in sales and marketing strategy, based on a solid foundation of finance and economics. Her industry experience in retail services is diverse and includes airlines, tourism and leisure, and childcare and is complemented by her experience in transport infrastructure and operations, both passenger and freight. Andrea has studied and worked in Australia, the U.S. and Asia.



Bob Pentecost AM has been at the forefront of Australian infrastructure development for the past three decades. He was previously Director of Hamilton Island Ltd and has experience as a CEO within large infrastructure development organisations including Darling Harbour. He is currently a non-executive Director of Sydney Water and contributes an engineer's passion for infrastructure development delivering sustainability and performance. He holds a Member of the Order of Australia for services to the building and construction industry.



Sibylle Krieger has had a highly successful and broad commercial career as a lawyer including partner at Clayton Utz (1990-2007). She brings experience as a commissioner with the New South Wales economic regulator (IPART) and hence a strong understanding of water reform, water distribution and water retail. She has had extensive dealing with governments and has an acute understanding of accountability and corporate governance.



Kelvin Spiller was previously CEO of Maroochy Shire Council, and of the Endeavour Foundation, and has experience of the water industry and a solid understanding of water reform in SEQ. He is currently Chairman of the Queensland Local Government Grants Commission and was founding Chairman of the National Local Government Sea Change Taskforce and Disability Professionals Queensland Taskforce. He has chaired a number of advisory boards and has a deep understanding of corporate strategy and governance and infrastructure management and development.



4.2 Our Executive Management Team

Allconnex Water Chief Executive Officer Kim Wood

The Allconnex Water Board appointed Kim Wood as Chief Executive Officer (CEO) in January 2010.

Before his appointment to Allconnex Water, Kim had gained extensive experience in the Australian utility sector, including the CEO role at Queensland government-owned electricity generator Stanwell Corporation. Prior to that he was managing director of the Northern Territory's Power and Water Corporation and Victorian water business City West Water. He was also CEO of Victorian electricity transmission business GPU PowerNet and managing director of GEC Plessey Telecommunications and listed telecommunications startup Datafast Telecommunications.



The Allconnex Water Executive Management Team, left to right:

General Manager Strategy and Development - Andrew Foley, commenced 16 August 2010.

Chief Information Officer - Nina Meyers, commenced 7 June 2010.

Chief Financial Officer - Melinda Bailey, commenced 28 June 2010.

Chief Operating Officer - Paul Heaton, commenced 26 July 2010.

General Manager Customer Services - Eleanor Bray, commenced 1 July 2010

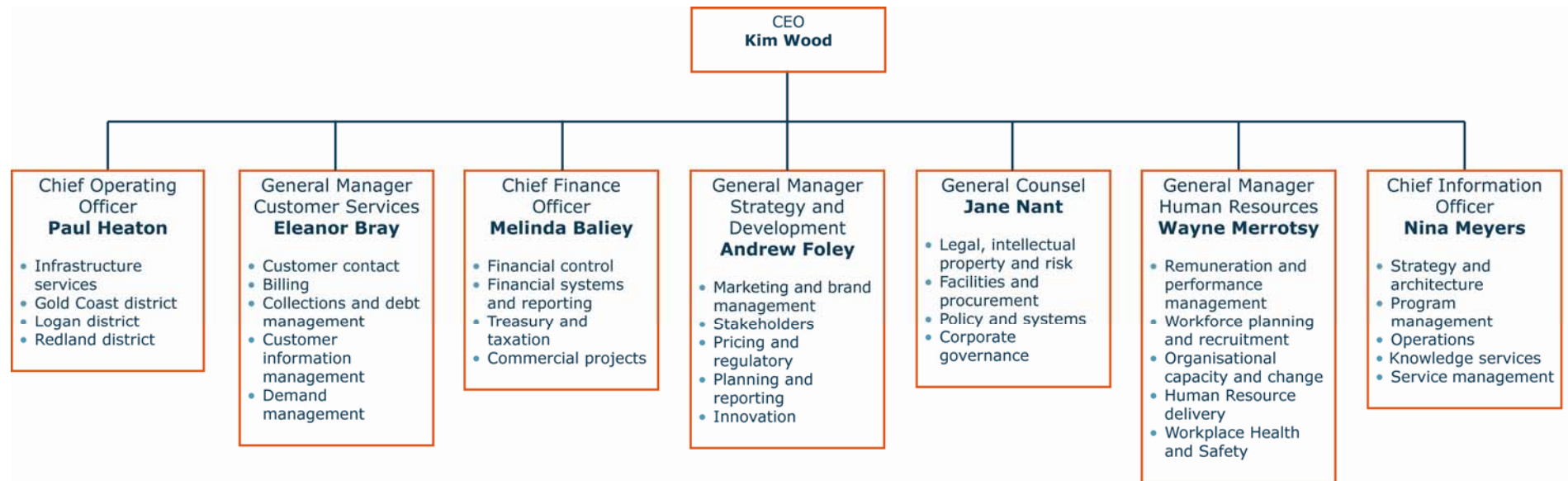
CEO - Kim Wood, commenced 18 January 2010.

General Manager Human Resources - Wayne Merrotsy, commenced 21 June 2010

General Counsel - Jane Nant, commenced 31 May 2010.

4.3 Our structure

Allconnex Water's structure underpins the successful delivery of the organisation's strategic direction. The seven departments reporting to the CEO are lead by a team of experienced and dedicated senior executives.



5 Human Resources

Allconnex Water recognises our people are our most valuable asset and are critical to the success of the business. Building a workforce with the right skills and capabilities will be an essential part of achieving our goal to be Australia's most admired water business

During the reporting period, Allconnex Water was preparing to transfer more than 800 employees from the participating Councils into the Allconnex Water workforce on 1 July 2010. The conditions and requirements of this transfer process are outlined by the SEQ Distribution and Retail Water Reform Workforce Framework (the Workforce Framework).

The Workforce Framework is a legal document developed by the Council of Mayors (SEQ) Human Resource Consultative Committee. The Workforce Framework applies to all three new water entities and outlines a supportive, transparent and consistent set of principles and processes requiring compliance by Councils, the new water business, employees and unions. Importantly, it outlines the process, terms and conditions to guide the transfer of employees and their accrued entitlements, terms and conditions.

The Workforce Framework ensures the appropriate transfer of staff from the Councils to Allconnex Water with minimal operational impact on Councils. It also protects the conditions of employees who are transitioning and/or providing services through a service level agreement. It ensures appropriate and fair treatment of all employees during the reform period.

The Workforce Framework was approved by the Attorney-General and Minister for Industrial Relations on 20 December, 2009 pursuant to section 79 of the South East Queensland Water (Distribution and Retail Restructuring) Act 2009.

In accordance with Workforce Framework, all appointments made during the reporting period were temporary and did not extend beyond the transfer date. This excludes the Allconnex Water CEO and positions reporting directly to the CEO.

Allconnex Water will provide Code of Conduct, based on the Public Sector Ethics Act 1994, to staff as part of their induction and transfer of employment commencing 1 July 2010. Copies will be initially available to all employees and contractors via human resources. Further education and training will be prioritised and planned for the 2010/11 financial year.

6 Risk management

Operating within a highly regulated industry, Allconnex Water understands the significance of risk management in its day-to-day activities.

The three districts of Allconnex Water have vertically integrated risk management systems. All these systems align to a risk management policy based on the requirements of AUS/NZ ISO 31000.

Building a new corporate culture and identity founded on sound risk management principles is a key future focus for Allconnex Water.

7 Dividend policy

As Allconnex Water was being established during the reporting period, no dividend was paid to the participating councils. Allconnex Water is currently finalising a dividend policy.

8 Forward planning

Under the participation agreement Allconnex Water is required to develop a Five Year Forward Plan. The Five Year Forward Plan will be finalised in the 2010 calendar year. Objectives and performance indicators for Allconnex Water will be identified in this plan.


9 Disclosures

During the 2009-10 financial year:

- Allconnex Water employees did not undertake any international travel on behalf of the utility
- no public interest disclosures were received by the utility
- Allconnex Water's expenditure on consultancies was \$846,228.69, all consultancy work was undertaken as part of the business establishment
- the utility was in a position to pay all debts accrued
- Allconnex Water's information systems and recordkeeping was maintained in accordance with the Public Records Act 2002 through Service Level Agreements with Participating Councils
- Allconnex Water became operational on 1 July 2010 and hence has nil to report regarding compliance with the Carers (Recognition) Act 2008
- as Allconnex Water was not a trading entity during 2009/10, there were no external audits or reviews

10 Financial report 2009-10

10.1 Certificate of Allconnex Water



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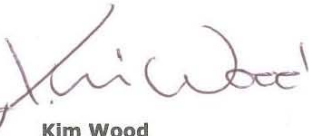
Certificate of Allconnex Water


These general purpose financial statements have been prepared pursuant to the provisions of the *Financial Accountability Act 2009* and other prescribed requirements. We certify that in our opinion -


- (i) the prescribed requirements for establishing and keeping of accounts have been complied with in all material respects; and
- (ii) the statements have been drawn up so as to present a true and fair view, in accordance with prescribed accounting standards of the transactions of Allconnex Water for the period ended 30 June 2010 and of the financial position at the end of that year.

31 August 2010


John Dempsey
CHAIRMAN


Kim Wood
CHIEF EXECUTIVE OFFICER


Melinda Bailey
CHIEF FINANCIAL OFFICER



10.2 Income statement

	Note	2010 \$
Income From Continuing Operations		
Utility revenue		-
Grants and other contributions		-
Developer contributions		-
Total Income From Continuing Operations		<u>-</u>
Expenses from Continuing Operations		
Employee expenses	2	318,453
Supplies and services	3	16,023,187
Depreciation and amortisation	4	2,557
Finance / borrowing costs	5	33,786
Other expenses	6	40,000
Total Expenses from Continuing Operations		<u>16,417,983</u>
Operating result before income tax equivalents		<u>(16,417,983)</u>
Income tax equivalents (expense)/benefit	7	4,925,587
Operating result for the period		<u>(11,492,396)</u>
Total Comprehensive Income (loss) for the period		<u>(11,492,396)</u>

The accompanying notes form part of these statements.

10.3 Financial position statement

	Note	2010 \$
Assets		
Current Assets		
Cash and cash equivalents	8	1,250
Other receivables	9	278,116
Deferred tax asset	11	<u>4,925,587</u>
Total Current Assets		<u>5,204,953</u>
Non-current Assets		
Intangible assets	10	150,868
Total Non-current Assets		<u>150,868</u>
Total Assets		<u><u>5,355,821</u></u>
Liabilities		
Current Liabilities		
Payables	12	16,404,579
Interest bearing liabilities	13	435,998
Accrued Employee Benefits	14	<u>7,640</u>
Total Current Liabilities		<u>16,848,217</u>
Non-current Liabilities		
Payables		-
Interest bearing liabilities		-
Employee provisions		<u>-</u>
Total Non-current Liabilities		<u>-</u>
Total Liabilities		<u><u>16,848,217</u></u>
Net Assets		<u><u>11,492,396</u></u>
Equity		
Contributed equity		-
Asset revaluation surplus		-
Other reserves		-
Retained surplus/(deficiency)	15	(11,492,396)
Total Equity		<u><u>(11,492,396)</u></u>

The accompanying notes form part of these statements.

10.4 Statement of changes in equity

		Contributed equity	Asset revaluation surplus	Retained surplus/ (deficiency)	Other Reserves	Total
	Note	\$000	\$000	\$000	\$000	\$000
Balance as at 3 November 2009		-	-	-	-	-
Operating result for the period	15	-	-	(11,492,396)	-	(11,492,396)
Total comprehensive income (loss) for the period		-	-	(11,492,396)	-	(11,492,396)
Balance as at 30 June 2010		-	-	(11,492,396)	-	(11,492,396)

The accompanying notes form part of these statements.

10.6 Notes to the financial statements

Note 1 Summary of significant account policies

Summary of significant account policies

(a) Objective and Principal Activities of the Authority

Allconnex Water (the "Authority") is a Queensland Statutory Body under the *South East Queensland Water (Distribution and Retail Restructuring) Act 2009*. This legislation was enacted on 3 November 2009, the Southern SEQ Distributor-Retailer Authority (trading as Allconnex Water) became a legal entity as of this date.

From 1 July 2010, the Authority will assume responsibility from Gold Coast, Logan and Redland City Councils (the participating Councils) for the provision of water and wastewater services within their geographic areas.

The core functions of the business will include:

Water:	Supplying and distributing treated drinking water to domestic, commercial and industrial customers.
Wastewater:	Collecting, transporting and treating wastewater and trade waste for domestic, commercial and industrial customers.
Recycled Water:	Supplying and distributing recycled wastewater to the Western Corridor Recycled Water Scheme and domestic, commercial and industrial customers.
Growth & Sustainability:	Planning and delivering the required water, wastewater and recycled water infrastructure to support the growth of the region and achieve sustainability.

(b) Statement of Compliance

The Authority has prepared these financial statements in compliance with the *Financial and Performance Management Standard 2009*.

These Financial Statements are general purpose financial statements, and have been prepared on an accrual basis in accordance with Australian Accounting Standards and Interpretations. In addition, the financial statements comply with Treasury's Minimum Reporting Requirements for the year ended 30 June 2010, and other authoritative pronouncements.

With respect to compliance with Australian Accounting Standards and Interpretations, the Authority has applied those requirements applicable to for-profit entities.

These financial statements have been prepared under the historical cost convention.

(c) The Reporting Entity

The financial statements include the value of all revenues, expenses, assets, liabilities and equity of the Authority.

(d) Issuance of Financial Statements

The financial statements were authorised for issue on the date they were submitted to the Auditor-General for final signature. This is the date the management certificate is signed.

(e) Currency

The Authority uses the Australian dollar as its functional currency and its presentation currency.

(f) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, all cash and cheques received but not banked at the year end, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(g) Other receivables

Other receivables generally arise from transactions outside the usual operating activities of the Authority and are recognised at their assessed values. Terms are a maximum of three months, and no interest being chargeable on any outstanding balances.

(h) Intangible Assets

Intangible assets with a cost or other value greater than \$5,000 are recognised in the financial statements, items with a lesser value are expensed. Intangible assets that are acquired by the Authority are initially measured at cost. This is in accordance with the Authority's non current asset accounting policy.

(i) Amortisation and Depreciation of Property, Plant and Equipment and Intangibles

Property, plant and equipment is depreciated on a straight-line basis so as to allocate the net cost of each asset, less estimated residual value, progressively over its estimated useful life. Depreciation commences from date of purchase.

(j) Payables

Trade creditors are recognised upon receipt of goods or services ordered and are measured at cost. Amounts owing are unsecured and are generally settled on 30 day terms. Where purchase orders could not be receipted in full, then an accrual for the relevant cost has been made.

(k) Employee Benefits Expenses

Employer superannuation contributions and annual leave levies are regarded as employee benefits expenses.

Workers' compensation insurance is a consequence of employing employees, but is not counted in an employees total remuneration package. It is not an employee benefit and is recognised separately as employee related expenses.

Wages, Salaries and Sick Leave

For unpaid annual leave entitlements, these are expected to be paid within 12 months and as such the liabilities are recognised at their undiscounted values.

(l) Superannuation

Contributions made by the Authority to employees' superannuation plans are expensed when incurred.

(m) Provisions

Provisions are recorded when the Authority has a present obligation, either legal or constructive as a result of a past event. They are recognised at the amount expected at reporting date for which the obligation will be settled in a future period.

(n) Revenue

Revenue is measured at fair value for the consideration or contribution received or receivable. During the period to which these statements relate, the Authority was not operating in its capacity of water services provider. It was establishing the necessary business functions in order to receive and operate the water businesses of the three participating Councils which transferred to it on 1 July 2010. There was, therefore, no revenue to report in these statements.

(o) Financing Costs

All borrowing costs are expensed in the period in which they are incurred. No borrowing costs are capitalised on qualifying assets.

(p) Taxation

The Authority is a participant in the Local Government Tax Regime from the date of establishment. As a result an "equivalent" or "notional income tax" liability is payable to Participating Councils. Income tax equivalents comprise current and deferred tax. Income tax equivalents expense is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised using the balance sheet methods, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

(q) Going Concern

Although these financial statements disclose a loss and there is minimal cash held by the Authority for the period, these statements have been prepared on a going concern basis. This is because these financial statements are reporting the costs incurred in order to establish the entity ready for it to operationally commence on 1 July 2010. The Participating Councils have funded the establishment costs and will be reimbursed by the Authority after 1 July 2010.

Note 2 Employee expenses

	2010
	\$
Wages and Salaries	279,774
Employer superannuation contribution	7,485
Workers' compensation premium	22,854
Other personnel expenses	8,341
	<u>318,453</u>

The number of employees including both full time employees and part time employees measured on a full time equivalent are:

Number of employees: 5

No payroll tax was paid during the reporting period as the Authority was below the remuneration threshold and therefore not subject to payroll tax.

Executive remuneration

The number of senior executives who received or who were due to receive total remuneration of \$100,000 and more:

\$160,000 to \$179,000	<u>1</u>
	<u>1</u>

The amount calculated as executive remuneration in this financial report includes the direct remuneration received, as well as items not directly received by executives, such as the movement in leave accruals. This amount will therefore differ from advertised executive remuneration packages which do not include the latter items.

Total remuneration of executives shown above	<u>\$171,610</u>
--	------------------

Note 3 Supplies and services

	<u>2010</u> <u>\$</u>
Supplies and consumables	7,823,088
Interim distribution entity establishment costs	8,200,000
Other expenses	99
	<u>16,023,187</u>

Supplies and consumables comprise expenditure incurred in establishing the Authority. The interim distribution entity establishment costs relate to the Authority's share of expenditure incurred under a single Distributor, multiple Retailer model which preceded the final arrangement of three Distributor-Retailer authorities for south east Queensland.

Note 4 Depreciation and amortisation

	<u>2010</u> <u>\$</u>
Intangibles	2,557
	<u>2,557</u>

Note 5 Finance/borrowing costs

	<u>2010</u> <u>\$</u>
Other financial costs	33,786
	<u>33,786</u>

Costs relate to an overdraft facility which the Authority had in place with Commonwealth Bank of Australia. An effective interest rate of 9.89% per annum applied to this facility with total interest cost incurred during the period of \$764. Also included is interest charged by Gold Coast City Council at 4.5% per annum relating to the establishment costs it incurred on behalf of the Authority. The value of interest charged by Gold Coast City Council was \$33,022.

Note 6 Other expenses

	<u>2010</u> <u>\$</u>
External audit fees	40,000
	<u>40,000</u>

The auditor of the Authority is the Auditor General of Queensland. There are no non-audit services included in this amount.

Note 10 Intangible assets

	2010	
	\$	
(a) Carrying amount		
<i>Software purchased</i>		
At cost	153,425	
Less: Accumulated amortisation	<u>2,557</u>	
	150,868	
Total intangible assets	<u><u>150,868</u></u>	
b) Movements during the reporting period		
	Software Purchased	Total
Asset Values	\$	\$
Basis of measurement	Cost	
Opening gross value as at 3 November 2009	-	-
Additions	<u>153,425</u>	<u>153,425</u>
Closing gross value as at 30 June 2010	<u>153,425</u>	<u>153,425</u>
Accumulated depreciation and impairment		
Opening balance as at 3 November 2009	-	-
Depreciation provided in period	<u>(2,557)</u>	<u>(2,557)</u>
Accumulated depreciation as at 30 June 2010	<u>(2,557)</u>	<u>(2,557)</u>
Total written down value as at 30 June 2010	<u><u>150,868</u></u>	<u><u>150,868</u></u>
Range of estimated useful life in years	5	

Note 11 Deferred tax assets

	2010
	\$
The balance comprises temporary differences attributed to:	
Book differences in depreciable asset values	192
Income tax equivalents losses	<u>4,925,395</u>
Total deferred tax assets	<u><u>4,925,587</u></u>
Movements	
Opening balance at 3 November 2009	-
Income tax equivalents benefit attributable to operating result	<u>4,925,587</u>
Closing balance at 30 June 2010	<u><u>4,925,587</u></u>
Deferred tax asset to be recovered after more than 12 months	<u>-</u>
Deferred tax asset to be recovered within 12 months	<u><u>4,925,587</u></u>

Note 12 Payables

	2010
	\$
<i>Current payables</i>	
Trade payables	-
Accrued expenses	<u>16,404,579</u>
Total current payables	<u>16,404,579</u>
Total payables	<u>16,404,579</u>

Accrued expenses comprise of establishment costs incurred by GCCC on the Authorities behalf and Interim Distribution Entity establishment costs transferred to the Authority.

Note 13 Interest bearing liabilities

	2010
	\$
<i>Current</i>	
Bank overdraft	<u>435,998</u>
Total current	<u>435,998</u>
Total interest bearing liabilities	<u>435,998</u>

No assets have been pledged as security for any liabilities.
The bank overdraft facility commenced on 23 April 2010 and the first transaction occurred on 18 May 2010. An amount of \$270,497 was paid on the last day of the period. All borrowings are in Australian dollar denominated amounts and carried at cost, interest being expensed as it accrues. The weighted average interest of borrowings as at 30 June 2010 is 9.89% per annum.

Note 14 Accrued employee benefits

	2010
	\$
<i>Current</i>	
Liability for annual leave	<u>7,640</u>
Total	<u>7,640</u>

Note 15 Retained surplus/deficiency

	2010
	\$
Opening balance at 3 November 2009	-
Net surplus	<u>11,492,396</u>
Closing balance at 30 June 2010	<u>(11,492,396)</u>

Note 16 Financial instruments

The Authority has the following categories of financial assets and financial liabilities:

		2010
		<u>\$</u>
Financial assets		
Cash and cash equivalents	8	1,250
Receivables	9	<u>278,116</u>
Total		<u><u>279,366</u></u>
Financial liabilities		
Payables	12	16,404,579
Other financial liabilities - Bank overdraft	13	<u>435,998</u>
Total		<u><u>16,840,577</u></u>

Refer note 5 and note 13 for details on borrowing and overdraft costs.

Note 17 Key management personnel disclosure

Board Members:

C Rose PSM	Chairman appointed 3 November 2009, resigned 15 April 2010
D Dickson	Director appointed 3 November 2009, resigned 15 April 2010
G Stevenson PSM	Director appointed 3 November 2009, resigned 15 April 2010
J Dempsey	Chairman (non-executive) appointed 15 April 2010
S Krieger	Director (non-executive) appointed 15 April 2010
R Pentecost AM	Director (non-executive) appointed 15 April 2010
K Spiller	Director (non-executive) appointed 15 April 2010
A Stains	Director (non-executive) appointed 15 April 2010

Chief Executive Officer:

K Wood

Executive Management:

M Bailey	Chief Financial Officer
W Merrotsy	General Manager Human Resources
N Meyers	Chief Information Officer
J Nant	General Counsel

Key management personnel compensation

(a) Board Members

	3 November 2009 to 30 June 2010		
	Salary and Fees	Superannuation Contribution	Total
	\$	\$	\$
JP Dempsey	18,588	1,673	20,261
A Staines	7,500	0	7,500
RW Pentecost AM	8,805	792	9,597
SI Krieger	8,805	792	9,597
K Spiller	7,500	0	7,500
	<u>51,197</u>	<u>3,258</u>	<u>54,455</u>

(b) Other key management personnel transactions

Key management personnel have not conducted transactions with the Authority during the period.

Note 18 Related parties

Related parties

C Rose PSM was Chairman of the Authority between 3 November 2009 and 15 April 2010 and is also Chief Executive Officer of Logan City Council.

D Dickson was a Director of the Authority between 3 November 2009 and 15 April 2010 and is also Chief Executive Officer of Gold Coast City Council.

G Stevenson PSM was a Director of the Authority between 3 November 2009 and 15 April 2010 and is also Chief Executive Officer of Redland City Council.

N Meyers, appointed as Chief Information Officer of the Authority on 7 June 2010 previously held the role of Manager, Project Management Office at Gold Coast City Council.

Gold Coast City Council is a participating Council of the Authority and incurred all expenditure relating to the establishment of the Authority' on its behalf. GCCC invoiced the Authority for the full amount of all costs incurred plus interest at 4.5% per annum, calculated monthly. The total value of establishment costs (including interest) paid by GCCC amounted to \$7,317,781 including start up service charges provided also by Logan and Redland City Councils. The full balance was outstanding at 30 June 2010.

Note 19 Reconciliation of differences between profit (loss) for the period and statement of cash flows

	<u>2010</u> \$
Operating result for the period	(11,492,396)
Add/(less) non-cash flows in operating result	
Depreciation and amortisation	2,557
Income tax equivalents expense/(benefit)	(4,925,587)
Changes in Assets and Liabilities	
Change in other receivables	(278,116)
Change in payables	16,404,579
Change in intangibles	(153,425)
Decrease/ (increase) in employee provisions	7,640
Net cash (outflow)/inflow for period	<u>(434,748)</u>

Note 20 Contingencies

There are no potential material exposures at reporting date.

Note 21 Events after the reporting period

Events after the reporting period

As part of the Queensland Government's ongoing restructure of the Urban Water Supply Arrangements, the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009* (the Act) established three new statutory bodies, on 3 November 2009. Transfer of the control of water distribution and wastewater infrastructure businesses to these entities occurred on 1 July 2010.

The new entities comprise:

1. Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities)
2. Northern SEQ Distributor-Retailer Authority (trading as Unity Water)
3. Southern SEQ Distributor-Retailer Authority (trading as Allconnex Water)

Under the Act, governance arrangements for the new Authority were established in a Participation Agreement, which become operative from 26 May 2010.

The Councils' total initial contribution to the Authority has been calculated using a regulatory asset base (RAB) valuation approved by the Queensland Government to represent the market value of the business. This valuation was prepared to underpin the water pricing methodology currently under review by the Queensland Competition Authority. Participating Councils will contribute 55% of the net assets of the Authority in physical assets in return for participation rights and 45% of net assets in the form of cash via loans to the Authority, to be repaid with interest.

Interim participation rights held by the Participating Councils in the Southern SEQ Distributor-Retailer Authority are:

- Gold Coast City Council 62%
- Logan City Council 24%
- Redland City Council 14%

In addition to the transfer of physical assets, the Participating Councils provided loans to the Authority under separate loan agreements. Senior debt loans representing 25% of the debt component are subject to a fixed interest rate of 6.67% per annum and subordinated loans for the remaining 20% debt are subject to a fixed rate of 7.51% per annum. Quarterly interest-only payments for three years apply and following this initial period, terms will be renegotiated.

Participation returns will be paid from post-tax operating profits (after adjusting for capital receipts).

The Authority will operate under a tax equivalents regime, with all tax paid being distributed to the participating Councils on a pro-rata basis to its participation rights. Tax is to be payable quarterly based on a percentage of the Authority's gross revenue until its first tax assessment.

Pursuant to a transfer notice gazetted on 29 June 2010, assets, liabilities, instruments and employees associated with Councils' water distribution and wastewater operations were transferred to the Southern SEQ Distributor-Retailer Authority on 1 July 2010. The RAB value is yet to be finalised but is estimated at \$4,046,196, nett of establishment costs which are not considered to be capital in nature.

A Second Transfer Scheme is due to be provided to the Minister for approval in September 2010.

Final participation rights held by each Participating Council in the Southern SEQ Distributor-Retailer Authority will be finalised following the determination of rights by the independent arbitrator.

It is the Authority's understanding that Participating Councils disclose the fair value of the assets in their financial statements at 30 June 2010, for those that are transferring on 1 July 2010, at depreciated replacement cost. This value is not the same as the RAB value on which the participation rights have been determined.

Costs incurred by the Participating Councils for the establishment of the Authority are expected to be subject to a claim on the Authority following determination of eligibility and approval of their submitted council incurred transaction costs by the appropriate Minister.

10.7 Independent auditor's report

INDEPENDENT AUDITOR'S REPORT

To the Board of the Southern SEQ Distributor-Retailer Authority

Matters Relating to the Electronic Presentation of the Audited Financial Report

The auditor's report relates to the financial report of the Southern SEQ Distributor-Retailer Authority for the period ended 30 June 2010 included on the Southern SEQ Distributor-Retailer Authority's website. The Board is responsible for the integrity of the Southern SEQ Distributor-Retailer Authority's website. I have not been engaged to report on the integrity of the Southern SEQ Distributor-Retailer Authority's website. The auditor's report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial 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 report, available from the Southern SEQ Distributor-Retailer Authority, to confirm the information included in the audited financial report presented on this website.

These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

Report on the Financial Report

I have audited the accompanying financial report of the Southern SEQ Distributor-Retailer Authority which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended on that date, a summary of significant accounting policies, other explanatory notes and certificates given by the Chairman, Chief Executive Officer and Chief Finance Officer.

The Board's Responsibility for the Financial Report

The Board is responsible for the preparation and fair presentation of the financial report in accordance with prescribed accounting requirements identified in the *Financial Accountability Act 2009* and the *Financial and Performance Management Standard 2009*, including compliance with Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is 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

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. These auditing standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement in the financial report, 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 report 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, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial report including any mandatory financial reporting requirements as approved by the Treasurer for application in Queensland.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

The *Auditor-General Act 2009* promotes the independence of the Auditor-General and all authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

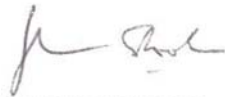
Auditor's Opinion

In accordance with s.40 of the *Auditor-General Act 2009* –

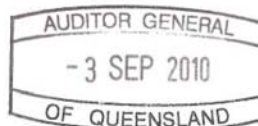
- (a) I have received all the information and explanations which I have required; and
- (b) in my opinion –
 - (i) the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and
 - (ii) the financial report has been drawn up so as to present a true and fair view, in accordance with the prescribed accounting standards of the transactions of the Southern SEQ Distributor-Retailer Authority for the period 3 November 2009 to 30 June 2010 and of the financial position as at the end of that period.

Emphasis of Matter – Significant Uncertainty regarding the value of asset transfers on 1 July 2010.

Without qualification to the opinion expressed above, attention is drawn to Note 21 to the financial statements. On 1 July 2010, the Authority became responsible for the delivery of water and wastewater services to customers within the local government areas of the three participating Councils: Gold Coast, Logan and Redlands. On this date each participating Council transferred assets necessary for the Authority to operate this business. The value of assets transferred has been disclosed in the note using the Regulated Asset Base (RAB) valuation methodology approved by the Queensland Government for water pricing purposes, which may not equate to asset valuations for accounting purposes. As the accounting valuation methodology has not been finalised at the time of this financial report, a significant uncertainty exists in relation to the value of the assets being transferred and the likely impact on the valuation and classification of the Authority's assets from 1 July 2010.



G G POOLE FCPA
Auditor-General of Queensland



Queensland Audit Office
Brisbane

11 Glossary

CEO	Chief Executive Officer
participating Councils, the	Gold Coast, Logan and Redland City Councils
participation agreement, the	Southern SEQ Distribution – Retailer Authority Participation Agreement June 2010
SEQ	South East Queensland
Workforce Framework	SEQ Distribution and Retail Water Reform Workforce Framework

all connected all for you all the time



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