

WESTERN
WATER



prepared for growth

FINANCIAL REPORT
2009 / 10

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Understanding the Financial Report

Statement of Comprehensive Income

The statement of comprehensive income measures Western Water's performance over the year and shows if a profit or loss has been made in delivering products and services. The Statement includes all sources of income less all expenses incurred in earning that income. For the year ending 30 June 2010, Western Water made a profit after tax of \$4.8 million.

Balance Sheet

The Balance Sheet sets out Western Water's net accumulated financial worth at a point in time. It shows the assets Western Water holds as well as liabilities or claims against those assets. Both assets and liabilities are expressed as current or non-current. Current means that assets or liabilities are expected to be converted to cash within the next 12 months. Non-current assets or liabilities are long term. Equity is total capital and reserves plus profits that have been reinvested in the business over the years.

Statement of Changes in Equity

The statement of changes in equity shows the changes in equity between two financial periods reflecting the increase or decrease in net assets during the year. The total overall change in equity during a financial year represents the total amount of income and expenses through the statement of comprehensive income, and items charged directly to the equity account from revaluation of assets.

Cash Flow Statement

The cash flow statement summarises Western Water's cash receipts and payments for the financial year and the net cash in hand position. It differs from the statement of comprehensive income in that it:

- excludes non-cash expenses such as depreciation
- excludes the accruals taken into account by the statement of comprehensive income
- includes payments or receipts in relation to capital items
- includes any financing activities such as movements in loans held by Western Water.

For the year ending 30 June 2010, Western Water had a net cash inflow of \$9 million.

Notes to the Financial Report

The notes to the Financial Report provide further information in relation to the rules and assumptions used to prepare the balance sheet as well as additional information and detail about specific items within the statements. The notes also advise the reader if there have been any changes to accounting standards, policy or legislation which may change the way the statements are prepared. Information in the notes is particularly useful when there has been a significant change from the previous year's comparative figure.

Statutory Certificate and Auditor General's Report

These attachments provide the reader with a written undertaking in relation to the correctness and trustworthiness of the Financial Statements. In particular, the Report from the Auditor General provides an independent view and will advise the reader if there are any issues of concern.

FINANCIAL PERFORMANCE

In 2009/10, Western Water's revenue was strong, some \$2.2 million above plan.

The following table and graphs highlight that in 2009/10 Western Water's revenue was strong, some \$2.2 million above plan.

Whilst, revenue from charges fell slightly under budget as a result of water restrictions being maintained, developer activity remained strong with a 13% increase in total New Customer Contributions from 2008/09.

The improved net result is also attributable to depreciation being \$2.5 million less than budget as a result of delay in infrastructure assets being revalued, which has a flow on of a higher depreciation charge.

This concise financial report is an extract from Western Water's detailed Financial Report. All financial statements and specific disclosures included in the concise report have been derived from the Financial Report. The concise report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the entity as the Financial Report. Further financial information can be obtained from the Financial Report which is available online or in hard copy, free of charge upon request to Western Water.



Aerial view of Melton Recycled Water Plant

Financial Report

Financial Report

Table 26: Financial Performance Summary – 5 Years

\$'000	Plan 2009/10	Actual 2009/10	Actual 2008/09	Actual 2007/08	Actual 2006/07	Actual 2005/06
Revenue						
Service Charges	46,564	44,159	39,691	33,551	32,082	32,541
New Customer Contributions	12,639	16,017	14,204	17,538	12,381	17,175
Interest	40	33	119	132	108	300
Other	1,570	2,795	1,660	1,543	1,274	1,249
Total Revenue	60,813	63,004	55,674	52,764	45,845	51,265
Expenses						
Operating Expenses	39,024	35,287	31,042	27,796	26,064	24,132
Corporate Expenses	13,728	14,444	12,684	11,372	11,603	9,373
Finance	5,900	5,706	3,847	2,177	938	206
Environment Contribution	1,615	1,615	1,615	1,300	1,300	1,300
Total Expenses	60,267	57,052	49,188	42,645	39,905	35,011
NET PROFIT BEFORE TAX	546	5,952	6,486	10,119	5,940	16,254

Table 27: Financial Objectives and Performance

Measure	Objective	Performance	Comment
After tax return on regulatory asset base	Achieve 4.2% return	4.7%	Higher net profit due mainly to increased new customer contributions, and lower depreciation charges than plan
Interest coverage	Achieve 1.07 times interest cover	2.04	Whilst interest rates on new loans have reduced, lower profit has affected the interest cover
Regulatory gearing	Not exceed 49.7% interest bearing debt against Regulatory Asset Base	48.4%	Borrowings and capital expenditure were very close to plan
Capital expenditure	Capital Expenditure budget \$35.7M	\$35.6M	Delivery of major projects on track
Revenue maximisation/cost minimisation strategy	Achieve \$300k in additional revenue sources/cost or productivity savings	\$472,940 in cost and productivity savings was identified	Several large cost savings initiatives were identified during the year

Net Profit

Western Water made an overall surplus before tax of \$5,952 million, including developer asset and cash contributions of \$16 million.

Revenue

Service and tariff charges were below the 2009/10 Corporate Plan target due mainly to lower than anticipated water usage income as a result of continuation of water restrictions and changing customer water conservation behaviours.

Expenses

Operating expenses were \$3.2 million less than budget, with depreciation being \$2.4 million under budget as a result of delayed asset revaluation. Other operating and administration expenses were contained within overall budgets.

Shareholder Dividend

Western Water is required to pay a dividend in accordance with a determination of the Treasurer of Victoria under the *Public Authorities (Dividend) Act 1983*, based on a prescribed percentage of the previous years' adjusted net profit. An obligation to pay a dividend only arises after consultation with the portfolio Minister and the Treasurer and a formal determination is made by the Treasurer. No shareholder dividend was paid in the year 1 July 2009 to 30 June 2010.

Major Changes or Factors Affecting Performance

Ongoing water restrictions have resulted in reduced water consumption income over the past four years. However developer cash and contributed assets remain strong.

Significant Changes in Financial Position

The regulatory pricing model Western Water operates within expects the corporation to carry debt like any other business. Western Water's capital works program is largely financed from new borrowings and during the year, new borrowings of \$33 million was used to fund the capital program.

Consultancies

There were no consultancies costing in excess of \$100,000 for the year 1 July 2009 to 30 June 2010. There were 15 consultancies of less than \$100,000 engaged during the year, totalling \$ 356,570.

Disclosure of Major Contracts

Western Water did not enter into any contracts greater than \$10 million during the year ended 30 June 2010.

Post Balance Date Events

There are no post balance date events that materially affect Western Water's 2009/10 financial statements.

Access to Information

Other information as required under the *Financial Management Act 1994* and FRD22B, but not specifically referred to, is available upon request to the relevant Minister, Members of Parliament and the public. Requests can be made to the General Manager, Commercial Services, Western Water, PO Box 2371, Sunbury DC Vic. 3429.

Outlook 2010/11

Western Water faces two main challenges going forward. The first is the continued climate change impact of severely reduced local water sources necessitating the ongoing purchase of large volumes of water from Melbourne Water. The other challenge is the extension of the Urban Growth Boundary. This will see Melbourne's growth boundary extended and significantly impact on Western Water's service area, creating growth rates not typically experienced by regional urban water corporations. The region's population is forecast to almost double by 2021.

During 2010/11, Western Water's infrastructure assets will be revalued from the cost of construction (used for assets constructed since 2001) to a value representing the current construction costs for similar assets, less an adjustment for accumulated use. This will result in an upward adjustment to the value of assets as at 30 June 2011 and a higher subsequent depreciation charge. The higher depreciation charge will affect profits reported in the future.

Financial Results Comparison

The table and graphs below highlight that there has been a greater increase in expenses than income in 2009/10. The major contributing factor of rising expenditure was a 20% increase in overall water purchased (due to rising costs of water purchased from Melbourne Water) as well as increased financing expense due to the strong capital works program financed partly from new debt.

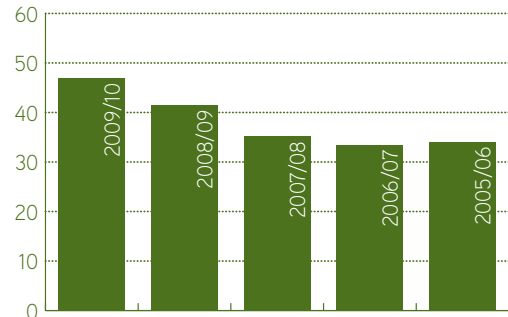
Table 28: Comparison of Financial Results – 5 Years

	2009/10	% change	2008/09	2007/08	2006/07	2005/06
Total revenue (excluding developer revenue)	46,987	13.3%	41,470	35,226	33,464	34,090
Total expenditure	57,052	15.9%	49,188	42,645	39,905	35,011
Profit before developer income & income tax	(10,065)	(9.1%)	(7,718)	(7,419)	(6,441)	(921)
Developer income	16,017	12.7%	14,204	17,538	12,381	17,175
Income tax (expense)/benefit	(1,122)	(20.4%)	(1,409)	(2,968)	(1,859)	(4,869)
Net profit after tax	4,830	(4.9%)	5,077	7,151	4,081	11,385

Revenue

An overall increase in operating revenue of 13% is due to real price rises to pay for increased water tariffs and increased other revenue. Revenue from water usage was slightly down on budget as residential and business customers continue to change behaviours in an effort to conserve water.

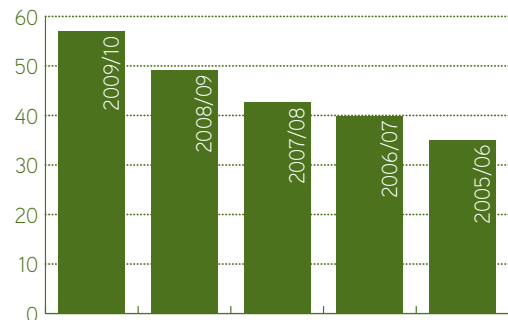
Chart 7: Revenue (\$M) – 5 Years



Expenditure

An overall increase in operating revenue of 16% is attributable to a combination of high cost of bulk water purchased and supplied to customers due to low levels of local storages (20% increase) and financing costs (48% increase). Depreciation charge continues to increase (14% increase in 2009/10) as a result of over \$150 million spent on capital works in the last five years.

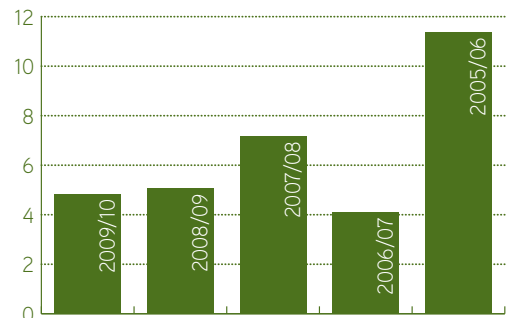
Chart 8: Expenditure (\$M) – 5 Years



Net Profit After Tax

The result after tax was above plan but marginally lower than 2008/09. Western Water benefited from a tax expense reduction of \$667k from the Federal Government Investment Allowance scheme. However, higher real costs of purchasing bulk water, higher financing costs and depreciation charges more than offset the tax expense reduction. Revenues were strong with higher new customer contributions from growth leading to the strong result after tax, and in spite of current water restriction levels and customer water conservation efforts.

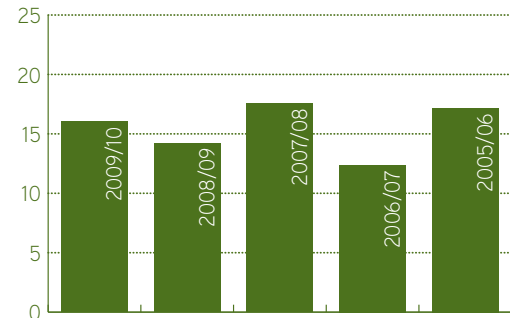
Chart 9: Net Profit After Tax – 5 Years



New Customer Contribution Income

New customer contributions remained relatively strong during the year exceeding budget.

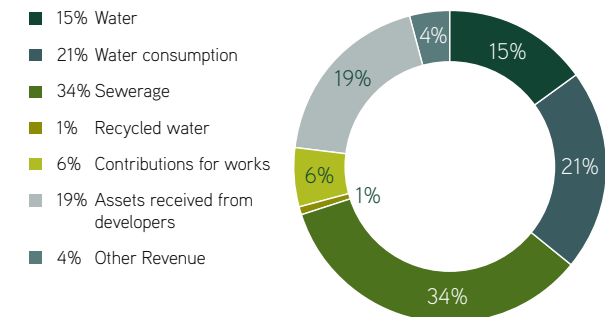
Chart 10: New Customer Contribution Income – 5 Years



Revenue 2009/10

This graph shows approximately 81% of income this year was derived from service charges, consumption and sundry charges. The remaining 19% came from cash and assets from developers.

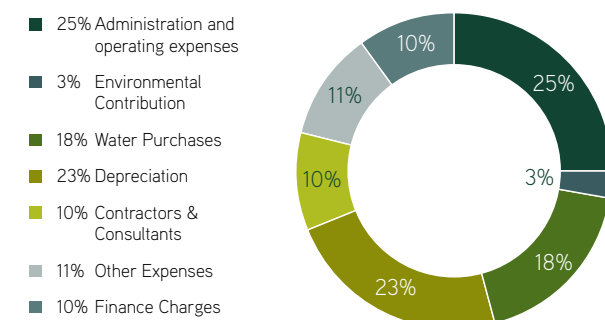
Chart 11: Revenue Source Breakdown



Expenses 2009/10

The increase in costs in 2009/10 is attributable to the cost of water purchased from Melbourne Water, which is now 18% of all expenditure (up from 17% in 2008/09), and financing charges now being 10% of all expenditure due to increased debt level (up from 8% in 2008/09).

Chart 12: Expenses Breakdown



Statement of Comprehensive Income

for the reporting period ended 30 June 2010

	Notes	2009/10 \$'000	2008/09 \$'000
REVENUE			
Service charges	1(d), 3(a)	31,267	27,924
Water Consumption	1(d), 3(a)	12,892	11,767
New Customer Contributions	1(d), 3(a)	16,017	14,204
Government Contributions	1(d), 3(a)	–	140
Interest	1(d), 3(a)	33	119
Other revenue	1(d)	2,795	1,520
TOTAL REVENUE		63,004	55,674
EXPENSES			
Depreciation	1(g), 3(c)	12,681	10,854
Amortisation	1(g), 3(c)	619	797
Employee benefits	1(n)	9,342	8,457
Water Purchases		10,182	8,515
Electricity		2,011	2,143
Environmental Contribution	1(q)	1,615	1,615
Repairs and maintenance expenses	1(f)	1,123	1,240
Other Operating & Administration		13,175	11,296
Finance costs	1(e)	5,706	3,847
TOTAL EXPENSES		56,454	48,764
		6,550	6,910
Net gain(loss) on disposal of property, plant and equipment, infrastructure	3(b)	(598)	(424)
Net result before tax		5,952	6,486
INCOME TAX EXPENSE	4	1,122	1,409
NET RESULT FOR THE PERIOD	16	4,830	5,077
Other comprehensive income		–	–
COMPREHENSIVE INCOME FOR THE PERIOD		4,830	5,077

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance Sheet

as at 30 June 2010

	Notes	2009/10 \$'000	2008/09 \$'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	1(h), 5	7,374	1,336
Receivables	1(i), 6	8,067	7,124
Prepayments		794	640
Tax receivable	4(a)	-	670
TOTAL CURRENT ASSETS		16,235	9,770
NON-CURRENT ASSETS			
Receivables	1(i), 6	246	292
Property, plant and equipment	1(f), 7	500,610	467,032
Intangible assets	1(j), 8	1,708	1,899
Deferred tax assets	9	2,530	1,325
TOTAL NON-CURRENT ASSETS		505,094	470,548
TOTAL ASSETS		521,329	480,318
LIABILITIES			
CURRENT LIABILITIES			
Payables	1(k), 10	11,953	12,175
Income in advance	1(d)	1,071	1,005
Current tax payable	4(a)	-	-
Interest bearing liabilities	11	-	3,000
Employee benefits	1(n), 12	2,593	2,284
TOTAL CURRENT LIABILITIES		15,617	18,464
NON-CURRENT LIABILITIES			
Interest bearing liabilities	11	102,250	66,250
Deferred tax liabilities	13	41,918	39,590
TOTAL NON-CURRENT LIABILITIES		144,168	105,840
TOTAL LIABILITIES		159,785	124,304
NET ASSETS			
EQUITY			
Contributed capital	1(p), 14	159,128	158,428
Reserves	15	37,247	37,247
Accumulated surplus/(deficit)	16	165,169	160,339
TOTAL EQUITY		361,544	356,014

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

for the period ended 30 June 2010

	Notes	Contributed capital \$'000	Reserves \$'000	Accumulated surplus/ deficit \$'000	Total \$'000
BALANCE AT 1 JULY 2008		158,428	37,247	155,262	350,937
Effects of changes in accounting policy (net of tax)		-	-	-	-
Restated total equity at the beginning of the financial year		158,428	37,247	155,262	350,937
Total comprehensive income for the year as reported in the 2009 financial report				5,077	5,077
Effects of changes in accounting policy (net of tax)		-	-	-	-
Restated total comprehensive income for the year				5,077	5,077
<i>Transactions with the State in its capacity as owner</i>					
Contributions by owner		-			
BALANCE AS AT 30 JUNE 2009		158,428	37,247	160,339	356,014
Total comprehensive income for the year				4,830	4,830
<i>Transactions with the State in its capacity as owner</i>					
Contributions by owner		700			700
BALANCE AS AT 30 JUNE 2010		159,128	37,247	165,169	361,544

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Cash Flow Statement

for the reporting period ended 30 June 2010

	Notes	2009/10 \$'000	2008/09 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
RECEIPTS			
Tariffs and charges		50,231	43,042
GST received from ATO		4,901	4,882
Interest		33	117
Income tax receipts		670	-
		55,835	48,041
PAYMENTS			
Employees		(9,249)	(7,315)
Suppliers		(31,597)	(27,170)
Interest and other costs of finance paid		(5,292)	(3,463)
Environmental contribution		(1,615)	(1,615)
Income tax payments		-	(1,009)
GST paid to the ATO		(229)	(157)
		(47,982)	(40,729)
Net cash (outflow)/inflow from operating activities	23	7,853	7,312
CASH FLOWS FROM INVESTING ACTIVITIES			
(Payments for property, plant & equipment)		(35,988)	(39,746)
Proceeds from sale of non-current assets		768	609
(Payment for intangible assets)		(295)	(214)
Net cash (outflow)/inflow from investing activities		(35,515)	(39,351)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		36,000	23,250
(Repayment of borrowings)		-	-
Proceeds from contributed capital by State Government		700	-
Net cash (outflow)/inflow from financing activities		36,700	23,250
NET INCREASE/(DECREASE) IN CASH HELD			
		9,038	(8,789)
Cash and cash equivalents at the beginning of the financial year		(1,664)	7,125
Cash and cash equivalents at end of the financial year	5(a)	7,374	(1,664)

The above cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Financial Report

for the year ended 30 June 2010

Note 1 Significant Accounting Policies

(A) BASIS OF ACCOUNTING

General

The financial report includes separate financial statements for Western Region Water Corporation as an individual reporting entity. This financial report is a general purpose financial report that consists of a Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and notes accompanying these statements. The general purpose financial report has been prepared in accordance with Australian Accounting Standards (AAS), Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board, and the requirements of the *Financial Management Act 1994* and applicable Ministerial Directions. Where applicable, those paragraphs of the AAS applicable to not-for-profit entities have been applied.

This financial report has been prepared on an accrual and going concern basis.

Accounting policies

Unless otherwise stated, all accounting policies applied are consistent with those of the prior year. Where appropriate, comparative figures have been amended to align with current presentation and disclosure made of material changes to comparatives.

Functional and presentation currency

Items included in the financial report are measured using the currency of the primary economic environment in which Western Region Water Corporation operates ('the functional currency'). The financial statements are presented in Australian dollars, which is Western Regional Water Corporation's functional and presentation currency.

Classification between current and non-current

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be realised or paid. The asset or liability is classified as current if it is expected to be realised or settled within the next twelve months, being Western Water's operating cycle – see 1(n) for a variation in relation to employee benefits.

Rounding

Unless otherwise stated, amounts in the report have been rounded to the nearest thousand dollars.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets, certain classes of property, plant and equipment.

Critical accounting estimates

The preparation of financial statements in conformity with AAS requires the use of certain critical accounting estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. It also requires management to exercise its judgement in the process of applying the entity's accounting policies.

Financial statement presentation

The entity has applied the revised AASB 101 *Presentation of Financial Statements* which became effective 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the entity had to change the presentation of its financial statements. Comparative information has been re-presented so that it is in conformity with the revised standard.

(B) CHANGES IN ACCOUNTING POLICY

The accounting policies are consistent with those of the previous year, unless stated otherwise.

(C) COMPARATIVE AMOUNTS

Where necessary, figures for the previous year have been reclassified to facilitate comparison.

(D) REVENUE RECOGNITION

Water and sewerage charges

Tariff and service charges are recognised as revenue when levied or determined. Water usage charges by measure are recognised as revenue when the product is provided. Meter reading is undertaken progressively during the year. An estimation, calculated by utilising the bulk meter reading at the end of the reporting period, is made at the end of each accounting period in respect of meters which have not been read at balance date.

Trade waste charges are recognised as revenue at the end of the service delivery period.

Amounts received by customers in advance of accounts being issued are recognised as a liability.

New Customer Contributions/Fees paid by developers

Water infrastructure assets built by developers in a new land subdivision that on completion are provided to Western Water, or fees paid by developers to connect new developments to Western Water's existing water supply and sewerage systems are recognised as revenue when the contributions are received.

Government grants and contributions

Government grants and contributions are recognised as operating revenue on receipt or when an entitlement is established, whichever is the sooner, and disclosed in the Statement of Comprehensive Income as Government grants and contributions. However, grants and contributions received from the Victorian State Government which were originally appropriated by the Parliament as additions to net assets or where the Minister for Finance and the Minister for Water have indicated are in the nature of owners' contributions are accounted for as Equity – Contributed Capital.

Sale of assets

The profit or loss on sale of an asset is determined when control has passed to the buyer.

Interest

Interest income is recognised as revenue using the effective interest rate method.

Lease or rental income

Income from operating leases (i.e. rentals) is recognised in income on a straight line basis over the lease term.

(E) BORROWING COSTS

Borrowing costs are recognised as an expense in the period in which they are incurred. Borrowing costs include interest on bank overdrafts and short term and long term borrowings, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings and finance lease charges.

(F) RECOGNITION AND MEASUREMENT OF ASSETS

Property, plant and equipment represent non-current assets comprising land, buildings, water, sewerage and recycled water infrastructure, plant, equipment and motor vehicles, used by the water corporation in its operations. Items with a cost or value in excess of \$1,000 and a useful life of more than one year are recognised as an asset. All other assets acquired are expensed.

Acquisition

The purchase method of accounting is used for all acquisitions of assets, being the fair value of the assets provided as consideration at the date of acquisition plus any incidental costs attributable to the acquisition.

Where assets are constructed by Western Water, the cost at which they are recorded includes an appropriate share of fixed and variable overheads.

Assets acquired at no cost by Western Water are recognised at fair value at the date of acquisition.

Repairs and maintenance

Routine maintenance, repair costs and minor renewal costs are expensed as incurred. Where the repair relates to the replacement of a component of an asset and the cost exceeds the capitalisation threshold, the cost is capitalised and depreciated.

Measurement of non-current physical assets

All non-current physical assets except water, sewerage and recycled water infrastructure assets are recognised initially at cost, and subsequently revalued at fair value less accumulated depreciation and impairment in accordance with the requirements of Financial

Notes to the Financial Report

for the year ended 30 June 2010

Reporting Direction (FRD) 103D. Revaluations are conducted using independent or management expertise and are classified as either an independent revaluation or a managerial revaluation.

Plant, equipment and motor vehicles are measured at fair value. For the plant, equipment and vehicle asset class, where the corporation is able to demonstrate that there is no evidence that a reliable market-based fair value (or other fair value indicators) exist for these assets, depreciated replacement cost could represent a reasonable approximation of fair value.

Water infrastructure assets are measured at cost less any accumulated depreciation and any accumulated impairment losses. These assets comprise substructures or underlying systems held to facilitate the harvesting, storage, treatment and transfer of water to meet customer needs. They also include infrastructure assets that underlie sewage and drainage systems.

The last valuation of land was conducted as at 30 June 2008, and the last valuation of buildings was conducted as at 30 June 2007.

For whole-of-government reporting at 30 June 2009 and 30 June 2010, water infrastructure assets are measured at fair value less any accumulated depreciation and any accumulated impairment losses, in accordance with FRD 121 *Infrastructure Assets (Water/Rail)*.

During 2009, the Minister for Finance issued two new FRDs in relation to non-current physical assets that are relevant to water infrastructure assets. FRD 103D *Non-current Physical Assets* ("FRD 103D"), as revised in March 2009, requires all non-current physical assets to be measured using the revaluation model unless the entity has received prior written approval of the Minister for Finance to measure the assets at cost. FRD 103D is applicable for reporting periods commencing on or after 1 July 2008, superseding FRD 103C. However, in recognition of the initial workload and heavy demand on resources within a relatively tight timeframe for implementation, transitional dispensation was available to relieve measurement at fair value at the entity reporting level until the temporary exemption is withdrawn. This temporary exemption is made under FRD 121 *Infrastructure Assets (Water/Rail)*. During the year, this temporary exemption was extended until the financial year ending 30 June 2011 at the direction of DTF.

Revaluation of non-current assets

Revaluation increments are credited directly to equity in the revaluation reserve, except to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in determining the net result, the increment is recognised as revenue in determining the net result.

Revaluation decrements are recognised immediately as an expense in the net result, except that, to the extent that a credit balance exists in the revaluation reserve in respect of the same class of asset, they are debited to the revaluation reserve.

Revaluation increases and revaluation decreases relating to individual assets within a class of property, plant and equipment are offset against one another within that class but are not offset in respect of assets in different classes.

Revaluation reserves are not transferred to accumulated funds on derecognising of the relevant asset.

Impairment of assets

Intangible assets with identifiable useful lives are tested annually as to whether their carrying values exceed their recoverable amount. All other assets are assessed annually for indicators for impairment except for deferred tax assets.

If there is an indication of impairment, the assets concerned are tested as to whether their carrying values exceed their recoverable amount. Where an asset's carrying amount exceeds its recoverable amount, the difference is written off by a charge to the Statement of Comprehensive Income except to the extent that the write down can be debited to an asset revaluation reserve amount applicable to that class of asset.

The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs to sell. Recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell. It is deemed that, in the event of the loss of an asset, the future economic benefits arising from the use of the asset will be replaced unless a specific decision to the contrary has been made.

A reversal of an impairment loss on a revalued asset is credited directly to equity under the heading revaluation reserve. However, to the extent that an impairment loss on the same class of asset previously recognised in the Statement of Comprehensive Income, a reversal of that impairment loss is also recognised in the Statement of Comprehensive Income.

Assets classified as held for sale

Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell, as their carrying amount will be recovered principally through a sale transaction, rather than through continued use. Western Water considers that the sale is highly probable, the asset is available for immediate sale in its present condition and the sale is expected to be completed within 12 months from the date of classification. Assets are not depreciated or amortised while they are classified as held for sale. Assets classified as held for sale are classified as current assets.

(G) DEPRECIATION AND AMORTISATION OF NON-CURRENT ASSETS

All non-current physical assets that have a limited useful life are depreciated. Where assets have separate identifiable components that have distinct useful lives and/or residual values, a separate depreciation rate is determined for each component.

Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, commencing from the time the asset is held ready for use. The assets residual values and useful lives are reviewed, and adjusted where required, at each balance sheet date.

Intangible assets with finite useful lives are amortised as an expense on a systematic basis (typically straight line), commencing from the time the asset is available for use. The amortisation periods are reviewed and adjusted if appropriate at each balance date. Intangible assets with indefinite useful lives are not amortised. However all intangible assets are assessed for impairment annually as outlined in Note 1(f).

Major depreciation periods used are listed below and are consistent with the prior year unless otherwise stated:

	Depreciation Periods
Buildings	50 Years
<i>Infrastructure</i>	
Water & Recycled Water:	
– Storage	50-100 Years
– Distribution network	60 Years
– Treatment plants	10-60 Years
Sewerage:	
– Storage	50-100 Years
– Distribution network	80 Years
– Treatment plants	10-60 Years
<i>Plant & Equipment</i>	
– Equipment	5-20 Years
– Machinery	10-15 Years
– Furniture & computers	3-10 Years
– Motor vehicles	2 Years
Intangibles	5 Years

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease, in periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

Leasehold improvements

Leasehold improvements are recognised at cost and are amortised over the unexpired period of the lease or the estimated useful life of the improvement, whichever is the shorter. At balance date, leasehold improvements are amortised over a 10 year period.

(H) CASH AND CASH EQUIVALENT ASSETS

Cash and cash equivalents include cash on hand, 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, and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities on the balance sheet, but are included within cash and cash equivalents for cash flow statement presentation purposes.

Notes to the Financial Report

for the year ended 30 June 2010

(I) RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less an allowance for impaired receivables. Trade receivables are due for settlement no more than 28 days from the date of recognition for water utility debtors, and no more than 30 days for other debtors. Non-current debtors are Private Schemes, payable on terms of up to 20 years.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. An allowance for impaired receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amounts credited to the allowance are recognised as an expense in the Statement of Comprehensive Income.

Payments received from customers in advance have been separated out from debtors and disclosed as a liability.

Commencing in July 2008, Western Water now bills both existing customers and new customers a Waterways & Drainage Charge for all properties that fall within a designated boundary. New customers do not currently receive any other service from Western Water. The charge is not recognised as revenue by Western Water as the funds are only collected on behalf of Melbourne Water and is therefore recognised as a corresponding liability. Western Water only remits funds once the account has been paid, and if the account is not paid, is not included in the mercantile agents collection procedures. The charge is levied under the *Water Act 1989* and therefore remains an outstanding charge on the property and is collected at a future time when the property is sold.

(J) INTANGIBLES

Intangible assets represent identifiable non monetary assets without physical substance.

Intangible assets are recognised at cost. Subsequently intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to Western Water.

The only intangible asset Western Water recognises is computer software purchased for normal operations.

(K) PAYABLES

Payables consist predominantly of trade and sundry creditors. These amounts represent liabilities for goods and services provided to Western Water prior to the end of the financial year, which are unpaid at financial year end. The amounts are unsecured and are usually paid within 30 days of recognition. Payables are initially recognised at fair value, being the cost of the goods and services, and subsequently measured at amortised cost.

Under construction contracts, there is generally a requirement to withhold retention funds from payments during construction, and a requirement to hold a security deposit, being a percentage of the contract price, for up to 12 months after completion of construction. These funds are recognised as current liabilities. (See Note 10)

Any Waterways & Drainage Charge that has been collected in cash from customers and not paid to Melbourne Water, as well as amounts that remain outstanding from customers, are recognised as a current liability.

(L) INTEREST BEARING LIABILITIES

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the borrowings, using the effective interest method.

Borrowings are classified as current liabilities unless Western Water has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(M) FINANCIAL INSTRUMENTS

Recognition

Financial instruments are initially measured at fair value, plus in the case of a financial asset or financial liability not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or the issue of the financial asset or liability. Subsequent to initial recognition, the financial instruments are measured as set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables and other receivables in the balance sheet.

Impairment

At each reporting date, Western Water assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale equity instruments, a significant or prolonged decline in value of the instrument below its cost is considered an indicator that the investment is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the income statement. Impairment losses are recognised in the Statement of Comprehensive Income. Impairment losses recognised in the Statement of Comprehensive Income on equity instruments classified as available-for-sale are not reversed through the Statement of Comprehensive Income.

(N) EMPLOYEE BENEFITS

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in employee benefit liabilities in respect of employees' services up to the reporting date, and are measured at the amounts expected to be paid when the liabilities are settled, at their nominal values. Employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cashflows to be made by the entity, in respect of services rendered by employees up to the reporting date. Regardless of the expected timing of settlements, liabilities in respect of the employee benefits are classified as a current liability, unless there is an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date, in which case it would be classified as a non-current liability.

Long service leave (LSL)

Current Liability – unconditional LSL (representing 7 or more years of continuous service) is disclosed as a current liability even where the Corporation does not expect to settle the liability within 12 months, because it does not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of this current LSL liability are measured at:

- Present value – component that the Corporation does not expect to settle within 12 months; and
- Nominal value – component that the Corporation expects to settle within 12 months.

Current Liability – conditional LSL (representing less than 7 years of continuous service) is also disclosed as a current liability as staff have the ability to transfer accumulated Long Service Leave to other Water Corporations under Water (Long Service Leave) Regulations 2001 No. 79 should they transfer employment. Western Water's policy is to recognise conditional Long Service Leave as a current liability based on portability and frequent staff movements. Conditional LSL is required to be measured at present value.

In calculating present value, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Notes to the Financial Report

for the year ended 30 June 2010

(ii) Superannuation

The amount charged to the Statement of Comprehensive Income in respect of superannuation represents the contributions made to the superannuation plan, in respect to the current services of entity staff. Superannuation contributions are made to the plans based on the relevant rules of each plan.

Details of the last actuarial review conducted by Vision Super for Defined Benefit members as at 31 December 2008 are contained at Note 21.

(iii) Employee benefit on-costs

Employee benefit on-costs, including payroll tax and worker's compensation are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(iv) Performance payments

Performance payments for Western Water's Executive Officers are based on a percentage of the annual salary package provided under their contract(s) of employment. A liability is recognised and is measured as the aggregate of the amounts accrued under the term of the contracts to balance date.

(O) PROVISIONS

Provisions are recognised when the corporation, as a result of a past event, has a legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

(P) CONTRIBUTIONS BY OWNERS

Additions to net assets which have been designated as contributions by owners are recognised as contributed capital. Other transfers that are in the nature of contributions or distributions have also been designated as contributions by owners. Transfer of net assets arising from administrative restructures are treated as distributions to or contributions by owners.

(Q) ENVIRONMENTAL CONTRIBUTIONS

The *Water Industry (Environmental Contributions) Act 2004* (the Act) was amended by the *Water Industry Act 1994* to make provision for environmental contributions to be paid by water supply corporations. The Act establishes an obligation for corporations to pay into consolidated fund annual contributions for the first period from 1 October 2004 to 30 June 2008 in accordance with the pre-established schedule of payments, which sets out the amounts payable by each Corporation. The contribution period has been extended to cover the period 1 July 2008 until 30 June 2012.

The purpose for the environmental contribution is set out in the Act, and funding may be used for the purpose of funding initiatives that seek to promote the sustainable management of water or address adverse water related matters.

The environmental contributions are disclosed separately within the expenses.

(R) OPERATING RESULTS OF RETAIL SERVICES

The financial report includes a note reporting the three lines of business of Western Water, a retail water distribution, retail sewerage treatment and recycled water retailer in accordance with the Ministerial Direction under Section 51 of the *Financial Management Act 1994*.

Segment information is reported on the basis of business segments, as Western Water's risks and returns are affected predominantly by differences in the products and services provided through those segments.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment and other intangible assets, net of related provisions. Segment liabilities consist primarily of trade and other creditors, employee entitlements and borrowings.

(S) TAXATION

Western Water is subject to the National Tax Equivalent Regime (NTER), which is administered by the Australian Taxation Office.

The income tax expense or revenue for the period is the expected tax payable or receivable on the current period's taxable income based on the national income tax rate of 30%, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rate expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantially enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction that at the time of the transaction did not affect either accounting profit or taxable profit or loss. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity respectively.

(T) DIVIDEND POLICY

Western Water is required to pay a dividend in accordance with a determination of the Treasurer of Victoria under the *Public Authorities (Dividend) Act 1983*, based on a prescribed percentage of the previous years' adjusted net profit.

An obligation to pay a dividend only arises after consultation with the portfolio Minister and the Treasurer and a formal determination is made by the Treasurer. Western Water's preliminary estimate for the reporting period is \$nil.

(U) GOODS AND SERVICES TAX

Revenues, expenses and assets are recognised net of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Balance Sheet. Cash flows arising from operating activities are disclosed in the Cash Flow Statement on a gross basis – i.e. inclusive of GST. The GST component of cashflows arising from investing and financing activities which is recoverable or payable to the taxation authority is classified as operating cash flows.

Notes to the Financial Report

for the year ended 30 June 2010

(V) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED THAT ARE NOT YET EFFECTIVE

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2010 reporting period.

As at 30 June 2010, the following standards and interpretations had been issued but were not mandatory for financial year ending 30 June 2010. Western Water has not, and does not intend to, adopt these standards early.

Standard/Interpretation	Summary	Applicable for annual reporting periods beginning or ending on	Impact on financial statements
AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards. The entity will apply the revised standards from 1 July 2010.	1 January 2010	The entity does not expect that any adjustments will be necessary as a result of applying the revised rules.
AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	AASB 9 <i>Financial Instruments</i> addresses the classification and measurement of financial assets and is likely to affect the entity's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption.	1 January 2013	The entity is yet to assess its full impact. However, initial indications are that it may affect the entity's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

Standard/Interpretation	Summary	Applicable for annual reporting periods beginning or ending on	Impact on financial statements
Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards	In December 2009 the AASB issued a revised AASB 124 <i>Related Party Disclosures</i> . It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party.	1 January 2011	When the amendments are applied, the entity and the parent will need to disclose any transactions between its subsidiaries and its associates. However, it has yet to put systems into place to capture the necessary information. It is therefore not possible to disclose the financial impact, if any, of the amendment on the related party disclosures.
AASB Interpretation 19 Extinguishing financial liabilities with equity instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19	AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.	1 July 2010	It is not expected to have any impact on the entity's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the entity has not entered into any debt for equity swaps since that date.
AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	In December 2009, the AASB made an amendment to Interpretation 14 <i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> . The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements.	1 January 2011	The entity does not make any such prepayments. The amendment is therefore not expected to have any impact on the entity's financial statements.

Notes to the Financial Report

for the year ended 30 June 2010

Note 2 Financial Risk Management Objectives and Policies

Western Water's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. This note presents information about Western Water's exposure to each of these risks, and the objectives, policies and processes for measuring and managing risk.

Western Water's Board has overall responsibility for establishment and oversight of Western Water's risk management framework. Western Water's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of Western Water. Western Water uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by the Manager Organisational Development and Risk under policies approved by the Board. The finance department identifies, evaluates and hedges financial risks in close cooperation with Western Water's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and investment of excess liquidity.

The main risks Western Water is exposed to through its financial instruments are as follows:

(A) MARKET RISK

Market risk is the risk that changes in market prices will affect the fair value or future cash flows of Western Water's financial instruments. Market risk comprises of foreign exchange risk, interest rate risk and other price risk. Western Water's exposure to market risk is primarily through interest rate risk. There is no exposure to foreign exchange risk and insignificant exposure to other price risks.

Objectives, policies and processes used to manage these risks are disclosed in the paragraphs below:

(i) Interest rate risk

Western Water's exposure to market interest rates relates primarily to Western Water's long term borrowings and funds invested on the money market.

Western Water minimises its exposure to interest rate changes on its long term borrowings by holding a mix of fixed and floating rate debt. Debt is sourced from Treasury Corporation Victoria and is managed within a range of Board approved limits with debt levels and interest rates being monitored regularly.

Western Water has minimal exposure to interest rate risk through its holding of cash assets and other financial assets. Western Water manages its interest rate risk by maintaining a cash investment from time to time.

(ii) Foreign exchange risk

Western Water has no exposure to changes in the foreign exchange rate.

(iii) Other price risk

Western Water has no significant exposure to other price risk.

The sensitivity analysis below has taken into consideration past performance, future expectations, economic forecasts and management's knowledge and experience of the financial markets, the Corporation believes that:

- a movement of 1% in interest rates is reasonable over the next 12 months.

Interest Rate Risk at 30-Jun-10	Carrying amount \$'000	+1%		-1%	
		Result \$'000	Equity \$'000	Result \$'000	Equity \$'000
FINANCIAL ASSETS					
Cash and Cash Equivalents	7,374	7	7	(7)	(7)
Receivables	8,313				
Other Financial Assets					
Financial liabilities					
PAYABLES					
	11,953				
Interest Bearing Liabilities	102,250	(23)	(23)	23	23
Other Financial Liabilities					
TOTAL INCREASE/(DECREASE)		(16)	(16)	16	16

Interest Rate Risk at 30-Jun-09	Carrying amount \$'000	+1%		-1%	
		Result \$'000	Equity \$'000	Result \$'000	Equity \$'000
FINANCIAL ASSETS					
Cash and Cash Equivalents	1,336	25	25	(25)	(25)
Receivables	7,416				
Other Financial Assets					
FINANCIAL LIABILITIES					
Payables	12,175				
Interest Bearing Liabilities	69,250	(8)	(8)	8	8
Other Financial Liabilities					
TOTAL INCREASE/(DECREASE)		17	17	(17)	(17)

Sensitivity on cash balances is based on historical average cash balance during the year.

Western Water has no exposure to Foreign Currency or Other Price Risk.

Notes to the Financial Report

for the year ended 30 June 2010

(B) CREDIT RISK

Credit risk is the risk of financial loss to Western Water as a result of a customer or counterparty to a financial instrument failing to meet its contractual obligations. Credit risk arises principally from Western Water's receivables and financial assets available for sale.

Western Water's exposure to credit risk is influenced by the individual characteristics of each customer. The receivable balance consists of a large number of residential and business customers which are spread across a diverse range of industries. Receivable balances are monitored on an ongoing basis to ensure that exposure to bad debts is not significant. Western Water has in place a policy and procedure for the collection of overdue receivables.

An analysis of the ageing of Western Water's receivables at reporting date has been provided in Note 6.

(C) LIQUIDITY RISK

Liquidity risk is the risk that Western Water will not be able to meet its financial obligations as they fall due. Western Water's policy is to settle financial obligations within 30 days and in the event of dispute make payments within 30 days from the date of resolution.

Western Water manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and financial liabilities.

During the course of the financial year, Western Water relies on the Treasury Corporation of Victoria's ability to provide borrowings within the annual Treasurer's approval limits. Future years Treasurer approvals are usually provided in June prior to the commencement of the subsequent financial year, based on Western Water's Corporate Plan submission.

Western Water's financial liability maturities have been disclosed in Note 17.

(D) FAIR VALUATION MEASUREMENTS

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by Western Water is the current bid price.

The carrying value less impairment provision of trade receivables and payables is a reasonable approximation of their fair values due to the short term nature of trade receivables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to Western Water for similar financial assets.

The carrying amounts and aggregate net fair values of financial assets and financial liabilities at balance date have been provided in Note 17.

Note 3 Statement of Comprehensive Income – Disclosures

	2009/10 \$'000	2008/09 \$'000
SERVICE CHARGES		
Water	9,553	8,193
Sewerage	20,851	18,936
Recycled water	863	795
	31,267	27,924
Water consumption	12,892	11,767
TOTAL SERVICE CHARGES	44,159	39,691
GOVERNMENT CONTRIBUTIONS		
-Operating	-	140
NEW CUSTOMER CONTRIBUTIONS		
Fees paid by developers	4,084	3,948
Assets received from developers	11,933	10,256
	16,017	14,204
INTEREST		
Investments	33	119
OTHER REVENUE		
Information statements	319	251
Tapping and connection fees	1,081	750
Property rental	50	49
Other	1,345	470
	2,795	1,520
TOTAL REVENUE	63,004	55,674
(B) NET GAIN/(LOSS) ON DISPOSAL OF NON-CURRENT ASSETS		
The surplus/(deficit) from ordinary activities includes the following specific net gains and expenses.		
NET GAIN (LOSS) ON DISPOSAL		
<i>Property, plant and equipment</i>		
Proceeds from sale of assets	768	609
Less Written Down Value of asset sold	1,366	1,033
	(598)	(424)

Notes to the Financial Report

for the year ended 30 June 2010

Note 3 Operating Statement – Disclosures (cont)	2009/10 \$'000	2008/09 \$'000
<i>(C) EXPENSES</i>		
<i>Depreciation</i>		
- Buildings	376	353
- Water infrastructure	3,605	3,182
- Sewerage infrastructure	2,853	2,657
- Recycled water infrastructure	245	187
- Plant, equipment and motor vehicles	5,602	4,475
Total depreciation	12,681	10,854
<i>Amortisation</i>		
- Intangible & Leasehold Assets	619	797
	619	797
<i>Movement in Employee Benefits</i>		
- Annual Leave	61	(17)
- Long Service Leave	248	183
	309	166
Bad & Doubtful Debts	162	99
Borrowing costs	5,706	3,847
Superannuation contributions	792	690
Operating Lease rental expense	520	495
<i>Auditors' remuneration</i>		
- Auditor-General for audit of annual financial statements	42	41
- Internal Audit – Moore Stephens	71	92
- Deloitte – Taxation Reviews/Regulatory Audit	46	34
	159	167

Note 4 Income Tax

The income tax expense for the financial year differs from the amount calculated on the net result. The differences are reconciled as follows:

(A) COMPONENTS OF TAX EXPENSE

	2009/10 \$'000	2008/09 \$'000
Current tax payable	-	-
Deferred tax relating to temporary differences	2,327	2,738
Deferred tax asset	(1,205)	(659)
Adjustments for current tax on prior periods	-	(469)
(Over)/Under provision on prior year tax return	-	(201)
	1,122	1,409

Current Tax Liability/(Asset)

Current tax	-	-
Instalment paid	-	(670)
Current Liability/(Asset)	-	(670)

Income tax expense is attributable to:

Surplus from continuing operations	1,122	1,409
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(B) RECONCILIATION OF INCOME TAX TO PRIMA FACIE TAX PAYABLE

Net result before income tax expense	5,952	6,486
Tax at the Australian tax rate of 30% (2009: 30%)	1,786	1,946
<i>Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:</i>		
- Adjustment in respect of income Tax of previous year	-	(469)
- Research and development concession	(9)	(7)
- Investment Allowance	(667)	(72)
- Other	12	11
Income tax as reported in the Statement of Comprehensive income	1,122	1,409

Notes to the Financial Report

for the year ended 30 June 2010

Note 5 Cash & Cash Equivalent Assets	2009/10	2008/09
	\$'000	\$'000
Cash on hand	2	2
Cash at Bank	372	1,334
Deposit at call	7,000	-
	7,374	1,336
(A) RECONCILIATION TO CASH AT THE END OF YEAR		
The above figures are reconciled to cash at the end of the financial year as shown in the Cash Flow Statement, as follows:		
Cash assets as above	7,374	1,336
At call borrowings	-	(3,000)
Balances as per Cash Flow Statement	7,374	(1,664)
(B) CASH AT BANK AND ON HAND		
These are non interest bearing	2	2
(C) DEPOSITS AT CALL		
The deposits are bearing floating interest rate currently 4.45%.(2009: 3.2%)	7,000	-

Note 6 Receivables

	2009/10 \$'000	2008/09 \$'000
<i>Current</i>		
Trade receivables	7,150	6,414
Provision for impaired receivables	(49)	(37)
GST Receivable	966	747
Other receivables	-	-
	8,067	7,124
<i>Non-current</i>		
Other Receivables	246	292
(A) PROVISION FOR IMPAIRED RECEIVABLES		
As at 30 June 2010, current receivables of the Corporation with a nominal value of \$49,001 (2009: \$36,645) were impaired. The amount of the provision was \$49,001 (2009: \$36,645). The individually impaired receivables relate to provision of Recycled Water Service.		
The ageing of these receivables is as follows:		
1 to 3 months	-	6
3 to 6 months	7	-
Over 6 months	42	30
	49	36
Movements in the provision for impaired receivables are as follows:		
Balance at the beginning of the year	(36)	(72)
Provision for impairment recognised during the year	(162)	(99)
Receivables written off during the year as uncollectible	149	135
Balance at the end of the year	(49)	(36)

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the Statement of Comprehensive income. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

The other amounts within receivables do not contain impaired assets and are not past due. Based on credit history, it is expected that these amounts will be received when due.

Notes to the Financial Report

for the year ended 30 June 2010

Note 6 Receivables (cont)

(B) PAST DUE BUT NOT IMPAIRED TRADE RECEIVABLES

As of 30 June 2010, trade receivables of \$2,260,000 (2008: \$1,789,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	2009/10 \$'000	2008/09 \$'000
1 to 3 months	818	920
3 to 6 months	349	407
Over 6 months	1,093	461
	2,260	1,789

The other amounts within receivables do not contain impaired assets and are not past due. Based on credit history, it is expected that these amounts will be received when due.

(C) FOREIGN EXCHANGE AND INTEREST RATE RISK FOR TRADE AND OTHER RECEIVABLES

The carrying amounts of the Corporation's current and non-current receivables are denominated in the following currencies:

Australian Dollars	8,313	7,416
	8,313	7,416
Current Receivables	8,067	7,124
Non current receivables	246	292
	8,313	7,416

(D) FAIR VALUE AND CREDIT RISK

Due to the short-term nature of the current receivables, their carrying value is assumed to approximate their fair value.

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Private Schemes	212	212	258	258
Bond Paid	34	34	34	34
	246	246	292	292

Note 7 Property, Plant & Equipment

	2009/10 \$'000	2008/09 \$'000
(A) CLASSES OF PROPERTY, PLANT AND EQUIPMENT		
<i>Land</i>		
At fair value (as at 30 June 2008)	36,179	36,179
At cost	1	-
	36,180	36,179
<i>Buildings</i>		
At fair value (as at 30 June 2007)	15,587	15,704
At cost	2,260	1,839
Less: accumulated depreciation	1,054	685
	16,793	16,858
<i>Water infrastructure</i>		
At cost and deemed cost	219,078	207,309
Less: accumulated depreciation	53,838	50,359
	165,240	156,950
<i>Sewerage infrastructure</i>		
At cost and deemed cost	247,421	225,886
Less: accumulated depreciation	86,888	84,158
	160,533	141,728
<i>Recycled Water infrastructure</i>		
At cost and deemed cost	14,493	13,380
Less: accumulated depreciation	1,364	1,119
	13,129	12,261
<i>Equipment</i>		
At fair value	137,918	130,205
Less: accumulated depreciation	61,126	56,907
	76,792	73,298
<i>Motor vehicles</i>		
At fair value	2,295	2,107
Less: accumulated depreciation	568	545
	1,727	1,562
<i>Leasehold Assets</i>		
At cost	1,321	1,321
Less: accumulated depreciation	385	252
	936	1,069
Under construction	29,280	27,127
Total Property, Plant & Equipment	500,610	467,032

Land was valued at 30 June 2008 using the Valuer General's indices. Buildings were valued at 30 June 2007 by an independent valuer, City Fringe Valuers. No assets of Western Region Water Corporation have been pledged as security.

Notes to the Financial Report

for the year ended 30 June 2010

Note 7 Property, Plant & Equipment (cont)

(B) MOVEMENTS DURING THE REPORTING PERIOD 2009-2010

	Opening WDV \$'000	Transfers	Disposals	Additions/ Capital Expenditure	Capital Transfer to DSE	Revaluation	Depreciation	Closing WDV \$'000
<i>Land</i>								
At fair value	36,179	1	-	-	-	-	-	36,180
<i>Building</i>								
At fair value	16,858	421	(111)	1	-	-	(376)	16,793
<i>Water infrastructure</i>								
At deemed cost	156,950	8,330	(97)	3,662	-	-	(3,605)	165,240
<i>Sewerage infrastructure</i>								
At deemed cost	141,728	13,566	(83)	8,175	-	-	(2,853)	160,533
<i>Recycled Water infrastructure</i>								
At deemed cost	12,261	1,054	-	59	-	-	(245)	13,129
<i>Equipment</i>								
At fair value	73,298	9,068	(331)	35	-	-	(5,278)	76,792
<i>Motor Vehicles</i>								
At fair value	1,562	1,233	(744)	-	-	-	(324)	1,727
<i>Leasehold Assets</i>								
At cost	1,069	-	-	-	-	-	(133)	936
Under construction	27,127	(33,673)	-	35,941	-	-	-	29,395
Total property, plant and equipment	467,032	-	(1,366)	47,873	-	-	(12,814)	500,725
AT 1 JULY 2009								
Cost or fair value	661,057							
Accumulated depreciation and impairment	(194,025)							
Net carrying amount	467,032							
AT 30 JUNE 2010								
Cost or fair value	705,833							
Accumulated depreciation and impairment	(205,223)							
Net carrying amount	500,610							

Note 7 Property, Plant & Equipment (cont)

(B) MOVEMENTS DURING THE REPORTING PERIOD 2008-2009

	Opening WDV \$'000	Transfers	Disposals	Additions/ Capital Expenditure	Capital Transfer to DSE	Revaluation	Depreciation	Closing WDV \$'000
<i>Land</i>								
At fair value	36,318	1	(140)	-	-	-	-	36,179
<i>Building</i>								
At fair value	16,653	558	-	-	-	-	(353)	16,858
<i>Water infrastructure</i>								
At deemed cost	146,441	9,599	(298)	4,389	-	-	(3,181)	156,950
<i>Sewerage infrastructure</i>								
At deemed cost	136,053	2,628	(162)	5,867	-	-	(2,658)	141,728
<i>Recycled Water infrastructure</i>								
At deemed cost	9,079	3,369	-	-	-	-	(187)	12,261
<i>Equipment</i>								
At fair value	57,312	20,236	(71)	-	-	-	(4,179)	73,298
<i>Motor Vehicles</i>								
At fair value	1,628	592	(362)	-	-	-	(296)	1,562
<i>Leasehold Assets</i>								
At cost	1,134	62	-	-	-	-	(127)	1,069
Under construction	26,606	(37,045)	-	37,566	-	-	-	27,127
Total property, plant and equipment	431,224	-	(1,033)	47,822	-	-	(10,981)	467,032
AT 1 JULY 2008								
Cost or fair value	614,969							
Accumulated depreciation and impairment	(183,745)							
Net carrying amount	431,224							
AT 30 JUNE 2009								
Cost or fair value	661,057							
Accumulated depreciation and impairment	(194,025)							
Net carrying amount	467,032							

Notes to the Financial Report

for the year ended 30 June 2010

Note 8 Intangible Assets	\$'000	
COMPUTER SOFTWARE		
YEAR ENDED 30 JUNE 2010		
At 1 July 2009, net of accumulated amortisation	1,899	
Additions Acquired	295	
Amortisation	(486)	
At 30 June 2010, net accumulated amortisation	1,708	
YEAR ENDED 30 JUNE 2009		
At 1 July 2008, net of accumulated amortisation	2,355	
Additions Acquired	214	
Amortisation	(670)	
At 30 June 2009, net accumulated amortisation	1,899	
	2009/10	2008/09
	\$'000	\$'000
Note 9 Deferred Tax Assets		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in Statement of Comprehensive income</i>		
Employee benefits	775	685
Tax Losses	1,731	620
Other	24	20
Total Deferred tax assets	2,530	1,325
MOVEMENTS		
Opening balance at 1 July	1,325	666
Credited/(debited) to the Statement of Comprehensive income	1,205	659
Closing balance at 30 June	2,530	1,325
Deferred tax asset to be recovered after more than 12 months	2,530	1,325
Note 10 Payables		
<i>Current</i>		
Trade creditors	4,403	5,036
Payables - GST	24	26
Contractor Deposits & Retentions	1,280	1,586
Accrued Expenses-Interest	1,372	958
Accrued Expenses-Other	4,874	4,569
	11,953	12,175

Note 11 Interest Bearing Liabilities

	2009/10 \$'000	2008/09 \$'000
CURRENT		
<i>Secured</i>		
Bank overdraft (a)	-	-
Loans (b)	-	3,000
Total current interest bearing liabilities	-	3,000
NON-CURRENT		
<i>Secured</i>		
Loans (b)	102,250	66,250
Total non-current interest bearing liabilities	102,250	66,250
TOTAL INTEREST BEARING LIABILITIES	102,250	69,250
CREDIT STANDBY ARRANGEMENTS		
Total facilities		
Bank Overdraft	500	500
Unused at balance date		
Bank Overdraft balance	-	-
	500	500
BANK LOAN FACILITIES		
Total facilities	102,250	69,250
Used at balance date	102,250	69,250
Unused at balance date	-	-

(a) Overdraft limit – \$0.5 million secured by a Mortgage over the general revenue of Western Region Water Corporation

(b) Security for Loans is by way of Treasurer's guarantee in favour of the Treasury Corporation of Victoria dated 22nd June 2000.
Loan interest is payable every six months and loans have a maturity profile of up to 14.8 years.

All bank loans are with Treasury Corporation of Victoria under the Treasurers approval. Any unused facilities are not automatically carried over into the next financial year with a fresh approval required for each financial year. Treasurer approval was received on 25 June 2010 to re-finance \$12.25M of maturing loans and new loans of \$29M between 1 July 2010 and 30 June 2011.

Notes to the Financial Report

for the year ended 30 June 2010

Note 11 Interest Bearing Liabilities (cont)

	2009/10	
	Carrying amount \$'000	Fair Value \$'000
ON BALANCE SHEET		
<i>Non traded financial liabilities</i>		
Bank Overdrafts	-	-
Bank Loans	102,250	106,711
	102,250	106,711
<i>Off Balance sheet</i>		
Contingencies	-	-
	-	-

On Balance sheet

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values of non-current borrowings are based on cash flows discounted using borrowing rates varying from 4.285% to 7.25%, depending on the type of the borrowing (2009 - 3.165% to 7.25%).

The Corporation has potential financial liabilities which may arise from certain contingencies disclosed in note 20. As explained in those notes, no material losses are anticipated in respect of any of those contingencies and the fair value disclosed above is the directors' estimate of amounts which would be payable by the Corporation as consideration for the assumption of those contingencies by another party.

RISK EXPOSURES

The exposure of the Corporation's borrowings to interest rate changes and the contractual repricing dates at the balance dates are as follows:

	2010 \$'000	2009 \$'000
6 months or less	500	5,500
6-12 months	11,750	6,750
1-5 years	32,000	20,250
Over 5 years	58,000	36,750
	102,250	69,250
Current borrowings	-	3,000
Non current borrowings	102,250	66,250
	102,250	69,250

Treasurer approval was received on 25 June 2010 to refinance all loans maturing in 2010/11. In line with 2010/11 Corporate Plan, all maturities will be refinanced.

The carrying amounts of the Corporation's borrowings are denominated in the following currencies:

Australian dollar	102,250	69,250
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For an analysis of the sensitivity of borrowings to interest rate risk and foreign exchange risk refer to note 2.

Note 12 Employee Benefits Provisions

	2009/10 \$'000	2008/09 \$'000
CURRENT		
Annual leave and unconditional long service leave entitlements, representing 7 or more years of continuous service		
<i>Employee Benefits</i>		
- Short term employee benefits that fall due within 12 months after the end of the period, measured at nominal value.	2,020	1,809
Other long term employee benefits that do not fall due within 12 months after the end of the period, measured at present value	202	130
<i>Provisions related to employee benefit on-costs</i>		
- Short term employee benefits that fall due within 12 months after the end of the period, measured at nominal value.	339	323
Other long term employee benefits that do not fall due within 12 months after the end of the period, measured at present value	32	22
Total Current	2,593	2,284
MOVEMENT IN PROVISIONS		
<i>Annual Leave</i>		
Carrying amount at start of year	686	703
Leave paid out to leaving employees	(25)	(30)
Additional provision recognised	86	13
	747	686
<i>Long Service Leave</i>		
Carrying amount at start of year	1,597	1,414
Leave taken by employees	(48)	(99)
Additional provision recognised	297	282
	1,846	1,597
The number of full time equivalent employees at reporting date	130	123
The following assumptions were adopted in measuring the present value of long service leave and retirement gratuity entitlements:		
Weighted average increase in employee costs	4.50%	4.45%
Weighted average discount rates	5.16%	3.43%
Weighted average settlement period	11 Years	11 Years

The Corporation made no ex-gratia payments.

Notes to the Financial Report

for the year ended 30 June 2010

Note 13 Deferred Tax Liabilities	2009/10 \$'000	2008/09 \$'000
The balance sheet comprises temporary differences attributable to:		
<i>Amounts recognised in Statement of Comprehensive income</i>		
Depreciation	32,206	30,199
Labour costs in capital works	242	297
Accrued Revenue	1,065	889
Other	(629)	(828)
	32,884	30,557
<i>Amounts recognised directly in equity</i>		
Revaluation of property, plant & equipment	9,033	9,033
	9,033	9,033
Net deferred tax liabilities	41,917	39,590
MOVEMENTS		
Opening balance at 1 July	39,590	36,852
Charged to the Statement of Comprehensive income	2,327	2,738
Charged to equity	-	-
Closing balance at 30 June	41,917	39,590
Deferred tax liabilities to be settled after more than 12 months	41,917	39,590
Note 14 Contribution by Owners		
Balance at beginning of reporting period	158,428	158,428
Capital contributions/(repayment) in the year	700	-
Balance at end of reporting period	159,128	158,428

Note 15 Reserves

	2009/10 \$'000	2008/09 \$'000
<i>Composition of reserves</i>		
Asset revaluation surplus	37,247	37,247
	37,247	37,247
<i>Movements in reserves</i>		
Asset revaluation surplus		
Balance 1 July	37,247	37,247
Revaluation increment/(decrement) on non-current assets	-	-
Transfer to accumulated surplus	-	-
Balance 30 June	37,247	37,247

The asset revaluation surplus is used to record asset revaluation increments and decrements in the value of non-current physical assets.

Note 16 Accumulated Funds

Opening balance at 1 July	160,339	155,262
Net result for the period	4,830	5,077
Transfer from Reserve	-	-
Closing balance at 30 June	165,169	160,339

Notes to the Financial Report

for the year ended 30 June 2010

Note 17 Financial Instruments

INTEREST RATE RISK EXPOSURE

The following table sets out Western Water's exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rate by maturity periods.

Exposures arise predominantly from liabilities bearing variable interest rates as the Corporation intends to hold fixed rate liabilities to maturity

2010	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 2 years \$'000	Over 2 to 3 years \$'000	Over 3 to 4 years \$'000	Over 4 to 5 years \$'000	Over 5 years \$'000	Non Interest Bearing \$'000	Total \$'000
<i>Financial Assets</i>									
Cash	7,374	-	-	-	-	-	-	-	7,374
Trade Debtors	-	-	-	-	-	-	-	8,067	8,067
Other receivables	-	-	-	-	-	-	-	-	-
Total financial assets	7,374	-	-	-	-	-	-	8,067	15,441
<i>Financial Liabilities</i>									
Payables	-	-	-	-	-	-	-	11,953	11,953
Other loans	-	12,250	13,000	2,500	11,000	5,500	58,000	-	102,250
Lease liabilities	-	-	-	-	-	-	-	-	-
Total financial liabilities	-	12,250	13,000	2,500	11,000	5,500	58,000	11,953	114,203
<i>Net financial liabilities</i>	(7,374)	12,250	13,000	2,500	11,000	5,500	58,000	3,886	98,762
Weighted average interest rate	3.42%	5.38%	5.26%	6.11%	5.81%	5.91%	6.44%	-	0.00%

2009	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 2 years \$'000	Over 2 to 3 years \$'000	Over 3 to 4 years \$'000	Over 4 to 5 years \$'000	Over 5 years \$'000	Non Interest Bearing \$'000	Total \$'000
<i>Financial Assets</i>									
Cash	1,336	-	-	-	-	-	-	-	1,336
Trade Debtors	-	-	-	-	-	-	-	7,124	7,124
Other receivables	-	-	-	-	-	-	-	-	-
Total financial assets	1,336	-	-	-	-	-	-	7,124	8,460
<i>Financial Liabilities</i>									
Payables	-	-	-	-	-	-	-	12,175	12,175
Other loans	3,000	9,250	12,250	1,500	2,500	4,000	36,750	-	69,250
Lease liabilities	-	-	-	-	-	-	-	-	-
Total financial liabilities	3,000	9,250	12,250	1,500	2,500	4,000	36,750	12,175	81,425
<i>Net financial liabilities</i>	1,664	9,250	12,250	1,500	2,500	4,000	36,750	5,051	72,965
Weighted average interest rate	3.42%	5.64%	5.38%	6.40%	6.12%	6.89%	7.82%	-	0.00%

Note 17 Financial Instruments (cont)

FAIR VALUATION

The carrying amounts and fair values of financial assets and financial liabilities at balance date are:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>Financial Assets</i>				
Cash	7,374	7,374	1,336	1,336
Other financial instrument	-	-	-	-
Trade debtors	8,067	8,067	7,124	7,124
Total Financial Assets	15,441	15,441	8,460	8,460
<i>Financial liabilities</i>				
Payables	11,953	11,953	12,175	12,175
Other loans	102,250	105,758	69,250	70,532
Total Financial Liabilities	114,203	117,711	81,425	82,707

None of the classes of interest bearing liabilities are readily traded on organised markets in standardised form. The fair value of borrowings is based upon market prices, where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles. Fair value is inclusive of costs which would be incurred on settlement of a liability.

Notes to the Financial Report

for the year ended 30 June 2010

Note 18 Segment Information

The revenue from and results of services were:

	Water Supply		Sewerage		Recycled Water		Totals	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
REVENUE								
Sales	23,981	20,735	22,142	19,941	864	795	46,987	41,471
Developer Revenue	5,909	5,690	10,034	6,680	74	1,833	16,017	14,203
Total Revenue	29,890	26,425	32,176	26,621	938	2,628	63,004	55,674
EXPENDITURE								
Depreciation/amortisation	6,472	5,537	5,943	5,693	885	422	13,300	11,652
Supplies, services & employee costs	22,257	20,937	14,606	11,311	1,183	1,441	38,046	33,689
Borrowing costs	2,853	1,923	2,853	1,924	-	-	5,706	3,847
Total expenditure	31,582	28,397	23,402	18,928	2,068	1,863	57,052	49,188
OPERATING RESULT BY FUNCTION	(1,692)	(1,972)	8,774	7,693	(1,130)	765	5,952	6,486
ASSETS								
Property Plant & Equipment	195,394	191,486	279,946	254,127	25,385	23,318	500,725	468,931
Unallocated assets								11,387
Total assets	195,394	191,486	279,946	254,127	25,385	23,318	500,725	480,318
LIABILITIES								
Trade & other payables	1,851	5,215	3,513	6,928	147	714	5,511	12,857
Loans	51,125	34,625	51,125	34,625	-	-	102,250	69,250
Unallocated liabilities							52,024	42,197
Total liabilities	52,976	39,840	54,638	41,553	147	714	159,785	124,304
CASH FLOW								
Capital Investment								
Replacement/renewals	2,874	1,316	1,330	719	203	-	4,407	2,035
Expansion/enhancements	4,101	4,754	26,689	25,996	924	7,175	31,714	37,925

Note 19 Commitments

	2009/10 \$'000	2008/09 \$'000
OPERATING LEASE COMMITMENTS		
At 30 June, Western Water had the following operating lease commitments.		
- within one year	440	463
- one to five years	1,599	1,624
- greater than five years	861	1,275
Minimum lease payment	2,900	3,362

The lease for the head office in Sunbury is for ten years, expiring May 2017, with a five year option. This lease is indexed to CPI and has five yearly market reviews. The remainder of the leases are for photocopiers for a period of 51 months expiring in February 2011.

CAPITAL COMMITMENTS

At 30 June, Western Water had the following capital Construction Contracts

Outstanding capital commitments are to be paid as follows:

Payments due:

- within one year	17,566	8,556
- one to five years	-	-
	17,566	8,556

OPERATING COMMITMENTS

At 30 June, Western Water had the following operating Operational Contracts

Operational commitments are due for payment as follows:

- within one year	5,345	6,007
- one to five years	1,937	2,577
- greater than five years	363	-
	7,645	8,584

ENVIRONMENT CONTRIBUTION

At 30 June 2010, Western Water had outstanding contribution commitments, to be paid as follows:

- within one year	1,615	1,615
- one to five years	1,615	3,230
	3,230	4,845

OPERATING LEASE RECEIVABLES

- within one year	147	145
- one to five years	627	617
Total minimum future lease receivables	774	762

Operating leases for land are mostly for ten years.

Notes to the Financial Report

for the year ended 30 June 2010

Note 20 Contingent Liabilities and Contingent Assets	2009/10 \$'000	2008/09 \$'000
CONTINGENT LIABILITIES		
Nil	-	-
CONTINGENT ASSETS		
Western Water enters into agreements with land developers whereby assets are transferred to Western Water at no cost. These assets are brought to account as revenue and capitalised on completion of the project. At the reporting date, land developers had commenced construction of assets that would eventually be transferred to Western Water contingent upon the release of Statements of Compliance by Western Water. This amount has been calculated as the sum of the estimate of the project costs by their percentage complete at 30 June.		
Total estimated contingent assets	2,111	2,957

Note 21 Post-employment Benefit

Western Water makes employer superannuation contributions in respect of most employees to the Local Authorities Superannuation Fund (the Fund). Obligations for contributions are recognised as an expense in the Statement of Comprehensive Income when they are due. The Fund has two categories of membership, each of which is funded differently.

The Fund's accumulation category, Vision Super Saver, receives both employer and employee contributions on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings (9% required under Superannuation Guarantee Legislation). No further liability accrues to the employer as the superannuation benefits accruing to employees are represented by their share of the net assets of the Fund.

Defined Benefit Plan

The Fund's Defined Benefit Plan is a multi-employer sponsored plan. As the Fund's assets and liabilities are pooled and are not allocated by employer, the Actuary is unable to allocate benefit liabilities, assets and costs between employers. As provided under Paragraph 32 (b) of AASB 119, Western Water does not use defined benefit accounting for these contributions.

Western Water makes employer contributions to the defined benefit category of the Fund at rates determined by the Trustee on the advice of the Fund's Actuary. On the basis of the results of the most recent full actuarial investigation conducted by the Fund's actuary as at 31 December 2008, Western Water makes the following contributions:-

- 9.25% of members' salaries (same as previous year);
- the difference between resignation and retrenchment benefits paid to any retrenched employees (same as previous year);

The Fund surplus or deficit (i.e. the difference between fund assets and liabilities) is calculated differently for funding purposes (i.e. calculating required contributions) and for the calculation of accrued benefits as required in AAS25 to provide the values needed for the AASB119 disclosure in Western Water's financial statements. AAS25 requires that the present value of the defined benefit liability to be calculated based on benefits that have accrued in respect of membership of the plan up to the measurement date, with no allowance for future benefits that may accrue. The actuarial investigation concluded that although the Net Market Value of Assets was in excess of Accrued Benefits at 31 December 2008, based on the assumptions adopted, there was a shortfall of \$71M when the funding of future benefits was also considered. However, Western Water was advised that no additional contributions are required for 30 June 2010. The Actuary has commenced undertaking the next actuarial investigation to ascertain if additional contributions would be required. The Actuarial review will be as at 30 June 2010.

Note 21 Post-employment Benefit (cont)

The result of the actuarial review is expected to be finalised during October 2010. Should the review identify a funding shortfall requiring additional contributions, Western Water will be notified of any amount payable by November 2010 for payment on 1 July 2011. A further actuarial review will be under taken as at 30 June 2011. Based on the result of this further review, a detailed funding plan will be developed and implemented to achieve the target of fully funding the Fund by 31 December 2013.

Accounting Standard Disclosure

The Fund's liability for accrued benefits was determined by the Actuary at 31 December 2008 pursuant to the requirements of Australian Accounting Standard AAS25 as follows:

	31-Dec-08 \$'000
Net Market Value of Assets	3,630,432
Accrued Benefits (per accounting standards)	3,616,422
Difference between Assets and Accrued Benefits	14,010
Vested Benefits	3,561,588

The financial assumptions used to calculate the Accrued Benefits for the defined benefit category

Net Investment Return	8.50% p.a.
Salary Inflation	4.25% p.a.
Price Inflation	2.75% p.a.

The next actuarial review for the Fund is scheduled for 30 June 2010

Western Water contributes in respect of its employees to the following superannuation schemes:

	Type of scheme	Rate	2009/10 \$'000	2008/09 \$'000
Vision Super	Defined Benefit	9.25%	150	152
Vision Super	Defined Contribution	9.00%	634	529
BT Classic	Defined Contribution	9.00%	2	2
Colonial First State	Defined Contribution	9.00%	-	1
Equip Super	Defined Contribution	9.00%	-	2
MLC Masterkey	Defined Contribution	9.00%	2	-
P & J Tyers Super Fund	Defined Contribution	9.00%	2	2
UniSuper	Defined Contribution	9.00%	2	2
Total contributions to all funds			792	690

As at the reporting date, there was \$33,855 payable to Vision Super.

As at the reporting date, there were no loans to or from Western Water to any of the above funds.

Notes to the Financial Report

for the year ended 30 June 2010

Note 22 Responsible Persons Related Party Disclosures	2009/10 \$'000	2008/09 \$'000
A) RESPONSIBLE PERSONS		
The names of persons who were responsible persons at anytime during the financial year were:		
The Hon. Timothy Holding MP, Minister for Water (1 July 2009 to 30 June 2010)		
T Larkins (<i>Chairman</i>)		
D Bell (<i>Deputy Chair</i>)		
L Cade		
C Mathew		
M Anastassiou		
R Anderson		
J Tyers		
J Wilkinson (<i>Managing Director</i>)		
REMUNERATION OF RESPONSIBLE PERSONS		
Remuneration paid to Ministers is reported in the Annual Report of the Department of Premier and Cabinet.		
Other relevant interests are declared in the Register of Members' Interests which each member of the Parliament completes.		
Remuneration received, or due and receivable from Western Water in connection with the management of Western Water (includes termination payments and bonuses paid at the end of contracts).	473	448
The number of responsible persons whose remuneration from Western Water was within the specified bands are as follows:		
Income Band (\$)	No.	No.
10,000 – 19,999	–	4
20,000 – 29,999	6	2
40,000 – 49,999	1	1
280,000 – 289,999	–	1
300,000 – 309,999	1	–
	8	8
Retirement benefits of responsible persons	\$'000	\$'000
The retirement benefits paid by the corporation in connection with the retirement of responsible persons for the Corporation amounted to:	35	35

Note 22 Responsible Persons Related Party Disclosures (cont)

	2009/10 \$'000	2008/09 \$'000
Other related party transactions		
Western Water transacted business of water purchase from Melbourne Water and development and management of the Waterways Charge throughout the financial year to the value of \$11,660,000 (2008/09: \$9,488,410). T Larkins is a director of Melbourne Water. These transactions were undertaken in the ordinary course of business, are at arms length and carry normal commercial terms.		
Transactions with Melbourne Water:		
Purchase of Water	8,681	6,716
Remittance of Waterways Charge on behalf of customers	2,875	2,542
Receipt of Waterways Charge administration fee and cost recovery for implementation	104	230
Aggregate amounts recognised.	11,660	9,488
Amounts receivable from and payable to responsible persons or their responsible person related parties at 30 June		
Current-payable	406	503
Non current	-	-

B) EXECUTIVE OFFICERS' REMUNERATION

The number of executive officers, other than responsible persons, whose total remuneration falls within the specified bands above \$100,000 are as follows:

Income band (\$)	Total Remuneration		Base Remuneration	
	2010 No.	2009 No.	2010 No.	2009 No.
140,000 - 149,999	-	-	1	1
150,000 - 159,999	-	1	1	1
160,000 - 169,999	2	1	-	-
190,000 - 199,999	-	-	-	1
200,000 - 209,999	-	-	1	-
210,000 - 219,999	-	1	-	-
220,000 - 229,999	1	-	-	-
Total Amount	555	540	508	494
Total Numbers	3	3	3	3

Notes to the Financial Report

for the year ended 30 June 2010

Note 23 Reconciliation of Profit/(Loss) for the Period after Related Income Tax to Net Cash Flows from Operating Activities

	2009/10 \$'000	2008/09 \$'000
<i>Profit/(Loss) for the period after income tax</i>	4,830	5,077
Add/(less) Non Cash Flows in Net Profit/(Loss)		
Net (profit)/loss on sale of non-current assets	598	424
Depreciation and amortisation	13,300	11,651
Developer contributions (non cash)	(11,933)	(10,256)
Bad Debts Write Off	162	99
Change in assets and liabilities		
Decrease/(increase) in receivables	(896)	(2,144)
Decrease/(increase) in prepayments	(154)	(180)
Decrease/(increase) in other financial assets	-	-
Decrease/(increase) in Deferred Income	(44)	-
Decrease/(increase) in deferred tax asset	(1,205)	(659)
Decrease/(increase) in income tax receivable	670	(670)
Increase/(decrease) in trade creditors	(177)	2,135
Increase/(decrease) in income in advance	66	(60)
Increase/(decrease) in deferred tax liabilities	2,327	2,738
Increase/(decrease) in income tax payable	-	(1,009)
Increase/(decrease) in provisions	309	166
Net Cash flows from Operating Activities	7,853	7,312

Note 24 Dividends

The process to determine the 2010 dividend has not yet been completed at the reporting date.

The Board's preliminary dividend estimate for this period is nil.

Note 25 Events Occurring after the Balance Sheet Date

No matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the Corporation, the results of those operations, or the state of affairs of the Corporation in future

Statutory Certification

We certify the attached financial statements for Western Region Water Corporation have been prepared in accordance with Standing Direction 4.2 of the *Financial Management Act 1994*, applicable Australian Accounting Standards, Interpretations and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and notes to and forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2010 and the financial position of Western Water as at 30 June 2010.

We are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.



Terry Larkins

CHAIRMAN

WESTERN REGION WATER CORPORATION



John Wilkinson

MANAGING DIRECTOR

WESTERN REGION WATER CORPORATION



Les McLean

CHIEF FINANCE & ACCOUNTING OFFICER

WESTERN REGION WATER CORPORATION

18th August 2010

Auditor-General's Report

VAGO

Victorian Auditor-General's Office

INDEPENDENT AUDITOR'S REPORT

To the Board Members, Western Region Water Corporation

The Financial Report

The accompanying financial report for the year ended 30 June 2010 of Western Region Water Corporation which comprises the statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement, a summary of significant accounting policies and other explanatory notes to and forming part of the financial report, and the statutory certification has been audited.

The Board Members' Responsibility for the Financial Report

The Board Members of Western Region Water Corporation are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the financial reporting requirements of the *Financial Management Act 1994*. 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
- making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. These Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be 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 audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the 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. An audit also includes evaluating the appropriateness of the accounting policies used, and the reasonableness of accounting estimates made by the Board Members, as well as evaluating the overall presentation of the financial report.

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

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Auditing in the Public Interest

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Victorian Auditor-General's Office

Independent Auditor's Report (continued)

Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report published in both the annual report and on the website of Western Region Water Corporation for the year ended 30 June 2010. The Board Members of Western Region Water Corporation are responsible for the integrity of the website. I have not been engaged to report on the integrity of the website. The auditor's report refers only to the statements named above. An opinion is not provided on any other information which may have been hyperlinked to or from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on the Western Region Water Corporation website.

Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, the Auditor-General, his staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

Auditor's Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of Western Region Water Corporation as at 30 June 2010 and its financial performance and cash flows for the year then ended in accordance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations), and the financial reporting requirements of the *Financial Management Act 1994*.

MELBOURNE
23 August 2010

T. D. Pearson
per
D D R Pearson
Auditor-General



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