

Torres Strait Island Regional Council
Financial Statements
For the year ended 30 June 2020

Torres Strait Island Regional Council

Financial statements

For the year ended 30 June 2020

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Torres Strait Island Regional Council
Statement of Comprehensive Income
For the year ended 30 June 2020

	Note	2020 \$	2019 \$
Income			
Recurrent revenue			
Community levies, rates and charges	3(a)	1,625,173	1,378,613
Fees and charges	3(b)	4,230,793	4,439,727
Sales revenue	3(c)	19,665,040	34,653,858
Grants, subsidies, contributions and donations	3(d)	25,003,587	22,756,745
		<u>50,524,594</u>	<u>63,228,943</u>
Capital revenue			
Grants, subsidies, contributions and donations	3(d)	33,101,161	31,160,902
		<u>33,101,161</u>	<u>31,160,902</u>
Interest received	4(a)	669,228	1,303,813
Other income	4(b)	1,474,214	4,032,290
Rental income	4(c)	4,846,879	5,207,560
Total income		<u>90,616,075</u>	<u>104,933,508</u>
Expenses			
Recurrent expenses			
Employee benefits	6	(25,156,410)	(22,871,604)
Materials and services	7	(33,432,091)	(43,920,755)
Finance costs	8	(844,004)	(1,368,296)
Depreciation and amortisation			
Property, plant and equipment	9	(46,905,038)	(45,948,721)
Intangible assets		(26,900)	(214,328)
Right of use assets	14	(684,654)	-
		<u>(107,049,097)</u>	<u>(114,323,704)</u>
Capital expenses	5	(12,749,832)	(19,492,742)
Total expenses		<u>(119,798,929)</u>	<u>(133,816,446)</u>
Net result		<u>(29,182,854)</u>	<u>(28,882,938)</u>
Other comprehensive income			
Increase in asset revaluation surplus	12	52,456,783	16,028,760
Total other comprehensive income for the year		<u>52,456,783</u>	<u>16,028,760</u>
Total comprehensive income for the year		<u>23,273,929</u>	<u>(12,854,178)</u>

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

The comparatives have not been restated on adoption of AASB 15 / 1058 and AASB 16 and therefore the comparative information is presented using the previous standards relating to revenue and leases.

Torres Strait Island Regional Council
Statement of Financial Position
As at 30 June 2020

	Note	2020 \$	2019 \$
Current assets			
Cash and cash equivalents	10	52,763,075	50,756,886
Short term deposit		65,374	63,970
Trade and other receivables	11	3,665,123	14,316,959
Inventories		249,500	247,843
Contract assets	13	4,647,861	-
Lease receivable	14	370,578	361,787
Total current assets		61,761,511	65,747,445
Non-current assets			
Lease receivable	14	14,715,268	14,308,549
Property, plant and equipment	12	887,086,625	860,783,022
Right of use assets	14	1,330,000	-
Intangible assets		6,822	34,043
Total non-current assets		903,138,715	875,125,614
Total assets		964,900,226	940,873,059
Current liabilities			
Trade and other payables	15	6,840,686	8,015,503
Borrowings		68,648	63,989
Provisions	16	3,325,777	3,300,844
Contract liabilities	13	17,844,335	-
Lease liabilities	14	651,775	-
Total current liabilities		28,731,221	11,380,336
Non-current liabilities			
Borrowings		36,100	104,432
Provisions	16	3,562,288	3,353,638
Lease liabilities	14	688,927	-
Total non-current liabilities		4,287,315	3,458,070
Total liabilities		33,018,536	14,838,406
Net community assets		931,881,690	926,034,653
Community equity			
Asset revaluation surplus	12	482,321,944	429,865,161
Retained surplus		449,559,746	496,169,492
Total community equity		931,881,690	926,034,653

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

The comparatives have not been restated on adoption of AASB 15 / 1058 and AASB 16 and therefore the comparative information is presented using the previous standards relating to revenue and leases.

Torres Strait Island Regional Council
Statement of Changes in Equity
For the year ended 30 June 2020

	Note	Asset revaluation surplus	Retained surplus	Total
		\$	\$	\$
Balance as at 1 July 2019		429,865,161	496,169,492	926,034,653
Adjustment on initial application of AASB 15 / AASB 1058		-	(17,426,892)	(17,426,892)
Restated balance as at 1 July 2019		429,865,161	478,742,600	908,607,761
Net result		-	(29,182,854)	(29,182,854)
Other comprehensive income for the year				
Increase in asset revaluation surplus		52,456,783	-	52,456,783
Total comprehensive income for the year		52,456,783	(29,182,854)	23,273,929
Balance as at 30 June 2020		482,321,944	449,559,746	931,881,690
Balance as at 1 July 2018		413,836,401	525,052,430	938,888,831
Net result		-	(28,882,938)	(28,882,938)
Other comprehensive income for the year				
Increase in asset revaluation surplus		16,028,760	-	16,028,760
Total comprehensive income for the year		16,028,760	(28,882,938)	(12,854,178)
Balance as at 30 June 2019		429,865,161	496,169,492	926,034,653

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

Torres Strait Island Regional Council

Statement of Cash Flows

For the year ended 30 June 2020

	Note	2020 \$	2019 \$
Cash flows from operating activities			
Receipts from customers		41,382,601	42,844,755
Payments to suppliers and employees		(59,949,659)	(69,280,585)
		(18,567,058)	(26,435,830)
Interest received		669,228	1,303,813
Recurrent grants and contributions		25,003,587	22,756,745
Borrowing costs		(44,058)	(15,921)
Net cash inflow (outflow) from operating activities	20	<u>7,061,699</u>	<u>(2,391,193)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(22,394,040)	(25,262,760)
Proceeds from sale of property plant and equipment		1,136	1,091
Proceeds from insurance claims		162,032	1,934,447
Finance lease receipts		361,787	350,741
Capital grants, subsidies, contributions and donations		17,549,831	16,189,737
Net cash inflow (outflow) from investing activities		<u>(4,319,254)</u>	<u>(6,786,744)</u>
Cash flows from financing activities			
Repayment of borrowings		(63,673)	(59,152)
Repayments made on leases (principal only)		(672,583)	-
Net cash inflow (outflow) from financing activities		<u>(736,256)</u>	<u>(59,152)</u>
Net increase (decrease) in cash and cash equivalents held		2,006,189	(9,237,089)
Cash and cash equivalents at the beginning of the financial year		50,756,886	59,993,975
Cash and cash equivalents at the end of the financial year	10	<u><u>52,763,075</u></u>	<u><u>50,756,886</u></u>

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

The comparatives have not been restated on adoption of AASB 15 / 1058 and AASB 16 and therefore the comparative information is presented using the previous standards relating to revenue and leases.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

1 Significant accounting policies

1.A Basis of preparation

These general purpose financial statements are for the period 1 July 2019 to 30 June 2020 and have been prepared in compliance with the requirements of the *Local Government Act 2009* and the *Local Government Regulation 2012*.

These financial statements have been prepared under the historical cost convention except as stated. The Council uses the Australian dollar as its functional currency, its presentation currency and rounds to the nearest dollar.

The income of local government and public authorities is exempt from income tax. However Council is subject to Fringe Benefits Tax, Goods and Services Tax ('GST') and payroll tax on certain activities. The net amount of GST recoverable from the Australian Taxation Office (ATO) or payable to the ATO is shown as an asset or liability respectively.

These financial statements comply with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB). Council is a not-for-profit entity for financial reporting purposes and complies with Australian Accounting Standards as applicable to not-for-profit entities.

1.B Date of authorisation

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

1.C New and revised Accounting Standards adopted during the year

Council has adopted all standards which became mandatorily effective for annual reporting periods beginning on 1 July 2019. The standards which had an impact on reported position, performance and cash flows were those relating to revenue and leases. Refer to the changes in accounting policy Note 21 for transition disclosures for AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for-Profit Entities* and AASB 16 *Leases*.

Changes in accounting policy

During the year ended 30 June 2020, the Council has adopted AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for-Profit Entities* and AASB 16 *Leases* using the modified retrospective (cumulative catch-up) method and therefore the comparative information for the year ended 30 June 2019 has not been restated and continues to comply with AASB 111 *Construction Contracts*, AASB 117 *Leases*, AASB 118 *Revenue*, AASB 1004 *Contributions* and associated Accounting Interpretations.

All adjustments on adoption of AASB 15, AASB 1058 and AASB 16 have been taken to retained surplus at 1 July. The impacts of adopting these standards and associated transition disclosures are provided below:

Revenue standards - AASB 15 and AASB 1058

The following options have been applied on transition to AASB 15 and AASB 1058:

- Council has not adopted the completed contract expedient and therefore has not excluded revenue which was fully recognised in previous years in accordance with the former accounting standards and pronouncements
- Council has not retrospectively restated contracts for modifications that occurred before 1 July 2019 unless such contract modifications were minor.

Changes in accounting policy on adoption of AASB 15 and AASB 1058

- Recognition of grant revenue within the scope of AASB 15
- Recognition of grant revenue for acquisition or construction of assets controlled by Council.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

1 Significant accounting policies (continued)

1.C New and revised Accounting Standards adopted during the year (continued)

Opening contract balances on transition at 1 July 2019

	Balance at 1 July 2019
Contract assets	
- Under AASB 15	-
- Under AASB 1058	3,296,642
Total contract assets	<u>3,296,642</u>
Contract liabilities	
- Under AASB 15	397,901
- Under AASB 1058	20,325,633
Total contract liabilities	<u>20,723,534</u>

Comparison of affected financial statements lines between AASB 15 / 1058 and previous revenue standards

The following table shows the amount by which the financial statement line item is affected by the application of AASB 15 and AASB 1058 as compared to the previous revenue standards.

Statement of financial position at 30 June 2020

	Carrying amount per Statement of Financial Position Dr/(Cr) \$	Adjustments \$	Carrying amount if previous standards had been applied
Trade and other receivables	3,665,122	3,782,729	7,447,851
Contract assets	4,647,861	(4,647,861)	-
Property, plant and equipment	887,086,625	(3,301,598)	883,785,027
Contract liabilities	(17,844,335)	17,844,335	-
Retained surplus	(449,559,746)	(19,530,531)	(469,090,277)
	<u>427,995,527</u>	<u>(5,852,926)</u>	<u>422,142,601</u>

Statement of comprehensive income for the year ended 30 June 2020

	Carrying amount per Statement of Financial Position Dr/(Cr) \$	Adjustments \$	Carrying amount if previous standards had been applied
Revenue			
Sales revenue	(19,665,040)	(6,377,054)	(26,042,094)
Grants, subsidies, contributions and donations	(58,104,748)	4,700,014	(53,404,734)
Expenses			
Employee benefits	25,156,410	115,703	25,272,113
Materials and services	33,432,091	7,414,263	40,846,354
	<u>(19,181,287)</u>	<u>5,852,926</u>	<u>(13,328,361)</u>

The adjustments above relate to the recognition of contract assets and contract liabilities for revenue streams where the revenue is recognised over time rather than on receipt of funding under AASB 1004.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

1 Significant accounting policies (continued)

1.C New and revised Accounting Standards adopted during the year (continued)

Statement of cash flows for the year ended 30 June 2020

The adoption of AASB 15 and AASB 1058 has not caused a material change to the Statement of Cash Flows for the year ended 30 June 2020.

Leases standard - AASB 16

Council as a lessee

Under the previous lease accounting standard, Council assessed whether leases were operating or finance leases, based on its assessment of whether the significant risks and rewards of ownership had been transferred to Council or remained with the lessor. Under AASB 16, there is no differentiation between finance and operating leases for the lessee and therefore all leases which meet the definition of a lease are recognised on the statement of financial position (except for short-term leases and leases of low-value assets).

Practical expedients used on transition

AASB 16 includes a number of practical expedients which can be used on transition. Council has used the following expedients:

- Contracts which had previously been assessed as not containing leases under AASB 117 were not re-assessed on transition to AASB 16.
- Lease liabilities have been discounted using the Council's incremental borrowing rate at 1 July 2019.
- Right-of-use assets at 1 July 2019 have been measured at an amount equal to the lease liability adjusted by any prepaid or accrued lease payments.
- A single discount rate was applied to all leases with similar characteristics.
- The right-of-use asset was adjusted by the existing onerous lease provision (where relevant) at 30 June 2019 rather than perform impairment testing of the right-of-use asset.
- Excluded leases with an expiry date prior to 30 June 2020 from the Statement of Financial Position, and lease expenses for these leases have been recorded on a straight-line basis over the remaining term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impact of adopting AASB 16 at 1 July 2019

Council has recognised right-of-use assets and lease liabilities of \$1,963,038 at 1 July 2019 for leases previously classified as operating leases.

The weighted average lessee's incremental borrowing rate applied to lease liabilities at 1 July 2019 was 1.9%.

	Note	\$
Operating lease commitment at 30 June 2019 per Council	17	2,014,510
Discounted using the incremental borrowing rate at 1 July 2019		<u>1,975,237</u>
Less:		
Short-term leases included in commitments note		12,199
Lease liabilities recognised at 1 July 2019		<u><u>1,963,038</u></u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

1 Significant accounting policies (continued)

1.D Standards issued by the AASB not yet effective

The AASB has issued Australian Accounting Standards and Interpretations which are not effective at 30 June 2020. These standards have not been adopted by Council and will be included in the financial statements on their effective date. Where the standard is expected to have a significant impact for Council then further information has been provided in this note.

	Effective for NFP annual report periods beginning on or after:
AASB 1059 <i>Service Concession Arrangements: Grantors</i>	1 January 2020
AASB 2018-7 <i>Amendments to Australian Accounting Standards - Definition of</i>	1 January 2020
AASB 2019-3 <i>Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform</i>	1 January 2020

1.E Critical accounting judgements and key sources of estimation uncertainty

Council makes a number of judgements, estimates and assumptions in preparing these financial statements. These are based on the best information available to Council at the time, however due to the passage of time, these assumptions may change and therefore the recorded balances may not reflect the final outcomes. The significant judgements, estimates and assumptions relate to the following items and specific information is provided in the relevant note:

- Revenue - Note 3
- Valuation and depreciation of property, plant and equipment - Note 12
- Leases - Note 14
- Provisions - Note 16
- Contingent liabilities - Note 18
- Financial instruments and financial risk management - Note 23

1.F Impact of COVID-19 on the financial statements as at 30 June 2020

The downstream impact of restrictions to remote Indigenous communities enacted under the Biosecurity Act 2015 (Cth), has caused a decrease in both number of contracts, and total recoverable works towards the end of the 2019/2020 financial year. Multiple projects were impacted through the inability to engage specialised trades people within the region, also due to the pandemic travel restrictions. The decrease in sales has been reflected in the financial statements. It is not possible to accurately quantify the decrease due to the inconsistent nature of the contracts and recoverable works.

In the period March 2020 to June 2020, Council incurred increased expenditure relating to the pandemic. This included costs relating to hotel quarantining of residents, increased cleaning costs, community engagement and repairs and maintenance to social housing properties for potential quarantining in the region. The estimated cost to Council was \$753,984 of which \$100,000 was subsidised by third parties.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

2 Analysis of results by function

(a) Components of Council functions

The activities relating to the Council's components reported in Note 2(b) are as follows :

Executive

The objective of the Executive function is to seek to maximise corporate performance, comply with laws, regulations, standards, community expectations and support staff to carry out their responsibilities.

Implementation of major policy and management decisions is delivered from the Office of the CEO. Ultimately the CEO is responsible for services to Councillors and the Community. The Office of the CEO consists of the following areas:

- Mayor and Councillors
- Committees
- Governance
- Legal services
- Organisational development services

Operations

The Operations division is headed by the Chief Operating Officer (COO) who is responsible for the following areas:

Health and Community Services

The objective of the Health and Community Services function is to develop, manage and deliver community and public health services that meet the needs of all sectors of the community.

The Health and Community Services function delivers the following services:

- Community services
- Environmental health services
- Health and wellbeing services
- Divisional administrative services

Engineering Services

The objective of the Engineering Services function is to provide a high level of service in integrated infrastructure management which ensures environmental protection and meets community expectations.

The outcomes achieved by Engineering Services are linked with Council's commitment to public health, transport, water and wastewater infrastructure.

Key components of the Engineering Services function include:

- Water services
- Wastewater services
- Civil works services
- Waste services

Housing Services

The objective of the Housing Services function is to provide social housing services including tenancy management, repairs and maintenance and new construction on behalf of the State and Federal Government.

Building Services

The objective of the Building Services function is to provide repairs and maintenance on social housing and new construction on behalf of the State and Federal Government.

Corporate Affairs and Engagement

The objective of the Corporate Affairs and Engagement function is to provide efficient and effective delivery of services to Council functions through innovative, practical and responsible solutions.

Key components of the Corporate Affairs and Engagement function include:

- Media, events and communication
- Engagement and advocacy
- Procurement
- Strategic (corporate) planning services
- Enterprise development

Business Services

The Business Services division is headed by the Chief Financial Officer (CFO). The objective of this division is to provide efficient and effective support services to Council functions. The Business Services function is multi-disciplinary and consists of:

- Financial management services
- Strategic (financial) planning
- Asset management services
- Policy and procedure review
- Information services

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

2 Analysis of results by function (continued)

(b) Income and expenses defined between recurring and capital are attributed to the following functions:

Year ended 30 June 2020

Functions	Gross program income				Total income	Gross program expenses		Elimination of inter-function transactions	Total expenses	Net result from recurrent operations	Net result	Assets
	Recurrent		Capital			Recurrent	Capital					
	Grants	Other	Grants	Other								
	\$	\$	\$	\$								
Executive	646,200	191,293	-	-	837,493	4,852,220	-	18,992	4,871,212	(4,014,727)	(4,033,719)	-
Health and Community Services	4,358,533	5,285,525	1,306	-	9,645,364	15,649,292	-	293,765	15,943,057	(6,005,235)	(6,297,693)	11,605,499
Engineering Services	990,442	3,367,310	8,649,721	-	13,007,473	36,505,361	-	109,208	36,614,569	(32,147,608)	(23,607,096)	501,457,799
Housing Services	-	4,894,819	641,711	-	5,536,530	20,574,967	-	2,011,597	22,586,564	(15,680,148)	(17,050,034)	302,315,931
Building Services	-	17,193,091	8,520,988	-	25,714,079	17,857,326	-	149,767	18,007,093	(664,234)	7,706,986	-
Corporate Affairs	223,846	-	-	-	223,846	1,340,217	-	2,080	1,342,297	(1,116,371)	(1,118,451)	-
Business Services	18,784,566	1,579,289	15,287,435	-	35,651,290	10,269,714	12,749,832	(2,585,409)	20,434,137	10,094,141	15,217,153	149,520,998
Total Council	25,003,587	32,511,327	33,101,161	-	90,616,075	107,049,097	12,749,832	-	119,798,929	(49,534,183)	(29,182,854)	964,900,226

Year ended 30 June 2019

Functions	Gross program income				Total income	Gross program expenses		Elimination of inter-function transactions	Total expenses	Net result from recurrent operations	Net result	Assets
	Recurrent		Capital			Recurrent	Capital					
	Grants	Other	Grants	Other								
	\$	\$	\$	\$								
Executive	562,700	213,432	-	-	776,132	(4,938,204)	-	(37,779)	(4,975,983)	(4,199,851)	(4,199,851)	-
Health and Community Services	3,926,815	5,484,302	-	-	9,411,117	(14,680,147)	-	131,289	(14,548,858)	(5,137,741)	(5,137,741)	8,184,257
Engineering Services	464,697	3,323,385	15,188,749	-	18,976,831	(35,969,791)	-	(291,679)	(36,261,470)	(32,473,388)	(17,284,639)	490,873,400
Housing Services	-	37,500,630	-	-	37,500,630	(49,307,391)	-	(2,283,854)	(51,591,245)	(14,090,615)	(14,090,615)	294,061,828
Business Services	17,802,533	4,494,112	13,965,374	2,006,779	38,268,798	(9,428,171)	(19,492,742)	2,482,023	(26,438,890)	15,350,497	11,829,908	147,753,575
Total Council	22,756,745	51,015,861	29,154,123	2,006,779	104,933,508	(114,323,704)	(19,492,742)	-	(133,816,446)	(40,551,098)	(28,882,938)	940,873,059

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

	Note	AASB 15 \$	AASB 1058 \$
3 Revenue			
Revenue recognised at a point in time			
Community levies, rates and charges	3(a)	-	1,625,173
Fees and charges	3(b)	1,892,441	-
Sales revenue	3(c)	1,676,509	-
Grants, subsidies, contributions and donations	3(d)	-	24,090,217
Revenue relating to grants for assets controlled by Council	3(d)	-	11,320,912
		<u>3,568,950</u>	<u>37,036,302</u>
Revenue recognised over time			
Community levies, rates and charges	3(a)	-	-
Fees and charges	3(b)	2,338,351	-
Sales revenue	3(c)	17,988,531	-
Grants and subsidies	3(d)	913,371	-
Revenue relating to grants for assets controlled by Council	3(d)	-	21,780,247
		<u>21,240,254</u>	<u>21,780,247</u>
Total revenue		<u>24,809,204</u>	<u>58,816,548</u>

(a) Community levies, rates and charges

2020 Accounting Policy: Community levies, rates and annual charges are recognised as revenue when Council obtains control over the assets comprising these receipts which is the beginning of the rating period to which they relate. Prepaid rates are recognised as a financial liability until the beginning of the rating period.

2019 Accounting Policy: Revenue from rates and levies is recognised as revenue during the period to which they relate.

	2020 \$	2019 \$
Water charges commercial	447,453	378,012
Sewerage charges commercial	913,833	792,372
Garbage charges commercial	204,273	149,050
Rates from 40 year leases	59,614	59,179
	<u>1,625,173</u>	<u>1,378,613</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

3 Revenue (continued)

(b) Fees and charges

2020 Accounting Policy: Revenue arising from fees and charges is recognised when or as the performance obligation is completed and the customer receives the benefit of the goods / services being provided.

The performance obligation relates to the specific services which are provided to the customers and generally the payment terms are within 30 days of the provision of the service or in some cases, the customer is required to pay on arrival. There is no material obligation for Council in relation to refunds or returns.

2019 Accounting Policy: Fees and charges are recognised when Council is unconditionally entitled to those funds. Generally this is upon lodgement of the relevant applications or documents, issuing of infringement notice or when the service is provided.

	Note	2020 \$	2019 \$
Airport landing fees	1F	387,852	479,835
Commercial property rental		2,338,351	2,376,566
Maritime fees		1,326,828	1,190,083
Hire of Council buildings		53,098	54,978
Other fees and charges		124,664	338,265
		<u>4,230,793</u>	<u>4,439,727</u>

(c) Sales revenue

Council provides a range of goods and services to the community and other third parties for a fee. These fees are set in a fees and charges register adopted by Council at the annual budget meeting. Revenue is recognised when the significant risk and rewards of ownership are transferred to the buyer, generally when the customer has taken undisputed delivery of the goods or provision of service.

Revenue from contract and recoverable works generally comprises a recoupment of material costs together with an hourly charge for the use of equipment and employees. Contract revenue and associated costs are recognised by reference to the stage of completion of the contract activity based on costs incurred at the reporting date. Where consideration is received for the service in advance it is included in other liabilities and is recognised as revenue in the period when the service is performed. There are no contracts in progress at the year end.

Contract and recoverable works	1F	17,136,449	31,892,655
Plant and equipment hire		56,381	91,515
Childcare services		106,090	58,231
Accommodation		689,611	747,484
Sale of fuel and gas		1,379,311	1,437,381
Sale of powercards		297,198	426,592
		<u>19,665,040</u>	<u>34,653,858</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

(d) Grants, subsidies, contributions and donations

2020 accounting policy:

Grant income under AASB 15

Where grant income arises from an agreement which is enforceable and contains sufficiently specific performance obligations then the revenue is recognised when control of each performance obligation is satisfied.

The performance obligations are varied based on the agreement but include salaried positions and specific travel in relation to those positions. Payment terms vary depending on the terms of the grant. Cash is received upfront for some grants and on the achievement of certain payment milestones for others.

Each performance obligation is considered to ensure that the revenue recognition reflects the transfer of control. Within grant agreements there may be performance obligations where control transfers at a point in time and others where there is continuous transfer of control over the life of the contract.

Where control is transferred over time, generally the input methods using either costs or time incurred most appropriately reflect the transfer of benefit.

Grant income under AASB 1058

Assets arising from grants in the scope of AASB 1058 are recognised at the fair value when the assets are received. Council considers whether there are any related liability or equity items associated with the asset which are recognised in accordance with the relevant accounting standard. Once the assets and liabilities have been recognised then income is recognised for any remaining asset value at the time that the asset is received.

Capital grants

Capital grants received to enable Council to acquire or construct an item of property, plant and equipment to identified specifications which will be under Council's control and which are enforceable are recognised as revenue as and when the obligation to construct or purchase is completed. For construction projects, this is generally as the construction progresses in accordance with costs incurred since this is deemed to be the most appropriate measure of the completeness of the construction project as there is no profit margin.

Any unbilled grants (accrued income) are included as part of contract assets and any unspent grants (unearned income) are included as part of contract liabilities in the statement of financial position.

Where assets are donated or purchased for significantly below fair value, the revenue is recognised when the asset is acquired and controlled by the Council.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

3 Revenue (continued)

(d) Grants, subsidies, contributions and donations (continued)

2019 accounting policy: Grants, subsidies and contributions that are non-reciprocal in nature are recognised as revenue when Council obtains control over them, which is usually upon receipt of the funds.

Capital revenue includes grants and subsidies received which are tied to specific projects for the replacement or upgrade of existing non-current assets and/or investment in new assets. It also includes non-cash contributions which are usually infrastructure assets received from other Government entities and Departments. These assets are recognised upon the practical transfer of the asset to Council. These assets are recognised at cost, as supplied by the contributing agency/department, as the Council believes the provided costs approximate fair value at the date of transfer.

The funding of infrastructure assets by State and Federal Government Departments, which are then transferred to Council, is expected to be an ongoing process. Refer to Note 10 for funds held in trust for this purpose.

	Note	2020 \$	2019 \$
Recurrent			
General purpose grants		12,030,841	11,212,731
State Government subsidies and grants		10,132,120	9,716,318
Commonwealth Government subsidies and grants		2,840,626	1,812,696
Donations		-	15,000
		<u>25,003,587</u>	<u>22,756,745</u>

Capital

Capital revenue includes grants and subsidies received which are tied to specific projects for the replacement or upgrade of existing non-current assets and/or investment in new assets. It also includes non-cash contributions which are usually infrastructure assets.

State Government subsidies and grants	18,070,433	13,485,066
Commonwealth Government subsidies and grants	3,709,816	2,704,670
Gain on initial recognition of finance lease	-	2,006,779
Contributed assets	11,320,912	12,964,387
	<u>33,101,161</u>	<u>31,160,902</u>

Conditions over grants

Contributions recognised as income during the reporting period and which were obtained on the condition that they be expended in a manner specified by the contributor but had not been expended at the reporting date:

Grants for expenditure on services and infrastructure	782,031	22,373,885
	<u>782,031</u>	<u>22,373,885</u>

Contributions recognised as income during a previous reporting period that were obtained in respect of the current reporting period:

Grants for expenditure on services	5,712,482	5,582,668
	<u>5,712,482</u>	<u>5,582,668</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

	Note	2020 \$	2019 \$
4 Other income			
(a) Interest received			
Interest received		669,228	1,303,813
		<u>669,228</u>	<u>1,303,813</u>
(b) Other income			
Insurance claims received		448	26,895
Gain on revaluation of finance leases	14	785,376	2,907,881
Commission income		425,103	402,341
Other revenue		263,287	695,173
		<u>1,474,214</u>	<u>4,032,290</u>
(c) Rental income			
Rental revenue from community housing is recognised as income as rent is received.			
Residential property rental income		4,846,879	5,207,560
		<u>4,846,879</u>	<u>5,207,560</u>
Council currently holds a social welfare housing portfolio and these buildings are held to meet service delivery objectives, rather than to earn rental income or for capital appreciation purposes.			
As the buildings held by Council do not meet the definition of investment property, these buildings are accounted for in accordance with AASB 16 Property, Plant and Equipment.			
5 Capital expenses			
Loss on disposal of non-current assets			
Book value of property, plant and equipment		7,169,530	6,333,385
Less: Proceeds from the sale of property, plant and equipment		(1,136)	(1,091)
Less: Proceeds from insurance claims		(162,032)	(1,934,447)
		<u>7,006,362</u>	<u>4,397,847</u>
Loss on disposal of finance leases			
Carrying value of finance leases		-	67,380
Less: Proceeds from disposal of finance leases		-	-
		<u>-</u>	<u>67,380</u>
Loss on disposal of registered <i>Land Holding Act</i> leases			
Book value of property, plant and equipment		5,744,839	15,027,515
Less: Proceeds from the transfer of registered <i>Land Holding Act</i> leases		-	-
		<u>5,744,839</u>	<u>15,027,515</u>
Loss on derecognition of right of use assets	14	(1,369)	-
		<u>(1,369)</u>	<u>-</u>
		<u>12,749,832</u>	<u>19,492,742</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

	Note	2020 \$	2019 \$
6 Employee benefits			
Total staff wages and salaries		18,339,619	16,811,779
Councillors' remuneration		964,846	986,296
Annual, sick and long service leave entitlements		3,635,067	3,274,288
Superannuation	19	2,297,952	2,111,948
		<u>25,237,484</u>	<u>23,184,311</u>
Other employee related expenses		331,329	290,921
		<u>25,568,813</u>	<u>23,475,232</u>
Less: Capitalised employee expenses		(412,403)	(603,628)
		<u>25,156,410</u>	<u>22,871,604</u>

Councillor remuneration represents salary and other allowances paid in respect of carrying out their duties.

	2020	2019
Total Council employees at the reporting date:		
Elected members	16	16
Administration staff	326	304
Total full time equivalent employees	<u>342</u>	<u>320</u>

		2020 \$	2019 \$
7 Materials and services			
Advertising and marketing		32,277	75,027
Audit services		196,500	218,500
Communications and IT		1,801,176	1,561,519
Consultants		1,097,398	896,582
Contractors	1F	7,628,943	16,837,006
Donations paid		357,789	446,940
Freight		1,503,352	2,111,611
Insurance		3,153,640	3,393,715
Legal fees		327,603	307,438
Motor vehicle expenses		204,465	262,480
Powercards, fuel and gas for resale		2,676,313	2,643,026
Power		1,305,148	1,319,454
Repairs and maintenance		3,415,987	3,688,771
Rent paid		163,495	704,773
Subscriptions and registrations		137,852	111,450
Supplies and consumables		610,360	416,648
Temporary staff costs		531,535	560,595
Travel		2,523,258	2,828,487
Materials - carpentry, plumbing, electrical		4,594,930	4,037,216
Other materials and services		1,300,649	1,567,691
Less: Expenses capitalised		(130,579)	(68,174)
		<u>33,432,091</u>	<u>43,920,755</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

	Note	2020 \$	2019 \$
8 Finance costs			
Finance costs charged by Queensland Treasury Corporation		10,700	15,921
Bank charges		106,240	117,505
Impairment of receivables		513,134	936,904
Refuse restoration		180,572	297,966
Interest on leases	14	33,358	-
		<u>844,004</u>	<u>1,368,296</u>
9 Depreciation of property, plant and equipment			
Buildings (Communities)		19,132,694	18,671,781
Buildings (Corporate)		3,848,243	3,706,514
Recreational facilities		985,362	850,380
Roads/transport network		5,461,216	5,439,461
Stormwater drainage network		255,269	249,759
Flood mitigation network		1,107,155	730,495
Water supply network		6,802,642	7,052,752
Sewerage network		7,465,332	7,537,980
Wharves, piers, jetties and pontoons		1,044,107	885,399
Waste landfill		106,640	171,635
Plant and equipment		696,378	652,565
	12	<u>46,905,038</u>	<u>45,948,721</u>

10 Cash and cash equivalents

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

Council's cash at bank and term deposits are held with National Australia Bank on normal terms. The bank currently has a short term credit rating of A-1+ and long term rating of AA-. Deposits at call are held with the Queensland Treasury Corporation.

Cash at bank	4,937,823	14,081,634
Deposits at call	47,825,252	36,675,252
Balance per Statement of Cash Flows	<u>52,763,075</u>	<u>50,756,886</u>

Externally and internally imposed expenditure restrictions at the reporting date relate to the following cash assets:

Funds set aside and held in reserves for DOGIT land	1,245,665	927,734
Total unspent restricted cash	<u>1,245,665</u>	<u>927,734</u>

In accordance with the *Local Government Act 2009* and *Local Government Regulation 2012*, a separate trust bank account and separate accounting records are maintained for funds held on behalf of outside parties. Funds held in the trust account include those funds relating to island funeral funds, church funds and other community funds. The Council performs only a custodian role in respect of these monies and because the monies cannot be used for Council purposes, they are not considered revenue nor brought to account in the financial statements.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

10 Cash and cash equivalents (continued)

Trust funds held for outside parties

Monies collected or held on behalf of other entities yet to be paid out to or on behalf of those entities:

	2020	2019
	\$	\$
Island funeral funds	257,373	308,527
Church funds	9,781	9,781
Other community funds	48,066	53,103
	<u>315,220</u>	<u>371,411</u>

Funds held in trust by outside parties

DFK Kidsons holding funds for the Major Infrastructure and Other Program

	30,965,583	21,746,979
	<u>30,965,583</u>	<u>21,746,979</u>

The Major Infrastructure and Other Program is jointly funded by the Australian and Queensland Governments to deliver and upgrade major infrastructure capital works in the Torres Strait. DFK Kidsons holds funds for multiple councils in regards to the Major Infrastructure and Other Program. The amount disclosed above relates to Torres Strait Island Regional Council's portion of the funds. Infrastructure assets are not recognised by the Council until they have reached completion.

11 Trade and other receivables

Receivables are amounts owed to Council at year end. They are recognised at the amount due at the time of sale or service delivery. Settlement is required within 30 days after the invoice is issued.

Debts are regularly assessed for collectability and allowance is made, where appropriate, for impairment. Council actively pursues outstanding housing debts from both current and former tenants as per its Rental Debt Policy. Recovery action is undertaken for tenants who are more than 14 days in arrears. Housing Officers review rent accounts fortnightly and make contact with tenants in person to negotiate affordable rent and arrears payment plans.

All known bad debts were written-off at 30 June. If an amount is recovered in a subsequent period it is recognised as revenue.

	Note	2020	2019
		\$	\$
Current			
Receivable - Housing		13,393,630	14,141,294
Less impairment		(13,306,867)	(14,004,027)
Receivable - Rates		472,371	259,179
Less impairment		(187,672)	(129,589)
Receivable - Other		1,576,322	6,970,775
Less impairment		(199,849)	(36,752)
		<u>1,747,935</u>	<u>7,200,880</u>
Accrued revenue		1,561,916	6,947,983
Prepayments		119,415	154,786
GST receivable		235,857	13,310
		<u>3,665,123</u>	<u>14,316,959</u>

Movement in accumulated impairment losses is as follows:

Opening balance at 1 July	14,170,368	14,210,178
Impairment debts written off during the year	(989,114)	(976,714)
Additional impairments recognised	513,134	936,904
Closing balance at 30 June	<u>13,694,388</u>	<u>14,170,368</u>

Further details of Council's expected credit loss assessment are contained in Note 23.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

12 Property, plant and equipment

Council - 30 June 2020

Basis of measurement

Asset values

Opening gross value as at 1 July 2019

Additions

Capital contributions

Assets capitalised from work in progress

Impairment from work in progress

Disposals

Revaluation adjustment to asset revaluation surplus

Closing gross value as at 30 June 2020

Buildings (Communities)	Buildings (Corporate)	Recreational Facilities	Road / Transport Network	Stormwater Drainage Network	Flood Mitigation Network	Water Supply Network	Sewerage Network	Wharves, Piers, Jetties & Pontoons	Waste	Landfill	Land Assets	Plant & Equipment	Work in progress	Total
Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Cost	Cost	
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
570,369,340	108,247,372	25,800,682	280,990,386	13,244,263	33,864,732	231,565,979	252,228,399	45,126,249	2,647,471	520,000	7,888,245	19,800,600	1,592,293,718	
-	-	-	-	-	-	2,947,414	8,373,498	-	-	-	-	22,428,299	22,428,299	
2,998,075	2,735,412	159,440	1,224,720	-	764,654	1,965,654	154,548	2,218,207	-	1,922,135	1,125,443	(15,268,288)	-	
-	-	-	-	-	-	-	-	-	-	-	-	(12,718,597)	(12,718,597)	
(14,523,326)	(1,024,801)	(146,177)	(1,711,487)	-	-	(7,600,590)	(6,309,672)	(1,283,639)	-	-	(265,914)	-	(32,865,606)	
7,622,924	(2,880,577)	524,004	(2,799,818)	540,237	1,655,268	6,890,327	3,922,467	2,961,254	16,829	55,000	-	-	18,507,915	
566,467,013	107,077,406	26,337,949	277,703,801	13,784,500	36,284,654	235,768,784	258,369,240	49,022,071	2,664,300	2,497,135	8,747,774	14,242,014	1,598,966,641	

Accumulated depreciation and impairment

Opening balance as at 1 July 2019

Depreciation provided in period

Revaluation adjustment to asset revaluation surplus

Impairment adjustment to asset revaluation surplus

Reversal of impairment previously recorded

Depreciation/impairment on disposals

Accumulated depreciation as at 30 June 2020

276,307,512	63,010,262	17,616,426	115,970,747	4,949,375	5,382,585	111,835,345	111,737,318	17,625,786	1,292,924	-	5,782,416	-	731,510,695
19,132,694	3,848,243	985,362	5,461,216	255,269	1,107,155	6,802,642	7,465,332	1,044,107	106,640	-	696,378	-	46,905,038
(23,518,019)	(11,467,491)	(3,659,495)	(6,005,634)	161,780	1,443,465	3,550,070	(3,237,675)	1,131,360	(167,527)	-	-	-	(41,769,166)
-	(143,207)	(100,573)	8,064,078	-	-	-	-	-	-	-	-	-	7,820,298
-	-	-	(12,502,012)	(67,644)	-	-	(65,955)	-	-	-	-	-	(12,635,611)
(7,771,105)	(611,367)	(109,270)	(1,170,512)	-	-	(5,877,728)	(3,890,321)	(262,636)	-	-	(258,299)	-	(19,951,238)
264,151,082	54,636,440	14,732,450	109,817,883	5,298,780	7,933,205	116,310,329	112,008,699	19,538,617	1,232,037	-	6,220,495	-	711,880,016

Book value as at 30 June 2020

Range of estimated useful life in years

302,315,931	52,440,966	11,605,499	167,885,918	8,485,720	28,351,448	119,458,455	146,360,541	29,483,454	1,432,263	2,497,135	2,527,279	14,242,014	887,086,625
15 - 50	10 - 50	5 - 50	10 - 100	47 - 53	10 - 50	3 - 60	5 - 100	10 - 50	15 - 25	Land: Not Depreciated	1 - 25	WIP: Not Depreciated	

Additions comprise:

Renewals

Other additions

Total additions

\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
2,372,345	932,676	159,440	167,865	-	-	1,660,283	5,846,266	1,193,681	-	-	-	-	12,332,556
625,730	1,802,736	-	1,056,855	-	764,654	3,252,785	2,681,779	1,024,526	-	1,922,135	1,125,443	-	14,256,644
2,998,075	2,735,412	159,440	1,224,720	-	764,654	4,913,068	8,528,046	2,218,207	-	1,922,135	1,125,443	-	26,589,200

Asset revaluation surplus

Opening balance as at 1 July 2019

Movements - Revaluation

Movements - Impairments

Closing balance as at 30 June 2020

113,117,468	13,653,925	2,402,535	131,829,476	3,206,374	1,811,405	62,264,427	88,322,535	13,249,326	7,690	-	-	-	429,865,161
31,140,943	8,586,914	4,183,499	3,205,816	378,457	211,803	3,340,257	7,160,142	1,829,894	184,356	55,000	-	-	60,277,081
-	143,207	100,573	(8,064,078)	-	-	-	-	-	-	-	-	-	(7,820,299)
144,258,411	22,384,046	6,686,607	126,971,213	3,584,831	2,023,208	65,604,684	95,482,678	15,079,220	192,046	55,000	-	-	482,321,943

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

12 Property, plant and equipment (continued)

Council - 30 June 2019

Basis of measurement

Asset values

Opening gross value as at 1 July 2018

Additions

Capital contributions

Assets capitalised from work in progress

Projects written off from work in progress

Disposals

'Revaluation adjustment to asset revaluation surplus

Closing gross value as at 30 June 2019

Buildings (Communities)	Buildings (Corporate)	Recreational Facilities	Road / Transport Network	Stormwater Drainage Network	Flood Mitigation Network	Water Supply Network	Sewerage Network	Wharves, Piers, Jetties & Pontoons	Waste	Landfill	Land Assets	Plant & Equipment	Work in progress	Total
Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Cost	Cost	
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
591,076,460	104,482,116	25,333,822	274,517,709	12,933,154	33,038,763	224,027,139	244,901,706	37,939,200	1,271,120	520,000	7,556,980	10,372,770	1,567,970,940	
-	-	-	-	-	-	-	-	-	-	-	-	-	25,264,328	25,264,328
11,060,625	1,064,554	-	-	-	-	809,309	-	-	-	-	-	29,900	-	12,964,387
929,654	2,308,943	1,961,615	751,120	-	-	1,744,617	20,786	6,318,434	1,350,273	-	448,050	(15,833,492)	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	(3,007)	(3,007)
(40,257,460)	(1,003,171)	(1,794,161)	(125,996)	-	-	(1,709,536)	(20,786)	(269,561)	-	-	(146,685)	-	-	(45,327,357)
7,560,061	1,394,931	299,406	5,847,553	311,109	825,969	6,694,450	7,326,693	1,138,176	26,078	-	-	-	-	31,424,426
570,369,340	108,247,372	25,800,682	280,990,386	13,244,263	33,864,732	231,565,979	252,228,399	45,126,249	2,647,471	520,000	7,888,245	19,800,600	1,592,293,718	

Accumulated depreciation and impairment

Opening balance as at 1 July 2018

Depreciation provided in period

Revaluation adjustment to asset revaluation surplus

Impairment adjustment to asset revaluation surplus

Depreciation/impairment on disposals

Accumulated depreciation as at 30 June 2019

273,865,452	59,086,914	18,172,202	107,239,276	4,583,968	4,520,807	102,908,685	100,966,050	16,423,018	1,097,140	-	5,269,253	-	694,132,766
18,671,781	3,706,514	850,380	5,439,461	249,759	730,495	7,052,752	7,537,980	885,399	171,635	-	652,565	-	45,948,721
3,704,140	828,697	214,816	2,421,263	115,649	131,283	3,255,242	3,250,499	510,922	24,150	-	-	-	14,456,661
-	-	-	939,004	-	-	-	-	-	-	-	-	-	939,004
(19,933,861)	(611,864)	(1,620,972)	(68,258)	-	-	(1,381,334)	(17,211)	(193,554)	-	-	(139,402)	-	(23,966,457)
276,307,512	63,010,262	17,616,426	115,970,747	4,949,375	5,382,585	111,835,345	111,737,318	17,625,786	1,292,924	-	5,782,416	-	731,510,695

Book value as at 30 June 2019

Range of estimated useful life in years

294,061,828	45,237,110	8,184,256	165,019,640	8,294,888	28,482,147	119,730,634	140,491,082	27,500,463	1,354,546	520,000	2,105,829	19,800,600	860,783,022
2 - 88	2 - 73	7 - 55	1 - 136	48 - 53	10 - 50	1 - 64	1 - 113	3 - 55	8 - 29	Land: Not Depreciated	1 - 25	WIP: Not Depreciated	

Additions comprise:

Renewals

Other additions

Total additions

\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
9,838,383	737,771	761,807	645,311	-	-	1,340,648	20,786	269,561	-	-	33,428	-	13,647,695
2,151,896	2,635,725	1,199,808	105,809	-	-	1,213,279	-	6,048,873	1,350,273	-	444,523	-	15,150,185
11,990,279	3,373,496	1,961,615	751,120	-	-	2,553,926	20,786	6,318,434	1,350,273	-	477,950	-	28,797,879

Asset revaluation surplus

Opening balance as at 1 July 2018

Movements - Revaluation

Movements - Impairments

Closing balance as at 30 June 2019

109,261,547	13,087,691	2,317,945	129,342,191	3,010,914	1,116,719	58,825,219	84,246,341	12,622,073	5,761	-	-	-	413,836,402
3,855,921	566,233	84,589	3,426,290	195,460	694,687	3,439,208	4,076,194	627,254	1,928	-	-	-	16,967,764
-	-	-	(939,004)	-	-	-	-	-	-	-	-	-	(939,004)
113,117,468	13,653,925	2,402,535	131,829,476	3,206,374	1,811,405	62,264,427	88,322,535	13,249,326	7,690	-	-	-	429,865,161

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

12 Property, plant and equipment (continued)

(a) Recognition

Each class of property, plant and equipment is stated at cost or fair value, less where applicable, any accumulated depreciation and accumulated impairment loss. Items of plant and equipment, infrastructure assets and buildings with a total value of less than \$10,000 are treated as an expense in the year of acquisition. All other items of property, plant and equipment are capitalised.

By operation of the *Local Government Act 2009*, *Torres Strait Islander Land Act 1991* and *Land Act 1994*, Council retains ownership of the below classes of property, plant and equipment. This includes leasehold and licensed assets on Mer Island and Badu Island.

The classes of property, plant and equipment recognised by the Council are:

- Buildings (Community)
- Buildings (Corporate)
- Recreation facilities
- Roads / transport network
- Stormwater drainage network
- Flood mitigation network
- Water supply network
- Sewerage network
- Wharves, piers, jetties and pontoons
- Waste landfill
- Land assets
- Plant and equipment
- Work in progress (WIP)

Acquisition of assets

Acquisitions of assets are initially recorded at cost. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including freight in, architect's fees and engineering design fees and all other establishment costs.

Property, plant and equipment received in the form of contributions are recognised as assets and revenues at cost as supplied by the contributor entity, where that value exceeds the recognition threshold for the respective asset class.

Capital and operating expenditure

Wages, materials expenditure and an appropriate portion of direct costs for the acquisition or construction of assets is treated as capital expenditure. Routine operating maintenance, repair costs and minor renewals to maintain the operational capacity of the non-current asset are expensed as incurred, while expenditure that relates to replacement of a major component of an asset to maintain its service potential is capitalised.

Assets under construction are not depreciated until they are completed and commissioned, at which time they are reclassified from work in progress to the appropriate property, plant and equipment class.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

12 Property, plant and equipment (continued)

(b) Measurement

All asset classes excluding plant and equipment and WIP are measured on the revaluation basis, at fair value, in accordance with AASB 116 *Property, Plant and Equipment* and AASB 13 *Fair Value Measurement*. Plant and equipment and WIP are measured at amortised cost.

Any revaluation increment arising on the revaluation of an asset is credited to the appropriate class of the asset revaluation surplus, except to the extent it reverses a revaluation decrement for the class previously recognised as an expense. A decrease in the carrying amount on revaluation is charged as an expense to the extent it exceeds the balance, if any, in the revaluation surplus of that asset class.

On revaluation, accumulated depreciation is restated proportionately with the change in the carrying amount of the asset and any change in the estimate of remaining useful life.

Separately identified components of assets are measured on the same basis as the assets to which they relate.

(c) Depreciation

Land is not depreciated as it has an unlimited useful life. Depreciation on other property, plant and equipment assets is calculated on a straight-line basis so as to write-off the net cost or revalued amount of each depreciable asset, progressively over its estimated useful life to the Council. Management believe that the straight-line basis appropriately reflects the pattern of consumption of all Council assets.

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and commissioned ready for use.

Where assets have separately identifiable components that are subject to regular replacement, these components are assigned useful lives distinct from the asset to which they relate. Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the new depreciable amount is depreciated over the remaining useful life of the asset to the Council.

Depreciation methods and estimated useful lives of property, plant and equipment assets are reviewed at the end of each reporting period and adjusted where necessary to reflect any changes in the pattern of consumption, physical wear and tear, technical or commercial obsolescence, or management intentions. The condition assessments performed as part of the tri-annual full valuation process for assets measured at written down current replacement cost are used to estimate the useful lives of these assets at each reporting date. Details of the range of estimated useful lives for each class of asset are shown in the tables earlier in this note.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

12 Property, plant and equipment (continued)

(d) Land under roads

Torres Strait Island Regional Council does not control any land under roads. Land under the road network within the Council area that has been dedicated and opened for public use under the *Land Act 1994* or the *Land Title Act 1994* is not controlled by Council but is controlled by the State pursuant to the relevant legislation. This land is not recognised in these financial statements.

(e) Impairment

Property, plant and equipment is assessed for indicators of impairment annually. If an indicator of possible impairment exists, the Council determines the asset's recoverable amount. Any amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

(f) Deed of Grant in Trust land

The Council is located on land assigned to it under various Deeds of Grant in Trust (DOGIT) held under the *Torres Strait Islander Land Act 1991* (Qld) (TSILA), *Aboriginal Land Act 1991* (Qld) and the *Land Act 1994* (Qld). The land comprises an area of approximately 483.6 square kilometres, across the following Islands:

- Boigu Island
- Dauan Island
- Erub Island
- Hammond Island
- Iama Island
- Moa Island (comprising two DOGITs of St Paul's and Kubin communities)
- Mabuiag Island
- Poruma Island
- Saibai Island
- Ugar Island
- Warraber Island
- Masig Island

The land is administered by the Department of Natural Resources, Mines and Energy and the Council has restricted use of this land for the benefit of islander inhabitants. The DOGIT land has not been taken up in Council's asset register as it cannot be reliably measured.

The reserve land for Mer Island was managed by the Department of Communities, Child Safety and Disabilities Services until 14 December 2012. On 14 December 2012 Mer Gedkem Le (Torres Strait Islanders) Corporation RNTBC became the trustee of Torres Strait Islander land under the TSILA in communal freehold of Mer Island. The Corporation is trustee for the Native Title Holders.

The DOGIT land for Badu Island was administered by Council in the capacity as trustee until 1 February 2014. On 1 February 2014, Mura Badulgal (Torres Strait Islanders) Corporation RNTBC became the trustee of Torres Strait Islander land under the TSILA in communal freehold of Badu Island. The Corporation is trustee for the Native Title Holders.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

12 Property, plant and equipment (continued)

(f) Deed of Grant in Trust land (continued)

Essential service buildings and infrastructure on Badu Island and Mer Island are leased by Council for the terms of 5 years, 30 years and 99 years at agreed values.

The relevant leased assets are still reported as assets of the Council; land is not reported; nominal rental is paid except for the former child care centre and one staff residence on Badu Island, for which future commitments are \$77,400 over three years. They have not been classified as leases as assets were originally constructed by Council, and recorded as such prior to the change in land arrangements. No lease liability has been recognised in the financial statements for these leases, except for the two before mentioned leases of the child care centre and staff residence on Badu Island.

Pursuant to the terms and conditions of the respective leases, it is intended that the Council continue to maintain these assets for the benefit of the community, as Council possesses the necessary skills and knowledge to best utilise these assets.

(g) Valuation

(i) Valuation processes

In accordance with AASB 13, fair value measurements are categorised on the following basis:

- Fair value based on quoted prices (unadjusted) in active markets for identical assets (level 1)
- Fair value based on inputs that are directly or indirectly observable for the asset (level 2)
- Fair value based on unobservable inputs for the asset (level 3)

All of Council's property, plant and equipment measured at fair value at reporting date is categorised at level 3 (2018/19: all at level 3). Council does not have any assets measured at fair value which meet the criteria for categorisation as level 1 or 2.

The fair values of the assets are determined using valuation techniques which maximise the use of observable data, where it is available, and minimise the use of entity specific estimates. If all significant inputs required to fair value an asset are observable, the asset is included in level 2. If one or more of the significant inputs is not based on observable market data, the asset is included in level 3. This is the case for Council infrastructure assets, which are of a specialist nature for which there is no active market for similar or identical assets. These assets are valued using a combination of observable and unobservable inputs.

Council measures and recognises assets in all asset classes relating to property plant and equipment, other than plant and equipment and WIP, at fair value on a recurring basis.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

12 Property, plant and equipment (continued)

(g) Valuation (continued)

(i) Valuation processes (continued)

Non-current physical assets measured at fair value are revalued, where required, so that the carrying amount of each class of assets does not materially differ from its fair value at the reporting date. This is achieved by engaging independent, professionally qualified valuers to determine the fair value for each class of property, plant and equipment assets at least once every 3 years. This process involves the valuer physically sighting a representative sample of Council assets across all asset classes and making their own assessments of the condition of the assets at the date of inspection. A comprehensive valuation was undertaken as at 30 June 2020 by Jones Lang Lasalle of all asset classes carried at fair value. The results of the valuation were reflected in the financial statements. All classes carried a fair value were last comprehensively valued as at 30 June 2017, with desktop valuations occurring in the 2018 and 2019 financial years.

In the intervening years, Council engages independent, professionally qualified valuers to perform a "desktop" valuation. A desktop valuation involves management providing updated information to the valuer regarding additions, disposals and changes in methodology such as useful life and condition rating. The valuer then determines suitable indices which are applied to each of these asset classes. These indices are then reviewed by Asset Class Managers and Executives to ensure accuracy of these indices for Council.

Council's property, plant and equipment valuation policies and procedures are reviewed annually taking into consideration an analysis of movements in fair value and other relevant information. Management prepares a report for the Audit Committee's review and endorsement.

(ii) Valuation techniques used to derive fair values

Land (Level 3)

Council's land assets consist of two parcels of land on Thursday Island and an additional parcel of land purchased in Cairns during May 2020 for use in Council's operations. Land fair values have been measured by the market approach and by direct comparison. Level 2 and 3 valuation inputs were utilised, being sales transactions of other properties within the region, and adjusted for differences between key attributes of the properties.

Buildings and infrastructure (Level 3)

Due to the predominantly specialised nature of Local Government assets, both the infrastructure valuations and buildings valuations have been undertaken on a cost approach (current replacement cost), except two buildings located on Thursday Island that were valued using the market approach.

Where there is no market, the net current value of an asset is the gross current replacement value less accumulated depreciation to reflect the consumed or expired service potential of the asset. Published/available market data for recent projects, and/or published cost guides are utilised to determine the estimated replacement cost (gross value) of the asset, including allowances for preliminaries and professional fees. This is considered a level 3 input.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

12 Property, plant and equipment (continued)

(g) Valuation (continued)

(ii) Valuation techniques used to derive fair values (continued)

Buildings and infrastructure (Level 3) (continued)

In determining the level of accumulated depreciation for major assets, they have been disaggregated into significant components which exhibit different patterns of consumption (useful lives). The condition assessment is applied on a component basis.

While the replacement cost of the assets could be supported by market supplied evidence (level 2), other unobservable, or level 3 inputs, such as useful life and asset condition were also required, meaning that under AASB 13 the valuation of buildings and infrastructure is considered to fall under level 3.

To calculate the appropriate amount of accumulated depreciation, assets are either subject to a site inspection or an assessment to determine remaining useful life. Where site inspections are conducted (i.e. for visible active assets), the assets were allocated a condition assessment, which was used to estimate remaining useful life.

Where site inspections are not conducted the remaining useful life is calculated on asset age and estimated useful life. The valuation techniques used in the determination of fair values maximise the use of observable data where it is available and rely as little as possible on entity specifics. The disclosure of valuation estimates is designed to provide users with an insight into the judgements that have been made in the determination of fair values.

The written down replacement cost is determined using methods relevant to the asset class as described under individual asset categories below.

1. Buildings - calculation of current replacement cost

Current replacement cost

The approach in determining replacement cost of building assets was to initially analyse local construction costs to gain an understanding of the overall level of cost in the Torres Strait and the factors that influence the individual components. This process was undertaken in conjunction with the analysis of published construction cost data provided by Rawlinsons and Core Logic (Cordells). As construction cost information provided by the Department of Housing is broken up into different groups for the specific purpose of tendering, it was necessary to analyse and review this data to determine the value of components for financial reporting purposes. Current projects completed internally were also considered.

Building construction costs take into consideration regional factors relevant to the location (such as increased shipping and mobilisation costs) and include all preliminary and direct costs.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

12 Property, plant and equipment (continued)

(g) Valuation (continued)

(ii) Valuation techniques used to derive fair values (continued)

Accumulated depreciation

To calculate the appropriate amount of accumulated depreciation, a large portion of corporate and community buildings were subjected to a site inspection and/or an assessment to determine the remaining useful life of the whole asset and its associated components. This is undertaken by a professional valuer during the full valuation. Internal assessments are used in conjunction with Department of Housing and Public Works condition reports as available to support Council's assessment.

2. Roads/transport network - calculation of current replacement cost

Roads

Current replacement cost

The road network is segmented at a high level (e.g. between intersections) and other parts not segmented. Unit rates are applied to the individual road components formation (formation and sub grade), pavement (sub base and base course), seal (seal and subsequent) and kerb and channel of each road in order to determine the replacement cost.

The unit rates have been developed from in-house Council project costs, sub-contractor and head contractor project costs, discussions with contractors active in the Torres Strait and unit rates from projects in Northern Queensland. These rates have been benchmarked against other unit rates from the mainland and cost estimate publications, taking into account the unique nature of constructing in the Torres Strait area.

Accumulated depreciation

In determining the level of accumulated depreciation, the roads are disaggregated into significant components which exhibit different useful lives. Asset condition assessments were completed in the year ended 30 June 2020 as part of the comprehensive valuation by a professional valuer.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

12 Property, Plant and Equipment (continued)

(g) Valuation (continued)

(ii) Valuation techniques used to derive fair values (continued)

3. Water and sewer network - calculation of current replacement cost

Water and sewerage

Current replacement cost

The water and sewerage assets are segregated into active and passive assets; passive assets are not further componentised and consist primarily of mains and pipelines. The unit rates have been developed from in-house Council project costs, sub-contractor and head contractor project costs, discussions with contractors active in the Torres Strait and unit rates from projects in Northern Queensland. These rates have been benchmarked against other unit rates from the mainland and cost estimate publications, such as Rawlinson's and Cordell's, taking into account the unique nature of constructing in the Torres Strait area.

The remaining active assets consist of treatment, pumping and storage assets. These assets are componentised, with allowances for complexity, size, function and site factors. As a check these components are generally combined into a lump sum item and compared against recent similar projects and in-house databases.

Accumulated depreciation

Asset condition assessments were completed in the year ended 30 June 2020 as part of the comprehensive valuation by a professional valuer. and therefore condition rating, useful lives and depreciation rates were updated accordingly.

4. Other infrastructure – Calculation of current replacement cost

Other infrastructure includes the flood mitigation network, waste landfill, recreational facilities, stormwater drainage and wharves, piers, jetties and pontoons, which combined represent less than 10% of Council's property, plant and equipment.

Current replacement cost

The replacement cost of all assets which as a group represent other infrastructure have been estimated through first principles. The unit rates have been developed from in-house Council project costs, sub-contractor and head contractor project costs, discussions with contractors active in the Torres Strait and unit rates from projects in Northern Queensland. These rates have been benchmarked against other unit rates from the mainland and cost estimate publications, such as Rawlinson's and Cordell's, taking into account the unique nature of constructing in the Torres Strait area.

Accumulated depreciation

Asset condition assessments were completed in the year ended 30 June 2020 as part of the comprehensive valuation by a professional valuer and therefore condition rating, useful lives and depreciation rates were updated accordingly.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

13 Contract balances

Where the amounts billed to customers are based on the achievement of various milestones established in the contract, the amounts recognised as revenue in a given period do not necessarily coincide with the amounts billed to or certified by the customer.

When a performance obligation is satisfied by transferring a promised good or service to the customer before the customer pays consideration or before payment is due, Council presents the work in progress as a contract asset, unless the rights to that amount of consideration are unconditional, in which case Council recognises a receivable.

When an amount of consideration is received from a customer / fund provider prior to Council transferring a good or service to the customer, Council presents the funds which exceed revenue recognised as a contract liability.

	2020 \$
Contract assets	<u>4,647,861</u>
Contract liabilities	
Funds received upfront to construct Council controlled assets	17,635,281
Deposits received in advance of services provided (e.g. performance obligations in grants)	209,054
	<u>17,844,335</u>
Revenue recognised that was included in the contract liability balance at the beginning of the year:	
Funds to construct Council controlled assets	2,690,352
Deposits received in advance of services provided	188,847
	<u>2,879,199</u>

The contract assets and liabilities have arisen on adoption of AASB 15 and AASB 1058. Previously the revenue was recognised on receipt and therefore there was no effect on the statement of financial position.

14 Leases

Council as a lessee

Council has leases in place over buildings. Council has applied the exception to lease accounting for leases of low-value assets and short-term leases.

Where Council assesses that an agreement contains a lease, a right of use asset and lease liability is recognised on inception of the lease. Council does not separate lease and non-lease components for any class of assets and has accounted for lease payments as a single component.

The right-of-use asset is measured using the cost model where cost on initial recognition comprises: the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration, less any lease incentives received. The right-of-use asset is depreciated over the lease term on a straight-line basis and assessed for impairment in accordance with the impairment of asset accounting policy.

The lease liability is initially recognised at the present value of the remaining lease payments at the commencement of the lease. The discount rate is the rate implicit in the lease, however where this cannot be readily determined then the Council's incremental borrowing rate for a similar term with similar security is used.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

14 Leases (continued)

Exceptions to lease accounting:

Council has applied the exceptions to lease accounting for both short-term leases (i.e. leases with a term of less than or equal to 12 months) and leases of low-value assets. Council recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

Terms and conditions of leases:

Buildings

Council leases two buildings which are used for offices and accommodation. The leases are for periods of two and four years and include details of any renewal options if applicable, and contain extensions and termination options.

Right of use assets

	2020
	Buildings
	\$
Adoption of AASB 16 at 1 July 2019	1,963,038
Additions to right of use assets	619,396
Derecognition of right of use assets	(567,780)
Amortisation charge	(684,654)
Balance as at 30 June 2020	1,330,000

Lease liabilities

Adoption of AASB 16 at 1 July 2019	1,963,038
Additions to lease liabilities	619,396
Derecognition of lease liabilities	(569,149)
Lease payments	(705,941)
Interest expense	33,358
Balance as at 30 June 2020	1,340,702

	2020
	\$
Current	
Lease liability	651,775
	651,775
Non-current	
Lease liability	688,927
	688,927
Total lease liabilities	1,340,702

The table below shows the maturity analysis of the lease liabilities based on contractual cashflows and therefore the amounts will not be the same as the recognised lease liability in the statement of financial position.

	< 1 year	1-5 years	> 5 years	Total	Total per statement of financial position
	\$	\$	\$	\$	\$
Buildings	702,494	746,152	0	1,448,646	1,340,702

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

14 Leases (continued)

Amounts included in the statement of comprehensive income related to leases

	2020 \$
Interest on lease liabilities	33,358
Loss on derecognition of leases	(1,369)
Amortisation of right of use assets	684,654
Expenses relating to short-term leases	65,123
	<u>781,766</u>
Total cash outflows for leases	<u><u>771,064</u></u>

Council as a lessor

Council has leased the following dwellings and vacant sites as lessor to the Queensland Government for 40 years:

- 51 dwellings located on Moa Island (Kubin)
- 6 dwellings and 3 vacant site on Saibai Island
- 6 dwellings and 4 vacant sites on Boigu Island
- 21 vacant sites on Kirirri Island
- 25 vacant sites on Moa Island (St Pauls)
- 6 vacant sites on Iama Island
- 2 vacant sites on Ugar Island
- 5 vacant sites on Poruma Island
- 10 vacant sites on Masig Island
- 8 vacant sites on Warraber Island
- 7 vacant sites on Erub Island
- 6 vacant sites on Mabuiag Island
- 3 vacant sites on Dauan Island

The total lease payment per dwelling in the current year ranged between \$2,001 and \$2,199 (\$2,000 to \$2,166 for 2018/19). These lease payments are required to be adjusted each year by the change in the Consumer Price Index (All Groups). As the gross lease payments are insufficient to cover the fair value (current replacement cost) of the leased properties, there is no interest rate implicit in the leases and therefore no finance income will arise from the leases. Consequently, the leases are recognised at the present value of the expected future lease payments receivable (fair value). Gains on revaluation of finance lease assets are recognised as other income annually.

The Queensland Government has the right to surrender any part of the lease at any time by giving Council three months' written notice. Per the lease agreement any improvements to the property transfer to Council when the lease terminates. On 20 July 2018 the Queensland Government surrendered the lease of 1 vacant sit on Saibai back to Council. No leases were surrender between 1 July 2019 and 30 June 2020.

	Note	2020 \$	2019 \$
Current			
Lease receivable		370,578	361,787
		<u>370,578</u>	<u>361,787</u>
Non-current			
Lease receivable		14,715,268	14,308,549
		<u>14,715,268</u>	<u>14,308,549</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

14 Leases (continued)

	Note	2020 \$	2019 \$
A reconciliation between the gross investment in the lease and the fair value of lease payments is as follows:			
Gross minimum lease payments receivable:			
Not later than one year		370,578	361,787
Later than one year but not later than five years		1,482,313	1,447,149
Later than five years		11,380,691	11,472,020
		<u>13,233,582</u>	<u>13,280,956</u>
Add: Estimated contingent rent		7,641,298	7,968,217
Less: Present value adjustment		(5,789,034)	(6,578,837)
Fair value of lease payments		<u>15,085,846</u>	<u>14,670,336</u>
The fair value of lease payments is receivable as follows:			
Not later than one year		370,578	361,787
Later than one year but not later than five years		1,510,948	1,468,036
Later than five years		13,204,320	12,840,513
		<u>15,085,846</u>	<u>14,670,336</u>
Movements in finance leases were as follows:			
Opening balance		14,670,336	10,173,797
Add: Initial recognition of new leases		-	2,006,779
Less: Lease receipts		(369,866)	(350,741)
Less: Surrender of leases		-	(67,380)
Add: Gain on revaluation	4(b)	785,376	2,907,881
Closing balance		<u>15,085,846</u>	<u>14,670,336</u>

The calculation of fair value has included an estimate of average annual CPI increases of 2.5% (2.5%, 2019) and a discount rate of 1.72% (1.92%, 2019).

15 Trade and other payables

Trade creditors are recognised as a liability at the time the amount owed can be measured reliably and when it is probable the amount will have to be paid, when the goods are received or the service is performed. Amounts are unsecured and normally settled within 30 days.

Annual leave represents the amount which Council has a present obligation to pay resulting from employees' services provided up to balance date. The accrual is based on present value of remuneration rates that will be paid when the liability is expected to be settled and includes related on-costs.

As Council does not have an unconditional right to defer settlement of the annual leave beyond twelve months after the balance date, annual leave is classified as a current liability.

Current

Accrued creditors	3,052,499	3,553,271
Employee benefits - annual leave	2,252,609	2,109,982
Accrued payroll	450,528	296,385
Refundable bonds	4,782	2,000
Trade creditors and other payables	905,239	1,421,137
Retention	175,029	632,728
	<u>6,840,686</u>	<u>8,015,503</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

16 Provisions

Long service leave

The provision for long service leave represents the present value of the estimated future cash outflows to be made by Council resulting from employees' services provided up to balance date. The accrual is based on present value of remuneration rates that will be paid when the liability is expected to be settled including related on-costs and adjusted for the probability of employees remaining in the Council's employment.

The long service leave provision has been discounted using discount rates derived from Commonwealth Government bond rates as at 30 June 2020.

Where employees have met the pre-requisite length of service and Council does not have an unconditional right to defer this liability beyond 12 months long service leave is classified as a current liability. Otherwise it is classified as non-current.

Landfill restoration

A provision is made for the cost of rehabilitation of assets and other future restoration costs where it is probable Council will be liable, or required, to incur costs on the cessation of use of these facilities. The provision represents the present value of the anticipated future costs associated with the closure of landfill sites.

The calculation of this provision requires assumptions such as site closure dates, available technologies and engineering cost estimates. These uncertainties may result in future actual expenditure differing from amounts currently provided. Because of the long-term nature of the liability, the most significant uncertainty in estimating the provision is the costs that will be incurred. The provision recognised for landfill sites is reviewed at least annually and updated based on the facts and circumstances available at the time. Management estimates that the 15 sites will close between 2021 and 2024.

As refuse dumps are on state reserves / DOGIT land which the Council does not control, the provision for restoration is treated as an expense in the year the provision is first recognised. Changes in the provision are treated as an expense or income.

	Note	2020 \$	2019 \$
Current			
Long service leave		929,014	967,282
Provision for landfill restoration		2,396,763	2,333,562
		<u>3,325,777</u>	<u>3,300,844</u>
Non-current			
Long service leave		444,699	353,419
Provision for landfill restoration		3,117,589	3,000,219
		<u>3,562,288</u>	<u>3,353,638</u>
Details of movements in provisions:			
Landfill restoration			
Balance at beginning of financial year		5,333,781	5,035,815
Increase in provision due to unwinding of discount		108,824	108,799
Increase/(Decrease) in provision due to change in discount rate		71,747	189,167
Balance at end of financial year		<u>5,514,352</u>	<u>5,333,781</u>

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2020

16 Provisions (continued)

	Note	2020	2019
		\$	\$
Details of movements in provisions (continued):			
Long service leave provision			
Balance at beginning of financial year		1,320,701	1,406,216
Long service leave entitlement arising		268,377	204,190
Long service entitlement paid		(215,365)	(289,705)
Balance at end of financial year		<u>1,373,713</u>	<u>1,320,701</u>

17 Commitments for expenditure

Operating leases (2019 only)

Payments made under operating leases are expensed in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

	2019
	\$
Minimum lease payments in relation to non-cancellable operating leases are as follows:	
Within one year	656,464
One to five years	<u>1,358,046</u>
	<u>2,014,510</u>

Council has entered into operating leases on certain property across the Torres Strait and Cairns, with lease terms between one and five years.

During 2019 an amount of \$684,646 was recognised as an expense in the Statement of Comprehensive Income in respect of operating leases.

Refer to Note 14 for information on leases for 2020.

Contractual commitments

Contractual commitments at the end of the financial year but not recognised in the financial statements are as follows:

	2020	2019
	\$	\$
Capital assets	21,746,445	1,550,148
Consultancy	48,753	102,511
Other	885,082	192,712
Contractors	173,761	213,769
Recoverable work contractors	1,105,243	3,069,182
Audit fees	-	132,480
Freight	97,417	246,349
Contract employees	<u>21,416</u>	<u>83,771</u>
	<u>24,078,116</u>	<u>5,590,922</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

18 Contingent liabilities

Details and estimates of maximum amounts of contingent liabilities are as follows:

Local Government Mutual

The Council is a member of the local government mutual liability self-insurance pool, LGM Queensland. In the event of the pool being wound up or it is unable to meet its debts as they fall due, the trust deed and rules provide that any accumulated deficit will be met by the individual pool members in the same proportion as their contribution is to the total pool contributions in respect to any year that a deficit arises.

As at 30 June 2020 the financial statements reported an accumulated surplus and it is not anticipated any liability will arise.

Local Government Workcare

The Council is a member of the Queensland local government worker's compensation self-insurance scheme, Local Government Workcare. Under this scheme the Council has provided an indemnity towards a bank guarantee to cover bad debts which may remain should the self insurance licence be cancelled and there were insufficient funds available to cover outstanding liabilities. Only the Queensland Government's workers compensation authority may call on any part of the guarantee should the above circumstances arise. The Council's maximum exposure to the bank guarantee is \$317,755.

Native Title Compensation Liability

The Native Title Act 1993 (Cth) requires future acts, such as the construction of major and minor Council infrastructure, housing, signage and the granting of leases to proponents such as government, to be conducted using processes listing under it. In many cases, in order to be valid, a notice process or a registered Indigenous Land Use Agreement under the Native Title Act 1993 (Cth) is required before conducting a future act. Prior to amalgamation of the island councils in 2008, infrastructure and leases were likely to have been progressed without complying with these requirements of the Native Title Act 1993 (Cth). This infrastructure and leases are termed invalid future acts, for which compensation is payable by Council.

It is difficult to estimate the likely compensation payable because jurisprudence in this area has only just started emerging. A native title compensation case was decided by the High Court of Australia on 13 March 2019 (*Northern Territory v Griffiths* [2019] HCA 7) that sets out legal principles for determining the quantum of native title compensation payable. That case provides some guidance in relation to a compensation formula. However, the principles in that case cannot be applied to Council's contingent liabilities without making allowances for the differing circumstances in the Torres Strait context. For example, the High Court case involved extinguishment of non-exclusive native title rights, whereas invalid future acts in Torres Strait may not involve extinguishment and are likely to concern exclusive native title rights rather than non-exclusive native title rights. Further, the economic loss component of native title compensation is to be calculated with reference to the freehold value of the land affected, and in Council's local government area there are no land valuations at present.

At this point there are no applications for compensation claims against Council. Numerous compensation claims for alleged invalid future acts are likely to be made in coming years. Council is making deputations to the State of Queensland about the assistance that Council will require in the future to address these claims, should Council's insurance cover be inadequate.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

18 Contingent liabilities (continued)

Land Holding Act Lease

Under the *Aboriginal and Torres Strait Islander Land Holding Act 1985* (repealed and replaced with the *Aboriginal and Torres Strait Islander Land Holding Act 2013*), Island Councils across Torres Strait received 354 applications for perpetual leases of land held in trust by those Island Councils. Of the 354 lease applications received by the Island Councils, 116 applications were invalid due to incomplete information or procedural non-compliance. For the remaining 238 applications, the applicant has a legal right to a perpetual lease for the land stated in the application. Due to law reform in 1991, it is no longer possible to apply for a *Land Holding Act* lease. When the Island Councils amalgamated in 2008, TSIRC assumed trustee legal interests in the land subject to Land Holding Act leases and lease entitlements.

The perpetual leases were not all granted in the 1980s with only 61 being granted by 2013. Council and the State are working together to grant all remaining valid lease entitlements either to the original applicant or to the applicant's beneficiaries. Where there is a valid lease entitlement, the lease can be granted without the consent of the native title party because the lease entitlement is a legal right that pre-existed the recognition of native title rights in Australia. This was confirmed by the Supreme Court of Queensland in February 2018. Between then and today, 89 LHA leases have been registered in Torres Strait communities, with 88 valid lease entitlements remaining to be resolved.

The purpose of the lease under the *Land Holding Act* was to provide home ownership. On registration of each of the outstanding 88 lease entitlements, Council will divest the social housing asset (if applicable) to the perpetual leaseholder for \$1.00. The fair value as at 30 June 2020 for social housing assets relating to the outstanding 88 lease entitlements totals \$24,046,400. However, at this time, it is uncertain as to how many applications might be made in respect of the outstanding 88 lease entitlements. On registration of any of the leases, the asset will be removed from Council's asset register and social housing register.

19 Superannuation

Council contributes to LGIASuper previously known as the Local Government Superannuation Scheme (Qld) (the Scheme). LGIASuper is a Multi-employer Plan as defined in Australian Accounting Standard AASB 119 *Employee Benefits*. The Scheme has a number of elements including defined benefit funds and an accumulation benefit fund. Council does not have any employees who are members of the defined benefits funds and so is not exposed to the obligations, assets or costs associated with these funds. Council has employees who are members of the accumulation benefits fund.

	Note	2020 \$	2019 \$
Superannuation contributions made to the LGIA Super Accumulation Benefits Fund		1,986,600	1,942,401
Other superannuation contributions for employees		311,352	169,546
Total superannuation contributions paid by Council for employees:	6	<u>2,297,952</u>	<u>2,111,948</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

20 Reconciliation of net result for the year to net cash inflow (outflow) from operating activities

	Note	2020 \$	2019 \$
Net result		(29,182,854)	(28,882,938)
Non-cash items:			
Depreciation and amortisation		47,616,592	46,163,049
Asset contributions in capital income		(11,320,912)	(12,964,387)
Gain on initial recognition of finance lease		-	(2,006,779)
Gain on revaluation of finance lease		(785,376)	(2,907,881)
Gain/loss on disposal of finance leases		-	67,380
		<u>35,510,304</u>	<u>28,351,382</u>
Investing and development activities:			
Loss on derecognition of right of use assets		(1,369)	-
Loss on disposal of non-current assets		12,751,201	19,425,362
Capital grants and contributions		(21,780,250)	(16,189,737)
		<u>(9,030,418)</u>	<u>3,235,625</u>
Changes in operating assets and liabilities:			
(Increase)/decrease in receivables		10,651,836	(3,119,088)
(Increase)/decrease in inventory		(1,657)	36,228
Increase/(decrease) in payables		(1,174,817)	(2,224,851)
Increase/(decrease) in other provisions		289,305	212,450
		<u>9,764,667</u>	<u>(5,095,261)</u>
Net cash inflow from operating activities		<u><u>7,061,699</u></u>	<u><u>(2,391,193)</u></u>

21 Reconciliation of liabilities arising from financing activities

2020	As at 30 June 2019	Change in accounting policy	Cash flows	As at 30 June 2020
Loans	168,421	-	(63,673)	104,748
Lease liability	-	2,013,285	(672,583)	1,340,702
	<u>168,421</u>	<u>2,013,285</u>	<u>(736,256)</u>	<u>1,445,450</u>
2019	As at 30 June 2018		Cash flows	As at 30 June 2019
Loans	227,573		(59,152)	168,421
	<u>227,573</u>		<u>(59,152)</u>	<u>168,421</u>

22 Events after the reporting period

The unprecedented Coronavirus (COVID-19) Pandemic caused an immediate disruption to operations and national economic impact. Subsequently, entry to Torres Strait communities ('designated areas') was restricted under the *Biosecurity Act 2015* (Cth) until 12 June 2020, whereby access to remote communities was then determined under the *Chief Health Officer Direction – Restricted Access to Remote Communities (Qld)*. As of 3 July 2020 the Chief Health Officer (Qld) determined the transition of Torres Strait communities to Stage 3, applying uniformity to the wider State provisions.

As at the date of signing these financial statements, given the evolving circumstances of the pandemic within Australia, the ongoing impact on Council cannot be reliably estimated for future financial periods. This is considered a non-adjusting event for financial reporting and disclosure purposes and, as such, has no impact on the amounts reported in these financial statements.

There were no other material adjusting events after the balance date.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

23 Financial instruments and financial risk management

Financial risk management

Council is responsible for the establishment and oversight of the risk management framework, together with developing and monitoring risk management policies. Council's management approves policies for overall risk management, as well as specifically for managing credit, liquidity and market risk.

Council's risk management policies are established to identify and analyse the risks faced, to set appropriate limits and controls and to monitor these risks and adherence against limits. The Council aims to manage volatility to minimise potential adverse effects on the financial performance of the Council.

The Council's audit committee oversees how management monitors compliance with the Council's financial risk management policies and procedures, and reviews the adequacy of the framework in relation to the risks faced by the Council. The Council audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

Investments in financial assets are only made where those assets are with a bank or other financial institution in Australia. The Council does not invest in derivatives or other high risk investments.

Credit risk

Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations. These obligations arise principally from the Council's investments and receivables from customers.

Exposure to credit risk is managed through regular analysis of credit counterparty ability to meet payment obligations. The carrying amount of financial assets represents the maximum credit exposure.

Investments in financial instruments are required to be made with Queensland Treasury Corporation (QTC) or similar financial institutions in Australia, in line with the requirements of the *Statutory Bodies Financial Arrangements Act 1982*.

No collateral is held as security relating to the financial assets held by Torres Strait Island Regional Council.

The following table represents the maximum exposure to credit risk based on the carrying amounts of financial assets at the end of the reporting period:

	Note	2020 \$	2019 \$
Financial assets			
Cash and cash equivalents	10	52,763,075	50,756,886
Short term deposit		65,374	63,970
Receivables - housing	11	86,763	137,267
Receivables - rates	11	284,699	129,590
Receivables - other	11	1,376,473	6,934,024
Lease receivables	14	15,085,846	14,670,336
Other credit exposures			
Guarantees	18	317,755	298,427
		<u>69,979,985</u>	<u>72,990,500</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

23 Financial instruments and financial risk management (continued)

Credit risk (continued)

Cash and cash equivalents

Council may be exposed to credit risk through its investment in the QTC Cash Fund and QTC Working Capital Facility. The QTC Cash Fund is an asset management portfolio that invests with a wide range of high credit rated counterparties. Deposits with the QTC Cash Fund are capital guaranteed. Working Capital Facility deposits have a duration of one day and all investments are required to have a minimum credit rating of "A-", therefore the likelihood of the counterparty having capacity to meet its financial commitments is strong.

Trade and other receivables

Council assesses credit risk before providing goods or services and applies normal business credit protection to minimise the risk.

The Council does not require collateral in respect of trade and other receivables. The Council does not have trade receivables for which no loss allowance is recognised because of collateral.

The exposure to credit risk for trade receivables by type of counterparty was as follows:

	2020	2019
	\$	\$
Housing charges	13,393,630	14,141,294
Government entities	1,077,831	6,511,098
Utility charges	472,371	259,179
Other	498,491	459,677
Total	15,442,323	21,371,248

A summary of the Council's exposure to credit risk for trade receivables is as follows:

	2020		2019	
		\$	\$	\$
	Not credit-impaired	Credit-impaired	Not credit-impaired	Credit-impaired
Not past due	1,279,300	-	6,717,747	-
Past due 31-60 days	157,347	-	200,160	-
Past due 61-90 days	147,015	-	144,074	-
More than 90 days	-	13,858,661	-	14,309,267
Total gross carrying amount	1,583,662	13,858,661	7,061,981	14,309,267
Loss allowance	(161,334)	(13,533,054)	(284,017)	(13,886,351)
	1,422,328	325,607	6,777,964	422,916

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

23 Financial instruments and financial risk management (continued)

Credit risk (continued)

Expected credit loss assessment as at 1 July 2019 and 30 June 2020

The Council uses an allowance matrix to measure the expected credit losses of trade receivables from individual customers, which comprise a very large number of small balances.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off.

The following table provided information about the exposure to credit risk and expected losses for trade receivables from individual customers:

Housing receivables

2020

	Weighted - average loss rate	Gross carrying amount	Loss allowance	Credit - impaired
	\$	\$	\$	\$
Not past due	20.00%	105,988	21,198	No
Past due 31-60 days	99.00%	46,666	46,200	No
Past due 61-90 days	99.00%	85,558	84,703	No
More than 90 days	99.99%	13,155,418	13,154,768	Yes
Total		<u>13,393,630</u>	<u>13,306,867</u>	

Other trade receivables

2020

	Weighted - average loss rate	Gross carrying amount	Loss allowance	Credit - impaired
	\$	\$	\$	\$
Not past due	0.16%	1,173,312	1,885	No
Past due 31-60 days	3.47%	110,681	3,837	No
Past due 61-90 days	5.71%	61,457	3,512	No
More than 90 days	53.79%	703,243	378,287	Yes
Total		<u>2,048,693</u>	<u>387,521</u>	

Housing receivables

2019

	Weighted - average loss rate	Gross carrying amount	Loss allowance	Credit - impaired
	\$	\$	\$	\$
Not past due	28.00%	186,006	52,082	No
Past due 31-60 days	99.00%	133,815	132,477	No
Past due 61-90 days	99.00%	96,806	95,837	No
More than 90 days	99.99%	13,724,667	13,723,631	Yes
Total		<u>14,141,294</u>	<u>14,004,027</u>	

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

23 Financial instruments and financial risk management (continued)

Credit risk (continued)

Other trade receivables

2019	Weighted - average loss rate	Gross carrying amount	Loss allowance	Credit - impaired
	\$	\$	\$	\$
Not past due	0.03%	6,531,741	1,949	No
Past due 31-60 days	1.22%	66,345	807	No
Past due 61-90 days	1.83%	47,268	865	No
More than 90 days	27.83%	584,600	162,720	Yes
Total		<u>7,229,954</u>	<u>166,341</u>	

Loss rates are based on actual credit loss experience over the past ten years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Council's view of economic conditions over the expected lives of the receivables.

Refer to Note 11 for the movement in the allowance for impairment for receivables during the year.

Liquidity risk

Liquidity risk is the risk that the Council will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Council's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Council's reputation.

Exposure to liquidity risk

Council is exposed to liquidity risk through its normal course of business and through its borrowings with QTC and other financial institutions.

The Council manages its exposure to liquidity risk by maintaining sufficient cash deposits and undrawn facilities, both short and long term, to cater for unexpected volatility in cash flows.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

23 Financial instruments and financial risk management (continued)

Liquidity risk (continued)

The following table sets out the liquidity risk in relation to financial liabilities (excluding lease liabilities for 2020) held by the Council. It represents the remaining contractual cashflows (principal and interest) of financial liabilities at the end of the reporting period, excluding the impact of netting agreements:

	0 to 1 year	1 to 5 years	Over 5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
2020					
Trade and other payables	6,840,686	-	-	6,840,686	6,840,686
Loans - QTC	74,219	36,894	-	111,113	111,113
	<u>6,914,905</u>	<u>36,894</u>	<u>-</u>	<u>6,951,799</u>	<u>6,951,799</u>
2019					
Trade and other payables	8,015,503	-	-	8,015,503	8,015,503
Loans - QTC	74,219	111,113	-	185,332	185,332
	<u>8,089,722</u>	<u>111,113</u>	<u>-</u>	<u>8,200,835</u>	<u>8,200,835</u>

The outflows in the above table are not expected to occur significantly earlier or for significantly different amounts than indicated in the table.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Council's income or the value of its holdings of financial instruments.

Interest rate risk

Council is exposed to interest rate risk through investments and borrowings with QTC and other financial institutions. Council has access to a mix of variable and fixed rate funding options through QTC so that interest rate risk exposure can be minimised.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

23 Financial instruments and financial risk management (continued)

Market risk (continued)

Sensitivity

Sensitivity to interest rate movements is shown for variable financial assets and liabilities based on the carrying amount at reporting date.

Council does not account for any fixed- rate financial assets or financial liabilities at fair value through profit or loss, therefore a change in interest rates at the reporting date would not affect profit or loss.

The following interest rate sensitivity analysis depicts what effect a reasonably possible change in interest rates (assumed to be 1%) would have on the result and equity, based on the carrying values at the end of the reporting period. The calculation assumes that the change in interest rates would be held constant over the period.

	Net carrying amount	Effect on net result		Effect on equity	
		1% increase	1% decrease	1% increase	1% decrease
2020					
QTC cash fund	47,825,252	478,253	(478,253)	478,253	(478,253)
Other investments	65,374	654	(654)	654	(654)
Loans - QTC	(104,749)	(1,047)	1,047	(1,047)	1,047
Net total	47,785,877	477,860	(477,860)	477,860	(477,860)
2019					
QTC cash fund	36,675,252	366,753	(366,753)	366,753	(366,753)
Other investments	63,970	640	(640)	640	(640)
Loans - QTC	(168,421)	(1,684)	1,684	(1,684)	1,684
Net total	36,570,800	365,708	(365,708)	365,708	(365,708)

24 National Competition Policy

Council does not currently have any significant business activities to which the Code of Competitive Conduct (CCC) may be applied.

25 Transactions with related parties

(a) Transactions with key management personnel (KMP)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Council, directly or indirectly.

KMPs include the Mayor, Councillors, Council's Chief Executive Officer and the Executive Management team. The Executive Management team consists of the Chief Operating Officer and Chief Financial Officer. Compensation paid to KMPs for 2019/20:

	2020	2019
	\$	\$
Short-term employee benefits	1,620,532	1,781,173
Post-employment benefits	73,009	75,427
Termination benefits	-	15,000
Long-term employee benefits	-	-
	1,693,541	1,871,600

Detailed remuneration disclosures are provided in Council's Annual Report.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

25 Transactions with related parties (continued)

(b) Transactions with other related parties

Other related parties include the close family members of KMP and any entities controlled or jointly controlled by KMP or their close family members. Close family members include a spouse, parent, child and dependant of a KMP or their spouse. Per Ailan Kastom, an Uncle, Aunty or sibling who represents one of those roles to a KMP has been considered to be a related party.

Details of transactions between Council and other related parties are disclosed below:

Details of transactions		2020 \$	2019 \$
Employee expenses for close family members of KMPs	(i)	736,606	791,819
Purchase of materials and services from entities controlled by KMPs	(ii)	64,471	94,538
Grants and donations for close family members of KMPs	(iii)	6,632	10,500
Fees and charges charged to entities controlled by KMPs	(iv)	8,415	10,847

(i) All close family members of key management personnel were employed through an arm's length process. They are paid in accordance with Council's Certified Agreement for the job they perform.

Council employs 361 staff (324 full time equivalent staff) of which 12 are close family members of key management personnel.

(ii) Council purchased the following materials and services from entities that are controlled by members of key management personnel. All purchases were at arm's length and were in the normal course of Council operations:

Ferry charters	19,880	64,958
Accommodation	43,200	9,680
Consumables	1,035	7,900
Fuel and electricity	356	-
Commercial rent	-	12,000
	<u>64,471</u>	<u>94,538</u>

Included in the above is \$19,880 of ferry charter charges from Hammond Island Ferry. During the period of 1 July 2019 and 25 October 2019, Councillor Sabatino was the owner of this entity and a KMP. Councillor Sabatino ceased to be a KMP effective 25 October 2019 on resignation from his position as Councillor. All purchases were at arm's length, on normal terms and conditions and were in the normal course of Council's operations.

(iii) Grants and donations totalling \$6,632 (2019: \$10,500) were made during the reporting period to related parties of KMPs as community members under Council's Grants and Donations Procedure.

(iv) The fees and charges charged to entities controlled by KMPs were at arm's length. \$7,158 (2019: \$7,052) was charged for a commercial lease for M&M Mini Mart at Hammond Island, a business owned by Councillor Sabatino and \$1,257 (2019: \$3,796) for licensing fees for Maria Tamaru Tamu for office space use on Warraber Island, as close family member of Councillor Tamu. Councillor Sabatino and Councillor Tamu were only considered KMP until 25 October 2019 and 20 April 2020 respectively.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

25 Transactions with related parties (continued)

(c) Commitments to/from related parties

Council has commitments for the provision of goods and services at ordinary commercial rates and terms. Commitments include the supply of accommodation, fuel and ferry transfers from the following related party entities:

	2020 \$	2019 \$
Badu Island Foundation Ltd	6,000	4,700
Hammond Island Ferry	-	3,691
M & M Mini Mart	-	1,847
	<u>6,000</u>	<u>10,238</u>

During the period Councillor Nona was the Chair of Badu Island Foundation Ltd and Councillor Sabatino was the owner of both Hammond Island Ferry and M&M Mini Mart. Councillor Sabatino was not considered a KMP at reporting date. Commitments to both Hammond Island Ferry and M&M Mini Mart are not required. All commitments were at arm's length, on normal terms and conditions and were in the normal course of Council's operations.

(d) Loans and guarantees to/from related parties

Council does not make loans to or receive loans from related parties. No guarantees have been provided.

(e) Outstanding balances

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

Receivables	Current \$	Over 30 Days \$	Over 60 Days \$	Over 90 Days \$	Total \$
2020					
Rates and charges	37	-	-	155,468	155,505
Social housing	1,109	900	925	142,519	145,453
Other fees and charges	-	-	-	860	860
Total	1,146	900	925	298,847	301,818
2019					
Rates and charges	-	-	-	215,197	215,197
Social housing	2,773	2,345	1,852	246,155	253,125
Other fees and charges	808	313	94	60,220	61,435
Total	3,581	2,658	1,946	521,572	529,757

\$222,833 has been recognised in current and prior years for the allowance for bad or doubtful debts owed by related parties.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

25 Transactions with related parties (continued)

(e) Outstanding balances (continued)

The table below details related party outstanding balances at the end of the reporting period which are over 90 days:

2020

Related party	Relationship	Customer	Nature of transactions	Over 90 Days \$
Laurie Nona	Manager	Badu Art Centre	Rates and charges	73,461
Laurie Nona	Chair	Badu Island Foundation	Rates and charges	71,746
Getano Lui (Jnr)	Councillor	Getano Lui (Jnr)	Social housing	49,333
Lama Trinkoon	Spouse	Ivy Trinkoon	Social housing	33,877
Torenzo Elisala	Father	Tenny Elisala	Social housing	27,385
Francis Pearson	Defacto	Alice Pearson	Social housing	12,414
Rocky Stephen	Director	Kos & Abob Fisheries (TSI)	Rates and charges	10,137
Dimas Toby	Spouse	Telita Banu	Social housing	7,165
Rocky Stephen	Father	Daniel Stephen	Social housing	5,395
Keith Fell	Councillor	Keith Fell	Social housing	1,842
Rocky Stephen	Councillor	Rocky Stephen	Social housing	1,286
Dimas Toby	Councillor	Dimas Toby	Social housing	1,063
Total of balances less than \$1,000				3,741
				<u>298,845</u>

2019

Related party	Relationship	Customer	Nature of transactions	Over 90 Days \$
Laurie Nona	Chair	Badu Island Foundation	Rates and charges	138,041
Laurie Nona	Manager	Badu Art Centre	Rates and charges	61,884
Mario Sabatino	Shareholder	Arafura Blue Marine Pty Ltd	Maritime fees	59,661
Getano Lui (Jnr)	Councillor	Getano Lui (Jnr)	Social housing	41,533
Ted Nai	Uncle	Gabriel Nai	Social housing	39,470
Ted Nai	Uncle	Ned Mosby	Social housing	34,765
Bob Kaigey	Brother	Robert Kaigey (Snr)	Social housing	31,970
Ted Nai	Uncle	John Morris	Social housing	29,219
Torenzo Elisala	Father	Tenny Elisala	Social housing	26,458
Keri Akiba	Councillor	Keri Akiba	Social housing	17,653
Rocky Stephen	Director	Kos & Abob Fisheries (TSI)	Rates and charges	10,137
Rocky Stephen	Father	Daniel Stephen	Social housing	7,801
Dimas Toby	Spouse	Telita Banu	Social housing	7,265
Ted Nai	Uncle	Gabriel Nai	Rates and charges	5,134
Keith Fell	Councillor	Keith Fell	Social housing	2,352
Clara Tamu	Son	Pryce Mareko	Social housing	2,290
Rocky Stephen	Councillor	Rocky Stephen	Social housing	1,142
Dimas Toby	Councillor	Dimas Toby	Social housing	1,063
Total of balances less than \$1,000				3,734
				<u>521,572</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2020

25 Transactions with related parties (continued)

(f) Debt balances written off during the period as statute barred debt

The below debts were written off during the period as statute barred debt, being debt older than 6 years of age and pursuant to the *Limitation of Actions Act 1974* (Qld) and cannot be legally enforced in a Court of competent jurisdiction.

Council first attempted to write off statute-barred debts in 2015 however a quorum could not be established due to a number of Councillors declaring a material personal interest or conflict of interest and excluding themselves from voting. Following the March 2016 local government election, Council tabled the write off again however was still unable to reach a quorum.

In August 2016, Council presented two separate write off resolutions for Council's consideration, one addressing commercial debts and the other addressing housing debt. Again a quorum could not be established for consideration of either resolution.

On 5 October 2016, Council engaged King & Company Solicitors to address the question of how Council may act to write off statute barred debt while ensuring statutory compliance. King & Company provided several options to Council to address the issue. The option adopted by Council was to delegate the write off power to the CEO. The issue of material personal interest or conflict of interest does not arise in respect of a Council decision to delegate the matter to the CEO for decision, provided Council merely delegates the CEO power to make the decision and does not in any way direct the CEO to make any particular decision about the matter.

The resolution was made at the October 2016 Ordinary Council Meeting adopting the revised Fiscal Governance Policy granting the CEO delegation to write off statute barred debt.

2020

Related party	Relationship	Customer	Nature of transactions	Debt balance written off \$
Getano (Jnr) Lui	Councillor	Getano (Jnr) Lui	Social housing	4,141
Keri Akiba	Councillor	Keri Akiba	Social housing	3,423
Ted Fraser Nai	Uncle	Gabriel Nai	Social housing	2,870
Rocky Stephen	Father	Daniel Stephen	Social housing	1,603
Dimas Toby	Councillor	Dimas Toby	Social housing	1,063
Torenzo Elisala	Spouse	Wosomo Daina	Social housing	818
Torenzo Elisala	Mother	Meleta Elisala	Social housing	818
				<u>14,736</u>

2019

Related party	Relationship	Customer	Nature of transactions	Debt balance written off \$
Rocky Stephen	Father	Daniel Stephen	Social housing	4,914
Getano Lui (Jnr)	Councillor	Getano Lui (Jnr)	Social housing	4,250
Clara Tamu	Son	Pryce Mareko	Social housing	3,500
Keri Akiba	Councillor	Keri Akiba	Social housing	3,240
Dimas Toby	Councillor	Dimas Toby	Social housing	1,625
Torenzo Elisala	Councillor	Torenzo Elisala	Social housing	1,250
Torenzo Elisala	Mother	Meleta Elisala	Social housing	1,250
Torenzo Elisala	Spouse	Wosomo Daina	Social housing	1,250
				<u>21,279</u>

Torres Strait Island Regional Council
Financial statements
For the year ended 30 June 2020

Management Certificate
For the year ended 30 June 2020

These general purpose financial statements have been prepared pursuant to sections 176 and 177 of the *Local Government Regulation 2012* (the Regulation) and other prescribed requirements.

In accordance with section 212(5) of the Regulation we certify that:

- (i) the prescribed requirements of the *Local Government Act 2009* and *Local Government Regulation 2012* for the establishment and keeping of accounts have been complied with in all material respects; and
- (ii) the general purpose financial statements, present a true and fair view, in accordance with Australian Accounting Standards, of the Council's transactions for the financial year and financial position at the end of the year.



Mayor
Phillemon Mosby

Date: 12/10/2020



Acting Chief Executive Officer
Hollie Faithfull

Date: 12/10/2020

INDEPENDENT AUDITOR'S REPORT

To the Councillors of Torres Strait Island Regional Council

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of Torres Strait Island Regional Council (the council).

In my opinion, the financial report:

- a) gives a true and fair view of the council's financial position as at 30 June 2020, and of its financial performance and cash flows for the year then ended
- b) complies with the *Local Government Act 2009*, the Local Government Regulation 2012 and Australian Accounting Standards.

The financial report comprises the statement of financial position as at 30 June 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including significant accounting policies and other explanatory information, and the certificate given by the Mayor and Acting Chief Executive Officer.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of my report.

I am independent of the council in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General Auditing Standards*.

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

Other information

Other information comprises financial and non-financial information (other than the audited financial report) in an entity's annual report.

At the date of this auditor's report, the available other information in Torres Strait Island Regional Council's annual report for the year ended 30 June 2020 was the current year financial sustainability statement and long-term financial sustainability statement.

The councillors are responsible for the other information.

My opinion on the financial report does not cover the other information and accordingly I do not express any form of assurance conclusion thereon. However, as required by the Local

Government Regulation 2012, I have expressed a separate opinion on the current year financial sustainability statement.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report and my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the councillors for the financial report

The councillors are responsible for the preparation of the financial report that gives a true and fair view in accordance with the *Local Government Act 2009*, the Local Government Regulation 2012 and Australian Accounting Standards, and for such internal control as the councillors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The councillors are also responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless it is intended to abolish the council or to otherwise cease operations.

Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the council.


- Conclude on the appropriateness of the council's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on other legal and regulatory requirements

In accordance with s.40 of the *Auditor-General Act 2009*, for the year ended 30 June 2020:

- a) I received all the information and explanations I required.
- b) In my opinion, the prescribed requirements in relation to the establishment and keeping of accounts were complied with in all material respects.



Sri Narasimhan
as delegate of the Auditor-General

13 October 2020

Queensland Audit Office
Brisbane

Torres Strait Island Regional Council
Current-year Financial Sustainability Statement
For the year ended 30 June 2020

Measures of Financial Sustainability

	How the measure is calculated	Target	30 June 2020 Result
Operating surplus ratio	Net result (excluding capital items) divided by total operating revenue (excluding capital items)	Between 0% and 10%	-86%
Asset sustainability ratio	Capital expenditure on the replacement of assets (renewals) divided by depreciation expense	greater than 90%	27%
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue (excluding capital items)	not greater than 60%	-50%

Note 1 - Basis of Preparation

The current year financial sustainability statement is a special purpose statement prepared in accordance with the requirements of the *Local Government Regulation 2012* and the *Financial Management (Sustainability) Guideline 2013*. The amounts used to calculate the three reported measures are prepared on an accrual basis and are drawn from the Council's audited general purpose financial statements For the year ended 30 June 2020.

Certificate of Accuracy
For the year ended 30 June 2020

This current-year financial sustainability statement has been prepared pursuant to Section 178 of the *Local Government Regulation 2012* (the Regulation).

In accordance with Section 212(5) of the Regulation we certify that this current-year financial sustainability statement has been accurately calculated.



Mayor
Pillemon Mosby

Date: 12/10/2020



Acting Chief Executive Officer
Hollie Faithfull

Date: 12/10/2020

INDEPENDENT AUDITOR'S REPORT

To the Councillors of Torres Strait Island Regional Council

Report on the current year financial sustainability statement

Opinion

I have audited the accompanying current year financial sustainability statement of Torres Strait Island Regional Council (the council) for the year ended 30 June 2020, comprising the statement, explanatory notes, and the certificate of accuracy given by the Mayor and the Acting Chief Executive Officer.

In accordance with section 212 of the Local Government Regulation 2012, in my opinion, in all material respects, the current year financial sustainability statement of Torres Strait Island Regional Council for the year ended 30 June 2020 has been accurately calculated.

Basis of opinion

I conducted my audit in accordance with the *Auditor-General Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the current year financial sustainability statement* section of my report.

I am independent of the council in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the statement in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General Auditing Standards*.

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

Emphasis of matter – basis of accounting

I draw attention to Note 1 which describes the basis of accounting. The current year financial sustainability statement has been prepared in accordance with the Financial Management (Sustainability) Guideline 2013 for the purpose of fulfilling the council's reporting responsibilities under the Local Government Regulation 2012. As a result, the statement may not be suitable for another purpose. My opinion is not modified in respect of this matter.

Other Information

Other information comprises financial and non-financial information (other than the audited financial report) in an entity's annual report.

At the date of this auditor's report, the available other information in Torres Strait Island Regional Council's annual report for the year ended 30 June 2020 was the general purpose financial statements and long-term financial sustainability statement.

The councillors are responsible for the other information.

My opinion on the current year financial sustainability statement does not cover the other information and accordingly I do not express any form of assurance conclusion thereon. However, as required by the Local Government Regulation 2012, I have expressed a separate opinion on the general purpose financial report.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report and my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the councillors for the current year financial sustainability statement

The councillors are responsible for the preparation and fair presentation of the current year financial sustainability statement in accordance with the Local Government Regulation 2012. The councillors' responsibility also includes such internal control as the councillors determine is necessary to enable the preparation and fair presentation of the statement that is accurately calculated and is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the current year financial sustainability statement

My objectives are to obtain reasonable assurance about whether the current year financial sustainability statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this statement.

My responsibility does not extend to forming an opinion on the appropriateness or relevance of the reported ratios, nor on the council's future sustainability.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the council.

- Evaluate the overall presentation, structure and content of the statement, including the disclosures, and whether the statement represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



Sri Narasimhan
as delegate of the Auditor-General

13 October 2020

Queensland Audit Office
Brisbane

Torres Strait Island Regional Council
Unaudited Long-Term Financial Sustainability Statement
Prepared as at 30 June 2020

Measures of Financial Sustainability

	Measure	Target	Actuals at 30 June 2020	Projected for the years ended								
				30 June 2021	30 June 2022	30 June 2023	30 June 2024	30 June 2025	30 June 2026	30 June 2027	30 June 2028	30 June 2029
Operating surplus ratio	Net result divided by total operating revenue	Between 0% and 10%	-86%	-63%	-62%	-57%	-43%	-39%	-35%	-31%	-28%	-25%
Asset sustainability ratio	Capital expenditure on the replacement of assets (renewals) divided by depreciation expense.	greater than 90%	27%	144%	19%	15%	0%	0%	0%	0%	0%	0%
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue	not greater than 60%	-50%	-32%	-31%	-32%	-38%	-36%	-35%	-35%	-36%	-36%

Council's Financial Management Strategy

Council measures revenue and expenditure trends over time as a guide to future requirements and to make decisions about the efficient allocation of resources to ensure the most effective provision of services. Council ensures that its financial management strategy is prudent and that its long-term financial forecast shows a sound financial position whilst also being able to meet the community's current and future needs.

The above ratios have been calculated using Council's most recently adopted original budget. Council bases its asset sustainability ratio on confirmed renewal program funding. Council's forecasting ability has a dependency on donor program lifecycles, traditionally occurring in four to five year intervals.

Certificate of Accuracy
For the long-term financial sustainability statement prepared as at 30 June 2020

This long-term financial sustainability statement has been prepared pursuant to Section 178 of the *Local Government Regulation 2012* (the Regulation).

In accordance with Section 212(5) of the Regulation we certify that this long-term financial sustainability statement has been accurately calculated.



Mayor
Phillemon Mosby

Date: 12/10/2020



Acting Chief Executive Officer
Hollie Faithfull

Date: 12/10/2020