

Torres Strait Island Regional Council

Financial Statements

For the year ended 30 June 2014

Table of contents

Statement of Comprehensive Income

Statement of Financial Position

Statement of Changes in Equity

Statement of Cash Flows

Notes to the financial statements

- 1 Significant accounting policies
- 2 Analysis of results by function
- 3 Revenue analysis
- 4 Grants, subsidies, contributions and donations
- 5 Capital income
- 6 Employee benefits
- 7 Materials and services
- 8 Finance costs
- 9 Depreciation and amortisation
- 10 Capital expenses
- 11 Cash and cash equivalents
- 12 Trade and other receivables
- 13 Inventories
- 14 Other Financial Assets
- 15 Property, plant and equipment
- 16 Fair Value Measurements
- 17 Intangible assets
- 18 Trade and other payables
- 19 Borrowings
- 20 Provisions
- 21 Asset revaluation surplus
- 22 Commitments for expenditure
- 23 Contingent liabilities
- 24 Superannuation
- 25 Trust funds
- 26 Reconciliation of net result for the year to net cash inflow (outflow) from operating activities
- 27 Correction of Error
- 28 Financial instruments

Management Certificate

Independent Auditor's Report

Current Year Financial Sustainability Statement

Independent Auditor's Report on Current Year Financial Sustainability Statement

The following unaudited statement is provided as additional information

Long Term Financial Sustainability Statement

Torres Strait Island Regional Council
Statement of Comprehensive Income
For the year ended 30 June 2014

	Note	2014 \$	2013 \$
Income			
Revenue			
Recurrent revenue			
Community levies, rates and charges	3(a)	940,600	1,106,690
Fees and charges		221,605	143,536
Rental income	3(b)	4,868,525	3,598,275
Interest received		440,365	278,349
Sales revenue	3(c)	24,606,925	22,890,208
Other income		581,655	117,140
Grants, subsidies, contributions and donations	4(a)	19,116,765	30,297,292
		<u>50,776,441</u>	<u>58,431,490</u>
Capital revenue			
Grants, subsidies, contributions and donations	4(b)	4,903,762	1,587,665
		<u>4,903,762</u>	<u>1,587,665</u>
Total Revenue		<u>55,680,203</u>	<u>60,019,155</u>
Capital income	5	27,139,142	2,531,802
Total Income		<u>82,819,346</u>	<u>62,550,757</u>
Expenses			
Recurrent expenses			
Employee benefits	6	(18,185,803)	(17,592,195)
Materials and services	7	(27,500,862)	(36,660,271)
Finance costs	8	(81,683)	(5,616,744)
Depreciation	9	(25,480,754)	(25,887,834)
		<u>(71,249,102)</u>	<u>(85,757,044)</u>
Capital expenses	10	(942,710)	(10,547)
Total Expenses		<u>(72,191,813)</u>	<u>(85,767,591)</u>
Net Result		<u>10,627,533</u>	<u>(23,216,834)</u>
Other comprehensive income			
Increase / (decrease) in asset revaluation surplus	21	21,656,978	-
Total other comprehensive income for the year		<u>21,656,978</u>	<u>-</u>
Total comprehensive income for the year		<u><u>32,284,511</u></u>	<u><u>(23,216,834)</u></u>

The above statement should be read in conjunction with the accompanying notes and Significant Accounting Policies

Torres Strait Island Regional Council
Statement of Financial Position
For the year ended 30 June 2014

	Note	2014	* Restated 2013
		\$	\$
Current assets			
Cash and cash equivalents	11	17,273,347	14,226,339
Trade and other receivables	12	9,640,768	7,791,150
Inventories	13	417,999	547,971
Other financial assets	14	166,326	-
		<u>27,498,441</u>	<u>22,565,460</u>
Total current assets		<u>27,498,441</u>	<u>22,565,460</u>
Non-current assets			
Property, plant and equipment	15	691,922,986	666,134,766
Intangible assets	17	1,199,003	1,129,278
Other financial assets	14	2,589,391	-
Total non-current assets		<u>695,711,380</u>	<u>667,264,044</u>
Total assets		<u>723,209,821</u>	<u>689,829,504</u>
Current liabilities			
Trade and other payables	18	5,490,149	3,688,796
Borrowings	19	43,862	41,392
Provisions	20	3,743,039	737,216
Total current liabilities		<u>9,277,050</u>	<u>4,467,404</u>
Non-current liabilities			
Borrowings	19	378,182	422,024
Provisions	20	274,548	3,047,861
Total non-current liabilities		<u>652,730</u>	<u>3,469,885</u>
Total Liabilities		<u>9,929,780</u>	<u>7,937,289</u>
Net community assets		<u>713,280,042</u>	<u>681,892,215</u>
Community equity			
Asset revaluation surplus	21	155,407,899	150,357,342
Retained surplus/(deficiency)		557,872,145	531,534,875
Total community equity		<u>713,280,045</u>	<u>681,892,216</u>

* Comparative figures have been restated. Refer to Note 27 for details

The above statement should be read in conjunction with the accompanying notes and Significant Accounting Policies

Torres Strait Island Regional Council
Statement of Changes in Equity
For the year ended 30 June 2014

	<i>Note</i>	Asset Revaluation Surplus	Retained Surplus	Total
		\$	\$	\$
Balance as at 1st July 2013 (Restated)		150,357,342	531,534,875	681,892,216
Effect of correction of error	27	-	(896,684)	(896,684)
Restated balances		150,357,342	530,638,191	680,995,533
Net result		-	10,627,533	10,627,533
Increase / (decrease) in asset revaluation surplus	21	5,050,557	-	5,050,557
Transfer Asset Revaluation Surplus to Retained Surplus			16,606,421	16,606,421
Total comprehensive income for the year		5,050,557	27,233,954	32,284,511
Balance as at 30th June 2014		155,407,899	557,872,145	713,280,045
Balance as at 1st July 2012		153,176,979	553,978,569	707,155,549
Effect of correction of error	27	(2,819,637)	773,141	(2,046,496)
Restated balances		150,357,342	554,751,710	705,109,053
Net Result		-	(23,216,834)	(23,216,834)
Increase / (decrease) in asset revaluation surplus	21	-	-	-
Total comprehensive income for the year		-	(23,216,834)	(23,216,834)
Balance as at 30th June 2013		150,357,342	531,534,875	681,892,216

* Comparative figures have been restated. Refer to Note 27 for details

The above statement should be read in conjunction with the accompanying notes and Significant Accounting Policies

Torres Strait Island Regional Council
Statement of Cash Flows
For the year ended 30 June 2014

		Council	
	Note	2014	2013
		\$	\$
Cash flows from operating activities			
Receipts from customers		29,389,693	25,613,645
Payments to suppliers and employees		(43,617,187)	(54,451,100)
Interest received		(14,247,495)	(28,837,455)
Non capital grants and contributions		440,365	278,349
Borrowing costs		19,116,765	30,297,292
Net cash inflow (outflow) from operating activities		(28,697)	(31,170)
		5,280,938	1,707,016
Cash flows from investing activities			
Payments for property, plant and equipment		(6,932,105)	(2,039,899)
Payments for intangible assets		(257,937)	(371,969)
Proceeds from sale of property plant and equipment		93,723	156,529
Grants, subsidies, contributions and donations		4,903,762	1,587,665
Net cash inflow (outflow) from investing activities		(2,192,557)	(667,674)
Cash flows from financing activities			
Repayment of borrowings	19	(41,373)	(38,900)
Net cash inflow (outflow) from financing activities		(41,373)	(38,900)
Net increase (decrease) in cash and cash equivalent held		3,047,008	1,000,442
Cash and cash equivalents at the beginning of the financial year		14,226,339	13,225,897
Cash and cash equivalents at end of the financial year	11	17,273,347	14,226,339

The above statement should be read in conjunction with the accompanying notes and Summary of Significant Accounting Policies.

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

1 Significant accounting policies

1.A Basis of preparation

These general purpose financial statements are for the period 1 July 2013 to 30 June 2014 and have been prepared in compliance with the requirements of the *Local Government Act 2009* and the *Local Government Regulation 2012*. Consequently, these financial statements have been prepared in accordance with all Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements issued by the Australian Accounting Standards Board.

These financial statements have been prepared under the historical cost convention except for the revaluation of certain non-current assets.

1.B Statement of compliance

These general purpose financial statements comply with all accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to Council's operations and effective for the current reporting period. Because the Council is a not-for-profit entity and the Australian Accounting Standards include requirements for not-for-profit entities which are inconsistent with International Financial Reporting Standards (IFRS), to the extent these inconsistencies are applied, these financial statements do not comply with IFRS. The main impacts are the offsetting of revaluation and impairment gains and losses within a class of assets, and the timing of the recognition of non-reciprocal grant revenue.

1.C Constitution

The Torres Strait Island Regional Council is constituted under the Queensland *Local Government Act 2009* and is domiciled in Australia.

1.D 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.E Currency

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

1.F Adoption of new and revised Accounting Standards

In the current year, Council adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period. The adoption of the new and revised Standards and Interpretations has not resulted in any material changes to Council's accounting policies. However the Application of AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 for the first time this year has resulted in greater disclosures.

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

	Effective for annual report periods beginning on or after:
AASB 9 <i>Financial Instruments</i> (December 2009)	1 January 2017
2009-11 <i>Amendments to Australian Accounting Standards arising from AASB 9</i> (December 2009)	1 January 2015
AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9</i> (December 2010)	1 January 2015
AASB 2011-7 <i>Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards</i>	1 January 2014
AASB 2012-3 <i>Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities</i> [AASB 132]	1 January 2014
AASB 2013-1 <i>Amendments to AASB 1049 - Relocation of Budgetary Reporting Requirements</i>	1 July 2014
AASB 2013-3 <i>Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets</i>	1 January 2014
AASB 2013-5 <i>Amendments to Australian Accounting Standards – Investment Entities</i> [AASB 1, AASB 3, AASB 7, AASB 10, AASB 12, AASB 107, AASB 112, AASB 124, AASB 127, AASB 132, AASB 134 & AASB 139]	1 January 2014
AASB 2013-6 <i>Amendments to AASB 136 arising from Reduced Disclosure Requirements</i>	1 January 2014
AASB 2013-8 <i>Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities</i> [AASB 10, AASB 12 & AASB 1049]	1 January 2014
AASB 2013-9 <i>Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments</i> [Operative dates: Part A Conceptual Framework – 20 Dec 2013; Part B Materiality – 1 Jan 2014; Part C Financial Instruments – 1 Jan 2015]	1 January 2014

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

In the application of Council's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and ongoing assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods as relevant.

Judgements, estimates and assumptions that have a potential significant effect are outlined in the following financial statement notes:

Valuation and depreciation of property, plant and equipment - Note 1.O and Note 15
 Impairment of property, plant and equipment - Note 1.Q and Note 10
 Provisions - Note 1.T and 1.V and Note 20
 Valuation of finance leases - Note 1.R
 Contingencies - Note 23

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

1.H Revenue

Rates, levies, grants and other revenue are recognised as revenue on receipt of funds or earlier upon unconditional entitlement to the funds.

Rates and Community Levies

The amount is recognised as revenue in the period in which they are received, otherwise levies are recognised at the commencement of levy period.

Grants and subsidies

Grants, subsidies and contributions that are non-reciprocal in nature are recognised as revenue in the year in which Council obtains control over them.

Non-cash contributions

Non-cash contributions with a value in excess of the recognition thresholds, are recognised as revenue and as non-current assets. Non-cash contributions below the thresholds are recorded as revenue and expenses.

Rental income

Rental revenue from community housing and commercial rentals is recognised as income on a periodic straight line basis over the lease term. Council does not have any investment property.

Interest

Interest received from operating bank, cash management accounts and term deposits is accrued over the term of the investment.

Sales revenue

Sale of goods is recognised when the significant risks and rewards of ownership are transferred to the buyer, generally when the customer has taken undisputed delivery of the goods.

The Council generates revenues from a number of services including accommodation, fuel, and plant & equipment hire. Revenue from contracts and recoverable works generally comprises a recoupment of material costs together with an hourly charge for use of equipment and employees. Contract revenue and associated costs are recognised by reference to the stage of completion of the contract activity at the reporting date.

Fees and Charges

Fees and charges are recognised upon unconditional entitlement to the funds.

Capital Income from Contributed Assets

Capital income from contributed assets recognises as income those assets that have been transferred to the Council from other Government entities and Departments. The majority of these assets are from infrastructure projects funded by the State and Federal Governments. The assets are recognised upon the practical transfer of the asset to the Council. The assets are recognised at cost as supplied by the Contributor agency/department as the Council believes the provided costs approximate fair value at date of transfer.

The funding and construction of infrastructure assets by State and Federal Government Departments, which are then transferred to the Council is expected to be ongoing process. Refer to Note 25 for Funds held in Trust for this purpose.

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

1.I Financial assets and financial liabilities

Council recognises a financial asset or a financial liability in its Statement of Financial Position when, and only when, Council becomes a party to the contractual provisions of the instrument.

Torres Strait Island Regional Council has categorised and measured the financial assets and financial liabilities held at balance date as follows:

Financial assets

Cash and cash equivalents (Note 1.J)

Receivables - measured at amortised cost (Note 1.K)

Other financial assets (finance leases) - measured at fair value (Note 1.R)

Financial liabilities

Borrowings - measured at amortised cost (Note 1.U)

Finance lease liabilities - measured at fair value (Note 1. R)

Financial assets and financial liabilities are presented separately from each other and offsetting has not been applied.

The fair value of financial instruments is determined as follows:

The fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities approximate their carrying amounts and are not disclosed separately.

The fair value of borrowings, as disclosed in Note 19 to the accounts, is determined by reference to published price quotations in an active market and/or by reference to pricing models and valuation techniques. It reflects the value of the debt if the Council repaid it in full at balance date. As it is the intention of the Council to hold its borrowings for their full term, no adjustment provision is made in these accounts.

The fair value of trade receivables approximates the amortised cost less any impairment. The fair value of payables approximates the amortised cost.

With the exception of finance lease assets and finance lease liabilities, Council does not recognise financial assets or financial liabilities at fair value in the Statement of Financial Position.

All other disclosures relating to the measurement and financial risk management of financial instruments are included in Note 28.

1.J Cash and cash equivalents

Cash and cash equivalents 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 six months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

1.K Receivables

Trade receivables are recognised at the amounts due at the time of sale or service delivery i.e. the agreed purchase price / contract price. Settlement of these amounts is required within 30 days from invoice date.

The collectability of receivables is assessed periodically and if there is objective evidence that Council will not be able to collect all amounts due, the carrying amount is reduced for impairment. The loss is recognised in finance costs. The amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated cash flows discounted at the effective interest rate.

All known bad debts were written-off at 30 June. Subsequent recoveries of amounts previously written off in the same period are recognised as finance costs in the Statement of Comprehensive Income. If an amount is recovered in a subsequent period it is recognised as revenue.

Loans and advances are recognised in the same way as other receivables. Terms are usually a maximum of five years with interest charged at commercial rates. Security is not normally obtained.

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

1.L Inventories

Stores, raw materials held for resale are valued at the lower of cost and net realisable value and include, where applicable, direct material, direct labour and an appropriate portion of variable and fixed overheads. Costs are assigned on the basis of weighted average cost.

Inventories held for distribution are:

- goods to be supplied at no or nominal, charge, and
- goods to be used for the provision of services at no or nominal, charge.

These goods are valued at cost, adjusted, when applicable, for any loss of service potential.

1.M Investments

Term deposits in excess of six months are reported as investments, with deposits of less than three months being reported as cash equivalents. At 30 June 2014 Council did not have any term deposits in excess of six months.

1.N Community Housing

The Council currently holds a social welfare housing portfolio and these buildings are held to meet service delivery objectives, rather than to earn rental or for capital appreciation purposes.

As the buildings held by Council do not meet the definition of Investment Property, these building are accounted for in accordance with Note 10 Property, Plant & Equipment.

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

1.0 Property, plant and equipment

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 with a total value of less than \$5,000, and infrastructure assets and buildings with a total value of less than \$5,000 are treated as an expense in the year of acquisition. All other items of property, plant and equipment are capitalised.

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

Buildings (Community) - Includes Leasehold assets held on Mer Island

Buildings (Corporate) - Includes Leasehold assets held on Mer Island

Recreation Facilities

Roads / Transport Network

Stormwater Drainage Network

Flood Mitigation Network

Water Supply Network

Sewerage Network

Bridges

Wharves, Piers, Jetties and Pontoons

Waste Landfill

Land Assets

Plant & Equipment

Work in Progress

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 thresholds for the respective asset class.

Capital and operating expenditure

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

Valuation

Land and improvements, buildings, major plant and all infrastructure assets are measured on the revaluation basis, at fair value, in accordance with AASB 116 *Property, Plant & Equipment* and AASB 13 *Fair Value Measurement*. Other plant and equipment and work in progress are measured at cost.

Non-current physical assets measured at fair value are revalued, where required, so that the carrying amount of each class of asset 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.

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.

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

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.

Capital work in progress

The cost of property, plant and equipment being constructed by the Council includes the cost of purchased services, materials, direct labour and an appropriate proportion of labour overheads.

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, less its estimated residual value, 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.

Major spares purchased specifically for particular assets that are above the asset recognition threshold are capitalised and depreciated on the same basis as the asset to which they relate.

The depreciable amount of improvements to or on leasehold land is allocated progressively over the estimated useful lives of the improvements to the Council or the unexpired period of the lease, whichever is the shorter.

Depreciation methods, estimated useful lives and residual values 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 annual 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 Note 15.

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. Therefore this land is not recognised in these financial statements.

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

Deed of Grant in Trust Land

The Council is located on land assigned to it under various Deeds of Grant in Trust (DOGIT) pursuant to Section 341 of the Land Act 1994. 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 (the location of the former St Paul's and Kubin Island Councils)
Mabuiag Island
Poruma Island
Saibai Island
Ugar Island
Warraber Island
Masig Island

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

The Reserves Land for Mer Island was managed by the Department of Communities, Child Safety and Disabilities Services until the 14th December 2012. On the 14th December 2012 Mer Gedken Le (Torres Strait Islanders) Corporation became the trustee under deed of grant. The Corporation is Trustee for the native Title Holder of the Torres Strait Island Land.

The DOGIT Land for Badu Island was administered by the Department of Natural Resources & Mines until the 1st February, 2014. On the 1st February, 2014, Mura Badulgal (Torres Strait Islanders) Corporation became the trustee under deed of grant. The Corporation is Trustee for the Native Title Holder of the Torres Strait Island Land.

Buildings and Infrastructure on Badu and Mer Islands 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 childcare centre and residence on Badu Island, for which future commitments are \$137,893.57 over 5 years. They have not been classified as finance 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.

Pursant 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.

1.P Intangible assets

Intangible assets with a cost or other value exceeding \$10,000 are recognised as intangible assets in the financial statements, items with a lesser value being expensed.

Costs associated with the development of computer software are capitalised and are amortised on a straight-line basis over the period of expected benefit to Council.

Amortisation methods, estimated useful lives and residual values are reviewed at the end of each reporting period and adjusted where appropriate. Details of the estimated useful lives assigned to each class of intangible assets are shown in Note 17.

1.Q Impairment of non-current assets

Each non-current physical and intangible asset and group of assets 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. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

An impairment loss is recognised as an expense in the Statement of Comprehensive Income, unless the asset is carried at a revalued amount. When the asset is measured at a revalued amount, the impairment loss is offset against the asset revaluation surplus of the relevant class to the extent available.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation surplus increase.

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

1.R Leases

Leases of property, plant and equipment under which the Council as lessee/lessor assumes/transfers substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are classified as finance leases. Other leases, where substantially all the risks and benefits remain with the lessor, are classified as operating leases.

Finance leases as lessor

Council has leased 43 dwellings located on Moa Island (Kubin) as lessor to the Queensland Government for 40 years. The total lease payment per dwelling in the current year was \$2,001, (\$Nil for 2012-13). These lease payments are required to be adjusted each year by the change in the Consumer Price Index (All Groups) for Brisbane. As the gross lease payments are insufficient to cover the fair value (depreciated 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.

There is nil unearned finance income, unguaranteed residual values accruing to the benefit of Council, accumulated allowance for uncollectible minimum lease payments receivable or contingent rents recognised as income applicable to the leases.

Operating leases

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.

Finance Leases

The Council has no Finance Leases

1.S Payables

Trade creditors are recognised upon receipt of the goods or services ordered and are measured at the agreed purchase/contract price net of applicable discounts other than contingent discounts. Amounts owing are unsecured and are generally settled on 30 day terms.

1.T Liabilities - employee benefits

Liabilities are recognised for employee benefits such as wages and salaries, annual leave and long service leave in respect of services provided by the employees up to the reporting date. Liabilities for employee benefits are assessed at each reporting date. Where it is expected that the leave will be paid in the next twelve months the liability is treated as a current liability. Otherwise the liability is treated as non-current.

Salaries and wages

A liability for salaries and wages is recognised and measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date. This liability represents an accrued expense and is reported in Note 18 as a payable.

Annual leave

A liability for annual leave is recognised. Amounts are expected to be settled within 12 months and are calculated on current wage and salary levels and includes related employee on-cost.. This liability represents an accrued expense and is reported in Note 18 as a payable.

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

Superannuation

The superannuation expense for the reporting period is the amount of the contribution the Council makes to the superannuation plan which provides benefits to its employees. Details of those arrangements are set out in Note 24.

Long service leave

A liability for long service leave is measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. The value of the liability is calculated using current pay rates and projected future increases in those rates and includes related employee on-costs. The estimates are adjusted for the probability of the employee remaining in the Council's employment or other associated employment which would result in the Council being required to meet the liability. Adjustments are then made to allow for the proportion of the benefit earned to date, and the result is discounted to present value. The interest rates attaching to Commonwealth Government guaranteed securities at the reporting date are used to discount the estimated future cash outflows to their present value. This liability is reported in Note 20 as a provision.

1.U Borrowings and borrowing costs

Borrowings are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these liabilities are measured at amortised cost.

In accordance with the *Local Government Regulation 2012* council adopts an annual debt policy that sets out council's planned borrowings for the next nine years. Council's current policy is to only borrow for capital projects and for a term no longer than the expected life of the asset. Council also aims to comply with the Queensland Treasury Corporation's borrowing guidelines and ensure that sustainability indicators remain within acceptable levels at all times.

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

1.V Restoration provision

A provision is made for the cost of restoration in respect of refuse dumps where it is probable the Council will be liable, or required, to incur such a cost on the cessation of use of these facilities. The provision is measured at the expected cost of the work required, discounted to current day values using the interest rates attaching to Commonwealth Government guaranteed securities with a maturity date corresponding to the anticipated date of the restoration.

Refuse dump restoration

The provision represents the present value of the anticipated future costs associated with the closure of the dump sites, decontamination and monitoring of historical residues and leaching on these sites. The calculation of this provision requires assumptions such as application of environmental legislation, 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 dump sites is reviewed at least annually and updated based on the facts and circumstances available at the time. Management estimates that the sites will close in 2015.

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.

1.W Asset revaluation surplus

The asset revaluation surplus comprises adjustments relating to changes in value of property, plant and equipment that do not result from the use of those assets. Net incremental changes in the carrying value of classes of non-current assets since their initial recognition are accumulated in the asset revaluation surplus.

Increases and decreases on revaluation are offset within a class of assets.

Where a class of assets is decreased on revaluation, that decrease is offset first against the amount remaining in the asset revaluation surplus in respect of that class. Any excess is treated as an expense.

When an asset is disposed of, the amount in surplus in respect of that asset in the asset revaluation surplus is transferred to retained surplus.

1.X Retained surplus

In reference to the comparative figures for the year ended 30 June 2013, this represents the amount of Council's net funds not set aside in reserves to meet specific future needs.

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

1.Y Rounding and comparatives

The financial statements have been rounded to the nearest \$1.

Comparative information has been restated where necessary to be consistent with disclosures in the current reporting period.

1.Z Trust funds held for outside parties

Funds held in the trust account on behalf of outside parties include those funds held for Community Churches, Funeral Funds and Community groups. These have been paid into a separate bank account maintained by the Council. 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.

The monies are disclosed in the notes to the financial statements for information purposes only in Note 25.

1.AA Funds held in trust by outside parties

Some funds belonging to Council are held in the trust funds of third parties. These include grants for major infrastructure projects. For details see Note 25.

1.AB Taxation

Income of local authorities and public authorities is exempt from Commonwealth taxation except for Fringe Benefits Tax and Goods and Services Tax ('GST'). The net amount of GST recoverable from the ATO or payable to the ATO is shown as an asset or liability respectively.

The Council has identified no activities for which it is liable to pay payroll tax to the Queensland Government.

1.AC Carbon Pricing

In 2011 the Australian Government introduced a Clean Energy Legislation package. One aspect of this package, which impacts Council indirectly is the introduction of a pricing mechanism for greenhouse gas emissions in the Australian economy.

The Clean Energy legislation (Carbon Tax Repeal) Act 2014 abolished the carbon pricing mechanism established by the Clean Energy Act 2011 from July 2014

Council operates 15 landfill facilities that have annual emissions of carbon dioxide equivalent that are below the individual site threshold of 25,000 tonnes. Council modelling indicates that the facilities are unlikely to exceed this threshold in the foreseeable future therefore no direct liability has arisen, or is likely to arise as a result of this legislation.

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

2. Analysis of Results by Function

2(a) Components of Council functions

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

Executive

This comprises the support functions for the Mayor and Councillors, Council and committee meetings and statutory requirements.

Key components of the Executive function include:

- * Internal Audit
- * Administration for Councillors
- * Legal Services
- * Public Relations
- * Community Police Services (ceased 30th September 2013)
- * Building and maintenance

Corporate

The support functions of Management of the Council's Human Resources, information technology and administration.

Key components of the Corporate function include:

- * Procurement and Plant Management
- * Asset and Risk Management
- * Human Resources
- * Risk & Natural Disaster
- * Administration and Governance Services
- * Records and Information Technology Management

Finance

The support functions of Management of the Council's finance.

- * Financial Services

Economic and Community Services

Community services and facilities including cultural, health, welfare, environmental & recreational services, and community development.

Some of the key infrastructure used by this program to deliver services include Council's network of libraries, public parks and child care centres.

The program's direct intervention in the areas of health protection, community and recreational development and event sponsorship ensures that the Torres Strait Island Community and Culture remains vibrant and strong.

This function includes:

- * Economic Development
- * Libraries
- * Housing
- * Environmental and Health Services
- * Senior, Youth, Sport and Recreation Services

Engineering

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

Some of the key infrastructure used by this program to deliver services include Council's networks of water and sewer, roads and streets, natural waterways, kerb and channel and water quality.

Key components of the Engineering Services function include:

- * Planning services
- * Water Services
- * Wastewater Services
- * Civil Works Services
- * Engineering Services
- * Airport and Seaports

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

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

2

(b)

Analysis of results by function

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

Functions	Gross program income				Elimination of inter-function transactions	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									
	2014	2014	2014	2014			2014	2014			2014	2014	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Executive	1,838,246	25,586,245	5,000	-	536,893	27,966,384	(39,282,658)	-	(1,016,021)	(40,311,679)	(37,454,412)	(12,345,295)	-
Economic & Community Services	3,883,270	25,218	-	-	-	4,008,489	(3,378,379)	-	(1,609)	(3,377,888)	606,880	630,500	304,723,625
Finance	9,147,650	894,578	-	-	-	10,042,228	(3,079,528)	-	-	(3,079,528)	6,068,121	6,962,700	30,087,832
Engineering	4,020,844	5,044,948	2,507,641	-	53,431	11,520,001	(16,878,244)	(1,958,611)	(1,753,611)	(20,581,466)	(12,857,400)	(8,071,465)	328,708,024
Corporate	126,756	202,410	2,391,120	47,708,532	2,290,760	52,719,559	(27,325,784)	(942,710)	-	(28,268,504)	(27,199,038)	24,451,094	58,690,339
Total Council	19,116,765	31,753,400	4,903,762	47,708,532	2,774,242	106,256,701	(89,952,604)	(2,902,321)	(2,774,242)	(95,629,166)	(70,835,838)	10,627,534	723,209,820

Year Ending 30 June 2013 - Restated *

	Gross program income				Elimination of inter-function transactions	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											
	2013	2013	2013	2013										2013	2013
	\$	\$	\$	\$										\$	\$
Executive	3,657,062	6,370,939	-	-	(355,967)	9,682,033	(25,648,539)	-	577,603	(24,970,937)	(15,810,539)	(15,288,904)	-		
Economic & Community Services	4,088,877	18,145,148	-	-	(382,323)	22,851,789	(24,358,324)	-	1,345,402	(23,012,923)	(1,124,202)	(161,123)	312,544,428		
Finance	18,403,258	4,931,287	-	5,969,347	(4,175,974)	25,127,896	(14,874,486)	(3,448,292)	(385,815)	(18,708,693)	5,011,745	8,419,203	22,985,480		
Engineering	3,692,000	3,114,108	1,587,665	-	(512,995)	7,880,777	(26,302,856)	-	3,790,171	(22,512,764)	(19,486,648)	(14,632,008)	297,141,099		
Corporate	445,987	-	-	-	-	445,987	-	-	-	-	445,987	445,987	57,578,516		
Total Council	30,287,292	33,561,458	1,587,665	5,969,347	(5,427,260)	65,988,502	(81,184,305)	(3,448,292)	5,427,260	(89,205,337)	(30,773,847)	(23,216,835)	689,829,503		

Torres Strait Island Regional Council
Notes to the Financial Statements
For the year ended 30 June 2014

	Note	2014	2013
		\$	\$
3	Revenue analysis		
(a)	Community levies, rates and charges		
	Council Rates & Levies are set as per council resolution from the Striking of Rates and Charges as approved by Council.		
	General rates	3,000	1,598
	Water consumption, rental and sundries	203,784	347,347
	Sewerage	518,907	534,836
	Waste management	214,909	222,909
		<u>940,600</u>	<u>1,106,691</u>
(b)	Rental Income		
	Housing Rental	4,292,760	3,072,412
	Commercial Rentals	575,765	525,862
		<u>4,868,525</u>	<u>3,598,274</u>
	Council reviewed all housing rentals as at 1st February 2014 and this reflects the increase in housing income		
(c)	Sales revenue		
	Council provides a range of goods and services to the community & other third parties for a fee based on these goods & services. These fees are set in the Fees & Charges Register adopted by Council		
	Sale of services		
	Contract and recoverable works	21,552,947	19,585,870
	Plant & Equipment hire	54,955	574,584
	Airport/Childcare Fees	148,784	211,130
	Accommodation	334,572	466,521
	Fuel	1,307,553	1,069,219
	Powercards	1,208,114	982,884
	Total sales revenue	<u>24,606,925</u>	<u>22,890,208</u>
4	Grants, subsidies, contributions and donations		
(a)	Recurrent		
	General purpose grants	6,262,528	11,577,994
	State Government Subsidies and grants	7,996,311	13,469,378
	Commonwealth government subsidies and grants	4,313,393	4,902,282
	Contributions	544,533	347,638
(b)	Capital	<u>19,116,765</u>	<u>30,297,292</u>
	Government Subsidies and grants	4,903,762	1,587,665
		<u>4,903,762</u>	<u>1,587,665</u>

Torres Strait Island Regional Council
Notes to the Financial Statements
For the year ended 30 June 2014

	<i>Note</i>	<i>2014</i>	<i>2013</i>
		\$	\$
(c) Conditions over contributions			
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			
Non-reciprocal grants for expenditure on services and infrastructure		8,627,735	7,744,937
		<u>8,627,735</u>	<u>7,744,937</u>
Contributions recognised as income during a previous reporting period that we obtained in respect of the current reporting period		4,815,144	4,211,618
Non-reciprocal grants for expenditure on services		<u>4,815,144</u>	<u>4,211,618</u>
5 Capital income			
Contributed Assets		47,708,532	5,812,818
Proceeds from the sale of property, plant & equipment		93,723	156,529
Gain / loss on disposal of non-current assets			
Loss from the sale of property, plant and equipment		-	(3,437,745)
Initial recognition of finance leases		2,755,718	-
Less: Book value of property, plant and equipment		(23,418,831)	-
		<u>(20,663,113)</u>	<u>(3,437,745)</u>
Total capital income		<u>27,139,142</u>	<u>2,531,602</u>
(i) During the Financial Year, Council received by way of assets donated totalling \$47,708,532 through the construction of infrastructure by Government bodies and other parties. Majority of the works centred around Water, Sewerage and Buildings			
6 Employee benefits			
Total staff wages and salaries		12,915,768	12,981,412
Councillors' remuneration		774,989	767,094
Annual, sick and long service leave entitlements		2,702,231	1,882,934
Superannuation		1,660,898	1,491,851
		<u>18,053,886</u>	<u>17,123,290</u>
Other employee related expenses		663,832	468,905
		<u>18,717,719</u>	<u>17,592,195</u>
Less: Capitalised employee expenses		531,915	-
		<u>18,185,803</u>	<u>17,592,195</u>
Councillor remuneration represents salary, and other allowances paid in respect of carrying out their duties.			
Total Council employees at the reporting date:		2014	2013
Elected members		16	16
Administration staff		319	345
Total full time equivalent employees		<u>335</u>	<u>361</u>

Torres Strait Island Regional Council
Notes to the Financial Statements
For the year ended 30 June 2014

	<i>Note</i>	<i>2014</i>	<i>2013</i>
		\$	\$
7	Materials and services		
	Advertising and marketing	10,138	10,388
	Audit services	262,000	412,000
	Communications and IT	1,588,826	1,633,766
	Consultants	457,391	538,600
	Contractors	7,655,136	6,917,991
	Donations paid	176,645	237,458
	Insurance	2,360,735	2,271,635
	Motor Vehicle Expenses	417,654	1,672,159
	Power	1,199,202	1,935,957
	Repairs and maintenance	6,937,320	13,357,702
	Rent Paid	1,208,104	1,129,079
	Subscriptions and registrations	164,725	92,327
	Travel	2,653,897	3,070,329
	Other materials and services	2,409,092	3,380,878
		<u>27,500,862</u>	<u>36,660,271</u>
8	Finance costs		
	Finance costs charged by the Queensland Treasury Corporation	28,697	30,615
	Bank charges	40,625	41,102
	Impairment of debts	(174,246)	5,433,542
	Refuse restoration	186,606	111,485
		<u>81,683</u>	<u>5,616,744</u>
9	Depreciation and amortisation		
	Depreciation of non-current assets		
	Buildings (Communities)	8,989,820	9,435,410
	Buildings (Corporate)	2,583,163	2,690,784
	Recreational Facilities	544,275	545,307
	Roads/Transport Network	4,059,110	3,962,091
	Stormwater Drainage Network	183,261	182,000
	Flood Mitigation Network	65,200	65,200
	Water Supply network	2,954,147	2,928,126
	Sewerage Network	4,220,655	3,970,773
	Bridges	4,050	4,050
	Wharves, Piers, Jetties and Pontoons	484,035	545,380
	Waste Landfill	40,267	40,267
	Plant and equipment	1,164,558	1,330,233
		<u>25,292,541</u>	<u>25,699,621</u>
	Amortisation of intangible assets		
	Software	188,213	188,213
	Total depreciation and amortisation	<u>25,480,754</u>	<u>25,887,834</u>

Torres Strait Island Regional Council
Notes to the Financial Statements
For the year ended 30 June 2014

	<i>Note</i>	<i>2014</i>	<i>2013</i>
		\$	\$
10	Capital expenses		
	Loss on Impairment		
	Property, plant and equipment	-	10,547
	Total impairment losses	-	10,547
	Impairment loss treated as expense	-	10,547
	Revaluation decrement		
	Revaluation down of property, plant and equipment	942,710	-
		942,710	-
	Total capital expenses	942,710	10,547
11	Cash and cash equivalents		
	Cash at bank and on hand	3,202,088	1,415,436
	Deposits at call	14,014,078	12,755,633
	Term deposits	57,181	55,269
	Balance per Statement of Cash Flows	17,273,347	14,226,339
	Externally imposed expenditure restrictions at the reporting date relate to the following cash assets:		
	Unspent Community Grant Funds	57,884	-
	Total unspent restricted cash	57,884	-

Cash and deposits at call are held in the National Australia Bank in normal term deposits and business cheque accounts. The bank currently has a short term credit rating of A1+ and long term rating of AA-. Deposits are held with Queensland Treasury Corporation. One small term Deposit is held National Australia Bank.

Torres Strait Island Regional Council
Notes to the Financial Statements
For the year ended 30 June 2014

	<i>Note</i>	2014	2013
		\$	\$
12	Trade and other receivables		
	Current		
	Housing rental	7,574,529	5,491,115
	Less impairment	(8,976,784)	(5,260,734)
	Other debtors	16,259,891	16,402,935
	Less impairment	(7,625,725)	(9,513,666)
	Sundry Debtors	(228,164)	±
	GST recoverable	525,907	295,147
	Prepayments	111,093	376,353
		<u>9,640,768</u>	<u>7,791,150</u>
No interest is charged on other debtors. There is a geographical concentration of credit risk for Housing and other debtors.			
Movement in accumulated impairment losses (Housing and Other debtors) is as follows:			
	Opening balance	14,774,400	10,487,306
	Less Impairment Debts Written Off during Year	2,334	(1,146,448)
	Additional Impairment Recognised	(174,246)	5,433,542
	Closing balance	<u>14,602,488</u>	<u>14,774,400</u>
13	Inventories		
	Inventories held for sale		
	Stores & Materials	373,267	499,581
		<u>373,267</u>	<u>499,581</u>
	Inventories held for distribution		
	Stores & Materials	44,732	48,390
		<u>44,732</u>	<u>48,390</u>
	Total inventories	<u>417,999</u>	<u>547,971</u>

Torres Strait Island Regional Council
Notes to the Financial Statements
For the year ended 30 June 2014

	<i>Note</i>	2014	2013
		\$	\$
14 Other financial assets			
Current			
Finance Leases		166,326	-
		<u>166,326</u>	<u>-</u>
Non-Current			
Finance Leases		2,589,391	-
		<u>2,589,391</u>	<u>-</u>
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		169,405	-
Later than one year but not later than five years		441,499	-
Later than five years		6,266,952	-
		<u>6,877,856</u>	<u>-</u>
Add: Estimated contingent rent		4,082,040	-
Less: Present value adjustment		(8,204,179)	-
Fair value of lease payments		<u>2,755,717</u>	<u>-</u>
The fair value of lease payments are receivable as follows:			
Not later than one year		166,326	-
Later than one year but not later than five years		381,246	-
Later than five years		2,208,145	-
		<u>2,755,717</u>	<u>-</u>
Movements in finance leases were as follows:			
Opening balance		-	-
Add: Initial recognition of new leases		2,755,717	-
Less: Lease receipts		-	-
Add: Gain on revaluation		-	-
Closing balance		<u>2,755,717</u>	<u>-</u>

The calculation of fair value has included an estimate of average annual CPI increases of 2.5% and a discount rate of 4.75%.

Torres Strait Island Regional Council
Notes to the Financial Statements
For the year ended 30 June 2014

15 Property, plant and equipment

Council - 30 June 2014

Basis of measurement

Asset values

Opening gross value as at 1 July 2013

Additions

Capital Contributions

Assets capitalised from WIP

Disposals

Revaluation adjustment to asset revaluation surplus

Revaluation adjustment to income

Transfers to Materials & Services

Discontinued Projects

Transfers between classes

Closing gross value as at 30 June 2014

Accumulated depreciation and impairment

Opening balance as at 1 July 2013

Depreciation provided in period

Assets previously not recognised

Depreciation/impairment on disposals

Revaluation adjustment to asset revaluation surplus

Impairment adjustment to income

Transfers between classes

Accumulated depreciation as at 30 June 2014

Total written down value as at 30 June 2014

Residual value

Range of estimated useful life in years

Additions comprise:

Renewals

Other additions

Total additions

Buildings (Communities)	Buildings (Corporate)	Recreational Facilities	Road/Transport Network	Stormwater Drainage Network	Flood Mitigation Network	Water Supply Network	Sewerage Network	Bridges	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	\$
468,960,543	61,150,543	16,007,936	176,265,249	10,575,785	4,050,000	99,726,859	103,751,980	81,000	24,602,000	1,068,000	650,000	12,875,727	2,059,295	1,011,844,917
													6,089,867	6,089,867
11,773,460	3,420,000		2,111,832	62,294		18,251,033	12,089,913							47,708,532
	270,477	42,923	1,185,530									725,216	(2,224,146)	(0)
(22,054,210)	(15,249,300)	(72,000)	(1,100,000)			(3,692,000)						(1,297,847)		(43,485,357)
57,594,093	12,336,281	1,538,241	12,868,727	(1,398,230)	(1,776,470)	10,001,667	8,676,090	10,000	(1,568,838)	(2,825)	(20,000)		(1,478,459)	96,782,277
					(286,473)				(655,312)	(925)				(942,710)
													(25,264)	(25,264)
													(64,249)	(64,249)
(6,627,000)	6,627,000				2,865,000				(2,865,000)					-
509,646,886	98,557,002	17,517,100	191,331,338	9,239,849	4,852,058	124,287,559	124,517,983	91,000	19,512,850	1,084,250	630,000	12,303,095	4,357,045	1,117,928,014
164,834,446	42,079,743	7,636,778	43,970,623	2,672,355	1,250,220	34,184,556	30,618,095	49,050	10,508,438	154,676	-	7,751,973	-	345,710,153
8,989,820	2,583,163	544,275	4,059,110	183,261	65,200	2,954,147	4,220,655	4,050	484,035	40,267	-	1,164,558	-	25,292,542
(8,781,850)	(6,913,234)	(52,301)	(692,797)			(2,773,160)						(909,824)		(20,122,965)
51,075,860	6,404,225	1,356,092	9,520,561	(420,606)	(494,572)	6,711,579	1,627,230	4,569	(656,814)	(2,825)				75,125,299
(3,130,859)	3,130,869	-	-	-	1,687,239	-	-		(1,687,239)				-	-
212,987,607	47,263,766	9,484,844	56,857,697	2,435,008	2,508,087	41,077,123	36,465,981	57,669	8,648,420	192,116	-	8,006,708	-	426,005,029
296,659,279	51,273,236	8,032,255	134,473,640	6,804,841	2,343,971	83,210,437	88,052,003	33,331	10,864,430	892,132	630,000	4,296,387	4,357,045	691,922,986
			58,986,840				1,530,406		3,741,170					
6-74	3-64	6-50	1 - 100	50	50	1-60	2-60	20	11-50	10-50	Land: Not Depreciated	1-25	WIP: Not Depreciated	
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
8,891,780	3,634,038		636,895			18,251,033						420,907	1,478,459	33,313,112
2,881,580	56,439	42,923	2,660,467	62,294			12,089,913					304,308		18,098,024
11,773,460	3,690,477	42,923	3,297,362	62,294	-	18,251,033	12,089,913	-	-	-	-	725,216	1,478,459	51,411,136

Torres Strait Island Regional Council
Notes to the Financial Statements
For the year ended 30 June 2014

15 Property, plant and equipment

Council - 30 June 2013

Basis of measurement

Asset values

Opening gross value as at 1 July 2012

Adjustment to opening value

Capital Contributions

Assets capitalised from WIP

Assets previously not recognised

Disposals

Transfers to Materials & Services *

Discontinued Projects

Closing gross value as at 30 June 2013

Buildings (Communities)	Buildings (Corporate)	Recreational Facilities	Road/Transport Network	Stormwater Drainage Network	Flood Mitigation Network	Water Supply Network	Sewerage Network	Bridges	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	\$
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
465,160,300	92,448,442	15,919,600	176,017,080	10,575,785	4,050,000	103,059,476	104,851,788	81,000	24,602,000	1,086,000	650,000	14,026,377	8,175,178	1,020,703,028
													1,893,648	1,893,648
5,680,243						78,383	54,192						-	5,812,818
	144,454	88,336	248,169									284,483	(765,442)	-
	49,847													49,847
(1,880,000)	(1,490,200)					(3,411,000)	(1,154,000)					(1,435,133)		(9,370,333)
													(6,884,895)	(6,884,895)
													(359,204)	(359,204)
468,960,543	91,150,543	16,007,936	176,265,249	10,575,785	4,050,000	99,726,859	103,751,980	81,000	24,602,000	1,086,000	650,000	12,875,727	2,058,295	1,011,844,917

Accumulated depreciation and impairment

Opening balance as at 1 July 2012

Adjustment to opening value

Depreciation provided in period

Assets previously not recognised

Depreciation/impairment on disposals

Impairment adjustment to income

Accumulated depreciation as at 30 June 2013

155,924,341	40,100,017	7,072,471	40,008,732	2,509,355	1,185,020	32,877,182	26,901,680	45,000	9,963,058	114,409	-	7,542,521	-	324,243,786
9,435,410	2,690,784	545,307	3,962,051	182,000	65,200	2,928,126	3,970,773	4,050	545,360	40,267		1,330,233	-	25,699,621
	30,477													30,477
(525,305)	(742,535)					(1,620,752)	(254,358)					(1,131,328)	-	(4,274,278)
												10,547		10,547
164,834,446	42,078,743	7,617,778	43,970,823	2,691,355	1,250,220	34,184,556	30,618,095	49,050	10,508,438	154,676	-	7,751,973	-	345,710,153

Total written down value as at 30 June 2013

Residual value

Range of estimated useful life in years

304,126,097	49,071,800	8,390,158	132,294,426	7,884,430	2,769,780	65,542,303	73,133,885	31,950	14,093,562	933,324	650,000	5,123,754	2,059,295	666,134,766
			59,779,320		790,000	-	-		2,500,000	50,000				
10-50	3-30	10-50	5 - 100	50	50	5-50	5-50	50	15-50	10-50	Land: Not Depreciated	3-25	WIP: Not Depreciated	

Additions comprise:

Renewals

Other additions

Total additions

\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
2,528,243													2,039,899	4,668,142
3,052,000	144,454	88,336	248,169			78,383	54,192	-	-	-	-	284,483	N/A	3,950,017
5,680,243	144,454	88,336	248,169	-	-	78,383	54,192	-	-	-	-	284,483	2,039,899	8,618,159

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

16 Fair Value Measurements

(i) Recognised fair value measurements

Council measures and recognises the following assets at fair value on a recurring basis:

Property, plant and equipment

- Land
- Buildings (Corporate)
- Buildings (Community)
- Recreation Facilities
- Road/Transport Network
- Stormwater Drainage Network
- Flood Mitigation Network
- Water Supply Network
- Sewerage Network
- Bridges
- Wharves, Piers, Jetties, Pontoons
- Waste Landfill

Council does not measure any liabilities at fair value on a recurring basis.

Council has assets and liabilities which are not measured at fair value, but for which fair values are disclosed in other notes.

Council borrowings are measured at amortised cost with interest recognised in profit or loss when incurred. The fair value of borrowings disclosed in note 19 is provided by the Queensland Treasury Corporation and represents the contractual undiscounted cash flows at balance date (level 2).

The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature (Level 2).

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 or liabilities (Level 1)
- Fair value based on inputs that are directly or indirectly observable for the asset or liability (level 2)
- Fair value based on unobservable inputs for the asset and liability (level 3)

The following table categorises fair value measurements as either level 2 or level 3. In accordance with AASB 13, Council does not have any assets or liabilities measured at fair value which meet the criteria for categorisation as level 1.

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.

The table presents the Council's assets and liabilities measured and recognised at fair value at 30 June 2014. Comparative information has not been provided as allowed by the transitional provisions of AASB 13 *Fair Value Measurement*.

Council				
At 30 June 2014	Note	Level 2	Level 3	Total
		(Significant other observable inputs)	(Significant unobservable inputs)	
		\$	\$	\$
Recurring fair value measurements				
Land	15	630,000		630,000
Buildings				
- Buildings (Communities)	15		296,659,278	296,659,278
- Buildings (Corporate)	15		51,273,235	51,273,235
- Recreation Facilities	15		8,032,254	8,032,254
Infrastructure				
- Road/Transport Network	15		134,473,640	134,473,640
- Stormwater Drainage Network	15		6,804,841	6,804,841
- Flood Mitigation Network	15		2,343,971	2,343,971
- Water Supply Network	15		83,210,437	83,210,437
- Sewerage Network	15		88,052,003	88,052,003
- Bridges	15		33,331	33,331
- Wharves, Piers, Jetties, Pontoons	15		10,864,430	10,864,430
- Waste Landfill	15		892,132	892,132
		<u>630,000</u>	<u>682,639,551</u>	<u>683,269,551</u>

There were no transfers between levels 1 and 2 during the year, nor between levels 2 and 3.

Council's policy is to recognise transfers in and out of the fair value hierarchy levels as at the end of the reporting period.

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

(ii) Valuation techniques used to derive fair values for level 2 and level 3 valuations

Council adopted AASB13 *Fair Value Measurement* for the first time this financial year and has reviewed each valuation to ensure compliance with the requirements of the new standard. There have been no changes in valuation techniques as a result of this review.

Specific valuation techniques used to value Council assets comprise:

Land (level 2)

Land fair values were determined by independent valuer, AssetVal Pty Ltd effective 30th June 2014. Council's Land Assets consists of two parcels of land on Thursday Island. Land Fair Values have been measured by the Market Approach by Direct Comparison. Level 2 valuation inputs were utilised, being sales transactions of other properties within the region, and adjusted for differences between key attributes of the properties. The main input is the price per square metre or price per hectare of land area. The Market Approach is deemed a Level 2 input. All land was inspected by the valuers.

Buildings and Infrastructure (level 3)

The fair value of buildings were also determined by independent valuer, AssetVal Pty Ltd effective 30th June 2014.

Due to the predominantly specialised nature of Local Government Assets, both the infrastructure valuations and buildings valuations have been undertaken on a Cost Approach (Depreciated Replacement Cost).

Under this approach, the following process has been adopted:

Where there is no market, the net current value of an asset is the gross current 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 2 input.

A condition assessment is applied, which is based on factors such as the age of the asset, overall condition as noted by the Valuer during inspection, economic and/or functional obsolescence. The condition assessment directly translates to the level of depreciation applied.

In determining the level of accumulated depreciation for major assets, we have disaggregated into significant components which exhibit different patterns of consumption (useful lives). Residual value is also factored which is the value at the time the asset is considered to be no longer available. 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 estimates of residual value, useful life, and asset condition were also required, meaning that under AASB13 the valuation of buildings and infrastructure is considered to fall under Level 3.

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

Condition Rating	Rating Description	% of life Remaining
0	Brand new or rehabilitated to new	90 - 100
0.5	Near new with no visible deterioration	80 - 90
1	Excellent overall condition, early stages of deterioration	70 - 80
1.5	Very good overall condition with obvious deterioration evident	60 - 70
2	Good overall condition, obvious deterioration, serviceability impaired very slightly	50 - 60
2.5	Fair overall condition, obvious deterioration, some serviceability loss	40 - 50
3	Fair to poor overall condition, obvious deterioration, some serviceability loss	30 - 40
3.5	Poor overall condition, obvious deterioration, some serviceability loss, high maintenance costs	20 - 30
4	Very poor overall condition, severe deterioration, very high maintenance costs. Consider renewal	10 - 20
4.5	Extremely poor condition, severe serviceability problems, renewal required immediately	5 - 10
5	Failed asset, no longer serviceable. Should not remain in service	0 - 5

Where site inspections were not conducted (i.e. for passive assets and active assets for which no site inspections were undertaken), the remaining useful life was 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 relies 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 depreciated replacement cost was determined using methods relevant to the asset class as described under individual asset categories below.

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

1(a) Buildings - calculation of current replacement cost

Current replacement cost

Construction costs are based on published construction cost guides and discussions with trade contractors living and working on the islands.

Building construction costs take into consideration factors relevant to the location (such as increased shipping and mobilization costs) and include all preliminary and over head costs.

Changes in shipping costs are based on Sea Freight Rates tables effective for each year available on the website of the shipping company SeaSwift.

Accumulated depreciation

To calculate the appropriate amount of accumulated depreciation, buildings were subject to a site inspection and/or an assessment to determine remaining useful life. Site inspection and external examination of all building assets has been undertaken. Those buildings which are open to the public such as Council administration buildings and locations where staff are on site such as workshop buildings have been internally inspected. With regards to residential dwellings, due to limits involved with the valuation process, we have internally inspected one to two dwellings on each island and primarily just for the purposes of confirming the appropriateness of relying on the Department of Housing and Public Works reports to estimate condition. We have been provided with condition rating reports prepared by the Department of Housing and Public Works and dated 19th December 2013. For those residential dwellings not internally inspected our assessment of internal condition is based upon the condition rating contained within the reports. None of the dwellings internally inspected were found to be in a condition worse than that indicated by the Department of Housing and Public Works condition report.

1(b) Buildings – Sensitivity of valuation to unobservable inputs

As detailed above Council's buildings have been valued using depreciated current replacement cost. This method utilises a number of inputs that require judgement and are therefore classed as unobservable. While these judgements are made with the greatest care, and based upon years of experience, different judgements could result in a different valuation. The table below summarises the effect that changes in the most significant unobservable inputs would have on the valuation:

Significant unobservable input	Range of inputs	Relationship of unobservable inputs to fair value
Number of Labour Hours	5-100 hr/m ²	The higher the labour hours, higher the Fair Value
Raw material usage quantities	Varies dependant of type and application	The higher the usage quantities, the higher the Fair Value
Condition Rating	0-5 As specified	The higher the condition rating, the higher the Fair Value
Remaining useful Life	0-49 years	The longer the remaining life, the higher the Fair Value
Residual Value	\$0	The higher the residual, the higher the Fair Value

2(a) Roads/Transport Network - calculation of current replacement cost

Current replacement cost

Some of 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, pavement, seal and kerb & channel of each road in order to determine the replacement cost.

The unit rates applied are based on greenfield project costs and include all materials, labour and overheads. These unit rates are established by averaging various information sources, including internal council costs of recent projects, sub-contractor and head contractor costs of recent projects. This information is all supplied by council or the contractors. Do to the unique nature of constructing infrastructure in the Torres Strait area, the valuation is forced to rely on information provided by Council. Publically available information such as Rawlinson's Construction Handbook was used to check the council supplied information for order of magnitude appropriateness.

Accumulated depreciation

In determining the level of accumulated depreciation, roads were disaggregated into significant components which exhibited different useful lives.

The roads were visually inspected by the valuer. No testing or measurement of defects or condition was undertaken. An assessment of remaining useful life was made by the valuer taking into consideration the visual condition, construction date, evidence of recent repairs or capital works and the surrounding environmental factors.

2(b) Roads/Transport Network – Sensitivity of valuation to unobservable inputs

As detailed above Council's road and transport network has been valued using depreciated current replacement cost. This method utilises a number of inputs that require judgement and are therefore classed as unobservable. While these judgements are made with the greatest care, and based upon years of experience, different judgements could result in a different valuation. The table below summarises the effect that changes in the most significant unobservable inputs would have on the valuation:

Significant unobservable input	Range of inputs	Relationship of unobservable inputs to fair value
Number of Labour Hours	5-100 hr/m ²	The higher the labour hours, higher the Fair Value
Raw material usage quantities	Varies dependant of type and application	The higher the usage quantities, the higher the Fair Value
Condition Rating	0-5 As specified	The higher the condition rating, the higher the Fair Value
Remaining useful Life	2-92 years	The longer the remaining life, the higher the Fair Value
Residual Value	\$0-\$2,790,000	The higher the residual, the higher the Fair Value

Torres Strait Island Regional Council
Notes to the financial statements

For the year ended 30 June 2014

3(a) Water & Sewer Network - calculation of current replacement cost

Current replacement cost

The water and sewer assets were segregated into active and passive assets; passive assets were not further componentized and consisted primarily of mains. Unit rates were applied based on council supplied recent project costs, similar recent project costs from other entities, unit rate databases, indices, Rawlinson's Construction rates and quotations.

The remaining active assets consisted of treatment, pumping and storage assets. These assets were componentized and valued independently, 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

An assessment of remaining useful life was made by the valuer after inspection taking into consideration the visual condition, construction date, evidence of recent repairs or capital works and the surrounding environmental factors. Where necessary, further guidance on remaining life was sought from council engineering staff.

Estimated useful lives and residual values are disclosed in note 15.

3(b) Water and Sewerage Infrastructure – Sensitivity of valuation to unobservable inputs

The method used to value councils' water and sewerage assets utilises a number of inputs that require judgement and are therefore classed as unobservable. While these judgements are made with the greatest care, and based upon years of experience, different judgements could result in a different valuation. The table below summarises the effect that changes in the most significant unobservable inputs would have on the valuation:

Significant unobservable input	Range of inputs	Relationship of unobservable inputs to fair value
Number of Labour Hours	5-100 hr/m ²	The higher the labour hours, higher the Fair Value
Raw material usage quantities	Varies dependant of type and application	The higher the usage quantities, the higher the Fair Value
Condition Rating	0-5 As specified	The higher the condition rating, the higher the Fair Value
Remaining useful Life	0-80 years	The longer the remaining life, the higher the Fair Value
Residual Value	\$0-\$369,950	The higher the residual, the higher the Fair Value

4(a) Wharves, Piers, Jetties & Pontoons - calculation of current replacement cost

Current replacement cost

The replacement cost of the water based assets (jetties & dolphins) was estimated by having reference to recently constructed assets. Replacement costs of the other asset including barge ramps and seawalls was estimated through first principles, namely summing together the costs of materials, labour and overheads which were established through contact with suppliers, council and publically available reference material, having regard to the location and conditions.

Accumulated depreciation

For assets above the water line, an assessment of remaining useful life was made by the valuer after inspection taking into consideration the visual condition, construction date, evidence of recent repairs or capital works and the surrounding environmental factors. For assets below the water line, an assessment of remaining useful life was made by the valuer taking into consideration the construction date, evidence of recent repairs or capital works and the surrounding environmental factors.

Estimated useful lives and residual values are disclosed in note 15.

4(b) Wharves, Piers, Jetties & Pontoons – Sensitivity of valuation to unobservable inputs

As detailed above Council's marine assets have been valued using depreciated current replacement cost. This method utilises a number of inputs that require judgement and are therefore classed as unobservable. While these judgements are made with the greatest care, and based upon years of experience, different judgements could result in a different valuation. The table below summarises the effect that changes in the most significant unobservable inputs would have on the valuation:

Significant unobservable input	Range of inputs	Relationship of unobservable inputs to fair value
Number of Labour Hours	5-100 hr/m ²	The higher the labour hours, higher the Fair Value
Raw material usage quantities	Varies dependant of type and application	The higher the usage quantities, the higher the Fair Value
Condition Rating	0-5 As specified	The higher the condition rating, the higher the Fair Value
Remaining useful Life	0-42 years	The longer the remaining life, the higher the Fair Value
Residual Value	\$0-\$675,000	The higher the residual, the higher the Fair Value

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

5(a) Stormwater Drainage - calculation of current replacement cost

Current replacement cost

The replacement cost of the stormwater drainage assets have been estimated through first principles, namely summing together the costs of materials, labour and overheads which were established through contact with suppliers, council, by having reference to recently constructed project costs and publically available reference material, having regard to the location and conditions. Measurements were taken while on site and supplemented with aerial imagery to create a complete data set for information that was missing from earlier valuations.

Accumulated depreciation

An assessment of remaining useful life was made by the valuer after inspection taking into consideration the visual condition, construction date, evidence of recent repairs or capital works and the surrounding environmental factors.

5(b) Stormwater Drainage - Sensitivity of valuation to unobservable inputs

As detailed above Council's stormwater drainage network has been valued using written down current replacement cost. This method utilises a number of inputs that require judgement and are therefore classed as unobservable. While these judgements are made with the greatest care, and based upon years of experience, different judgements could result in a different valuation. The table below summarises the effect that changes in the most significant unobservable inputs would have on the valuation:

Significant unobservable input	Range of inputs	Relationship of unobservable inputs to fair value
Number of Labour Hours	5-100 hr/m ²	The higher the labour hours, higher the Fair Value
Raw material usage quantities	Varies dependant of type and application	The higher the usage quantities, the higher the Fair Value
Condition Rating	0-5 As specified	The higher the condition rating, the higher the Fair Value
Remaining useful Life	29-42 years	The longer the remaining life, the higher the Fair Value
Residual Value	\$0	The higher the residual, the higher the Fair Value

6(a) Other Infrastructure - Calculation of written down current replacement cost

Other Infrastructure includes the Flood Mitigation Network, Bridges, Waste Landfill and Recreational Facilities, which combined represent around 1.65% of assets measured at fair value.

Current replacement cost

The replacement cost of all assets which as a group represent Other Infrastructure have been estimated through first principles, namely summing together the costs of materials, labour and overheads which were established through contact with suppliers, council, by having reference to recently constructed project costs and publically available reference material, having regard to the location and conditions.

Accumulated depreciation

An assessment of remaining useful life was made by the valuer after inspection taking into consideration the visual condition, construction date, evidence of recent repairs or capital works and the surrounding environmental factors.

6(b) Other Infrastructure - Sensitivity of valuation to unobservable inputs

Any change in unobservable inputs in this group of assets will have an immaterial effect on the total reported Fair Value.

(iii) Changes in Fair Value Measurements using significant unobservable inputs (level 3)

The changes in level 3 assets with recurring fair value measurements are detailed in note 15 (property, plant and equipment) and Note 5 (Capital Income). There have been no transfers between level 2 or 3 measurements during the year.

(iv) Valuation processes

Council's valuation policies and procedures are set by the executive management team which comprises the Chief Executive Officer and Chief Finance Officer. They are reviewed annually taking into consideration an analysis of movements in fair value and other relevant information. Council's current policy for the valuation of property and plant and equipment (recurring fair value measurements) is set out in note 10.

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

	Note	2014 \$	2013 \$
17	Intangible assets		
	Software		
	Opening gross carrying value	1,317,491	945,522
	Work in progress	257,937	371,969
	Closing gross carrying value	<u>1,575,428</u>	<u>1,317,491</u>
	Accumulated amortisation		
	Opening balance	188,213	-
	Amortisation in the period	188,213	188,213
	Closing balance	<u>376,426</u>	<u>188,213</u>
	Net carrying value at end of financial year	<u>1,199,003</u>	<u>1,129,278</u>
	The software has a finite life estimated at 7 years. Straight line amortisation has been used with no residual value.		
	Total	<u>1,199,003</u>	<u>1,129,278</u>

The software is a Finance and Administration platform for the whole of Council. Commencement of use date was 1 July 2012.

18	Trade and other payables		
	Current		
	Creditors and accruals	2,620,986	1,881,953
	Employee Benefits - Annual Leave	1,643,277	1,363,745
	GST Payable	1,225,887	443,099
		<u>5,490,149</u>	<u>3,688,796</u>

19	Borrowings		
	Current		
	Loans - Queensland Treasury Corporation	43,862	41,392
		<u>43,862</u>	<u>41,392</u>
	Non-current		
	Loans - Queensland Treasury Corporation	378,182	422,024
		<u>378,182</u>	<u>422,024</u>
	Loans - Queensland Treasury Corporation		
	Opening balance at beginning of financial year	463,416	502,316
	Principal repayments	(41,373)	(38,900)
	Book value at end of financial year	<u>422,043</u>	<u>463,416</u>

The QTC loan market value at the reporting date was \$476,022.87. This represents the value of the debt if Council repaid it at that date. As it is the intention of Council to hold the debt for its term, no provision is required to be made in these accounts.

The Council has no bank overdraft facility.

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

	Note	2014 \$	2013 \$
20 Provisions			
Current			
Long service leave		766,573	621,973
Refuse restoration		2,947,233	
Employee benefits		29,233	115,243
		<u>3,743,039</u>	<u>737,216</u>
Non-current			
Refuse restoration			2,760,627
Long service leave		274,548	287,234
		<u>274,548</u>	<u>3,047,861</u>
Details of movements in provisions:			
Increase/(decrease) in provision due to change in discount rate			
Refuse restoration			
Balance at beginning of financial year		2,760,627	2,649,142
Increase (decrease) in provision due to change in discount rate		186,605	111,485
Balance at end of financial year	(xi)	<u>2,947,233</u>	<u>2,760,627</u>
Note (xi) This is the present value of the estimated cost of restoring the refuse disposal site to a useable state at the end of its useful life. The projected cost is \$3,005,292 and this cost is expected to be incurred in 2015.			
Long service leave			
Balance at beginning of financial year		909,207	612,851
Long service leave entitlement arising		160,517	322,164
Long Service entitlement extinguished			(3,257)
Long Service entitlement paid		(28,603)	(22,651)
Balance at end of financial year		<u>1,041,121</u>	<u>909,207</u>

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

	Note	2014 \$	2013 \$
21	Asset revaluation surplus		
Movements in the asset revaluation surplus were as			
Balance at beginning of financial year		150,357,342	153,176,978
Buildings (Communities)		6,518,232	-
Buildings (Corporate)		5,934,057	-
Recreational Facilities		182,149	-
Roads/Transport Network		1,889,706	-
Stormwater Drainage Network		(977,622)	-
Flood Mitigation Network		(1,281,898)	-
Water Supply Network		3,278,388	-
Sewerage Network		7,050,560	-
Bridges		5,431	-
Wharves, Piers, Jetties and Pontoons		(912,024)	-
Waste Landfill		-	-
Land assets		(20,000)	-
Transfer of realised Assets Revaluation reserves to			
Retained Surplus			
Buildings (Communities)		(9,156,092)	(527,000)
Buildings (Corporate)		(5,572,800)	(556,246)
Recreational Facilities		(32,100)	-
Roads/Transport Network		(763,429)	-
Water Supply Network		(1,082,000)	(1,219,802)
Sewerage Network		-	(414,589)
Balance at end of financial year		155,407,901	150,357,342
Asset revaluation surplus analysis			
The closing balance of the asset revaluation surplus comprises the following asset categories:			
Buildings (Communities)		42,641,545	45,279,405
Buildings (Corporate)		6,773,965	6,412,709
Recreational Facilities		2,116,461	1,966,432
Roads/Transport Network		85,761,732	84,656,455
Stormwater Drainage Network		758,006	1,735,628
Flood Mitigation Network		-	1,281,898
Water Supply Network		6,308,989	4,112,601
Sewerage Network		11,041,750	3,981,190
Bridges		5,431	-
Wharves, Piers, Jetties and Pontoons		-	912,024
Waste Landfill		-	-
Land assets		-	20,000
Other infrastructure assets		-	-
		155,407,899	150,357,342
22	Commitments for expenditure		
Operating leases			
Minimum lease payments in relation to non-cancellable operating leases are as follows:			
Within one year		702,586	1,201,490
One to five years		1,718,531	2,318,361
More than five years		-	-
		2,421,097	3,519,851

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

	Note	2014 \$	2013 \$
Contractual commitments			
Contractual commitments at end of financial year but not recognised in the financial statements are as follows:			
Software contract with Technology One		267,007	236,814
Rental Agreement with Commander		—	40,120
J&R Refrigeration		—	361,262
Austek		—	151,473
Northern Water		—	97,143
Rob Roy Contractors		1,212,460	—
Torres Strait Island Homes Pty Ltd		789,100	—
Weipa Hire		754,688	—
		<u>3,003,255</u>	<u>886,812</u>

23 Contingent liabilities

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 2013 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 was 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 \$345,389.

Maximum Penalties for Failure to Remit Superannuation Contributions on Behalf of Employees to Superannuation Funds

The Council has not remitted an amount of superannuation monies held on behalf of employees for the 30 June 2010 financial year. This amount of \$225,657 has been recorded as a Trade and Other payable in the 2014 and previous financial statements. The Council has not remitted this superannuation liability to the superannuation funds as the Council has yet to determine if the employees are entitled to the superannuation benefit and if they are entitled to the benefit, which employees are beneficiaries of the superannuation funds held. The Council has recently increased its resources and has agreed to undertake a project of reviewing past Island Council records to determine if the \$225,657 is a payable obligation and is so, which employees are entitled to the funds as beneficiaries. Should the Council find that there is no obligation to remit the funds, the liability will be written back as revenue, however, if there is an obligation to pay the superannuation funds, then the Council could be liable for substantial penalties and interest for late remittance of a superannuation obligation. The Council's estimate of this contingent liability being a maximum additional penalties and interest is \$1,257,795.08.

The individual components of this estimate are:

Superannuation Guarantee Charge (excluding the initial superannuation obligation of \$225,657) and interest at 10% per annum plus a administrative fee of \$20 per employee per quarter:	\$378,486
General interest charge calculated based on the Australian Taxation Office general interest rates for 2010, 2011, 2012, 2013 & 2014:	\$122,338
Australian Taxation Office administrative penalty for failure to lodge a Superannuation Guarantee Charge Quarterly Statement calculated at 200% of the Charge:	\$756,971

This estimate is based on the Australian Taxation Office applying the maximum administrative penalties that it can impose; however, the Council believes it has a reasonable argument that the administrative penalty component can be reduced significantly due to the issues of the amalgamation of the previous Island Councils to form the Torres Strait Island Regional Council.

In addition, should the Australian Taxation Office decide to prosecute the Council for failure to comply with the record keeping requirements of the Superannuation Guarantee legislation, the Council could be fined a further \$18,500.

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

	Note	2014 \$	2013 \$
Guarantee in Respect of Subsidiary Company			
The Council in the ordinary course of business has provided a guarantee for borrowings undertaken by a wholly owned subsidiary company. This subsidiary company of the Council was placed into voluntary administration and subsequent creditors voluntary liquidation and is in the process of being wound up. The lender has recourse to the Council in respect of the guarantee provided by Council, however, has yet to exercise this right. In the event that the lender exercises the guarantee, the Council estimates its liability under the guarantee to be \$150,000.			

24 Superannuation

The Council contributes to the Local Government Superannuation Scheme (Qld) (the scheme). The scheme is a Multi-employer Plan as defined in the Australian Accounting Standard AASB119 *Employee Benefits*.

The Queensland Local Government Superannuation Board, the trustee of the scheme, advised that the local government superannuation scheme was a complying superannuation scheme for the purpose of the Commonwealth Superannuation Industry (Supervision) legislation.

The scheme has three elements referred to as:

The City Defined Benefits Fund (CDBF) which covers former members of the City Super Defined Benefits Fund

The Regional Defined Benefits Fund (Regional DBF) which covers defined benefit fund members working for regional local governments; and

The Accumulation Benefits Fund (ABF)

The ABF is a defined contribution scheme as defined in AASB 119. Council has no liability to or interest in the ABF other than the payment of the statutory contributions as required by the *Local Government Act 2009*.

The Regional DBF is a defined benefit plan as defined in AASB119. The Council is not able to account for the Regional DBF as a defined benefit plan in accordance with AASB119 because the scheme is unable to account to the Council for its proportionate share of the defined benefit obligation, plan assets and costs.

Any amount by which either fund is over or under funded would only affect future benefits and contributions to the Regional DBF, and is not an asset or liability of the Council. Accordingly there is no recognition in the financial statements of any over or under funding of the scheme.

The audited general purpose financial report of the scheme as at 30 June 2013 (the most recent available) which was not subject to any audit qualification, indicates that the assets of the scheme are sufficient to meet the vested benefits.

The most recent actuarial assessment of the scheme was undertaken as at 1 July 2012. The actuary indicated that "the Regional DBF is currently in a satisfactory but modest financial position and remains vulnerable to adverse short and medium term experience."

Following the previous actuarial assessment in 2009, councils were advised by the trustee of the scheme, following advice from the scheme's actuary, that additional contributions may be imposed in the future at a level necessary to protect the entitlements of Regional DBF members. In the 2012 actuarial report the actuary has recommended no change to the employer contribution levels at this time.

Under the Local Government Act 2009 the trustee of the scheme has the power to levy additional contributions on councils which have employees in the Regional DBF when the actuary advises such additional contributions are payable - normally when the assets of the DBF are insufficient to meet members' benefits.

The next actuarial investigation will be conducted as at 1 July 2015.

	Note	Council 2014 \$	2013 \$
The amount of superannuation contributions paid by Council to the scheme in this period for the benefit of employees was:	6	1,660,898	1,491,851

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

	Note	2014 \$	2013 \$
25	Trust funds		
	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		
	Island Funeral Funds	335,920	342,951
	Church Funds	81,647	63,685
	Other Community Funds	230,920	245,897
		<u>648,487</u>	<u>652,533</u>

The Council performs only a custodial role in respect of these monies. As these funds cannot be used by the Council, they are not brought to account in these financial statements.

Funds held in trust by outside parties

DFK Kidsons holding funds for Major Infrastructure Program 4	39,168,702	37,503,506
	<u>39,168,702</u>	<u>37,503,506</u>

The Major Infrastructure Program is jointly funded by the Australian and Queensland Governments to deliver and upgrade major infrastructure capital works in the Torres Strait. The funds held in trust disclosed above relate to multiple councils. At 30 June 2014, the estimated forecast cost to complete projects which relate to Torres Strait Island Regional Council was \$24,053,557. Infrastructure assets are not recognised by the Council until they have reached completion.

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

Net result	<u>10,627,533</u>
Non-cash items:	
Depreciation and amortisation	25,480,754
Revaluation adjustments	-
Asset contributions in Capital Income	(47,708,532)
Book Value of Property Plant & Equipment disposed	20,653,113
	<u>(1,564,665)</u>
Investing and development activities:	
Revaluation down of property, plant and equipment	942,710
Proceeds from the sale of Property, plant & Equipment	(93,723)
Capital grants and contributions	(4,903,762)
	<u>(4,054,775)</u>
Changes in operating assets and liabilities:	
(Increase)/decrease in receivables	(1,849,816)
(Increase)/decrease in inventory	129,972
Increase/(decrease) in payables	1,801,353
Increase/(decrease) in liabilities	(41,373)
Increase/(decrease) in other provisions	232,511
	<u>272,845</u>
Net cash inflow from operating activities	<u><u>5,280,938</u></u>

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

27 Correction of Error

	As at 1 July 2012
Gross Value of Assets Added	7,343,086
Accumulated Depreciation	1,850,944
Net Value	<u>5,492,142</u>
	Period Ended 30 June 2013
Adjustment of Mer Island Assets not disposed at 1/12/2012	(2,065,866)
Adjustment to Mer Island Asset Revaluation Reserve as amount was transferred to Accumulated Surplus	2,819,637
Adjustment to Mer Island Asset Revaluation Reserve as amount was transferred to Accumulated Surplus	(2,819,637)
Unrecorded Assets - Erub Fisheries	19,370
	<u>(2,046,496)</u>

During the process of reviewing Council's assets at 30 June 2014, it was discovered that the following assets had not previously been recognised in the council's asset register:

Buildings (Communities) - \$260,700
 Roads/Transport Network - \$182,116
 Stormwater Drainage Network - \$1,187,732
 Wharves, Piers Jetties & Pontoons - \$3,861,593

The errors have been corrected by adjusting the opening balance of the respective asset classes as at 1 July 2012. The adjustment increased the net value of Property Plant and equipment by \$5,492,142.

Council further discovered that some Buildings (Community) and Buildings (Corporate) assets in relation to Mer Island remained in the council's asset register at 30 June 2014, despite these assets not being subject to a licence or lease agreement. As the freeholding of Reserve lands on Mer Island occurred in the 2012/13 year, a prior year adjustment to record the disposal of these assets has been effected. The result of these adjustments is as follows:

Buildings (Community) - \$1,354,695
 Buildings (Corporate) - \$711,171

This error has resulted in a decrease to the net value of Property Plant and Equipment of \$2,065,866.

As a result of the disposal of Mer Island assets as referred to above, council has effected a prior year adjustment to the asset revaluation surplus balances by transferring the following amounts to retained surplus:

Buildings (Communities) - (\$527,000)
 Buildings (Corporate) - (\$658,246)
 Water Supply Network - (\$1,219,802)
 Sewerage Network - (\$414,589)

As these adjustments have been effected between equity accounts, there is no impact on total community equity.

The following prior year errors were also adjusted as explained below:

Unexpended grant funds repayment to TSRA for Stinger Boat (TSRA 11344) - (\$43,854)
 Reversal of TSIJP reversal due to no funding agreement being signed - (\$852,830)
 Unrecorded asset for Erub fisheries - \$19,370

These adjustment have been effected against :The balance of \$43238.96 was held in the balance Sheet (Current Liabilities) as at the 30th June 2013. The amount was repaid to TSRA for the original funding of the Stinger Boat Project for Poruma Island. The TSIJP Funding was revenue receipted and held in the Debtors Ledger in the financial year 2012-2013 for \$853,830 based on a funding agreement from the Department of Health & Aging that was not completed and therefore funding was not received by Council. The amount \$19,370 was recorded in last years financials and relates to the previously unrecorded assets of the Erub Fisheries.

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

28 Financial instruments

Torres Strait Island Regional Council has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

Financial risk management

Torres Strait Island Regional 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.

The 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.

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	2014	2013
		\$	\$
Financial assets			
Cash and cash equivalents	11	17,273,347	14,226,339
Receivables - Housing	12	597,765	230,381
Receivables - other	12	8,634,167	6,889,269
Other financial assets	14	2,755,718	
Other credit exposures			
Guarantees	23	495,389	436,070
Total financial assets		<u>29,756,386</u>	<u>21,782,059</u>

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

Cash and cash equivalents

The Council may be exposed to credit risk through its investments 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

In other cases, the Council assesses the credit risk before providing goods or services and applies normal business credit protection procedures to minimise the risk.

By the nature of the Council's operations, there is a geographical concentration of risk in the Council's area.

Ageing of past due receivables and the amount of any impairment is disclosed in the following table:

	2014	2013
	\$	\$
Not past due	8,033,285	4,330,160
Past due 31-60 days	1,198,647	1,879,268
Past due 61-90 days	331,877	494,639
More than 90 days	14,270,612	15,189,984
Impaired	(14,802,488)	(14,774,400)
Total	9,231,932	7,119,651

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.

Torres Strait Island Regional 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.

The following table sets out the liquidity risk in relation to financial liabilities 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:

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

	0 to 1 year	1 to 5 years	Over 5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
2014					
Trade and other payables	5,490,149	-	-	-	5,490,149
Loans - QTC	70,070	280,280	193,002	-	543,352
	5,560,219	280,280	193,002	0	6,033,501
2013					
Trade and other payables	3,688,796	-	-	-	3,688,796
Loans - QTC	70,070	280,280	255,767	-	463,416
	3,758,866	280,280	255,767	0	4,152,212

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

Torres Strait Island Regional Council is exposed to interest rate risk through investments and borrowings with QTC and other financial institutions.

Sensitivity

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

The following interest rate sensitivity analysis depicts what effect a reasonably possible change in interest rates (assumed to be 1%) would have on the profit 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	Profit or loss		Equity	
		1% increase	1% decrease	1% increase	1% decrease
	\$	\$	\$	\$	\$
2014					
QTC cash fund	14,014,078	140,141	(140,141)	140,141	(140,141)
Other investments	57,181	572	(572)	572	(572)
Loans - QTC	(422,043)	(4,220)	4,220	(4,220)	4,220
Net total	13,649,216	136,492	(136,492)	136,492	(136,492)
2013					
QTC cash fund	12,755,633	127,556	(127,556)	127,556	(127,556)
Other investments	55,269	553	(553)	553	(553)
Loans - QTC	(463,416)	(4,634)	4,634	(4,634)	4,634
Net total	12,347,486	123,475	(123,475)	123,475	(123,475)

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2014

Fair value

The fair value of trade and other receivables and payables is assumed to approximate the value of the original transaction, less any allowance for impairment.

QTC applies a book rate approach in the management of debt and interest rate risk, to limit the impact of market value movements to clients' cost of funding. The book value represents the carrying value based on amortised cost using the effective interest method.

Note	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
QTC cash fund	11	14,014,078	14,014,078	12,755,633
Other investments	11	57,181	57,181	55,269
		<u>14,071,259</u>	<u>14,071,259</u>	<u>12,810,902</u>
Financial liabilities				
Loans - QTC	19	(422,043)	(476,023)	(509,850)
		<u>(422,043)</u>	<u>(476,023)</u>	<u>(509,850)</u>

Fair value - hierarchy

The recognised fair values of financial assets and liabilities are classified based on the lowest level of input significant to the overall fair value:

Level 1 - quoted prices (unadjusted) in active markets for identical instruments

Level 2 - inputs other than quoted prices included in Level 1 that are observable either directly or indirectly

Level 3 - valuation techniques for which any significant input is not based on observable market data.

According to the above hierarchy, the fair values of each class of financial instrument carried at fair value are as follows:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
30-Jun-14				
Financial assets				
QTC cash fund	14,014,078			14,014,078
Other investments	57,181			57,181
Total financial assets	<u>14,071,259</u>	-	-	<u>14,071,259</u>
Financial liabilities				
Loans - QTC	476,023			476,023
Total financial liabilities	<u>476,023</u>	-	-	<u>476,023</u>
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
30 June 2013				
Financial assets				
QTC cash fund	12,755,633			12,755,633
Other investments	55,269			55,269
Total financial assets	<u>12,810,902</u>	-	-	<u>12,810,902</u>
Financial liabilities				
Loans - QTC	509,850			509,850
Total financial liabilities	<u>509,850</u>	-	-	<u>509,850</u>

Torres Strait Island Regional Council
Financial Statements
For the year ended 30 June 2014

Management Certificate
For the year ended 30 June 2014

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
Fred Gela

Date: 20 / 10 / 2014



Chief Executive Officer
Dania Ahwang

Date: 20 / 10 / 2014

INDEPENDENT AUDITOR'S REPORT

To the Mayor of Torres Strait Island Regional Council

Report on the Financial Report

I have audited the accompanying financial report of Torres Strait Island Regional Council, which comprises the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and certificates given by the Mayor and Chief Executive Officer.

The Council's Responsibility for the Financial Report

The Council is responsible for the preparation of the financial report that gives a true and fair view in accordance with prescribed accounting requirements identified in the *Local Government Act 2009* and *Local Government Regulation 2012*, including compliance with Australian Accounting Standards. The Council's responsibility also includes such internal control as the Council determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial report.

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

Independence

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

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

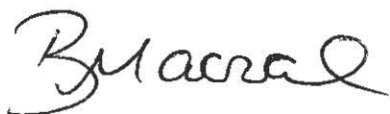
Opinion

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

- (a) I have received all the information and explanations which I have required; and
- (b) in my opinion -
 - (i) the prescribed requirements in relation to the establishment and keeping of accounts have been complied with in all material respects; and
 - (ii) the financial report presents a true and fair view, in accordance with the prescribed accounting standards, of the financial performance and cash flows of Torres Strait Island Regional Council for the financial year 1 July 2013 to 30 June 2014 and of the financial position as at the end of that year.

Other Matters - Electronic Presentation of the Audited Financial Report

Those viewing an electronic presentation of these financial statements should note that audit does not provide assurance on the integrity of the information presented electronically and does not provide an opinion on any information which may be hyperlinked to or from the financial statements. If users of the financial statements are concerned with the inherent risks arising from electronic presentation of information, they are advised to refer to the printed copy of the audited financial statements to confirm the accuracy of this electronically presented information.



B MACRAE CPA
(as Delegate of the Auditor-General of Queensland)



Queensland Audit Office
Brisbane

Torres Strait Island Regional Council
Current Year Financial Sustainability Statement
For the year ended 30 June 2014

Current Year Financial Sustainability Statement

	How the measure is calculated	Actual - Council	Target
<hr/>			
Council's performance at 30 June 2014 against key financial ratios and targets:			
Operating surplus ratio	Net result (excluding capital items) divided by total operating revenue (excluding capital items)	-40%	Between 0% and 10%
Asset sustainability ratio	Capital expenditure on the replacement of assets (renewals) divided by depreciation expense.	133%	greater than 90%
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue (excluding capital items)	-35%	not greater than 60%

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 2014.


**Torres Strait Island Regional Council
Current Year Financial Sustainability Statement
For the year ended 30 June 2014**

The current-year financial sustainability statement that is given to the auditor-general must be accompanied by a signed certificate in the form below:

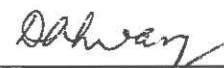
**Certificate of Accuracy
For the year ended 30 June 2014**

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
Fred Gela
Date: 20 / 10 / 2014



Chief Executive Officer
Dania Ahwang
Date: 20 / 10 / 2014

INDEPENDENT AUDITOR'S REPORT

To the Mayor of Torres Strait Island Regional Council

Report on the Current-Year Financial Sustainability Statement

I have audited the accompanying current-year financial sustainability statement, which is a special purpose financial report of Torres Strait Island Regional Council for the year ended 30 June 2014, comprising the statement and explanatory notes, and certificates given by the Mayor and Chief Executive Officer.

The Council's Responsibility for the Current-Year Financial Sustainability Statement

The Council is responsible for the preparation and fair presentation of the current-year financial sustainability statement in accordance with the *Local Government Regulation 2012*. The Council's responsibility also includes such internal control as the Council determines 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 Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the statement.

My responsibility is to form an opinion as to whether the statement has been accurately calculated based on the Council's general purpose financial report. 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.

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

Independence

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

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

Opinion

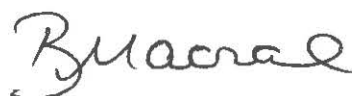
In accordance with s.212 of the *Local Government Regulation 2012*, in my opinion, in all material respects, the current-year financial sustainability statement of Torres Strait Island Regional Council for the year ended 30 June 2014, has been accurately calculated.

Emphasis of Matter – Basis of Accounting

Without modifying my opinion, attention is drawn 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.

Other Matters - Electronic Presentation of the Audited Statement

Those viewing an electronic presentation of this special purpose financial report should note that audit does not provide assurance on the integrity of the information presented electronically and does not provide an opinion on any information which may be hyperlinked to or from the financial statements. If users of the financial statements are concerned with the inherent risks arising from electronic presentation of information, they are advised to refer to the printed copy of the audited financial statements to confirm the accuracy of this electronically presented information.



B MACRAE CPA
(as Delegate of the Auditor-General of Queensland)



Queensland Audit Office
Brisbane

Torres Strait Island Regional Council
Long Term Financial Sustainability Statement
Prepared as at 30 June 2014

Prepared as at 30 June 2014			Projected for the years ended									
Measures of Financial Sustainability	Measure	Target	Actuals at 30 June 2014	30 June 2015	30 June 2016	30 June 2017	30 June 2018	30 June 2019	30 June 2020	30 June 2021	30 June 2022	30 June 2023
Council												
Operating surplus ratio	Net result divided by total operating revenue	Between 0% and 10%	-40%	-42%	-34%	-33%	-31%	-31%	-27%	-26%	-26%	-25%
Asset sustainability ratio	Capital expenditure on the replacement of assets (renewals *) divided by depreciation ** expense.	greater than 90%	133%	48%	19%	19%	19%	19%	20%	20%	20%	20%
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue	not greater than 60%	-35%	-8%	-13%	-12%	-12%	-11%	-11%	-13%	-14%	-15%

Council's Financial Management

** Council as noted above receives a high percentage of its assets via contributed assets and therefore the associated depreciation can distort the ratios

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.

Council aims to operate within a set of conservative guide-posts to ensure we are financially sustainable in the short, medium and long term. As part of our financial strategy, we have adopted seven key financial performance indicators to guide our financial health. In addition to the financial indicators, we have the above three sustainability indicators that have been set by the Department of Local Government, Community Recovery and Resilience to help monitor the long-term sustainability of all councils across Queensland. Throughout the financial year, these indicators are calculated and reported on monthly at Council meetings, as part of a full suite of financial reports. Should there be any deviation outside these parameters, the executive management and Council will be fully informed and may take corrective action as required.

The table below summarises how we performed against set targets for the seven key financial performance indicators established in our financial strategy. In summary, we achieved or bettered six of the financial targets, performing strongly in our ability to generate cash from day-to-day operations, meeting all financial commitments in the financial year, and keeping debt to conservative and manageable levels. This was achieved while maintaining community services and making ongoing investment in community infrastructure. Our operating result in this period was adversely affected by the impacts of water reform and this issue is outlined in more detail in the coming pages.