

Torres Strait Island
REGIONAL COUNCIL

Torres Strait Island Regional Council

Financial Statements

For the year ended 30 June 2018

Torres Strait Island Regional Council

Financial statements

For the year ended 30 June 2018

Table of contents	Page
Financial statements	
Statement of Comprehensive Income	1
Statement of Financial Position	2
Statement of Changes in Equity	3
Statement of Cash Flows	4
Notes to financial statements	
Note 1. Significant accounting policies	5
Note 2. Analysis of results by function	7
Revenue	
Note 3. Revenue analysis	9
Note 4. Grants, subsidies, contributions and donations	10
Note 5. Capital revenue/expenses	11
Expenses	
Note 6. Employee benefits	11
Note 7. Materials and services	12
Note 8. Finance costs	12
Note 9. Depreciation and amortisation	12
Assets	
Note 10. Cash and cash equivalents	13
Note 11. Trade and other receivables	13
Note 12. Other financial assets	14
Note 13. Property, plant and equipment	16
Liabilities	
Note 14. Trade and other payables	26
Note 15. Provisions	26
Other disclosures	
Note 16. Commitments for expenditure	28
Note 17. Contingent liabilities	28
Note 18. Superannuation	29
Note 19. Trust funds	29
Note 20. Reconciliation of net result for the year to net cash inflow (outflow) from operating	30
Note 21. Opening balance adjustment	30
Note 22. Financial instruments and financial risk management	31
Note 23. National Competition Policy	33
Note 24. Transactions with related parties	34
Certification of the financial statements	
Management Certificate	39
Independent Auditor's Report	40
Financial sustainability	
Current Year Financial Sustainability Statement	43
Certificate of Accuracy - for the Current Year Financial Sustainability Statement	43
Independent Auditor's Report on Current Year Measures of Financial Sustainability	44
Unaudited Long Term Financial Sustainability Statement	47
Certificate of Accuracy - for the Long Term Financial Sustainability Statement	47

Torres Strait Island Regional Council

Statement of Comprehensive Income

For the year ended 30 June 2018

	Note	2018 \$	2017 \$
Income			
Recurrent revenue			
Community levies, rates and charges	3(a)	1,403,660	1,117,570
Fees and charges		4,502,032	3,394,062
Rental income	3(b)	5,607,690	5,387,000
Interest received		672,045	268,865
Sales revenue	3(c)	54,557,125	46,015,034
Other income	3(d)	2,234,508	576,486
Grants, subsidies, contributions and donations	4(a)	23,311,111	27,738,076
		<u>92,288,171</u>	<u>84,497,093</u>
Capital revenue			
Grants, subsidies, contributions and donations	4(b)	49,420,115	45,578,431
Gain on disposal of finance leases	5	2,434,580	-
		<u>51,854,695</u>	<u>45,578,431</u>
Total income		<u>144,142,866</u>	<u>130,075,524</u>
Expenses			
Recurrent expenses			
Employee benefits	6	(22,912,930)	(22,207,277)
Materials and services	7	(58,015,058)	(50,186,243)
Finance costs	8	(3,351,432)	(3,975,038)
Depreciation and amortisation	9	(44,953,443)	(40,791,267)
		<u>(129,232,863)</u>	<u>(117,159,825)</u>
Capital expenses	5	(10,644,034)	(6,019,805)
Total expenses		<u>(139,876,897)</u>	<u>(123,179,630)</u>
Net result		<u>4,265,969</u>	<u>6,895,894</u>
Other comprehensive income			
Increase in asset revaluation surplus	13	27,089,669	232,477,772
Total other comprehensive income for the year		<u>27,089,669</u>	<u>232,477,772</u>
Total comprehensive income for the year		<u>31,355,638</u>	<u>239,373,666</u>

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

Torres Strait Island Regional Council

Statement of Financial Position

as at 30 June 2018

	Note	2018 \$	2017 \$
Current assets			
Cash and cash equivalents	10	59,993,975	30,593,357
Short term deposit		62,533	-
Trade and other receivables	11	11,197,870	10,275,135
Inventories		284,070	255,704
Other financial assets	12	303,563	267,043
Total current assets		<u>71,842,011</u>	<u>41,391,239</u>
Non-current assets			
Other financial assets	12	9,870,234	8,224,866
Property, plant and equipment	13	873,838,174	868,317,610
Intangible assets		248,370	463,287
Total non-current assets		<u>883,956,778</u>	<u>877,005,763</u>
Total assets		<u>955,798,789</u>	<u>918,397,002</u>
Current liabilities			
Trade and other payables	14	10,240,353	6,660,554
Borrowings		59,661	55,639
Provisions	15	1,337,837	1,144,018
Total current liabilities		<u>11,637,851</u>	<u>7,860,211</u>
Non-current liabilities			
Borrowings		167,913	226,886
Provisions	15	5,104,194	5,090,912
Total non-current liabilities		<u>5,272,107</u>	<u>5,317,798</u>
Total liabilities		<u>16,909,958</u>	<u>13,178,009</u>
Net community assets		<u>938,888,831</u>	<u>905,218,993</u>
Community equity			
Asset revaluation surplus	13	413,836,401	386,746,732
Retained surplus		525,052,430	518,472,261
Total community equity		<u>938,888,831</u>	<u>905,218,993</u>

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

Torres Strait Island Regional Council
Statement of Changes in Equity
For the year ended 30 June 2018

	Note	Asset revaluation surplus	Retained surplus	Total
		\$	\$	\$
Balance as at 1 July 2017		386,746,732	518,472,261	905,218,993
Opening balance adjustment	21	-	2,314,200	2,314,200
		<u>386,746,732</u>	<u>520,786,461</u>	<u>907,533,193</u>
Net result		-	4,265,969	4,265,969
Other comprehensive income for the year				
Increase / (decrease) in asset revaluation surplus		27,089,669	-	27,089,669
Total comprehensive income for the year		<u>27,089,669</u>	<u>4,265,969</u>	<u>31,355,638</u>
Balance as at 30 June 2018		<u>413,836,401</u>	<u>525,052,430</u>	<u>938,888,831</u>
Balance as at 1 July 2016		154,268,960	511,576,367	665,845,327
Net result		-	6,895,894	6,895,894
Other comprehensive income for the year				
Increase / (decrease) in asset revaluation surplus		232,477,772	-	232,477,772
Total comprehensive income for the year		<u>232,477,772</u>	<u>6,895,894</u>	<u>239,373,666</u>
Balance as at 30 June 2017		<u>386,746,732</u>	<u>518,472,261</u>	<u>905,218,993</u>

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

Torres Strait Island Regional Council

Statement of Cash Flows

For the year ended 30 June 2018

	Note	2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers		63,390,107	54,291,365
Payments to suppliers and employees		(77,276,997)	(72,512,025)
		(13,886,890)	(18,220,660)
Interest received		672,045	268,865
Recurrent grants and contributions		23,311,111	27,738,076
Borrowing costs		(18,970)	(22,808)
Net cash inflow from operating activities	20	<u>10,077,296</u>	<u>9,763,473</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(13,994,913)	(19,794,551)
Proceeds from sale of property plant and equipment		87,498	89,245
Proceeds from insurance claims		84,775	1,014,548
Finance lease receipts		310,810	221,240
Capital grants, subsidies, contributions and donations		32,890,104	24,006,930
Net cash inflow from investing activities		<u>19,378,274</u>	<u>5,537,412</u>
Cash flows from financing activities			
Repayment of borrowings		(54,952)	(51,117)
Net cash inflow (outflow) from financing activities		<u>(54,952)</u>	<u>(51,117)</u>
Net increase (decrease) in cash and cash equivalents held		<u>29,400,618</u>	<u>15,249,768</u>
Cash and cash equivalents at the beginning of the financial year		30,593,357	15,343,589
Cash and cash equivalents at end of the financial year	10	<u><u>59,993,975</u></u>	<u><u>30,593,357</u></u>

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

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

1 Significant accounting policies

1.A Basis of preparation

These general purpose financial statements are for the period 1 July 2017 to 30 June 2018 and have been prepared in compliance with the requirements of the *Local Government Act 2009* and the *Local Government Regulation 2012*.

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

Local authorities and public authorities are 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.

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 are effective for the current reporting period. 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.B Date of authorisation

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

1.C Adoption of new and revised Accounting Standards

Some Australian Accounting Standards and Interpretations have been issued but are not yet effective. Those standards have not been applied in these financial statements. Council will implement them when they are effective. The standards that may have a material impact upon Council's future financial statements are:

	Applicable date	Impact
AASB 9 <i>Financial Instruments</i>	1 July 2018	This replaces AASB 139 <i>Financial Instruments: Recognition and Measurement</i> , and addresses the classification, measurement and disclosure of financial assets and liabilities.

The standard introduces a new impairment model that requires impairment provisions to be based on expected credit losses, rather than incurred credit losses. Based on assessment to date, Council expects the standard to have no material impact overall.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

1 Significant accounting policies (continued)

1.C Adoption of new and revised Accounting Standards (continued)

AASB 15 <i>Revenue from Contracts with Customers</i> , AASB 1058 <i>Income of Not-for Profit Entities</i> and AASB 2016-8 <i>Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities</i>	1 July 2019	AASB 115 will replace AASB 118 <i>Revenue</i> , AASB 111 <i>Construction Contracts</i> and a number of Interpretations. AASB 2016-8 provides Australian requirements and guidance for not-for-profit entities in applying AASB 9 and AASB 15, and AASB 1058 will replace AASB 1004 <i>Contributions</i> . Together they contain a comprehensive and robust framework for the recognition, measurement and disclosure of income including revenue from contracts with customers.
---	-------------	---

Based on assessment to date, Council expects the standard to have no material impact overall.

AASB 16 <i>Leases</i>	1 July 2019	Council has some leases that are not in the Statement of Financial Position. These will need to be included when this standard comes into effect. A lease liability will initially be measured at the present value of the lease payments to be made over the lease term. A corresponding right-of-use asset will also be recognised over the lease term. If this requirement had been adopted at 30 June 2018 management estimate that net assets would have decreased by \$0. This estimate is based on Council's current obligations and various market and other assumptions.
-----------------------	-------------	---

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

The financial statements are subject to the use of estimates and judgements. The estimates and judgements that have a significant effect, or risk of causing an adjustment to the carrying amounts of assets and liabilities relate to:

- Valuation and depreciation of property, plant and equipment - Note 13
- Provisions - Note 15
- Valuation of finance leases - Note 12
- Contingent liabilities - Note 17

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

2 Analysis of results by function

2(a) Components of Council functions

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

Executive

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

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

- Mayor and Councillors
- Committees
- Governance
- Media and public relations
- Divisional administrative services (until 1 March 2018)
- Organisational development services (effective 1 March 2018)

Health and Community Services

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

The Health and Community Services function delivers the following services:

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

Financial Services

The objective of the Financial Services function is to provide efficient and effective financial support services to Council functions.

The Financial Services function is multi-disciplinary and consists of:

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

Engineering Services

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

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

Key components of the Engineering Services function include:

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

Housing Services

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

Key components of the Housing Services function include:

- Building services
- Tenancy management services

Corporate Services

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

The Corporate Services function is multi-disciplinary and consists of support services including:

- Information services
- Asset management services
- Procurement and fleet services
- Planning services
- Strategic (corporate) planning services
- Legal services
- Organisational development services (until 1 March 2018)
- Divisional administrative services (effective 1 March 2018)

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

2 Analysis of results by function (continued)

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

Year ended 30 June 2018

Functions	Gross program income				Total income	Gross program expenses		Elimination of inter-function transactions	Total expenses	Net result from recurrent operations	Net result	Assets
	Recurrent		Capital			Recurrent	Capital					
	Grants	Other	Grants	Other								
	\$	\$	\$	\$								
Executive	1,069,700	4,540,508	-	-	5,610,208	(7,622,543)	-	(25,726)	(7,648,269)	(2,038,061)	(2,038,061)	-
Health and Community Services	4,002,009	143,107	292,500	-	4,437,616	(4,655,506)	-	(153,722)	(4,809,228)	(664,112)	(371,612)	7,161,619
Financial Services	17,617,354	1,454,646	-	1,736,277	20,808,277	(2,042,396)	-	-	(2,042,396)	17,029,604	18,765,881	81,712,245
Engineering Services	568,819	3,175,683	31,358,001	-	35,102,503	(34,089,910)	-	(206,400)	(34,296,310)	(30,551,808)	806,193	490,889,848
Housing Services	-	57,799,879	-	-	57,799,879	(65,600,586)	-	(754,388)	(66,354,974)	(8,555,095)	(8,555,095)	317,211,008
Corporate Services	53,229	1,863,237	18,467,917	-	20,384,383	(15,221,923)	(10,644,034)	1,140,236	(24,725,721)	(12,165,220)	(4,341,338)	58,824,069
Total Council	23,311,111	68,977,060	50,118,418	1,736,277	144,142,866	(129,232,863)	(10,644,034)	-	(139,876,897)	(36,944,692)	4,265,969	955,798,789

Year ended 30 June 2017

Functions	Gross program income				Total income	Gross program expenses		Elimination of inter-function transactions	Total expenses	Net result from recurrent operations	Net result	Assets
	Recurrent		Capital			Recurrent	Capital					
	Grants	Other	Grants	Other								
	\$	\$	\$	\$								
Executive	523,978	4,904,101	-	-	5,428,079	(12,923,820)	-	109,798	(12,814,022)	(7,385,943)	(7,385,943)	-
Health and Community Services	3,812,090	59,555	-	-	3,871,645	(5,429,996)	-	(82,586)	(5,512,582)	(1,640,937)	(1,640,937)	7,637,100
Financial Services	20,916,980	274,332	-	2,848,338	24,039,650	(2,072,046)	-	(1,827)	(2,073,873)	19,117,438	21,965,777	49,616,105
Engineering Services	2,485,028	2,769,711	24,006,930	-	29,261,669	(27,090,553)	-	(183,287)	(27,273,840)	(22,019,101)	1,987,829	490,058,607
Housing Services	-	48,556,076	-	-	48,556,076	(61,269,670)	-	(1,488,441)	(62,758,111)	(14,202,034)	(14,202,034)	314,473,400
Corporate Services	-	195,242	18,723,163	-	18,918,405	(8,373,740)	(6,019,805)	1,646,343	(12,747,202)	(6,532,155)	6,171,203	56,611,789
Total Council	27,738,076	56,759,017	42,730,093	2,848,338	130,075,524	(117,159,825)	(6,019,805)	-	(123,179,630)	(32,662,732)	6,895,894	918,397,001

Effective 1 March 2018, a restructure resulted in administrative services transferring from the Executive function to the Corporate Services function and organisational development services transferring from the Corporate Services function to the Executive function.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

	Note	2018 \$	2017 \$
3 Revenue analysis			
(a) Community levies, rates and charges			
Revenue from rates and levies is recognised as revenue during the period to which they relate.			
Water charges commercial		389,307	244,175
Sewerage charges commercial		818,627	700,887
Garbage charges commercial		161,174	138,508
Rates from 40 year leases		34,552	34,000
		<u>1,403,660</u>	<u>1,117,570</u>

(b) Rental income

Rental revenue from community housing is recognised as income on a periodic straight line basis over the lease term.

Residential property rental income	<u>5,607,690</u>	<u>5,387,000</u>
	<u>5,607,690</u>	<u>5,387,000</u>

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

As the buildings held by Council do not meet the definition of investment property, these buildings are accounted for in accordance with AASB 16 *Property, Plant and Equipment*.

(c) Sales revenue

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

Revenue from contract and recoverable works generally comprises a recoupment of material costs together with an hourly charge for the use of equipment and employees. Contract revenue and associated costs are recognised by reference to the stage of completion of the contract activity at the reporting date.

Contract and recoverable works	51,502,763	43,109,758
Plant and equipment hire	62,620	34,095
Childcare services	78,359	56,366
Accommodation	548,589	524,398
Sale of fuel and gas	1,480,483	1,354,012
Sale of powercards	884,311	936,405
	<u>54,557,125</u>	<u>46,015,034</u>

(d) Other income

Insurance claims received		22,226	66,295
Gain/(loss) on revaluation of finance leases	12	767,255	(16,679)
Commission income		421,705	359,677
Other revenue		1,023,322	167,193
		<u>2,234,508</u>	<u>576,486</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

4 Grants, subsidies, contributions and donations

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

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

The funding of infrastructure assets by State and Federal Government Departments, which are then transferred to Council, is expected to be an ongoing process. Refer to Note 19 for funds held in trust for this purpose.

	Note	2018 \$	2017 \$
(a) Recurrent			
General purpose grants		11,124,466	15,272,638
State Government subsidies and grants		9,597,299	8,658,554
Commonwealth Government subsidies and grants		2,575,346	3,806,884
Donations		14,000	-
		<u>23,311,111</u>	<u>27,738,076</u>

Council received 50% of their Financial Assistance and Local Roads Grant allocation on 8 June 2017 for the 17/18 financial year totalling \$5.2 million and on 22 June 2018 for the 18/19 financial year totalling \$5.4 million. Per AASB 1004 *Contributions* revenue recognition criteria, Council has recognised the contribution upon receipt of the funds in 2016-2017 and 2017-2018 respectively.

(b) Capital

State Government subsidies and grants	28,960,009	2,401,431
Commonwealth Government subsidies and grants	3,930,095	21,605,499
Gain on initial recognition of finance lease	1,736,277	2,848,338
Contributed assets	14,793,734	18,723,163
	<u>49,420,115</u>	<u>45,578,431</u>

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	23,344,047	3,637,395
	<u>23,344,047</u>	<u>3,637,395</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

	Note	2018 \$	2017 \$
5 Capital revenue/expenses			
Capital revenue			
Gain on disposal of finance leases			
Proceeds from disposal of finance leases		2,945,414	-
Less: Carrying value of finance leases		(510,834)	-
		<u>2,434,580</u>	<u>-</u>
Capital expenses			
Revaluation decrement			
Revaluation down of property, plant and equipment		-	298,841
		<u>-</u>	<u>298,841</u>
Loss on disposal of non-current assets			
Book value of property, plant and equipment		10,816,307	6,824,757
Less: Proceeds from the sale of property, plant and equipment		(87,498)	(89,245)
Less: Proceeds from insurance claims		(84,775)	(1,014,548)
		<u>10,644,034</u>	<u>5,720,964</u>
		<u>10,644,034</u>	<u>6,019,805</u>
6 Employee benefits			
Total staff wages and salaries		16,783,723	16,046,312
Councillors' remuneration		961,615	962,241
Annual, sick and long service leave entitlements		3,332,243	3,107,501
Superannuation	18	2,145,757	2,072,182
		<u>23,223,338</u>	<u>22,188,236</u>
Other employee related expenses		347,710	451,929
		<u>23,571,048</u>	<u>22,640,165</u>
Less: Capitalised employee expenses		(658,118)	(432,888)
		<u>22,912,930</u>	<u>22,207,277</u>

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

	2018	2017
Total Council employees at the reporting date:		
Elected members	16	16
Administration staff	318	307
Total full time equivalent employees	<u>334</u>	<u>323</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

	Note	2018 \$	2017 \$
7 Materials and services			
Advertising and marketing		26,707	82,799
Audit services		224,446	219,869
Communications and IT		1,363,339	1,441,248
Consultants		832,575	665,275
Contractors		33,233,580	23,096,365
Donations paid		384,966	365,074
Freight		2,334,391	2,568,927
Insurance		3,045,875	2,470,893
Legal fees		184,796	234,144
Motor vehicle expenses		204,814	271,359
Powercards, fuel and gas for resale		2,695,474	2,430,256
Power		1,395,182	1,312,390
Repairs and maintenance		6,132,924	9,445,333
Rent paid		658,609	653,563
Subscriptions and registrations		94,804	47,455
Supplies and consumables		283,895	413,715
Temporary staff costs		150,333	89,789
Travel		2,709,675	3,198,734
Other materials and services		2,112,972	1,243,600
Less: Expenses capitalised		(54,299)	(64,545)
		<u>58,015,058</u>	<u>50,186,243</u>
8 Finance costs			
Finance costs charged by QTC		18,969	22,810
Bank charges		86,398	55,707
Impairment of debts		3,136,798	2,712,598
Refuse restoration		109,267	1,183,923
		<u>3,351,432</u>	<u>3,975,038</u>
9 Depreciation and amortisation			
Depreciation of non-current assets			
Buildings (Communities)		18,173,766	20,440,133
Buildings (Corporate)		3,573,936	3,278,249
Recreational facilities		779,788	1,053,079
Roads/transport network		5,403,854	5,226,019
Stormwater drainage network		240,714	184,797
Flood mitigation network		623,931	200,647
Water supply network		6,912,921	4,149,238
Sewerage network		7,454,556	4,300,335
Bridges		-	4,550
Wharves, piers, jetties and pontoons		798,306	501,680
Waste landfill		102,832	251,755
Plant and equipment		673,923	985,869
	13	<u>44,738,527</u>	<u>40,576,351</u>
Amortisation of intangible assets			
Software		214,916	214,916
Total depreciation and amortisation		<u>44,953,443</u>	<u>40,791,267</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

10 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 three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

	Note	2018 \$	2017 \$
Cash at bank		6,818,723	10,356,872
Deposits at call		53,175,252	20,175,252
Term deposit		-	61,233
Balance per Statement of Cash Flows		<u>59,993,975</u>	<u>30,593,357</u>

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

Funds set aside and held in reserves for DOGIT land	617,925	-
Total unspent restricted cash	<u>617,925</u>	<u>-</u>

11 Trade and other receivables

Trade receivables are recognised at the amounts due at the time of sale or service delivery. Settlement of these amounts is generally required within 30 days from invoice date. There is a geographical concentration of credit risk for housing and other debtors.

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.

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

All known bad debts were written-off at 30 June 2018.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

11 Trade and other receivables (continued)

	2018 \$	2017 \$
Current		
Receivable - Housing	14,071,515	13,931,034
Less impairment	(13,995,661)	(12,581,875)
Receivable - Rates	700,147	635,421
Less impairment	(16,728)	(69,493)
Receivable - Other	7,688,614	4,547,837
Less impairment	(197,789)	(241,488)
	<u>8,250,098</u>	<u>6,221,436</u>
Accrued revenue	2,876,257	3,894,066
Prepayments	71,515	159,633
	<u>11,197,870</u>	<u>10,275,135</u>
 Movement in accumulated impairment losses is as follows:		
Opening balance at 1 July	12,892,855	16,729,543
Impairment debts written off during the year	(1,819,475)	(6,549,286)
Additional impairments recognised	3,136,798	2,712,599
Closing balance at 30 June	<u>14,210,178</u>	<u>12,892,856</u>

12 Other financial assets

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

- 51 dwellings located on Moa Island (Kubin)
- 6 dwellings and 1 vacant site on Saibai Island
- 6 vacant sites on Masig Island
- 6 dwellings and 2 vacant sites on Boigu Island
- 5 vacant sites on Poruma Island
- 7 vacant sites on Warraber Island
- 17 vacant sites on Hammond Island
- 25 vacant sites on Moa Island (St Pauls)
- 6 vacant sites on Erub Island
- 6 vacant sites on Mabuiag Island

The total lease payment per dwelling in the current year ranged between \$2,000 and \$2,131 (\$2,000 to \$2,091 for 2016-17). These lease payments are required to be adjusted each year by the change in the Consumer Price Index (All Groups). As the gross lease payments are insufficient to cover the fair value (current replacement cost) of the leased properties, there is no interest rate implicit in the leases and therefore no finance income will arise from the leases. Consequently, the leases are recognised at the present value of the expected future lease payments receivable (fair value). Gains on revaluation of finance lease assets are recognised as other income annually.

On 1 June 2018 the Queensland Government surrendered the lease of 8 dwellings on Mabuiag back to Council. The Queensland Government has the right to surrender any part of the lease at any time by giving Council three months' written notice. Per the lease agreement any improvements to the property transfers to Council's when the lease terminates. The 8 dwellings have been added to Council's fixed asset register.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

12 Other financial assets (continued)

	Note	2018 \$	2017 \$
Current			
Finance leases		303,563	267,043
		<u>303,563</u>	<u>267,043</u>
Non-current			
Finance leases		9,870,234	8,224,866
		<u>9,870,234</u>	<u>8,224,866</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	303,563	267,043
Later than one year but not later than five years	1,214,253	1,068,171
Later than five years	9,736,989	8,723,995
	<u>11,254,805</u>	<u>10,059,209</u>
Add: Estimated contingent rent	6,958,688	6,356,336
Less: Present value adjustment	(8,039,696)	(7,923,636)
Fair value of lease payments	<u>10,173,797</u>	<u>8,491,909</u>

The fair value of lease payments is receivable as follows:

Not later than one year	303,563	267,043
Later than one year but not later than five years	1,197,123	1,043,120
Later than five years	8,673,111	7,181,746
	<u>10,173,797</u>	<u>8,491,909</u>

Movements in finance leases were as follows:

Opening balance		8,491,909	5,881,490
Add: Initial recognition of new leases		1,736,276	2,848,338
Less: Lease receipts		(310,810)	(221,240)
Less: Surrender of leases		(510,834)	-
Add: Gain/(loss) on revaluation	3(d)	767,255	(16,679)
Closing balance		<u>10,173,797</u>	<u>8,491,909</u>

The calculation of fair value has included an estimate of average annual CPI increases of 2.5% (2.5%, 2017) and a discount rate of 3.09% (3.48%, 2017).

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

13 Property, plant and equipment

Council - 30 June 2018

Basis of measurement

Asset values

Opening gross value as at 1 July 2017

Adjustments

Additions

Capital contributions

Housing previous under finance lease

Assets capitalised from WIP

Assets previously not recognised

Disposals

Revaluation adjustment to other comprehensive

income (asset revaluation surplus)

Transfers between classes

Closing gross value as at 30 June 2018

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	
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
565,142,000	103,988,300	24,674,700	261,106,700	12,353,000	29,034,245	215,267,550	235,406,450	-	36,503,600	1,231,000	520,000	8,276,680	5,973,138	1,499,477,363
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	13,924,129	13,924,129
14,771,202	-	-	-	-	-	22,532	-	-	-	-	-	-	-	14,793,734
5,590,458	-	-	-	-	-	-	-	-	-	-	-	-	-	5,590,458
-	661,107	257,000	3,657,445	86,034	2,843,148	594,405	854,588	-	155,591	-	-	415,179	(9,524,497)	-
-	-	-	2,314,200	-	-	-	-	-	-	-	-	-	-	2,314,200
(14,945,283)	(3,846,594)	(339,000)	(3,293,101)	-	-	(472,910)	(777,936)	-	(155,591)	-	-	(1,134,879)	-	(24,965,294)
20,518,083	3,679,303	897,634	10,552,354	494,120	1,161,370	8,615,562	9,418,604	-	1,459,200	40,120	-	-	-	56,836,350
-	-	(156,512)	180,112	-	-	-	-	-	(23,600)	-	-	-	-	-
591,076,460	104,482,116	25,333,822	274,517,710	12,933,154	33,038,763	224,027,139	244,901,706	-	37,939,200	1,271,120	520,000	7,556,980	10,372,770	1,567,970,940

Accumulated depreciation and impairment

Opening balance as at 1 July 2017

Accum dep on housing previous under finance lease

Depreciation provided in period

Revaluation adjustment to asset revaluation surplus

Impairment adjustment to asset revaluation surplus

Depreciation/impairment on disposals

Transfers between classes

Accumulated depreciation as at 30 June 2018

250,668,600	56,995,300	17,037,600	94,559,388	4,101,900	3,723,000	92,283,250	90,146,750	-	15,069,700	959,949	-	5,614,316	-	631,159,753
2,645,044	-	-	-	-	-	-	-	-	-	-	-	-	-	2,645,044
18,173,766	3,573,936	779,788	5,403,854	240,714	623,931	6,912,921	7,454,556	-	798,306	102,832	-	673,923	-	44,738,527
9,681,515	2,075,683	639,844	3,960,849	173,710	173,876	3,958,026	3,880,773	-	631,655	34,359	-	-	-	25,210,290
-	143,207	100,573	4,159,011	67,644	-	-	65,955	-	-	-	-	-	-	4,536,390
(7,303,473)	(3,701,212)	(287,405)	(942,329)	-	-	(245,513)	(581,984)	-	(76,336)	-	-	(1,018,986)	-	(14,157,238)
-	-	(98,197)	98,503	-	-	-	-	-	(306)	-	-	-	-	-
273,865,452	59,086,914	18,172,203	107,239,276	4,583,968	4,520,807	102,908,684	100,966,050	-	16,423,019	1,097,140	-	5,269,253	-	694,132,766

Book value as at 30 June 2018

Range of estimated useful life in years

317,211,008	45,395,202	7,161,619	167,278,434	8,349,186	28,517,956	121,118,455	143,935,656	-	21,516,181	173,980	520,000	2,287,727	10,372,770	873,838,174
2 - 88	2 - 73	7 - 55	1 - 136	48 - 53	10 - 50	1 - 64	1 - 113	0	3 - 55	8 - 29	Land: Not Depreciated	1 - 25	WIP: Not Depreciated	

Additions comprise:

Renewals

Other additions

Previously not recognised

Total additions

\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
11,734,284	302,610	257,000	3,293,101	-	-	472,910	777,936	-	155,591	-	-	28,241	-	17,021,673
8,627,376	358,497	-	364,344	86,034	2,843,148	144,027	76,652	-	-	-	-	386,938	-	12,887,016
-	-	-	2,314,200	-	-	-	-	-	-	-	-	-	-	2,314,200
20,361,660	661,107	257,000	5,971,645	86,034	2,843,148	616,937	854,588	-	155,591	-	-	415,179	-	32,222,889

Asset revaluation surplus

Opening balance as at 1 July 2017

Movements - Revaluation

Movements - Impairments

Closing balance asset revaluation surplus as at

30 June 2018

98,424,979	11,627,279	2,160,729	126,902,010	2,758,148	129,225	54,167,684	78,774,465	7,686	11,794,527	-	-	-	-	386,746,732
10,836,568	1,603,620	257,789	6,591,505	320,410	987,494	4,657,536	5,537,831	-	827,545	5,761	-	-	-	31,626,059
-	(143,207)	(100,573)	(4,159,011)	(67,644)	-	-	(65,955)	-	-	-	-	-	-	(4,536,390)
109,261,547	13,087,692	2,317,945	129,334,504	3,010,914	1,116,719	58,825,220	84,246,341	7,686	12,622,072	5,761	-	-	-	413,836,401

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

13 Property, plant and equipment (continued)

Council - 30 June 2017

Basis of measurement

Asset values

Opening gross value as at 1 July 2016

Additions

Capital contributions

Assets capitalised from WIP

Assets previously not recognised

Disposals

Revaluation adjustment to other comprehensive

income (asset revaluation surplus)

Revaluation adjustment to income (capital expenses)

Transfers between classes

Closing gross value as at 30 June 2017

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	
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
511,501,181	90,917,898	19,762,710	201,560,431	9,239,849	6,412,089	124,594,785	124,564,386	91,000	19,489,011	1,084,250	567,000	9,112,073	12,267,201	1,131,163,865
-	-	-	-	-	-	-	-	-	-	-	-	-	19,550,573	19,550,573
10,172,650	-	-	-	-	-	5,092,557	3,457,957	-	-	-	-	-	-	18,723,164
37,432	142,299	1,033,882	1,589,789	-	21,717,745	94,476	-	-	234,350	-	-	994,663	(25,844,636)	(0)
35,243	-	-	-	-	-	-	-	-	-	-	-	26,390	-	61,633
(8,837,256)	(2,031,646)	(674,987)	(135,654)	-	(1,430,999)	(2,693,031)	(930,420)	(91,000)	(1,035,750)	-	-	(1,856,446)	-	(19,717,190)
53,388,750	14,226,749	4,130,095	58,129,805	3,113,151	2,335,410	88,178,763	108,314,527	-	17,778,318	398,591	-	-	-	349,994,159
-	-	-	-	-	-	-	-	-	-	(251,841)	(47,000)	-	-	(298,841)
(1,156,000)	733,000	423,000	(37,671)	-	-	-	-	-	37,671	-	-	-	-	-
565,142,000	103,988,300	24,674,700	261,106,700	12,353,000	29,034,245	215,267,550	235,406,450	-	36,503,600	1,231,000	520,000	8,276,680	5,973,138	1,499,477,363

Accumulated depreciation and impairment

Opening balance as at 1 July 2016

Adjustment

Depreciation provided in period

Revaluation adjustment to asset revaluation surplus

Depreciation/impairment on disposals

Transfers between classes

Accumulated depreciation as at 30 June 2017

243,155,464	48,731,389	12,141,563	66,145,506	2,804,097	2,700,283	48,953,872	45,492,908	66,757	9,424,516	309,604	-	6,143,501	-	486,069,460
-	-	-	-	-	-	-	-	-	-	-	-	(600)	-	(600)
20,440,133	3,278,249	1,053,079	5,226,019	184,797	200,647	4,149,238	4,300,336	4,550	501,680	251,755	-	985,869	-	40,576,352
(6,408,248)	5,963,168	4,079,622	23,307,120	1,113,006	2,206,185	40,293,593	40,581,812	(2,256)	5,983,791	398,590	-	-	-	117,516,383
(5,721,569)	(1,539,829)	(471,521)	(107,463)	-	(1,384,115)	(1,113,453)	(228,306)	(69,051)	(852,082)	-	-	(1,514,454)	-	(13,001,844)
(797,179)	562,322	234,857	(11,795)	-	-	-	-	-	11,795	-	-	-	-	0
250,668,600	56,995,300	17,037,600	94,559,388	4,101,900	3,723,000	92,283,250	90,146,750	-	15,069,700	959,949	-	5,614,316	-	631,159,753

Book value as at 30 June 2017

Range of estimated useful life in years

314,473,400	46,993,000	7,637,100	166,547,312	8,251,100	25,311,245	122,984,300	145,259,700	-	21,433,900	271,051	520,000	2,662,364	5,973,138	868,317,610
3 - 88	2 - 73	7 - 55	1 - 111	42 - 62	25 - 44	1 - 64	1 - 113	-	3 - 98	8 - 29	Land: Not Depreciated	3 - 25	WIP: Not Depreciated	

Additions comprise:

Renewals

Other additions

Previously not recognised

Total additions

\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
6,262,799	51,428	659,987	135,655	-	-	2,693,031	930,420	-	234,350	-	-	54,159	-	11,021,829
3,947,283	90,870	373,896	1,454,135	-	21,717,745	2,494,002	2,527,536	-	-	-	-	940,504	-	33,545,971
35,243	-	-	-	-	-	-	-	-	-	-	-	26,390	-	61,633
10,245,325	142,299	1,033,883	1,589,790	-	21,717,745	5,187,033	3,457,956	-	234,350	-	-	1,021,053	-	44,629,433

Asset revaluation surplus

Opening balance as at 1 July 2016

Movements

Closing balance Asset revaluation surplus as at 30 June 2017

38,627,981	3,363,699	2,110,256	92,079,325	758,006	-	6,282,513	11,041,750	5,430	-	-	-	-	-	154,268,960
59,796,998	8,263,580	50,473	34,822,685	2,000,142	129,225	47,885,171	67,732,715	2,256	11,794,527	-	-	-	-	232,477,772
98,424,979	11,627,279	2,160,729	126,902,010	2,758,148	129,225	54,167,684	78,774,465	7,686	11,794,527	-	-	-	-	386,746,732

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

13 Property, plant and equipment (continued)

(a) Recognition

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

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

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

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

Acquisition of assets

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

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

Capital and operating expenditure

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

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

(b) Measurement

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

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

13 Property, plant and equipment (continued)

(b) Measurement (continued)

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. In the intervening years Council uses the indexation method to determine the fair value of each class of property, plant and equipment assets. Indexation valuations are reviewed annually by Council and Council will account for the impact of indexation revaluation if the change is considered material to the financial statements.

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

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

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

(c) Depreciation

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

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

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

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

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

13 Property, plant and equipment (continued)

(d) Land under roads

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

(e) Impairment

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

(f) Deed of Grant in Trust land

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

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

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

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

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

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

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

13 Property, plant and equipment (continued)

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

The relevant leased assets are still reported as assets of the Council; land is not reported; nominal rental is paid except for the former child care centre and one staff residence on Badu Island, for which future commitments are \$22,820 over the next year. 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.

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

(g) Valuation

(i) Valuation processes

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

- Fair value based on quoted prices (unadjusted) in active markets for identical assets 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)

All of Council's property, plant and equipment measured at fair value at reporting date is categorised at level 3 (2017: all at level 3). Council does not have any assets or liabilities measured at fair value which meet the criteria for categorisation as level 1 or 2.

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

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

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

13 Property, plant and equipment (continued)

(g) Valuation (continued)

(i) Valuation processes (continued)

Non-current physical assets measured at fair value are revalued, where required, so that the carrying amount of each class of 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. The most recent fully comprehensive valuation was carried out as at 30 June 2017.

In the intervening years, Council engage independent, professionally qualified valuers to perform a "desktop" valuation. A desktop valuation involves management providing updated information to the valuer regarding additions, disposals and changes in methodology such as useful life and condition rating. The valuer then determines suitable indices which are applied to each of these asset classes. These indices are then reviewed by Asset Class Managers and Executives to ensure accuracy of these indices for Council. A desktop valuation was undertaken as at 30 June 2018 by Jones Lang Lasalle.

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

(ii) Valuation techniques used to derive fair values

Land (Level 3)

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

Buildings and infrastructure (Level 3)

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

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

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

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

13 Property, plant and equipment (continued)

(g) Valuation (continued)

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

Buildings and infrastructure (Level 3) (continued)

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

To calculate the appropriate amount of accumulated depreciation, assets are either subject to a site inspection or an assessment to determine remaining useful life. Where site inspections are conducted (i.e. for visible active assets), the assets were allocated a condition assessment, which was used to estimate remaining useful life, 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	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	5 - 10
5	Failed asset, no longer serviceable. Should not remain in service	0 - 5

Where site inspections are not conducted the remaining useful life is calculated on asset age and estimated useful life. The valuation techniques used in the determination of fair values maximise the use of observable data where it is available and 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 is determined using methods relevant to the asset class as described under individual asset categories below.

1. Buildings - calculation of current replacement cost

Current replacement cost

Construction costs are based on published construction cost guides and discussions with trade contractors living and working on the Torres Strait Islands. Rates are analysed from a number of sources and include review of producer price indexes, building cost indices, wage indexes, architectural engineering and technical services indices and construction cost movements (sourced from Australian Institute of Quantity Surveyors and Rawlinsons). Also current projects completed internally and for the Department of Housing were also considered.

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

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

13 Property, plant and equipment (continued)

(g) Valuation (continued)

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

Accumulated depreciation

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

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

Roads

Current replacement cost

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

The unit rates applied are based on greenfield project costs and include all materials, labour and direct costs. 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. Due to the unique nature of constructing infrastructure in the Torres Strait area, the valuation is required to rely on information provided by Council. Publicly available information such as Rawlinson's construction handbook is used to check the Council supplied information for order of magnitude appropriateness and the applicable regional factors are included in the unit costs.

Accumulated depreciation

In determining the level of accumulated depreciation, the roads are disaggregated into significant components which exhibit different useful lives. Asset condition assessments were completed in the year ended 30 June 2018 as part of the event assessment project for NDRRA.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

13 Property, Plant and Equipment (continued)

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

Water and sewerage

Current replacement cost

The water and sewerage assets are segregated into active and passive assets; passive assets are not further componentised and consist primarily of mains and pipelines. Unit rates are applied based on Council supplied recent project costs, similar recent project costs from other entities, unit rate databases, indices, Rawlinson's rates and quotations. To check for reasonableness, the valuer also compares these indices to wages indexes and non-residential building construction indexes.

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

Accumulated depreciation

Asset assessments were completed on a portion of assets in the year ended 30 June 2018 as part of Council's asset condition assessment process and therefore condition rating, useful lives and depreciation rates were updated accordingly.

4. Other infrastructure – Calculation of current replacement cost

Other infrastructure includes the flood mitigation network, waste landfill, recreational facilities, stormwater drainage and wharves, piers, jetties and pontoons, which combined represent around 4.5% of Council's assets.

Current replacement cost

The replacement cost of all assets which as a group represent other infrastructure have been estimated through first principles. Summing together the costs of materials, labour and direct costs, utilising constructed project costs and publicly available reference material, having regard to the location and condition.

Accumulated depreciation

Asset assessments were completed on a portion of assets in the year ended 30 June 2018 as part of Council's asset condition assessment process and therefore condition rating, useful lives and depreciation rates were updated accordingly.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

14 Trade and other payables

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

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

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

	Note	2018 \$	2017 \$
Current			
Accrued creditors		4,311,472	1,860,879
Employee benefits - annual leave		2,186,604	2,046,768
GST payable		623,600	106,254
Accrued payroll		302,150	283,520
Refundable bonds		2,000	2,000
Trade creditors and other payables		1,435,069	2,361,133
Retention		1,024,846	-
Revenue in advance		354,612	-
		<u>10,240,353</u>	<u>6,660,554</u>

15 Provisions

Long service leave

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

The long service leave provision has been discounted using discount rates derived from Commonwealth Government bond rates as at 30 June 2018.

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

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

15 Provisions (continued)

Landfill restoration

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

The calculation of this provision requires assumptions such as site closure dates, available technologies and engineering cost estimates. These uncertainties may result in future actual expenditure differing from amounts currently provided. Because of the long-term nature of the liability, the most significant uncertainty in estimating the provision is the costs that will be incurred. The provision recognised for landfill sites is reviewed at least annually and updated based on the facts and circumstances available at the time. Management estimates that the 15 sites will close between 2019 and 2024.

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

	Note	2018 \$	2017 \$
Current			
Long service leave		1,096,527	954,643
Provision for landfill restoration		241,310	189,375
		<u>1,337,837</u>	<u>1,144,018</u>
Non-current			
Long service leave		309,689	353,739
Provision for landfill restoration		4,794,505	4,737,173
		<u>5,104,194</u>	<u>5,090,912</u>
Details of movements in provisions:			
Landfill restoration			
Balance at beginning of financial year		4,926,548	3,742,625
Increase/ (decrease) in provision due to unwinding of discount		80,769	(169,523)
Increase in provision due to change in discount rate		28,498	1,353,446
Balance at end of financial year		<u>5,035,815</u>	<u>4,926,548</u>
Long service leave provision			
Balance at beginning of financial year		1,308,382	1,323,627
Long service leave entitlement arising		275,190	281,827
Long service entitlement paid		(177,356)	(297,072)
Balance at end of financial year		<u>1,406,216</u>	<u>1,308,382</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

16 Commitments for expenditure

Note

2018

2017

\$

\$

Operating leases

Minimum lease payments in relation to non-cancellable operating leases are as follows:

Within one year	558,822	588,980
One to five years	1,665,552	2,353,598
	<u>2,224,374</u>	<u>2,942,578</u>

Payments made under operating leases (substantially all the risks and benefits remain with the lessor) 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.

Contractual commitments

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

Recoverable work contractors	6,451,394	8,503,162
Capital assets	1,627,155	1,479,001
Contractors	790,880	-
Consultancy	241,307	-
Other	166,891	45,918
Audit fees	146,350	-
Freight	58,095	-
Contract employees	32,184	22,688
Cleaning services	-	33,220
	<u>9,514,256</u>	<u>10,083,989</u>

17 Contingent liabilities

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

Local Government Mutual

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

As at 30 June 2017 the financial statements reported an accumulated surplus and it is not anticipated any liability will arise.

Local Government Workcare

The Council is a member of the Queensland local government worker's compensation self-insurance scheme, Local Government Workcare. Under this scheme the Council has provided an indemnity towards a bank guarantee to cover bad debts which may remain should the self insurance licence be cancelled and there were insufficient funds available to cover outstanding liabilities. Only the Queensland Government's workers compensation authority may call on any part of the guarantee should the above circumstances arise. The Council's maximum exposure to the bank guarantee is \$257,846.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

17 Contingent liabilities (continued)

Native Title Compensation Liability

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

It is difficult to estimate the likely compensation payable, because there is no legally settled compensation formula. A native title compensation case was decided by the Federal Court of Australia in 2016 (*Griffiths v Northern Territory* (No 3) [2016] FCA 900), however that decision is in the process of being appealed to the High Court. There may be some certainty in relation to a compensation formula once the appeal is finalised. At this point there are no applications for compensation claims against Council. Council has sufficient insurance cover in the event of adverse applications for native title compensation for alleged invalid future acts under the *Native Title Act 1993* (Cth), via Council's statutory liability cover.

18 Superannuation

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

	Note	2018 \$	2017 \$
Superannuation contributions made to the Accumulation Benefits Fund		2,072,633	2,072,182
Other superannuation contributions for employees		73,124	-
Total superannuation contributions paid by Council for employees:	6	<u>2,145,757</u>	<u>2,072,182</u>

19 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	334,643	382,964
Church funds	9,780	9,780
Other community funds	52,341	81,511
	<u>396,764</u>	<u>474,255</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.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

19 Trust funds (continued)

	2018 \$	2017 \$
Funds held in trust by outside parties		
DFK Kidsons holding funds for Major Infrastructure and Other Program	20,155,528	30,919,841
	<u>20,155,528</u>	<u>30,919,841</u>

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

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

	2018 \$	2017 \$
Net result	4,265,969	6,895,894
Non-cash items:		
Depreciation and amortisation	44,953,443	40,791,267
Asset contributions in capital income	(14,793,734)	(18,723,163)
Gain on initial recognition of finance lease	(1,736,277)	(2,848,338)
Gain on revaluation of finance lease	(767,255)	16,679
Gain on disposal of finance leases	(2,434,580)	-
	<u>25,221,597</u>	<u>19,236,445</u>
Investing and development activities:		
Revaluation down of property, plant and equipment	-	298,841
Loss on disposal of non-current assets	10,644,034	5,720,964
Capital grants and contributions	(32,890,104)	(24,006,930)
	<u>(22,246,070)</u>	<u>(17,987,125)</u>
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	(922,735)	679,955
(Increase)/decrease in inventory	(28,365)	49,958
Increase/(decrease) in payables	3,579,798	(280,333)
Increase/(decrease) in other provisions	207,102	1,168,679
	<u>2,835,800</u>	<u>1,618,259</u>
Net cash inflow from operating activities	<u>10,077,296</u>	<u>9,763,473</u>

21 Opening balance adjustment

Roads

In the process of commissioning the NDRRA 2015 Event (works completed June 2017), it was discovered that certain road assets had not been previously recognised as Council assets. These assets were added as at 1 July 2017 and an adjustment has been made to retained surplus. Current unit rates and conditions were used to establish the asset values. The assets have since been revalued as at 30 June 2018.

	As at 1 July 2017	As at 1 July 2016
Gross value added	2,314,200	-
Net increase to property, plant and equipment	<u>2,314,200</u>	<u>-</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

22 Financial instruments and financial risk management

Financial risk management

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

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

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	2018 \$	2017 \$
Financial assets			
Cash and cash equivalents	10	59,993,975	30,593,357
Short term deposit		62,533	-
Receivables - housing	11	75,854	1,349,159
Receivables - rates	11	683,419	565,928
Receivables - other	11	7,490,825	4,306,349
Other financial assets	12	10,173,797	8,491,909
Other credit exposures			
Guarantees	17	257,847	233,667
		<u>78,738,250</u>	<u>45,540,369</u>

Cash and cash equivalents

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

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

22 Financial instruments and financial risk management (continued)

Trade and other receivables

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

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

	2018	2017
	\$	\$
Not past due	5,835,677	2,516,267
Past due 31-60 days	848,569	810,274
Past due 61-90 days	115,333	495,533
More than 90 days	15,660,697	15,292,218
Impaired	(14,210,178)	(12,892,856)
Total	<u>8,250,098</u>	<u>6,221,436</u>

Liquidity risk

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

Council 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:

	0 to 1 year	1 to 5 years	Over 5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
2018					
Trade and other payables	10,240,353	-	-	10,240,353	10,240,353
Loans - QTC	74,219	185,332	-	259,551	259,551
	<u>10,314,572</u>	<u>185,332</u>	<u>-</u>	<u>10,499,904</u>	<u>10,499,904</u>
2017					
Trade and other payables	6,660,554	-	-	6,660,554	6,660,554
Loans - QTC	74,219	259,551	-	333,770	333,770
	<u>6,734,773</u>	<u>259,551</u>	<u>-</u>	<u>6,994,324</u>	<u>6,994,324</u>

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

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

22 Financial instruments and financial risk management (continued)

Market risk

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

Interest rate risk

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

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 result and equity, based on the carrying values at the end of the reporting period. The calculation assumes that the change in interest rates would be held constant over the period.

	Net carrying amount	Effect on net result		Effect on equity	
		1% increase	1% decrease	1% increase	1% decrease
2018					
QTC cash fund	53,175,252	531,753	(531,753)	531,753	(531,753)
Other investments	62,533	625	(625)	625	(625)
Loans - QTC	(227,573)	(2,276)	2,276	(2,276)	2,276
Net total	53,010,212	530,102	(530,102)	530,102	(530,102)
2017					
QTC cash fund	20,175,252	201,753	(201,753)	201,753	(201,753)
Other investments	61,233	612	(612)	612	(612)
Loans - QTC	(282,525)	(2,825)	2,825	(2,825)	2,825
Net total	19,953,960	199,540	(199,540)	199,540	(199,540)

23 National Competition Policy

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

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

24 Transactions with related parties

(a) Transactions with key management personnel (KMP)

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

KMPs include the Mayor, Councillors, Council's Chief Executive Officer and the Executive Management team. Compensation paid to KMPs for 2017/18:

	Note	2018 \$	2017 \$
Short-term employee benefits		2,440,969	2,515,519
Termination benefits		38,318	16,923
		<u>2,479,287</u>	<u>2,532,442</u>

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

(b) Transactions with other related parties

Other related parties include the close family members of KMP and any entities controlled or jointly controlled by KMP or their close family members. Close family members include a spouse, child and dependant of a KMP or their spouse.

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

Details of Transactions

Employee expenses for close family members of KMPs	24(b)(i)	729,729	787,394
Purchase of materials and services from entities controlled by KMPs	24(b)(ii)	981,668	242,206
Grants and donations for close family members of KMPs	24(b)(iii)	28,442	16,999
Fees and charges charged to entities controlled by KMPs	24(b)(iv)	10,284	37,554

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

Council employs 339 staff (318 full time equivalent staff) of which 15 are close family members of key management personnel.

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

Freight	535,231	-
Fuel and electricity	327,070	56,765
Ferry charters	68,105	52,862
Accommodation	22,830	16,650
Commercial rent	22,686	55,608
Consumables	5,746	23,976
Cultural awareness training	-	34,805
Catering	-	1,540
	<u>981,668</u>	<u>242,206</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

24 Transactions with related parties (continued)

Included in the above is \$535,231 of freight charges and \$285,334 of fuel and electricity charges from Arafura Blue Marine Pty Ltd. During this time Councillor Sabatino was a shareholder for the entities. All purchases were at arm's length, on normal terms and conditions and were in the normal course of Council's operations.

As at 30 June 2018 there was \$43,619 owed by Council to Arafura Blue Marine Pty Ltd. This outstanding balance was offset against Arafura Blue Marine Pty Ltd account receivable balance as at 12 July 2018 in accordance with a settlement agreement dated 31 May 2018.

(iii) Grants and donations totalling \$28,442 (2017: \$16,999) were made during the reporting period to related parties of KMPs as community members under Council's Grants and Donations Procedure.

(iv) The fees and charges charged to entities controlled by KMP's were at arms length. \$6,932 (2017: \$6,807) was charged for a commercial lease for M&M Mini Mart at Hammond Island and \$3,351 (2017: \$4,121) for licensing fees for Maria Tamaru Tamu for office space use on Warraber Island.

(c) Commitments to/from related parties

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

	2018	2017
	\$	\$
Badu Island Foundation Ltd	2,036	10,878
Hammond Island Ferry	3,210	1,525
M & M Mini Mart	1,235	707
	<u>6,481</u>	<u>13,110</u>

(d) Loans and guarantees to/from related parties

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

(e) Outstanding balances

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

Receivables	Current	Over 30 Days	Over 60 Days	Over 90 Days	Total
	\$	\$	\$	\$	\$
2018					
Rates and charges	-	120,312	-	123,313	243,625
Social housing	5,769	2,422	2,832	228,712	239,735
Other fees and charges	54	50	-	103,913	104,017
Total	5,823	122,784	2,832	455,938	587,377
2017					
Rates and charges	-	963	101,626	151,226	253,815
Social housing	2,494	3,346	3,967	259,305	269,112
Other fees and charges	-	-	-	5,682	5,682
Total	2,494	4,309	105,593	416,213	528,609

\$273,519 has been recognised in current and prior years for the provision of bad or doubtful debts owed by related parties.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

24 Transactions with related parties (continued)

(e) Outstanding balances (continued)

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

2018

Related party	Relationship	Customer	Nature of transactions	Over 90 Days \$
Mario Sabatino	Shareholder	Arafura Blue Marine Pty Ltd	Maritime fees	103,280
Laurie Nona	Director	Badu Island Foundation	Rates and charges	64,107
Laurie Nona	Manager	Badu Art Centre	Rates and charges	50,308
Lui Getano (Jnr)	Councillor	Lui Getano (Jnr)	Social housing	37,983
Ted Nai	Uncle	Gabriel Nai	Social housing	33,170
Robert Kaigey	Councillor	Robert Kaigey	Social housing	33,062
Torenzo Elisala	Father	Tenny Elisala	Social housing	23,590
Ted Nai	Uncle	John Morris	Social housing	21,419
Keri Akiba	Councillor	Keri Akiba	Social housing	21,413
Ted Nai	Uncle	Ned Mosby	Social housing	13,180
Rocky Stephen	Father	Daniel Stephen	Social housing	12,211
Rocky Stephen	Director	Kos and Abob Fisheries	Rates and charges	8,898
Dimas Toby	Spouse	Telita Banu	Social housing	7,865
Clara Tamu	Son	Pryce Mareko	Social housing	5,790
John Levi	Councillor	John Levi	Social housing	3,227
Dimas Toby	Councillor	Dimas Toby	Social housing	2,688
Keith Fell	Councillor	Keith Fell	Social housing	3,118
Clara Tamu	Spouse	Samuel Tamu	Social housing	2,298
Torenzo Elisala	Spouse	Daina Wosomo	Social housing	2,068
Torenzo Elisala	Councillor	Torenzo Elisala	Social housing	2,068
Torenzo Elisala	Mother	Maleta Elisala	Social housing	2,068
Rocky Stephen	Councillor	Rocky Stephen	Social housing	1,106
Laurie Nona	Councillor	Laurie Nona	Social housing	728
Laurie Nona	Partner	Stevie Lee	Other fees and charges	150
Getano Lui (Jnr)	Councillor	Getano Lui (Jnr)	Social housing	79
Keri Akiba	Son	Adrian Akiba	Social housing	43
Clara Tamu	Daughter	James & Iris Billy	Social housing	21
				<u>455,938</u>

In accordance with a settlement agreement dated 30 May 2018 between Council and the Liquidators of Arafura Blue Marine Pty Ltd, Council offset \$43,619 owed by Council to Arafura Blue Marine Pty Ltd against their outstanding debt as at 12 July 2018. The remaining balance will be written off upon Council resolution.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

24 Transactions with related parties (continued)

(e) Outstanding balances (continued)

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

2017

Related party	Relationship	Customer	Nature of transactions	Over 90 Days \$
Laurie Nona	Director	Badu Island Foundation	Rates and charges	66,289
Laurie Nona	Manager	Badu Art Centre	Rates and charges	39,284
Patrick Thaiday	Not Specified	Daido Tavern	Rates and charges	37,809
Lui Getano (Jnr)	Councillor	Lui Getano (Jnr)	Social housing	34,603
Robert Kaigey	Councillor	Robert Kaigey	Social housing	34,104
Ted Nai	Uncle	Gabriel Nai	Social housing	25,370
Lorna Bowie	Sister	Anita Bowie	Social housing	23,510
Torenzo Elisala	Father	Tenny Elisala	Social housing	23,446
Keri Akiba	Councillor	Keri Akiba	Social housing	22,333
Ted Nai	Uncle	John Morris	Social housing	13,619
Torenzo Elisala	Mother	Maleta Elisala	Social housing	11,018
Rocky Stephen	Father	Daniel Stephen	Social housing	10,628
Clara Tamu	Son	Pryce Mareko	Social housing	9,430
John Levi	Councillor	John Levi	Social housing	8,087
Dimas Toby	Spouse	Telita Banu	Social housing	5,996
Rocky Stephen	Director	Kos and Abob Fisheries	Rates and charges	5,692
Keith Fell	Councillor	Keith Fell	Social housing / other fees and charges	5,630
Mario Sabatino	Owner	Hammond Island Ferry	Other fees and charges	5,011
Clara Tamu	Spouse	Samuel Tamu	Social housing	4,906
Lorna Bowie	Sister	Fiona Bowie	Social housing	4,800
Ted Nai	Uncle	Ned Mosby	Social housing	4,720
Daisy Ketchell	Son	Francis Ketchell	Social housing	4,569
Torenzo Elisala	Spouse	Daina Wosomo	Social housing	3,368
Torenzo Elisala	Councillor	Torenzo Elisala	Social housing	3,118
Dimas Toby	Councillor	Dimas Toby	Social housing	2,688
Francis Pearson	Councillor	Francis Pearson	Social housing	2,295
Mario Sabatino	Owner	M & M Mini Mart	Rates and charges	2,291
Rocky Stephen	Councillor	Rocky Stephen	Social housing	1,286
Clara Tamu	Daughter	James & Iris Billy	Social housing	213
Getano Lui (Jnr)	Councillor	Getano Lui (Jnr)	Other fees and charges	79
Daisy Ketchell	Executive Officer	Daisy Ketchell	Social housing	22
				<u>416,213</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2018

24 Transactions with related parties (continued)

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

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

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

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

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

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

2018

Related party	Relationship	Customer	Nature of transactions	Debt balance written off \$
Torenzo Elisala	Mother	Maleta Elisala	Social housing	8,950
Getano Lui (Jnr)	Councillor	Getano Lui (Jnr)	Social housing	4,420
Clara Tamu	Son	Pryce Mareko	Social housing	3,640
Torenzo Elisala	Spouse	Daina Wosomo	Social housing	1,300
Torenzo Elisala	Councillor	Torenzo Elisala	Social housing	1,050
				<u>19,360</u>

2017

Related party	Relationship	Customer	Nature of transactions	Debt balance written off \$
Keith Fell	Councillor	Keith Fell	Social housing	17,978
Getano Lui (Jnr)	Councillor	Getano Lui (Jnr)	Social housing	17,680
Patrick Thaiday	Councillor	Patrick Thaiday	Social housing	11,300
Bob Kaigey	Brother	Robert Kaigey	Social housing	9,227
Getano Lui	Priest	Church Of Torres Strait	Dishonoured cheque recovery	3,955
Clara Tamu	Son	Pryce Mareko	Social housing	6,359
Torenzo Elisala	Councillor	Torenzo Elisala	Social housing	1,900
Torenzo Elisala	Spouse	Diana Wosomo	Social housing	2,750
Daisy Ketchell	Son	Marsat & B. Ketchell	Pre amalgamation debt - unknown	2,042
Dimas Toby	Councillor	Dimas Toby	Social housing	1,505
Keith Fell	Councillor	Keith Fell	Pre amalgamation debt - unknown	679
David Bosun	Councillor	David Bosun	Pre amalgamation debt - unknown	311
John Levi	Councillor	John E Levi	Purchase of goods	261
Keith Fell	Councillor	Keith Fell	Pre amalgamation debt - unknown	239
David Bosun	Councillor	Jeanon Baira	Pre amalgamation debt - unknown	213
John Levi	Councillor	John E Levi	Annual levy 2008	90
				<u>76,487</u>


Torres Strait Island Regional Council
Financial statements
For the year ended 30 June 2018

Management Certificate
For the year ended 30 June 2018

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
Fredrick Gela
Date: 18 / 9 / 2018



Chief Executive Officer
Bruce Ranga
Date: 18 / 9 / 2018

INDEPENDENT AUDITOR'S REPORT

To the Councillors of Torres Strait Island Regional Council

Report on the Audit of the Financial Report

Opinion

I have audited the financial report of Torres Strait Island Regional Council.

In my opinion, the financial report:

- a) gives a true and fair view of the council's financial position as at 30 June 2018, and of its financial performance and cash flows for the year then ended
- b) complies with the *Local Government Act 2009*, the Local Government Regulation 2012 and Australian Accounting Standards.

The financial report comprises the statement of financial position as at 30 June 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including significant accounting policies and other explanatory information, and the certificate given by the Mayor and Chief Executive Officer.

Basis for opinion

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

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

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

Other information

Other information comprises the information included in Torres Strait Island Regional Council's annual report for the year ended 30 June 2018, but does not include the financial report and my auditor's report thereon. At the date of this auditor's report, the other information was the current year financial sustainability statement and long-term financial sustainability statement.

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

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

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

Responsibilities of the council 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 the *Local Government Act 2009*, the Local Government Regulation 2012 and Australian Accounting Standards, and for such internal control as the council determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

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

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

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

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

Report on other legal and regulatory requirements

In accordance with s.40 of the *Auditor-General Act 2009*, for the year ended 30 June 2018:

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



20 September 2018

Sri Narasimhan
as delegate of the Auditor-General

Queensland Audit Office
Brisbane

Torres Strait Island Regional Council
Current-year Financial Sustainability Statement
For the year ended 30 June 2018

Measures of Financial Sustainability

	How the measure is calculated	Target	30 June 2018 Result
Operating surplus ratio	Net result (excluding capital items) divided by total operating revenue (excluding capital items)	Between 0% and 10%	-40%
Asset sustainability ratio	Capital expenditure on the replacement of assets (renewals) divided by depreciation expense	greater than 90%	39%
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue (excluding capital items)	not greater than 60%	-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 2018.

Certificate of Accuracy
For the year ended 30 June 2018

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
Fredrick Gela

Date: 18 / 9 / 2018



Chief Executive Officer
Bruce Ranga

Date: 18 / 9 / 2018

INDEPENDENT AUDITOR'S REPORT

To the Councillors of Torres Strait Island Regional Council

Report on the Current-Year Financial Sustainability Statement

Opinion

I have audited the accompanying current year financial sustainability statement of Torres Strait Island Regional Council for the year ended 30 June 2018, comprising the statement, explanatory notes, and the certificate of accuracy given by the Mayor and the Chief Executive Officer.

In accordance with section 212 of the Local Government Regulation 2012, in my opinion, in all material respects, the current year financial sustainability statement of Torres Strait Island Regional Council for the year ended 30 June 2018 has been accurately calculated.

Basis of opinion

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

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

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

Emphasis of matter – basis of accounting

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

Other Information

Other information comprises the information included in Torres Strait Island Regional Council's annual report for the year ended 30 June 2018, but does not include the current year financial sustainability statement and my auditor's report thereon. At the date of this auditor's report, the other information was the general purpose financial statements and long-term financial sustainability statement.

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

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

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

Responsibilities of the council 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 responsibilities for the audit of the current year financial sustainability statement

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

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

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

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

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



Sri Narasimhan
as delegate of the Auditor-General

20 September 2018

Queensland Audit Office
Brisbane

Torres Strait Island Regional Council
Unaudited Long-Term Financial Sustainability Statement
Prepared as at 30 June 2018

Measures of Financial Sustainability

	Measure	Target	Actuals at 30 June 2018	Projected for the years ended								
				30 June 2019	30 June 2020	30 June 2021	30 June 2022	30 June 2023	30 June 2024	30 June 2025	30 June 2026	30 June 2027
Operating surplus ratio	Net result divided by total operating revenue	Between 0% and 10%	-40%	-65%	-74%	-65%	-62%	-59%	-35%	-33%	-31%	-28%
Asset sustainability ratio	Capital expenditure on the replacement of assets (renewals) divided by depreciation expense.	greater than 90%	39%	145%	43%	15%	16%	17%	0%	0%	0%	0%
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue	not greater than 60%	-60%	-32%	-16%	-17%	-19%	-20%	-20%	-19%	-17%	-16%

Council's Financial Management Strategy

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


The above ratios have been calculated using Council's most recently adopted original budget.

Certificate of Accuracy
For the long-term financial sustainability statement prepared as at 30 June 2018

This long-term financial sustainability statement has been prepared pursuant to Section 178 of the *Local Government Regulation 2012* (the Regulation).
In accordance with Section 212(5) of the Regulation we certify that this long-term financial sustainability statement has been accurately calculated.


Mayor
Fredrick Gela

Date: 18/9/2018


Chief Executive Officer
Bruce Ranga

Date: 18/9/2018

