

TORRES STRAIT ISLAND REGIONAL  
COUNCIL  
FINANCIAL REPORT

FOR THE PERIOD 15 MARCH 2008 TO 30 JUNE 2009

# Torres Strait Island Regional Council

## FINANCIAL REPORT

For the period 15 March 2008 to 30 June 2009

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## Torres Strait Island Regional Council

### Income Statement

For the period 15 March 2008 to 30 June 2009

		2009
	Note	\$
<b>Income</b>		
<b>Revenue</b>		
<b>Recurrent Revenue</b>		
Net utility charges	3(a)	13,638
Fees and Charges	3(b)	1,402,522
Rental income	3(c)	3,732,565
Interest received	3(d)	663,815
Sales - Contract and recoverable works	3(e)	2,060,508
Other recurrent income	3(f)	6,425,739
Grants, subsidies, contributions and donations	4(a)	52,664,324
		<hr/>
Total recurrent revenue		66,963,111
<b>Capital revenue</b>		
Grants, subsidies, contributions and donations	4(b)	13,053,276
		<hr/>
Total revenue		80,016,387
		<hr/>
<b>Gain on restructure of local government</b>		
Assets and liabilities transferred from abolished Councils	9	254,555,946
Adjustments due to accounting policy alignment	9	319,269,771
		<hr/>
		573,825,717
		<hr/>
Total income		653,842,104
		<hr/>
<b>Expenses</b>		
Employee benefits	5	(42,520,619)
Materials and services	6	(28,085,664)
Finance costs	7	(259,433)
Depreciation and amortisation	8	(27,621,778)
Total recurrent expenses		<hr/>
		(98,487,494)
		<hr/>
<b>Capital expenses</b>		
		<hr/>
		-
		<hr/>
Total expenses		(98,487,494)
		<hr/>
<b>Net result attributable to Council</b>		555,354,610
		<hr/>

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

## Torres Strait Island Regional Council

### Balance Sheet

as at 30 June 2009

		2009
	Note	\$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	10	16,432,884
Trade and other receivables	11	11,298,613
Inventories	12	893,334
		<u>28,624,831</u>
<b>Total current assets</b>		<u>28,624,831</u>
<b>Non-current Assets</b>		
Investments	13	350,002
Property, plant and equipment	14	537,764,807
		<u>538,114,809</u>
<b>Total non-current assets</b>		<u>538,114,809</u>
<b>TOTAL ASSETS</b>		<u>566,739,639</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade and other payables	15	7,249,326
Borrowings	16	105,166
Provisions	19	513,883
		<u>7,868,375</u>
<b>Total current liabilities</b>		<u>7,868,375</u>
<b>Non-current Liabilities</b>		
Trade and other payables	15	356,534
Borrowings	16	557,612
Provisions	19	2,602,509
		<u>3,516,655</u>
<b>Total non-current liabilities</b>		<u>3,516,655</u>
<b>TOTAL LIABILITIES</b>		<u>11,385,029</u>
<b>NET COMMUNITY ASSETS</b>		<u>555,354,610</u>
<b>Community Equity</b>		
Retained surplus/(deficiency)	20	555,354,610
		<u>555,354,610</u>
<b>TOTAL COMMUNITY EQUITY</b>		<u>555,354,610</u>

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

## Torres Strait Island Regional Council

### Statement of Changes in Equity

For the period 15 March 2008 to 30 June 2009

	Retained surplus	Capital and Other Reserves	Total
	20	22	
	\$	\$	\$
<b>Opening Balance</b>	-	-	-
Surplus for the period	555,354,610	-	555,354,610
<b>Total recognised income and expense</b>	<u>555,354,610</u>	<u>-</u>	<u>555,354,610</u>
<b>Transfers to and from reserves</b>			
<b>Total transfers to and from reserves</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Balance at 30 June 2009</b>	<u>555,354,610</u>	<u>-</u>	<u>555,354,610</u>

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

Torres Strait Island Regional Council

Statement of Cash Flows

For the period 15 March 2008 to 30 June 2009

		2009
<b>Cash flows from operating activities :</b>	<b>Note</b>	<b>\$</b>
Receipts from customers		7,765,848
Payments to suppliers and employees		<u>(68,930,292)</u>
		(61,164,444)
Interest received		663,815
Rental income		3,732,565
Non capital grants and contributions		52,664,324
Borrowing costs		<u>(58,132)</u>
<b>Net cash inflow (outflow) from operating activities</b>	<b>27</b>	<b><u>(4,161,872)</u></b>
<b>Cash flows from investing activities:</b>		
Payments for property, plant and equipment		(9,167,900)
Grants, subsidies, contributions and donations		<u>13,053,276</u>
<b>Net cash inflow (outflow) from investing activities</b>		<b><u>3,885,376</u></b>
<b>Cash flows from financing activities:</b>		
Repayment of borrowings		(51,757)
Repayments made on finance leases		<u>(40,081)</u>
<b>Net cash inflow (outflow) from financing activities</b>		<b><u>(91,838)</u></b>
<b>Net increase (decrease) in cash held</b>		<b><u>(368,334)</u></b>
Cash flow arising from restructure of local government	9	16,801,217
<b>Cash at end of reporting period</b>	<b>10</b>	<b><u><u>16,432,884</u></u></b>

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

## 1 Summary of Significant Accounting Policies

### 1.A Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and complies with the requirements of the Local Government Act 1993, the Local Government Reform Implementation Regulation 2008, section 37 of the Local Government (Community Government Areas) Act 2004 and the Local Government (Community Government Areas) Finance Standard 2004 and the Local Government Finance Standard 2005.

The Local Government Reform Commission report to the Minister for Local Government, Planning and Sport on 27 July 2007 recommended that the former Badu Island Council, Boigu Island Council, Dauan Island Council, Erub Island Council, Hammond Island Council, Iama Island Council, Kubin Island Council, Mabuiag Island Council, Mer Island Council, Poruma Island Council, Saibai Island Council, St. Pauls Island Council, Ugar Island Council, Warraber Island Council, Yorke Island Council and Island Co-ordinating Council be amalgamated to form Torres Strait Island Regional Council. Pursuant to Part 1B of the Local Government Act 1993 and in accordance with the Local Government Reform Implementation Regulation 2008, the Torres Strait Island Regional Council was formed on 15 March 2008.

The Local Government Reform Implementation Regulation 2008 and the Local Government Reform Implementation (Transferring Areas) Amendment Regulation (No.1) 2008 transferred the assets and liabilities of the former Badu Island Council, Boigu Island Council, Dauan Island Council, Erub Island Council, Hammond Island Council, Iama Island Council, Kubin Island Council, Mabuiag Island Council, Mer Island Council, Poruma Island Council, Saibai Island Council, St. Pauls Island Council, Ugar Island Council, Warraber Island Council, Yorke Island Council and Island Co-ordinating Councils to the Torres Strait Island Regional Council as at chargeover date.

Pursuant to section 159YQ of the *Local Government Act 1993* and sections 26 and 35 of the *Local Government Reform Implementation Regulation 2008*, financial statements have been prepared for the period starting on 15 March 2008 and ending on 30 June 2009. Future periods will be for twelve month periods starting 1 July and ending on 30 June.

Assets and liabilities of the former Councils have been recognised by Torres Strait Island Regional Council on 15 March 2008 at the previous book values of the transferor local governments with adjustments to non-current assets to reflect a valuation undertaken as at that date. This is shown as income in the Income Statement and details are disclosed in note 9.

Torres Strait Island Regional Council adopted consistent accounting policies to the former Island Councils from its commencement date of 15 March 2008, except for the recognition of provisions made in respect of the Councils landfill sites. In some cases, this resulted in adjustments to the measurement of assets and liabilities transferred from former Councils as at 15 March 2008. These accounting policy alignment adjustments are shown in the Income Statement and details are disclosed in note 9.

This financial report has been prepared under the historical cost convention except for the revaluation of certain non-current assets.

### 1.B Statement of Compliance

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Because the Council is a not-for-profit entity and the Australian Accounting Standards include requirements for not-for-profit entities which are inconsistent with International Financial Reporting Standards (IFRS), to the extent these inconsistencies are applied, this Report does not comply with IFRS. The main impact is in:

- the offsetting of revaluation and impairment gains and losses within a class of assets; and
- the recognition of assets and liabilities of the former Councils at the amounts at which they were recognised by the transferor local governments.

## 1 Summary of Significant Accounting Policies

### 1.C Basis of consolidation

Torres Strait Island Regional Council owns the entire issued share capital of Poruma Island Pty Ltd. The Council has determined that this entity is not a significant controlled entity and therefore the assets and liabilities and results of Poruma Island Pty Ltd have not been reflected in these financial statements. There are no other controlled entities.

### 1.D Adoption of new Accounting Standards.

The following Australian Accounting Standards, issued on the dates shown, are not mandatory for the period ending 30 June 2009 but, as permitted, have been applied in preparing this report where applicable:

AASB 1004 Contributions (December 2007)  
AASB 1051 Land Under Roads (December 2007)  
AASB 1052 Disaggregated Disclosures (December 2007)  
AASB 2007-9 Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31  
AASB Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities.

The following Australian Accounting Standards, issued on the dates shown, are not mandatory for the period ending 30 June 2009 and have not been applied.

AASB3 Business Combinations (March 2008)  
AASB8 Operating Segments (Feb 2007)  
AASB101 Presentation of Financial Statements (September 2007)  
AASB123 Borrowing Costs (June 2007)  
AASB127 Consolidated and Separate Financial Statements (March 2008)  
AASB 1039 Concise Financial Reports (August 2008)  
AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB8 (February 2007)  
AASB2007-6 Amendments to Australian Accounting Standards arising from AASB123 (June 2007)  
AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB101 (September 2007)  
AASB 2007-10 Further Amendments to Australian Accounting Standards arising from AASB 101  
AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations (February 2008)  
AASB2008-2 Amendments to Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation (March 2008)  
AASB2008-3 Amendments to Accounting Standards arising from AASB3 and AASB127 (March 2008)  
AASB2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008)  
  
AASB2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project  
  
AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (July 2008)  
AASB2008-8 Amendments to Australian Accounting Standards - Eligible Hedged Items [AASB 139] (August 2008)  
AASB 2008-9 Amendments to AASB 1049 for Consistency with AASB 101 (September 2008)  
AASB 2008-11 Amendments to Australian Accounting Standard – Business Combinations Among Not-for-Profit Entities [AASB 3] (November 2008)  
AASB 2008-13 Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners (December 2008) [AASB 5 & AASB 110]  
Interpretation 15 - Agreements for the Construction of Real Estate (August 2008)  
Interpretation 16 - Hedges of a Net Investment in a Foreign Operation (August 2008)  
Interpretation 17 – Distributions of Non-cash Assets to Owners (December 2008)

It is not expected that the new standards would have made a substantial difference to the results if they had applied to this accounting period. Most of the changes are matters of presentation.

### 1.E Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Council's accounting policies. Estimates and judgements are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Council and that are believed to be reasonable under the circumstances.

The estimates and assumptions that have the potential to cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are referred to in the appropriate notes to the financial statements

**1 Summary of Significant Accounting Policies**

**1.F Currency**

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

**1.G Constitution**

The Torres Strait Island Regional Council is constituted under the Queensland Local Government Act 1993 and is domiciled in Australia.

**1.H Date of authorisation**

The financial report was authorised for issue on the date it was submitted to the Auditors for final signature.

The Local Government has the power to amend the Financial Report after it is authorised for issue until the adoption of the report by the Local Government as part of the Annual Report.

**1.I Changes to Accounting Policies, Estimates and Errors**

Unless otherwise stated, accounting policies have been consistently applied throughout the period.

**1.J Revenue**

Revenue is recognised at the fair value of the consideration received or receivable after taking into account any discounts or rebates.

**(i) Rental income**

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

**(ii) Grants and Subsidies**

Grants, subsidies and contributions that are non-reciprocal in nature are recognised as revenue in the year in which Council obtains control over them. An equivalent amount is placed in a reserve until the funds are expended. Unspent non-reciprocal capital grants are placed in the Unspent capital grants reserve. Council spends all recurrent grants in the year received and therefore Council has not established a reserve for this purpose.

Where grants are received that are reciprocal in nature, revenue is recognised over the term of the funding arrangements. Council does not currently have any reciprocal grants.

**(iii) Non-Cash Contributions**

Non-cash contributions with a value in excess of the recognition thresholds set out in note 1.R, are recognised within revenue as a donated asset and as non-current assets. Non-cash contributions below the thresholds are recorded as revenue and expenses.

**(iv) Other Revenue Including Contributions**

Other Revenue is recognised as a receivable when it is probable that it will be received and the amount is known, otherwise the amount is recognised upon receipt.

**(v) Revenue from enterprise activities**

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period and where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

**(vi) Interest revenue**

Interest received from term deposits is accrued over the term of the investment.

All revenue is stated net of the amount of goods and services tax (GST).

**1.K 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.

**1 Summary of Significant Accounting Policies**

**1.L Receivables**

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

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

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

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

**1.M Other Financial Assets**

Other Financial Assets are recognised at cost. The Council does not hold any other financial assets.

**1.N Financial Assets and Financial Liabilities**

**Categorisation**

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

Financial Assets	Categorisation
Cash	
Receivables	Loans and receivables (at amortised cost)
Financial Liabilities	
Payables	Financial liability (at cost)
Borrowings	Financial liability (at amortised cost)
Finance Lease liabilities	Financial liability (at amortised cost)

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

The fair value of financial assets and liabilities must be estimated for recognition and measurement and for disclosure purposes.

The fair value of financial assets and liabilities is determined as follows:

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

The fair value of borrowings, as disclosed in note 16 to the accounts, is determined by reference to published price quotations in an active market and/or by reference to pricing models and valuation techniques. It reflects the value of the debt if the Council repaid it in full at balance date. As it is the intention of the Council to hold its borrowings for their full term, no adjustment provision is made in these accounts.

The fair value of financial liabilities is based on market prices where a market exists, or is determined by discounting expected future cash flows by the current interest rate for financial assets and liabilities with similar risk profiles.

The fair value of trade receivables and payables are assumed to approximate their nominal value less estimated credit adjustments.

Available for sale financial assets are measured at cost, as fair value cannot be reliably measured, therefore no fair value is disclosed.

**1 Summary of Significant Accounting Policies**

**1.O Inventories**

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

Inventories held for distribution are:

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

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

**1.P Investments**

Term deposits in excess of three months are reported as investments, with deposits of less than three months being reported as cash equivalents. At 30 June 2010 Council did not have any term deposits in excess of three months.

The controlled entity, Poruma Island Pty Ltd, is accounted for at cost in the Council's separate financial statements. Torres Strait Island Regional Council holds 100% of the shares in the controlled entity. The shares are measured at cost as fair value cannot be reliably measured.

**1.Q Community Housing**

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

As the buildings held by Council does not meet the definition of Investment Property, these buildings are accounted for in accordance with Note 1.R Property, Plant and Equipment.

**1.R Property, Plant and Equipment**

Each class of property, plant and equipment is stated at cost or fair value less, where applicable, any accumulated depreciation and accumulated impairment loss. Items of plant and equipment with a total value of less than \$5,000, and infrastructure assets, and buildings with a total value of less than \$10,000 are treated as an expense in the year of acquisition. All other items of property, plant and equipment are capitalised.

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

- Land assets
- Buildings (Community)
- Buildings (Corporate)
- Recreation Facilities
- Roads and Transport Network
- Stormwater Drainage Network
- Flood Mitigation Network
- Water Supply Network
- Sewerage Network
- Wharves, Piers, Jetties and Pontoons
- Plant and equipment
- Capital Work in Progress

**(i) 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.

## 1 Summary of Significant Accounting Policies

Property, plant and equipment, received in the form of contributions are recognised as assets and revenues at fair value by Council valuation where that value exceeds the recognition thresholds for the respective asset class. Fair value means the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Assets transferred from the former Badu Island Council, Boigu Island Council, Dauan Island Council, Erub Island Council, Hammond Island Council, Iama Island Council, Kubin Island Council, Mabuiag Island Council, Mer Island Council, Poruma Island Council, Saibai Island Council, St. Pauls Island Council, Ugar Island Council, Warraber Island Council, Yorke Island Council and Island Co-ordinating Councils, as a result of a Government restructure, were initially recognised at the amount at which they were recognised by the former Councils as at the changeover day as disclosed in Note 1.A and Note 9, and subsequently revalued as at the same date. Those assets are reflected as transferred assets restated to fair value in Note 14.

### (ii) Capital and operating expenditure

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

### (iii) Valuation

Land, buildings and all infrastructure assets are measured on the revaluation basis, at fair value, in accordance with AASB116 *Property, Plant and Equipment* and the *Local Government Finance Standard 2005*.

In relation to Plant and Equipment class of assets, Council has elected to take advantage of the deemed cost exemption available in AASB1: *First time adoption of Australian Equivalents to International Reporting Standards Paragraph 16*. As a result Plant and Equipment measured at fair value at 15 March 2008 are deemed to be measured at Cost from this point forward.

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 comprehensively revaluing these assets at least once every five years with interim valuations, using a suitable index, being otherwise performed on an annual basis where there has been a material variation in the index.

Any revaluation increment arising on the revaluation of an asset is credited to the asset revaluation reserve of the appropriate class, 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 reserve relating to 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.

Details of valuers and methods of valuations are disclosed in Note 14.

### (iv) Capital work in progress

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

1 **Summary of Significant Accounting Policies**

(v) Depreciation

Land is not depreciated as it has an unlimited useful life. Depreciation on other property, plant and equipment is calculated on a straight-line basis so as to write-off the net cost or revalued amount of each depreciable asset, less its estimated residual value, progressively over its estimated useful life to the Council.

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

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

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

The estimated useful lives of property, plant and equipment are reviewed annually. Details of the range of useful lives for each class of asset are shown in note 14.

(vi) Unfunded Depreciation

Torres Strait Island Regional Council has elected not to fund depreciation expenses for assets.

(vii) Land Under Roads

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

(viii) Deed of Grant in Trust land

The Council is located on land assigned to it under various Deeds of Grant in Trust (DOGIT) pursuant to section 334 of the Land Act 1962. The land comprises a total area of approximately 483.6 sq km, across the following islands:

Badu Island  
Boigu Island  
Dauan Island  
Erub Island  
Hammond Island  
Iama Island  
Moa Island (location of former St Pauls and Kubin Island Councils)  
Mabuiag Island  
Poruma Island  
Saibai Island  
Ugar Island  
Warraber Island  
Yorke Island

The land is administered by the Department of Environment and Resource Management and the Council has restricted use of this land for the benefit of Island inhabitants. The DOGIT land has not been taken up in the Council's assets as it cannot be reliably measured. The DOGIT land for Mer Island is managed by the Department of Communities.

**1 Summary of Significant Accounting Policies**

**1.S Intangible Assets**

Only intangible assets which have a cost exceeding \$10,000 are recognised as intangible assets.

Expenditure on internally generated assets, up to the decision to generate the asset in a particular form, is research expenditure and is not capitalised.

The Council does not presently hold any intangible assets required to be recognised under the accounting policies detailed above.

**1.T Biological Assets**

The Council operates a nursery to produce bedding plants and trees for its own use. In view of the immaterial nature of this operation the accounting procedures related to biological assets have not been applied. The costs incurred in this operation are included in Council's general operations as they are incurred.

**1.U Impairment of Non Current Assets**

Each non-current physical and intangible asset and group of assets is assessed for indicators of impairment annually. If an indicator of possible impairment exists, the Council determines the asset's recoverable amount. Any amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

The asset's recoverable amount is determined as the higher of the asset's fair value less costs to sell and depreciated replacement cost.

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

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

**1.V Leases**

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

**(i) Finance leases**

Finance leases where the Council is lessee are capitalised in that a lease asset and a liability equal to the fair value of the leased property (or the present value of the minimum lease payments, if lower) are recorded at the inception of the lease. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are charged as finance costs. The asset is accounted for on the same basis as other assets of the same class. Contingent rentals are written off as an expense in the accounting period in which they are incurred.

**(ii) Operating leases**

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

**1 Summary of Significant Accounting Policies**

**1.W Payables**

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

**1.X Liabilities - Employee Benefits**

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

**(i) Salaries and Wages**

A liability for salaries and wages is recognised and measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

**(ii) Annual Leave**

A liability for annual leave is recognised. The current portion (based on the expected payment date) is calculated on current wage and salary levels and includes related employee on-costs. The non current portion is calculated on projected future wage and salary levels and related employee on-costs, discounted to present values. This liability represents an accrued expense and is reported in Note 15 as a payable.

**(iii) Superannuation**

The superannuation expense for the reporting period is the amount of the contribution the local government makes to the superannuation plan which provides benefits to its employees.

Details of those arrangements are set out in Note 25.

**(iv) Long Service Leave**

A liability for long service leave is measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. The value of the liability is calculated using current pay rates and projected future increases in those rates and includes related employee on-costs. The estimates are adjusted for the probability of the employee remaining in the Council's employment or other associated employment which would result in the Council being required to meet the liability. Adjustments are then made to allow for the proportion of the benefit earned to date, and the result is discounted to present value. The interest rates attaching to Commonwealth Government guaranteed securities at the reporting date are used to discount the estimated future cash outflows to their present value. This liability is reported in Note 19 as a provision.

**1.Y Borrowings**

Loans payable are measured at amortised cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

Borrowing costs, which includes interest calculated using the effective interest method and administration fees, are expensed in the period in which they arise. Costs that are not settled in the period in which they arise are added to the carrying amount of the borrowing.

Borrowing costs are treated as an expense, as assets constructed by the Council are generally completed within one year and therefore are not considered to be qualifying assets.

Gains and losses on the early redemption of borrowings are recorded in other revenue / expense.

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

**1 Summary of Significant Accounting Policies**

**1.Z Restoration Provision**

A provision is made for the cost of restoration of assets and other future restoration costs where it is probable the Council will be liable, or required, to incur such a cost on the cessation of use of the facility. This liability is provided in respect of the landfill sites on each of the islands under Council responsibility.

The provision is measured at the expected cost of the work required discounted to current day values using an appropriate rate. The current QTC lending rate is considered an appropriate rate.

Changes to the provision resulting from the passing of time (the unwinding of the discount) are treated as a finance cost.

**1.AA Retained Surplus**

This represents the amount of Council's net community equity not set aside in reserves to meet specific future needs.

**1.AB National Competition Policy**

Council has not applied National Competition Policy reform to any of its activities. The Council has no business activities, including a road activity or a building certification activity, to which the Code of Competitive Conduct would normally be applied.

**1.AC Rounding and Comparatives**

Amounts included in the financial statements have been rounded to the nearest \$1.

Comparative figures have not been provided as Torres Strait Island Regional Council commenced operation on 15 March 2008 and the financial statements cover the period 15 March 2008 to 30 June 2009.

**1.AD Financial Risk Management**

The Council minimises its exposure to financial risk in the following ways:

Investments in financial assets are only made where those assets are with a bank or other financial institution in Australia and are for a period of less than one year.

The Council does not invest in derivatives or other high risk investments.

When the Council borrows, it borrows from the Queensland Treasury Corporation unless another financial institution can offer a more beneficial rate, taking into account any risk. Borrowing by the Council is constrained by the provisions of the Statutory Bodies Financial Arrangements Act 1982.

Details of financial instruments and the associated risks are shown at note 28.

**1.AE Trust Funds Held for Outside Parties**

Funds held in the Trust Account on behalf of outside parties include those funds from funeral funds and unclaimed monies (e.g. wages) paid into the Trust Account by the Council. The Council performs only a custodial role in respect of these monies and because the monies cannot be used for Council purposes, they are not considered revenue nor brought to account in the financial statements.

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

For details see note 26.

**1.AF Taxation**

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

Torres Strait Island Regional Council

Notes to the Financial Statements

For the period 15 March 2008 to 30 June 2009

2 Analysis of results by function

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

(a) Period ended 30 June 2009

Functions	Gross program income		Elimination of inter-function transactions	Total income	Gross program expenses		Elimination of inter-function transactions	Total expenses	Net result from recurring operations		Net result attributable to Council	Assets
	Recurring	Capital			Recurring	Capital			2009	2009		
	2009 \$	2009 \$	2009 \$	2009 \$	2009 \$	2009 \$	2009 \$	2009 \$	2009 \$	2009 \$	2009 \$	2009 \$
Corporate Governance	-	-	-	-	(6,685,614)	-	436,651	(6,248,963)	(6,248,963)	(6,248,963)	(6,248,963)	52,763
Economic & Tourism Development	4,279,029	2,312,766	-	6,591,795	(9,223,182)	-	602,385	(8,620,797)	(4,341,768)	(4,341,768)	(2,029,002)	15,623,072
Housing & Ports	5,066,594	7,236,246	-	12,302,840	(18,415,471)	-	1,202,751	(17,212,720)	(12,146,126)	(4,909,880)	(4,909,880)	333,600,845
Finance	2,783,477	-	-	2,783,477	6,795,260	-	(5,115,244)	1,680,016	4,463,493	4,463,493	4,463,493	6,046,391
Corporate Services	22,517,006	41,500	-	22,558,506	(18,136,968)	-	1,150,895	(16,986,073)	5,530,933	5,572,433	5,572,433	16,577,031
Community Services	26,493,354	948,724	-	27,442,078	(26,447,159)	-	-	(26,447,159)	46,195	994,919	994,919	20,066,719
Engineering	5,823,651	2,514,040	-	8,337,691	(26,374,360)	-	1,722,563	(24,651,797)	(18,828,146)	(16,314,106)	(16,314,106)	174,772,818
Total Council	66,963,111	13,053,276	-	80,016,387	(98,487,494)	-	-	(98,487,494)	(31,524,383)	(18,471,107)	(18,471,107)	566,739,639
Controlled entity net of eliminations												
<b>Total</b>	<b>66,963,111</b>	<b>13,053,276</b>	<b>-</b>	<b>80,016,387</b>	<b>(98,487,494)</b>	<b>-</b>	<b>-</b>	<b>(98,487,494)</b>	<b>(31,524,383)</b>	<b>(18,471,107)</b>	<b>(18,471,107)</b>	<b>566,739,639</b>

## Torres Strait Island Regional Council

Notes to the Financial Statements

For the period 15 March 2008 to 30 June 2009

### 2 Analysis of results by function (continued)

#### (b) Components of Council functions

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

##### **Governance**

This comprises the support functions for the Mayor and Councillors, Council and committee meetings and statutory requirements. The key components of the Governance function provides the basis for the administrative framework for the organisation.

Key components of the Governance function include:

- Internal Audit;
- Human Resources;
- Administration for Councillors; and
- Legal Services
- Public Relations
- Risk and Natural Disaster

##### **Economic & Tourism Development**

The objective of the Economic and Tourism Development function provides the basis for the Torres Strait to leverage of its comparative advantage associated with its natural environment.

- Encourage sustainable industries owned and operated by local residents.
- Facilitate access to capital and other opportunities to finance enterprise.
- Support institutional capacity building for communities to manage their own affairs.
- Encourage competitive industry to smooth the economic cycle and alleviate resource leakage from the region.

##### **Housing & Ports**

The outcomes achieved from the Housing and Ports function provides for a base level of standard of living for all communities associated with the Housing component whilst the Airports / Seaports are managed to provide greater community access / choice of transportation services.

- Reduction of overcrowding through additional and appropriate design of housing incorporating the tropical character of the region.
- Tenancy arrangements encouraging housing diversity.
- Facilitate home ownership through active involvement in the review of the Torres Strait Island Land Act.
- Value for money in the provision of housing.

##### **Finance**

The Finance function provides the Council and Community with risk management, strategy setting, internal controls and effective resource management.

Key components of the Corporate and Finance function include:

- Procurement and Plant
- Financial Services
- Asset and Risk Management
- Administration and Governance Services
- Records and Information Technology Management

##### **Corporate Services**

The outcomes achieved from the Corporate Services function provides the Council and Community with improvement in the quality of services provided by the Council to Community through reduction in waste and implementation of best practice systems.

##### **Community Services**

The outcomes achieved by Community Services are linked with the Council's commitment to public health, recreational opportunities, the arts and community development. •Encourage sustainable industries owned and operated by local residents.

- Establish partnerships and collaboration with other agencies and government to proactively deliver primary health care.
- Education to improve health in the home, workplace and community
- Create a safer community through the proactive management of domestic and feral animals
- Proactively develop strategies to reduce, minimise the level of vector transmitted diseases.
- Utilisation of libraries as a central holding body of documented information (past and present) which allows communities to build upon their knowledge.
- Development, provision and effective operation of sport and recreational facilities, programs and services.

##### **Engineering**

Engineering Services are linked with Council's commitment to roads, water, wastewater and parks and garden infrastructure.

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

Key components of the Engineering Services function include:

- Planning Services
- Water Services
- Wastewater Services
- Civil Works Services
- Engineering Services

The outcomes achieved by Engineering Services are linked with Council's commitment to roads, water, wastewater and parks and gardens infrastructure.

**Torres Strait Island Regional Council**

Notes to the Financial Statements

For the period 15 March 2008 to 30 June 2009

	Note	2009 \$
<i>Notes on the Income Statement</i>		
<b>3 Revenue analysis</b>		
(a) <b>Utility charges</b>		
Water consumption, rental and sundries		6,819
Waste management		6,819
Total utility charge revenue		<u>13,638</u>
Less: Discounts		-
Net utility charges		<u>13,638</u>
(b) <b>Fees and charges</b>		
Fees and Charges		<u>1,402,522</u>
		<u>1,402,522</u>
(c) <b>Rental income</b>		
Property rentals		<u>3,732,565</u>
		<u>3,732,565</u>
(d) <b>Interest received</b>		
Interest received - financial institutions		<u>663,815</u>
		<u>663,815</u>
(e) <b>Sales - Contract and recoverable works</b>		
Sales - Contract and recoverable works		<u>2,060,508</u>
		<u>2,060,508</u>
(f) <b>Other recurrent income</b>		
Trading income from Enterprise activities		6,149,772
Other Income		<u>275,967</u>
		<u>6,425,739</u>
<b>4 Grants, subsidies, contributions and donations</b>		
(a) Recurrent grants and subsidies, other contributions and donations are analysed as follows:		
General purpose grants		8,616,364
State Government subsidies & grants		<u>44,047,960</u>
Total recurrent revenue		<u>52,664,324</u>
(b) Capital government grants and subsidies, and other contributions are analysed as follows:		
State Government subsidies & grants		9,621,462
General purpose grants		<u>3,431,814</u>
Total capital revenue		<u>13,053,276</u>

## Torres Strait Island Regional Council

Notes to the Financial Statements

For the period 15 March 2008 to 30 June 2009

	Note	2009 \$
<b>(c) Conditions over contributions</b>		
Contributions and grants which were recognised as revenues during the reporting period and which were obtained on the condition that they be expended in a manner specified by the contributor but had not been expended at the reporting date.		
Grants for expenditure on infrastructure		-
Contributions for infrastructure		-
		<u>-</u>
Contributions and grants which were recognised as revenues during a previous reporting period and were expended during the current reporting period in accordance with the Council's obligations.		
Grants expended on infrastructure		13,053,276
Contributions expended on infrastructure		-
		<u>13,053,276</u>
<b>5 Employee benefits</b>		
Total staff wages and salaries		34,425,261
Councillors' remuneration		1,109,433
Annual, sick and long service leave entitlements		4,391,295
Superannuation	25	1,436,087
		<u>41,362,076</u>
Other employee related expenses		1,615,514
		<u>42,977,590</u>
Less: Capitalised employee expenses		(456,971)
		<u>42,520,619</u>
Councillor remuneration represents salary, and other allowances paid in respect of carrying out their duties		
Total Council employees at the reporting date:		
		<u>Number</u>
Elected members		16
Ordinary staff (full time equivalents)		1,909
Total full time equivalent employees		<u>1,925</u>
<b>6 Materials and services</b>		
Advertising and marketing		\$ 14,709
Administration supplies and consumables		9,781,780
Audit services	*	666,863
Communications and IT		388,032
Consultants		141,801
Contractors		1,507,258
Donations paid		13,875
Power		1,117,486
Repairs and maintenance		9,368,244
Rentals - Operating leases	*	72,002
Subscriptions and registrations		215,421
Travel		507,134
Other material and services		4,304,207
Oncosts recovered		(13,148)
		<u>28,085,664</u>

## Torres Strait Island Regional Council

Notes to the Financial Statements

For the period 15 March 2008 to 30 June 2009

	Note	2009 \$
<b>7 Finance costs</b>		
Finance costs charged by the Queensland Treasury Corporation		47,172
Interest on finance leases		10,960
Bank charges		49,695
Impairment of debts		69,412
Refuse restoration		82,194
		<u>259,433</u>
<b>8 Depreciation and Amortisation</b>		
<b>(a) Depreciation of non-current assets</b>		
Buildings (Community)		10,343,082
Buildings (Corporate)		2,961,414
Recreation Facilities		380,771
Roads/Transport Network		2,384,417
Stormwater Drainage Network		27,287
Flood Mitigation Network		74,926
Water Supply Network		2,818,095
Sewerage Network		4,797,745
Wharves, Piers, Jetties and Pontoons		512,504
Plant and Equipment		3,321,537
Total depreciation of non current assets	14	<u>27,621,778</u>

### Unfunded Depreciation

#### (b) Accumulated Unfunded Depreciation

The accumulated un-funded depreciation represents the accumulated shortfall in funding being provided from operating revenue to replace the assets at some future time.

It is anticipated external borrowings will be required as the assets are replaced resulting in higher future operating costs. Recognition of un-funded depreciation represents a decline in the capital value of the Council.

Net adjusted unfunded depreciation is calculated by taking the gross unfunded depreciation and deducting the amount of depreciation that will not require funding due to either non-replacement of the asset, contributions becoming available for funding the replacement, the replacement asset will cost less than the existing asset, or the engineers assessment of depreciation funding is less than the depreciation expense in the period.

There is no difference between the gross and net unfunded depreciation on the basis that assets have only been valued and subsequently depreciated if they represent a future requirement of the Council to maintain and replace.

The gross unfunded depreciation can be analysed as follows:

Road, Drainage and Bridge Network	2,387,914
Buildings	13,304,496
Recreation facilities	380,771
Water and wastewater drainage network	8,228,589
Wharves, jetties and pontoons	512,504
Plant & equipment	2,807,504
	<u>27,621,778</u>

## 9 Gain on restructure of local government

The Local Government Reform Commission report to the Minister for Local Government, Planning and Sport on 27 July 2007 recommended that the former Island Councils be amalgamated to form the Torres Strait Island Regional Council. Pursuant to Part 1B of the Local Government Act 1993 and in accordance with the Local Government Reform Implementation Regulation 2008, the amalgamation was effective from the changeover date of 15 March 2008.

The Local Government Reform Implementation Regulation 2008 and the Local Government Reform Implementation (Transferring Areas) Amendment Regulation (No.1) 2008 transferred the assets and liabilities of the former Island Councils to the Torres Strait Island Regional Council as at changeover date.

The assets and liabilities of the former Councils have been recognised at the amounts at which they were recognised by the transferor Island Councils as at the changeover day.

Torres Strait Island Regional Council adopted consistent accounting policies from its commencement date of 15 March 2008. In some cases, this resulted in adjustments to the measurement of assets and liabilities transferred from former Councils as at 15 March 2008.

Details are as follows:

	14 March 2008										
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>ASSETS</b>											
<b>Current Assets</b>											
Cash and cash equivalents	1,289,914	216,209	798,949	211,817	896,257	629,802	1,502,118	1,326,440	110,476	1,132,519	
Trade and other receivables	1,167,462	68,776	8,389	1,508,337	99,173	400,837	400,172	141,074	157,310	1,202,769	
Inventories	401,081	18,556	9,851	57,660	13,000	7,017	16,980	134,744	67,955	14,610	
Other financial assets	-	570,754	256,304	-	41,519	-	17,319	151,260	848,199	-	
	2,858,457	874,295	1,073,493	1,777,814	1,049,949	1,037,656	1,936,589	1,753,518	1,183,940	2,349,898	
Non-current assets classified as held for sale											
<b>Total current assets</b>	2,858,457	874,295	1,073,493	1,777,814	1,049,949	1,037,656	1,936,589	1,753,518	1,183,940	2,349,898	
<b>Non-current Assets</b>											
Receivables	-	-	-	2,000	-	-	-	-	-	-	92,749
Investments	-	-	-	-	-	-	-	-	-	-	350,002
Investment property	-	-	-	-	-	-	-	-	-	-	-
Property, plant and equipment	45,769,689	12,781,524	7,240,817	22,679,289	8,760,530	12,646,640	14,741,365	8,391,139	23,437,215	10,070,390	
Capital works in progress	-	401,627	611,147	435,850	-	127,625	-	2,127,552	2,630,880	1,422,581	
Intangible assets	-	-	-	-	-	-	-	-	-	-	
<b>Total non-current assets</b>	45,769,689	13,183,151	7,851,964	23,117,139	8,760,530	12,774,265	14,741,365	10,518,691	26,068,095	11,935,722	
<b>TOTAL ASSETS</b>	48,628,146	14,057,446	8,925,457	24,894,953	9,810,479	13,811,921	16,677,954	12,272,209	27,252,035	14,285,620	
<b>LIABILITIES</b>											
<b>Current Liabilities</b>											
Trade and other payables	469,427	235,936	646,082	651,797	120,114	302,296	17,239	169,535	214,078	375,190	
Borrowings	-	-	-	-	57,012	160,891	-	-	-	-	
Provisions	423,656	-	23,438	110,970	345,308	653,055	650,471	362,069	961,055	1,099,771	
Other	-	555,017	669,520	256,778	522,434	1,116,242	667,710	531,604	1,175,133	1,474,961	
<b>Total current liabilities</b>	893,083	790,953	1,339,040	1,019,545	1,049,949	1,077,656	1,455,420	1,063,208	1,350,266	2,959,932	
<b>Non-current Liabilities</b>											
Trade and other payables	1,217,685	-	28,316	-	-	-	-	-	-	-	
Borrowings	94,058	-	-	-	-	-	-	-	-	-	
Provisions	159,798	-	-	41,468	-	1,244	-	-	-	-	
<b>Total non-current liabilities</b>	1,471,541	-	28,316	41,468	-	1,244	-	-	-	-	
<b>TOTAL LIABILITIES</b>	2,364,624	790,953	1,367,356	1,061,013	1,049,949	1,078,900	1,455,420	1,063,208	1,350,266	2,959,932	
<b>NET ASSETS TRANSFERRED FROM ABOLISHED COUNCILS</b>	46,263,522	13,266,493	8,227,621	23,833,940	9,288,045	12,694,435	16,010,244	11,740,605	26,076,902	12,810,659	



# Torres Strait Island Regional Council

Notes to the Financial Statements

For the period 15 March 2008 to 30 June 2009

	Note	2009 \$	
<b>10 Cash and cash equivalents</b>			
Cash at bank and on hand		15,271,512	
Deposits at call		1,161,372	
Less Bank Overdraft		-	
Balance per cash flow statement		<u>16,432,884</u>	
Externally imposed expenditure restrictions at the reporting date relate to the following cash assets:			
Unspent government grants and subsidies		1,516,065	
Total unspent restricted cash for capital projects		<u>1,516,065</u>	
Cash and deposits at call are held in the National Australia Bank in normal term deposits and business cheque accounts. The Bank currently has a Standard & Poor's credit rating of AA and a Moody's rating of Aa1.			
<b>11 Trade and other receivables</b>			
<b>Current</b>			
Other debtors		20,665,284	
Less provision for doubtful debts		(9,554,394)	
Loans and advances to controlled entities		187,723	
Prepayments and accrued income		-	
		<u>11,298,613</u>	
<b>(b) Non-current</b>			
Loans and advances to community organisations		-	
Loans and advances to controlled entities and associates		-	
		<u>-</u>	
No interest is charged on other debtors.			
There is no concentration of credit risk for other debtors receivable.			
Loans to controlled entities relate to advances made to Poruma Island Pty Ltd. This loan is interest free and has no scheduled date for repayment. The credit risk on this loan is considered low.			
<b>12 Inventories</b>			
<b>Current</b>			
Stores and Materials		893,334	
Total inventories		<u>893,334</u>	
<b>13 Equity investments</b>			
Interest in controlled entity - Poruma Island Pty Ltd		350,002	
		<u>350,002</u>	
<b>Reconciliation of non-traded shares</b>			
Carrying amount at beginning of period		350,002	
Carrying amount at the period end		<u>350,002</u>	
The shares in Poruma Island Pty Ltd are not traded on an active market and their fair value cannot be ascertained reliably. Accordingly they are shown at cost.			
Poruma Island Pty Ltd (ACN 098 641 162) was incorporated on 5 November 2001, to manage the Poruma Island Resort. The operations of the controlled entity have not been consolidated within these financial statements. The results of operations for the financial years 2007-2008 and 2008-2009 are disclosed below. The financial reporting for a 15 month period did not apply to Poruma Island Pty Ltd as part of the Local Government amalgamation.			
		<b>2009</b>	<b>2008</b>
		<b>\$</b>	<b>\$</b>
Net Profit/(Loss) from ordinary activities before income tax		(109,742)	(15,193)
Total assets		653,659	681,565
Total liabilities		(471,226)	(389,389)
Total equity		<u>182,433</u>	<u>292,176</u>



**Torres Strait Island Regional Council**

Notes to the Financial Statements

For the period 15 March 2008 to 30 June 2009

		2009
		\$
14	(b) Property, plant and equipment valuations were determined by reference to the following:	Note
<b>Land Assets</b>		
Freehold Land has been included at fair value as at 14 March 2008 as determined by Rushton AssetVal Pty Ltd, Property, Plant, Equipment and Infrastructure Consultants.		
Leaschold Land within the Council area is subject to a Deed Of Grant In trust (DOGIT). The land is administered by the Department of Environment and Resource Management and the Council has restricted use of this land for the benefit of island inhabitants. The DOGIT land has not been taken up in the Council's assets as it cannot be reliably measured.		
<b>Buildings</b>		
Buildings have been included at their fair value as at 14 March 2008 as determined by Rushton AssetVal Pty Ltd, Property, Plant, Equipment and Infrastructure Consultants, less accumulated depreciation as at 30 June 2009.		
<b>Plant and Equipment</b>		
Other plant and equipment has been included at fair value as at 14 March 2008 as determined by Rushton AssetVal Pty Ltd, Property, Plant, Equipment and Infrastructure Consultants, less accumulated depreciation as at 30 June 2009. Refer to accounting policy note 1.R (iii) for further details.		
<b>Infrastructure</b>		
Infrastructure (which incorporates Roads and Transport, Stormwater Drainage, Flood Mitigation, Water Supply, Sewerage, Wharves and Pontoons) has been included at fair value as at 14 March 2008 as determined by Rushton AssetVal Pty Ltd, Property, Plant, Equipment and Infrastructure Consultants, less accumulated depreciation as at 30 June 2009.		
<b>Capital work in progress</b>		
Capital work in progress reflects expenditure incurred on infrastructure and housing programs that was not complete at 30 June 2009 and therefore was not subject to the valuation exercise. Capital work in progress is held at cost.		
15	Trade and other payables	
	<b>Current</b>	
	Creditors and accruals	4,310,561
	GST Payable	1,810,353
	Annual leave	1,128,412
		<u>7,249,326</u>
	<b>Non-Current</b>	
	Annual leave	356,534
		<u>356,534</u>

## Torres Strait Island Regional Council

Notes to the Financial Statements

For the period 15 March 2008 to 30 June 2009

		2009	
		Note	\$
<b>16</b>	<b>Borrowings</b>		
	<b>Current</b>		
	Loans QTC	17	70,080
	Finance leases	18	35,086
			<u>105,166</u>
	<b>Non-Current</b>		
	Loans QTC	17	538,752
	Finance leases	18	18,860
			<u>557,612</u>

### (a) Bank Overdraft

At 30 June 2009 Council has no bank overdraft facility.

### (b) Unsecured Borrowings

Unsecured borrowings are provided by the Queensland Treasury Corporation (QTC).

All borrowings are in \$A denominated amounts and carried at amortised cost, interest being expensed as it accrues. No interest has been capitalised during the current or comparative reporting period. Expected final repayment dates vary from 31 December 2009 to 31 December 2014.

There have been no defaults or breaches of the loan agreement during the period.

Principal and interest repayments are made quarterly in arrears.

## 17 Loans

<b>(a) Queensland Treasury Corporation</b>			
	Transferred from Island Co-ordinating Council as part of Government restructure	1.A, 9	660,588
	Loans raised		-
	Principal repayments		(99,724)
	Interest and admin charges accrued		47,967
	Book value at period end		<u>608,831</u>
	Classified as :		
	Current		70,080
	Non-current		538,752
			<u>608,832</u>

The loan market value at the reporting date was \$602,767. This represents the value of the debt if the Council repaid it at that date. As it is the intention of the Council to hold the debt for its term, no adjustment is required to be made in these accounts.

## 18 Finance leases

Movements in finance lease during the reporting period were as follows:

Transferred from Badu Island Council as part of Government restructure	1.A, 9	94,058
Payments made in the period		(40,112)
Minimum lease payments		<u>53,946</u>

The above minimum lease payments are payable as follows:

Not later than one year	40,068
Later than 1 year but not later than 5 years	18,860
Later than 5 years	-
	<u>58,928</u>
Less: Future finance charges	(4,982)
Lease liability recognised in the financial statements	<u>53,946</u>

Classified as:

Current	35,086
Non-Current	18,860
	<u>53,946</u>

The present value of above minimum lease payments are payable as follows:

Not later than one year	40,068
Later than 1 year but not later than 5 years	18,860
Later than 5 years	-
	<u>58,928</u>

There are 4 lease agreements which commenced on 14 December 2006 for a period of 4 years.

The carrying value of the leased assets is as follows:  
Motor Vehicles

63,250

Torres Strait Island Regional Council

Notes to the Financial Statements

For the period 15 March 2008 to 30 June 2009

		2009
		\$
	Note	
<b>19 Provisions</b>		
<b>Current</b>		
Long service leave		513,883
		<u>513,883</u>
<b>Non-Current</b>		
Refuse restoration	(a)	2,315,114
Long service leave	(b)	287,395
		<u>2,602,509</u>
<b>Details of movements in provisions:</b>		
<b>(a) Refuse restoration</b>		
Transferred from former Island Councils as part of Government restructure - change in accounting policy	1.A, 9	2,232,920
Increase in provision - finance cost		-
Increase in provision due to change in discount rate		82,194
Balance at the end of period		<u>2,315,114</u>
<p>This is the present value of the estimated cost of restoring the Refuse disposal site to a useable state at the end of its useful life. The projected cost is \$2,662,060 and this cost is expected to be incurred in 2013.</p>		
<b>(b) Long Service Leave</b>		
Transferred from former Island Councils as part of Government restructure	1.A, 9	661,651
Long service leave entitlement arising		139,627
Long Service entitlement extinguished		-
Long Service entitlement paid		-
Balance at the end of period		<u>801,278</u>
Current		513,883
Non current		287,395
Balance at the end of period		<u>801,278</u>
<b>20 Retained surplus</b>		
Movements in the retained surplus were as follows:		
Retained surplus/(deficit) at the beginning of financial year		-
Change in Net Assets resulting from operations after gain on restructuring		<u>555,354,610</u>
Retained surplus at the end of the financial year		<u>555,354,610</u>
<b>21 Commitments for expenditure</b>		
<b>(a) Operating leases</b>		
Minimum lease payments in relation to non-cancellable operating leases are as follows:		
Within one year		39,765
One to five years		38,669
More than five years		29,210
		<u>107,644</u>

## Torres Strait Island Regional Council

Notes to the Financial Statements

For the period 15 March 2008 to 30 June 2009

	2009		
	Note	\$	
<b>(b) Contractual Commitments</b>			
Contractual commitments at balance date but not recognised in the financial statements are as follows:			
Rental agreements for Thursday Island accommodation		1,559,659	
Rental agreement for Cairns offices		639,105	
Software contract with Civica		601,088	
		<u>2,799,852</u>	
<b>22 Capital and other reserves</b>			
Council has elected to not establish capital or operating reserves in accordance with section 25 of the Local Government (Community Government Areas) Finance Standard (2004).			
<b>23 Contingent liabilities</b>			
Details and estimates of maximum amounts of contingent liabilities are as follows:			
<u>Local Government Mutual</u>			
The Torres Strait Island Regional 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.			
The latest financial statements of LGM Queensland are as at 30 June 2009 and show accumulated members funds (equity) of \$9,768,415.			
<u>Local Government Workcare</u>			
The Torres Strait Island Regional Council is a member of the Queensland local government worker's compensation self-insurance scheme, Local Government Workcare. Under this scheme the Council has provided an indemnity towards a bank guarantee to cover bad debts which may remain should the self insurance licence be cancelled and there was insufficient funds available to cover outstanding liabilities. Only the Queensland Government's workers compensation authority may call on any part of the guarantee should the above circumstances arise. The Council's maximum exposure to the bank guarantee is \$120,000.			
<b>24 Events after balance date</b>			
A number of events material to the Council have occurred subsequent to 30 June 2009 including:			
<b>(a) Divestment of micro businesses to community entities</b>			
The former Island Councils of the Torres Strait operated a number of Island Based Enterprises. At amalgamation, Council formed the view that it was desirable to divest these Enterprises, where practicable, in favour of Community Based Organisations established for this purpose. Council called for expressions of interest from duly qualified organisations to review the financial viability of these enterprises and provide recommendations.			
During the year ended 30 June 2010, Council assisted with the establishment of four Community based organisations:			
- Badu Island Foundation Limited			
- Ged Erub Trading Homeland Enterprise (Torres Strait Islander) Corporation			
- Opor Bakir Atabur (Torres Strait Islander) Corporation			
- Saibai Community Development (Torres Strait Islander) Corporation			
Council divested the following Canteen operations from 31 December 2009 in accordance with section 285 (1) (b) of the Liquor Act 1992.			
- Badu Island Hotel transferred to Badu Island Foundation Ltd			
- Erub Daido Community Club transferred to Ged Erub Trading Homeland Enterprise (Torres Strait Islander) Corporation			
- Mer Community Club transferred to Opor Bakir Atabur (Torres Strait Islander) Corporation			
- Saibai Community Club transferred to Saibai Community Development (Torres Strait Islander) Corporation			
The revenue and expenditure for the Canteens for the period from 1 July 2009 to 31 December 2009 are as follows:			
<u>Canteen description</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Net result</u>
Badu Island Hotel	505,233	536,910	(31,677)
Erub Daido Community Club	230,478	207,665	22,814
Mer Community Club	422,141	213,043	209,098
Saibai Community Club	210,978	174,697	36,282

## Torres Strait Island Regional Council

Notes to the Financial Statements

For the period 15 March 2008 to 30 June 2009

2009

Note \$

### 24 Events after balance date

#### (b) Amending Council General Meeting Requirements

Council has amended the requirement for Council general meetings to be held on a monthly basis to meetings being required every two months. The meetings will be conducted using video conferencing and teleconferencing facilities every second month. The purpose of this change is to reduce the administrative costs associated with Council meetings in the Torres Strait, which have on average costed approximately \$42,000 to run.

#### (c) An undertaking to not Fund non-core functions unless fully grant funded

The Council does not believe that the following functions are core business of Council and that other agencies or Government Departments are responsible, as such Council will not provide for these positions past 1 July 2011:

- Community Police
- Post Office
- Centrelink
- Rangers
- Home and Community Care (HACC)
- Childcare

The only consideration Council will give in operating these functions is if they are cost neutral. Presently, the total cost to Council for these positions is \$13,303,837 in wages alone.

#### (d) Ending receipt of cash at Council offices

The cash receipting process has historically been surrounded by risk. Underlying the issues is the inherent difficulty with cash handling when access to a bank is not readily accessible. Divisions currently provide a range of cash services to the community.

These services include:

- Cash Transfers
- ATM Facilities
- EFTPOS Cash Out Facilities
- Banking agent for Enterprises

Presently, all Divisional Offices accept cash payments with the exception of Kubin. The Kubin community has been operating a cashless office offering only an EFTPOS payment facility to community members since January 2009.

Cash services are available to community members through a variety of alternative means. Namely, internet banking, telephone banking, third party operated ATM's and EFTPOS facilities.

The Council at its June 2010 meeting discussed a Cash Receipting Strategy Report recommending a move to a no cash policy across all Council Divisions. Council communicated preference towards a staged implementation during the 2010/2011 financial year.

The financial impact of moving to cashless Divisional Offices is not quantifiable, however savings are anticipated from the following:

- Reduction in administrative time at Divisional Office with the removal of Cash Transfers and EFTPOS Cash Outs
- Reduction in administrative time in conducting daily cash counts
- Reduction in administrative time in reconciling bank deposits

A non-financial impact is that without managing cash, Council is not exposed to cash related fraud risk.

#### (e) Development of Asset Management Plans

Asset Management Plans are currently being developed to demonstrate responsive management of assets (and services provided from assets), compliance with regulatory requirements, and to communicate funding required to provide the required levels of service.

The Council exists to provide services to its community. Some of these services are provided by infrastructure assets. Council has acquired infrastructure assets by 'purchase', by contract, construction by council staff and by donation of assets to meet increased levels of service.

Council's goal in managing infrastructure assets is to meet the required level of service in the most cost effective manner for present and future consumers.

The financial cost of developing Asset Management Plans using the Institute of Public Works and Engineering Australia is \$35,887.00. This cost does not include ongoing costs associated with Council staff in delivering and implementing the asset management plans. Ongoing salary costs associated with maintenance of these plans are part of the Council corporate administration costs estimated at approximately \$100,000.

# Torres Strait Island Regional Council

Notes to the Financial Statements

For the period 15 March 2008 to 30 June 2009

2009

## 24 Events after balance date

Note \$

### (f) Lease for Provision of Office Accommodation in Cairns

The Council has adopted an organisational structure to deliver its services to the Community. Since amalgamation, the Council has been progressively filling the organisational structure to the best of its abilities. A significant constraint to filling the organisational structure is associated with the Councils ability to physically house new officers, both in terms of commercial and domestic real estate.

Four options were developed and costed to provide Council with guidance on housing new and or additional staff. The four options were:

- Option A: Staff Departments Housed on an Outer Island
- Option B: Thursday Island Expansion
- Option C: Cairns Commercial Lease
- Option D: Cairns Commercial Purchase

At its Council meeting in February 2010 at St Pauls, the Council resolved to enter into a commercial lease agreement for office accommodation in Cairns.

Council entered into an agreement to lease office premises at 111 Grafton Street. An estimate of the value over the lease period is \$2.6M.

The Grafton St complex is now at a point (October 2010) where a tender has been let for the fit-out of the complex.

### (g) An Agreement with Telstra for Provision of Frame Relay/BDSL service to divisional offices

During August 2010, Council entered into an agreement with Telstra for the provision of frame relay / BDSL services to Council Offices. This agreement funded by the State Government through Council will provide Council Offices with broadband connection speeds up to 4mbps per Divisional Office. The financial cost of this to the Council was approximately \$3M.

### (h) Adoption of local government owned corporation structure for building services unit

Council at its meeting in February 2010, at St Pauls resolved that Council undertakes the investigation into establishing an LGOC for the building team, authorising the CEO to engage suitable qualified persons or organisations to carryout business plans and public benefit assessment necessary.

A Brief was developed and let to Australian Economic Consultants who determined the following:

Based on financial forecasts for the business, there appears to be strong potential for Council to earn decent commercial returns from the business should it be effectively managed and current funding arrangements continue. A corporate structure may best achieve this outcome, and would also ensure that all direct and indirect costs are appropriately identified and recovered by the business.

Initial estimates to structure the business are in the order of \$250,000.

The cashflow assessment for the corporatised scenario to 2030, including an estimate of its terminal value of the business in the final year, reports a net present value of total net cash flows (after tax equivalent payments) for the business of \$40M at a discount rate of 11%. Overhead and capital costs are explicitly accounted for in the model.

The cashflow is identifying a positive net present value – therefore the change in operating structure for the Business Services Unit is a positive change for the Council.

### (i) Impact of cyclones and flooding in Torres Strait Islands

The Council experienced severe weather events through the period 2009 and 2010. This resulted in extensive damage to Council assets. The Council has subsequently put in an NDRRA Claim of \$2,217,286 to rectify the damage.

### (j) Loss of Community Development Employment Projects (CDEP)

The Community Development Employment Projects (CDEP) management by Council finished on 30 September 2010 with Community Enterprises Australia (CEA) engaged as the new CDEP service provider.

As at 30 September 2010, Council terminated its CDEP participants from its payroll system. These participants were transitioned over to CEA for future management. The approximate cost to the Council of losing CDEP participants associated with Core Council business is \$9M.

## Torres Strait Island Regional Council

Notes to the Financial Statements

For the period 15 March 2008 to 30 June 2009

(k)	Summary of unaudited Council finances for the year ended 30 June 2010	2009	
		Note	\$
		2010	2009
		\$'000	\$'000
	<b>Financial performance</b>		
	Total revenue	64,974	80,016
	Total expenses	(79,751)	(98,487)
	Net operating surplus (loss)	(14,777)	(18,471)
	Other comprehensive income	29,343	573,826
	Total comprehensive income	14,567	555,355
	<b>Financial position</b>		
	Current assets	26,278	28,624
	Non current assets	558,468	538,115
	Total assets	584,746	566,739
	Current liabilities	10,867	7,868
	Non current liabilities	3,957	3,516
	Total liabilities	14,824	11,385
	Total Equity	569,922	555,354

There are no other matters or occurrences that have come to our attention up to the present time which would materially affect the financial report therein, or which are likely to materially affect the future results or operations of the Council.

### 25 Superannuation

The Torres Strait Island Regional Council contributes to the Local Government Superannuation Scheme (the scheme) in respect of certain of its employees. The scheme has two elements referred to as the defined benefits scheme and the accumulation scheme.

Both these schemes are defined contribution schemes as defined in the Australian Accounting Standard AASB119 *Employee benefits*. Council has no liability to or interest in the scheme other than the payment of the statutory contributions.

Any amount by which either scheme is over or under funded would only affect future benefits and is not an asset or liability of the council.

Accordingly there is no recognition in the financial statements of any over- or under-funding of the scheme.

The audited general purpose financial report of the scheme as at 30 June 2008 (the most recent available) which was not subject to any audit qualification, indicates that the assets of the scheme are sufficient to meet the accrued benefits.

The general purpose financial statements disclose that the most recent actuarial assessment of the scheme was undertaken as at 1 July 2006. The actuary indicated that without improvements to benefit conditions, or other unanticipated events, current contribution rates would be sufficient to meet members benefits as they accrue.

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

The amount of superannuation contributions paid by Torres Strait Island Regional Council to the superannuation scheme in this period for the benefit of employees was:

1,436,087

The balance of contributions for the period owing at 30 June 2009 of \$870,480 was paid after the period end and this liability is recognised in creditors and accruals shown at Note 15.

# Torres Strait Island Regional Council

Notes to the Financial Statements

For the period 15 March 2008 to 30 June 2009

	2009
	Note
	\$
<b>26 Trust funds</b>	
Monies collected or held on behalf of residents yet to be paid:	
Island Funeral Funds	425,499
Church Funds	78,315
Other Community Funds	148,955
	<u>652,770</u>
	<u>652,770</u>
<p>The Torres Strait Island Regional 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.</p>	
<b>27 Reconciliation of result from ordinary activities to net cash inflow (outflow) from operating activities</b>	
Result from ordinary activities	<u>555,354,610</u>
Non-cash operating items:	
Depreciation and amortisation	27,621,778
Change in future rehabilitation costs	82,194
	<u>27,703,972</u>
Investing and development activities :	
Net (profit) loss on disposal of non current assets	-
Capital grants and contributions	(13,053,276)
Gain on restructure of local government	(573,825,717)
	<u>(586,878,993)</u>
Financing Activities	<u>-</u>
Changes in operating assets and liabilities :	
(Increase) decrease in receivables	(2,067,147)
(Increase) decrease in other operating assets	49,114
Increase (decrease) in payables	1,915,491
Increase (decrease) in other provisions	(238,919)
	<u>(341,461)</u>
<b>Net cash outflow from operating activities</b>	<u>(4,161,872)</u>

## Torres Strait Island Regional Council

Notes to the Financial Statements

For the period 15 March 2008 to 30 June 2009

### 28 Financial Risk Management

Torres Strait Island Regional Council's activities expose it to a variety of financial risks including interest rate risk, credit risk, and liquidity risk.

Exposure to financial risks is managed in accordance with Council approved policies on financial risk management. These policies focus on managing the volatility of financial markets and seek to minimise potential adverse effects on the financial performance of the Council.

Torres Strait Island Regional Council measures risk exposure using a variety of methods as follows:

Risk exposure	Measurement method
Interest rate risk	Sensitivity analysis
Liquidity risk	Maturity analysis
Credit Risk	Ageing analysis

#### (i) Credit Risk

Credit risk exposure refers to the situation where the Council may incur financial loss as a result of another party to a financial instrument failing to discharge their obligations.

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

The Council is exposed to credit risk through its investments with the Queensland Treasury Corporation (QTC) and National Australia Bank. The QTC Cash Fund is an asset management portfolio that invests with a wide variety of high credit rating counterparties. Deposits are capital guaranteed. Other investments are held with National Australia bank and whilst not capital guaranteed, the likelihood of a credit failure is remote. The National Australia Bank has a Standard & Poor's credit rating of AA and a Moody's rating of Aa1.

The maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the gross carrying amount of those assets inclusive of any provisions for impairment.

No collateral is held as security relating to the financial assets held by the Council.

The following table represents the Council's maximum exposure to credit risk:

	2009
<b>Financial Assets</b>	<b>\$</b>
Cash and cash equivalents	16,432,884
Receivables - rates	0
Receivables - other	11,298,612
<b>Total</b>	<b>27,731,496</b>

#### Past due or impaired

No financial assets have had their terms renegotiated so as to prevent them from being past due or impaired, and are stated at the carrying amounts as indicated.

The following table represents an analysis of the age of the Council's financial assets that are either fully performing, past due or impaired:

	Fully Performing	Past due		Impaired	Total	
	\$	Less than 30 days	30-60 days	61-90 days	\$	
Receivables	0	-	-	20,853,006	(9,554,394)	11,298,612

## Torres Strait Island Regional Council

Notes to the Financial Statements

For the period 15 March 2008 to 30 June 2009

### (ii) Liquidity Risk

Liquidity risk refers to the situation where the Council may encounter difficulty in meeting obligations associated with financial liabilities. The Council is exposed to liquidity risk through its trading in the normal course of business and borrowings from the Queensland Treasury Corporation for capital works.

The Council manages its exposure to liquidity risk by maintaining sufficient cash reserves to cater for unexpected volatility in cash flows.

The following table sets out the liquidity risk of financial liabilities held by the Council in a format as it might be provided to management. The amounts disclosed in the maturity analysis represent the contractual undiscounted cash flows at balance date:

#### Financial Liabilities

	0 to 1 year	1 to 5 years	Over 5 years	Total
	\$	\$	\$	\$
2009				
QTC Loan	71,869	287,475	503,081	862,425
Finance leases	35,853	18,093	0	53,946

#### Financing Arrangements

Unrestricted access was available at balance date to the lines of credit listed below:

	2009
	\$
Corporate Credit Card Facility	100,000

The corporate credit card facility is related to the maximum exposure associated with Councils procurement cards.

### (iii) Interest Rate Risk

The Council is exposed to interest rate risk through its finance lease borrowings, borrowings from the Queensland Treasury Corporation and cash holdings held with financial institutions.

The risk in borrowing is effectively managed by borrowing mainly / (only) from the Queensland Treasury Corporation and having access to a mix of floating and fixed funding sources such that the desired interest rate risk exposure can be constructed. Interest rate risk in other areas is minimal.

The Council does not undertake any hedging of interest rate risk.

The following interest rate sensitivity analysis is based on a report similar to that which would be provided to management, depicting the outcome to profit and loss should there be a 1% increase in market interest rates. The calculations assume that the rate would be held constant over the next financial year, with the change occurring at the beginning of that year. If the rates decreased by 1% the impact would be equal in amount in the reverse direction.

	Net carrying amount	Profit	Equity
	2009	2009	2009
	\$	\$	\$
Financial assets	-	6,638	6,638
Financial liabilities	(2,594)	(2,594)	(2,594)
Net total	(2,594)	4,044	4,044

**Torres Strait Island Regional Council**  
**Financial statements**  
For the period ended 30 June 2009

**Management Certificate**  
For the year ended 30 June 2009

These general purpose financial statements have been prepared pursuant to Section 532 of the *Local Government Act 1993*, the *Local Government Finance Standard 2005* (the Standard) and other prescribed requirements.

In accordance with Section 48 of the Standard we certify that:

- (i) the relevant recording and reporting procedures have been complied with in the preparation of the financial statements; and
- (ii) the financial statements, as set out on pages 1 to 41, have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the financial performance and cash flows of Torres Strait Island Regional Council and the consolidated entity for the period from 15 March 2008 to 30 June 2009 and of the financial position as at the end of that year.

  
\_\_\_\_\_  
Mayor  
Date: 30 / 09 / 2010

  
\_\_\_\_\_  
Chief Executive Officer  
Date: 30 / 09 / 2010

## INDEPENDENT AUDITOR'S REPORT

To the Mayor of Torres Strait Island Regional Council

### **Matters Relating to the Electronic Presentation of the Audited Financial Report**

The auditor's report relates to the financial report of Torres Strait Island Regional Council for the financial year ended 30 June 2009 included on Torres Strait Island Regional Council's website. The Council is responsible for the integrity of the Torres Strait Island Regional Council's website. I have not been engaged to report on the integrity of the Torres Strait Island Regional Council's website. The auditor's report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report, available from Torres Strait Island Regional Council, to confirm the information included in the audited financial report presented on this website.

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

### **Report on the Financial Report**

I have audited the accompanying financial report of Torres Strait Island Regional Council, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and statement of cash flows for the period ended 30 June 2009, a summary of significant accounting policies, other explanatory notes and certificates given by the Mayor and Chief Executive Officer.

#### *The Council's Responsibility for the Financial Report*

The Council is responsible for the preparation and fair presentation of the financial report in accordance with the *Local Government Act 1993* and *Local Government Finance Standard 2005* including compliance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

My responsibility to express an opinion on the financial report based on the audit is prescribed in the *Auditor-General Act 2009*. This Act, including transitional provisions, came into operation on 1 July 2009 and replaces the previous requirements contained in the *Financial Administration and Audit Act 1977*.

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

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

Due to the matters discussed in the Basis for Disclaimer of Auditor's Opinion paragraphs, I have not been able to obtain sufficient and appropriate audit evidence in order to form an opinion on the financial report.

### *Independence*

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

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

### *Basis for Disclaimer of Auditor's Opinion*

I was unable to obtain all the information and explanations I required in order to form an opinion on the financial report of the Torres Strait Island Regional Council because the Council did not maintain effective systems of internal control over its financial operations during the financial period. The more significant internal control breakdowns that resulted in a limitation of the scope of the audit were:

- The cash and cash equivalents balance at 30 June 2009 of \$16.432m, reported in Note 10, includes a cash on hand balance of \$0.174m which is identical to the total cash on hand balance transferred from the former Island Councils on 15 March 2008. As the Council did not complete physical cash counts for all locations at 30 June 2009 I am unable to verify whether this cash existed at 30 June 2009.
- The Council had a significant number of accounts in the general ledger classified as either suspense, clearing, or cash in safe, which could not be substantiated. In particular, the cash and cash equivalents balance of \$16.432m, reported in Note 10, and the net trade and other receivables balance of \$11.299m, disclosed in Note 11, were adjusted by a journal entry as at 30 June 2009 that incorporated a net transfer of \$7.252m to the provision for doubtful debts. Included in the journal entry were suspense account balances totalling \$0.726m (debit) and \$0.226m(credit) that had not been identified and cleared.
- Housing rental debtors were not raised for the majority of 2008-09. A bulk debtor raising for housing rentals was undertaken during the period from May to July 2009. Despite this, many individual debtors continued to pay their weekly housing rentals. The net trade and other receivables balance of \$11.299m, reported in Note 11, is net of unallocated receipts of \$2.722m. These unallocated receipts primarily relate to housing rental receipts from community members that are yet to be posted to individual debtor accounts.
- As a result of the matters discussed in the three preceding paragraphs, the net balance of trade and other receivables could not be reconciled to individual debtor records; the completeness and accuracy of non-grant revenue of \$14.299m, reported in the income statement, was unable to be verified; and I was also unable to form an opinion on the statement of cash flows.

- Employee (including CDEP participants) pay rates could not be verified as employee personnel files and CDEP records were incomplete and inconsistent with payroll records. Due to the lack of supporting documentation, the completeness, accuracy and validity of the employee benefits expense of \$42.521m, reported at Note 5, could not be substantiated.
- Opening balances for annual leave and long service leave liabilities were not supported by appropriate documentation and significant estimation was required by the Council to calculate the opening balances for employee benefits. In addition, there was a lack of adequate leave records and uncertainty of pay rates used in the employee benefit liability calculations. As a result, the completeness, accuracy, validity and valuation of the reported annual leave liability of \$1.485m reported in Note 15 and the long service leave liability of \$0.801m reported in Note 19 could not be verified.

Further to the internal control issues noted above, the Council did not maintain adequate systems to enable it to determine its statutory obligations to the Commonwealth, in that:

- The Council failed to remit unpaid PAYG instalments on behalf of Council employees between 28 November 2008 and 1 June 2009 and between 23 June 2009 and 30 November 2009, resulting in an unpaid PAYG liability at 30 June 2009 of \$0.943m. Council also failed to remit long overdue superannuation contributions during 2008-09, resulting in an unpaid superannuation contributions liability of \$0.870m at 30 June 2009, disclosed in Note 25.
- From the Council's commencement on 15 March 2008 to the end of the first financial reporting period at 30 June 2009, only two monthly Business Activity Statement returns were lodged by the Council in respect of its GST obligations. No GST related payments were made during the period 23 July 2008 to 30 June 2009. The reported GST liability at 30 June 2009 of \$1.81m, disclosed in Note 15, included total unpaid GST liabilities transferred from the former Island Councils of \$0.859m.

In my opinion the above matters constitute a breach of section 517 of the *Local Government Act 1993*, which requires that the Council comply with sound accounting principles when establishing a system for managing its finances.

In addition to the above matters, assets and liabilities totalling \$254.556m were transferred from the abolished Island Councils on 15 March 2008. Adjustments of \$319.270m were made to these transferred assets and liabilities as the Council aligned the accounting policies of all the former councils. Both of these amounts were disclosed in the income statement as part of the gain on restructure of local government. However, as I was unable to form an opinion on the final financial reports of four of the former councils (Badu Island Council, Erub Island Council, Mer Island Council and Saibai Island Council) as at 14 March 2008, I am still unable to form an opinion on the completeness, accuracy and valuation of the reported gains arising from these former councils which represent a combined net asset value of \$114.994m, disclosed in Note 9.

The financial impact of these matters on the financial report can not be practicably quantified due to the absence of reliable evidentiary source documents.

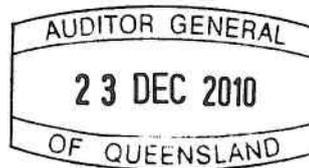
*Disclaimer of Auditor's Opinion*

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

- (a) I have not received all the information and explanations which I have required; and
- (b) in my opinion, because of the existence of limitations on the scope of my work as described in the preceding paragraphs, and the effect of such adjustments, if any, as might have been determined to be necessary had these limitations not existed, I am unable to and do not express an opinion as to whether -
  - (i) the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and
  - (ii) the financial report has been drawn up so as to present a true and fair view, in accordance with the prescribed accounting standards, of the financial performance and cash flows of the Torres Strait Island Regional Council for the financial period 15 March 2008 to 30 June 2009 and of the financial position as at the end of that period.



G G POOLE FCPA  
Auditor-General of Queensland



Queensland Audit Office  
Brisbane

## INDEPENDENT AUDITOR'S REPORT

To the Mayor of Torres Strait Island Regional Council

### Report on the Financial Report

I have audited the accompanying financial report of Torres Strait Island Regional Council, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and statement of cash flows for the period ended 30 June 2009, a summary of significant accounting policies, other explanatory notes and certificates given by the Mayor and Chief Executive Officer.

#### *The Council's Responsibility for the Financial Report*

The Council is responsible for the preparation and fair presentation of the financial report in accordance with the *Local Government Act 1993* and *Local Government Finance Standard 2005* including compliance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

My responsibility to express an opinion on the financial report based on the audit is prescribed in the *Auditor-General Act 2009*. This Act, including transitional provisions, came into operation on 1 July 2009 and replaces the previous requirements contained in the *Financial Administration and Audit Act 1977*.

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

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

Due to the matters discussed in the Basis for Disclaimer of Auditor's Opinion paragraphs, I have not been able to obtain sufficient and appropriate audit evidence in order to form an opinion on the financial report.

#### *Independence*

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

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

#### *Basis for Disclaimer of Auditor's Opinion*

I was unable to obtain all the information and explanations I required in order to form an opinion on the financial report of the Torres Strait Island Regional Council because the Council did not maintain effective systems of internal control over its financial operations during the financial period. The more significant internal control breakdowns that resulted in a limitation of the scope of the audit were:

- The cash and cash equivalents balance at 30 June 2009 of \$16.432m, reported in Note 10, includes a cash on hand balance of \$0.174m which is identical to the total cash on hand balance transferred from the former Island Councils on 15 March 2008. As the Council did not complete physical cash counts for all locations at 30 June 2009 I am unable to verify whether this cash existed at 30 June 2009.
- The Council had a significant number of accounts in the general ledger classified as either suspense, clearing, or cash in safe, which could not be substantiated. In particular, the cash and cash equivalents balance of \$16.432m, reported in Note 10, and the net trade and other receivables balance of \$11.299m, disclosed in Note 11, were adjusted by a journal entry as at 30 June 2009 that incorporated a net transfer of \$7.252m to the provision for doubtful debts. Included in the journal entry were suspense account balances totalling \$0.726m (debit) and \$0.226m(credit) that had not been identified and cleared.
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- As a result of the matters discussed in the three preceding paragraphs, the net balance of trade and other receivables could not be reconciled to individual debtor records; the completeness and accuracy of non-grant revenue of \$14.299m, reported in the income statement, was unable to be verified; and I was also unable to form an opinion on the statement of cash flows.
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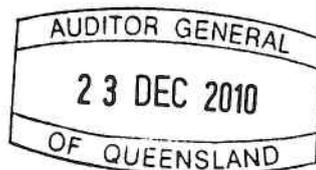
*Disclaimer of Auditor's Opinion*

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

- (a) I have not received all the information and explanations which I have required; and
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  - (i) the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and
  - (ii) the financial report has been drawn up so as to present a true and fair view, in accordance with the prescribed accounting standards, of the financial performance and cash flows of the Torres Strait Island Regional Council for the financial period 15 March 2008 to 30 June 2009 and of the financial position as at the end of that period.



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