

Your ref:
Our ref: 2016-4145
Charles Strickland 3149 6032

5 October 2016

RECEIVED
10 OCT 2016

Ms D Ahwang
Chief Executive Officer
Torres Strait Island Regional Council
PO Box 7336
CAIRNS QLD 4870

Dear Ms Ahwang

General Purpose Financial Statements—2015–16
Current-year Financial Sustainability Statement—2015–16

- Torres Strait Island Regional Council

The certified General Purpose Financial Statements are enclosed. I have issued an unmodified opinion.

Also enclosed is the Current Year Financial Sustainability Statement. Consistent with prior years and with all other councils, I have included an emphasis of matter paragraph in my auditor's report to highlight the use of the special purpose basis of accounting.

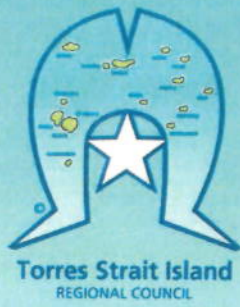
Copies of both the General Purpose Financial Statements and Current Year Financial Sustainability Statement have also been forwarded to the Mayor and the Deputy Premier, Minister for Infrastructure, Local Government and Planning, Minister for Trade and Investment.

Yours sincerely



Charles Strickland
Director

Enc.



Torres Strait Island Regional Council
Financial Statements
For the year ended 30 June 2016

Torres Strait Island Regional Council

Financial statements

For the year ended 30 June 2016

Table of contents

	Page
Statement of Comprehensive Income	1
Statement of Financial Position	2
Statement of Changes in Equity	3
Statement of Cash Flows	4
1 Significant accounting policies	5
2 Analysis of results by function	9
3 Revenue analysis	12
4 Grants, subsidies, contributions and donations	13
5 Employee benefits	14
6 Materials and services	14
7 Finance costs	14
8 Depreciation and amortisation	15
9 Capital expenses	15
10 Cash and cash equivalents	16
11 Trade and other receivables	17
12 Other financial assets	18
13 Property, plant and equipment	19
14 Fair value measurements	25
15 Trade and other payables	30
16 Borrowings	31
17 Provisions	32
18 Asset revaluation surplus	33
19 Commitments for expenditure	34
20 Contingent liabilities	34
21 Superannuation	35
22 Trust funds	36
23 Reconciliation of net result for the year to net cash inflow (outflow) from operating activities	37
24 Correction of error	38
25 National Competition Policy	38
Management Certificate	39
Independent Auditor's Report	40
Current Year Financial Sustainability Statement	42
Certificate of Accuracy - for the Current Year Financial Sustainability Statement	42
Independent Auditor's Report on Current Year Measures of Financial Sustainability	43
Long Term Financial Sustainability Statement	45



Torres Strait Island Regional Council
Statement of Comprehensive Income
For the year ended 30 June 2016

	Note	2016 \$	Restated 2015 \$
Income			
Recurrent revenue			
Community levies, rates and charges	3(a)	1,223,371	1,041,073
Fees and charges		2,939,379	3,498,532
Rental income	3(b)	5,952,483	5,883,601
Interest received		439,839	313,023
Sales revenue	3(c)	27,701,263	24,731,228
Other income	3(d)	1,255,797	1,489,136
Grants, subsidies, contributions and donations	4(a)	21,956,339	23,025,071
		<u>61,468,471</u>	<u>59,981,664</u>
Capital revenue			
Grants, subsidies, contributions and donations	4(b)	20,855,844	16,858,316
Total income		<u>82,324,315</u>	<u>76,839,980</u>
Expenses			
Recurrent expenses			
Employee benefits	5	(21,857,763)	(18,836,458)
Materials and services	6	(36,815,481)	(25,713,407)
Finance costs	7	(2,926,210)	(2,782,467)
Depreciation and amortisation	8	(40,675,141)	(40,065,247)
		<u>(102,274,595)</u>	<u>(87,397,579)</u>
Capital expenses	9	(4,063,973)	(5,572,292)
Total expenses		<u>(106,338,568)</u>	<u>(92,969,871)</u>
Net result		<u>(24,014,253)</u>	<u>(16,129,891)</u>
Other comprehensive income			
Increase / (decrease) in asset revaluation surplus	18	-	-
Total other comprehensive income for the year		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>(24,014,253)</u>	<u>(16,129,891)</u>

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

Torres Strait Island Regional Council
Statement of Financial Position
as at 30 June 2016

	Note	2016 \$	Restated* 2015 \$	Restated* 1 July 2014 \$
Current assets				
Cash and cash equivalents	10	15,343,589	14,860,954	17,273,347
Trade and other receivables	11	10,955,090	13,510,482	7,259,071
Inventories		305,662	472,973	417,993
Other financial assets	12	177,344	152,370	98,386
Total current assets		<u>26,781,685</u>	<u>28,996,779</u>	<u>25,048,797</u>
Non-current assets				
Other financial assets	12	5,704,146	4,998,908	2,589,391
Property, plant and equipment	13	645,094,405	665,624,385	688,102,123
Intangible assets		678,203	1,014,122	1,199,004
Total non-current assets		<u>651,476,754</u>	<u>671,637,415</u>	<u>691,890,518</u>
Total assets		<u>678,258,439</u>	<u>700,634,194</u>	<u>716,939,315</u>
Current liabilities				
Trade and other payables	15	6,940,885	5,314,387	6,510,213
Borrowings	16	124,304	44,946	43,862
Provisions	17	1,037,682	861,344	795,806
Total current liabilities		<u>8,102,871</u>	<u>6,220,677</u>	<u>7,349,881</u>
Non-current liabilities				
Borrowings	16	281,672	333,252	378,182
Provisions	17	4,028,569	4,220,685	3,221,781
Total non-current liabilities		<u>4,310,241</u>	<u>4,553,937</u>	<u>3,599,963</u>
Total liabilities		<u>12,413,112</u>	<u>10,774,614</u>	<u>10,949,844</u>
Net community assets		<u>665,845,327</u>	<u>689,859,580</u>	<u>705,989,471</u>
Community equity				
Asset revaluation surplus	18	154,268,960	154,268,960	159,140,342
Retained surplus		511,576,367	535,590,620	546,849,129
Total community equity		<u>665,845,327</u>	<u>689,859,580</u>	<u>705,989,471</u>

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

*Council has made a retrospective restatement as a consequence of the correction of errors and therefore, in accordance with AASB 101 has presented a Statement of Financial Position as at the beginning of the comparative period, i.e. as at 1 July 2014. Details are disclosed in Note 24

Torres Strait Island Regional Council
Statement of Changes in Equity
For the year ended 30 June 2016

	Note	Asset revaluation surplus	Retained surplus	Total
		\$	\$	\$
Balance as at 1 July 2015		154,268,960	535,590,620	689,859,580
Net result		-	(24,014,253)	(24,014,253)
Other comprehensive income for the year				
Transfer asset revaluation surplus to retained surplus		-	-	-
Total comprehensive income for the year		-	(24,014,253)	(24,014,253)
Balance as at 30 June 2016		154,268,960	511,576,367	665,845,327
Balance as at 1 July 2014		159,140,342	548,754,063	707,894,405
Effect of correction of error	24	-	(1,904,934)	(1,904,934)
Restated balances		159,140,342	546,849,129	705,989,471
Net result		-	(16,129,891)	(16,129,891)
Other comprehensive income for the year				
Transfer asset revaluation surplus to retained surplus		(4,871,382)	4,871,382	-
Total comprehensive income for the year		(4,871,382)	(11,258,509)	(16,129,891)
Balance as at 30 June 2015		154,268,960	535,590,620	689,859,580

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

Torres Strait Island Regional Council
Statement of Cash Flows
For the year ended 30 June 2016

	Note	2016 \$	2015 \$
Cash flows from operating activities			
Receipts from customers		38,243,674	27,945,555
Payments to suppliers and employees		<u>(56,586,298)</u>	<u>(45,973,632)</u>
		(18,342,624)	(18,028,077)
Interest received		439,839	313,023
Recurrent grants and contributions		21,956,339	23,025,071
Borrowing costs		<u>(25,063)</u>	<u>(25,702)</u>
Net cash inflow (outflow) from operating activities	23	<u>4,028,491</u>	<u>5,284,315</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(12,686,330)	(13,875,780)
Proceeds from sale of property plant and equipment		81,268	53,909
Finance lease receipts		177,905	135,201
Capital grants, subsidies, contributions and donations		<u>8,925,856</u>	<u>6,033,807</u>
Net cash inflow (outflow) from investing activities		<u>(3,501,301)</u>	<u>(7,652,863)</u>
Cash flows from financing activities			
Repayment of borrowings		<u>(44,555)</u>	<u>(43,845)</u>
Net cash inflow (outflow) from financing activities		<u>(44,555)</u>	<u>(43,845)</u>
Net increase (decrease) in cash and cash equivalents held		<u>482,635</u>	<u>(2,412,393)</u>
Cash and cash equivalents at the beginning of the financial year		14,860,954	17,273,347
Cash and cash equivalents at end of the financial year	10	<u>15,343,589</u>	<u>14,860,954</u>

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

Torres Strait Island Regional Council

Notes to the financial statements For the year ended 30 June 2016

1 Significant accounting policies

1.A Basis of preparation

These general purpose financial statements are for the period 1 July 2015 to 30 June 2016 and have been prepared in compliance with the requirements of the *Local Government Act 2009* and the *Local Government Regulation 2012*.

These financial statements have been prepared under the historical cost convention except for the revaluation of certain non-current assets and finance lease liabilities. The Council uses the Australian dollar as its functional currency, its presentation currency and rounds to the nearest dollar.

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

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

1.B Date of authorisation

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

1.C Adoption of new and revised Accounting Standards

In the current year, Council has not applied any Australian Accounting Standards and Interpretations that have been issued but are not yet effective with the exception of AASB 2015-7 *Amendments to Australian Accounting Standards - Fair Value Disclosures for Not-for-Profit Public Sector Entities* and AASB 2015-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101*. Generally Council applies standards and interpretations in accordance with their respective commencement dates. The retrospective application of AASB 2015-7 has exempted Council from the disclosure of quantitative information and sensitivity analysis for some valuations categorised within level 3 of the fair value hierarchy.

From 1 July 2016 AASB 124 *Related Party Disclosures* will apply to Council. This means that Council will disclose more information about related parties and transactions with those related parties. Council is currently preparing for this change by identifying related parties. Related parties will include the Mayor, Councillors and some Council staff. In addition the close family members of those people and any organisations that they control or are associated with will be classified as related parties.

Council is still reviewing the way that revenue is measured and recognised to identify whether AASB 15 *Revenue from Contracts with Customers* will have a material impact. To date no impact has been identified. AASB 15 is effective from 1 January 2018 and will replace AASB 118 *Revenue*, AASB 111 *Construction Contracts* and a number of Interpretations. It contains a comprehensive and robust framework for the recognition, measurement and disclosure of revenue from contracts with customers.

AASB 16 *Leases* becomes effective from 1 January 2019 and in essence requires a lessee to:

- recognise all lease assets and liabilities (including those currently classed as operating leases) on the statement of financial position, initially measured at the present value of unavoidable lease payments;
- recognise amortisation of lease assets and interest on lease liabilities as expenses over the lease term; and
- separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (which entities can choose to present within operating or financing activities consistent with presentation of any other interest paid) in the statement of cash flows.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

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

Other amended Australian Accounting Standards and Interpretations which are issued at the date of authorisation of the financial report, but have future commencement dates are not likely to have a material impact on the financial statements.

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

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

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

- Valuation and depreciation of property, plant and equipment - Note 13
- Provisions - Note 17
- Valuation of finance leases - Note 12
- Contingent liabilities - Note 20

1.E Financial assets and financial liabilities

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

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

Financial assets

Cash and cash equivalents (Note 10)

Receivables - measured at amortised cost (Note 11)

Other financial assets (finance leases) - measured at fair value (Note 12)

Financial liabilities

Payables - measured at amortised cost (Note 15)

Borrowings - measured at amortised cost (Note 16)

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

The fair value of financial instruments is determined as follows:

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

The fair value of borrowings, as disclosed in Note 16 to the financial statements, 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 financial statements.

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

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

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

- credit risk
- liquidity risk
- market risk

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

1.E Financial assets and financial liabilities (continued)

Financial risk management

Torres Strait Island Regional Council is responsible for the establishment and oversight of the risk management framework, together with developing and monitoring risk management policies.

Council's management approves policies for overall risk management, as well as specifically for managing credit, liquidity and market risk.

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

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

Credit risk

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

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

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

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

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

	Note	2016	Restated 2015
Financial assets		\$	\$
Cash and cash equivalents	10	15,343,589	14,860,954
Receivables - housing	11	1,678,356	1,707,177
Receivables - rates	11	561,599	134,669
Receivables - other	11	5,118,062	8,488,100
Other financial assets	12	5,704,146	5,151,277
Other credit exposures			
Guarantees	20	245,019	260,865
		<u>28,650,771</u>	<u>30,603,042</u>

Liquidity risk

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

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

The Council manages its exposure to liquidity risk by maintaining sufficient cash deposits and undrawn facilities, both short and long term, to cater for unexpected volatility in cash flows. These facilities are disclosed in Note 10.

Market risk

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

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

1.E Financial assets and financial liabilities (continued)

Interest rate risk

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

Sensitivity

Sensitivity to interest rate movements (assumed to be 1%) is disclosed in Note 10 for variable financial assets and liabilities based on the carrying amount at reporting date.

1.F Comparatives

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

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

2 Analysis of results by function

2(a) Components of Council functions

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

Executive

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

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

- Mayor and Councillors
- Committees
- Governance
- Special projects
- Media and public relations
- Administrative services
- Building services

Health and Community Services

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

The Health and Community Services function delivers the following services:

- Tenancy management services (managed by the Executive Department from February 2016 however still accounted for under Health and Community Services for reporting purposes)
- Community services
- Environmental health services
- Health and wellbeing services

Financial Services

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

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

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

Corporate Services

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

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

- Information services
- Asset management services
- Procurement and fleet services
- Organisational development services
- Strategic (corporate) planning services
- Legal services
- Planning services

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

2 Analysis of results by function

2(a) Components of council functions (continued)

Engineering Services

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

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

Key components of the Engineering Services function include:

- Water services
- Wastewater services
- Civil works services

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2016

2 Analysis of results by function

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

Year ended 30 June 2016

Functions	Gross program income				Total income	Gross program expenses		Elimination of inter-function transactions	Total expenses	Net result from recurrent operations	Net result	Assets
	Recurrent		Capital			Recurrent	Capital					
	Grants	Other	Grants	Other								
Executive	\$ 610,419	\$ 29,760,935	\$ 1,132,380	\$ -	\$ 31,503,734	\$ (37,752,431)	\$ -	\$ (258,886)	\$ (38,011,317)	\$ (7,639,863)	\$ (6,507,563)	\$ -
Health & Community Services	3,483,182	6,009,525	-	-	9,492,707	(28,840,631)	-	(1,353,361)	(30,193,992)	(20,701,285)	(20,701,285)	275,966,864
Financial Services	15,773,871	840,195	-	766,385	17,380,451	(2,086,217)	-	-	(2,086,217)	14,527,849	15,294,234	32,485,832
Corporate Services	-	345,352	11,077,608	-	11,422,960	(10,470,160)	(4,063,973)	981,953	(13,552,180)	(9,142,855)	(2,129,220)	58,667,485
Engineering Services	2,088,867	2,556,125	7,879,471	-	12,524,463	(23,125,156)	-	630,294	(22,494,862)	(17,849,870)	(9,970,399)	311,138,258
Total Council	21,956,339	39,512,132	20,089,459	766,385	82,324,315	(102,274,595)	(4,063,973)	-	(106,338,568)	(40,806,124)	(24,014,253)	678,256,439

Year ended 30 June 2015 - Restated

Functions	Gross program income				Total income	Gross program expenses		Elimination of inter-function transactions	Total expenses	Net result from recurrent operations	Net result	Assets
	Recurrent		Capital			Recurrent	Capital					
	Grants	Other	Grants	Other								
Executive	\$ 665,879	\$ 26,984,983	\$ -	\$ -	\$ 27,650,862	\$ (28,935,153)	\$ -	\$ 182,399	\$ (28,752,754)	\$ (1,101,892)	\$ (1,101,892)	\$ -
Health & Community Services	3,888,418	5,921,231	-	-	9,809,649	(26,553,999)	-	(1,972,441)	(28,526,440)	(18,716,791)	(18,716,791)	288,979,775
Financial Services	16,209,136	1,240,312	-	941,452	18,390,900	(3,452,951)	-	66,069	(3,386,882)	14,062,566	15,004,018	33,995,686
Corporate Services	50,906	322,321	9,879,696	-	10,252,923	(4,162,169)	(5,572,292)	1,988,990	(7,745,472)	(1,799,952)	2,507,451	57,902,380
Engineering Services	2,210,732	2,487,746	6,037,168	-	10,735,646	(24,293,307)	-	(265,017)	(24,558,324)	(19,859,846)	(13,822,678)	319,756,353
Total Council	23,025,071	36,956,593	15,916,864	941,452	76,839,980	(87,397,579)	(5,572,292)	-	(92,969,871)	(27,415,915)	(16,129,891)	700,634,194



Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

	Note	2016 \$	2015 \$
3 Revenue analysis			
(a) Community levies, rates and charges			
Council rates and levies are set as per Council resolution from the striking of rates and charges as approved by Council at the annual budget meeting.			
Water charges residential		-	(105)
Water charges commercial		416,297	233,753
Sewerage charges commercial		587,206	588,035
Garbage charges commercial		219,868	219,390
		<u>1,223,371</u>	<u>1,041,073</u>

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

(b) Rental income

Residential property rental income		<u>5,952,483</u>	<u>5,883,601</u>
		<u>5,952,483</u>	<u>5,883,601</u>

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

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

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

(c) Sales revenue

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

Contract and recoverable works		24,645,475	21,547,411
Plant and equipment hire		95,272	244,562
Childcare services		48,470	38,150
Accommodation		331,080	261,166
Sale of fuel and gas		1,439,555	1,422,628
Sale of power and phonecards		1,141,411	1,217,311
Total sales revenue		<u>27,701,263</u>	<u>24,731,228</u>

Contract and recoverable works

Revenue from contract and recoverable works generally comprises a recoupment of material costs together with an hourly charge for use of equipment and employees. Contract revenue and associated costs are recognised by reference to the stage of completion of the contract activity at the reporting date. The contract work carried out is not subject to retentions.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

	Note	2016 \$	2015 \$
3 Revenue analysis (continued)			
(d) Other income			
Insurance claims received		150,610	48,498
Gain on revaluation of finance leases	12	141,733	927,242
Commission income		405,671	463,437
Other revenue		557,783	49,959
		<u>1,255,797</u>	<u>1,489,136</u>
			Restated
		2016	2015
		\$	\$
4 Grants, subsidies, contributions and donations			
(a) Recurrent			
General purpose grants		9,982,643	10,329,015
State Government subsidies and grants		8,636,405	8,721,698
Commonwealth Government subsidies and grants		3,289,505	3,974,358
Contributions		47,786	-
		<u>21,956,339</u>	<u>23,025,071</u>
(b) Capital			
State Government subsidies and grants		3,062,547	5,277,616
Commonwealth Government subsidies and grants		5,863,309	756,191
Gain on initial recognition of finance lease		766,385	941,452
Contributed assets		11,163,603	9,883,057
		<u>20,855,844</u>	<u>16,858,316</u>

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

Funding received which is tied to specific projects for the replacement or upgrade of existing non-current assets and/or investment in new assets is recorded as capital grants.

Conditions over contributions

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

Non-reciprocal grants for expenditure on services and infrastructure	<u>1,633,642</u>	<u>1,417,685</u>
	<u>1,633,642</u>	<u>1,417,685</u>

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

Non-reciprocal grants for expenditure on services	-	<u>54,540</u>
	-	<u>54,540</u>

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

The funding of infrastructure assets by State and Federal Government Departments, which are then transferred to Council, is expected to be an ongoing process. Refer to Note 22 for funds held in trust for this purpose.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

	Note	2016 \$	2015 \$
5 Employee benefits			
Total staff wages and salaries		15,324,604	14,339,427
Councillors' remuneration		877,745	916,980
Annual, sick and long service leave entitlements		3,049,766	2,362,204
Superannuation	21	1,939,259	1,703,603
		<u>21,191,374</u>	<u>19,322,214</u>
Other employee related expenses		1,071,115	658,803
		<u>22,262,489</u>	<u>19,981,017</u>
Less: Capitalised employee expenses		(404,726)	(1,144,559)
		<u>21,857,763</u>	<u>18,836,458</u>

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

Total Council employees at the reporting date:

	2016	2015
Elected members	15	16
Administration staff	313	304
Total full time equivalent employees	<u>328</u>	<u>320</u>

	2016 \$	2015 \$
6 Materials and services		
Advertising and marketing	45,329	47,283
Audit services	215,752	192,500
Communications and IT	1,576,078	1,834,391
Consultants	707,587	390,033
Contractors	10,636,107	6,024,325
Donations paid	413,600	347,095
Freight	2,301,618	1,755,288
Insurance	2,380,890	2,390,602
Legal fees	184,431	86,604
Motor vehicle expenses	349,494	282,825
Phonecards and powercards for resale	1,107,931	1,109,289
Power	1,261,994	1,188,839
Repairs and maintenance	8,048,597	6,901,538
Rent paid	673,184	791,832
Subscriptions and registrations	100,926	57,705
Supplies and consumables	1,627,824	1,389,983
Temporary staff costs	3,886	225,293
Travel	3,329,880	2,891,104
Other materials and services	1,941,905	866,230
Less: Expenses capitalised	(91,532)	(3,059,351)
	<u>36,815,481</u>	<u>25,713,407</u>
7 Finance costs		
Finance costs charged by QTC	25,063	25,702
Bank charges	51,050	44,094
Impairment of debts	3,022,637	1,744,739
Refuse restoration	(172,540)	967,932
	<u>2,926,210</u>	<u>2,782,467</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

8 Depreciation and amortisation	Note	2016 \$	2015 \$
Depreciation of non-current assets			
Buildings (Communities)		20,616,098	20,130,970
Buildings (Corporate)		3,327,660	3,401,572
Recreational facilities		743,670	689,931
Roads/transport network		4,919,586	4,944,034
Stormwater drainage network		184,797	184,291
Flood mitigation network		101,297	90,451
Water supply network		4,162,243	4,222,763
Sewerage network		4,495,294	4,533,998
Bridges		4,550	4,538
Wharves, piers, jetties and pontoons		515,646	519,958
Waste landfill		76,341	41,145
Plant and equipment		1,335,295	1,113,386
	13	<u>40,482,477</u>	<u>39,877,037</u>
Amortisation of intangible assets			
Software		192,664	188,210
Total depreciation and amortisation		<u>40,675,141</u>	<u>40,065,247</u>

The renewal of Council assets is dependent on State and Commonwealth funding and therefore Council assets do not get renewed at the same rate as they depreciate.

9 Capital expenses

Revaluation decrement

Revaluation down of property, plant and equipment	-	63,000
	<u>-</u>	<u>63,000</u>

Loss on disposal of non-current assets

Book value of property, plant and equipment	4,145,241	2,992,091
Less: Proceeds from the sale of property, plant and equipment	<u>(81,268)</u>	<u>(53,909)</u>
	<u>4,063,973</u>	<u>2,938,182</u>

Loss on transfer of assets via finance lease

Book value of property, plant and equipment transferred	-	3,301,117
Less: Initial recognition of finance leases	<u>-</u>	<u>(730,007)</u>
	<u>-</u>	<u>2,571,110</u>

Total capital expenses	<u>4,063,973</u>	<u>5,572,292</u>
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Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

10 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, all cash and cheques received 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.

	Note	2016 \$	2015 \$
Cash at bank		3,586,187	5,106,624
Deposits at call		11,697,432	9,695,564
Term deposit		59,970	58,766
Balance per Statement of Cash Flows		<u>15,343,589</u>	<u>14,860,954</u>

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

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

	Net carrying amount	Effect on net result		Effect on equity	
		1% increase	1% decrease	1% increase	1% decrease
2016					
QTC cash fund	11,697,432	116,974	(116,974)	116,974	(116,974)
Other investments	59,970	600	(600)	600	(600)
Loans - QTC	(333,643)	(3,336)	3,336	(3,336)	3,336
Loans - TSRA	(72,333)	(723)	723	(723)	723
Net total	11,351,425	113,515	(113,515)	113,515	(113,515)
2015					
QTC cash fund	9,695,564	96,956	(96,956)	96,956	(96,956)
Other investments	58,766	588	(588)	588	(588)
Loans - QTC	(378,198)	(3,782)	3,782	(3,782)	3,782
Net total	9,376,132	93,762	(93,762)	93,762	(93,762)

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

	Note	2016 \$	Restated 2015 \$
11 Trade and other receivables			
Current			
Receivable - Housing		14,095,643	11,178,671
Less impairment		(12,417,287)	(9,471,494)
Receivable - Rates		1,148,908	255,128
Less impairment		(587,309)	(120,459)
Receivable - Other		8,843,009	15,243,375
Less impairment		(3,724,947)	(6,755,275)
		<u>7,358,017</u>	<u>10,329,946</u>
Accrued revenue		3,254,620	2,844,066
Prepayments		162,363	336,470
GST receivable		180,090	-
		<u>10,955,090</u>	<u>13,510,482</u>

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 generally required within 30 days from invoice date. There is a geographical concentration of credit risk for housing and other debtors.

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

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

Movement in accumulated impairment losses is as follows:

Opening balance at 1 July	16,347,228	14,602,488
Impairment debts written off during the year	(2,640,330)	-
Additional impairments recognised	3,022,645	1,744,740
Closing balance at 30 June	<u>16,729,543</u>	<u>16,347,228</u>

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

Not past due	5,076,092	7,874,875
Past due 31-60 days	372,645	691,701
Past due 61-90 days	363,697	870,088
More than 90 days	18,275,125	17,240,510
Impaired	(16,729,543)	(16,347,228)
Total	<u>7,358,017</u>	<u>10,329,946</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

12 Other financial assets

Council has leased 51 dwellings located on Moa Island (Kubin), 6 dwellings and 1 vacant site on Saibai Island, 8 dwellings and 1 vacant site on Mabuiag Island, 6 dwellings and 2 vacant sites on Boigu Island, 6 vacant sites on Warraber Island and 5 vacant sites on Poruma Island as lessor to the Queensland Government for 40 years. The total lease payment per dwelling in the current year was \$2,096 (\$2,045 for 2014-15).

These lease payments are required to be adjusted each year by the change in the Consumer Price Index (All Groups). As the gross lease payments are insufficient to cover the fair value (current replacement cost) of the leased properties, there is no interest rate implicit in the leases and therefore no finance income will arise from the leases. Consequently, the leases are recognised at the present value of the expected future lease payments receivable (fair value). Gains on revaluation of finance lease assets are recognised as other income.

	Note	2016 \$	2015 \$
Current			
Finance leases		<u>177,344</u>	<u>152,370</u>
		<u>177,344</u>	<u>152,370</u>
Non-current			
Finance leases		<u>5,704,146</u>	<u>4,998,908</u>
		<u>5,704,146</u>	<u>4,998,908</u>

A reconciliation between the gross investment in the lease and the fair value of lease payments is as follows:

Gross minimum lease payments receivable:			
Not later than one year		177,344	152,370
Later than one year but not later than five years		709,376	609,480
Later than five years		<u>5,818,395</u>	<u>5,128,040</u>
		6,705,115	5,889,890
Add: Estimated contingent rent		4,248,104	3,847,860
Less: Present value adjustment		<u>(5,071,729)</u>	<u>(4,586,472)</u>
Fair value of lease payments		<u>5,881,490</u>	<u>5,151,278</u>

The fair value of lease payments is receivable as follows:

Not later than one year		177,344	152,370
Later than one year but not later than five years		696,587	598,492
Later than five years		<u>5,007,559</u>	<u>4,400,416</u>
		<u>5,881,490</u>	<u>5,151,278</u>

Movements in finance leases were as follows:

Opening balance		5,151,278	2,687,776
Add: Initial recognition of new leases		766,385	1,671,459
Less: Lease receipts		(177,906)	(135,199)
Add: Gain on revaluation	3d	141,733	927,242
Closing balance		<u>5,881,490</u>	<u>5,151,278</u>

The calculation of fair value has included an estimate of average annual CPI increases of 2.5% (2.2%, 2015) and a discount rate of 3.25% (3.25%, 2015).

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

13 Property, plant and equipment

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

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

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

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

Acquisition of assets

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

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

Capital and operating expenditure

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

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

13 Property, plant and equipment (continued)

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

Valuation

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

Non-current physical assets measured at fair value are revalued, where required, so that the carrying amount of each class of asset does not materially differ from its fair value at the reporting date. This is achieved by engaging independent, professionally qualified valuers to determine the fair value for each class of property, plant and equipment assets at least once every 3 years. This process involves the valuer physically sighting a representative sample of Council assets across all asset classes and making their own assessments of the condition of the assets at the date of inspection. In the intervening years Council uses the indexation method to determine the fair value of each class of property, plant and equipment assets. Council only accounts for the impact of revaluation if the cumulative change in the index is 5% or greater (either positive or negative).

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

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

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

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

13 Property, plant and equipment (continued)

Depreciation

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

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

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

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

Land under roads

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

Impairment

Each asset class is assessed for indicators of impairment annually.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

13 Property, plant and equipment (continued)

Deed of Grant in Trust land

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

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

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

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

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

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

The relevant leased assets are still reported as assets of the Council; land is not reported; nominal rental is paid except for the former child care centre and one staff residence on Badu Island, for which future commitments are \$68,044 over three years. They have not been classified as finance leases as assets were originally constructed by Council, and recorded as such prior to the change in land arrangements. No lease liability has been recognised in the financial statements for these leases.

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

13 Property, plant and equipment (continued)

Council - 30 June 2016

Basis of measurement Asset values	Buildings (Communities)		Buildings (Corporate)		Recreational Facilities		Road / Transport Network		Stormwater Drainage Network		Flood Mitigation Network		Water Supply Network		Sewerage Network		Bridges		Wharves, Piers, Jetty's & Pontoons		Waste Landfill		Land Assets		Plant & Equipment		Work in progress		Total
	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	
Opening gross value as at 1 July 2015	509,487,328	93,296,073	17,520,610	198,329,488	9,239,849	7,717,087	123,731,199	124,552,069	91,000	16,700,285	1,064,250	567,000	9,583,138	7,949,671	1,119,829,218	20,001	12,902,496	10,689,626	793,680	13,071,155	9,112,073	12,267,201	1,131,163,865						
Adjustments																													
Additions																													
Capital contributions	10,689,626																												
Assets capitalised from WIP	66,877																												
Assets previously not recognised																													
Disposals	(6,629,691)	(2,289,349)	(122,605)	(122,412)																									
Transfers between classes	(115,959)	(2,530,551)	2,212,900	21,610																									
Closing gross value as at 30 June 2016	511,501,181	90,917,688	19,762,710	201,560,431	9,239,849	6,412,089	124,594,785	124,564,386	91,000	19,489,011	1,084,250	567,000	9,112,073	12,267,201	1,131,163,865														

Accumulated depreciation and impairment

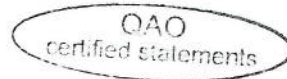
Opening balance as at 1 July 2015	227,870,064	48,105,966	10,158,270	61,293,851	2,619,300	4,286,002	44,944,624	40,999,979	62,207	7,249,619	233,263		6,380,660		454,204,835															
Adjustments	(26,949)	26,949																												
Depreciation provided in period	20,616,098	3,327,660	743,670	4,919,596	184,797	101,297	4,162,243	4,495,284	4,550	515,646	76,341		1,335,295		40,482,477															
Depreciation/impairment on disposals	(4,886,290)	(1,810,831)	(64,639)	(68,895)			(186,778)								(8,615,672)															
Transfers between classes	(417,489)	(919,355)	1,304,462	964			33,783	(2,365)							(22,180)															
Accumulated depreciation as at 30 June 2016	243,155,454	48,731,389	12,141,563	66,145,506	2,804,097	2,700,283	48,953,872	45,492,908	66,757	9,424,516	309,604		6,143,501		486,065,460															

Book value as at 30 June 2016

Range of estimated useful life in years	5 - 77	3 - 64	8 - 50	6 - 100	50	25 - 50	1 - 80	2 - 60	20	11 - 100	8 - 30	Land Not Depreciated	3 - 25	WIP - Not Depreciated																	
	266,345,717	42,195,509	7,621,147	135,414,525	6,435,752	3,711,806	75,640,913	79,071,478	24,243	10,064,495	774,846	567,000	2,966,572	12,267,201	845,094,405																

Additions comprise:

Renewals	6,420,706	381,748	97,606	209,096											7,463,875																	
Other additions	4,338,797	2,059,977		2,565,969		1,560,032	959,888	617							445,405																	
Previously not recognised				325,680											414,000																	
Total additions	10,759,503	2,441,725	151,606	3,120,745		1,560,032	959,888	617		11,850				1,202,500																		



13 Property, plant and equipment (continued)

Torres Strait Island Regional Council
Notes to the Financial Statements
For the year ended 30 June 2016

Council - 30 June 2015

Basis of measurement	Buildings (Communicities)		Buildings (Corporate)		Recreational Facilities		Road / Transport Network		Stormwater Drainage Network		Flood Mitigation Network		Water Supply Network		Sewerage Network		Bridges		Wharves, Piers, Jetties & Pontons		Waste Landfill		Land Assets		Plant & Equipment		Work in progress		Total	
	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost		
Asset values	595,613,997	92,654,302	17,917,101	191,331,338	9,239,849	4,852,057	124,287,559	124,517,983	91,000	19,312,850	1,084,250	630,000	12,303,086	4,351,552	1,112,186,522	13,176,855	9,883,057	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening gross value as at 1 July 2014	9,683,057	217,796	30,709	8,236,402	-	-	34,086	488,735	-	-	-	-	280,931	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Capital contributions	(9,894,491)	(753,025)	(27,000)	(627,352)	-	-	(556,360)	(474,100)	-	-	-	-	(2,957,889)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Disposals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Correction of error	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Revaluation adjustment to income	(403,900)	977,000	-	(610,900)	-	2,665,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Transfers between classes	509,487,328	93,296,073	17,520,810	198,329,488	9,239,849	7,717,057	123,731,199	124,552,069	91,000	16,700,285	1,084,250	587,000	9,563,138	7,949,673	1,119,829,219	13,176,855	9,883,057	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing gross value as at 30 June 2016	212,983,825	44,565,564	9,484,844	56,912,807	2,435,009	2,508,088	41,077,599	36,465,982	57,669	8,648,420	192,118	-	8,006,707	-	423,338,629	13,176,855	9,883,057	-	-	-	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation and impairment	20,130,970	3,401,872	689,931	4,944,034	184,291	80,451	4,222,763	4,533,998	4,538	519,958	41,145	-	1,113,386	-	39,877,036	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance as at 1 July 2014	(4,990,834)	(441,135)	(16,506)	(235,280)	-	-	(355,738)	-	-	(231,908)	-	-	(79,013)	-	(9,931,820)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation provided in period	(253,857)	580,965	-	(327,710)	-	1,687,463	-	-	-	(1,666,851)	-	-	(79,013)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation/impairment on disposals	227,870,094	48,105,866	10,158,269	61,293,851	2,619,300	4,286,002	44,944,623	40,999,979	62,207	7,249,619	233,263	-	6,380,660	-	454,204,854	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Impairment adjustment to asset revaluation surplus	281,617,234	45,189,107	7,362,341	137,035,637	6,620,549	3,431,055	78,766,576	83,552,090	28,793	9,450,666	850,997	567,000	3,182,478	7,949,673	655,624,385	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between classes	6-74	3-64	8-50	1-100	50	50	1-80	2-100	20	11-100	10-50	Land Not Depreciated	2-20	WIP Not Depreciated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Accumulated depreciation as at 30 June 2015	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Book value as at 30 June 2015	6,353,649	217,796	3,851,544	3,851,544	-	-	-	34,086	-	488,735	-	-	280,931	-	11,226,740	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Range of estimated useful life in years	3,818,483	-	30,709	4,384,858	-	-	-	-	-	-	-	-	-	-	4,343,891	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Additions comprise:	10,172,132	217,796	30,709	8,236,402	-	-	-	34,086	-	488,735	-	-	280,931	-	23,804,682	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Renewals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other additions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total additions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Accumulated depreciation and impairment

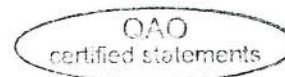
Opening balance as at 1 July 2014
Depreciation provided in period
Depreciation/impairment on disposals
Impairment adjustment to asset revaluation surplus
Transfers between classes
Accumulated depreciation as at 30 June 2015

Book value as at 30 June 2015

Range of estimated useful life in years

Additions comprise:

Renewals
Other additions
Total additions



Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

14 Fair value measurements

(i) Recognised fair value measurements

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

Fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

Fair value based on inputs that are directly or indirectly observable for the asset or liability (level 2)

Fair value based on unobservable inputs for the asset and liability (level 3)

All Council's property, plant and equipment measured at fair value at reporting date is categorised at level 3 (2015: all at level 3). Council does not have any assets or liabilities measured at fair value which meet the criteria for categorisation as level 1 or 2.

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

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

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

Council does not measure any liabilities at fair value on a recurring basis. Council has assets and liabilities which are not measured at fair value, but for which fair values are disclosed in other notes.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

14 Fair value measurements (continued)

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

Specific valuation techniques used to value Council assets comprise:

Valuation

All of Council's fair values were determined by an independent valuer, Australis Asset Advisory Group effective 30 June 2016. No assets were inspected by the valuers as the valuation was a desktop indexation assessment. Council completed a full comprehensive valuation as at 30 June 2014 using AssetVal Pty Ltd. Council's next comprehensive valuation is due 30 June 2017 and will be completed as a full valuation of all Council's assets excluding plant and equipment.

Land

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

Buildings and infrastructure

The fair value of buildings and infrastructure was also determined by independent valuer, Australis Asset Advisory Group effective 30 June 2016. This was a desktop indexation assessment and no assets were inspected. Council completed a full comprehensive valuation as at 30 June 2014.

Due to the predominantly specialised nature of Local Government assets, both the infrastructure valuations and buildings valuations have been undertaken on a cost approach (current replacement cost).

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

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

While the replacement cost of the assets could be supported by market supplied evidence (level 2), other unobservable, or level 3 inputs, such as useful life and asset condition were also required, meaning that under AASB13 the valuation of buildings and infrastructure is considered to fall under level 3.

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

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

14 Fair value measurements (continued)

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

Where site inspections are not conducted (i.e. for passive assets and active assets for which no site inspections are undertaken), the remaining useful life is calculated on asset age and estimated useful life. The valuation techniques used in the determination of fair values maximise the use of observable data where it is available and relies as little as possible on entity specifics. The disclosure of valuation estimates is designed to provide users with an insight into the judgements that have been made in the determination of fair values.

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

1. Buildings - calculation of current replacement cost

Current replacement cost

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

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

Accumulated depreciation

To calculate the appropriate amount of accumulated depreciation, a portion of corporate buildings are subject to a site inspection and/or an assessment to determine remaining useful life. Site inspection and external examination of all building assets are carried out over the 3 year period in between full valuations undertaken by a professional valuer. Those buildings which are open to the public such as Council administration buildings and locations where staff are on site such as workshop buildings, are internally inspected as per triannual reviews. There are completed internally by suitably qualified Council officers and reviewed by the asset class manager. Internal assessments are used in conjunction with Department of Housing and Public Works condition reports as available to support Council's assessment.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

14 Fair value measurements (continued)

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

Roads

Current replacement cost

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

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

Accumulated depreciation

In determining the level of accumulated depreciation, roads are disaggregated into significant components which exhibit different useful lives. Asset condition assessments were completed in year ending 30 June 2016 on 33% of Council's roads/transport network and condition rating, useful lives and depreciation rates have been amended accordingly.

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

Water and sewerage

Current replacement cost

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

The remaining active assets consist of treatment, pumping and storage assets. These assets are componentised and were valued independently as at 30 June 2014, with allowances for complexity, size, function and site factors. As a check these components are generally combined into a lump sum item and compared against recent similar projects and in-house databases.

Accumulated depreciation

An assessment of remaining useful life was made by the valuer as at 30 June 2014 after inspection taking into consideration the visual condition, construction date, evidence of recent repairs or capital works and the surrounding environmental factors. Where necessary, further guidance on remaining life was sought from Council engineering staff. Condition assessments have been completed in 2016 for 33% for Council's water and sewer network and the condition rating and depreciation rates have been amended accordingly.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

14 Fair value measurements (continued)

4. Other infrastructure – Calculation of current replacement cost

Other infrastructure includes the flood mitigation network, bridges, waste landfill, recreational facilities, stormwater drainage and wharves, piers, jetties and pontoons, which combined represent around 4.7 % of Council's assets.

Current replacement cost

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

Accumulated depreciation

An assessment of remaining useful life was made by the valuer as at 30 June 2014 after inspection taking into consideration the visual condition, construction date, evidence of recent repairs or capital works and the surrounding environmental factors. Condition assessments have been completed in 2016 for 33% of Council's other infrastructure and the condition rating, useful lives and depreciation rates have been amended accordingly.

(iv) Valuation processes

Council's property, plant and equipment valuation policies and procedures are set by the Executive Management team which comprises the Chief Executive Officer, Executive Manager Financial Services and Executive Manager Corporate Services. They are reviewed annually taking into consideration an analysis of movements in fair value and other relevant information. Management prepares a report for the Audit Committee's review and approval.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

	Note	2016 \$	2015 \$
15 Trade and other payables			
Current			
Accrued creditors		3,024,248	2,258,374
Employee benefits - annual leave		2,079,505	1,818,675
GST payable		-	420,155
Superannuation payable		-	225,622
Accrued payroll		216,029	104,168
Refundable bonds		2,000	2,000
Trade creditors and other payables		921,790	485,393
Retention		697,313	-
		<u>6,940,885</u>	<u>5,314,387</u>

Trade creditors

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.

Annual leave

Amounts expected to be settled within 12 months are calculated on current wage and salary levels and include related employee on-costs. Amounts not expected to be settled within 12 months are calculated on projected future wage and salary levels and related employee on-costs, and are discounted to present values. This liability represents an accrued expense.

As Council does not have an unconditional right to defer this liability beyond 12 months annual leave is classified as a current liability.

Superannuation payable

Council has written back the unremitted superannuation monies of \$225,622 from 30 June 2010 to revenue in the current financial year and removed the contingent liability for substantial penalties and interest. Pursuant to section 10(1) of the Limitation of Actions Act 1974 (Qld) and section 278(8) of the Industrial Relations Act 1999 (Qld), an employee shall be statute-barred from bringing any action against Council 6 years following when the cause of action arose (date the superannuation contribution(s) was due and payable). As at 30 June 2016 Council was released of any potential action by the employee or regulatory authorities seeking to impose penalties upon Council for failure to remit superannuation contributions.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

15 Trade and other payables (continued)

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

	0 to 1 year	1 to 5 years	Over 5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
2016					
Trade and other payables	6,940,885	-	-	6,940,885	6,940,885
Loans - QTC	74,219	296,876	36,893	407,988	407,988
Loans - TSRA	72,333	-	-	72,333	72,333
	<u>7,087,438</u>	<u>296,876</u>	<u>36,893</u>	<u>7,421,207</u>	<u>7,421,207</u>
2015					
Trade and other payables	5,314,387	-	-	5,314,387	5,314,387
Loans - QTC	70,070	280,280	124,961	475,311	475,311
	<u>5,384,457</u>	<u>280,280</u>	<u>124,961</u>	<u>5,789,698</u>	<u>5,789,698</u>

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

	Note	2016 \$	2015 \$
16 Borrowings			
Current			
Loans - QTC		51,971	44,946
Loans - TSRA		72,333	-
		<u>124,304</u>	<u>44,946</u>
Non-current			
Loans - QTC Non Current		281,672	333,252
		<u>281,672</u>	<u>333,252</u>
Loans - Queensland Treasury Corporation (QTC)			
Opening balance at beginning of financial year		378,198	422,044
Principal repayments		(44,555)	(43,846)
Book value at end of financial year		<u>333,643</u>	<u>378,198</u>
Loans - Torres Strait Regional Authority (TSRA)			
Recognition of guaranteed loan		110,602	-
Principal repayments		(38,269)	-
Book value at end of financial year		<u>72,333</u>	<u>-</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

16 Borrowings (continued)

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

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

The Queensland Treasury Corporation (QTC) loan market value at the reporting date was \$394,927. This represents the value of the debt if Council repaid it at that date. As it is the intention of Council to hold the debt for its term, no provision is required to be made in these accounts.

On 4 September 2015, Torres Strait Island Regional Council signed a contract with Torres Strait Regional Authority (TSRA) to repay \$110,601.70 in regards to a loan Council guaranteed for a wholly owned subsidiary company in 2002. The agreement is being repaid through the provision of services to TSRA.

The Council has no bank overdraft facility.

	Note	2016 \$	2015 \$
17 Provisions			
Current			
Long service leave		1,037,682	861,344
		<u>1,037,682</u>	<u>861,344</u>
Non-current			
Long service leave		285,944	305,520
Landfill restoration		3,742,625	3,915,165
		<u>4,028,569</u>	<u>4,220,685</u>
Details of movements in provisions:			
Landfill restoration			
Balance at beginning of financial year		3,915,165	2,947,233
Increase/ (decrease) in provision due to unwinding of discount		107,428	(22,076)
Increase/(decrease) in provision due to change in discount rate		(279,968)	990,008
Balance at end of financial year		<u>3,742,625</u>	<u>3,915,165</u>

This is the present value of the estimated cost of restoring the refuse disposal sites to a useable state at the end of their useful lives. The projected cost is \$4,119,518 and this cost is expected to be incurred in 2018.

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

The provision represents the present value of the anticipated future costs associated with the closure of the dump sites, decontamination and monitoring of historical residues and leaching on these sites. The calculation of this provision requires assumptions such as application of environmental legislation, site closure dates, available technologies and engineering cost estimates. These uncertainties may result in future actual expenditure differing from amounts currently provided. Due to the long-term nature of the liability, the most significant uncertainty in estimating the provision is the costs that will be incurred. The provision recognised for dump sites is reviewed at least annually and updated based on the facts and circumstances available at the time. Management estimates that the sites will close in 2018.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

17 Provisions (continued)

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

	Note	2016 \$	2015 \$
Long service leave provision			
Balance at beginning of financial year		1,166,863	1,041,121
Long service leave entitlement arising		331,576	176,123
Long service entitlement paid		(174,812)	(50,381)
Balance at end of financial year		<u>1,323,627</u>	<u>1,166,863</u>

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 17 as a provision.

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

18 Asset revaluation surplus

The closing balance of the asset revaluation surplus comprises the following asset categories:

Buildings (Community)	38,627,981	38,627,981
Buildings (Corporate)	3,363,699	3,363,699
Recreational facilities	2,110,256	2,110,256
Roads/transport network	92,079,325	92,079,325
Stormwater drainage network	758,006	758,006
Water supply network	6,282,513	6,282,513
Sewerage network	11,041,750	11,041,750
Bridges (timber and concrete)	5,431	5,431
	<u>154,268,961</u>	<u>154,268,961</u>

In prior years, on the disposal of an asset, any balance pertaining to a previous revaluation of that asset was transferred to retained surplus. Given that under AASB 116, revaluation increments and decrements within each class of assets are accounted for on a net basis, Council has ceased this practice. Accordingly, from 1 July 2015, when an asset is disposed of, the amount reported in surplus in respect of that asset is retained in the asset revaluation surplus and not transferred to retained surplus.

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

19 Commitments for expenditure	Note	2016 \$	2015 \$
Operating leases			
Minimum lease payments in relation to non-cancellable operating leases are as follows:			
Within one year		568,406	588,749
One to five years		45,485	623,186
		<u>613,891</u>	<u>1,211,935</u>

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

Contractual commitments

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

Capital assets	11,757,163	2,851,346
Recoverable work contractors	4,991,564	211,576
Audit services	127,909	-
Contract employees	92,704	-
	<u>16,969,340</u>	<u>3,062,922</u>

20 Contingent liabilities

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

Local Government Mutual

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

As at 30 June 2016 the financial statements reported an accumulated surplus and it is not anticipated any liability will arise.

Local Government Workcare

The Council is a member of the Queensland local government worker's compensation self-insurance scheme, Local Government Workcare. Under this scheme the Council has provided an indemnity towards a bank guarantee to cover bad debts which may remain should the self insurance licence be cancelled and there were insufficient funds available to cover outstanding liabilities. Only the Queensland Government's workers compensation authority may call on any part of the guarantee should the above circumstances arise. The Council's maximum exposure to the bank guarantee is \$245,019.

Torres Strait Island Regional Council

Notes to the financial statements For the year ended 30 June 2016

21 Superannuation

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

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

The scheme has three elements referred to as:

- The City Defined Benefits Fund (CDBF) which covers former members of the City Super Defined Benefits Fund
- The Regional Defined Benefits Fund (Regional DBF) which covers defined benefit fund members working for regional local governments; and
- The Accumulation Benefits Fund (ABF).

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

Council does not have any employees who are members of the CDBF and, therefore, is not exposed to the obligations, assets or costs associated with this fund.

The Regional DBF is a defined benefit plan as defined in AASB119. The Council is not able to account for the Regional DBF as a defined benefit plan in accordance with AASB119 because the scheme is unable to account to the Council for its proportionate share of the defined benefit obligation, plan assets and costs. The funding policy adopted in respect of the Regional DBF is directed at ensuring that the benefits accruing to members and beneficiaries are fully funded as they fall due.

To ensure the ongoing solvency of the Regional DBF, the scheme's trustee can vary the rate of contributions from relevant local government employers subject to advice from the scheme's actuary. As at the reporting date, no changes had been made to prescribed employer contributions which remain at 12% of employee assets and there are no known requirements to change the rate of contributions.

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

As at the reporting date, the assets of the scheme are sufficient to meet the vested benefits.

The most recent actuarial assessment of the scheme was undertaken as at 1 July 2015. The actuary indicated that "At the valuation date of 1 July 2015, the net assets of the scheme exceeded the vested benefits and the scheme was in a satisfactory financial position as at the valuation date."

In the 2015 actuarial report the actuary has recommended no change to the employer contribution levels at this time.

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

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

21 Superannuation (continued)

There are currently 72 entities contributing to the Regional DBF plan and any changes in contribution rates would apply equally to all 72 entities. Torres Strait Island Regional Council made less than 4% of the total contributions to the plan in the 2015-16 financial year.

The next actuarial investigation will be conducted as at 1 July 2018.

	Note	2016 \$	2015 \$
The amount of superannuation contributions paid by Council to the scheme in this period for the benefit of employees was:	5	<u>1,939,259</u>	<u>1,703,603</u>

22 Trust funds

Trust funds held for outside parties

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

Island funeral funds	291,784	325,721
Church funds	60,371	62,653
Other community funds	<u>181,322</u>	<u>219,958</u>
	<u>533,477</u>	<u>608,332</u>

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

Funds held in trust by outside parties

DFK Kidsons holding funds for Major Infrastructure and Other Program	<u>47,017,677</u>	<u>29,526,559</u>
	<u>47,017,677</u>	<u>29,526,559</u>

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

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2016

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

	2016 \$	Restated 2015 \$
Net result	(24,014,253)	(16,129,891)
Non-cash items:		
Depreciation and amortisation	40,675,141	40,065,247
Asset contributions in capital income	(11,163,603)	(9,883,057)
Gain on initial recognition of finance lease	(766,385)	(941,452)
Gain on revaluation of finance lease	(141,733)	(927,242)
Loan TSRA - services offset agreement	72,333	-
Reversal of contingent liability	(225,622)	-
Reversal of WIP to operating	121,075	-
	<u>28,571,205</u>	<u>28,313,496</u>
Investing and development activities:		
Revaluation down of property, plant and equipment	-	63,000
Proceeds from the sale of property, plant and equipment	(81,268)	(53,909)
Loss on transferring assets via finance lease	-	2,571,110
Loss on disposal of non-current assets	4,145,241	2,992,091
Capital grants and contributions	(8,925,856)	(6,033,807)
	<u>(4,861,883)</u>	<u>(461,515)</u>
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	2,555,391	(6,251,411)
(Increase)/decrease in inventory	167,311	(54,980)
Increase/(decrease) in payables	1,626,499	(1,195,826)
Increase/(decrease) in other provisions	(15,777)	1,064,442
	<u>4,333,424</u>	<u>(6,437,775)</u>
Net cash inflow from operating activities	<u>4,028,491</u>	<u>5,284,314</u>

Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2016

24 Correction of errors

1. In the process of preparing Council's financial statements at 30 June 2016, it was discovered that the following item had been incorrectly recorded in the previous financial reports.

\$1,112,725 of TSRA funding for Claim 3 and 4 of the seawalls project was incorrectly recognised as revenue in June 2015. Funding was not received by Council until March 2016. Per AASB 1004 revenue recognition criteria, Council has reversed this revenue and recognised upon receipt.

This error has been corrected by adjusting the comparative amounts for 2014-2015. A restated Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity have been included in the financial statements.

2. Council further discovered the following item affecting financial periods prior to 2014-2015.

\$1,904,934 of MIP funding was incorrectly recognised as revenue in June 2014. Funding was not received by Council until December 2015. Per AASB 1004 revenue recognition criteria, Council has reversed this revenue and recognised on receipt of funds in December 2015.

The error has been corrected by adjusting the opening balance of equity as at 1 July 2014 and the comparative amounts for 2014-2015. The adjustments to correct the two errors are as follows:

	As at 30 June 2015	As at 1 July 2014
Decrease in trade and other receivable - gross	(3,017,659)	(1,904,934)
Decrease in trade and other receivable - net	(3,017,659)	(1,904,934)
Decrease in retained surplus	(3,017,659)	(1,904,934)

	Period ended 30 June 2016	Period ended 30 June 2015
Decrease in capital grants revenue	-	(1,112,725)
Decrease in net result	-	(1,112,725)

A restated Statement of Financial Position has been included in the financial statements as at 1 July 2014

25 National Competition Policy

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


Torres Strait Island Regional Council
Financial statements
For the year ended 30 June 2016

Management Certificate
For the year ended 30 June 2016

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

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

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



Mayor
Fredrick Gela

Date: 28 / 9 / 2016



Chief Executive Officer
Dania Ahwang

Date: 28 / 9 / 2016

INDEPENDENT AUDITOR'S REPORT

To the Mayor of Torres Strait Island Regional Council

Report on the Financial Report

I have audited the accompanying financial report of Torres Strait Island Regional Council, which comprises the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and certificates given by the Mayor and Chief Executive Officer.

The Council's Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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

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

Opinion

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

- (a) I have received all the information and explanations which I have required; and
- (b) in my opinion —
 - (i) the prescribed requirements in relation to the establishment and keeping of accounts have been complied with in all material respects; and
 - (ii) the financial report presents a true and fair view, in accordance with the prescribed accounting standards, of the financial performance and cash flows of Torres Strait Island Regional Council for the financial year 1 July 2015 to 30 June 2016 and of the financial position as at the end of that year.

Other Matters - Electronic Presentation of the Audited Financial Report

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



C G STRICKLAND CA
(as Delegate of the Auditor-General of Queensland)

Queensland Audit Office
Brisbane

Torres Strait Island Regional Council
Current-year Financial Sustainability Statement
For the year ended 30 June 2016

Measures of Financial Sustainability

	How the measure is calculated	Target	30 June 2016 Result
Operating surplus ratio	Net result (excluding capital items) divided by total operating revenue (excluding capital items)	Between 0% and 10%	-66%
Asset sustainability ratio	Capital expenditure on the replacement of assets (renewals) divided by depreciation expense.	greater than 90%	18%
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue (excluding capital items)	not greater than 60%	-23%


Note 1 - Basis of Preparation

The current year financial sustainability statement is a special purpose statement prepared in accordance with the requirements of the *Local Government Regulation 2012* and the *Financial Management (Sustainability) Guideline 2013*. The amounts used to calculate the three reported measures are prepared on an accrual basis and are drawn from the Council's audited general purpose financial statements for the year ended 30 June 2016.

Certificate of Accuracy
For the year ended 30 June 2016

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

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



 Mayor
 Fredrick Gela

Date: 28 / 9 / 2016



 Chief Executive Officer
 Dania Ahwang

Date: 28 / 9 / 2016

INDEPENDENT AUDITOR'S REPORT

To the Mayor of Torres Strait Island Regional Council

Report on the Current-Year Financial Sustainability Statement

I have audited the accompanying current-year financial sustainability statement, which is a special purpose financial report of Torres Strait Island Regional Council for the year ended 30 June 2016, comprising the statement and explanatory notes, and certificates given by the Mayor and Chief Executive Officer.

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

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

Auditor's Responsibility

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

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

My responsibility is to form an opinion as to whether the statement has been accurately calculated based on the Council's general purpose financial report. My responsibility does not extend to forming an opinion on the appropriateness or relevance of the reported ratios, nor on the Council's future sustainability.

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

Independence

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

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

Opinion

In accordance with s.212 of the *Local Government Regulation 2012*, in my opinion, in all material respects, the current-year financial sustainability statement of Torres Strait Island Regional Council for the year ended 30 June 2016, has been accurately calculated.

Emphasis of Matter – Basis of Accounting

Without modifying my opinion, attention is drawn to Note 1 which describes the basis of accounting. The current-year financial sustainability statement has been prepared in accordance with the *Financial Management (Sustainability) Guideline 2013* for the purpose of fulfilling the Council's reporting responsibilities under the *Local Government Regulation 2012*. As a result, the statement may not be suitable for another purpose.

Other Matters - Electronic Presentation of the Audited Statement

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

C. G. Strickland



C G STRICKLAND CA
(as Delegate of the Auditor-General of Queensland)

Queensland Audit Office
Brisbane

Torres Strait Island Regional Council
Long-Term Financial Sustainability Statement
Prepared as at 30 June 2016

Measures of Financial Sustainability

Measure	Target	Projected for the years ended									
		Actuals at 30 June 2018	30 June 2017	30 June 2018	30 June 2019	30 June 2020	30 June 2021	30 June 2022	30 June 2023	30 June 2024	30 June 2025
Operating surplus ratio Net result divided by total operating revenue	Between 0% and 10%	-66%	-63%	-63%	-75%	-63%	-60%	-55%	-54%	-52%	-50%
Asset sustainability ratio Capital expenditure on the replacement of assets (renewals) divided by depreciation expense.	greater than 90%	18%	32%	22%	19%	23%	25%	28%	29%	32%	34%
Net financial liabilities ratio Total liabilities less current assets divided by total operating revenue	not greater than 60%	-23%	-25%	-26%	-26%	-21%	-16%	-11%	-5%	1%	7%

Council's Financial Management Strategy


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

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

Certificate of Accuracy
For the long-term financial sustainability statement prepared as at 30 June 2016

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

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


 Mayor
 Fredrick Gela
 Date: 28/9/16


 Chief Executive Officer
 Dania Ahwang
 Date: 28/9/16

