

Torres Strait Island Regional Council

Financial statements

For the year ended 30 June 2010

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Management Certificate
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Torres Strait Island Regional Council
Statement of Comprehensive Income
For the year ended 30 June 2010

| | Note | Council | |
|--|------|---------------------|----------------------|
| | | 2010 \$ | 2009 \$ |
| Income | | | |
| Revenue | | | |
| Recurrent revenue | | | |
| Rates, levies and charges | 3(a) | 148,882 | 13,638 |
| Fees and charges | 3(b) | 2,076,072 | 1,356,687 |
| Rental income | 3(c) | 4,240,732 | 3,732,565 |
| Interest received | 3(d) | 228,797 | 663,815 |
| Sales revenue | 3(e) | 6,637,927 | 7,196,432 |
| Other income | 3(f) | 612,658 | 275,967 |
| Grants, subsidies, contributions and donations | 4(a) | 40,582,877 | 52,664,324 |
| | | <u>54,527,945</u> | <u>65,903,428</u> |
| Capital revenue | | | |
| Grants, subsidies, contributions and donations | 4(b) | 10,746,945 | 13,053,276 |
| Total revenue | | <u>65,274,890</u> | <u>78,956,705</u> |
| Gain on restructure of local government | | | |
| Assets and liabilities transferred from abolished councils | 13 | - | 254,555,946 |
| Adjustments due to accounting policy alignment | 13 | - | 319,269,771 |
| | | <u>-</u> | <u>573,825,717</u> |
| Total income | | <u>65,274,890</u> | <u>652,782,422</u> |
| Expenses | | | |
| Recurrent expenses | | | |
| Employee benefits | 5 | (32,934,664) | (42,520,619) |
| Materials and services | 6 | (25,321,272) | (29,149,373) |
| Finance costs | 7 | (849,588) | (3,054,788) |
| Depreciation and amortisation | 8 | (21,208,907) | (27,621,778) |
| | | <u>(80,314,431)</u> | <u>(102,346,558)</u> |
| Total expenses | | <u>(80,314,431)</u> | <u>(102,346,558)</u> |
| Net operating surplus | | <u>(15,039,540)</u> | <u>550,435,863</u> |
| Other comprehensive income | | | |
| Increase / (decrease) in asset revaluation surplus | | - | - |
| Total other comprehensive income for the year | | <u>-</u> | <u>-</u> |
| Total comprehensive income for the year | | <u>(15,039,540)</u> | <u>550,435,863</u> |

The comparative figures reflect the results of the fifteen and a half month period from the formation of Torres Strait Island Regionals Council on 15 March 2008 to 30 June 2009. Refer Note 1.A

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



Torres Strait Island Regional Council
Statement of Financial Position
as at 30 June 2010

| | Note | Council | |
|--------------------------------------|------|--------------------|--------------------|
| | | 2010 \$ | 2009 \$ |
| Current assets | | | |
| Cash and cash equivalents | 9 | 15,162,663 | 16,432,884 |
| Trade and other receivables | 10 | 8,480,888 | 7,443,575 |
| Inventories | 11 | 1,061,634 | 893,334 |
| Total current assets | | <u>24,705,186</u> | <u>24,769,794</u> |
| Non-current assets | | | |
| Investments | 12 | - | 350,002 |
| Property, plant and equipment | 14 | 526,339,283 | 537,764,807 |
| Total non-current assets | | <u>526,339,283</u> | <u>538,114,809</u> |
| Total assets | | <u>551,044,469</u> | <u>562,884,603</u> |
| Current liabilities | | | |
| Trade and other payables | 15 | 11,249,983 | 8,313,035 |
| Borrowings | 16 | 88,930 | 105,166 |
| Provisions | 18 | 311,357 | 513,883 |
| Total current liabilities | | <u>11,650,270</u> | <u>8,932,084</u> |
| Non-current liabilities | | | |
| Trade and other payables | 15 | 442,964 | 356,534 |
| Borrowings | 16 | 504,903 | 557,612 |
| Provisions | 18 | 3,050,008 | 2,602,509 |
| Total non-current liabilities | | <u>3,997,876</u> | <u>3,516,655</u> |
| Total liabilities | | <u>15,648,146</u> | <u>12,448,738</u> |
| Net community assets | | <u>535,396,323</u> | <u>550,435,863</u> |
| Community equity | | | |
| Retained surplus/(deficiency) | 19 | 535,396,323 | 550,435,863 |
| Total community equity | | <u>535,396,323</u> | <u>550,435,863</u> |

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



Torres Strait Island Regional Council

Statement of Changes in Equity
For the year ended 30 June 2010

| Council | Retained Surplus | Total |
|--|---------------------|---------------------|
| Note | 19 | |
| | \$ | \$ |
| Balance as at 1 July 2009 | 550,435,863 | 550,435,863 |
| Effect of correction of error | | |
| Net operating surplus | (15,039,540) | (15,039,540) |
| Other comprehensive income for the year | | |
| Increase / (decrease) in asset revaluation surplus | - | - |
| Recognition of MIP grants | | |
| Current year gains/ (losses) | - | - |
| Reclassification to profit or loss | - | - |
| Cash flow hedging | | |
| Current year gains/ (losses) | - | - |
| Reclassification to profit or loss | - | - |
| Share of comprehensive income of associates | - | - |
| Total comprehensive income for the year | <u>(15,039,540)</u> | <u>(15,039,540)</u> |
| Balance as at 30 June 2010 | <u>535,396,319</u> | <u>535,396,323</u> |
| Balance as at 15 March 2008 | - | - |
| Effect of correction of error | | |
| Restated balances | <u>-</u> | <u>-</u> |
| Opening balance as at 15 March 2008 | - | - |
| Net operating surplus | 550,435,863 | 550,435,863 |
| Other comprehensive income for the year | | |
| Increase / (decrease) in asset revaluation surplus | - | - |
| Total comprehensive income for the year | <u>550,435,863</u> | <u>550,435,863</u> |
| Balance as at 30 June 2009 | <u>550,435,863</u> | <u>550,435,863</u> |

The comparative figures reflect the results of the fifteen and a half month period from the formation of Torres Strait Island Regionals Council on 15 March 2008 to 30 June 2009. Refer Note 1.A

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



Torres Strait Island Regional Council**Statement of Cash Flows**

For the year ended 30 June 2010

| | Note | Council 2010 \$ | 2009 \$ |
|--|------|-----------------------|---------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 8,501,904 | 10,561,203 |
| Payments to suppliers and employees | | <u>(55,636,001)</u> | <u>(71,725,658)</u> |
| Interest received | | (47,134,097) | (61,164,455) |
| Rental income | | 228,797 | 663,815 |
| Non capital grants and contributions | | 4,240,732 | 3,732,565 |
| Borrowing costs | | 40,582,877 | 52,664,324 |
| Net cash inflow (outflow) from operating activities | 24 | <u>(2,165,632)</u> | <u>(4,161,883)</u> |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (9,782,591) | (9,167,900) |
| Payments for intangible assets | | - | - |
| Net movement in loans and advances | | - | - |
| Proceeds from sale of property plant and equipment | | - | - |
| Grants, subsidies, contributions and donations | | 10,746,945 | 13,053,276 |
| Net cash inflow (outflow) from investing activities | | <u>964,354</u> | <u>3,885,376</u> |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | - | - |
| Repayment of borrowings | | (33,858) | (51,757) |
| Repayments made on finance leases | | <u>(35,086)</u> | <u>(40,070)</u> |
| Net cash inflow (outflow) from financing activities | | <u>(68,944)</u> | <u>(91,827)</u> |
| Net increase (decrease) in cash held | | <u>(1,270,221)</u> | <u>(368,333)</u> |
| Cash at beginning of the financial year | | 16,432,884 | - |
| Cash flow arising from restructure of local government | | | 16,801,217 |
| Cash at end of the financial year | 9 | <u>15,162,662</u> | <u>16,432,884</u> |

The comparative figures reflect the results of the fifteen and a half month period from the formation of Torres Strait Island Regionals Council on 15 March 2008 to 30 June 2009. Refer Note 1.A

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



Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2010

1 Significant accounting policies

1.A Basis of preparation

These general purpose financial statements for the period 1 July 2009 to 30 June 2010 have been prepared in accordance with Australian Accounting Standards and comply with the requirements of the *Local Government Act 1993* and the *Local Government Finance Standard 2005*.

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

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

Pursuant to Section 159YQ of the *Local Government Act 1993* and Sections 26 and 35 of the *Local Government Reform Implementation Regulation 2008*, financial statements for 2008-09 were prepared for the period 15 March 2008 to 30 June 2009. The 2009-10 financial year is from 1 July 2009 to 30 June 2010.

Assets and liabilities of the former Councils were recognised by Torres Strait Island Regional Council on 15 March 2008 at the previous book values of the transferor local governments. This is shown as income in the comparative figures of the Statement of Comprehensive Income and Note 13.

Torres Strait Island Regional Council adopted consistent accounting policies from its commencement date of 15 March 2008. In some cases, this resulted in adjustments to the measurement of assets and liabilities transferred from former councils as at 15 March 2008. These accounting policy alignment adjustments are shown in the comparative figures of the Statement of Comprehensive Income and in Note 13.

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

1.B Statement of compliance

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

1.C Basis of consolidation

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

1.D Constitution

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

1.E 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.F Currency

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



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

1.G Adoption of new and revised Accounting Standards

In the current year, Council adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period. The adoption of the new and revised Standards and Interpretations has resulted in the following changes to Council's accounting policies:

Presentation of Financial Statements (AASB 101 *Presentation of Financial Statements*, AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101*, AASB 2007-10 *Further Amendments to Australian Accounting Standards arising from AASB 101*)

The revised Standard and Amending Pronouncements do not affect any of the amounts presented in the financial statements, but have changed the disclosures made in the financial statements. The change in terminology in the revised AASB 101 has resulted in the Balance Sheet being renamed the Statement of Financial Position, and the Cash Flow Statement being renamed the Statement of Cash Flows. The former Income Statement has been replaced with a single Statement of Comprehensive Income. In line with the new concept of "comprehensive income" the bottom of the Statement contains other Comprehensive Income that was previously included in the Statement of Changes in Equity.

Investment Property (AASB 140 *Investment Property*)

Investment property under construction or being developed for future use is now classified as investment property rather than being classified as work in progress or property, plant and equipment. Council currently has no investment property under construction or being developed for future use.

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

| | Effective for annual report periods beginning on or after: |
|---|---|
| AASB 9 <i>Financial Instruments</i> (December 2009) | 1 January 2013 |
| AASB 124 <i>Related Party Disclosures</i> (December 2009) | 1 January 2011 |
| 2009-5 <i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i> (May 2009) | 1 January 2010 |
| 2009-8 <i>Group Cash-settled Share-based Payment Transactions</i> (July 2009) | 1 January 2010 |
| 2009-9 <i>Additional Exemptions for First-time Adopters</i> (September 2009) | 1 January 2010 |
| 2009-10 <i>Classification of Rights Issues</i> (October 2009) | 1 January 2013 |
| 2009-11 <i>Amendments to Australian Accounting Standards arising from AASB 9</i> (December 2009) | 1 January 2013 |
| 2009-12 <i>Amendments to Australian Accounting Standards in relation to AASB 8 <i>Operating Segments</i></i> (December 2009) | 1 January 2011 |
| 2009-13 <i>Amendments to AAS arising from Interpretation 19</i> (December 2009) | 1 July 2010 |
| 2009-14 <i>Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement (Interpretation 14)</i> (December 2009) | 1 January 2011 |
| Interpretation 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i> (December 2009) | 1 July 2010 |

Management have yet to assess the impact that AASB 9 *Financial Instruments* and 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* is likely to have on the financial statements of Council as it is anticipated that further amendments will occur. Council does not expect to implement the amendments prior to the adoption date of 1 January 2013.

2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* includes amendments to AASB 117 *Leases* which revise the criteria for classification of leases involving land and buildings. Council will be required to reassess the classification of the land components of all unexpired leases that Council has entered into as at 1 July 2010, on the basis of the information existing at the inception of the relevant lease. If any such leases are reclassified to become finance leases, retrospective accounting adjustments will be processed as far as practicable.

Initial application of the other Standards/Interpretations in issue but not yet effective is not expected to have any material impact on Council's financial statements.

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

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

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

- Valuation and depreciation of property, plant and equipment - Note 1.Q and Note 14
- Impairment of property, plant and equipment - Note 1.T and Note 14
- Provisions - Note 1.W and 1.Y and Note 18
- Contingencies - Note 21.



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

1.I Revenue

Revenue is recognised as revenue on receipt of funds or earlier upon unconditional entitlement to the funds.

Grants and subsidies

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

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

Non-cash contributions

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

Housing Rental income

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

Interest and dividends

Interest received from term deposits is accrued over the term of the investment. Dividends are recognised once they are formally declared by the directors of the controlled entity.

Revenue from enterprise activities

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

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

Fees and charges

Fees and charges are recognised as revenue on receipt of funds or earlier upon unconditional entitlement to the funds.

1.J Financial assets and financial liabilities

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

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

Financial assets

Cash and cash equivalents (Note 1.K)

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

Investments - measured at cost (Note 12)

Financial liabilities

Payables - measured at amortised cost (Note 1.V)

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

Finance lease liabilities - measured at amortised cost (Note 1.U)

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

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

Torres Strait Island Regional Council does not recognise financial assets or financial liabilities at fair value in the Statement of Financial Position.

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



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

1.K 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 and bank overdrafts.

1.L Receivables

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

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

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

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

1.M Inventories

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

Inventories held for distribution are:

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

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

1.N Other financial assets

Other financial assets are recognised at cost. At present Council does not have any other financial assets.

1.O Investments

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

The controlled entity, Poruma Island Pty Ltd, is accounted for at cost in the Council's financial statements. Torres Strait Island Regional Council holds 100% of the shares in the controlled entity. The shares are measured at cost less impairment. Refer to Note 12.

1.P Community Housing

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

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

1.Q 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 all infrastructure assets, buildings and land with a total value of less than \$10,000 are treated as an expense in the year of acquisition. All other items of property, plant and equipment are capitalised.

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

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



Torres Strait Island Regional Council

Notes to the financial statements

For the year ended 30 June 2010

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 fair value determined by an appropriate valuation where that value exceeds the recognition thresholds for the respective asset class. Fair value means the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. There has been no contribution of assets during the current or previous reporting periods.

Assets transferred from the former Badu Island Council, Boigu Island Council, Dauan Island Council, Erub Island Council, Hammond Island Council, Iama Island Council, Kubin Island Council, Mabuag Island Council, Mer Island Council, Poruma Island Council, Saibai Island Council, St. Pauls Island Council, Ugar Island Council, Warraber Island Council, Yorke Island Council and Island Co-ordinating Councils, as a result of a Government restructure, were initially recognised at the amount at which they were recognised by the former Councils as at the changeover day as disclosed in Note 1.A and Note 14, and subsequently revalued as at the same date. Those assets are reflected as transferred assets restated to fair value in Note 13.

Capital and operating expenditure

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

Valuation

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

Non-current physical assets measured at fair value are revalued, where required, so that the carrying amount of each class of asset does not materially differ from its fair value at the reporting date. This is achieved by comprehensively revaluing these assets at least once every five years, with interim valuations using a suitable index being otherwise performed on an annual basis where there has been a material variation in the index.

Any revaluation increment arising on the revaluation of an asset is credited to the 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 to that asset class.

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

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

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

Plant and equipment is measured at cost.

Capital work in progress

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



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

Depreciation

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

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

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

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

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

Unfunded depreciation

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

Land under roads

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

Deed of Grant in Trust Land

The Council is located on land assigned to it under various Deeds of Grant in Trust (DOGIT) pursuant to Section 334 of the Land Act 1962. The land comprises an area of approximately 483.6 square kilometres, across the following Islands:

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

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

1.R Intangible assets

Intangible assets with a cost or other value exceeding \$10,000 are recognised as intangible assets in the financial statements, items with a lesser value being expensed. Currently, the Council has no intangible assets.

1.S Biological assets

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

1.T Impairment of non-current assets

Each non-current physical and intangible asset and group of assets is assessed for indicators of impairment annually. If an indicator of possible impairment exists, the Council determines the asset's recoverable amount. Any amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

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

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



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

1.U Leases

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

Finance leases

Where Council enters into a finance lease, Council recognises an asset equal to the lower of fair value of the leased property and the present value of the minimum lease payments. The lease liability is recognised at the same amount. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are charged as finance costs. The asset is accounted for on the same basis as other assets of the same class. Contingent rentals are written off as an expense in the accounting period in which they are incurred.

Operating leases

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

1.V Payables

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

1.W Liabilities - employee benefits

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

Salaries and wages

A liability for salaries and wages is recognised and measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date. This liability represents an accrued expense and is reported in Note 15 as a payable.

Annual leave

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

Superannuation

The superannuation expense for the reporting period is the amount of the contribution the Council makes to the superannuation plan which provides benefits to its employees. Details of those arrangements are set out in Note 22.

Long service leave

A liability for long service leave is measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. The value of the liability is calculated using current pay rates and projected future increases in those rates and includes related employee on-costs. The estimates are adjusted for the probability of the employee remaining in the Council's employment or other associated employment which would result in the Council being required to meet the liability. Adjustments are then made to allow for the proportion of the benefit earned to date, and the result is discounted to present value. The interest rates attaching to Commonwealth Government guaranteed securities at the reporting date are used to discount the estimated future cash outflows to their present value. This liability is reported in Note 18 as a provision.

Sick leave

Prior history indicates that on average, sick leave taken each reporting period is less than the entitlement accrued. This is expected to continue in future reporting periods. Accordingly, it is unlikely that existing accumulated entitlements will be used by employees and no liability for unused sick leave entitlements is recognised. As sick leave is non vesting an expense is recognised for this leave as it is taken.



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

1.X Borrowings

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

Borrowing costs, which includes interest calculated using the effective interest method and administration fees, are

Borrowing costs, which includes interest calculated using the effective interest method and administration fees are expensed in the period in which they were incurred.

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

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

1.Y Restoration provision

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

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

Refuse dumps are on DOGIT land which the Council does not control. The cost of the provisions for restoration of these is therefore treated as an expense in the year the provision is first recognised. Changes in the provision are treated as an expense or income. The restoration is expected to occur in 2015.

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

1.Z Retained surplus

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

1.AA Rounding and comparatives

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

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

The Torres Strait Island Regional Council was formed on 15 March 2008 as a consequence of the amalgamation of the following Councils: Badu Island Council, Boigu Island Council, Dauan Island Council, Erub Island Council, Hammond Island Council, Iama Island Council, Kubin Island Council, Mabuiag Island Council, Mer Island Council, Poruma Island Council, Saibai Island Council, St. Pauls Island Council, Ugar Island Council, Warraber Island Council, Yorke Island Council and Island Co-ordinating Council. Pursuant to Section 159YQ of the *Local Government Act 1993* and Sections 26 and 35 of the *Local Government Reform Implementation Regulation 2008*, financial statements for 2008-09 were prepared for the period 15 March 2008 to 30 June 2009. Therefore comparative figures presented in the financial statements for the year ended 30 June 2010 are for a 15 and a half month period.

The assets and liabilities of the former Island Councils named above were transferred to the Torres Strait Island Regional Council on the changeover date. Therefore asset and liability balances disclosed in the notes as being at the beginning of the comparative financial year, comprise asset and liabilities that were transferred from the former Island Councils named above due to the restructure.

1.AB Trust funds held for outside parties

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

The monies are disclosed in the notes to the financial statements for information purposes only in Note 23.

1.AC Trust funds held by outside parties

Some funds belonging to Council are held in trust by third parties. These include grants for major infrastructure projects (MIP). Refer Note 23.

1.AD Taxation

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



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

2(a) **Components of council functions**

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

Executive

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

Key components of the Governance function include:

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

Economic and Community Services

Community Services are linked with Council's commitment to public health, recreational opportunities, the arts and community development.

Some of the key infrastructure used by this program to deliver services include Council's networks of libraries, public parks, child-care centres. Items of a policy nature include management of the Community Development Employment Program (CDEP).

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

Key components of the Economic and Community Services function include:

- Economic Development
- Library Services
- Environment and Health Services
- Senior, Youth Sport and Recreation Services
- Community Police Services

Finance

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

Key components of the Corporate and Finance function include:

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

Engineering

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

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

Key components of the Engineering Services function include:

- Planning Services
- Water Services
- Wastewater Services
- Civil Works Services
- Engineering Services
- Airport & Seaports

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



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

- 2 Analysis of results by function
(b) Income and expenses defined between recurring and capital are attributed to the following functions:

Year ended 30 June 2010

| Functions | Gross program income | | Elimination of inter-function transactions | Total income | Gross program expenses | | Elimination of inter-function transactions | Total expenses | Net result from recurring operations | Net operating surplus | Assets |
|---------------------------------------|----------------------|-------------------|--|-------------------|------------------------|----------|--|---------------------|--------------------------------------|-----------------------|--------------------|
| | Recurring | Capital | | | Recurring | Capital | | | | | |
| | 2010 | 2010 | | | 2010 | 2010 | | | | | |
| Executive | 5,795,952 | 6,615,385 | - | 12,411,337 | (24,275,740) | - | (5,105,506) | (29,382,246) | (23,586,294) | (16,970,909) | 53,047,007 |
| Economic and Community Services | 24,808,337 | 68,139 | - | 24,876,476 | (25,370,947) | - | (5,336,887) | (30,707,834) | (5,899,497) | (5,831,359) | 274,230,018 |
| Finance | 19,842,536 | 1,223,828 | - | 21,066,364 | (18,670,452) | - | 14,002,839 | (4,667,613) | 15,174,923 | 16,398,751 | 22,154,609 |
| Engineering | 4,081,119 | 2,839,594 | - | 6,920,713 | (16,921,193) | - | (3,559,446) | (20,480,639) | (16,399,520) | (13,559,926) | 231,890,156 |
| Total Council | 54,527,944 | 10,746,945 | - | 65,274,889 | (85,238,332) | - | - | (85,238,332) | (30,710,388) | (19,963,443) | 581,321,790 |
| Controlled entity net of eliminations | - | - | - | - | - | - | 0 | - | - | - | - |
| Total consolidated | 54,527,944 | 10,746,945 | - | 65,274,889 | (85,238,332) | - | - | (85,238,332) | (30,710,388) | (19,963,443) | 581,321,790 |

Year ended 30 June 2009

| Functions | Gross program income | | Elimination of inter-function transactions | Total income | Gross program expenses | | Elimination of inter-function transactions | Total expenses | Net result from recurring operations | Net operating surplus | Assets |
|---------------------------------------|----------------------|-------------------|--|-------------------|------------------------|----------|--|---------------------|--------------------------------------|-----------------------|--------------------|
| | Recurring | Capital | | | Recurring | Capital | | | | | |
| | 2009 | 2009 | | | 2009 | 2009 | | | | | |
| Corporate Governance | 4,279,029 | 2,312,766 | - | 6,591,795 | (6,685,614) | - | 436,651 | (6,248,963) | (6,248,963) | (6,248,963) | 52,763 |
| Economic & Tourism Development | 5,066,594 | 7,236,246 | - | 12,302,840 | (9,223,182) | - | 602,385 | (8,620,797) | (4,341,768) | (2,029,002) | 15,623,072 |
| Housing & Ports | 2,783,477 | - | - | 2,783,477 | (18,415,471) | - | 1,202,751 | (17,212,720) | (12,146,126) | (4,909,880) | 333,600,845 |
| Finance | 22,517,006 | 41,500 | - | 22,558,506 | (6,795,260) | - | (5,115,244) | 1,680,016 | 4,463,493 | 4,463,493 | 6,046,391 |
| Corporate Services | 26,493,354 | 948,724 | - | 27,442,078 | (18,136,968) | - | 1,150,895 | (16,986,073) | 5,530,933 | 5,572,433 | 16,877,031 |
| Community Services | 5,823,651 | 2,514,040 | - | 8,337,691 | (26,447,159) | - | - | (26,447,159) | 46,195 | 994,919 | 20,066,719 |
| Engineering | - | - | - | - | (26,374,360) | - | 1,722,563 | (24,651,797) | (18,828,146) | (16,314,106) | 174,772,818 |
| Total Council | 66,963,111 | 13,053,278 | - | 80,016,387 | (98,487,494) | - | - | (98,487,494) | (31,524,383) | (18,471,107) | 566,739,639 |
| Controlled entity net of eliminations | - | - | - | - | - | - | - | - | - | - | - |
| Total consolidated | 66,963,111 | 13,053,278 | - | 80,016,387 | (98,487,494) | - | - | (98,487,494) | (31,524,383) | (18,471,107) | 566,739,639 |

Council has changed its function classification in the current financial year. Comparative information has not been restated as it is impracticable to determine the effect of the changes in classification of function.



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

| | Note | Council | |
|---|------|------------------|------------------|
| | | 2010 \$ | 2009 \$ |
| 3 Revenue analysis | | | |
| (a) Utility charges | | | |
| Water consumption, rental and sundries | | 58,383 | 6,819 |
| Sewerage | | 32,142 | - |
| Waste management | | 58,356 | 6,819 |
| Total rates and utility charge revenue | | 148,882 | 13,638 |
| Less: Discounts | | - | - |
| | | <u>148,882</u> | <u>13,638</u> |
| (b) Fees and charges | | | |
| Other fees and charges | | 2,076,072 | 1,356,687 |
| | | <u>2,076,072</u> | <u>1,356,687</u> |
| (c) Rental income | | | |
| Other rental income | | 4,240,732 | 3,732,565 |
| | | <u>4,240,732</u> | <u>3,732,565</u> |
| (d) Interest received | | | |
| Interest received - financial institutions | | 228,797 | 663,815 |
| | | <u>228,797</u> | <u>663,815</u> |
| (e) Sales revenue | | | |
| Sale of services | | | |
| Contract and recoverable works | | 2,290,505 | 1,900,047 |
| | | <u>2,290,505</u> | <u>1,900,047</u> |
| Sale of goods | | | |
| Accommodation | | 540,340 | 1,098,106 |
| Canteens | | 871,892 | 1,352,141 |
| Fisheries | | 468,986 | 216,106 |
| Fuel | | 1,440,172 | 1,854,509 |
| Other | | 567,357 | 452,888 |
| Quarries | | 458,675 | 322,636 |
| | | <u>4,347,422</u> | <u>5,296,386</u> |
| Total sales revenue | | <u>6,637,927</u> | <u>7,196,432</u> |
| | | | |
| The amount recognised as revenue for contract revenue during the financial year is the amount receivable in respect of invoices issued during the period. There are no contracts in progress at the year end. The contract work carried out is not subject to retentions. | | | |
| (f) Other income | | | |
| Other income | | 612,658 | 275,967 |
| | | <u>612,658</u> | <u>275,967</u> |



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

| | Note | Council | |
|---|------|-------------------|-------------------|
| | | 2010 \$ | 2009 \$ |
| 4 Grants, subsidies, contributions and donations | | | |
| (a) Recurrent | | | |
| General purpose grants | | 31,627,167 | 8,616,364 |
| State government subsidies and grants | | 8,955,710 | 44,047,960 |
| | | <u>40,582,877</u> | <u>52,664,324</u> |
| (b) Capital | | | |
| General purpose grants | | 5,231,980 | 3,431,814 |
| State government subsidies and grants | | 5,514,966 | 9,621,462 |
| | | <u>10,746,945</u> | <u>13,053,276</u> |
| Conditions over contributions | | | |
| Contributions recognised as income during the reporting period and which were obtained on the condition that they be expended in a manner specified by the contributor but had not been expended at the reporting date: | | | |
| Non-reciprocal grants for expenditure on services | | 3,359,835 | - |
| Non-reciprocal grants for expenditure on infrastructure | | - | - |
| | | <u>3,359,835</u> | <u>-</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 | | 26,798,771 | - |
| Non-reciprocal grants for expenditure on infrastructure | | - | 13,053,276 |
| | | <u>26,798,771</u> | <u>13,053,276</u> |
| 5 Employee benefits | | | |
| Total staff wages and salaries | | 25,908,967 | 34,425,261 |
| Councillors' remuneration | | 897,025 | 1,109,433 |
| Annual, sick and long service leave entitlements | | 4,071,741 | 4,391,295 |
| Superannuation | 22 | 1,653,659 | 1,436,087 |
| | | <u>32,531,392</u> | <u>41,362,076</u> |
| Other employee related expenses | | 880,811 | 1,615,514 |
| | | <u>33,412,203</u> | <u>42,977,590</u> |
| Less: Capitalised employee expenses | | (477,539) | (456,971) |
| | | <u>32,934,664</u> | <u>42,520,619</u> |
| Councillor remuneration represents salary, and other allowances paid in respect of carrying out their duties. | | | |
| Total Council employees at the reporting date: | | | |
| Elected members | | 16 | 16 |
| Ordinary staff | | 1,528 | 1,909 |
| Total full time equivalent employees | | <u>1,544</u> | <u>1,925</u> |



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

| | Note | Council | |
|---|------|-------------------|-------------------|
| | | 2010 \$ | 2009 \$ |
| 6 Materials and services | | | |
| Advertising and marketing | | 15,330 | 14,709 |
| Administration supplies and consumables | | 6,992,990 | 7,800,410 |
| Audit services | (a) | - | 666,863 |
| Communications and IT | | 1,282,115 | 1,833,909 |
| Consultants | | 111,862 | 141,801 |
| Contractors | | 919,086 | 1,507,258 |
| Donations paid | | 107,828 | 13,875 |
| Insurance | | 979,984 | 1,066,501 |
| Postage and stationery | | 214,596 | 301,706 |
| Power | | 1,147,214 | 1,117,486 |
| Repairs and maintenance | | 8,760,103 | 9,351,011 |
| Rentals - operating leases | | 1,123,244 | 89,235 |
| Subscriptions and registrations | | 9,788 | 215,421 |
| Travel | | 1,061,015 | 507,134 |
| Other materials and services | | 2,596,118 | 4,522,053 |
| | | <u>25,321,272</u> | <u>29,149,373</u> |
| (a) Audit fees for the year ended 30 June 2010 have been estimated at \$286,700 excluding out-of-pocket expenses. | | | |
| 7 Finance costs | | | |
| Finance costs charged by the Queensland Treasury Corporation | | 35,614 | 47,172 |
| Bank charges and other fees | | 50,708 | 49,695 |
| Interest on finance leases | | 48,328 | 10,960 |
| Impairment of investments | | 350,002 | - |
| Impairment of loans to controlled entities | | 282,587 | - |
| Impairment of debts | | 5,241 | 2,864,767 |
| Refuse restoration | | 77,108 | 82,194 |
| | | <u>849,588</u> | <u>3,054,788</u> |
| 8 Depreciation and amortisation | | | |
| Depreciation of non-current assets | | | |
| Buildings (Community) | | 7,958,326 | 10,343,082 |
| Buildings (Corporate) | | 2,260,613 | 2,961,414 |
| Recreation Facilities | | 294,013 | 380,771 |
| Roads/Transport Network | | 1,847,187 | 2,387,914 |
| Stormwater Drainage Network | | 21,070 | 27,287 |
| Flood Mitigation Network | | 57,854 | 74,926 |
| Water Supply Network | | 2,559,265 | 3,314,458 |
| Sewerage Network | | 3,715,532 | 4,811,918 |
| Wharves, Piers, Jetties and Pontoons | | 394,845 | 512,504 |
| Plant and Equipment | | 2,100,202 | 2,807,504 |
| Total depreciation and amortisation | 14 | <u>21,208,907</u> | <u>27,621,778</u> |
| 9 Cash and cash equivalents | | | |
| Cash at bank and on hand | | 13,953,120 | 15,271,512 |
| Deposits at call | | 1,209,543 | 1,161,372 |
| Term deposits | | - | - |
| Less bank overdraft | | - | - |
| Balance per Statement of Cash Flows | | <u>15,162,663</u> | <u>16,432,884</u> |

Cash and deposits at call are held in the National Australia Bank in normal term deposits and business cheque accounts. The bank currently has a short term credit rating of A1+ and long term rating of AA-



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

| | Note | Council | |
|--|------|------------------|------------------|
| | | 2010 \$ | 2009 \$ |
| 10 Trade and other receivables | | | |
| Current | | | |
| Other debtors | | 13,582,075 | 20,665,284 |
| Less impairment | | (5,170,106) | (13,409,432) |
| Loans and advances to controlled entities | | 282,587 | 187,723 |
| Impairment of loans to controlled entities | | (282,587) | - |
| Prepayments and accrued income | | 68,918 | - |
| | | <u>8,480,888</u> | <u>7,443,575</u> |
| Non-current | | | |
| Loans and advances to community organisations | | - | - |
| Loans and advances to controlled entities and associates | | - | - |
| | | <u>-</u> | <u>-</u> |

No interest is charged on other debtors. There is geographical concentration of credit risk for fees and other debtors receivable.

Loans to controlled entities relate to advances made to Poruma Island Pty Ltd. This company entered voluntary administration on 4 January 2011, and at a subsequent meeting of creditors it was resolved to wind up the company. At the balance date the loan has been fully written off as the likelihood of these amounts being recoverable is very low.

11 Inventories

Inventories held for sale

| | | |
|----------------------|------------------|----------------|
| Stores and Materials | 1,061,634 | 893,334 |
| | <u>1,061,634</u> | <u>893,334</u> |
| Total inventories | <u>1,061,634</u> | <u>893,334</u> |

12 Investments

| | | |
|---|-----------|----------------|
| Interest in controlled entity Poruma Island Pty Ltd | 350,002 | 350,002 |
| Impairment of investment | (350,002) | - |
| | <u>-</u> | <u>350,002</u> |

The shares in Poruma Island Pty Ltd are not traded on an active market and their fair value cannot be ascertained reliably. Accordingly they are shown at cost.

Poruma Island Pty Ltd entered into voluntary administration on 4 January 2011. It is unlikely that there will be any distribution to the Council as the sole shareholder. Accordingly, the investment in Poruma Island Pty Ltd has been fully impaired. Similarly, loans made to Poruma Island Pty Ltd have been fully written off at 30 June 2010 as detailed at Note 10.

Poruma Island Pty Ltd (ACN 098 641 162) was incorporated on 5 November 2001, to manage the Poruma Island Resort. The operations of the controlled entity have not been consolidated within these financial statements. The results of operations for the financial years 2007-2008 and 2008-2009 are disclosed below. The financial reporting for a 15 month period did not apply to Poruma Island Pty Ltd as part of the Local Government amalgamation.

| | 2010 \$ | 2009 \$ | 2008 \$ |
|--|----------------|----------------|----------------|
| Net Profit/(Loss) from ordinary activities before income tax | (77,038) | (109,742) | (15,193) |
| Total assets | 625,233 | 653,659 | 681,565 |
| Total liabilities | (519,838) | (471,226) | (389,389) |
| Total equity | <u>105,395</u> | <u>182,433</u> | <u>292,176</u> |



13 Gain on restructure of local government

The Local Government Reform Commission report to the Minister for Local Government, Planning and Sport on 27 July 2007 recommended that the former Island Councils be amalgamated to form the Torres Strait Island Regional Council. Pursuant to Part 1B of the Local Government Act 1993 and in accordance with the Local Government Reform Implementation Regulation 2008 the amalgamation was effective from the changeover date of 15 March 2008. The Local Government Reform Implementation Regulation 2008 and the Local Government Reform Implementation (Transferring Areas) Amendment Regulation (No. 1) 2008 transferred the assets and liabilities of the former Island Councils to the Torres Strait Island Regional Council as at changeover date.

The assets and liabilities of the former Councils were recognised at the amounts at which they were recognised by the transferor Island Councils as at the changeover day. Torres Strait Island Regional Council adopted consistent accounting policies from its commencement date of 15 March 2008. In some cases, this resulted in adjustments to the measurement of assets and liabilities transferred from former Councils as at 15 March 2008.

(a) Details are as follows:

| | 14 March 2008 | 14 March 2008 | 14 March 2008 | 14 March 2008 | 14 March 2008 | 14 March 2008 | 14 March 2008 | 14 March 2008 | 14 March 2008 | 14 March 2008 | 14 March 2008 |
|---|-------------------|-------------------|------------------|-------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| ASSETS | | | | | | | | | | | |
| Current Assets | | | | | | | | | | | |
| Cash and cash equivalents | 1,289,914 | 216,209 | 798,949 | 211,817 | 896,257 | 629,802 | 1,502,118 | 1,326,440 | 110,476 | 1,132,519 | |
| Trade and other receivables | 1,167,462 | 68,776 | 8,389 | 1,508,337 | 99,173 | 400,837 | 400,172 | 141,074 | 157,310 | 1,202,769 | |
| Inventories | 401,081 | 18,556 | 9,851 | 57,660 | 13,000 | 7,017 | 16,980 | 134,744 | 67,955 | 14,610 | |
| Other financial assets | - | 570,754 | 256,304 | - | 41,519 | - | 17,319 | 151,260 | 848,199 | - | |
| Total current assets | 2,858,457 | 874,295 | 1,073,493 | 1,777,814 | 1,049,949 | 1,037,656 | 1,936,589 | 1,753,518 | 1,183,940 | 2,349,898 | |
| Non-current Assets | | | | | | | | | | | |
| Receivables | - | - | - | 2,000 | - | - | - | - | - | - | 92,749 |
| Investments | - | - | - | - | - | - | - | - | - | - | 350,002 |
| Property, plant and equipment | 45,769,689 | 12,781,524 | 7,240,817 | 22,679,289 | 8,760,530 | 12,646,640 | 14,741,365 | 8,391,139 | 23,437,215 | 10,070,390 | |
| Capital works in progress | - | 401,627 | 611,147 | 435,850 | - | 127,625 | - | 2,127,552 | - | 1,422,581 | |
| Total non-current assets | 45,769,689 | 13,183,151 | 7,851,964 | 23,117,139 | 8,760,530 | 12,774,265 | 14,741,365 | 10,518,691 | 26,068,095 | 11,935,722 | |
| TOTAL ASSETS | 48,628,146 | 14,057,446 | 8,925,457 | 24,894,953 | 9,810,479 | 13,811,921 | 16,677,954 | 12,272,209 | 27,252,035 | 14,285,620 | |
| LIABILITIES | | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | | |
| Trade and other payables | 469,427 | 235,936 | 646,082 | 651,797 | 120,114 | 302,296 | 17,239 | 169,535 | 214,078 | 375,190 | |
| Borrowings | - | - | - | 110,970 | 57,012 | 160,891 | - | - | - | - | |
| Provisions | - | 555,017 | 23,438 | 256,778 | 345,308 | 653,055 | 650,471 | 362,069 | 961,055 | 1,099,771 | |
| Other | - | 790,953 | 669,520 | 1,019,545 | 522,434 | 1,116,242 | 667,710 | 531,604 | 1,175,133 | 1,474,961 | |
| Total current liabilities | 893,083 | 1,580,906 | 1,345,040 | 1,938,110 | 1,044,868 | 1,132,444 | 1,435,419 | 1,033,208 | 2,350,266 | 2,949,922 | |
| Non-current Liabilities | | | | | | | | | | | |
| Trade and other payables | 1,217,685 | - | 28,316 | - | - | - | - | - | - | - | |
| Borrowings | 94,058 | - | - | - | - | - | - | - | - | - | |
| Provisions | 159,798 | - | - | 41,468 | - | 1,244 | - | - | - | - | |
| Total non-current liabilities | 1,471,541 | - | 28,316 | 41,468 | - | 1,244 | - | - | - | - | |
| TOTAL LIABILITIES | 2,364,624 | 790,953 | 673,356 | 1,979,578 | 1,044,868 | 1,133,688 | 1,435,419 | 1,033,208 | 2,350,266 | 2,949,922 | |
| NET ASSETS TRANSFERRED FROM ABOLISHED COUNCILS | 46,263,522 | 13,286,493 | 8,227,621 | 23,833,940 | 9,288,045 | 12,694,435 | 16,010,244 | 11,740,605 | 26,076,902 | 12,810,659 | |



13 Gain on restructure of local government
(a)

| | 14 March 2008 | 14 March 2008 | 14 March 2008 | 14 March 2008 | 14 March 2008 | 14 March 2008 | 14 March 2008 | 14 March 2008 | 15 March 2008 | 2009 | 2009 |
|---|-------------------|-------------------|------------------|-------------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| ASSETS | | | | | | | | | | | |
| Current Assets | | | | | | | | | | | |
| Cash and cash equivalents | 830,077 | 307,446 | 399,721 | 1,766,372 | 3,427,809 | 16,801,217 | 16,801,217 | 16,801,217 | 16,801,217 | | 16,801,217 |
| Trade and other receivables | 634,140 | 82,324 | 89,062 | 273,614 | 274,391 | 6,971,616 | 6,971,616 | 6,971,616 | 6,971,616 | | 6,971,616 |
| Inventories | 111,521 | 76,443 | 10,950 | 2,080 | - | 942,448 | 942,448 | 942,448 | 942,448 | | 942,448 |
| Other financial assets | 162,210 | 62,112 | 5,489 | 20,100 | 8,799 | 2,156,446 | 2,156,446 | 2,156,446 | 2,156,446 | | 2,156,446 |
| Total current assets | 1,737,948 | 528,325 | 494,272 | 2,062,166 | 3,710,999 | 26,871,727 | 26,871,727 | 26,871,727 | 26,871,727 | | 26,871,727 |
| Non-current Assets | | | | | | | | | | | |
| Receivables | - | 8,655 | - | - | - | 103,404 | 103,404 | 103,404 | 103,404 | | 103,404 |
| Investments | - | - | - | - | - | 350,002 | 350,002 | 350,002 | 350,002 | | 350,002 |
| Property, plant and equipment | 19,148,956 | 17,749,997 | 5,247,795 | 12,327,512 | 1,759,439 | 233,647,228 | 233,647,228 | 233,647,228 | 233,647,228 | | 233,647,228 |
| Capital works in progress | - | 1,190,288 | 494,525 | 670,343 | 1,038,665 | 11,151,083 | 11,151,083 | 11,151,083 | 11,151,083 | | 11,151,083 |
| Total non-current assets | 19,148,956 | 18,948,940 | 5,742,320 | 13,366,177 | 1,759,439 | 245,251,717 | 245,251,717 | 245,251,717 | 245,251,717 | | 245,251,717 |
| TOTAL ASSETS | 20,886,904 | 19,477,265 | 6,236,592 | 15,428,343 | 5,470,438 | 311,420,373 | 311,420,373 | 311,420,373 | 311,420,373 | | 583,543,817 |
| LIABILITIES | | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | | |
| Trade and other payables | 1,387,352 | 125,015 | 6,250 | 115,783 | 299,605 | 5,229,722 | 5,229,722 | 5,229,722 | 5,229,722 | (751,081) | 4,478,641 |
| Borrowings | - | - | - | - | 27,658 | 27,658 | 27,658 | 27,658 | 27,658 | | 27,658 |
| Provisions | 96,040 | 84,643 | 10,435 | 15,168 | 250,793 | 1,241,928 | 1,241,928 | 1,241,928 | 1,241,928 | (96,902) | 1,145,026 |
| Other | 535,100 | 347,698 | 434,457 | 1,207,171 | 21,948 | 8,834,146 | 8,834,146 | 8,834,146 | 8,834,146 | (8,021,331) | 812,815 |
| Total current liabilities | 2,018,492 | 557,356 | 451,142 | 1,338,122 | 600,004 | 15,333,454 | 15,333,454 | 15,333,454 | 15,333,454 | (8,869,314) | 6,464,140 |
| Non-current Liabilities | | | | | | | | | | | |
| Trade and other payables | - | - | - | - | - | 1,255,392 | 1,255,392 | 1,255,392 | 1,255,392 | (1,213,004) | 42,388 |
| Borrowings | 49,195 | - | - | - | 632,889 | 726,947 | 726,947 | 726,947 | 726,947 | | 726,947 |
| Provisions | 49,195 | - | - | - | 9,391 | 251,705 | 251,705 | 251,705 | 251,705 | 2,232,920 | 2,484,625 |
| Total non-current liabilities | 98,390 | - | - | - | 642,280 | 1,984,044 | 1,984,044 | 1,984,044 | 1,984,044 | (7,849,398) | 3,253,960 |
| TOTAL LIABILITIES | 2,067,687 | 557,356 | 451,142 | 1,338,122 | 600,004 | 17,567,498 | 17,567,498 | 17,567,498 | 17,567,498 | (7,849,398) | 9,718,100 |
| NET ASSETS TRANSFERRED FROM ABOLISHED COUNCILS | 18,819,217 | 18,919,909 | 5,785,450 | 14,090,221 | 4,237,545 | 254,555,946 | 254,555,946 | 254,555,946 | 254,555,946 | 319,269,771 | 573,825,717 |

(b) Adjustments due to accounting policy adjustments

| | |
|--|--------------------|
| Assets not previously recognised | 153,397,050 |
| Transferred assets restated to fair value | 158,698,315 |
| Derecognition due to change in asset recognition threshold | (674,990) |
| Derecognition of unspent grants liabilities | 9,985,416 |
| Derecognition of non-vesting sick leave | 96,902 |
| First time recognition of landfill provision | (2,232,920) |
| | <u>319,269,773</u> |

(c) Net result attributable to Council before net assets transferred from abolished Councils

| | |
|---|---------------------|
| Net result attributable to Council | 555,354,610 |
| Gain on restructure of local government | (573,825,717) |
| Net result attributable to Council before Gain on restructure of local government | <u>(18,471,107)</u> |



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

14 Property, plant and equipment

Council - 30 June 2010

Note

| Basis of measurement | Buildings (Community) | | Buildings (Corporate) | | Recreation Facilities | | Roads/Transport Network | | Stormwater Drainage Network | | Flood Mitigation Network | | Water Supply Network | | Sewerage Network | | Wharves, Piers, Jetties and Pontoons | | Land assets | | Plant and Equipment | | Work in Progress | | Total | |
|--|-----------------------|------------|-----------------------|------------|-----------------------|------------|-------------------------|-----------|-----------------------------|-----------|--------------------------|------------|----------------------|---------|------------------|------------|--------------------------------------|------------|-------------|------------|---------------------|------------|------------------|---------|-------------|-----------|
| | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | | |
| Asset values | 279,670,800 | 53,473,100 | 53,473,100 | 45,446,300 | 6,285,000 | 45,446,300 | 940,000 | 2,161,000 | 940,000 | 2,161,000 | 66,272,000 | 84,067,900 | 11,207,800 | 630,000 | 11,669,283 | 2,356,652 | 630,000 | 11,207,800 | 11,669,283 | 2,356,652 | 630,000 | 11,669,283 | 2,356,652 | 630,000 | 565,386,585 | |
| Opening gross value as at 1 July 2009 | 279,670,800 | 53,473,100 | 53,473,100 | 45,446,300 | 6,285,000 | 45,446,300 | 940,000 | 2,161,000 | 940,000 | 2,161,000 | 66,272,000 | 84,067,900 | 11,207,800 | 630,000 | 11,669,283 | 2,356,652 | 630,000 | 11,207,800 | 11,669,283 | 2,356,652 | 630,000 | 11,669,283 | 2,356,652 | 630,000 | 9,782,591 | |
| Additions | | | | 34,496 | | 34,496 | | | | | | | | | | | | | | | | | | | | 9,782,591 |
| Disposals | | | | | | | | | | | | | | | | | | | | | | | | | | (18,000) |
| First time recognition of MIP assets | | | | | | | | | | | | | | | | | | | | | | | | | | 7,391,441 |
| Transfers between classes | | | | | | | | | | | | | | | | | | | | | | | | | | (18,000) |
| Closing gross value as at 30 June 2010 | 279,670,800 | 53,183,100 | 53,183,100 | 45,480,798 | 6,285,000 | 45,480,798 | 940,000 | 2,161,000 | 940,000 | 2,161,000 | 66,272,000 | 84,067,900 | 11,207,800 | 630,000 | 14,007,915 | 10,955,654 | 630,000 | 11,207,800 | 14,007,915 | 10,955,654 | 630,000 | 14,007,915 | 10,955,654 | 630,000 | 575,151,968 | |

Accumulated depreciation and impairment

Opening balance as at 1 July 2009

Depreciation provided in period

Depreciation on disposals

Accumulated depreciation as at 30 June 2010

Total written down value as at 30 June 2010

Range of estimated useful life in years

| | | | | | | | | | | |
|-------------|------------|-----------|------------|---------|-----------|------------|------------|------------|-----------|-------------|
| 10,343,082 | 2,961,414 | 380,771 | 2,387,914 | 27,287 | 74,926 | 3,314,458 | 4,811,918 | 512,504 | 2,807,504 | 27,621,778 |
| 7,958,326 | 2,260,613 | 294,013 | 1,847,187 | 21,070 | 57,854 | 2,559,285 | 3,715,532 | 394,845 | 2,100,202 | 21,208,907 |
| 18,301,408 | 5,222,027 | 674,784 | 4,235,101 | 48,357 | 132,780 | 5,873,723 | 8,527,450 | 907,349 | (18,000) | 48,812,685 |
| 261,659,392 | 47,961,073 | 5,610,217 | 41,245,897 | 891,643 | 2,028,220 | 60,398,277 | 75,540,450 | 10,300,451 | 9,118,209 | 526,339,283 |
| 1-49 | 1-56 | 2.5-49 | 6-41 | 41-46 | 11-49 | 2-38 | 4-38 | 2-44 | 1-26 | |

Council - 30 June 2009

Note

| Basis of measurement | Buildings (Community) | | Buildings (Corporate) | | Recreation Facilities | | Roads/Transport Network | | Stormwater Drainage Network | | Flood Mitigation Network | | Water Supply Network | | Sewerage Network | | Wharves, Piers, Jetties and Pontoons | | Land assets | | Plant and Equipment | | Work in Progress | | Total | |
|--|-----------------------|-------------|-----------------------|------------|-----------------------|------------|-------------------------|-----------|-----------------------------|------------|--------------------------|------------|----------------------|-----------|------------------|-------------|--------------------------------------|-------------|-------------|-------------|---------------------|-------------|------------------|-------------|-------------|-------------|
| | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | Revaluation | Cost | | |
| Asset values | 155,849,973 | 46,799,124 | 475,278 | 8,567,151 | 10,968 | 10,968 | 102,801 | 1,290,967 | 7,355,122 | 5,707,829 | 7,355,122 | 5,707,829 | 1,290,967 | 7,486,013 | 11,151,084 | 2,830,671 | 630,000 | 11,151,084 | 2,830,671 | 630,000 | 11,151,084 | 2,830,671 | 630,000 | 244,798,310 | | |
| Net value of assets transferred from abolished councils | (2,827,805) | (4,039,444) | 4,047,546 | (10,968) | 1,389,000 | 940,000 | 2,051,000 | 8,805,350 | 47,331,000 | 59,333,800 | 47,331,000 | 59,333,800 | 8,805,350 | 4,050,944 | 153,397,050 | 153,397,050 | 153,397,050 | 153,397,050 | 153,397,050 | 153,397,050 | 153,397,050 | 153,397,050 | 153,397,050 | 153,397,050 | 153,397,050 | |
| Assets not previously recognised | | | | | | | | | | | | | | | | | | | | | | | | | | 153,397,050 |
| Transferred assets restated to fair value | 108,648,134 | 10,489,923 | 18,949 | 3,941,253 | (8,002) | 7,199 | 11,585,878 | 937,766 | 11,585,878 | 19,026,271 | 11,585,878 | 19,026,271 | 937,766 | 4,050,944 | 158,698,315 | 158,698,315 | 158,698,315 | 158,698,315 | 158,698,315 | 158,698,315 | 158,698,315 | 158,698,315 | 158,698,315 | 158,698,315 | 158,698,315 | |
| Derecognition due to change in asset recognition threshold | (16,800) | (15,500) | | | | | | | | | | | | | | | | | | | | | | | | (674,930) |
| Additions | | | | | | | | | | | | | | | | | | | | | | | | | | 674,930 |
| Transfers between classes | 18,007,298 | 260,797 | 354,227 | 20,996 | 8,002 | 20,996 | 8,002 | 173,717 | 436,133 | 19,261,171 | 436,133 | 19,261,171 | 173,717 | 309,563 | 8,843,629 | 8,843,629 | 8,843,629 | 8,843,629 | 8,843,629 | 8,843,629 | 8,843,629 | 8,843,629 | 8,843,629 | 8,843,629 | 8,843,629 | |
| Closing gross value as at 30 June 2009 | 279,670,800 | 53,473,100 | 53,473,100 | 45,446,300 | 6,285,000 | 45,446,300 | 940,000 | 2,161,000 | 940,000 | 2,161,000 | 66,272,000 | 84,067,900 | 11,207,800 | 630,000 | 11,669,283 | 2,356,652 | 630,000 | 11,207,800 | 11,669,283 | 2,356,652 | 630,000 | 11,669,283 | 2,356,652 | 630,000 | 565,386,585 | |

Accumulated depreciation and impairment

Opening balance as at 15 March 2009

Depreciation provided in period

Accumulated depreciation as at 30 June 2009

Total written down value as at 30 June 2009

Range of estimated useful life in years

| | | | | | | | | | | |
|-------------|------------|-----------|------------|---------|-----------|------------|------------|------------|-----------|-------------|
| 10,343,082 | 2,961,414 | 380,771 | 2,387,914 | 27,287 | 74,926 | 3,314,458 | 4,811,918 | 512,504 | 2,807,504 | 27,621,778 |
| 10,343,082 | 2,961,414 | 380,771 | 2,387,914 | 27,287 | 74,926 | 3,314,458 | 4,811,918 | 512,504 | 2,807,504 | 27,621,778 |
| 269,327,716 | 50,511,686 | 5,904,229 | 43,053,386 | 912,713 | 2,086,074 | 62,957,542 | 79,255,982 | 10,695,296 | 8,861,759 | 537,764,807 |
| 1-49 | 1-56 | 2.5-49 | 6-41 | 41-46 | 11-49 | 2-38 | 4-38 | 2-44 | 1-26 | |



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

14 Property, plant and equipment valuations were determined by reference to the following:

Land assets

Freehold Land has been included at their Depreciated Replacement Cost as at 15 March 2008 as determined by Rushton AssetVal Pty Ltd (Property, Plant, Equipment and Infrastructure Consultants) less accumulated depreciation at 30 June 2010. All land assets are situated on Thursday Island, where a market exists for land.

Leasehold Land within the Council area is subject to a Deed Of Grant In Trust (DOGIT). The land is administered by the Department of Environment and Resource Management and the Council has restricted use of this land for the benefit of island inhabitants. The DOGIT land has not been taken up in the Council's assets as it cannot be reliably measured.

A valuation of Land Assets as at 30 June 2009, by Rushton AssetVal Pty Ltd, did not indicate a material change to the values of assets as at 15 March 2008.

As at 30 June 2010, an assessment has been made by Cardno (Qld) Pty Ltd and no material change to valuation has been noted.

Buildings

Buildings have been included at their depreciated replacement cost as at 15 March 2008 as determined by Rushton AssetVal Pty Ltd (Property, Plant, Equipment and Infrastructure Consultants) less accumulated depreciation at 30 June 2010.

A valuation of Buildings as at 30 June 2009, by Rushton AssetVal Pty Ltd, did not indicate a material change to the values of assets as at 15 March 2008.

As at 30 June 2010, an assessment has been made by Cardno (Qld) Pty Ltd and no material change to valuation has been noted. This opinion is based on the Building Price Index extracted from Rawlinson's Australian Construction Handbook 2010.

Plant and equipment

Plant and equipment have been included at their deemed cost as at 15 March 2008 as determined by Rushton AssetVal Pty Ltd (Property, Plant, Equipment and Infrastructure Consultants) less accumulated depreciation at 30 June 2010.

Refer to accounting policy note 1.Q for further details.

Infrastructure

Infrastructure have been included at their Depreciation Replacement Cost as at 15 March 2008 as determined by Rushton AssetVal Pty Ltd (Property, Plant, Equipment and Infrastructure Consultants) less accumulated depreciation at 30 June 2010.

A valuation of Infrastructure as at 30 June 2009, by Rushton AssetVal Pty Ltd, did not indicate a material change to the values of assets as at 15 March 2008.

As at 30 June 2010, an assessment has been made by Cardno (Qld) Pty Ltd and no material change to valuation has been noted. This opinion is based on the Building Price Index extracted from Rawlinson's Australian Construction Handbook 2010.

Capital Work in Progress

Capital work in progress reflects expenditure incurred on infrastructure and housing programs that was not complete at 30 June 2010 and therefore was not subject to the valuation exercise. Capital work in progress is held at cost.

| 15 Trade and other payables | Note | Council | |
|-----------------------------|------|-------------------|------------------|
| | | 2010 \$ | 2009 \$ |
| Current | | | |
| Creditors and accruals | | 6,770,133 | 5,374,270 |
| Annual leave | | 1,155,063 | 1,128,412 |
| GST Payable | | <u>3,324,787</u> | <u>1,810,353</u> |
| | | <u>11,249,983</u> | <u>8,313,035</u> |
| Non-current | | | |
| Annual leave | | <u>442,964</u> | <u>356,534</u> |
| | | <u>442,964</u> | <u>356,534</u> |



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

| | Note | Council | |
|--|------|-----------------|-----------------|
| | | 2010 \$ | 2009 \$ |
| 16 Borrowings | | | |
| Current | | | |
| Loans - Queensland Treasury Corporation | | 70,070 | 70,080 |
| Finance leases | 17 | <u>18,860</u> | <u>35,086</u> |
| | | <u>88,930</u> | <u>105,166</u> |
| Non-current | | | |
| Loans - Queensland Treasury Corporation | | 504,903 | 538,752 |
| Finance leases | 17 | <u>-</u> | <u>18,860</u> |
| | | <u>504,903</u> | <u>557,612</u> |
| Loans - Queensland Treasury Corporation | | | |
| Opening balance at beginning of financial year | | 608,831 | - |
| Loans raised | | - | 660,588 |
| Principal repayments | | <u>(33,858)</u> | <u>(51,757)</u> |
| Book value at end of financial year | | <u>574,973</u> | <u>608,831</u> |

The OTC loan market value at the reporting date was \$593,071. 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.

No assets have been pledged as security by the Council for any liabilities.

All borrowings are in \$A denominated amounts and carried at amortised cost, interest being expensed as it accrues. No interest has been capitalised during the current or comparative reporting period. Expected final repayment dates is 31 March 2020. There have been no defaults or breaches of the loan agreement during the period.

Principal and interest repayments are made quarterly in arrears.

The Council has no bank overdraft facility.

17 Finance leases

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

| | | |
|--|-----------------|-----------------|
| Balance at beginning of financial year | 53,946 | 94,058 |
| Payments made in the period | <u>(35,086)</u> | <u>(40,112)</u> |
| Minimum lease payments | <u>18,860</u> | <u>53,946</u> |

The above minimum lease payments are payable as follows:

| | | |
|--|----------------|----------------|
| Not later than one year | 20,034 | 40,068 |
| Later than 1 year but not later than 5 years | - | 18,860 |
| Later than 5 years | - | - |
| Total minimum lease payments | <u>20,034</u> | <u>58,928</u> |
| Less: Future finance charges | <u>(1,174)</u> | <u>(4,982)</u> |
| Lease liability recognised in the financial statements | <u>18,860</u> | <u>53,946</u> |

Classified as:

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

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

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

The Council has four lease agreements for motor vehicles. The leases commenced on 14 December 2006 for the period of 4 years.

The carrying value of the leased assets is as follows:

| | | |
|----------------|---------------|---------------|
| Motor vehicles | <u>55,584</u> | <u>63,250</u> |
|----------------|---------------|---------------|



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

| | Note | Council | |
|---|------|---------------------|--------------------|
| | | 2010 \$ | 2009 \$ |
| 18 Provisions | | | |
| Current | | | |
| Long service leave | | <u>311,357</u> | <u>513,883</u> |
| | | <u>311,357</u> | <u>513,883</u> |
| Non-current | | | |
| Refuse restoration | | 2,392,222 | 2,315,114 |
| Long service leave | | <u>657,786</u> | <u>287,395</u> |
| | | <u>3,050,008</u> | <u>2,602,509</u> |
| Details of movements in provisions: | | | |
| Refuse restoration | | | |
| Balance at beginning of financial year | | 2,315,114 | - |
| Recognition of provision on amalgamation | | - | 2,232,920 |
| Increase in provision due to unwinding of discount | | <u>77,108</u> | <u>82,194</u> |
| Balance at end of financial year | | <u>2,392,222</u> | <u>2,315,114</u> |
| This is the present value of the estimated cost of restoring the Refuse disposal site to a useable state at the end of its useful life. The projected cost is \$2,728,612 and this cost is expected to be incurred in 2015. | | | |
| Long service leave | | | |
| Balance at beginning of financial year | | 801,278 | - |
| Recognition of provision on amalgamation | | - | 661,651 |
| Long service leave entitlement arising | | <u>167,865</u> | <u>139,627</u> |
| Balance at end of financial year | | <u>969,143</u> | <u>801,278</u> |
| 19 Retained surplus/(deficiency) | | | |
| Movements in the retained surplus were as follows: | | | |
| Retained surplus/(deficit) at beginning of financial year | | 550,435,863 | - |
| Net result attributable to Council | | <u>(15,039,540)</u> | <u>550,435,863</u> |
| Retained surplus at end of financial year | | <u>535,396,323</u> | <u>550,435,863</u> |
| 20 Commitments for expenditure | | | |
| Operating leases | | | |
| Minimum lease payments in relation to non-cancellable operating leases are as follows: | | | |
| Within one year | | 721,433 | 142,165 |
| One to five years | | 3,551,081 | 511,180 |
| More than five years | | <u>1,124,807</u> | <u>117,322</u> |
| | | <u>5,397,321</u> | <u>770,667</u> |
| Contractual commitments | | | |
| Contractual commitments at end of financial year but not recognised in the financial statements are as follows: | | | |
| Software contract with Civica | | 863,402 | 662,058 |
| Rental agreement with Commander | | <u>147,989</u> | <u>50,193</u> |
| | | <u>1,011,391</u> | <u>712,251</u> |



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

21 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 2011, the financial statements reported an accumulated surplus and it is not anticipated any liability will arise.

Local Government Workcare

The Council is a member of the Queensland local government worker's compensation self-insurance scheme, Local Government Workcare. Under this scheme the Council has provided an indemnity towards a bank guarantee to cover bad debts which may remain should the self insurance licence be cancelled and there was insufficient funds available to cover outstanding liabilities.

Only the Queensland Government's workers compensation authority may call on any part of the guarantee should the above circumstances arise. The Council's maximum exposure to the bank guarantee is \$286,070.

22 Superannuation

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

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

The scheme has two elements referred to as the Defined Benefits Fund (DBF) 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 1993*.

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

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

The audited general purpose financial report of the scheme as at 30 June 2010 (the most recent available) which was not subject to any audit qualification, indicates that the assets of the scheme are sufficient to meet the vested benefits.

The most recent actuarial assessment of the scheme was undertaken as at 1 July 2009. The actuary indicated that "the DBF is in a very modest financial position with regard to the net asset coverage of vested liabilities. Investment returns will be volatile under the required investment strategy, particularly over short periods. The DBF therefore needs sufficient reserves to be able to withstand a reasonable range of such influences. Because the DBF is now running down and cash flows are negative, the VBI (vested benefit index) should not be allowed whenever possible to retreat below 100%. Once below 100%, benefits drawn reduce the available assets for remaining members and hence the net asset coverage of vested benefits declines further.

In order to withstand a one in ten 'low return' outcome, the DBF would need reserves of the order of 8% to 10% having regard to the investment strategy adopted. Given the current position of the DBF, such reserve can essentially only eventuate from either excess investment returns over salary increases or additional employer contributions."

Council has been advised by the trustee of the scheme, following advice from the scheme's actuary, that additional contributions may be imposed in the future at a level necessary to protect the entitlements of DBF members. Under amendments to the *Local Government Act 1993* passed in June 2009, the trustee of the scheme has the power to levy additional contributions on councils which have employees in the DBF when the actuary advises such additional contributions are payable - normally when the assets of the DBF are insufficient to meet members' benefits.

The next actuarial investigation will be made as at 1 July 2012.

| Note | Council | |
|---|------------|------------|
| | 2010 \$ | 2009 \$ |
| The amount of superannuation contributions paid by Council to the scheme in this period for the benefit of employees was: | 5 | |
| | 1,653,659 | 1,436,087 |



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

| | Note | Council | |
|---|------|---------------------|----------------------|
| | | 2010 \$ | 2009 \$ |
| 23 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 | | 425,499 | 374,691 |
| Church Funds | | 78,317 | 114,980 |
| Other Community Funds | | 148,955 | 132,764 |
| | | <u>652,771</u> | <u>622,434</u> |
| The Council performs only a custodial role in respect of these monies. As these funds cannot be used by the Council, they are not brought to account in these financial statements. | | | |
| Funds held in trust by outside parties | | | |
| DFK Kidsons holding funds for Major Infrastructure Program 2 | | 1,045 | 182,550 |
| DFK Kidsons holding funds for Major Infrastructure Program 3 | | 7,371,373 | 7,020,315 |
| DFK Kidsons holding funds for Major Infrastructure Program 4 | | 53,640,522 | 30,575,141 |
| | | <u>61,012,940</u> | <u>37,778,006</u> |
| 24 Reconciliation of net operating surplus for the year to net cash inflow (outflow) from operating activities | | | |
| Net operating result | | (15,039,540) | 550,435,863 |
| Non-cash operating items: | | | |
| Depreciation and amortisation | | 21,208,907 | 27,621,778 |
| Revaluation adjustments | | - | - |
| impairment of investments | | 350,002 | - |
| Change in future rehabilitation and restoration costs | | 77,108 | 82,194 |
| | | <u>21,636,017</u> | <u>27,703,972</u> |
| Investing and development activities: | | | |
| Gain on restructure of local government | | - | (573,825,717) |
| Capital grants and contributions | | (10,746,945) | (13,053,276) |
| | | <u>(10,746,945)</u> | <u>(586,878,993)</u> |
| Financing activities: | | | |
| | | - | - |
| Changes in operating assets and liabilities: | | | |
| (Increase)/ decrease in receivables | | (1,156,117) | 1,787,891 |
| (Increase)/ decrease in prepayments/accrued income | | (68,918) | - |
| (Increase)/decrease in inventory | | (168,300) | 49,114 |
| (Increase)/ decrease in loans to controlled entities | | 187,723 | - |
| Increase/(decrease) in payables | | 3,023,380 | 2,979,190 |
| Increase/(decrease) in other provisions | | 167,865 | (238,919) |
| | | <u>1,985,629</u> | <u>4,577,276</u> |
| Net cash inflow from operating activities | | <u>(2,165,632)</u> | <u>(4,161,882)</u> |



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

25 Correction of error

Error corrections to opening equity are represented as follows:

| | 2009 Financial Statement balances | Correction of error | Restated 2009 balances |
|----------------------------|---|------------------------|---------------------------|
| (a) Creditors and accruals | 4,310,561 | 1,063,709 | 5,374,270 |
| (b) Debtors impairment | <u>(9,554,394)</u> | <u>(3,855,038)</u> | <u>(13,409,432)</u> |
| | <u>(5,243,833)</u> | <u>(2,791,329)</u> | <u>(8,035,162)</u> |

(a) Accruals and Creditor adjustments

In the process of preparing the 2010 financial statements, errors in the calculation of accruals and the recording of creditors in previous years were noted. This error had the effect of overstating retained earnings and understating total expenses by \$1,063,709. These errors arose in part to the final claim on the St Pauls barge purchase of \$665,000, which was incorrectly recorded in 2009 and the balance of corrections relate to pre-amalgamation creditors and accruals, for which insufficient documentation is available. As such, an adjustment has been made to the 2009 comparatives for creditors and accruals.

(b) Debtors Impairment Adjustments

In the process of preparing the 2010 financial statements, errors in the recording of debtors in previous years were noted. This error had the effect of overstating retained earnings and overstating total income by \$3,855,038. These errors arose from the legacy of debtors raised by the pre-amalgamated councils, and due to the lack of records available from these councils to verify the amounts, it is unlikely these debtors will be collected by the Torres Strait Island Regional Council. These legacy debtors have been removed from the 2009 comparatives, to align them with pre-amalgamated debtors that were brought into the 2009 financial statements.

26 Events after the reporting period

A number of significant events material to the Council have occurred subsequent to the end of the reporting period including:

An undertaking to not Fund non-core functions unless fully provided for via Grants

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

- Community Police
- Post Office
- Centrelink
- Rangers
- Home and Community Care (HACC)
- Childcare
- Remote Indigenous Broadcasting Services (RIBS)

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

Receipt of Cash at Council Offices to cease from 30 June 2011

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

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

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

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

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

Impact of cyclones and flooding in Torres Strait Islands

The Council experienced severe weather events during 2010 and this resulted in significant damage to Council assets. The Council has subsequently put in a NDRAA Claim of \$10,999,458.62 to rectify the damage.

Loss of Community Development Employment Projects (CDEP)

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

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

Additional State Government funding to secure Council jobs

On 28 September 2011, the Queensland State Government announced a \$5 million funding package for Torres Strait Island Regional Council to help provide job security for the Council's employees. The package includes more than \$3 million to support 45 engineering jobs and \$2 million to support 25 administrative jobs in the Council. As part of the package, the Government has expressed that the Council would need to change the way it operates and improve the way it collects revenue from the community for the services it provides.

Summary of unaudited Council finances for the year ended 30 June 2011

| Note | Council | |
|------|---------|------|
| | 2011 | 2010 |
| | \$ | \$ |



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

Financial performance

| | | |
|------------------------------|--------------|--------------|
| Total revenue | 60,603,591 | 65,274,890 |
| Total expenses | (75,007,577) | (80,314,431) |
| Net operating surplus (loss) | (14,403,986) | (15,039,540) |

| | | |
|----------------------------|--------------|--------------|
| Other comprehensive income | - | - |
| Total comprehensive income | (14,403,986) | (15,039,540) |

Financial position

| | | |
|--------------------|-------------|-------------|
| Current assets | 19,883,171 | 24,705,186 |
| Non current assets | 763,824,700 | 526,339,283 |
| Total assets | 783,707,871 | 551,044,469 |

| | | |
|-------------------------|-------------|-------------|
| Current liabilities | 8,754,316 | 11,650,270 |
| Non current liabilities | 4,107,260 | 3,997,876 |
| Total liabilities | 12,861,576 | 15,648,146 |
| Total Equity | 770,846,295 | 535,396,323 |

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

27 Going concern and economic dependency

The financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The ability of the Council to continue all of its current operations is dependant upon future ongoing funding being provided by funding bodies. Torres Strait Island Regional Council is a Statutory Body of the Queensland Government. As such, the Council is economically dependent on appropriations from the State and Federal governments. The Council believes that the necessary funding will continue to be forthcoming while the Council continues to be an indigenous regional council as identified by the Local Government Act 2009.



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

28 Financial instruments

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

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

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

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

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

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

Credit risk exposure

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

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

The Council is exposed to credit risk through its investments with the Queensland Treasury Corporation (QTC) and deposits held with banks or other financial institutions. The QTC Cash Fund is an asset management portfolio that invests with a wide variety of high credit rating counterparties. Deposits are capital guaranteed. Other investments are held with regulated banks and whilst not capital guaranteed, the likelihood of a credit failure is remote.

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

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

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

Council's maximum exposure to credit risk is as follows:

| | Note. | 2010 | 2009 |
|---------------------------|-------|-------------------|-------------------|
| | | \$ | \$ |
| Financial assets | | | |
| Cash and cash equivalents | 9 | 15,162,663 | 16,432,884 |
| Receivables - other | 10 | 8,411,969 | 7,443,575 |
| Investments | 12 | 0 | 350,002 |
| Other credit exposures | | | |
| Guarantee | 21 | 286,070 | 286,070 |
| | | <u>23,860,703</u> | <u>24,512,531</u> |

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

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

| | Fully performing | Past due | | | Impaired | Total |
|--------------------|------------------|-------------------|------------|------------|--------------|------------|
| | \$ | Less than 30 days | 30-90 days | 90+ days | \$ | \$ |
| | | \$ | \$ | \$ | | |
| Receivables - 2010 | - | 2,968,392 | 1,177,790 | 7,933,993 | (5,170,106) | 6,910,069 |
| Receivables - 2009 | - | - | - | 20,665,284 | (13,409,432) | 11,298,613 |



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2010

28 Financial instruments

Liquidity risk

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

Council manages its exposure to liquidity risk by maintaining sufficient undrawn facilities, both short and long term, to cater for unexpected volatility in cash flows. These facilities are disclosed in Note 17.

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

| | 0 to 1 year | 1 to 5 years | Over 5 years | Total |
|------------------------|------------------|----------------|----------------|------------------|
| | \$ | \$ | \$ | \$ |
| 2010 | | | | |
| Creditors and accruals | 6,770,133 | - | - | 6,770,133 |
| Loans - QTC | 70,070 | 504,903 | 0 | 574,973 |
| Finance leases | 18,860 | 0 | 0 | 18,860 |
| | <u>6,859,063</u> | <u>504,903</u> | <u>0</u> | <u>7,363,966</u> |
| 2009 | | | | |
| Creditors and accruals | 5,374,270 | - | - | 5,374,270 |
| Loans - QTC | 71,869 | 287,475 | 503,081 | 862,425 |
| Finance leases | 35,086 | 18,860 | 0 | 53,946 |
| | <u>5,481,225</u> | <u>306,335</u> | <u>503,081</u> | <u>6,290,641</u> |

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

Interest rate risk

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

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

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

Interest rate sensitivity

The following interest rate sensitivity analysis is based on a report similar to that which would be provided to management, depicting the outcome to profit and loss should there be a 1% increase in market interest rates. The calculations assume that the rate would be held constant over the next financial year, with the change occurring at the beginning of that year. It is assumed that interest rates on overdue rates would not change. If the rates decreased by 1% the impact would be equal in amount in the reverse direction.

| | Net carrying amount | | Profit | | Equity | |
|-----------------------|---------------------|-------------------|----------------|--------------|----------------|--------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Financial assets | 23,574,633 | 23,876,459 | 151,627 | 6,638 | 151,627 | 6,638 |
| Financial liabilities | (7,363,966) | (6,290,641) | (5,750) | (2,594) | (5,750) | (2,594) |
| Net total | <u>16,210,667</u> | <u>17,585,818</u> | <u>145,877</u> | <u>4,044</u> | <u>145,877</u> | <u>4,044</u> |

Fair Value

The fair values of financial assets and liabilities approximate the carrying amounts shown in the statement of financial position.



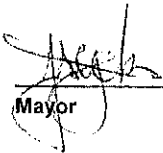
Torres Strait Island Regional Council
Financial statements
For the year ended 30 June 2010

Management Certificate
For the year ended 30 June 2010

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

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

- (i) the relevant recording and reporting procedures have been complied with in the preparation of the financial statements; and
- (ii) the financial statements, as set out on pages 1 to 36, have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the financial performance and cash flows of Torres Strait Island Regional Council and the consolidated entity for the financial year 1 July 2009 to 30 June 2010 and of the financial position as at the end of that year.



Mayor

Date: 18 / 10 / 2011



Chief Executive Officer

Date: 18 / 10 / 2011



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 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, 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 and fair presentation of the financial report in accordance with the *Local Government Act 1993* and the *Local Government Finance Standard 2005* including compliance with Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility 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. These auditing standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance about whether the financial report is free of material misstatement.

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

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 only be removed by Parliament.

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

Basis for Qualified Auditor's Opinion

The Council was unable to provide adequate supporting documentation or appropriate reconciliations to substantiate the completeness and accuracy of rental income. The rental income reported in the statement of comprehensive income agrees to the amount of rental income disclosed in the statement of cash flows, indicating that no receivables have been raised in respect of housing rentals during either 2010 or the comparative 2009 period. As a consequence, I am unable to and do not express an opinion on the completeness and accuracy of rental income of \$4,240,732 (2009: \$3,732,565), reported in Note 3(c), nor on the other debtors balance of \$13,582,075 (2009: \$20,665,284) or the impairment balance of \$5,170,106 (2009: \$13,409,432), both disclosed in Note 10. In addition, I am also unable to and do not express an opinion on the aging analysis of receivables disclosed in Note 28. The impact of these matters on the financial report is unable to be practicably quantified due to the absence of reliable source documents.

The Council failed to maintain an effective system of internal control and adequate supporting documentation in respect of its payroll function. Accordingly, I am unable to and do not express an opinion on the completeness, accuracy and validity of employee benefits expense of \$32,934,664 (2009: \$42,520,619), disclosed in Note 5, nor on the annual leave liability of \$1,598,027 (2009: \$1,484,946) and the long service leave liability of \$969,143 (2009: \$801,278), reported in Note 15 and Note 18 respectively. The impact of this matter on the financial report is unable to be practicably quantified due to the absence of reliable source documents.

Subsequent to the end of the financial year additional information pertaining to the fair value of property, plant and equipment was obtained by the Council which indicates that significant uncertainty exists over the completeness and accuracy of the reported property, plant and equipment balances. As this uncertainty is yet to be resolved, I am unable to and do not express an opinion on the total written down value of property, plant and equipment assets of \$526,339,283 (2009: \$537,764,807), reported in Note 14; the associated depreciation expense of \$21,208,907 (2009: \$27,621,778), reported in Note 8; and the increase/decrease in asset revaluation surplus of nil (2009: nil), reported in other comprehensive income in the statement of comprehensive income.

The Council's analysis of results by function is inconsistent with the amounts reported in the financial statements. The statement of comprehensive income reports total expenses of \$80,314,431 and a net operating surplus of (\$15,039,540) whereas Note 2(b) reports total expenses of \$85,238,332 and a net operating surplus of (\$19,963,443), a variance of \$4,923,901. In addition, total assets as per Note 2(b) is \$581,321,790 compared with total assets as per the statement of financial position of \$551,044,469, a variance of \$30,277,321. The net result from recurring operations of \$30,710,388, as per Note 2(b), is also unable to be supported.

The Council did not submit Business Activity Statements (BAS) or remit GST to the Australian Taxation Office for the period 1 July 2009 to 30 June 2010. While the BAS returns for the period were subsequently submitted in June 2011, insufficient documentation was provided to substantiate the GST payable balance at 30 June 2010 of \$3,324,787 (2009: \$1,810,353), disclosed in Note 15. The Council has also failed to comply with s.21 of the *Local Government Finance Standard 2005* which requires Council to provide a notional GST certificate to the Minister by 15 September for the most recently completed financial year. I am, therefore, unable to and do not express an opinion on the reported GST payable. The impact of this matter on the financial report cannot be practicably quantified due to the absence of reliable source documents.

The amount of superannuation contributions paid by the Council during 2010 is reported in Note 22 as \$1,653,659 (2009: \$1,436,087). However, the Council has failed to disclose that these contributions include an amount of \$755,051 (2009: \$870,480), reported in the trade and other payables balance at 30 June 2010. Included in the trade and other payables balance is an amount of \$346,002 relating to long overdue superannuation contributions which the Council has failed to remit to the relevant funds during 2009-10.

In my opinion, Note 25 does not adequately disclose the nature of the prior period errors or the manner in which these errors were corrected in the financial statements as required by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. In addition, insufficient documentation was provided to support the adjustments made. Consequently, I am unable to and do not express an opinion on the prior period adjustments made to creditors and accruals of \$1,063,709 and debtors impairment of (\$3,855,038), disclosed in Note 25. The impact of this matter on the financial report cannot be practicably quantified due to the absence of reliable source documents.

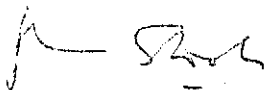
In my opinion, Note 27 does not adequately disclose the significant uncertainty that exists around the Council's ability to continue as a going concern. The Council has made significant losses since its establishment on 15 March 2008. The net operating loss reported in the statement of comprehensive income for 2009 (after adjusting for the impact of the gain on restructuring of local government of \$573,825,717) was \$23,389,854 and the net operating loss reported for 2010 is \$15,039,540. Further, Note 26 discloses an unaudited net operating loss for 2011 of \$14,403,986 and the Council is forecasting continued losses in 2012. The Council has also entered negotiations with the Australian Taxation Office to establish a payment plan in order to settle its significant, long outstanding GST liabilities. These practices are indicative of significant cash flow problems demonstrating Council's an inability to meet current obligations from present cash reserves.

In my 2009 report I was unable to obtain all the information and explanations I required in order to form an opinion on the Council's 2008-09 financial report because the Council did not maintain effective systems of internal control over its financial operations during that period. Accordingly, I am still unable to and do not express an opinion on the 2009 comparative amounts and disclosures reported in the 2009-10 financial report.

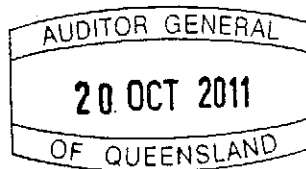
Qualified Auditor's Opinion

In accordance with s.40 of the *Auditor-General Act 2009*, except for the limitations described in the Basis for Qualified Auditor's Opinion paragraphs above and the effects of such adjustments, if any, as might have been determined to be necessary had these limitations not existed:

- (a) I have received all the information and explanations which I have required
- (b) In my opinion:
 - (i) the prescribed requirements in respect of the establishment and keeping of accounts have not been complied with in all material respects
 - (ii) the financial report has been drawn up so as to present a true and fair view, in accordance with the prescribed accounting standards, of the financial performance and cash flows of the Torres Strait Island Regional Council for the financial year 1 July 2009 to 30 June 2010 and of the financial position as at the end of that year.



G G POOLE FCPA
Auditor-General of Queensland



Queensland Audit Office
Brisbane

INDEPENDENT AUDITOR'S REPORT

To the Mayor of Torres Strait Island Regional Council

Matters Relating to the Electronic Presentation of the Audited Financial Report

The auditor's report relates to the financial report of Torres Strait Island Regional Council for the financial year ended 30 June 2010 included on Torres Strait Island Regional Council's website. The Council is responsible for the integrity of the Torres Strait Island Regional Council's website. I have not been engaged to report on the integrity of the Torres Strait Island Regional Council's website. The auditor's report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report, available from Torres Strait Island Regional Council, to confirm the information included in the audited financial report presented on this website.

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

Report on the Financial Report

I have audited the accompanying financial report of Torres Strait Island Regional Council, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, 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 and fair presentation of the financial report in accordance with the *Local Government Act 1993* and the *Local Government Finance Standard 2005* including compliance with Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility 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. These auditing standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance about whether the financial report is free of material misstatement.

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

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 only be removed by Parliament.

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

Basis for Qualified Auditor's Opinion

The Council was unable to provide adequate supporting documentation or appropriate reconciliations to substantiate the completeness and accuracy of rental income. The rental income reported in the statement of comprehensive income agrees to the amount of rental income disclosed in the statement of cash flows, indicating that no receivables have been raised in respect of housing rentals during either 2010 or the comparative 2009 period. As a consequence, I am unable to and do not express an opinion on the completeness and accuracy of rental income of \$4,240,732 (2009: \$3,732,565), reported in Note 3(c), nor on the other debtors balance of \$13,582,075 (2009: \$20,665,284) or the impairment balance of \$5,170,106 (2009: \$13,409,432), both disclosed in Note 10. In addition, I am also unable to and do not express an opinion on the aging analysis of receivables disclosed in Note 28. The impact of these matters on the financial report is unable to be practicably quantified due to the absence of reliable source documents.

The Council failed to maintain an effective system of internal control and adequate supporting documentation in respect of its payroll function. Accordingly, I am unable to and do not express an opinion on the completeness, accuracy and validity of employee benefits expense of \$32,934,664 (2009: \$42,520,619), disclosed in Note 5, nor on the annual leave liability of \$1,598,027 (2009: \$1,484,946) and the long service leave liability of \$969,143 (2009: \$801,278), reported in Note 15 and Note 18 respectively. The impact of this matter on the financial report is unable to be practicably quantified due to the absence of reliable source documents.

Subsequent to the end of the financial year additional information pertaining to the fair value of property, plant and equipment was obtained by the Council which indicates that significant uncertainty exists over the completeness and accuracy of the reported property, plant and equipment balances. As this uncertainty is yet to be resolved, I am unable to and do not express an opinion on the total written down value of property, plant and equipment assets of \$526,339,283 (2009: \$537,764,807), reported in Note 14; the associated depreciation expense of \$21,208,907 (2009: \$27,621,778), reported in Note 8; and the increase/decrease in asset revaluation surplus of nil (2009: nil), reported in other comprehensive income in the statement of comprehensive income.

The Council's analysis of results by function is inconsistent with the amounts reported in the financial statements. The statement of comprehensive income reports total expenses of \$80,314,431 and a net operating surplus of (\$15,039,540) whereas Note 2(b) reports total expenses of \$85,238,332 and a net operating surplus of (\$19,963,443), a variance of \$4,923,901. In addition, total assets as per Note 2(b) is \$581,321,790 compared with total assets as per the statement of financial position of \$551,044,469, a variance of \$30,277,321. The net result from recurring operations of \$30,710,388, as per Note 2(b), is also unable to be supported.

The Council did not submit Business Activity Statements (BAS) or remit GST to the Australian Taxation Office for the period 1 July 2009 to 30 June 2010. While the BAS returns for the period were subsequently submitted in June 2011, insufficient documentation was provided to substantiate the GST payable balance at 30 June 2010 of \$3,324,787 (2009: \$1,810,353), disclosed in Note 15. The Council has also failed to comply with s.21 of the *Local Government Finance Standard 2005* which requires Council to provide a notional GST certificate to the Minister by 15 September for the most recently completed financial year. I am, therefore, unable to and do not express an opinion on the reported GST payable. The impact of this matter on the financial report cannot be practicably quantified due to the absence of reliable source documents.

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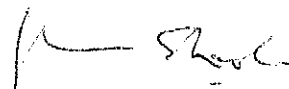
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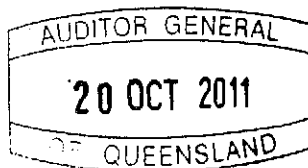
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Auditor-General of Queensland



Queensland Audit Office
Brisbane