

# Torres Strait Island Regional Council

## Financial Statements

For the year ended 30 June 2013

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The following unaudited statement is provided as additional information

Long Term Financial Sustainability Statement

**Torres Strait Island Regional Council  
Statement of Comprehensive Income  
For the year ended 30th June 2013**

	<i>Note</i>	<b>2013</b> \$	<b>2012</b> \$
<b>Income</b>			
<b>Revenue</b>			
<b>Recurrent revenue</b>			
Community levies and charges	3(a)	1,106,690	1,560
Fees and charges		143,536	958,645
Rental income		3,598,275	3,548,238
Interest received		278,349	353,146
Sales revenue	3(b)	22,890,208	13,675,699
Other income		117,140	212,848
Grants, subsidies, contributions and donations	4(a)	30,297,292	40,157,531
		58,431,489	58,907,667
<b>Capital revenue</b>			
Grants, subsidies, contributions and donations	4(b)	1,587,665	4,472,432
		1,587,665	4,472,432
<b>Total Revenue</b>			
		60,019,154	63,380,099
<b>Capital Income</b>			
	5	2,531,602	9,997,440
<b>Total Income</b>			
		62,550,756	73,377,539
<b>Expenses</b>			
<b>Recurrent expenses</b>			
Employee benefits	6	(17,592,195)	(19,793,434)
Materials and services	7	(36,660,271)	(29,850,721)
Finance costs	8	(5,616,744)	(4,016,336)
Depreciation	9	(25,887,834)	(25,865,116)
		(85,757,044)	(79,525,607)
<b>Capital expenses</b>			
	10	(10,547)	(241,718)
<b>Total Expenses</b>			
		(85,767,591)	(79,767,325)
<b>Net Result</b>			
		(23,216,834)	(6,389,786)
<b>Other comprehensive income</b>			
Increase / (decrease) in asset revaluation surplus	19	0	591,167
<b>Total other comprehensive income for the year</b>			
		0	591,167
<b>Total comprehensive income for the year</b>			
		(23,216,834)	(5,798,619)

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 30th June 2013**

	<u>Note</u>	<u>2013</u> \$	<u>2012</u> \$
<b>Current assets</b>			
Cash and cash equivalents	11	14,226,339	13,225,897
Trade and other receivables	12	7,791,150	5,082,916
Inventories	13	547,971	545,733
		<u>22,565,460</u>	<u>18,854,546</u>
<b>Total current assets</b>		<u>22,565,460</u>	<u>18,854,546</u>
<b>Non-current assets</b>			
Property, plant and equipment	14	662,708,492	690,967,100
Intangible assets	15	1,129,278	945,522
<b>Total non-current assets</b>		<u>663,837,771</u>	<u>691,912,622</u>
<b>Total assets</b>		<u>686,403,231</u>	<u>710,767,168</u>
<b>Current liabilities</b>			
Trade and other payables	16	3,688,796	4,638,037
Borrowings	17	41,392	38,926
Provisions	18	737,216	551,596
<b>Total current liabilities</b>		<u>4,467,405</u>	<u>5,228,559</u>
<b>Non-current liabilities</b>			
Trade and other payables	16	-	508,591
Borrowings	17	422,024	463,390
Provisions	18	3,047,861	2,903,221
<b>Total non-current liabilities</b>		<u>3,469,884</u>	<u>3,875,202</u>
<b>Total Liabilities</b>		<u>7,937,289</u>	<u>9,103,761</u>
<b>Net community assets</b>		<u>678,465,941</u>	<u>701,663,407</u>
<b>Community equity</b>			
Asset revaluation surplus	19	153,176,978	153,176,979
Retained surplus/(deficiency)		525,288,963	548,486,428
<b>Total community equity</b>		<u>678,465,941</u>	<u>701,663,407</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 30th June 2013**

		<b>Asset Revaluation</b>		
	<b>Note</b>	<b>Surplus</b>	<b>Retained Surplus</b>	<b>Total</b>
		<b>19</b>	<b>20</b>	
<b>Balance as at 1st July 2012</b>		153,176,979	548,486,428	701,663,408
Effect of correction of error	25		19,370	19,370
Restated balances		<u>153,176,979</u>	<u>548,505,798</u>	<u>701,682,778</u>
Net result		0	(23,216,834)	(23,216,834)
Other comprehensive income for the year		0		
Increase / (decrease) in asset revaluation surplus	19	0	0	0
<b>Total comprehensive income for the year</b>		<u>-</u>	<u>(23,216,834)</u>	<u>(23,216,834)</u>
<b>Balance as at 30th June 2013</b>		<u>153,176,979</u>	<u>525,288,963</u>	<u>678,465,941</u>
<b>Balance as at 1st July 2011</b>		152,585,812	550,525,840	703,111,652
Effect of correction of error	25		4,350,375	4,350,375
Restated balances		<u>152,585,812</u>	<u>554,876,215</u>	<u>707,462,027</u>
Net Result		-	(6,389,787)	(6,389,787)
Increase / (decrease) in asset revaluation surplus	19	591,167	-	591,167
<b>Total comprehensive income for the year</b>		<u>591,167</u>	<u>(6,389,787)</u>	<u>(5,798,619)</u>
<b>Balance as at 30th June 2012</b>		<u>153,176,979</u>	<u>548,486,428</u>	<u>701,663,407</u>

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 2013**

	Note	Council	
		2013	2012
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers		25,613,645	23,364,339
Payments to suppliers and employees		(54,528,901)	(56,097,582)
		<u>(28,915,256)</u>	<u>(32,733,243)</u>
Dividend received			-
Interest received		278,349	353,146
Non capital grants and contributions		30,297,292	40,157,531
Income from investments			
Borrowing costs		(31,170)	(32,863)
<b>Net cash inflow (outflow) from operating activities</b>		<u>1,629,215</u>	<u>7,744,572</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(2,039,899)	(4,408,825)
Payments for intangible assets		(371,969)	(945,522)
Proceeds from sale of property plant and equipment		156,529	5,175
Grants, subsidies, contributions and donations		1,587,665	4,472,432
<b>Net cash inflow (outflow) from investing activities</b>		<u>(667,674)</u>	<u>(876,739)</u>
<b>Cash flows from financing activities</b>			
Repayment of borrowings	17	(38,900)	(37,208)
<b>Net cash inflow (outflow) from financing activities</b>		<u>(38,900)</u>	<u>(37,208)</u>
<b>Net increase (decrease) in cash and cash equivalent held</b>		<u>1,000,441</u>	<u>6,830,625</u>
<b>Cash and cash equivalents at the beginning of the financial year</b>		13,225,897	6,395,272
<b>Cash and cash equivalents at end of the financial year</b>	11	<u>14,226,339</u>	<u>13,225,897</u>

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

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

**1 Significant accounting policies**

**1.A Basis of preparation**

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

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

**1.B Statement of compliance**

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

**1.C Constitution**

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

**1.D Date of authorisation**

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

**1.E Currency**

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

**1.F Adoption of new and revised Accounting Standards**

In the current year, Council adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period. The adoption of the new and revised Standards and Interpretations has not resulted in any material changes to Council's accounting policies.

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

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

	<b>Effective for annual report periods beginning on or after:</b>
AASB 9 <i>Financial Instruments</i> (December 2009)	1 January 2015
AASB 10 <i>Consolidated Financial Statements</i>	1 January 2013
AASB 13 <i>Fair Value Measurement</i>	1 January 2013
AASB 119 <i>Employee benefits</i> (completely replaces existing standard)	1 January 2013
AASB 127 <i>Separate Financial Statements</i> (replaces the existing standard together with AASB 10)	1 January 2013
AASB 1053 <i>Application of Tiers of Australian Accounting Standards</i>	1 July 2013
2009-11 <i>Amendments to Australian Accounting Standards arising from AASB 9</i> (December 2009)	1 January 2015
AASB 2010-2 <i>Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements</i>	1 July 2013
AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9</i> (December 2010)	1 January 2015
AASB 2010-10 <i>Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters</i>	1 January 2013
AASB 2011-6 <i>Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements</i>	1 July 2013
AASB 2011-7 <i>Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards</i>	1 January 2013
AASB 2011-8 <i>Amendments to Australian Accounting Standards arising from AASB 13</i>	1 January 2013
AASB 2011-10 <i>Amendments to Australian Accounting Standards arising from AASB 119</i> (September 2011)	1 January 2013
AASB 2011-11 <i>Amendments to AASB 119</i> (September 2011) arising from Reduced Disclosure Requirements	1 July 2013
AASB 2011-12 <i>Amendments to Australian Accounting Standards arising from Interpretation 20</i> (AASB 1)	1 January 2013

**AASB 13 Fair Value Measurement (AASB 13)**

AASB 13 applies to reporting periods beginning on or after 1 January 2013 and will therefore be applied by Council in the 2013-14 reporting period. This standard is not required to be applied retrospectively, therefore there is no impact from the application of AASB 13 to values or other disclosures in the 2012-13 financial statements.

The standard sets out a new definition of "fair value", as well as new principles to be applied when determining the fair value of assets and liabilities. The new requirements will apply to all of the Council's assets and liabilities (excluding leases) that are measured and/or disclosed at fair value or another measurement based on fair value. The key changes will relate to the level of disclosures required.

The Council has commenced reviewing its fair value methodologies (including instructions to valuers, data used and assumptions made) for all items of property, plant and equipment measured at fair value to determine whether those methodologies comply with AASB 13. To the extent that the methodologies don't comply, the necessary changes will be implemented. While the Council is yet to complete this review, no significant changes are anticipated, based on the fair value methodologies presently used. Therefore, and at this stage, no consequential material impacts are expected for the Council's property, plant and equipment as from 2013-14.

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

AASB 13 will require an increased amount of information to be disclosed in relation to fair value measurements for both assets and liabilities. The recognised fair values will be classified according to the following fair value hierarchy that reflects the significance of the inputs used in making these measurements:

Level 1 - Fair values that reflect the unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 - Fair values that are based on inputs other than quoted prices that are directly or indirectly observable for the asset or liability

Level 3 - Fair values that are derived from data not observable in a market.

To the extent that any fair value measurement for an asset or liability uses data that is not "observable" outside the Council, the amount of information to be disclosed will be relatively greater.

**Amendments to AASB 119 Employee Benefits**

A revised version of AASB 119 Employee Benefits applies from reporting periods beginning on or after 1 January 2013. The revised AASB 119 is generally to be applied retrospectively.

The revised standard includes changed criteria for accounting for employee benefits as "short-term employee benefits". Torres Strait Island Regional Council has applied the revised standard this year therefore annual leave is classified as a "short-term benefit". (refer Note 1.T).

The concept of "termination benefits" is clarified and the recognition criteria for liabilities for termination benefits will be different. If termination benefits meet the timeframe criterion for "short-term employee benefits", they will be measured according to the AASB 119 requirements for "short-term employee benefits". Otherwise, termination benefits will need to be measured according to the AASB 119 requirements for "other long-term employee benefits". Under the revised standard, the recognition and measurement of employer obligations for "other long-term employee benefits" will need to be accounted for according to most of the requirements for defined benefit plans.

The revised AASB 119 also includes changed requirements for the measurement of employer liabilities/assets arising from defined benefit plans, and the measurement and presentation of changes in such liabilities/assets. Council contributes to the Local Government Superannuation Scheme (Qld) as disclosed in note 22. The revised standard will require Council to make additional disclosures regarding the Defined Benefits Fund element of the scheme.

The reported results and position of the council will not change on adoption of the other pronouncements as they do not result in any changes to the council's existing accounting policies. Adoption will, however, result in changes to information currently disclosed in the financial statements. The council does not intend to adopt any of these pronouncements before their effective dates.

On 27 July 2012 the AASB decided to apply AASB 124 to NFP Public sector entities from 1 July 2014. At the time of compiling reports for 2012-2013 The standard had not been changed to give effect to this decision, however once this is done council will need to add in a note about the effect that this standard will have. According to the Board's work program the amendments to apply related party disclosures in the NFP public sector will be made in the second quarter of 2013.

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

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

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

Valuation and depreciation of property, plant and equipment - Note 1.O and Note 14

Impairment of property, plant and equipment - Note 1.Q and Note 10

Provisions - Note 1.T and 1.V and Note 18

Contingencies - Note 21



**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

**1.H Revenue**

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

Community Levies

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

Grants and subsidies

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

Where grants are received that are reciprocal in nature, revenue is recognised as the various performance obligations under the funding agreement are fulfilled. 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.

Rental income

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

Interest

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

Sales revenue

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

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

Fees and Charges

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

Capital Income from Contributed Assets

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

The funding and construction of infrastructure assets by State and Federal Government Departments, which are then transferred to the Council is expected to be ongoing process. Refer to Note 23 for Funds held in Trust for this purpose.

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

**1.I Financial assets and financial liabilities**

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

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

Financial assets

Cash and cash equivalents (Note 1.J)

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

Financial liabilities

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

Borrowings - 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 17 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.

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 27.

**1.J Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, all cash and cheques receipted but not banked at the year end, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of 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.K Receivables**

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

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

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

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

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

**1.L Inventories**

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

Inventories held for distribution are:

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

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

**1.M Investments**

Term deposits in excess of three months are reported as investments, with deposits of less than three months being reported as cash equivalents. At 30 June 2013 Council did not have any term deposits in excess of three months.

**1.N Community Housing**

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

As the buildings held by Council do not meet the definition of Investment Property, these building are accounted for in accordance with Note 1O Property, Plant & Equipment.

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

**1.0 Property, plant and equipment**

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

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

Buildings (Community)  
Buildings (Corporate)  
Recreation Facilities  
Roads / Transport Network  
Stormwater Drainage Network  
Flood Mitigation Network  
Water Supply Network  
Sewerage Network  
Bridges  
Wharves, Piers, Jetties and Pontoons  
Waste Landfill  
Land Assets  
Plant & Equipment

Acquisition of assets

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

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

Capital and operating expenditure

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

Valuation

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

Non-current physical assets measured at fair value are revalued, where required, so that the carrying amount of each class of asset does not materially differ from its fair value at the reporting date. This is achieved by engaging independent, professionally qualified valuers to determine the fair value for each class of property, plant and equipment assets at sufficient regular intervals, 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 of that asset class.

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

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

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

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

Capital work in progress

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

Depreciation

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

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

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

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

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

Depreciation methods, estimated useful lives and residual values of property, plant and equipment assets are reviewed at the end of each reporting period and adjusted where necessary to reflect any changes in the pattern of consumption, physical wear and tear, technical or commercial obsolescence, or management intentions. The condition assessments performed as part of the annual valuation process for assets measured at depreciated current replacement cost are used to estimate the useful lives of these assets at each reporting date. Details of the range of estimated useful lives for each class of asset are shown in Note 14.

Land under roads

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

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

Deed of Grant in Trust Land

The Council is located on land assigned to it under various Deeds of Grant in Trust (DOGIT) pursuant to Section 341 of the Land Act 1994. The land comprises an area of approximately 483.6 square kilometres, across the following Islands:

Badu Island

Boigu Island

Dauan Island

Erub Island

Hammond Island

Iama Island

Moa Island (the location of the former St Paul's and Kubin Island Councils)

Mabuiag Island

Poruma Island

Saibai Island

Ugar Island

Warraber Island

Masig Island

The land is administered by the Department of Natural Resources & Mines and the Council has restricted use of this land for the benefit of island inhabitants. The DOGIT land has not been taken up in the Council's assets as it cannot be reliably measured. The Reserves Land for Mer Island was managed by the Department of Communities, Child Safety and Disabilities Services until the 14th December 2012. On the 14th December 2012 Mer Gedken Le become the trustee under deed of grant. The Corporation is Trustee for the native Title Holder of the Torres Strait Island Land

**1.P Intangible assets**

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

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

Amortisation methods, estimated useful lives and residual values are reviewed at the end of each reporting period and adjusted where appropriate. Details of the estimated useful lives assigned to each class of intangible assets are shown in Note 15.

**1.Q Impairment of non-current assets**

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

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

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

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

**1.R Leases**

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

Operating leases

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

Finance Leases

Buildings and infrastructure on Mer Island are leased by council for the terms of 30 years and 99 years at nominal values. Consequently no lease liability has been recognised in the financial statements

**1.S Payables**

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

**1.T Liabilities - employee benefits**

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

Salaries and wages

A liability for salaries and wages is recognised and measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date. This liability represents an accrued expense and is reported in Note 16 as a payable.

Annual leave

A liability for annual leave is recognised. Amounts expected to be settled within 12 months calculated on current wage and salary levels and includes related employee on-cost. This liability represents an accrued expense and is reported in Note 16 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 24.

Long service leave

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

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

**1.U Borrowings and borrowing costs**

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

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

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

**1.V Restoration provision**

A provision is made for the cost of restoration in respect of refuse dumps where it is probable the Council will be liable, or required, to incur such a cost on the cessation of use of these facilities. The provision is measured at the expected cost of the work required, discounted to current day values using an appropriate rate. The current QTC lending rate is considered an appropriate rate. The restoration costs provided for are expected to be incurred in 2015.

**1.W Asset revaluation surplus**

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

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

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

When an asset is disposed of, the amount reported in surplus in respect of that asset is retained in the asset revaluation surplus and not transferred to retained surplus.

**1.X Retained surplus**

In reference to the comparative figures for the year ended 30 June 2012, this represents the amount of Council's net funds not set aside in reserves to meet specific future needs.

**1.Y Rounding and comparatives**

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

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



**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

**1.Z Trust funds held for outside parties**

Funds held in the trust account on behalf of outside parties include those funds held for Community Churches, Funeral Funds and Community groups. These have been paid into a separate bank account maintained by the Council. The Council performs only a custodian role in respect of these monies and because the monies cannot be used for Council purposes, they are not considered revenue nor brought to account in the financial statements.

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

**1.AH Funds held in trust by outside parties**

Some funds belonging to Council are held in the trust funds of third parties. These include grants for major infrastructure projects. For details see Note 23.

**1.AA 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.

**1.AF Carbon Pricing**

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

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

Council has been, and will continue to be indirectly impacted through increased costs arising from the carbon pricing mechanism. The most significant of these will be electricity and fuel. Commonwealth Treasury modelling published in July 2011 in the document "Strong growth, low pollution modelling a carbon price" indicates that the carbon pricing is expected to increase electricity prices by 10% within 5 years from 1 July 2012 and increase other costs by 0.7% on inflation. In addition fuel tax credits will be progressively reduced over the initial fixed price period.

**Torres Strait Island Regional Council  
Notes to the financial statements  
For the year ended 30 June 2013**

**2. Analysis of Results by Function**

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

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

**Executive**

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

Key components of the Executive function include:

- \* Internal Audit
- \* Human Resources
- \* Administration for Councillors
- \* Legal Services
- \* Public Relations
- \* Risk & Natural Disaster
- \* Housing
- \* Community Police Services
- \* Building and maintenance

**Corporate & Finance**

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

Key components of the Finance function include:

- \* Procurement and plant
- \* Financial Services
- \* Asset and Risk Management
- \* Administration and Governance Services
- \* Records and Information Technology Management

Note: The Division of Corporate & Finance was restructured in February 2013 to appoint a Chief Financial Officer to oversee the newly created division of Financial Services. The remaining functions remained under the Division of Corporate. New Budgets to reflect this change occurred from July 2013

**Economic and Community Services**

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

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

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

This function includes:

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

**Engineering**

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

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

Key components of the Engineering Services function include:

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

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

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

2 Analysis of results by function  
 (b) Income and expenses defined between recurring and capital are attributed to the following functions:  
 Year Ending 30 June 2013

Functions	Gross program income		Elimination of inter-function transactions	Total income	Gross program expenses		Elimination of inter-function transactions	Total expenses	Net result from recurrent operations	Net Result	Assets
	Recurring	Capital			Recurrent	Capital					
Executive	10,038,000	-	(355,967)	9,682,033	(25,648,639)	-	677,803	(24,970,837)	(15,610,539)	(15,288,904)	-
Economic & Community Services	23,234,123	-	(382,323)	22,851,799	(24,358,324)	-	1,345,402	(23,012,923)	(1,124,202)	(161,124)	313,619,422
Corporate & Finance	23,760,519	5,963,347	(4,175,874)	25,573,892	(14,874,486)	(3,448,292)	(365,915)	(18,706,693)	8,905,033	6,665,198	80,665,149
Engineering	6,806,108	1,587,665	(512,596)	7,880,777	(26,302,958)	-	3,780,171	(22,512,784)	(19,499,648)	(14,632,009)	231,928,860
<b>Total Council</b>	<b>63,658,749</b>	<b>7,557,012</b>	<b>(5,427,260)</b>	<b>65,988,501</b>	<b>(91,184,305)</b>	<b>(3,448,292)</b>	<b>5,427,260</b>	<b>(89,205,337)</b>	<b>(27,325,556)</b>	<b>(23,216,634)</b>	<b>686,403,231</b>

Year Ending 30 June 2012

Functions	Gross program income		Elimination of inter-function transactions	Total income	Gross program expenses		Elimination of inter-function transactions	Total expenses	Net result from recurrent operations	Net Result	Assets
	Recurring	Capital			Recurrent	Capital					
Executive	24,652,355	86,500	(150,265)	24,588,590	(26,825,426)	-	4,857,120	(26,925,426)	(2,173,071)	(2,236,836)	-
Economic & Community Services	12,129,287	4,085,796	(6,690)	16,157,393	(17,347,327)	-	-	(12,490,207)	(5,218,040)	3,687,186	323,130,607
Corporate & Finance	20,061,476	10,346,446	(7,457,849)	22,950,073	(19,174,781)	(241,718)	5,389,226	(19,416,499)	868,695	3,533,574	74,474,546
Engineering	12,317,895	130	(2,636,542)	9,681,483	(26,431,419)	-	-	(21,035,193)	(14,113,524)	(11,353,710)	313,162,016
<b>Total Council</b>	<b>69,161,013</b>	<b>14,469,872</b>	<b>(10,253,346)</b>	<b>73,377,539</b>	<b>(88,778,653)</b>	<b>(241,718)</b>	<b>10,253,346</b>	<b>(79,767,325)</b>	<b>(20,617,840)</b>	<b>(6,389,786)</b>	<b>710,767,168</b>

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

	<b>Note</b>	<b>2013</b>	<b>2012</b>
		(\$)	(\$)
<b>3</b>	<b>Revenue analysis</b>		
<b>(a)</b>	<b>Community Levies and charges</b>		
	Council Rates & Levies are set as per council resolution from the Striking of Rates and Charges as approved by Council.		
	General rates	1,598	1,560
	Water consumption, rental and sundries	347,347	-
	Sewerage	534,836	-
	Waste management	222,909	-
	Garbage charges	-	-
		1,106,691	1,560
<b>(b)</b>	<b>Sales revenue</b>		
	Council provides a range of goods and services to the community & other third parties for a fee based on these goods & services. These fees are set in the Fees & Charges Register adopted by Council		
	<b>Sale of Goods and Services</b>		
	Contract and recoverable works	19,585,870	10,985,468
	Plant & Equipment hire	574,584	452,352
	Airport/Childcare Fees	211,130	-
	Accommodation	466,521	623,464
	Fisheries	-	105,184
	Fuel	1,069,219	928,644
	Powercards	982,884	580,588
	Total sales revenue	22,890,208	13,675,699
<b>4</b>	<b>Grants, subsidies, contributions and donations</b>		
<b>(a)</b>	<b>Recurrent</b>		
	General purpose grants (i)	11,577,994	19,419,230
	State Government Subsidies and grants (i)	13,469,378	20,340,946
	Commonwealth government subsidies and grants (i)	4,902,282	40,510
	Contributions	347,638	356,845
		30,297,292	40,157,531
	Note: (i) Council reported a decrease in grant funding with the non receipt in the financial year being the NDRRA Funding for major natural disasters (\$6M) & Indigenous State Infrastructure Program & Long Term Financial Sustainability Strategy (\$5.4M)		
<b>(b)</b>	<b>Capital</b>		
	Government Subsidies and grants (ii)	1,587,665	4,472,432
		1,587,665	4,472,432
	Note: (ii) Council reported a decrease in Capital Grant funding with limited MIP Capital funding compared to the \$4,000,000 received in 11/12. Capital for 12/13 consists of Airport Lighting \$400,000 & Garbage Trucks for \$400,000		
<b>(c)</b>	<b>Conditions over contributions</b>		
	Contributions recognised as income during the reporting period and which were obtained on the condition that they be expended in a manner specified by the contributor but had not been expended at the reporting date		
	Non-reciprocal grants for expenditure on services and infrastructure	7,744,937	6,007,786
		7,744,937	6,007,786
	Contributions recognised as income during a previous reporting period that we obtained in respect of the current reporting period	4,211,618	2,839,254
	Non-reciprocal grants for expenditure on services	4,211,618	2,839,254
		4,211,618	2,839,254

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

	<b>Note</b>	<b>2013</b>	<b>2012</b>
		(\$)	(\$)
<b>5</b>	<b>Capital income</b>		
Contributed Assets	(iii)	5,812,818	9,992,264
Proceeds from the sale of property, plant & equipment		156,529	5,175
<b>Gain / loss on disposal of non-current assets</b>			
Loss from the sale of property, plant and equipment		(3,437,745)	-
		(3,437,745)	-
Total capital income		<u>2,531,602</u>	<u>9,997,440</u>
Note (iii) Contributed Assets are those assets that have been transferred to the Council from other Government entities and Departments. The majority of these assets are from infrastructure projects funded by the State and Federal Governments. The assets are recognised upon the practical transfer of the asset to the Council. The assets are recognised at cost as supplied by the Contributor agency/department as the Council believes the provided costs approximate fair value at date of transfer.			
<b>6</b>	<b>Employee benefits</b>		
Total staff wages and salaries		12,981,412	13,837,851
Councillors' remuneration	(iv)	767,094	828,229
Annual, sick and long service leave entitlements		1,882,934	3,135,036
Superannuation		1,491,851	1,486,154
		<u>17,123,290</u>	<u>19,287,270</u>
Other employee related expenses		468,905	651,125
		<u>17,592,195</u>	<u>19,938,395</u>
Less: Capitalised employee expenses			(144,961)
		<u>17,592,195</u>	<u>19,793,434</u>
Note (iv) Councillor remuneration represents salary, and other allowances paid in respect of carrying out their duties.			
Total Council employees at the reporting date:			
		2013	2012
Elected members		16	16
Ordinary Staff		345	339
Total full time equivalent employees		<u>361</u>	<u>355</u>
<b>7</b>	<b>Materials and services</b>		
Advertising and marketing		10,388	3,786
Audit services		412,000	-
Communications and IT		1,633,766	1,365,452
Consultants		538,600	15,234
Contractors		6,917,991	8,621,932
Donations paid		237,458	49,001
Insurance		2,271,635	2,233,660
Motor Vehicle Expenses		1,672,159	1,726,868
Power		1,935,957	1,561,492
Repairs and maintenance	(v)	13,357,702	9,911,271
Rent Paid		1,129,079	570,578
Subscriptions and registrations		92,327	54,576
Travel	(vi)	3,070,329	786,985
Other materials and services		3,380,878	2,949,886
		<u>36,660,271</u>	<u>29,850,721</u>

Note: (v) Write off of Work in Progress not progressed to completion from prior years as approved via Council Resolution - Amount \$6,884,885

Note: (vi) Higher travel cost associated with reduction of airline carriers located in the Torres Strait. Also movement between Islands. Thursday Island and Cairns due to increased Training and Development. Additional Council Meeting held face to face ever month compared to last year being bi-monthly.

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

	<b>Note</b>	<b>2013</b>	<b>2012</b>
		(\$)	(\$)
<b>8</b>	<b>Finance costs</b>		
	Finance costs charged by the Queensland Treasury Corporation	30,615	33,093
	Bank charges	41,102	38,988
	Impairment of debts	5,433,542	3,641,941
	Bad Debt Written Off	-	109,178
	Refuse restoration	111,485	193,136
		<u>5,616,744</u>	<u>4,016,336</u>
<b>9</b>	<b>Depreciation and amortisation</b>		
	<b>Depreciation of non-current assets</b>	<b>2013</b>	<b>2012</b>
	Buildings (Communities)	9,435,410	9,351,641
	Buildings (Corporate)	2,690,784	2,714,118
	Recreational Facilities	545,307	552,172
	Roads/Transport Network	3,962,091	3,828,498
	Stormwater Drainage Network	182,000	182,301
	Flood Mitigation Network	65,200	65,020
	Water Supply Network	2,928,126	3,044,882
	Sewerage Network	3,970,773	3,987,680
	Bridges	4,050	4,000
	Wharves, Piers, Jetties and Pontoons	545,380	542,250
	Waste Landfill	40,267	40,308
	Land Assets	-	-
	Plant and Equipment	1,330,233	1,552,245
		<u>25,699,621</u>	<u>25,865,116</u>
	Amortisation of intangible assets		
	Software	188,213	-
	Total depreciation and amortisation	<u>25,887,834</u>	<u>25,865,116</u>
<b>10</b>	<b>Capital expenses</b>		
	<b>Loss on impairment</b>		
	Property, plant and equipment	10,547	241,718
	Total impairment losses	<u>10,547</u>	<u>241,718</u>
	Impairment loss treated as expense	<u>10,547</u>	<u>241,718</u>
	Total capital expenses	<u>10,547</u>	<u>241,718</u>
<b>11</b>	<b>Cash and cash equivalents</b>		
	Cash at bank and on hand	1,415,436	7,418,473
	Deposits at call	12,755,633	5,753,797
	Term deposits	55,269	53,627
	Balance per Statement of Cash Flows	<u>14,226,339</u>	<u>13,225,897</u>

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

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

	<i>Note</i>	<b>2013</b>	<b>2012</b>
		(\$)	(\$)
<b>12</b>	<b>Trade and other receivables</b>		
	<b>Current</b>		
	Housing rental	5,491,115	4,352,059
	Less impairment	(5,260,734)	(3,430,981)
	Other debtors	16,402,935	10,457,752
	Less impairment	(9,513,666)	(7,056,325)
	GST recoverable	295,147	695,368
	Prepayments	376,353	65,043
		<u>7,791,150</u>	<u>5,082,916</u>
		<u>7,119,650</u>	<u>4,322,505</u>
	No interest is charged on other debtors. There is a geographic concentration of credit risk for Housing and Other debtors.		
	Movement in accumulated impairment losses (Housing Rental and Other debtors) is as follows:		
	Opening balance	10,487,306	7,910,899
	Less Impairment Debts written off during year	(1,146,448)	(1,065,533)
	Additional Impairment Recognised	5,433,542	3,641,940
	closing balance	<u>14,774,400</u>	<u>10,487,306</u>
<b>13</b>	<b>Inventories</b>		
	<b>Inventories held for sale</b>		
	Stores & Materials	499,581	493,181
		<u>499,581</u>	<u>493,181</u>
	<b>Inventories held for distribution</b>		
	Stores & Materials	48,390	52,552
		<u>48,390</u>	<u>52,552</u>
	Total inventories	<u>547,971</u>	<u>545,733</u>

Torres Strait Island Regional Council  
Notes to the Financial Statements  
For the year ended 30 June 2013

14 Property, plant and equipment

Note	Buildings (Communities)	Buildings (Corporate)	Infrastructure Facilities	Network	Drainage	Miscellaneous	Networks	Fair Value	Fair Value	Fair Value	Fair Value	Leasehold Improvements	Land/Right Fair Value	Equipment Cost	Equipment Progress	Cost	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
	484,847,000	92,448,442	15,919,800	175,789,089	9,099,999	4,090,000	103,999,476	104,667,789	81,000	19,477,000	1,089,000	650,000	14,026,377	8,175,176	1,019,359,940		1,019,359,940
	5,680,243	144,454	86,336	248,169	49,847	78,383	54,192	54,192					284,483	(765,442)	1,893,848		1,893,848
		49,847															49,847
		(468,000)															(468,000)
19																	
	470,327,243	92,171,743	15,007,936	176,036,248	9,099,999	4,090,000	99,726,859	103,751,980	81,000	19,477,000	1,088,000	650,000	12,875,727	2,059,295	1,007,403,103		1,007,403,103

155,671,741	40,100,017	7,072,471	39,851,848	2,221,301	1,185,020	32,877,182	26,901,680	45,000	8,889,650	114,409	7,542,521	322,392,840
9,435,110	2,980,784	945,307	3,962,091	182,000	65,200	2,928,126	3,970,773	4,050	545,380	40,267	1,330,233	25,689,621
	30,477											30,477
	(432,506)											(432,506)
185,107,151	42,368,772	7,817,778	43,923,939	2,403,301	1,250,220	34,184,556	30,816,095	49,050	9,245,030	154,676	7,751,973	342,694,541

305,220,082	49,762,971	8,390,166	52,712,310	6,886,688	2,799,760	65,842,303	73,133,885	31,850	10,231,970	933,324	5,123,754	682,708,492
			59,779,320	790,000					2,600,000	60,000		
10-50	3-60	10-50	8-100	50	50	8-50	5-50	20	15-50	10-50	3-25	WIP: Not Depreciated

3,917,000			3,050,000			8,988,000	8,412,000											24,347,000	
49,103,277																			49,103,277

	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
2,628,243	3,052,000	144,454	86,336	248,169		78,383	54,192				284,483	2,039,899	4,668,142				
5,680,243	144,454	86,336	248,169		78,383	54,192					284,483	2,039,899	3,950,017				
(5,680,243)						(78,383)	(54,192)						(2,039,899)				
													8,618,159				
													(2,009,899)				

\* Amounts disclosed of \$6,884,865 represents expenses relating to upgrades works undertaken on behalf of Qbid in respect to Community Housing over several years. This amount should have been expensed rather than capitalised in previous years. Due to the difficulty in estimating prior year figures, no adjustment to prior year WIP or Materials & Services has been performed. Accordingly the amount has been adjusted this year.

Accumulated depreciation and impairment  
Opening balance as at 1 July 2012  
Depreciation provided in period  
Assets previously not recognised  
Depreciation/impairment on disposals  
Revaluation adjustment to asset revaluation surplus  
Impairment adjustment to income  
Transfers between classes  
Transfers to Materials & Services \*  
Discontinued Projects  
Transfers between classes  
Closing gross value as at 30 June 2013

Total written down value as at 30 June 2013  
Residual value  
Range of estimated useful life in years

Gross Value of assets transferred to Mer Gudkem Le (Torres Strait Islanders) Corporation RNTBC under the TSILA, which are being used or occupied by the TSIRC, and will continue to be used or occupied under 99 year leasing arrangements. These are Finance Lease assets included in above values

Gross Value of assets transferred to Mer Gudkem Le (Torres Strait Islanders) Corporation RNTBC under the TSILA, which is being used or occupied by TSIRC for social housing purposes, and will continue to be used or occupied under a licence granted by the licensee under the TSILA for a period of up to 10 years. These are finance lease assets included in above values

Additions comprises:  
Renewals  
Other additions  
Total additions



**Torres Strait Island Regional Council  
Notes to the Financial Statements  
For the year ended 30 June 2013**

Council - 30 June 2012

Note	Buildings (Communities)	Buildings (Corporate)	Recreational Facilities	Road/Transport Network	Stormwater Drainage Network	Flood Mitigation Network	Water Supply Network	Sewerage Network	Bridges	Wharves, Piers Jetties & Pontoons	Waste Landfill	Land Assets	Plant & Equipment	Work in Progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
	464,647,000	91,127,799	15,919,600	175,417,200	9,099,999	4,050,000	97,300,000	100,819,000	81,000	19,477,000	1,088,000	680,000	13,211,710	5,665,877	990,348,695
		1,318,643		376,880			5,758,476	4,232,788					815,167	1,898,134	14,401,088
20															
15															
17															
	464,647,000	92,446,442	15,919,600	175,794,080	9,099,999	4,050,000	103,058,476	104,851,788	81,000	19,477,000	1,088,000	680,000	14,026,877	610,187	1,013,359,940

**Accumulated depreciation and impairment**

Opening balance as at 1 July 2011	146,320,100	37,385,899	6,520,289	36,133,350	2,020,000	1,120,000	29,892,300	22,914,000	41,000	8,157,400	74,101		5,746,558		286,267,007
Adjustment to opening value	9,351,641	2,714,118	552,172	3,629,498	182,301	65,020	3,044,882	3,987,660	4,000	542,250	40,308		1,552,245		25,885,115
Depreciation provided in period															
Depreciation on disposals															
5															
20															
10															
20															
Revaluation adjustment to income					19,000										
Impairment adjustment to asset revaluation surplus															
Assets transferred to investment property															
Assets classified as held for sale															
Transfers between classes															
Accumulated depreciation as at 30 June 2012	155,671,741	40,100,017	7,072,471	39,981,848	2,221,301	1,185,020	32,877,182	26,901,680	45,000	8,699,650	114,409		7,542,521		322,392,940

**Total written down value as at 30 June 2012**

Residual value	308,975,259	52,346,425	9,847,129	135,925,232	6,879,698	2,865,980	70,182,294	77,950,108	36,000	10,777,350	973,691	680,000	6,483,356	8,715,178	690,967,100
Range of estimated useful life in years	10-50	10-60	15-50	8 - 100	50	50	10-50	10-40	20	15-50	16-50	Land: Not Depreciated	4-40	WIP: Not Depreciated	

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

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

**Land assets**

Freehold Land was comprehensively revalued at current market value as at 30 June 2011 by AssetVal Pty Ltd (Property, Plant, Equipment and Infrastructure Consultants). All land assets are situated on Thursday Island, where a market exists for land. Land Values on Thursday Island has been determined based on relevant sales of Land in the Locality including other locations within the regional Council Area. It should be noted that there can be a lack of comparable sales data for the locality therefore the closest comparable sales data maybe used.

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

Land assets have been included at current market value as at 30 June 2013 as determined by Council. In determining market value, Council engaged APV Valuers and Asset Management Pty Ltd, (Registered Valuers) to consider price movements in the region. Due to the lack of established regional indices APV made enquires with real estate agents and concluded that there were no significant price movements during the year ending 30 June 2013.

**Buildings**

Buildings have been comprehensively revalued at written down current replacement cost as at 30 June 2011 as determined by AssetVal Pty Ltd (Property, Plant, Equipment and Infrastructure Consultants). The valuation was prepared on an abbreviated bill of quantity methodology using costing's contained in Rawlinson's Australia Construction Handbook 2011

Buildings have been included at fair value as at 30 June 2013 as determined by Council. The fair Value of the Building Assets is measured at Written Down current replacement cost. In determining fair value, Council engaged APV Valuers and Asset Management Pty Ltd (Registered Valuers) to consider price movements in the region. Due to the lack of established regional indices APV made enquires with regional construction firms as to their experiences in price changes of labour, materials and freight during the year. Based on APV report Council concluded that there had been no material change in the value of its buildings during the year ended 30 June 2013.

**Other plant & equipment**

Other plant & equipment is measured at original cost less accumulated depreciation

**Infrastructure**

Infrastructure was comprehensively revalued at written down current replacement cost as at 30 June 2011 as determined by AssetVal Pty Ltd. The valuation was prepared on an abbreviated bill of quantity methodology using costing's contained in Rawlinson's Australia Construction Handbook 2011

Infrastructure assets include the following asset classes: Recreation Facilities, Roads/ Transport Network, Stormwater Drainage Network, Flood Mitigation Network, Water Supply Network, Sewerage Network, Wharves, Piers, Jetties and Pontoons and Waste Landfill.

Infrastructure has been included at fair value as at 30 June 2013 as determined by Council. The fair Value of the Infrastructure Assets is measured at Written Down current replacement cost. In determining fair value, Council engaged APV Valuers and Asset Management Pty Ltd (Registered Valuers) to review replacement cost of this asset class. Due to the lack of established regional indices APV made enquires with regional civil works firms as to their experiences in price changes of labour, materials and freight during the year. Based on APV's report Council concluded that there had been no material change in the value of its infrastructure during the year ended 30 June 2013.

		<b>Council</b>	
<b>Note</b>		<b>2013</b>	<b>2012</b>
		\$	\$
15	<b>Intangible assets</b>		
	<b>Software</b>		
	Opening gross carrying value	945,522	
	Work in progress	371,969	945,522
	Closing gross carrying value	<u>1,317,491</u>	<u>945,522</u>
	<b>Accumulated amortisation</b>		
	Opening balance	-	
	Amortisation in the period	188,213	
	Closing balance	<u>188,213</u>	<u>-</u>
	<b>Net carrying value at end of financial year</b>	<u>1,129,278</u>	<u>945,522</u>
	The software has a finite life estimated at 10 years.		
	Straight line amortisation has been used with no residual value.		
	<b>Total</b>	<u>1,129,278</u>	<u>945,522</u>

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

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

<b>16</b>	<b>Trade and other payables</b>		<b>2013</b>	<b>2012</b>
		<u>Note</u>	<u>\$</u>	<u>\$</u>
	<b>Current</b>			
	Creditors and accruals		1,881,953	3,761,739
	Employee Benefits - Annual Leave		1,363,745	876,298
	GST Payable		443,099	-
			<u>3,688,796</u>	<u>4,638,037</u>
	<b>Non-current</b>			
	Creditors and accruals		-	-
	Employee Benefits - Annual Leave		-	508,591
			<u>-</u>	<u>508,591</u>
<b>17</b>	<b>Borrowings</b>			
	<b>Current</b>			
	Loans - Queensland Treasury Corporation		41,392	38,926
			<u>41,392</u>	<u>38,926</u>
	<b>Non-current</b>			
	Loans - Queensland Treasury Corporation		422,024	463,390
			<u>422,024</u>	<u>463,390</u>
	<b>Loans - Queensland Treasury Corporation</b>			
	Opening balance at beginning of financial year		502,316	539,524
	Principal repayments		(38,900)	(37,208)
	Book value at end of financial year		<u>463,416</u>	<u>502,316</u>

The QTC loan market value at the reporting date was \$509,580.55. 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.

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

	Note	Council	
		2013 \$	2012 \$
<b>18 Provisions</b>			
<b>Current</b>			
Long service leave		621,973	358,872
Employee benefits	(vii)	115,243	192,724
		<u>737,216</u>	<u>551,596</u>
<b>Non-current</b>			
Refuse restoration		2,760,627	2,649,142
Long service leave		287,234	254,079
		<u>3,047,861</u>	<u>2,903,221</u>

Note (vii) It was identified that certain employee benefits paid by it and its antecedent Councils may have been mis-calculated in prior years and therefore a provision was made against Retained Earnings for 11/12 financial year. Council has undertaken the review and identified that amounts outstanding and some payments were processed in 12/13 Financial Year and the balance above represents the balance of settlements not paid at balance date.

Details of movements in provisions:

<b>Refuse restoration</b>			
Balance at beginning of financial year		2,649,142	2,456,006
Increase in provision due to unwinding of discount			
Increase (decrease) in provision due to change in discount rate		111,485	193,136
Balance at end of financial year	(viii)	<u>2,760,627</u>	<u>2,649,142</u>

Note (viii) 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 \$2,990,098 and this cost is expected to be incurred in 2015.

<b>Long service leave</b>			
Balance at beginning of financial year		612,951	489,291
Long service leave entitlement arising		322,164	194,731
Long Service entitlement extinguished		(3,257)	(23,932)
Long Service entitlement paid		(22,651)	(47,139)
Balance at end of financial year		<u>909,207</u>	<u>612,951</u>

**Torres Strait Island Regional Council  
Notes to the financial statements  
For the year ended 30 June 2013**

19	<u>Note</u>	<u>2013</u> \$	<u>2012</u> \$
<b>Asset revaluation surplus</b>	14		
<b>Movements in the asset revaluation surplus were as</b>			
Balance at beginning of financial year		153,176,979	152,585,812
Increase/(Decrease) in Asset Revaluation Reserve		-	591,167
Balance at end of financial year		<u>153,176,979</u>	<u>153,176,979</u>
<b>Council</b>			
	<u>Note</u>	<u>2013</u> \$	<u>2012</u> \$
<b>Asset revaluation surplus analysis</b>	14		
The closing balance of the asset revaluation surplus comprises the following asset categories:			
Buildings (Communities)		45,806,405	45,806,405
Buildings (Corporate)		7,070,955	7,070,955
Recreational Facilities		1,966,432	1,966,432
Roads/Transport Network		84,655,455	84,655,455
Stormwater Drainage Network		1,735,628	1,735,628
Flood Mitigation Network		1,281,898	1,281,898
Water Supply Network		5,332,403	5,332,403
Sewerage Network		4,395,779	4,395,779
Wharves, Piers, Jetties and Pontoons		912,024	912,024
Land assets		20,000	20,000
		<u>153,176,979</u>	<u>153,176,979</u>

**Torres Strait Island Regional Council  
Notes to the financial statements  
For the year ended 30 June 2013**

**20 Commitments for expenditure**

**Operating leases**

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

Within one year	1,201,490	1,047,446
One to five years	2,318,361	2,653,948
More than five years	-	-
	<u>3,519,851</u>	<u>3,701,394</u>

**Contractual commitments**

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

Software contract with Technology One	236,814	292,452
Rental Agreement with Commander	40,120	79,261
Telstra	-	297,138
J&R Refrigeration	361,262	-
Austek	151,473	-
Northern Water	97,143	-
	<u>886,812</u>	<u>668,851</u>

**21 Contingent liabilities**

**Local Government Mutual**

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

As at 30 June 2012 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.

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

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

The Council has not remitted an amount of superannuation monies held on behalf of employees for the 30 June 2010 financial year. This amount of \$225,657 has been recorded as a Trade and Other payable in the 2013 and previous financial statements. The Council has not remitted this superannuation liability to the superannuation funds as the Council has yet to determine if the employees are entitled to the superannuation benefit and if they are entitled to the benefit, which employees are beneficiaries of the superannuation funds held. The Council has recently increased its resources and has agreed to undertake a project of reviewing past Island Council records to determine if the \$225,657 is a payable obligation and is so, which employees are entitled to the funds as beneficiaries. Should the Council find that there is no obligation to remit the funds, the liability will be written back as revenue, however, if there is a obligation to pay the superannuation funds, then the Council could be liable for substantial penalties and interest for late remittance of a superannuation obligation. The Council's estimate of this contingent liability being a maximum additional penalties and interest is \$1,144,331

The individual components of this estimate are:

Superannuation Guarantee Charge (excluding the initial superannuation obligation of \$225,657) and interest at 10% per annum plus a administrative fee of \$20 per employee per quarter:	\$347,920
General interest charge calculated based on the Australian Taxation Office general interest rates for 2010, 2011,2012 & 2013:	\$100,572
Australian Taxation Office administrative penalty for failure to lodge a Superannuation Guarantee Quarterly Statement calculated at 200% of the Charge:	\$695,839

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

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

**Guarantee in Respect of Subsidiary Company**

The Council in the ordinary course of business has provided a guarantee for borrowings undertaken by a company of which Council was sole shareholder/ investor. This company was placed into voluntary administration in 2012 and subsequent creditors voluntary liquidation and is in the process of being wound up. The lender has recourse to the Council in respect of the guarantee provided by Council, however, has yet to exercise this right. In the event that the lender exercises the guarantee, the Council estimates its liability under the guarantee to be \$150,000.

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

**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 three elements referred to as:

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

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

The Accumulation Benefits Fund (ABF)

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

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

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

The audited general purpose financial report of the scheme as at 30 June 2012 (the most recent available) which was not subject to any audit qualification, indicates that the assets of the scheme are sufficient to meet the vested benefits.

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

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

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

The next actuarial investigation will be made as at 1 July 2015

		<b>Council</b>	
		<b>2013</b>	<b>2012</b>
	<b>Note</b>	<b>\$</b>	<b>\$</b>
The amount of superannuation contributions paid by Council to the scheme in this period for the benefit of employees was:	6	1,491,851	1,486,154



**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

		Council	
		2013	2012
		\$	\$
23	<u>Note</u>		
	<b>Trust funds</b>		
	<b>Trust funds held for outside parties</b>		
	Monies collected or held on behalf of other entities yet to be paid out to or on behalf of those entities		
	Island Funeral Funds	342,951	367,665
	Church Funds	63,685	63,684
	Other Community Funds	245,897	241,955
		<u>652,533</u>	<u>673,304</u>

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

**Funds held in trust by outside parties**

DFK Kidsons holding funds for Major Infrastructure Program 4	37,503,506	63,038,989
	<u>37,503,506</u>	<u>63,038,989</u>

The Major Infrastructure Program is jointly funded by the Australian and Queensland Governments to deliver and upgrade major infrastructure capital works in the Torres Strait. The funds held in trust disclosed above relate to multiple councils. At 30 June 2013, the estimated forecast cost to complete projects which relate to Torres Strait Island Regional Council was \$36,870,578. Infrastructure assets are not recognised by the Council until they have reached completion.

Note: There was a Restatement of the MIP Financial Statements for 2011-2012 and this is been reflected in the 2011-2012 comparatives with councils financial statements.

**Torres Strait Island Regional Council  
Notes to the financial statements  
For the year ended 30 June 2013**

**24 Events after the reporting period**

No significant events material to the Council have occurred subsequent to the end of the reporting period.

**25 Correction of error**

Additional information was found this financial year which identified an error in the calculation of the employee benefits provision reported in note 18. A prior period adjustment has been made resulting in an increase in retained surplus/deficiency as at 1st July 2011 and 30 June 2012 of \$4,350,375 and a decrease in the employee benefits provision from \$4,543,099 to \$192,724. The adjustments are as follows:

	<b>As at 30 June 2012</b>
Employee benefits	<u>4,543,099</u>
	<u>(4,350,375)</u>
Net value	<u><u>192,724</u></u>

This movement in the Financial Position in 2011-12 does not affect the payments already settled in 2012-13 and no amendment is needed to the closing balance in 2012-13

An adjustment of \$19,370 was made to opening retained surplus and Building Corporate for previously unrecorded assets of Erub Fisheries

**Torres Strait Island Regional Council  
Notes to the financial statements  
For the year ended 30 June 2013**

**26 Financial instruments**

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

- credit risk
- liquidity risk
- market risk

**Financial risk management**

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

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

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

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

**Credit risk**

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

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

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

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

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

	Note	Council	
		2013	2012
Financial assets		\$	\$
Cash and cash equivalents	11	14,226,339	13,225,897
Receivables - Housing	12	230,381	921,078
Receivables - other	12	6,889,269	3,401,427
<b>Other credit exposures</b>			
Guarantees	21	436,070	436,070
<b>Total financial assets</b>		<u>21,782,059</u>	<u>17,984,472</u>

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

*Cash and cash equivalents*

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

*Trade and other receivables*

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

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

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

	<b>Council</b>	
	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
Not past due	4,330,160	3,884,994
Past due 31-60 days	1,879,268	1,134,000
Past due 61-90 days	494,639	384,600
More than 90 days	15,189,984	9,406,217
Impaired	(14,774,400)	(10,487,306)
Total	<u>7,119,651</u>	<u>4,322,505</u>

**Liquidity risk**

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

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

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

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

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

Council	0 to 1 year	1 to 5 years	Over 5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
<b>2013</b>					
Trade and other payables	3,688,796	-	-	-	3,688,796
Loans - QTC	70,070	280,280	255,767	-	463,416
	<u>3,758,866</u>	<u>280,280</u>	<u>255,767</u>	<u>0</u>	<u>4,152,212</u>
<b>2012</b>					
Trade and other payables	3,761,739	-	-	-	3,761,739
Loans - QTC	70,070	280,280	325,711	-	502,316
	<u>3,831,809</u>	<u>280,280</u>	<u>325,711</u>	<u>0</u>	<u>4,264,055</u>

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

**Market risk**

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

*Interest rate risk*

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

*Sensitivity*

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

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

Council	Net carrying amount	Profit or loss		Equity	
		1% increase	1% decrease	1% increase	1% decrease
	\$	\$	\$	\$	\$
<b>2013</b>					
QTC cash fund	12,755,633	127,556	(127,556)	127,556	(127,556)
Other investments	55,269	553	(553)	553	(553)
Loans - QTC	(463,416)	(4,634)	4,634	(4,634)	4,634
<b>Net total</b>	<u>12,347,486</u>	<u>123,475</u>	<u>(123,475)</u>	<u>123,475</u>	<u>(123,475)</u>
<b>2012</b>					
QTC cash fund	5,753,797	57,538	(57,538)	57,538	(57,538)
Other investments	53,627	536	(536)	536	(536)
Loans - QTC	(502,316)	(5,023)	5,023	(5,023)	5,023
<b>Net total</b>	<u>5,305,108</u>	<u>53,051</u>	<u>(53,051)</u>	<u>53,051</u>	<u>(53,051)</u>

**Fair value**

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

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

**Torres Strait Island Regional Council**  
**Notes to the financial statements**  
**For the year ended 30 June 2013**

	Note	2013		2012	
		Carrying amount	Fair value	Carrying amount	Fair value
		\$	\$	\$	\$
<b>Council</b>					
<b>Financial assets</b>					
QTC cash fund	11	12,755,633	12,755,633	5,753,797	5,753,797
Other investments	11	55,269	55,269	53,627	53,627
		<u>12,810,902</u>	<u>12,810,902</u>	<u>5,807,424</u>	<u>5,807,424</u>
<b>Financial liabilities</b>					
Loans - QTC	17	(463,416)	(509,850)	(502,316)	(553,467)
		<u>(463,416)</u>	<u>(509,850)</u>	<u>(502,316)</u>	<u>(553,467)</u>

**Fair value - hierarchy**

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>Council</b>				
<b>30 June 2013</b>				
<b>Financial assets</b>				
QTC cash fund	12,755,633			12,755,633
Other investments	55,269			55,269
<b>Total financial assets</b>	<u>12,810,902</u>	<u>-</u>	<u>-</u>	<u>12,810,902</u>
<b>Financial liabilities</b>				
Loans - QTC	509,850			509,850
<b>Total financial liabilities</b>	<u>509,850</u>	<u>-</u>	<u>-</u>	<u>509,850</u>
<b>30 June 2012</b>				
<b>Financial assets</b>				
QTC cash fund	5,753,797			5,753,797
Other investments	53,627			53,627
<b>Total financial assets</b>	<u>5,807,424</u>	<u>-</u>	<u>-</u>	<u>5,807,424</u>
<b>Financial liabilities</b>				
Loans - QTC	553,467			553,467
<b>Total financial liabilities</b>	<u>553,467</u>	<u>-</u>	<u>-</u>	<u>553,467</u>


**Torres Strait Island Regional Council  
Financial Statements  
For the year ended 30 June 2013**

**Management Certificate  
For the year ended 30 June 2013**

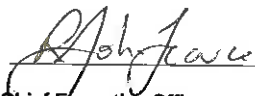
These general purpose financial statements have been prepared pursuant to sections 176 and 177 of the *Local Government Regulation 2012* (the Regulation) and other prescribed requirements.

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

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

  
\_\_\_\_\_  
Mayor  
Cr Fred Gela

Date: 4 / 10 / 2013

  
\_\_\_\_\_  
Chief Executive Officer  
Rodney John Scarce

Date: 4 / 10 / 2013

## 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 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and certificates given by the Mayor and Chief Executive Officer.

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

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

#### *Auditor's Responsibility*

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

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

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

#### *Independence*

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



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

### *Opinion*

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

- (a) I have received all the information and explanations which I have required; and
- (b) in my opinion -
  - (i) the prescribed requirements in relation to the establishment and keeping of accounts have been complied with in all material respects; and
  - (ii) the financial report presents a true and fair view, in accordance with the prescribed accounting standards, of the financial performance and cash flows of Torres Strait Island Regional Council for the financial year 1 July 2012 to 30 June 2013 and of the financial position as at the end of that year.

### **Other Matters - Electronic Presentation of the Audited Financial Report**

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



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



Queensland Audit Office  
Brisbane

**Torres Strait Island Regional Council  
Financial Statements  
For the year ended 30 June 2013**

**Current Year Financial Sustainability Statement**

	How the measure is calculated	Actual - Council	Target
Council's performance at 30 June 2013 against key financial ratios and targets:			
Operating surplus ratio	Net result (excluding capital items) divided by total operating revenue (excluding capital items)	-47%	Between 0% and 10%
Asset sustainability ratio	Capital expenditure on the replacement of assets (renewals) divided by depreciation expense.	18%	greater than 90%
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue (excluding capital items)	-24%	not greater than 60%

**Note 1 - Basis of Preparation**

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


**Torres Strait Island Regional Council  
Financial Statements  
For the year ended 30 June 2013**

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

**Certificate of Accuracy  
For the year ended 30 June 2013**

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

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

  
\_\_\_\_\_  
Mayor  
Cr Fred Gela

Date: 4 / 10 / 2013

  
\_\_\_\_\_  
Chief Executive Officer  
Rodney John Scarce

Date: 4 / 10 / 2013

## INDEPENDENT AUDITOR'S REPORT

To the Mayor of Torres Strait Island Regional Council

### **Report on the Current-Year Financial Sustainability Statement**

I have audited the accompanying current-year financial sustainability statement, which is a special purpose financial report of Torres Strait Island Regional Council for the year ended 30 June 2013, comprising the statement and explanatory notes, and certificates given by the Mayor and Chief Executive Officer.

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

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

#### *Auditor's Responsibility*

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

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

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

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

### *Independence*

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

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

### *Opinion*

In accordance with s.212 of the *Local Government Regulation 2012*, in my opinion, in all material respects, the current-year financial sustainability statement of Torres Strait Island Regional Council for the year ended 30 June 2013, has been accurately calculated.

### *Emphasis of Matter – Basis of Accounting*

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

### **Other Matters - Electronic Presentation of the Audited Statement**

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



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



Queensland Audit Office  
Brisbane

**Torres Strait Island Regional Council  
Financial Statements  
Prepared as at 30 June 2013**

**Measures of Financial Sustainability**

Council	Measure	Target	Projected for the years ended						
			Actuals at 30 June 2013	30 June 2014	30 June 2015	30 June 2016	30 June 2017	30 June 2018	30 June 2019

Operating surplus ratio	Net result divided by total operating revenue	Between 0% and 10%	-47%	-53%	-54%	-53%	-53%	-52%	-51%	-50%	-50%	-49%
Asset sustainability ratio	Capital expenditure on the replacement of assets (renewals *) divided by depreciation ** expense	greater than 90%	18%	205%	26%	26%	25%	25%	25%	25%	25%	25%
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue	not greater than 60%	-24%	-20%	-20%	-19%	-19%	-19%	-19%	-18%	-17%	-15%

**Council's Financial Management**

\* Council receive a large proportion of its assets via contributed assets therefore has a very low amount of renewals as the remainder tends to be capital grant funds for Upgrades or New Assets

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

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

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

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

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