

Torres Strait Island Regional Council

Financial statements

For the year ended 30 June 2012

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**Torres Strait Island Regional Council
Statement of Comprehensive Income
For the year ended 30 June 2012**

	Note	Council	
		2012 \$	2011 \$
Income			
Revenue			
Recurrent revenue			
Rates, levies and charges	3(a)	1,560	46,092
Fees and charges	3(b)	958,645	3,323,532
Rental income	3(c)	3,548,238	3,630,940
Interest received	3(d)	353,146	226,822
Sales revenue	3(e)	13,675,699	7,772,757
Other income	3(f)	212,848	345,773
Grants, subsidies, contributions and donations	4(a)	40,157,531	37,698,436
		<u>58,907,667</u>	<u>53,044,352</u>
Capital revenue			
Grants, subsidies, contributions and donations	4(b)	4,472,432	5,679,124
Total revenue		<u>63,380,099</u>	<u>58,723,476</u>
Capital income	5	9,997,440	6,308,708
Total income		<u>73,377,539</u>	<u>65,032,184</u>
Expenses			
Recurrent expenses			
Employee benefits	6	(19,793,434)	(23,181,840)
Materials and services	7	(29,850,721)	(23,364,215)
Finance costs	8	(4,016,336)	(3,092,225)
Depreciation	9	(25,865,116)	(21,435,602)
		<u>(79,525,607)</u>	<u>(71,073,882)</u>
Capital expenses	10	(241,718)	(2,706,067)
Total expenses		<u>(79,767,325)</u>	<u>(73,779,949)</u>
Net result		<u>(6,389,786)</u>	<u>(8,747,765)</u>
Other comprehensive income			
Increase / (decrease) in asset revaluation surplus	20	591,167	152,585,812
Total other comprehensive income for the year		<u>591,167</u>	<u>152,585,812</u>
Total comprehensive income for the year		<u>(5,798,619)</u>	<u>143,838,047</u>

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



**Torres Strait Island Regional Council
Statement of Financial Position
as at 30 June 2012**

		Council	
		2012	2011
		\$	\$
Note			
Current assets			
	Cash and cash equivalents	13,225,897	6,395,272
	Trade and other receivables	5,082,916	12,626,673
	Inventories	545,733	531,246
	Total current assets	18,854,546	19,553,191
Non-current assets			
	Property, plant and equipment	690,967,100	702,081,678
	Intangible assets	945,522	-
	Total non-current assets	691,912,622	702,081,678
	Total assets	710,767,168	721,634,869
Current liabilities			
	Trade and other payables	4,638,037	10,105,941
	Borrowings	38,926	37,226
	Provisions	4,901,971	4,732,422
	Total current liabilities	9,578,934	14,875,589
Non-current liabilities			
	Trade and other payables	508,591	518,013
	Borrowings	463,390	502,298
	Provisions	2,903,221	2,627,317
	Total non-current liabilities	3,875,202	3,647,628
	Total liabilities	13,454,136	18,523,217
	Net community assets	697,313,032	703,111,652
Community equity			
	Asset revaluation surplus	153,176,979	152,585,812
	Retained surplus/(deficiency)	544,136,053	550,525,840
	Total community equity	697,313,032	703,111,652

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



Torres Strait Island Regional Council

**Statement of Changes in Equity
For the year ended 30 June 2012**

Council	Note	Asset revaluation surplus	Retained Surplus	Total
	20	\$	\$	\$
Balance as at 1 July 2011		152,585,812	550,525,840	703,111,652
Net result		-	(6,389,786)	(6,389,786)
Other comprehensive income for the year				
Increase / (decrease) in asset revaluation surplus		591,167	-	591,167
Total comprehensive income for the year		591,167	(6,389,786)	(5,798,619)
Balance as at 30 June 2012		153,176,979	544,136,054	697,313,033
Balance as at 30 June 2010		-	531,892,557	531,892,557
Effect of correction of error		-	27,381,047	27,381,047
Restated balances		-	559,273,604	559,273,604
Net operating surplus		-	(8,747,765)	(8,747,765)
Other comprehensive income for the year				
Increase / (decrease) in asset revaluation surplus		152,585,812	-	152,585,812
Total comprehensive income for the year		152,585,812	(8,747,765)	143,838,048
Balance as at 30 June 2011		152,585,812	550,525,840	703,111,652

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



Torres Strait Island Regional Council

Statement of Cash Flows

For the year ended 30 June 2012

	Note	Council	
		2012 \$	2011 \$
Cash flows from operating activities			
Receipts from customers		23,364,339	8,061,494
Payments to suppliers and employees		(56,097,582)	(46,735,092)
Interest received		(32,733,243)	(38,673,598)
Non capital grants and contributions		353,146	226,822
Net cash inflow (outflow) from operating activities	25	7,777,435	(748,340)
Cash flows from investing activities			
Payments for property, plant and equipment		(4,408,825)	(13,610,996)
Payments for intangible assets		(945,522)	-
Proceeds from sale of property plant and equipment		5,175	2,500
Grants, subsidies, contributions and donations		4,472,432	5,679,124
Net cash inflow (outflow) from investing activities		(876,739)	(7,929,372)
Cash flows from financing activities			
Repayment of borrowings		(70,071)	(70,819)
Repayments made on finance leases		-	(18,860)
Net cash inflow (outflow) from financing activities		(70,071)	(89,679)
Net increase (decrease) in cash and cash equivalent held		6,830,625	(8,767,391)
Cash and cash equivalents at the beginning of the financial year		6,395,272	15,162,663
Cash and cash equivalents at end of the financial year	11	13,225,897	6,395,272

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 2012

1 Significant accounting policies

1.A Basis of preparation

These general purpose financial statements are for the period 1 July 2011 to 30 June 2012 and have been prepared in compliance with the requirements of the *Local Government Act 2009* and the *Local Government (Finance, Plans and Reporting) Regulation 2010*.

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 Basis of consolidation

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

Poruma Island Pty Ltd (In Liquidation) had ceased trading by the 30 June 2010, entered into voluntary administration on 4 January 2011 and subsequently on 15th March 2011 it was resolved to put the Company into Liquidation. The Liquidator in his report of 26th July 2012 has determined that there will be no distribution to unsecured creditors and therefore there will be no distribution to the Council as the sole shareholder. The investment in Poruma Island Pty Ltd was written off at 30 June 2011.

1.D Constitution

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

1.E Date of authorisation

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

1.F Currency

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

1.G Adoption of new and revised Accounting Standards

In the current year, Council adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period. The adoption of the new and revised Standards and Interpretations has 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 2012

	Effective for annual report periods beginning on or after:
AASB 10 Consolidated Financial Statements	1 January 2013
AASB 13 Fair Value Measurement	1 January 2013
AASB 119 Employee benefits (completely replaces existing standard)	1 January 2013
AASB 1053 Application of Tiers of Australian Accounting Standards	1 July 2013
2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (December 2009)	1 January 2013
AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	1 July 2013
AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 January 2013
AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13	1 January 2013
AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income	1 July 2012
AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)	1 January 2013
AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements	1 July 2013
AASB 2011-12 Amendments to Australian Accounting Standards arising from Interpretation 20 (AASB 1)	1 January 2013
Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
AASB 2012-1 Amendments to Australian Accounting Standards - Fair Value Measurement - Reduced Disclosure Requirements	1 July 2013
AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013
AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities	1 January 2014
AASB 2012-4 Amendments to Australian Accounting Standards - Government Loans	1 January 2013

AASB 9 Financial Instruments (effective from 1 January 2013)

AASB 9, which replaces AASB 139 Financial Instruments: Recognition and Measurement, is effective for reporting periods beginning on or after 1 January 2013 and must be applied retrospectively. The main impact of AASB 9 is to change the requirements for the classification, measurement and disclosures associated with financial assets. Under the new requirements the four current categories of financial assets stipulated in AASB 139 will be replaced with two measurement categories: fair value and amortised cost and financial assets will only be able to be measured at amortised cost where very specific conditions are met.

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.

AASB 13 Fair Value Measurement (AASB 13)

AASB 13 applies to reporting periods beginning on or after 1 January 2013. 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 potential impacts of AASB 13 relate to the fair value measurement methodologies used, and financial statement disclosures made in respect of, such assets and liabilities.

The Torres Strait Island Regional 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, changes will be necessary. 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 Torres Strait Island Regional Council's property, plant and equipment in 2013-14.

AASB 13 will require an increased amount of information to be disclosed in relation to fair value measurements for both assets and liabilities. 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.



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

Amendments to AASB 101 Presentation of Financial Statements

The AASB 101 Amendments require council to group items presented in other comprehensive income into those that, in accordance with other standards: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Council's management expects this may change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

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". Had Torres Strait Island Regional Council applied the revised standard this year annual leave currently classified as a "short-term benefit" would have been reclassified as a "long-term benefit".

The concept of "termination benefits" is clarified and the recognition criteria for liabilities for terminations 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. Torres Strait Island Regional Council contributes to the Local Government Superannuation Scheme (Qld) as disclosed in note 23. The revised standard will require Torres Strait Island Regional 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.

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

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

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

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

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

Provisions - Note 1.W and 1.U and Note 19

Contingencies - Note 22.

1.I Revenue

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

Grants and subsidies

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

Where grants are received that are reciprocal in nature, revenue is recognised as the various performance obligations under the funding agreement are fulfilled. Council does not currently have any reciprocal grants.





Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

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 is recognised as income on a periodic straight line basis over the lease term. Council does not have investment property.

Interest received

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

Sales revenue

Sale of goods is recognised when the 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 accomodation, 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.

Revenue from enterprise activities

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

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

Fees and Charges

Fees and charges are recognised 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 24 for Funds held in Trust for this purpose.

1.J Financial assets and financial liabilities

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

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

Financial assets

Cash and cash equivalents (Note 1.K)

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

Financial liabilities

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

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

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

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.

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

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.

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

All other disclosures relating to the measurement and financial risk management of financial instruments are included in Note 27.

1.K Cash and cash equivalents

Cash and cash equivalents includes cash on hand, all cash and cheques receipted but not banked at the year end, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

1.L Receivables

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

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

All known bad debts were written-off at 30 June. If amounts previously written off in the same period are subsequently recovered the write off expense is reversed. If an amount is recovered in a subsequent period it is recognised as revenue.

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

1.M Inventories

Stores and raw materials held for resale are valued at the lower of cost and net realisable value. Costs are assigned on the basis of weighted average cost.

Inventories held for distribution are:

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

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

1.N Investments

Term deposits in excess of six months are reported as investments, with deposits of less than six months being reported as cash equivalents. At 30 June 2012 Council did not have any term deposits in excess of six months.



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

1.0 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 1.P Property, Plant & Equipment.

1.P 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.



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

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

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

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

Plant and equipment is measured at cost.

Capital work in progress

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

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.

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.

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

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.

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 34I of the Land Act 1994. The land comprises an area of approximately 483.6 square kilometers, across the following Islands:

Badu Island

Boigu Island

Dauan Island

Erub Island

Hammond Island

Iama Island

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



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

1.Q Intangible assets

Intangible assets with a cost or other value exceeding \$500,000 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.

The Intangible asset amount reported 30 June 2012 refers to the progress cost on the installation of new Finance and Administration Software. Refer to Note 26 Events After the Reporting Period for further information.

1.R 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.

1.S Leases

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

Finance leases as lessee

Where Council enters into a finance lease as lessee, Council recognises an asset equal to the lower of fair value of the leased property and the present value of the minimum lease payments. The lease liability is recognised at the same amount. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are charged as finance costs. The asset is accounted for on the same basis as other assets of the same class. Contingent rentals are written off as an expense in the accounting period in which they are incurred. Council does not have any finance 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.

1.T 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.



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

1.U 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 (the current portion) are calculated on current wage and salary levels and includes related employee on-costs. Amounts not expected to be settled within 12 months (the non-current portion) are calculated on projected future wage and salary levels and related employee on-costs, and are discounted to present values. This liability represents an accrued expense 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 23.

Long service leave

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

1.V 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.

1.W 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.X 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.



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

1.Y Retained surplus

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

1.Z 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.

1.AA 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 24.

1.AB 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 24.

1.AC 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.AD Economic Dependency

Council is dependent upon financial support from the Queensland and Commonwealth Governments. See Note 4 to these financial statements for the detail for this and the previous financial year. Failure to maintain this support would be a significant threat to Council's continued operations, and would probably impact upon the continuity of a significant part of Council's operations. However, Council has no reason to believe that there is any likelihood of such an event or events occurring.

As such, these Financial Statements are prepared on the assumption that Council is a Going Concern as defined in AASB 101 - Presentation of Financial Statements.

1.AE Impact of Carbon Tax

In 2011 the Australian Government introduced a Clean Energy Legislation package. One aspect of this legislation package, which will impact upon council directly and indirectly, is the introduction of a pricing mechanism for greenhouse gas emissions in the Australian economy.

The pricing mechanism commences on 1 July 2012 and sets a fixed price path for the first three years (\$23 per tonne of CO₂-equivalent emissions adjusted in real terms by 2.5 percent per annum) before moving to a flexible price mechanism from 1 July 2015. It proposes a framework for setting a cap on greenhouse gas emissions by capping the number of carbon units available once the flexible price period commences, which can be adjusted over time to ensure that the government's reduction targets are met.

Council estimates that its operations will not trigger a direct liability under the carbon pricing scheme from 1 July 2012. No liability arises in respect of waste processed prior to 1 July 2012.



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

Council will undertake modelling to estimate the liability that could arise from its facilities in the future. However uncertainty exists due to the following factors:

- * greenhouse gas is emitted from waste over a very long period (40 years); and
- * the price/tonne of emissions, after the initial fixed price period has expired, is currently unknown and reliance is placed on the carbon price scenarios included in the Commonwealth Treasury modelling of core policy released in the July 2011 document 'Strong growth, low pollution modelling a carbon price'.

Organic material within waste deposited at landfills takes time to begin decomposing. This waste will continue to generate emissions over the next 40 years. A reportable landfill has a threshold level of 25,000 tonnes of carbon dioxide. Australian Government publications indicate that towns with 20,000 people or more should examine whether their landfill sites exceed the threshold. The Office of Economic and Statistical Research (Qld Government) indicates that the estimated residential population for the Torres Strait Island Regional Council is 4,772 (2011 – latest published). The Council's entire population is well below the estimated reportable landfill size.



**Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012**

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

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

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 ensure's 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
- * Community Police Services
- * Building and maintenance

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 2012**

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

Year ended 30 June 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 recurring operations	Net Result	Assets
	Recurring	Capital			Recurring	Capital					
	2012	2012			2012	2012					
Executive	24,652,355	86,500	(150,265)	24,588,590	(26,825,426)	-	(26,825,426)	(2,173,071)	(2,236,836)		
Economic & Community Services	12,129,287	4,036,796	(8,690)	16,157,393	(17,347,327)	-	(12,490,207)	(5,218,040)	3,667,186	323,130,607	
Finance	20,061,476	10,346,446	(7,457,849)	22,950,073	(19,174,781)	(241,718)	(19,416,499)	886,695	3,533,574	74,474,545	
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	
Total Council	69,161,013	14,469,872	(10,253,346)	73,377,539	(89,778,953)	(241,718)	(79,767,325)	(20,617,941)	(6,389,786)	710,767,168	

Year ended 30 June 2011

Functions	Gross program income		Elimination of inter-function transactions	Total income	Gross program expenses		Elimination of inter-function transactions	Total expenses	Net result from recurring operations	Net Result	Assets
	Recurring	Capital			Recurring	Capital					
	2011	2011			2011	2011					
Executive	15,581,126	-	\$	15,581,126	(16,755,687)	(2,706,067)	(16,869,307)	(1,174,561)	(1,288,181)		
Economic & Community Services	14,195,070	8,444,492		22,639,562	(42,671,949)		(46,925,408)	(28,476,879)	(24,285,846)	326,995,547	
Finance	20,091,775	2,420,883		22,512,658	(8,617,945)		(7,425,473)	11,473,830	15,087,185	86,595,668	
Engineering	3,176,381	1,122,457		4,298,838	(3,028,301)		(2,559,761)	148,080	1,739,077	308,043,654	
Total Council	53,044,352	11,987,832	-	65,032,184	(71,073,882)	(2,706,067)	(73,779,949)	(18,029,530)	(8,747,765)	721,634,869	



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

	Note	Council	
		2012 \$	2011 \$
3 Revenue analysis			
(a) Utility Charges			
Water consumption, rental and sundries		1,560	14,400
Sewerage		-	16,692
Waste management		-	15,000
Garbage charges		-	
Total utility charge revenue		<u>1,560</u>	<u>46,092</u>
(b) Fees and charges			
Other fees and charges	(i)	958,645	3,323,532
		<u>958,645</u>	<u>3,323,532</u>
(c) Rental income			
Rental Income		3,548,238	3,630,940
		<u>3,548,238</u>	<u>3,630,940</u>
(d) Interest received			
Interest received - financial institutions		353,146	226,822
		<u>353,146</u>	<u>226,822</u>
(e) Sales revenue			
Contract and recoverable works	(ii)	10,985,468	6,000,205
Accommodation	(iii)	623,463	44,935
Fisheries		105,184	156,915
Fuel		928,644	1,161,612
Plant & Equipment Hire		452,352	-
Other		580,588	223,779
Quarries		-	185,311
Total sales revenue		<u>13,675,699</u>	<u>7,772,757</u>

The amount recognised as revenue for contract revenue during the financial year is the amount receivable in respect of invoices issued during

(f) Other income			
Other income		212,848	345,773
		<u>212,848</u>	<u>345,773</u>

Note (i) Comparative amount includes \$1,626,296 reimbursement for CDEP wages.

Note (ii) Increase is mainly attributable to Council's building division being awarded more, larger contracts for upgrades to Community Housing.

Note (iii) Accommodation income from Council guest houses on the Islands has been positively impacted by additional infrastructure and building work on the Islands.

4 Grants, subsidies, contributions and donations

(a) Recurrent			
General purpose grants		19,419,230	20,476,543
State government subsidies and grants		20,340,946	17,221,893
Commonwealth government subsidies and grants		40,510	
Contributions		356,845	
		<u>40,157,531</u>	<u>37,698,436</u>
(b) Capital			
Government subsidies and grants		4,472,432	5,679,124
		<u>4,472,432</u>	<u>5,679,124</u>

(c) Conditions over contributions			
Contributions recognised as income during the reporting period and which were obtained on the condition that they be expended in a manner specified by the contributor but had not been expended at the reporting date:			
Non-reciprocal grants for expenditure on services and infrastructure		6,007,786	3,618,627
		<u>6,007,786</u>	<u>3,618,627</u>

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

Non-reciprocal grants for expenditure on services		2,839,254	3,359,835
		<u>2,839,254</u>	<u>3,359,835</u>



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

	Note	Council	
		2012 \$	2011 \$
5 Capital income			
Contributed Assets	(iv)	9,992,264	6,308,708
Proceeds from the sale of property, plant and equipment		5,175	
Total capital income		<u>9,997,440</u>	<u>6,308,708</u>

Note (iv) 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.

6 Employee benefits

Total staff wages and salaries		13,837,851	17,779,729
Councillors' remuneration		828,229	842,982
Annual, sick and long service leave entitlements		3,135,036	3,229,479
Superannuation	23	1,486,154	1,340,902
Other employee related expenses		19,287,270	23,193,092
Less: Capitalised employee expenses		651,125	538,405
		19,938,395	23,731,497
		(144,961)	(549,657)
		<u>19,793,434</u>	<u>23,181,840</u>

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

Total Council employees at the reporting date:

	2012	2011
Elected Members	16	16
Ordinary Staff	339	385
Total full time equivalent employees	<u>355</u>	<u>401</u>

Note (v) Prior Period Correction:- The number of Full time Equivalent Ordinary staff reported in the prior period was incorrect. The correct number of 385 FTE employees is now shown.

7 Materials and services

Advertising and marketing		3,786	5,574
Administration supplies and consumables	(vii)	-	3,173,391
Communications and IT		1,365,452	1,245,434
Consultants		15,234	107,804
Contractors	(vi)	8,621,932	767,347
Donations paid		49,002	68,893
Insurance		2,233,660	2,215,395
Motor Vehicle Expenses	(vii)	1,726,868	-
Postage and Stationery	(vii)	-	96,215
Power	(vii)	1,561,492	648,135
Repairs and maintenance		9,911,271	10,647,577
Rent paid		570,578	973,915
Subscriptions and registrations		54,576	3,137
Travel		786,985	830,037
Other materials and services		2,949,886	2,581,361
		<u>29,850,721</u>	<u>23,364,215</u>

Audit fees for the year ended 30 June 2012 have been estimated at \$272,000 excluding out of pocket expenses.

Note (vi) Contractors expenses includes NDRRA funded disaster recovery works and telecommunications upgrades at Council Islands.

Note (vii) Due to a recoding of the General Ledger prior year balances for Administration supplies and consumables, Contractors, Postage and stationery, and Power are not directly comparable.





Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

	Note	Council	
		2012 \$	2011 \$
8 Finance costs			
Finance costs charged by the Queensland Treasury Corporation		33,093	35,370
Bank charges and other fees		38,988	49,483
Impairment provision for trade and other debtors	(viii)	3,641,941	2,741,093
Bad debts written off		109,178	202,495
Refuse restoration		193,136	63,784
		<u>4,016,336</u>	<u>3,092,225</u>
Note (viii) A Change in Council methodology resulted in a higher level of impairment than would have been the case had the previous years method been used.			
9 Depreciation			
Depreciation of non-current assets			
Buildings (Communities)		9,351,641	8,046,593
Buildings (Corporate)		2,714,118	2,104,870
Recreational Facilities		552,172	428,557
Roads/Transport Network		3,828,498	2,053,263
Stormwater Drainage Network		182,301	64,236
Flood Mitigation Network		65,020	50,954
Water Supply Network		3,044,882	2,746,487
Sewerage Network		3,987,680	3,731,221
Bridges		4,000	-
Wharves, Piers, Jetties and Pontoons		542,250	392,978
Waste Landfill		40,308	21,934
Land Assets		-	-
Plant and Equipment		1,552,245	1,794,509
Total depreciation and amortisation	14	<u>25,865,116</u>	<u>21,435,602</u>
10 Capital expenses			
Loss on impairment			
Property, plant & Equipment Impairment loss	14	<u>241,718</u>	<u>-</u>
Loss on disposal of non-current assets			
Proceeds from the sale of property, plant and equipment	14		2,500
Less: Book value of property, plant and equipment disposed of			<u>2,667,039</u>
		<u>-</u>	<u>(2,664,539)</u>
Revaluation decrement			
Revaluation down of property, plant and equipment	14	<u>-</u>	<u>(41,528)</u>
		<u>-</u>	<u>(41,528)</u>
Total capital expenses		<u>241,718</u>	<u>(2,706,067)</u>
11 Cash and cash equivalents			
Cash at bank and on hand		7,418,473	5,071,264
Deposits at call		5,753,797	1,274,508
Term deposit		53,627	49,500
Balance per Statement of Cash Flows		<u>13,225,897</u>	<u>6,395,272</u>

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

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

	Note	Council	
		2012 \$	2011 \$
12 Trade and other receivables			
Current			
Rateable revenue and utility charges			
Water charges not yet levied			
Housing debtors	(ix)	4,352,059	-
Less provision for impairment	(ix)	(3,430,981)	-
Other debtors		10,457,752	13,992,597
Less provision for impairment		(7,056,325)	(7,910,899)
GST Recoverable		695,368	-
Prepayments and accrued income		65,043	6,544,975
		<u>5,082,916</u>	<u>12,626,673</u>

Note (ix) Comparative amounts for Provision for impaired housing debtors could not be calculated. Accordingly comparative amounts for both Housing debtors and Provision for impaired housing debtors have not been restated.

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 (other debtors) is as

Opening balance at 1 July	7,910,899	5,170,106
Less Impairment Debts written off during the year	(1,065,533)	-
Additional impairments recognised	3,641,940	2,740,793
Closing Balance at 30 June	<u>10,487,306</u>	<u>7,910,899</u>

13 Inventories

Inventories held for sale

Stores and materials	545,733	531,246
Total inventories	<u>545,733</u>	<u>531,246</u>



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

14 Property, plant and equipment

Note	Buildings (Communities)		Buildings (Corporate)		Recreational Facilities		Roads/Transport Network		Stormwater Drainage Network		Flood Mitigation Network		Water Supply Network		Sewerage Network		Bridges		Wharves, Piers, Jetties and Pontoons		Waste Landfill		Land Assets		Plant and Equipment		Work in progress		Total			
	Revaluation	Cost	Revaluation	Cost	Revaluation	Cost	Revaluation	Cost	Revaluation	Cost	Revaluation	Cost	Revaluation	Cost	Revaluation	Cost	Revaluation	Cost	Revaluation	Cost	Revaluation	Cost	Revaluation	Cost	Revaluation	Cost	Revaluation	Cost				
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$				
	464,647,000	91,127,799	15,919,600	175,411,200	9,099,999	100,619,000	4,050,000	97,300,000	100,619,000	4,232,788	81,000	19,477,000	1,088,000	650,000	13,211,210	5,666,877	1,898,134	815,167	1,898,134	1,898,134	1,898,134	1,898,134	1,898,134	1,898,134	1,898,134	1,898,134	1,898,134	1,898,134	1,898,134			
5	0	1,318,643		376,880		5,759,476																										
20																																
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	464,647,000	92,446,442	15,919,600	175,788,080	9,099,999	104,851,788	4,050,000	103,059,476	104,851,788	81,000	19,477,000	1,088,000	650,000	14,026,378	8,175,178	1,013,359,941	610,167	8,175,178	8,175,178	8,175,178	8,175,178	8,175,178	8,175,178	8,175,178	8,175,178	8,175,178	8,175,178	8,175,178	8,175,178	8,175,178		
	146,320,100	37,385,899	6,520,289	36,133,350	2,020,000	22,914,000	1,120,000	29,832,300	22,914,000	41,000	8,157,400	74,101	5,748,558	296,267,007	5,748,558	296,267,007	5,748,558	5,748,558	5,748,558	5,748,558	5,748,558	5,748,558	5,748,558	5,748,558	5,748,558	5,748,558	5,748,558	5,748,558	5,748,558	5,748,558		
9	9,351,641	2,714,118	552,172	3,828,498	182,301	3,987,680	65,020	3,044,882	3,987,680	4,000	542,250	40,308	1,552,245	25,865,116	1,552,245	25,865,116	1,552,245	1,552,245	1,552,245	1,552,245	1,552,245	1,552,245	1,552,245	1,552,245	1,552,245	1,552,245	1,552,245	1,552,245	1,552,245	1,552,245		
5																																
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17																																
17	155,671,741	40,100,017	7,072,471	39,961,848	2,221,301	26,901,680	1,185,020	32,877,182	26,901,680	45,000	8,699,650	114,409	7,542,521	322,392,841	7,542,521	322,392,841	7,542,521	7,542,521	7,542,521	7,542,521	7,542,521	7,542,521	7,542,521	7,542,521	7,542,521	7,542,521	7,542,521	7,542,521	7,542,521	7,542,521		
	308,975,259	52,346,425	8,847,129	135,826,232	6,878,699	77,950,108	2,864,980	70,182,294	77,950,108	36,000	10,777,350	973,591	650,000	690,967,100	6,483,856	690,967,100	6,483,856	6,483,856	6,483,856	6,483,856	6,483,856	6,483,856	6,483,856	6,483,856	6,483,856	6,483,856	6,483,856	6,483,856	6,483,856	6,483,856		
	10 - 50	10 - 60	15 - 50	8 - 100	50	10 - 40	50	10 - 50	10 - 40	20	15 - 50	16 - 50	Land: Not depreciated	4 - 40	WIP: Not depreciated																	

* To correct for an item that was over-capitalised from WIP in a prior year for an incorrect amount.



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

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.

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

Land assets have been included at current market value as at 30 June 2012 as determined by Council. In determining market value, Council engaged AssetVal Pty Ltd, (Registered Valuers) to consider price movements in the region. Due to the lack of established regional indices AssetVal Pty Ltd made enquires with real estate agents and concluded that there were no significant price movements during the year ending 30 June 2012.

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).

Buildings have been included at current market value as at 30 June 2012 as determined by Council. In determining market value, Council engaged AssetVal Pty Ltd, (Registered Valuers) to consider price movements in the region. Due to the lack of established regional indices AssetVal Pty Ltd made enquires with regional construction firms as to their experiences in price changes of labour, materials and freight during the year. Based on AssetVal's report Council concluded that there had been no material change in the value of its buildings during the year ended 30 June 2012.

Other plant and equipment

Other plant and 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.

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 current market value as at 30 June 2012 as determined by Council. In determining market value, Council engaged AssetVal Pty Ltd, (Registered Valuers) to consider price movements in the region. Due to the lack of established regional indices AssetVal Pty Ltd made enquires with regional construction firms as to their experiences in price changes of labour, materials and freight during the year. Based on AssetVal's report Council concluded that there had been no material change in the value of its infrastructure during the year ended 30 June 2012.

	<u>Note</u>	Council	
		2012 \$	2011 \$
15 Intangible assets			
Software			
Work in progress		945,522	
Total		<u>945,522</u>	<u>-</u>

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

16 Trade and other payables

	<u>Note</u>	Council	
		2012 \$	2011 \$
Current			
Creditors and accruals		3,761,739	5,739,198
Employee Benefits - Annual Leave		876,298	1,074,006
GST Payable		-	3,292,737
		<u>4,638,037</u>	<u>10,105,941</u>
Non-current			
Creditors and accruals		-	26,687
Employee Benefits - Annual Leave		508,591	491,326
		<u>508,591</u>	<u>518,013</u>



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

17 Borrowings

Current

Loans - Queensland Treasury Corporation	38,926	37,226
	<u>38,926</u>	<u>37,226</u>

Non-current

Loans - Queensland Treasury Corporation	463,390	502,298
	<u>463,390</u>	<u>502,298</u>

Loans - Queensland Treasury Corporation

Opening balance at beginning of financial year	539,524	574,973
Principal repayments	(37,208)	(35,449)
Book value at end of financial year	<u>502,316</u>	<u>539,524</u>

The QTC loan market value at the reporting date was \$553,467. This represents the value of the debt if Council repaid it at that date. As it is the intention of Council to hold the debt for its term, no provision is required to be made in these accounts.

No assets have been pledged as security by the Council for any liabilities, however all loans are guaranteed by the Queensland Government.

All borrowings are in \$A denominated amounts and carried at amortised cost, interest being expensed as it accrues. No interest has been capitalised during the current or comparative reporting period. Expected final repayment date is 8th February 2022. There have been no defaults or breaches of the loan agreement during the period.

Principal and interest repayments are made quarterly in arrears.

The Council has no bank overdraft facility.

18 Finance leases

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

Balance at beginning of financial year	18,860
Payments made in the period	(18,860)
Minimum lease payments	<u>-</u>

	Council	
	2012	2011
	\$	\$

Note

19 Provisions

Current

Long service leave		358,872	317,980
Employee benefits	(x)	4,543,099	4,414,442
		<u>4,901,971</u>	<u>4,732,422</u>

Non-current

Refuse restoration		2,649,142	2,456,006
Long service leave		254,079	171,311
		<u>2,903,221</u>	<u>2,627,317</u>

Note (x) Council has identified that certain employee benefits paid by it and its antecedent Councils may have been miscalculated. Council is presently undertaking a process to identify and resolve individual components. In the interim, Council has calculated its maximum exposure to this matter, and recorded this exposure as a current liability.



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

Details of movements in provisions:

Refuse restoration

Balance at beginning of financial year		2,456,006	2,392,222
Increase in provision due to unwinding of discount	(xi)	193,136	63,784
Balance at end of financial year	(xi) & (xii)	<u>2,649,142</u>	<u>2,456,006</u>

Note (xi) The increase in provision due to unwinding of discount was calculated incorrectly in 2011. The comparative amount shown should have been \$125,184 and accordingly the closing balance of the provision should have been \$2,517,406. Had the comparative year calculations been correct the current year increase in provision would have been \$131,736.

Note (xii) 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 \$2,866,748 and this cost is expected to be incurred in 2015.

Long service leave

Balance at beginning of financial year		489,291	492,902
Long service leave entitlement arising		194,731	175,283
Long Service entitlement extinguished		(23,932)	(137,301)
Long Service entitlement paid		(47,139)	(41,593)
Balance at end of financial year		<u>612,951</u>	<u>489,291</u>

20 Asset revaluation surplus

Note

Council
2012 **2011**
\$ **\$**

Movements in the asset revaluation surplus were as follows:

Balance at beginning of financial year		152,585,812	-
Net adjustment to non-current assets at end of period to reflect a change in current fair value:			
Buildings (Communities)			48,708,178
Less assets identified in WIP that had previously been capitalised			2,901,773
Net Buildings (Communities)		-	<u>45,806,405</u>
Buildings (Corporate)			6,877,173
Add assets identified in WIP that had previously been capitalised			193,782
Net Buildings (Corporate)		-	<u>7,070,955</u>
Recreational Facilities			
Correction of prior year error	(xiii)	610,167	1,966,432
Less assets identified in WIP that had previously been capitalised			610,167
Net Recreational Facilities		<u>610,167</u>	<u>1,356,265</u>
Roads/Transport Network			84,655,455
Stormwater Drainage Network		(19,000)	1,754,628
Flood Mitigation Network			1,281,898
Water Supply Network			5,332,403
Sewerage Network			4,395,779
Wharves, Piers, Jetties and Pontoons			912,024
Waste Landfill			-
Land assets			20,000
Balance at end of financial year		<u>153,176,979</u>	<u>152,585,812</u>

Note (xiii) The prior year correction relates to an incorrect amount being capitalised for recreational facilities from the Work In Progress Account. This in turn affected the Asset Revaluation Calculations.



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

<u>Note</u>	Council	
	2012 \$	2011 \$
Asset revaluation surplus analysis		
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	1,356,265
Roads/Transport Network	84,655,455	84,655,455
Stormwater Drainage Network	1,735,628	1,754,628
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
Other infrastructure assets		
	<u>153,176,979</u>	<u>152,585,812</u>

21 Commitments for expenditure

Operating leases

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

Within one year	1,047,446	784,963
One to five years	2,653,948	3,627,846
More than five years	-	509,958
	<u>3,701,394</u>	<u>4,922,767</u>

Contractual commitments

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

Software contract with Civica	-	719,500
Software contract with Technology One	292,452	-
Rental Agreement with Commander	79,261	98,460
Telstra	297,138	-
	<u>668,851</u>	<u>817,960</u>

22 Contingent liabilities

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

Local Government Mutual

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

As at 30 June 2011 the financial statements reported an accumulated surplus and it is not anticipated any liability will arise.

Local Government Workcare

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

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



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

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 2011 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 an 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 \$1,029,000.

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:	\$317,000
General interest charge calculated based on the Australian Taxation Office general interest rates for 2010, 2011 & 2012:	\$77,000
Australian Taxation Office administrative penalty for failure to lodge a Superannuation Guarantee Quarterly Statement calculated at 200% of the Charge:	\$635,000

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 wholly owned subsidiary company. This subsidiary company of the Council was placed into voluntary administration 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.

23 Superannuation

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

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

The scheme has two elements referred to as the Defined Benefits Fund (DBF) and the Accumulation Benefits Fund (ABF). The ABF is a defined contribution scheme as defined in AASB 119. Council has no liability to or interest in the ABF other than the payment of the statutory contributions as required by the *Local Government Act 2009*.

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

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



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

The audited general purpose financial report of the scheme as at 30 June 2011 (the most recent available) which was not subject to any audit qualification, indicates that the assets of the scheme are sufficient to meet the vested benefits.

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

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

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

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

	Note	Council	
		2012	2011
		\$	\$
The amount of superannuation contributions paid by Council to the scheme in this period for the benefit of employees was:	6	1,486,154	1,340,902

24 Trust funds

Trust funds held for outside parties

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

	Council	
	2012	2011
	\$	\$
Island Funeral Funds	367,665	370,190
Church Funds	63,684	67,353
Other Community Funds	241,955	200,298
	673,304	637,841

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	64,755,133	86,051,453
	64,755,133	86,051,453

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 2012, the estimated forecast cost to complete projects which relate to Torres Strait Island Regional Council was \$47,296,123. Infrastructure assets are not recognised by the Council until they have reached completion.



Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

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

Net result	(6,389,786)	(8,747,765)
Non-cash items:		
Depreciation and amortisation	25,865,116	21,435,602
Loss on disposal of property, plant and equipment	-	2,664,539
Revaluation adjustments	-	41,528
Asset contributions in Capital Income	(9,992,264)	(6,308,708)
Impairment of property plant and equipment	241,718	-
Increase in provision for impairment	2,576,407	2,740,793
Change in future rehabilitation and restoration costs	193,136	63,784
	<u>18,884,112</u>	<u>20,637,538</u>
Investing and development activities:		
Net (profit)/loss on disposal of non-current assets	(5,175)	-
Capital grants and contributions	(4,472,432)	(5,679,124)
	<u>(4,477,608)</u>	<u>(5,679,124)</u>
Changes in operating assets and liabilities:		
(Increase)/ decrease in receivables	(1,512,582)	(6,854,805)
(Increase)/ decrease in prepayments / accrued income	6,479,932	(31,774)
(Increase)/decrease in inventory	(14,487)	530,389
Increase/(decrease) in payables	(5,444,462)	(1,033,624)
Increase/(decrease) in other provisions	252,315	430,825
	<u>(239,284)</u>	<u>(6,958,989)</u>
Net cash inflow from operating activities	<u>7,777,435</u>	<u>(748,340)</u>

26 Events after the reporting period

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

Appointment of Financial Controller

On the 23rd October 2012 the Acting Director General of the Department of Local Government appointed a Financial Controller to the Torres Strait Island Regional Council. While this does not affect daily operations, those Council Officers with a financial delegation are now subject to another level of financial checking.

Commencement of use of new Council Operating Platform.

On 1st July Council commenced using a new integrated software platform provided by Technology One. The software provides Council with new systems in Finance, Administration, Human Resources, Procurement and Asset Management. The software is able to be further developed as required.

Legal Challenge to Council Election Results

Subsequent to the end of the financial year the results of Council elections held in March 2012 were challenged in the Court of Disputed Returns. The Court found that two of the Councillors elected at that election did not meet the residence requirements of Councillors. Council incurred Legal and Administrative costs in relation to this matter.





**Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012**

27 Financial instruments

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

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

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

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

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

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

Credit risk exposure

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

The Council is exposed to credit risk through its investments with the Queensland Treasury Corporation (QTC). The QTC Cash Fund is an asset management portfolio that invests with a wide variety of high credit rating counterparties. Deposits are capital guaranteed.

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

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

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

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

	Note	Council	
		2012	2011
Financial assets		\$	\$
Cash and cash equivalents	11	13,225,897	6,395,272
Receivables - Housing debtors	12	921,078	0
Receivables - Other debtors	12	3,401,427	6,081,698
Other credit exposures			
Guarantee	1.C & 22	436,070	436,070
		<u>17,984,472</u>	<u>12,913,040</u>

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

30-Jun-12	Fully performing		Past due		Total
	30-90 days		90+ days	Impairment	
	\$	\$	\$	\$	
Receivables	3,884,994	1,518,600	9,406,217	(10,487,306)	4,322,505
Net Receivables	<u>3,884,994</u>	<u>1,518,600</u>	<u>9,406,217</u>	<u>(10,487,306)</u>	<u>4,322,505</u>
30-Jun-11	Fully performing		Past due		Total
	30-90 days		90+ days	Impairment	
	\$	\$	\$	\$	
Receivables	1,189,511	2,031,243	10,771,843	(7,910,899)	6,081,698
Net Receivables	<u>1,189,511</u>	<u>2,031,243</u>	<u>10,771,843</u>	<u>(7,910,899)</u>	<u>6,081,698</u>

Torres Strait Island Regional Council
Notes to the financial statements
For the year ended 30 June 2012

Liquidity risk

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

Council manages its exposure to liquidity risk by maintaining sufficient cash reserves, in short term accounts, to cater for unexpected volatility in cash flows.

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

Council	0 to 1 year	1 to 5 years	Over 5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
2012					
Trade and other payables	3,761,739	-	-	3,761,739	3,761,739
Loans - QTC	70,070	280,280	325,711	676,061	502,316
	<u>3,831,809</u>	<u>280,280</u>	<u>325,711</u>	<u>4,437,800</u>	<u>4,264,055</u>
2011					
Trade and other payables	5,739,198	-	-	5,739,198	5,739,198
Loans - QTC	70,070	280,280	394,272	744,622	539,524
	<u>5,809,268</u>	<u>280,280</u>	<u>394,272</u>	<u>6,483,820</u>	<u>6,278,722</u>

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

Interest rate risk

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

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

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

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

Council

	Net carrying amount		Profit		Equity	
	2012	2011	2012	2011	2012	2011
	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	13,225,897	6,395,272	132,259	63,953	132,259	63,953
QTC borrowings	(502,316)	539,524	(5,023)	(5,395)	(5,023)	(5,395)
Net total	<u>12,723,581</u>	<u>6,934,796</u>	<u>127,236</u>	<u>58,558</u>	<u>127,236</u>	<u>58,558</u>



Torres Strait Island Regional Council
Financial statements
For the year ended 30 June 2012

Management Certificate
For the year ended 30 June 2012

These general purpose financial statements have been prepared pursuant to Section 102 of the *Local Government (Finance, Plans and Reporting) Regulation 2010* (the Regulation) and other prescribed requirements.

In accordance with Section 161 of the Regulation we certify that these general purpose financial statements:

- (i) have been prepared in accordance with the relevant accounting documents; and
- (ii) accurately reflect the local government's financial performance and position for the financial year.

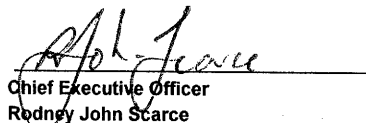
In addition we certify that, in our opinion:

- (i) the prescribed requirements of the *Local Government Act 2009* and associated Regulations for the establishment and keeping of accounts have been complied with in all material respects; and
- (ii) the general purpose financial statements, have been prepared in accordance with Australian accounting standards (including Australian Accounting Interpretations and other authoritative pronouncements issued by the Australian Accounting Standards Board); and
- (iii) the general purpose financial statements present a true and fair view of the Council's financial position as at 30 June 2012 and of its financial performance and cash flows for the financial year ended on that date.



Mayor
Fred Gela

Date: 15, 11, 2012



Chief Executive Officer
Rodney John Scarce

Date: 15, 11, 2012.

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 2012, 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 the *Local Government (Finance, Plans and Reporting) Regulation 2010*, including compliance with Australian Accounting Standards. The Council's responsibility also includes such internal controls as the Council determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

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.

Basis for Qualified Opinion – 2011 Comparatives

In my 2010-11 report, I was unable to express an opinion in respect of:

- the completeness, accuracy and validity of employee benefits expense of \$23,181,840 disclosed in Note 6 as the Council failed to maintain an effective system of internal control and adequate supporting documentation in respect of its payroll function
- the completeness of the cash and cash equivalents balance of \$6,395,272 disclosed in Note 11 and the statement of cash flows due to weaknesses in internal controls and the identification of cash losses totalling \$106,111 during that period
- the restated opening balances of assets totalling \$602,533,014 reported in Note 14, depreciation expense of \$21,435,602 reported in Note 9, increase in asset revaluation surplus of \$152,585,812 reported Note 20, the movements in retained surplus of \$27,381,047 reported in the statement of changes in equity. The inability to express an opinion on these balances was due to an absence of reliable source data to allow the Council to adequately correct a number of material prior period errors relating to the initial recognition of various assets and the valuation of the road/transport network assets.

I still remain unable to form an opinion on these 2011 comparative balances as reported in the financial report for the year ended 30 June 2012.

The effects on the stated comparative balances in the financial report of the failure to correct the misstatements reported above have not been determined.

Qualified Opinion

In accordance with s.40 of the *Auditor-General Act 2009*, except for the effects of the matter described in the Basis for Qualified Opinion paragraphs above:

- (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 2011 to 30 June 2012 and of the financial position as at the end of that year.

Other Matters - Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of Torres Strait Island Regional Council for the year ended 30 June 2012. Where the financial report is included on Torres Strait Island Regional Council's website the Council is responsible for the integrity of Torres Strait Island Regional Council's website and I have not been engaged to report on the integrity of Torres Strait Island Regional Council's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or otherwise included with the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

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



DJ OLIVE CPA
(as Delegate of the Auditor-General of Queensland)



Queensland Audit Office
Brisbane