McKinlay Shire Council

FINANCIAL STATEMENTS

2018 / 19

McKinlay Shire Council
Financial statements
For the year ended 30 June 2019

Table of contents

McKinlay Shire Council
Statement of Comprehensive Income
For the year ended 30 June 2019

	Note	2019 $	2018 $
Income			
Revenue			
Recurrent revenue			
Rates, levies and charges	3(a)	3,029,846	2,907,757
Fees and charges	3(b)	930,621	732,799
Interest received	3(c)	361,814	317,803
Sales revenue	3(d)	3,773,589	2,036,868
Other revenue	3(e)	324,803	492,652
Grants, subsidies, contributions and donations	4(a)	7,227,533	5,914,776
		15,648,206	12,402,655
Capital revenue			
Grants, subsidies, contributions and donations	4(b)	10,431,731	8,982,580
Other capital income	5	(29,172)	97,412
Total capital revenue		10,402,559	9,079,992
Total income		26,050,765	21,482,647
Expenses			
Recurrent expenses			
Employee benefits	6	(5,322,332)	(4,714,340)
Materials and services	7	(7,729,584)	(5,140,667)
Finance costs		(26,660)	(22,661)
Depreciation and amortisation	12	(4,441,975)	(4,403,275)
		(17,520,551)	(14,280,943)
Capital expenses			
Revaluation decrement	12	(573,214)	
Write-off of flood damaged roads	12	-	(14,721,441)
Total expenses		(18,093,765)	(29,002,384)
Net result		**7,957,000**	**(7,519,737)**
Other comprehensive income			
Items that will not be reclassified to net result			
Increase in asset revaluation surplus	15	10,344,997	5,216,437
Total other comprehensive income for the year		10,344,997	5,216,437
Total comprehensive income for the year		**18,301,997**	**(2,303,300)**

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

McKinlay Shire Council
Statement of Financial Position
as at 30 June 2019

	Note	2019 $	2018 $
Current assets			
Cash and cash equivalents	8	16,150,832	12,862,241
Trade and other receivables	9	2,890,709	2,266,119
Inventories	10	260,007	251,091
Total current assets		19,301,548	15,379,451
Non-current assets			
Property, plant and equipment	12	205,710,184	190,871,686
Total non-current assets		205,710,184	190,871,686
Total assets		225,011,732	206,251,137
Current liabilities			
Trade and other payables	13	1,463,251	1,054,669
Provisions	14	292,460	298,696
Total current liabilities		1,755,711	1,353,365
Non-current liabilities			
Provisions	14	152,910	96,659
Total non-current liabilities		152,910	96,659
Total liabilities		1,908,621	1,450,024
Net community assets		**223,103,111**	**204,801,113**
Community equity			
Asset revaluation surplus	15	78,320,427	67,975,430
Retained Surplus		144,782,684	136,825,683
Total community equity		**223,103,111**	**204,801,113**

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

McKinlay Shire Council

Statement of Changes in Equity
For the year ended 30 June 2019

	Note	Asset revaluation surplus 15 $	Retained Surplus $	Total $
Balance as at 1 July 2018		67,975,430	136,825,683	204,801,113
Net operating surplus		-	7,957,000	7,957,000
Other comprehensive income for the year				
Increase in asset revaluation surplus		10,344,997	-	10,344,997
Total comprehensive income for the year		10,344,997	7,957,000	18,301,998
Balance as at 30 June 2019		78,320,427	144,782,684	223,103,111
Balance as at 1 July 2017		62,758,993	144,345,420	207,104,413
Net operating surplus		-	(7,519,737)	(7,519,737)
Other comprehensive income for the year				
Increase in asset revaluation surplus		5,216,437	-	5,216,437
Total comprehensive income for the year		5,216,437	(7,519,737)	(2,303,300)
Balance as at 30 June 2018		67,975,430	136,825,683	204,801,113

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

McKinlay Shire Council
Statement of Cash Flows
For the year ended 30 June 2019

	Note	2019 $	2018 $
Cash flows from operating activities			
Receipts from customers		14,644,135	11,678,074
Payments to suppliers and employees		(12,584,567)	(11,420,507)
		2,059,568	257,567
Interest received	3 (c)	361,814	317,803
Borrowing costs		(26,660)	(22,661)
Net cash inflow from operating activities	20	2,394,722	552,709
Cash flows from investing activities			
Payments for property, plant and equipment	12	(9,540,680)	(13,045,448)
Proceeds from sale of property plant and equipment	5	2,818	706,868
Grants, subsidies, contributions and donations	4 (b)	10,431,731	8,982,580
Net cash (outflow) from investing activities		893,869	(3,355,999)
Cash flows from financing activities			
Proceeds from borrowings		-	-
Repayment of borrowings		-	-
Net cash (outflow) from financing activities		-	-
Net increase (decrease) in cash and cash equivalent held		3,288,591	(2,803,290)
Cash and cash equivalents at the beginning of the financial year		12,862,241	15,665,531
Cash and cash equivalents at end of the financial year	8	16,150,832	12,862,241

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

1 Significant accounting policies

1.01 Basis of preparation

These general purpose financial statements are for the period 1 July 2018 to 30 June 2019. They are prepared in accordance with the *Local Government Act 2009* and the *Local Government Regulation 2012.*

They comply with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB). 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). Therefore in some instances these financial statements do not comply with IFRS. The main impacts are the offsetting of revaluation gains and losses within a class of assets and the timing of recognition of non-reciprocal grant revenue.

These financial statements have been prepared under the historical cost convention except where stated.

1.02 Constitution

The McKinlay Shire Council is constituted under the *Queensland Local Government Act 2009* and is domiciled in Australia.

1.03 New and revised Accounting Standards

This year Council has applied AASB 9 *Financial Instruments* for the first time. AASB 9 replaces AASB 139 and relates to the recognition, classification and measurement of financial assets and financial liabilities. Implementing AASB 9 has resulted in a change to the way council calculates impairment provisions, which are now based on expected credit losses instead of incurred credit losses.

Council has not restated comparative figures. This means the new impairment rules are reflected in the receivables balance at 30 June 2019, but not 30 June 2018.

On 1 July 2018 (the date of initial application), council re-assessed the classification, measurement category and carrying amount of each financial instrument (listed below) in accordance with AASB 9. There were some changes to classification, but this did not result in changes to measurement categories(listed below). Carrying amounts were also unchanged for all categories under the new rules.

Financial asset/liability	Measurement category (unchanged)
Cash and cash equivalents	Amortised cost
Receivables	Amortised cost
Other financial assets	Amortised cost
Borrowings	Amortised cost

Some Australian Accounting Standards and Interpretations have been issued but are not yet effective. Those standards have not been applied in these financial statements. Council will implement them when they are effective. The standards that are expected to have a material impact upon council's future financial statements are:

Standard and impact	**Date council will apply the standard**
AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for-Profit Entities* and AASB 2016-8 *Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities*	
AASB 1058 clarifies and simplifies the income recognition requirements that apply to not-to-profit (NFP) entities, in conjunction with AASB 15, and AASB 2016-8. These Standards supersede the majority of income recognition requirements relating to public sector NFP entities, previously in AASB 1004 *Contributions.*	1 July 2019

Identifiable impacts at the date of this report are:

Some grants received by the Council will be recognised as a liability, and subsequently recognised progressively as revenue as the Council satisfies its performance obligations under the grant. At present, such grants are recognised as revenue upfront.

Grants that are not enforceable and/or not sufficiently specific will not qualify for deferral, and continue to be recognised as revenue as soon as they are controlled. Council receives several grants from the Federal Government and State Government for which there are no sufficiently specific performance obligations these are expected to continue being recognised as revenue upfront assuming no change to the current grant arrangements.

Depending on the respective contractual terms, the new requirements of AASB 15 may potentially result in a change to the timing of revenue from sales of the Council's goods and services such that some revenue may need to be deferred to a later reporting period to the extent that the Council has received payment but has not met its associated performance obligations (such amounts would be reported as a liability in the meantime).

Prepaid rates will not be recognised as revenue until the relevant rating period starts. Until that time these receipts will be recognised as a liability (unearned revenue). There will be no impact upon the recognition of other fees and charges.

Based on Councils assessment, if Council had adopted the new standards in the current financial year it would have had the following impacts:

- Revenue decrease of $1,683,632 due to deferral of grant funding, pre-paid rates, and other sales related revenue (based on the facts available to Council at the date of assessment).
- there would be an equal reduction in the reported equity as the reduced revenue will require an increase in recognition of contract liabilities, and statutory receivables.
- net result would be lower on initial application as a result of decreased revenue.

A range of new disclosures will also be required by the new standards in respect of the Council's revenue.

Transition method

The Council intends to apply the practical expedients available for the full retrospective method. Where revenue has been recognised in full under AASB 1004, prior to 1 July 2019, but where AASB 1058 would have required income to be recognised beyond that date, no adjustment is required. Further, Council is not required to restate income for completed contracts that start and complete within a financial year. This means where income under AASB 1004 was recognised in the comparative financial year (i.e. 2018/19), these also do not require restatement.

AASB 16 *Leases*

The Council has assessed the impacts of the new standard that initial application of AASB 16 will have on its consolidated financial statements, however, the actual impacts may differ as the new accounting policies are subject to change until the Council presents its first financial statements that include the date of initial application. 1 July 2019

AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

Leases in which the Council is a lessee

Council is currently not party to any leases as lessee. As such, the application of AASB 16 is not expected to have any impact on Council in terms of its treatment of any current expenditures.

Leases in which the Council is a lessor

No significant impact is expected for other leases in which the Council is a lessor.

Peppercorn Leases

Council is the leasee of a number of Deed of Grant in Trust leases, for which no or little lease payments are made. These have been identified as peppercorn leases which are currently not recognised in Council's financial statements. Council does not intend to elect not to apply the fair value measurement requirements to these leases until such time as this requirement is mandated.

Transition method

The Council intends to apply the practical expedient for the definition of a lease on transition. This means that it will apply AASB 16 on transition only to contracts that were previously identified as leases applying AASB 117 *Leases* and Interpretation 4 *Determining whether an Arrangement contains a Lease* .

1.04 Estimates and judgements

Where necessary, judgements, estimates and assumptions have been used in preparing these financial statements. Those that have a significant effect, or risk of causing an adjustment to council's assets or liabilities relate to:

Valuation and depreciation of property, plant and equipment (Note 12)
Provisions (Note 14)
Contingent liabilities (Note 17)
Financial instruments and financial liabilities (note 21)

1.05 Rounding and comparatives

The financial statements are in Australian Dollars that have been rounded to the nearest $1.

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

1.06 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.

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:

Finance and administration
This comprises of the overall management of the Shire's administration in accordance with the provisions of the Local Government Act and other Acts, to facilitate the business of Council covering areas such as the following:

Support functions for the Mayor and Councillors
Council and committee meetings and statutory requirements
Support functions of management of the Council's finances
Information Technology (IT)
Administration

Utilities
The goal of this program is to protect and support our community and natural environment by sustainably managing Council's water and sewerage network.

Engineering services
The core function is to provide and maintain Council's infrastructure assets to a standard which meet the objectives of safety and need within the financial framework of Council's Works Program. It comprises of specific areas such as the following:

Construction and maintenance of roads and drainage works
Maintenance of Council's plant and equipment
Operation and maintenance of Council workshop and depot.

Community services and economic development
The goal of community services is to ensure McKinlay is a healthy, vibrant, contemporary and connected community. Community services provides well maintained community facilities, and ensures the effective delivery of cultural, health, welfare, environmental and recreational services.

This function includes:
Maintenance of halls
Operation of the swimming pool
Operation of recreation centres and various services
Operation of library
Operation of senior citizen's centre

Environmental health and community laws
The goal of this program is to protect our community by way of implementing Council & EPA policies and guidelines.
It comprises of specific functions such as the following:
Environment issues, workplace health and safety, animal control, pest management, stock routes, refuse collection and disposal, town planning and local laws administration.

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 2019

Functions	Gross program income				Total	Gross program expenses		Total	Net result	Net	Assets
	Recurrent		Capital		income	Recurrent	Capital	expenses	from recurrent	Result	
	Grants	Other	Grants	Other					operations		
	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019
	$	$	$	$	$	$	$	$	$	$	$
Finance and administration	4,491,294	2,829,173	1,340,666	(29,172)	8,631,961	(2,570,505)	-	(2,570,505)	4,749,962	6,061,456	21,127,072
Utilities	-	643,970	949,000	-	1,592,970	(668,819)	-	(668,819)	(24,849)	924,151	10,752,871
Engineering services	1,042,118	3,800,721	8,032,275	-	12,875,114	(8,050,087)	(573,214)	(8,623,301)	(3,207,248)	4,251,813	192,947,473
Community services & economic development	1,654,121	699,126	109,790	-	2,463,037	(3,526,316)	-	(3,526,316)	(1,173,069)	(1,063,279)	184,316
Environmental health & community laws	40,000	447,683	-	-	487,683	(2,704,824)	-	(2,704,824)	(2,217,141)	(2,217,141)	-
Total Council	7,227,533	8,420,673	10,431,731	(29,172)	26,050,765	(17,520,551)	(573,214)	(18,093,765)	(1,872,345)	7,957,000	225,011,732

Year ended 30 June 2018

Functions	Gross program income				Total	Gross program expenses		Total	Net result	Net	Assets
	Recurring		Capital		income	Recurring	Capital	expenses	from recurring	Result	
	Grants	Other	Grants	Other					operations		
	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018
	$	$	$	$	$	$	$	$	$	$	$
Finance and administration	5,157,804	2,177,250	-	97,412	7,432,466	(2,111,761)	-	(2,111,761)	5,223,293	5,320,705	17,663,379
Utilities	483,779	5,480	181,547	-	670,806	(637,417)	-	(637,417)	(148,158)	33,389	7,712,398
Engineering services	-	3,040,913	6,965,206	-	10,006,119	(6,111,574)	(14,721,441)	(20,833,015)	(3,070,661)	(10,826,896)	180,566,492
Community services & economic development	153,249	932,178	1,835,827	-	2,921,254	(3,553,379)	-	(3,553,379)	(2,467,952)	(632,125)	147,938
Environmental health & community laws	119,944	332,057	-	-	452,001	(1,866,812)	-	(1,866,812)	(1,414,811)	(1,414,811)	160,930
Total Council	5,914,776	6,487,878	8,982,580	97,412	21,482,647	(14,280,943)	(14,721,441)	(29,002,384)	(1,878,289)	(7,519,737)	206,251,137

	Note	2019 $	2018 $

3 Revenue analysis

Revenue is recognised at the fair value of the consideration received or receivable, at the time indicated below.

(a) Rates, levies and charges

Rates are recognised as revenue at the start of the rating period. If a ratepayer pays their rates before the start of the rating period, they are recognised as revenue when they are received.

	2019 $	2018 $
General rates	2,618,411	2,545,945
Water	322,365	312,257
Sewerage	236,553	218,943
Garbage charges	142,107	120,734
Pest animal charges	43,228	-
Total rates, levies and charges	3,362,664	3,197,879
Less: Discounts	(306,562)	(262,639)
Less: Pensioner remissions	(26,256)	(27,483)
Net rates, levies and charges	3,029,846	2,907,757

(b) Fees and charges

Fees and charges are recognised when council is unconditionally entitled to those funds. Generally this is upon lodgement of the relevant applications or documents, issuing of the infringement notice or when the service is provided.

	2019 $	2018 $
Caravan Park Fees	374,488	254,375
Childcare fees	215,609	144,439
Livestock saleyard fees	102,764	78,587
Animal registration & controls	6,562	12,319
Stock route fees	104,903	146,305
Other fees and charges	126,295	96,774
	930,621	732,799

(c) Interest received

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

	2019 $	2018 $
Interest received from term deposits	333,847	296,767
Interest from overdue rates and utility charges	27,967	21,036
	361,814	317,803

(d) Sales revenue

The sale of goods is recognised when the customer has taken delivery of the goods. Revenue from services is recognised when the service is rendered.

Revenue from contracts and recoverable works generally comprises a recoupment of material costs together with an hourly charge for use of equipment and employees. This revenue and the associated costs are recognised by reference to the stage of completion of the contract activity at the reporting date. Where consideration is received for the service in advance it is included in other liabilities and is recognised as revenue in the period when the service is performed. There are no contracts in progress at the year end. The contract work carried out is not subject to retentions.

Sale of goods and services	2019 $	2018 $
RMPC & APPC revenue	2,758,023	1,383,711
Other recoverable work	1,015,566	653,157
Total sales revenue	3,773,589	2,036,868

	Note	2019 $	2018 $
(e) Other revenue			
Council house rental income		75,330	145,260
Sports & Rec income		6,982	109,714
Other income		242,491	237,678
		324,803	492,652

4 Grants, subsidies, contributions and donations

Grants, subsidies, donations and contributions that are non-reciprocal in nature are recognised as revenue when Council obtains control over them, which is usually upon receipt of funds.

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.

	2019 $	2018 $
(a) Recurrent		
State government subsidies and grants	6,926,117	5,853,764
Commonwealth government subsidies and grants	301,416	61,012
	7,227,533	5,914,776

(b) Capital

Capital Revenue includes grants and subsidies received which are tied to specific projects for the replacement or upgrade of existing non-current assets and/or investment in new assets. It also includes non-cash contributions which are usually infrastructure assets received from developers.

	2019 $	2018 $
State government subsidies and grants	9,853,784	7,081,024
Commonwealth government subsidies and grants	577,947	1,901,556
	10,431,731	8,982,580

5 Capital income

	2019 $	2018 $
Gain / (loss) on the disposal of non-current assets		
Proceeds from the sale of property, plant and equipment	2,818	706,868
Less: Book value of property, plant and equipment disposed of	(31,990)	(609,456)
Total capital income	(29,172)	97,412

6 Employee benefits

	Note	2019 $	2018 $
Total staff wages and salaries		4,236,154	3,960,718
Councillors' remuneration		318,461	309,916
Annual, sick and long service leave entitlements		739,096	638,100
Superannuation	19	454,438	427,986
		5,748,149	5,336,720
Other employee related expenses		15,712	35,303
		5,763,861	5,372,023
Less: Capitalised employee expenses		(441,529)	(657,683)
		5,322,332	4,714,340

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

Total Council employees at the reporting date:	2019	2018
Elected members	5	5
Administration staff	18	16
Depot and outdoors staff	52	49
Total full time equivalent employees	75	70

7 Materials and services

	2019 $	2018 $
Administration costs	952,792	660,104
Airport operating costs	92,244	74,604
Audit of annual financial statements by the Auditor-General of Queensland	47,689	56,816
Caravan park costs	267,554	222,577
Community service expenses	472,548	400,920
Council housing expenses	147,530	110,887
Flood damage expenses	68,337	57,884
Parks & gardens expenses	341,042	284,806
Plant operating costs	1,122,510	877,981
Pool expenses	284,567	152,283
Road & street maintenance	734,821	947,619
Recoverable works	1,026,923	113,022
Sports & rec facilities	252,017	201,857
Stock route & livestock expenses	1,085,810	224,050
Tourism expenses	154,975	254,659
Water & sewerage costs	332,746	217,075
Weed control expenses	231,837	194,490
Other materials and services	113,642	89,033
	7,729,584	5,140,667

	Note	2019 $	2018 $

8 Cash and cash equivalents

Cash and cash equivalents include 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 cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

	2019 $	2018 $
Cash at bank and on hand	104,262	79,614
Deposits at call	16,046,570	12,782,627
Balance per Statement of Cash Flows	16,150,832	12,862,241

Council's cash and cash equivalents are subject to a number of internal and external restrictions that limit amounts available for discretionary or future use.

	2019 $	2018 $
Internally imposed expenditure restrictions at the reporting date:		
Future capital works	2,101,000	2,101,000
Asset replacement reserve	30,000	30,000
Total unspent restricted cash	2,131,000	2,131,000

Cash and deposits at call are held with Suncorp Bank in normal term deposits and business cheque accounts. The Suncorp Bank currently has a short term S&P credit rating of A-1 and a long term credit rating of A+.

In accordance with the *Local Government Act 2009 and Local Government Regulation 2012*, a separate trust bank account and separate accounting records are maintained for funds held on behalf of outside parties. Funds held in the trust account include those funds from the sale of land for arrears in rates, deposits for the contracted sale of land, security deposits lodged to guarantee performance and unclaimed monies. 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.

Trust funds held for outside parties	2019 $	2018 $
Monies collected or held on behalf of other entities yet to be paid out to or on behalf of those entities	93,134	64,130
Security deposits	6,560	5,660
	99,694	69,790

9 Trade and other receivables

Receivables are amounts owed to Council at year end. They are recognised at the amount due at the time of sale or service delivery. Settlement is required within 30 days after the invoice is issued.

Debts are regularly assessed for collectability and allowance is made, where appropriate, for impairment. All known bad debts were written-off at 30 June. If an amount is recovered in a subsequent period it is recognised as revenue.

Because Council is empowered under the provisions of the *Local Government Act 2009* to sell an owner's property to recover outstanding rate debts, Council does not impair rate receivables.

	Note	2019 $	2018 $
Current			
Rateable revenue and utility charges		361,739	228,226
Other debtors		2,481,734	1,975,820
Less impairment		(10,990)	(13,820)
Prepayments		58,226	75,893
		2,890,709	2,266,119

Interest is charged on outstanding rates at a rate of 11% per annum. No interest is charged on other debtors. There is no concentration of credit risk for rates and utility charges, fees and other receivable.

Movement in accumulated impairment losses (other debtors) is as follows:

		2019 $	2018 $
Opening balance at 1 July		13,820	11,100
Additional impairments recognised		-	2,720
Impairments reversed		(2,830)	-
Closing Balance at 30 June		10,990	13,820

10 Inventories

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

Inventories held for distribution are:
- goods to be supplied at no or nominal, charge, and
- goods to be used for the provision of services at no or nominal, charge.

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

Land acquired by Council with the intention of reselling it (with or without further development) is classified as inventory. This land is valued at the lower of cost or net realisable value. As an inventory item, this land held for resale is treated as a current asset. Proceeds from the sale of this land will be recognised as sales revenue on the signing of a valid unconditional contract of sale.

	Note	2019 $	2018 $
Inventories held for sale			
Stores & raw materials		132,507	123,591
		132,507	123,591
Land purchased for development and sale	11	127,500	127,500
Total inventories		260,007	251,091

11 Land purchased for development and sale

	Note	2019 $	2018 $
Opening Balance		127,500	127,500
		127,500	127,500
Classified as			
Current	10	127,500	127,500
		127,500	127,500

12 Property, plant & equipment 30 Jun 19

	Note	Land	Buildings	Office furniture & fittings	Plant and equipment	Road & street infrastructure	Water infrastructure	Sewerage infrastructure	Other structures	Work in progress	Total
Basis of measurement		Fair Value	Fair Value	Cost	Cost	Fair Value	Fair Value	Fair Value	Fair Value	Cost	
Asset values		$	$	$	$	$	$	$	$	$	$
Opening gross value as at 1 July 2018		1,730,000	32,787,094	741,006	8,494,823	177,335,136	8,043,344	8,839,989	12,500,951	772,856	251,245,199
Additions		-	-	5,186	181,517	-	-	-		9,353,977	9,540,680
Disposals	5	-	(292,516)	(87,613)	(51,371)	-	-	-	-	-	(431,500)
Write off of flood damaged roads on statement of comprehensive income		-	-	-	-	-	-	-	-	-	-
Revaluation adjustment to asset revaluation surplus	15	31,090	(4,293,558)	-	-	1,105,886	(311,953)	1,658,126	(740,302)	-	(2,550,711)
Revaluation adjustment to statement of comprehensive income		-	-	-	-	-	-	-	(573,214)	-	(573,214)
Transfers between classes		25,510	1,867,929	-	-	6,216,938	67,523	613,771	713,718	(9,505,389)	-
Closing gross value as at 30 June 2019		1,786,600	30,068,949	658,579	8,624,969	184,657,960	7,798,914	11,111,886	11,901,153	621,444	257,230,454
Accumulated depreciation and impairment											
Opening balance as at 1 July 2018		-	5,056,349	417,541	4,001,869	38,773,014	4,523,090	4,647,845	2,953,805	-	60,373,513
Depreciation provided in period		-	694,896	37,352	717,436	2,275,626	129,967	158,941	427,757	-	4,441,975
Depreciation on disposals	5	-	-	(87,613)	(51,371)	(260,526)	-	-	-	-	(399,510)
Write off of flood damaged roads on statement of comprehensive income		-	-	-	-	-	-	-	-	-	-
Revaluation adjustment to asset revaluation surplus	15	-	3,009,144	-	-	(15,642,329)	(1,042,964)	(258,949)	1,039,390	-	(12,895,708)
Transfers between classes		-	(260,526)	(7,630)	-	260,526	-	-	7,630	-	-
Accumulated depreciation as at 30 June 2019		-	8,499,863	359,650	4,667,934	25,406,311	3,610,093	4,547,837	4,428,582	-	51,520,270
Total written down value as at 30 June 2019		1,786,600	21,569,086	298,929	3,957,035	159,251,649	4,188,821	6,564,049	7,472,571	621,444	205,710,184
Residual value		1,786,600	-	-	1,215,306	-	-	-	-	-	
Range of estimated useful life in years		Land: Not depreciated.	10 - 200	3 - 20	2 - 20	10 - 200	10 - 200	10 - 200	15 - 200	-	

Additions comprise:

	Land	Buildings	Office furniture & fittings	Plant and equipment	Road & street infrastructure	Water infrastructure	Sewerage infrastructure	Other structures	Work in progress	Total
	$	$	$	$	$	$	$	$	$	$
Renewals	-	346,624	-	-	5,656,049	35,387	613,771	443,163	-	7,094,994
Other additions	10,264	1,587,102	5,186	181,517	560,886	32,136	-	68,595	-	2,445,686
Total additions	10,264	1,933,726	5,186	181,517	6,216,935	67,523	613,771	511,758	-	9,540,680

12 Property, plant & equipment (cont.) 30 Jun 18

	Note	Land	Buildings	Office furniture & fittings	Plant and equipment	Road & street infrastructure	Water infrastructure	Sewerage infrastructure	Other structures	Work in progress	Total
Basis of measurement		Fair Value	Fair Value	Cost	Cost	Fair Value	Fair Value	Fair Value	Fair Value	Cost	
Asset values		$	$	$	$	$	$	$	$		$
Opening gross value as at 1 July 2017		1,754,000	30,803,354	670,156	8,745,828	181,354,594	7,450,077	8,658,616	10,661,436	2,125,199	252,223,260
Additions		-	-	70,850	1,288,104	-	-	-		11,686,494	13,045,448
Disposals	5	(24,000)	(190,771)	-	(1,539,109)	-	-	-	(172,088)	-	(1,925,968)
Write off of flood damaged roads on statement of comprehensive income		-	-	-	-	(18,917,007)	-	-	-	-	(18,917,007)
Revaluation adjustment to asset revaluation surplus	15	-	739,280	-	-	5,640,128	122,926	103,903	213,229	-	6,819,466
Transfers between classes		-	1,435,231	-	-	9,257,421	470,341	77,470	1,798,374	(13,038,837)	-
Closing gross value as at 30 June 2018		1,730,000	32,787,094	741,006	8,494,823	177,335,136	8,043,344	8,839,989	12,500,951	772,856	251,245,199
Accumulated depreciation and impairment											
Opening balance as at 1 July 2017		-	4,253,667	366,822	4,481,292	39,501,573	4,320,701	4,432,971	2,522,260	-	59,879,286
Depreciation provided in period		-	731,921	50,719	750,807	2,170,256	129,024	159,766	410,782	-	4,403,275
Depreciation on disposals	5	-	(48,620)	-	(1,230,230)	-	-	-	(37,661)	-	(1,316,511)
Write off of flood damaged roads on statement of comprehensive income		-	-	-	-	(4,195,566)	-	-	-	-	(4,195,566)
Revaluation adjustment to asset revaluation surplus	15	-	119,381	-	-	1,296,751	73,365	55,108	58,424	-	1,603,029
Transfers between classes		-	-	-	-	-	-	-	-	-	-
Accumulated depreciation as at 30 June 2018		-	5,056,349	417,541	4,001,869	38,773,014	4,523,090	4,647,845	2,953,805	-	60,373,513
Total written down value as at 30 June 2018		1,730,000	27,730,745	323,465	4,492,954	138,562,122	3,520,254	4,192,144	9,547,146	772,856	190,871,686
Residual value		1,730,000	-	-	1,215,306	-	-	-	-	-	
Range of estimated useful life in years		Land: Not depreciated.	10 - 200	3 - 20	2 - 20	10 - 200	10 - 200	10 - 200	15 - 200	-	

12 Property, plant and equipment

12 (a) Recognition

Plant and equipment with a total value of less than $5,000 and infrastructure assets with a total value of less than $10,000 are treated as an expense in the year of acquisition. All other items of plant and equipment are capitalised.

Replacement of a major component of an asset, in order to maintain its service potential, is treated as the acquisition of a new asset. However, routine operating maintenance, repair costs and minor renewals to maintain the operating capacity and useful life of the non current asset is expensed as incurred.

Expenditure incurred in accordance with Natural Disaster Relief and Recovery Arrangements (NDRRA) on road assets is analysed to determine whether the expenditure is capital in nature. The analysis of the expenditures requires Council engineers to review the nature and extent of expenditure on a given asset. For example, expenditure that patches a road is generally maintenance in nature, whereas a kerb to kerb rebuild is treated as capital. Material expenditure that extends the useful life or renews the service potential of the asset is capitalised.

<u>Land under roads</u>

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.

12 (b) Measurement

Property, plant and equipment assets are initially recorded at cost. Subsequently, each class of property, plant and equipment is stated at cost or fair value (as shown in the previous table) less, where applicable, any accumulated depreciation and accumulated impairment loss.

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.

Direct labour and materials and an appropriate proportion of overheads incurred in the acquisition or construction of assets are also included in their cost.

Property, plant and equipment received in the form of contributions, are recognised as assets and revenues at fair value.

12 (c) Depreciation

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, at which time they are reclassified from work in progress to the appropriate property, plant and equipment class.

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

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

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

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

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

12 (d) Impairment

Property, plant and equipment 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.

12 (e) Valuation

(i) Valuation process

Council's valuation policies and procedures are set by the finance committee of the executive management team who comprise the Chief Executive Officer, Senior Finance Officer and engineer. They are reviewed annually taking into consideration an analysis of movements in fair value and other relevant information.

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 every 3 - 5 years. This process involves the valuer physically sighting a representative sample of Council assets across all asset classes and making their own assessments of the condition of the assets at the date of inspection.

In the intervening years, Council uses internal engineers and asset managers to assess the condition and cost assumptions associated with all infrastructure assets, the results of which are considered in combination with an appropriate cost index for the region. Together these are used to form the basis of a management valuation for infrastructure asset classes in each of the intervening years. With respect to the valuation of the land and improvements, buildings and major plant asset classes in the intervening years, management engage independent, professionally qualified valuers to perform a "desktop" valuation. A desktop valuation involves management providing updated information to the valuer regarding additions, deletions and changes in assumptions such as useful life, residual value and condition rating. The valuer then determines suitable indices which are applied to each of these asset classes.

An analysis performed by management has indicated that, on average, the variance between an indexed asset value and the valuation by an independent valuer when performed is not significant and the indices used by Council are sound. Further details in relation to valuers, the methods of valuation and the key assumptions used in valuing each different asset class are disclosed below.

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

On revaluation, accumulated depreciation is restated proportionately with the change in the carrying amount of the asset and any change in the estimate of remaining useful life. Separately identifiable components of assets are measured on the same basis as the assets to which they relate.

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

- Fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Fair value based on inputs that are directly or indirectly observable for the asset or liability (level 2)
- Fair value based on unobservable inputs for the asset and liability (level 3)

There were no transfers between level 1 and level 2 during the year, nor between level 2 and level 3.

Council's policy is to recognise transfers in and out of the fair value hierarchy levels as at the end of the reporting period.

(ii) Valuation techniques used to derive fair values for level 2 and level 3 valuations

Land (level 2)

Land fair values were determined by independent valuer, Australis Asset Group as at 30 June 2019. Level 2 valuation inputs were used to value land in freehold title as well as land used for special purposes, which is restricted in use under current zoning rules. Sales prices of comparable land sites in close proximity are adjusted for differences in key attributes such as property size. The most significant inputs into this valuation approach are price per square metre.

Council undertook a residential and industrial subdivision in a previous period. Council undertook this as a developer and as such the land has been classified as inventory. As an inventory asset, the carrying value has been determined as the lower of cost or realisable value. The fair value of the land was determined using the sales comparison approach described in the preceding paragraph.

Buildings & other structures (level 2 and 3)

The last comprehensive valuation of buildings and other structures was undertaken by Australis Asset Group as at 30 June 2019. Building fair values have been assessed on the basis of replacement with a new asset having similar service potential including allowances for preliminaries and professional fees. The gross current values have been derived by reference to market data for recent projects and costings guides issued by the Australian Institute of Quantity Surveyors, Rawlinson's (Australian Construction Handbook). Where a depth of market can be identified, the net value of a building asset is the difference between the market value of the asset as a whole (including land) and the market value of the land component. Where there is no depth of market, the net current value of a building asset is the gross current value less accumulated depreciation calculated to reflect the consumed or expired service potential of the asset.

Current replacement cost

Reference asset replacement costs for buildings and other structures were compiled for asset valuations by reference to actual costs incurred for some of the subject assets, for similar asset improvements constructed within the North West Queensland region and also supported by reference to available data prepared and provided by construction cost consultants and quantity surveyors. Costs are adjusted to account for regional location of the subject properties being away from the major supply centres or due to being in a different location to some of the other assets recently constructed. Differences associated with time factors (date of construction of similar improvements and date of compilation of cost data in comparison to the valuation date) have also been accounted for.

Cost data

Reference asset replacement cost for the structural complexes have been compiled primarily by reference to actual costs for similar improvements constructed in the North West Queensland region and also supported by reference to construction cost consultants and quantity surveyors compiled data and available documentation. Costs are indexed to account for the location of the subject properties as opposed to costing applicable to other locations.

Accumulated Depreciation

The depreciation rates applied for the valuation process are generally based on a gradual deterioration in the assets over time, but also account for abnormal adverse depreciation with accelerated depreciation in rates being applied if considered appropriate. Where there has been refurbishment works completed, the depreciation rate has been adjusted to account for the improved condition to the asset.

When considering the estimated remaining life of each of the assets, consideration has been given to the construction, present age, condition, serviceability, climate conditions and present and potential utilisation. Investigations have been made into the lifespan of the assets to better understand the factors influencing sustainable physical, functional and economic asset life expectancy. This has been combined with general information collated by the valuer over an extended period working in the region.

Life expectancy

The valuation as assessed is based on the asset life expectancy. The remaining life of an asset has been determined by inspection and reference to its general physical condition, design and economic and functional utility. Obsolescence as well as physical depreciation has been considered.

There is no market for Council's building and other structure assets as these are held to provide essential services to the community. As the Council buildings and other structure assets are of a specialist nature and there is no active market for the assets, fair value has been determined on the basis of replacement with a new asset having similar service potential including allowances for preliminaries and professional fees. The gross current values have been derived by reference to market data for recent projects and costings guides issued by the Australian Institute of Quantity Surveyors, Rawlinson's (Australian Construction Handbook). As the subject structures are located in a regional area, far removed from a coastal centre, adjustments were required to the applicable absolute costings, to account for additional costs incurred in transporting materials and labour onsite. Where a depth of market can be identified, the net value of a building asset is the difference between the market value of the asset as a whole (including land) and the market value of the land component.

In determining the level of accumulated depreciation the asset has been disaggregated into significant components which exhibit useful lives. Allowance has been made for the typical asset life cycle and renewal treatments of each component, residual value at the time the asset is considered to be no longer available for use and the condition of the asset. Condition was assessed taking into account both physical characteristics as well as holistic factors such as functionality, capability, utilisation and obsolescence.

	2019	2018
	$	$
Buildings (level 2 and 3)	21,569,086	27,730,745
Other structures (level 2 and 3)	7,472,571	9,547,146
	29,041,657	**37,277,891**

Infrastructure assets (level 3)

The last comprehensive valuation of Council infrastructure classes was undertaken by Australis Asset Group as at 30 June 2019. This valuation comprises the asset's current replacement cost (CRC) less accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset. Council first determined the gross cost of replacing the full service potential of the asset and then adjusted this amount to take account of the expired service potential of the asset.

CRC was measured by reference to the lowest cost at which the gross future economic benefits of the asset could currently be obtained in the normal course of business. Where existing assets were over designed, had excess capacity, or were redundant an adjustment was made so that the resulting valuation reflected the cost of replacing the existing economic benefits based on an efficient set of modern equivalent assets to achieve the required level of service output within the Council's planning horizon.

There is no market for Council's roads & streets, water and sewerage infrastructure assets, as these are held to provide essential services to the community. For the purpose of assessing fair value for financial reporting purposes, value has been determined primarily by using the depreciated current replacement cost methodology. Considerations in the calculations have been the type and size of the individual infrastructure asset, construction materials used, level of finish, fixtures installed within, and the location of the assets. As the subject structures are located in a regional area, far removed from a coastal centre, adjustments were required to the applicable absolute costings, to account for additional costs incurred in transporting materials and specialist labour onsite.

In relation to the assessment of the estimation of the remaining useful life of each structure, it is considered that the calculations should be done on the basis of the overall structure, with individual elemental depreciation figures being acceptable and included where considered appropriate. This is due to the nature of the structures, whereby it is considered that the different identifiable construction elements making up the total structure would not depreciate at the same rate per annum or have the same overall total life expectancy.

When considering the estimated remaining life of each of the assets, consideration has been given to the construction, present age, condition, serviceability, climate conditions, and present and potential utilisation. Investigations have been made into the lifespan of the infrastructure assets to better understand the factors influencing sustainable physical, functional and economic asset life-expectancy. This has been combined with general information collated by APV over an extended period working in North West Queensland.

To accurately assess the value of the infrastructure assets, the valuer carried out an inspection of the assets (where practical), calculated the size of each asset, and recorded structural details. The general condition, total life expectancy and actual residual life expectancy for the infrastructure assets have also been established as a result of the inspections carried out.

Reference asset replacement costs for the road & street, water and sewerage infrastructure assets have been compiled by reference to actual costs incurred for some of the subject assets, for similar asset improvements constructed within the North West Queensland region, and also supported by reference to available data prepared and provided by construction cost consultants and quantity surveyors. Base costs have also been adjusted to account for the location of the subject assets, and their distance from a coastal centre.

The unit rates (labour and materials) and quantities applied to determine the CRC of an asset or asset component were based on a "Greenfield" assumption meaning that the CRC was determined as the full cost of replacement with a new asset including components that may not need to be replaced, such as earthworks. The DRC was determined using methods relevant to the asset class as described under individual asset categories below.

Road and street infrastructure

Current replacement cost

Council categorises its road infrastructure into urban and rural roads and then further sub-categorises these into sealed and unsealed roads. All road segments are then componentised into formation, pavement and seal (where applicable). Council assumes that environmental factors such as soil type, climate and topography are consistent across each segment. Council also assumes a segment is designed and constructed to the same standard and uses a consistent amount of labour and materials. Where drainage assets are located underground and physical inspection is not possible, the age, size and type of construction material, together with current and planned maintenance records are used to determine the fair value at reporting date. Construction estimates were determined on a similar basis to sewerage.

CRC was calculated by reference to asset linear and area specifications, estimated labour and material inputs, services costs, and overhead allocations. It is assumed that all raw materials can be sourced locally. All direct costs were allocated to assets at standard usage quantities according to recently completed similar projects. Where construction is outsourced, CRC was based on the average of completed similar projects over the last few years. Reference was also made to recent costs for construction works with the region.

Accumulated depreciation

In determining the level of accumulated depreciation, roads were disaggregated into significant components which exhibited different useful lives based on that applicable and observable in North West Queensland. Consideration was also given to relevant condition of the asset components. This in particular was a factor in determining the relevant remaining useful life of each component of infrastructure.

Sensitivity of valuation to unobservable inputs

As detailed above Council road & street infrastructure has been valued using written down current replacement cost. This method utilises a number of inputs that require judgement and are therefore classed as unobservable. While these judgements are made with the greatest care, and based upon past experience, different judgements could result in a different valuation.

Water and Sewerage Infrastructure

Current replacement cost

Current replacement cost was calculated based on expected replacement costs. In all cases the assets were disaggregated to component level to ensure a reliable measure of cost and service capacity and deterioration of estimated remaining life.

Consistent with roads, it is assumed that environmental factors such as soil type, climate and topography are consistent across each segment and that a segment is designed and constructed to the same standard and uses a consistent amount of labour and materials. Where assets are located underground and physical inspection is not possible, the age, size and type of construction material together with the current and planned maintenance records are used to determine the fair value at reporting date. Construction estimates were determined on a similar basis to roads.

Australis Asset Group's cost models were derived from the following sources:
• Australis Asset Group database
• Schedule rates for construction of asset or similar assets
• Cost curves derived by Australis Asset Advisory
• Building Price Index tables
• Recent contract and tender data
• Rawlinson's Rates for building and construction

Factors taken into account in determining replacement costs included:
• Development factors - the area in which development takes place (e.g. rural areas would have little or no restoration requirements, whereas a high density area would have large amounts of high quality footpaths, road pavements and associated infrastructure that would require reinstatement, and would also require traffic control).
• Soil factors - The types of soil or other surface material (e.g. areas where soil is sandy are difficult to excavate and would require shoring while areas where the soil is generally free of rock would not present any great difficulty for excavation).
• Depth factors - The depth of the trench (e.g. trenching above 1.5m requires shoring/ trench cage which increases costs and slows production

Accumulated depreciation

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

Condition rating	Internal management expanded condition rating	Condition description	Description explanation	Remaining useful life %
1	1 - 2	As new/ excellent	Asset "as new"	95% of useful life
2	3 - 4	Good	Asset is reliable, asset operates as intended and its appearance and structural integrity is up to the standard expected of an operating asset.	75% of useful life
3	5 - 6	Fair	Asset is reliable and operates as intended, but its appearance and structural integrity are questionable.	50% of useful life
4	7 - 8	Poor	Asset still operates, but does not meet intended duty or does not appear sound.	25% of useful life
5	9 - 10	Unserviceable	Asset is not functioning/ needs immediate attention.	5% of useful life

Where site inspections were not conducted (i.e. for passive assets and active assets for which no site inspections were undertaken), the remaining useful life was calculated on an age basis after taking into consideration current and planned maintenance records.

	Note	2019 $	2018 $

13 Payables

Creditors are recognised when goods or services are received, at the amount owed. Amounts owing are unsecured and are generally settled on 30 day terms.

Liabilities are recognised for employee benefits such as wages and salaries, sick and annual leave in respect of services provided by the employees up to the reporting date. The liability is calculated using the present value of remuneration rates that will be paid when the liability is expected to be settled and includes related on-costs.

As Council does not have an unconditional right to defer settlement of the annual leave beyond twelve months after the reporting date, annual leave is classified as a current liability.

	Note	2019 $	2018 $
Current			
Creditors and accruals		996,510	612,685
Annual leave		425,662	402,407
Other entitlements		41,079	39,577
		1,463,251	1,054,669

14 Provisions

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.

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

	2019 $	2018 $
Current		
Long service leave	292,460	298,696
	292,460	298,696
Non-current		
Long service leave	152,910	96,659
	152,910	96,659

Details of movements in provisions:

	2019 $	2018 $
Long service leave		
Balance at beginning of financial year	395,355	449,428
Long service leave entitlement arising	105,792	55,688
Long Service entitlement paid	(55,777)	(109,761)
Balance at end of financial year	445,370	395,355

15 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.

Movements in the asset revaluation surplus were as follows:

Balance at beginning of financial year	67,975,430	62,758,993
Net adjustment to non-current assets at end of period to reflect a change in current fair value:		
Land	31,090	-
Buildings	(7,302,702)	619,899
Road & streets infrastructure	16,748,215	4,343,377
Water infrastructure	731,011	49,561
Sewerage infrastructure	1,917,075	48,795
Other structures	(1,779,692)	154,805
Balance at end of financial year	78,320,427	67,975,430

Asset revaluation surplus analysis

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

Land	484,501	453,411
Buildings	2,510,499	9,813,201
Road & streets infrastructure	68,836,507	52,088,292
Water infrastructure	2,888,067	2,157,056
Sewerage infrastructure	3,600,852	1,683,777
Other structures	0	1,779,693
	78,320,427	67,975,430

16 Commitments for expenditure

Contractual commitments	**2019**	**2018**
Contractual commitments at end of financial year but not recognised in the financial statements are as follows		
Contractual commitments for the construction of residential dwellings	-	1,429,524
	-	1,429,524

17 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 2019 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 $67,816.

18 Events after the balance date

There were no material adjusting events after the balance date.

19 Superannuation

Council contributes to the LGIAsuper Regional Defined Benefits Fund (the scheme), at the rate of 12% for each permanent employee who is a defined benefit member. This rate is set in accordance with LGIAsuper trust deed and may be varied on the advice of an actuary. The Regional Defined Benefits Fund is a complying superannuation scheme for the purpose of the Commonwealth Superannuation Industry (Supervision) legislation and is also governed by the *Local Government Act 2009* .

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

Any amount by which the scheme is over or under funded may affect future benefits and result in a change to the contribution rate, but has not been recognised as an asset or liability of the Council.

Technically McKinlay Shire Council can be liable to the scheme for the portion of another local government's obligation should that local government be unable to meet them. However the risk of this occurring is extremely low and in accordance with the LGIAsuper trust deed changes to council's obligations will only be made on the advice of an actuary.

The last completed actuarial assessment of the scheme was undertaken as at 1 July 2018. The actuary indicated that 'At the valuation date of 1 July 2018, the net assets of the scheme exceeded the vested benefits and the scheme was in a satisfactory financial position as at the valuation date'. The Council is not aware of anything that has happened since that time that indicates the assets of the scheme are not sufficient to meet the vested benefits, as at the reporting date.

No changes have been made to prescribed employer contributions which remain at 12% of employee assets and there are no known requirements to change the rate of contributions.

The next actuarial investigation is scheduled to be conducted as at 1 July 2021.

The most significant risk that may result in LGIAsuper increasing the contribution rate on the advice of the actuary, are:

Investment risk - The risk that the scheme's investment returns will be lower than assumed and additional contributions are needed to fund the shortfall.

Salary growth risk - The risk that wages or salaries will rise more rapidly than assumed, increasing vested benefits to be funded.

There are currently 62 councils contributing to the Regional DBF plan and any changes in contribution rates would apply equally to all 62 councils. McKinlay Shire Council made less than 4% of the total contributions to the plan in the 2018-19 financial year.

	Note	2019 $	2018 $
Superannuation contributions made to the Regional Defined Benefits Fund		19,228	24,514
Other superannuation contributions for employees		435,210	403,472
	6	454,438	427,986

	2020 $
Contributions council expects to make to the Regional Defined Benefits Fund in 2019-20	19,228

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

	Note	2019	2018
Net result		7,957,000	(7,519,737)
Non-cash items:			
Depreciation and amortisation	12	4,441,975	4,403,275
Write-off of flood damaged roads	12	-	14,721,441
Revaluation adjustments		573,214	-
		5,015,189	19,124,716
Investing and development activities:			
Net (profit)/loss on disposal of non-current assets	5	29,172	(97,412)
Capital grants and contributions	4 (b)	(10,431,731)	(8,982,580)
		(10,402,559)	(9,079,992)
Changes in operating assets and liabilities:			
(Increase)/ decrease in receivables		(624,589)	(389,858)
(Increase)/decrease in inventory		(8,916)	(464)
Increase/(decrease) in payables		408,582	(1,527,883)
Increase/(decrease) in other provisions		50,015	(54,073)
		(174,908)	(1,972,278)
Net cash inflow from operating activities		2,394,722	552,709

21 Financial instruments and financial risk management

Financial assets and financial liabilities

McKinlay Shire Council has exposure to the following risks arising from financial instruments:
- credit risk
- liquidity risk
- market risk

McKinlay Shire Council is responsible for the establishment and oversight of the risk management framework, together with developing and monitoring risk management policies.

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

The Council's audit committee oversees how management monitors compliance with the Council's risk management policies and procedures, and reviews the adequacy of the risk managements framework in relation to the risks faced by the Council. The Council audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

The McKinlay Shire Council does not enter into derivatives.

Credit risk

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

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

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

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

The carrying amount of financial assets at the end of the reporting period represent the maximum exposure to credit risk for the Council.

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

	Note	2019	2018
Financial assets		**$**	**$**
Cash and cash equivalents	8	16,150,832	12,862,241
Receivables - rates	9	361,739	228,226
Receivables - other	9	2,470,744	1,962,000
Other credit exposures			
Guarantees	17	67,816	68,637
Total financial assets		19,051,131	15,121,104

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

Trade and other receivables
In the case of rate receivables, the Council has the power to sell the property to recover any defaulted amounts. In effect, this power protects the Council against credit risk in the case of defaults.

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

By the nature of Council's operations, there is a geographical concentration of risk in the Council's area. Because the area is largely operated by pastoralists, there is also a concentration in the grazing sector.

The Council does not require collateral in respect of trade and other receivables. The Council does not have trade receivables for which no loss allowance is recognised because of collateral.

At 30 June 2019, the exposure to credit risk for trade receivables by type of counterpart was as follows:

	2019	2018
	$	$
Rates and utility charges	361,739	228,226
State & Commonwealth Government	627,435	999,325
Community organisations	867	100,435
Other	1,842,442	862,240
	2,832,483	**2,190,226**

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

	2019		2018
	$		$
-	Not Credit Impaired	Credit Impaired	
Not past due	2,443,260	-	1,854,885
Past due 31-60 days	29,722	-	6,714
Past due 61-90 days	3,083	-	2,964
More than 90 days	-	356,418	339,483
Impaired	-	(10,990)	(13,820)
Total	2,476,065	345,428	2,190,226

Expected credit loss assessment as at 1 July 2018 and 30 June 2019
The Council uses an allowance matrix to measure the expected credit losses of trade receivables from individual customers, which comprise a very large number of small balances.

The following table provides information about the exposure to credit risk and expected losses for trade receivables from individual customers as at 30 June 2019:

Council - 2019	**Weighted-average loss rate**	**Gross carrying amount**	**Loss allowance**	**Credit-impaired**
	$	**$**	**$**	**$**
Not past due	0.005%	2,443,260	122	No
Past due 31-60 days	0.50%	29,722	149	No
Past due 61-90 days	1.00%	3,083	31	No
More than 90 days	3.00%	356,418	10,689	Yes
Total		2,832,483	10,990	

Loss rates are based on actual credit loss experience over the past ten years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Council's view of economic conditions over the expected lives of the receivables.

Liquidity risk

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

The Council's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its labilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Council's reputation.

Council manages its exposure to liquidity risk by maintaining sufficient cash deposits, both short and long term, to cater for unexpected volatility in cash flows. These facilities are disclosed in note 8.

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

	0 to 1 year	1 to 5 years	Over 5 years	Total contractual cash flows	Carrying amount
	$	$	$	$	$
2019					
Trade and other payables	996,510	-	-	996,510	996,510
	996,510	-	-	996,510	996,510
2018					
Trade and other payables	612,685	-	-	612,685	612,685
	612,685	-	-	612,685	612,685

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

Market risk

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

Interest rate risk

McKinlay Shire Council is exposed to interest rate risk through investments and borrowings with QTC and investments held with financial institutions.

Council has access to a mix of variable and fixed rate funding options through QTC so that interest rate risk exposure can be minimised.

Sensitivity

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

The Council does not account for any fixed-rate financial assets or financial liabilities at Fair Value through Profit or Loss, therefore a change in interest rates at the reporting date would not affect profit or loss.

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

	Net carrying amount	Effect on Net Result		Effect on Equity	
		1% increase	1% decrease	1% increase	1% decrease
Council	$	$	$	$	$
2019					
Financial assets	18,983,315	189,833	(189,833)	189,833	(189,833)
Financial liabilities	-	-	-	-	-
Net total	18,983,315	189,833	(189,833)	189,833	(189,833)
2018					
Financial assets	15,052,467	150,525	(150,525)	150,525	(150,525)
Financial liabilities	-	-	-	-	-
Net total	15,052,467	150,525	(150,525)	150,525	(150,525)

Fair value

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

22 National Competition Policy

Activities to which the code of competitive conduct applies:

A "business activity" of a local government is divided into 2 categories:

(a) Roads building activity means:

(i) The construction or maintenance of State controlled roads for which the local government submits an offer to carry out work in response to a tender invitation other than through a sole supplier arrangement; or

(ii) Submission of a competitive tender for the construction or maintenance on the local government's road which the local government has put out to tender, or called for by another local government.

(b) Other business activity (previously referred to as type 3 activities) means the following:

(i) trading in goods and services to clients in competition with the private sector; or

(ii) the submission of a competitive tender in the local government's own tendering process in competition with others for the provision of goods and services to itself. Excluded activities are (a) library services and (b) an activity or part thereof prescribed by legislation.

There are no activities to which the Code of Competitive Conduct (CCC) applies in respect of the financial year ended 30 June 2019.

23 Transactions with related parties

(a) Transactions with key management personnel (KMP)

In the context of McKinlay Shire council, KMP includes the Mayor, Councillors, Chief Executive Officer, Director of Corporate & Community Services, Director of Engineering Services and Director of Works. The compensation paid to KMP for 2018/19 comprises:

	2019	2018
	$	$
Short-term employee benefits	958,080	954,897
Post-employment benefits	50,112	57,152
Long-term benefits	380	8,066
Termination benefits	-	24,294
Total	**1,008,572**	**1,044,409**

Detailed remuneration disclosures are provided in the annual report.

(b) Transactions with other related parties

Other related parties include the close family members of KMP and any entities controlled or jointly controlled by KMP or their close family members. Close family members include a spouse, child and dependent of a KMP or their spouse.

Details of transactions between council and other related parties are disclosed below:

Details of Transaction	Additional information	2019	2018
		$	$
Payments charged by entities controlled by key management personnel	24(b)(i)	544,417	1,499,613
Payments charged by Council to entities controlled by key management personnel	24(b)(ii)	1,684	2,812
Employee expenses for close family members of key management personnel	24(b)(iii)	165,465	178,034

(i) The payments charged by entities controlled by key management personnel were on an arm's length basis in accordance with Council's procurement policies. The totals disclosed includes:

- Amounts totalling $336,226 paid to KW Murphy Holdings Pty Ltd for gravel and earthmoving services. The company controlled by close family members of Cr Belinda Murphy.

- Amounts totalling $158,920 paid to Marwill Pty Ltd for various electrical contracting services. The company is controlled by close family members of Cr Janene Fegan.

(ii) The payments charged by Council to entities controlled by key management personnel were on an arm's length basis in accordance with the schedule of fees and charges adopted by council. The amounts levied related to common fees and charges. All amounts levied by Council were on commercial terms and in accordance with its schedule of fees and charges.

(iii) All close family members of key management personnel were employed through an arm’s length process. They are paid in accordance with the Award for the job they perform.

The council employs 70 staff of which only 3 are close family members of key management personnel. The total amount paid to such close family members was $165,465.

(c) Outstanding balances

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

Receivables		**Amounts owed by entities controlled by key management personnel**	**Amounts owed by entities controlled by key management personnel**
		2019	**2018**
note due - less than 30 days		622	180
Past due 31-60 days		140	-
Past due 61-90 days		-	-
More than 90 days overdue		-	-
Total Owing		**$762**	**$180**

(d) Loans and guarantees to/from related parties

Council does not make loans to or receive loans from related parties. No guarantees have been provided.

(e) Transactions with related parties that have not been disclosed

Most of the entities and people that are related parties of council live and operate within the McKinlay Council Shire. Therefore, on a regular basis ordinary citizen transactions occur between Council and its related parties. Some examples include:

- Payment of rates
- Use of the town swimming pool
- Dog registration
- Gym membership fees
- Borrowing books from a council library

Council has not included these types of transactions in its disclosure, where they are made on the same terms and conditions available to the general public.

McKinlay Shire Council
Financial statements
For the year ended 30 June 2019

Management Certificate
For the year ended 30 June 2019

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

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

(i) the prescribed requirements of the *Local Government Act 2009* and *Local Government Regulation 2012* for the establishment and keeping of accounts have been complied with in all material respects; and

(ii) the general purpose financial statements, as set out on pages 1 to 31, present a true and fair view, in accordance with Australian Accounting Standards, of the Council's transactions for the financial year and financial position at the end of the year.

Mayor	**Chief Executive Officer**
Cr Belinda Murphy	**Des Neisler**
Date: 8 / 10 / 19	Date: 8 / 10 / 19

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Audit Office
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INDEPENDENT AUDITOR'S REPORT

To the Councillors of McKinlay Shire Council

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of McKinlay Shire Council (the council).

In my opinion, the financial report:

a) gives a true and fair view of the council's financial position as at 30 June 2019, and of their financial performance and cash flows for the year then ended

b) complies with the *Local Government Act 2009*, the Local Government Regulation 2012 and Australian Accounting Standards.

The financial report comprises the statement of financial position as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including significant accounting policies and other explanatory information, and the management certificate given by the Mayor and the Chief Executive Officer.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of my report.

I am independent of the council in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General of Queensland Auditing Standards*.

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

Other information

Other information comprises the information included in McKinlay Shire Council's annual report for the year ended 30 June 2019, but does not include the financial report and my auditor's report thereon. At the date of this auditor's report, the other information was the current year financial sustainability statement and the long-term financial sustainability statement.

My opinion on the financial report does not cover the other information and accordingly I do not express any form of assurance conclusion thereon. However, as required by the Local Government Regulation 2012, I have expressed a separate opinion on the current year financial sustainability statement.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report and my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the council 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 the *Local Government Act 2009*, the Local Government Regulation 2012 and Australian Accounting Standards, and for such internal control 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.

The council is also responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless it is intended to abolish the council or to otherwise cease operations of the council.

Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the council.

- Conclude on the appropriateness of the council's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on other legal and regulatory requirements

In accordance with s.40 of the *Auditor-General Act 2009*, for the year ended 30 June 2019:

a) I received all the information and explanations I required.

b) In my opinion, the prescribed requirements in relation to the establishment and keeping of accounts were complied with in all material respects.

14 October 2019

Sri Narasimhan
as delegate of the Auditor-General

Queensland Audit Office
Brisbane

McKinlay Shire Council
Current-year Financial Sustainability Statement
For the year ended 30 June 2019

Measures of Financial Sustainability	How the measure is calculated	Actual - Council	Target
Council's performance at 30 June 2019 against key financial ratios and targets:			
Operating surplus ratio	Net result (excluding capital items) divided by total operating revenue (excluding capital items)	-12.0%	between 0% and 10%
Asset sustainability ratio	Capital expenditure on the replacement of assets (renewals) divided by depreciation expense	192.4%	greater than 90%
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue (excluding capital items)	-111.2%	not greater than 60%

Note 1 - Basis of Preparation

The current year financial sustainability statement is a special purpose statement prepared in accordance with the requirements of the *Local Government Regulation 2012* and the *Financial Management (Sustainability) Guideline 2013*. The amounts used to calculate the three reported measures are prepared on an accrual basis and are drawn from the Council's audited general purpose financial statements for the year ended 30 June 2019.

Certificate of Accuracy
For the year ended 30 June 2019

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

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

Mayor
Cr Belinda Murphy

Date: 8 / 10 / 19

Chief Executive Officer
Des Neisler

Date: 8 / 10 / 19

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INDEPENDENT AUDITOR'S REPORT

To the Councillors of McKinlay Shire Council

Report on the current year financial sustainability statement

Opinion

I have audited the accompanying current year statement of financial sustainability of McKinlay Shire Council (the council) for the year ended 30 June 2019 comprising the statement, explanatory notes, and the certificate of accuracy given by the Mayor and the Chief Executive Officer.

In accordance with section 212 of the Local Government Regulation 2012, in my opinion, in all material respects, the current year financial sustainability statement of McKinlay Shire Council for the year ended 30 June 2019 has been accurately calculated.

Basis of opinion

I conducted my audit in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the current year financial sustainability statement* section of my report.

I am independent of the council in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the statement in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General of Queensland Auditing Standards*.

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

Emphasis of matter – basis of accounting

I draw attention to Note 1 which describes the basis of accounting. The current year financial sustainability statement has been prepared in accordance with the Financial Management (Sustainability) Guideline 2013 for the purpose of fulfilling the council's reporting responsibilities under the Local Government Regulation 2012. As a result, the statement may not be suitable for another purpose. My opinion is not modified in respect of this matter.

Other Information

Other information comprises the information included in McKinlay Shire Council's annual report for the year ended 30 June 2019, but does not include the current year financial sustainability statement and my auditor's report thereon. At the date of this auditor's report, the other information was the general purpose financial statements and the long-term financial sustainability statement.

My opinion on the current year financial sustainability statement does not cover the other information and accordingly I do not express any form of assurance conclusion thereon. However, as required by the Local Government Regulation 2012, I have expressed a separate opinion on the general purpose financial report.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report and my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the council for the current year financial sustainability statement

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

Auditor's responsibilities for the audit of the current year financial sustainability statement

My objectives are to obtain reasonable assurance about whether the current year financial sustainability statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this statement.

My responsibility does not extend to forming an opinion on the appropriateness or relevance of the reported ratios, nor on the council's future sustainability.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the council.
- Evaluate the overall presentation, structure and content of the statement, including the disclosures, and whether the statement represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

14 October 2019

Sri Narasimhan
as delegate of the Auditor-General

Queensland Audit Office
Brisbane

McKinlay Shire Council
Long-Term Financial Sustainability
Prepared as at 30 June 2019

Measures of Financial Sustainability	Measure	Target	Actuals at 30 June 2019	Projected for the years ended 30 June 2020	30 June 2021	30 June 2022	30 June 2023	30 June 2024	30 June 2025	30 June 2026	30 June 2027	30 June 2028	30 June 2028
Operating surplus ratio	Net result divided by total operating revenue	between 0% and 10%	-11.98%	-61.26%	-23.47%	-22.11%	-21.66%	-21.02%	-20.71%	-20.30%	-19.70%	-17.61%	-17.39%
Asset sustainability ratio	Capital expenditure on the replacement of assets (renewals) divided by depreciation expense	greater than 90%	192.43%	124.59%	84.93%	104.29%	90.06%	100.98%	94.38%	92.66%	78.06%	148.59%	267.61%
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue	not greater than 60%	-111.17%	-86.04%	-59.77%	-49.74%	-44.83%	-36.90%	-31.15%	-27.75%	-24.11%	-20.99%	-7.98%

McKinlay Shire Council's Financial Management Strategy

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

Certificate of Accuracy
For the long-term financial sustainability statement prepared as at 30 June 2019

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

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

Mayor
Cr Belinda Murphy
Date: 8 / 10 / 19

Chief Executive Officer
Des Neisler
Date: 8 / 10 / 19