

McKinlay Shire Council 2016-17

Financial Statements



McKinlay Shire Council

Financial statements

For the year ended 30 June 2017

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**McKinlay Shire Council
Statement of Comprehensive Income
For the year ended 30 June 2017**

	2017	2016
Note	\$	\$
Income		
Revenue		
Recurrent revenue		
Rates, levies and charges	3(a) 2,811,772	2,765,214
Fees and charges	3(b) 806,956	626,563
Interest received	3(c) 315,056	377,553
Sales revenue	3(d) 8,717,453	2,785,180
Other revenue	3(e) 204,832	293,469
Grants, subsidies, contributions and donations	4(a) 8,847,016	6,031,413
	<u>21,703,085</u>	<u>12,879,392</u>
Capital revenue		
Grants, subsidies, contributions and donations	4(b) 12,553,867	10,377,534
Other capital income	5 12,182	7,891
	<u>12,566,049</u>	<u>10,385,425</u>
Total capital revenue	<u>34,269,134</u>	<u>23,264,817</u>
Total income	<u>34,269,134</u>	<u>23,264,817</u>
Expenses		
Recurrent expenses		
Employee benefits	6 (5,009,639)	(4,773,815)
Materials and services	7 (8,821,561)	(5,303,477)
Finance costs	(31,242)	(45,328)
Depreciation and amortisation	12 (3,920,171)	(4,390,503)
	<u>(17,782,613)</u>	<u>(14,513,123)</u>
Capital expenses		
Write-off of flood damaged roads	12 -	(3,359,250)
	<u>(17,782,613)</u>	<u>(17,872,373)</u>
Total expenses	<u>(17,782,613)</u>	<u>(17,872,373)</u>
Net result	<u>16,486,521</u>	<u>5,392,444</u>
Other comprehensive income		
Items that will not be reclassified to net result		
Increase in asset revaluation surplus	16 3,056,380	18,442,326
	<u>3,056,380</u>	<u>18,442,326</u>
Total other comprehensive income for the year	<u>3,056,380</u>	<u>18,442,326</u>
Total comprehensive income for the year	<u>19,542,901</u>	<u>23,834,770</u>

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 2017**

	<u>Note</u>	<u>2017</u> \$	<u>2016</u> \$
Current assets			
Cash and cash equivalents	8	15,665,531	13,289,260
Trade and other receivables	9	1,876,261	784,511
Inventories	10	250,627	259,147
Total current assets		<u>17,792,419</u>	<u>14,332,918</u>
Non-current assets			
Property, plant and equipment	12	192,343,974	175,289,581
Total non-current assets		<u>192,343,974</u>	<u>175,289,581</u>
Total assets		<u>210,136,393</u>	<u>189,622,499</u>
Current liabilities			
Trade and other payables	13	2,582,552	1,460,263
Borrowings	14	-	192,587
Provisions	15	89,886	61,220
Total current liabilities		<u>2,672,438</u>	<u>1,714,070</u>
Non-current liabilities			
Provisions	15	359,542	346,917
Total non-current liabilities		<u>359,542</u>	<u>346,917</u>
Total liabilities		<u>3,031,980</u>	<u>2,060,987</u>
Net community assets		<u>207,104,413</u>	<u>187,561,512</u>
Community equity			
Asset revaluation surplus	16	62,758,993	59,702,613
Retained Surplus		144,345,420	127,858,899
Total community equity		<u>207,104,413</u>	<u>187,561,512</u>

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 2017

Note	Asset revaluation surplus 16 \$	Retained Surplus \$	Total \$
Balance as at 1 July 2016	59,702,613	127,858,899	187,561,512
Net operating surplus	-	16,486,521	16,486,521
Other comprehensive income for the year			
Increase in asset revaluation surplus	3,056,380	-	3,056,380
Total comprehensive income for the year	<u>3,056,380</u>	<u>16,486,521</u>	<u>19,542,901</u>
Balance as at 30 June 2017	<u>62,758,993</u>	<u>144,345,420</u>	<u>207,104,413</u>
Balance as at 1 July 2015	41,260,287	122,466,455	163,726,742
Net operating surplus	-	5,392,444	5,392,444
Other comprehensive income for the year			
Increase in asset revaluation surplus	18,442,326	-	18,442,326
Total comprehensive income for the year	<u>18,442,326</u>	<u>5,392,444</u>	<u>23,834,770</u>
Balance as at 30 June 2016	<u>59,702,613</u>	<u>127,858,899</u>	<u>187,561,512</u>

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 2017

	Note	2017	2016
		\$	\$
Cash flows from operating activities			
Receipts from customers		20,317,261	13,002,283
Payments to suppliers and employees		(12,680,082)	(10,309,248)
		<u>7,637,179</u>	<u>2,693,035</u>
Interest received	3 (c)	315,056	377,553
Borrowing costs		(31,242)	(45,328)
Net cash inflow from operating activities	21	<u><u>7,920,993</u></u>	<u><u>3,025,260</u></u>
Cash flows from investing activities			
Payments for property, plant and equipment	12	(17,982,956)	(11,432,552)
Proceeds from sale of property plant and equipment	5	76,954	88,585
Grants, subsidies, contributions and donations	4 (b)	12,553,867	10,377,533
Net cash (outflow) from investing activities		<u><u>(5,352,135)</u></u>	<u><u>(966,433)</u></u>
Cash flows from financing activities			
Proceeds from borrowings		-	-
Repayment of borrowings	14	(192,587)	(175,721)
Net cash (outflow) from financing activities		<u><u>(192,587)</u></u>	<u><u>(175,721)</u></u>
Net increase (decrease) in cash and cash equivalent held		<u><u>2,376,271</u></u>	<u><u>1,883,106</u></u>
Cash and cash equivalents at the beginning of the financial year		13,289,260	11,406,154
Cash and cash equivalents at end of the financial year	8	<u><u>15,665,531</u></u>	<u><u>13,289,260</u></u>

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

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

1 Significant accounting policies

1.01 Basis of preparation

These general purpose financial statements are for the period 1 July 2016 to 30 June 2017. 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 Adoption of new and revised Accounting Standards

This year Council has applied AASB 124 Related Party Disclosures for the first time. As a result Council has disclosed more information about related parties and transactions with those related parties. This information is presented in note 24.

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
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AASB 9 Financial Instruments

This replaces AASB 139 Financial Instruments: Recognition and Measurement, and will change the classification, measurement and disclosures of financial assets.

01-Jul-18

As a result, Council will measure its financial assets at fair value.

The impact of this new standard is yet to be quantified.

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 15 will replace AASB 118 Revenue, AASB 111 Construction Contracts and a number of Interpretations. AASB 2016-8 provides Australian requirements and guidance for not-for-profit entities in applying AASB 9 and AASB 15, and AASB 1058 will replace AASB 1004 Contributions. Together they contain a comprehensive and robust framework for the recognition, measurement and disclosure of income including revenue from contracts with customers. Council is still reviewing the way that income is measured and recognised to identify whether there will be any material impact arising from these standards.

01-Jul-19

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

1.04 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 15)
- Contingent liabilities (Note 18)

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.

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

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 2017

Functions	Gross program income				Total income	Gross program expenses		Total expenses	Net result from recurrent operations	Net Result	Assets
	Recurrent		Capital			Recurrent	Capital				
	Grants	Other	Grants	Other							
	2017	2017	2017	2017		2017	2017				
\$	\$	\$	\$	\$	\$						
Finance and administration	6,465,890	2,717,218	-	12,182	9,195,290	(1,930,413)		(1,930,413)	7,252,695	7,264,877	19,613,423
Utilities	474,454	7,872	370,220		852,546	(594,039)		(594,039)	(111,713)	258,507	7,734,033
Engineering services	1,058,289	9,117,023	9,691,294		19,866,606	(10,279,962)	-	(10,279,962)	(104,650)	9,586,644	181,501,984
Community services & economic development	399,610	508,377	2,492,353		3,400,340	(2,877,674)		(2,877,674)	(1,969,687)	522,666	1,286,003
Environmental health & community laws	448,773	505,579	-		954,352	(2,100,525)		(2,100,525)	(1,146,173)	(1,146,173)	950
Total Council	8,847,016	12,856,069	12,553,867	12,182	34,269,134	(17,782,613)	-	(17,782,613)	3,920,472	16,486,521	210,136,393

Year ended 30 June 2016

Functions	Gross program income				Total income	Gross program expenses		Total expenses	Net result from recurring operations	Net Result	Assets
	Recurring		Capital			Recurring	Capital				
	Grants	Other	Grants	Other							
	2016	2016	2016	2016		2016	2016				
\$	\$	\$	\$	\$	\$						
Finance and administration	4,468,556	2,743,063	-	7,891	7,219,510	(1,915,955)	-	(1,915,955)	5,295,664	5,303,555	16,124,594
Utilities	454,515	5,601	-	-	460,116	(551,495)	-	(551,495)	(91,379)	(91,379)	7,390,100
Engineering services	830,540	3,105,079	10,133,703	-	14,069,322	(7,686,407)	(3,359,250)	(11,045,657)	(3,750,788)	3,023,665	166,107,239
Community services & economic development	176,923	732,686	243,830	-	1,153,439	(2,750,925)	-	(2,750,925)	(1,841,316)	(1,597,486)	-
Environmental health & community laws	100,879	261,550	-	-	362,429	(1,608,341)	-	(1,608,341)	(1,245,912)	(1,245,912)	566
Total Council	6,031,413	6,847,979	10,377,533	7,891	23,264,817	(14,513,123)	(3,359,250)	(17,872,373)	(1,633,730)	5,392,444	189,622,499

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

3 Revenue analysis	<u>Note</u>	<u>2017</u> \$	<u>2016</u> \$
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.			
General rates		2,463,525	2,421,444
Water		315,042	302,075
Sewerage		205,888	196,931
Garbage charges		114,045	110,713
Pest animal management charges		-	41,264
Total rates, levies and charges		<u>3,098,500</u>	<u>3,072,427</u>
Less: Discounts		(259,886)	(280,746)
Less: Pensioner remissions		(26,842)	(26,467)
Net rates, levies and charges		<u><u>2,811,772</u></u>	<u><u>2,765,214</u></u>

(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.

Caravan Park Fees	206,114	227,021
Childcare fees	108,902	58,490
Livestock saleyard fees	127,981	41,294
Animal registration & controls	9,603	7,974
Stock route fees	205,469	152,239
Other fees and charges	148,887	139,545
	<u>806,956</u>	<u>626,563</u>

(c) Interest received

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

Interest received from term deposits	290,308	357,960
Interest from overdue rates and utility charges	24,748	19,593
	<u>315,056</u>	<u>377,553</u>

(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

RMPC & APPC revenue	7,928,370	2,233,676
Other recoverable work	789,083	551,504
Total sales revenue	<u><u>8,717,453</u></u>	<u><u>2,785,180</u></u>

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

<u>Note</u>	<u>2017</u>	<u>2016</u>
	\$	\$
(e) Other revenue		
Insurance claim	-	8,818
Other income	204,832	284,651
	<u>204,832</u>	<u>293,469</u>

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.

(a) Recurrent		
State government subsidies and grants	8,773,716	5,942,935
Commonwealth government subsidies and grants	73,300	88,478
	<u>8,847,016</u>	<u>6,031,413</u>

(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.

State government subsidies and grants	9,264,149	8,284,317
Commonwealth government subsidies and grants	3,289,718	2,093,217
	<u>12,553,867</u>	<u>10,377,534</u>

(c) Conditions over contributions

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

Non-reciprocal grants for expenditure on infrastructure	-	1,224,413
	<u>-</u>	<u>1,224,413</u>

5 Capital income

Gain on the disposal of non-current assets

Proceeds from the sale of property, plant and equipment	76,954	88,585
Less: Book value of property, plant and equipment disposed of	(64,772)	(80,694)
Total capital income	<u>12,182</u>	<u>7,891</u>

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

	<u>Note</u>	<u>2017</u>	<u>2016</u>
		\$	\$
6 Employee benefits			
Total staff wages and salaries		4,400,875	4,004,398
Councillors' remuneration		305,194	300,566
Annual, sick and long service leave entitlements		601,649	605,441
Superannuation	20	449,361	443,542
		<u>5,757,079</u>	<u>5,353,947</u>
Other employee related expenses		39,324	28,260
		<u>5,796,403</u>	<u>5,382,207</u>
Less: Capitalised employee expenses		(786,764)	(608,392)
		<u>5,009,639</u>	<u>4,773,815</u>

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

Total Council employees at the reporting date:	<u>2017</u>	<u>2016</u>
Elected members	5	5
Administration staff	18	18
Depot and outdoors staff	52	51
Total full time equivalent employees	<u>75</u>	<u>74</u>

7 Materials and services			
Administration costs		653,279	588,314
Airport operating costs		53,932	47,569
Audit of annual financial statements by the Auditor-General of Queensland		69,895	54,329
Caravan park costs		182,520	187,529
Community service expenses		397,528	384,303
Council housing expenses		138,239	129,653
Flood damage expenses		82,825	41,834
Parks & gardens expenses		250,062	233,431
Plant operating costs		1,057,088	1,063,471
Pool expenses		183,779	169,322
Road & Street maintenance		912,138	772,128
Recoverable works		3,460,745	762,369
Sports & rec facilities		207,373	194,544
Stock route & livestock expenses		229,217	209,345
Tourism expenses		171,568	142,195
Water & Sewerage costs		220,977	233,984
Weed control expenses		491,039	66,037
Other materials and services		59,357	23,120
		<u>8,821,561</u>	<u>5,303,477</u>

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

8 Cash and cash equivalents	<u>Note</u>	<u>2017</u> \$	<u>2016</u> \$
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.			
Cash at bank and on hand		20,099	83,102
Deposits at call		15,645,432	13,206,158
Balance per Statement of Cash Flows		<u>15,665,531</u>	<u>13,289,260</u>

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.

Internally imposed expenditure restrictions at the reporting date:

Future capital works		2,101,000	2,101,000
Asset replacement reserve		<u>30,000</u>	<u>30,000</u>
Total unspent restricted cash		<u>2,131,000</u>	<u>2,131,000</u>

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

Monies collected or held on behalf of other entities yet to be paid out to or on behalf of those entities		64,130	67,348
Security deposits		<u>6,710</u>	<u>6,191</u>
		<u>70,840</u>	<u>73,539</u>

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.

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

	<u>Note</u>	<u>2017</u> \$	<u>2016</u> \$
Current			
Rateable revenue and utility charges		158,192	252,641
Other debtors		1,636,355	466,443
Less impairment		(11,100)	(13,800)
Prepayments		92,814	79,227
		<u>1,876,261</u>	<u>784,511</u>

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:

Opening balance at 1 July		13,800	6,000
Impairment Debts written off during the year		-	-
Additional impairments recognised		-	7,800
Impairments reversed		(2,700)	-
Closing Balance at 30 June		<u>11,100</u>	<u>13,800</u>

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.

Inventories held for sale

Stores & raw materials		123,127	131,647
		<u>123,127</u>	<u>131,647</u>
Land purchased for development and sale	12	127,500	127,500
Total inventories		<u>250,627</u>	<u>259,147</u>

11 Land purchased for development and sale

Opening Balance		127,500	172,500
Less: Cost of development land sold during the year		-	(45,000)
Less: Cost of development land transferred to Property, Plant & Equipment		-	-
Less: Cost of development land written down to recoverable value		-	-
		<u>127,500</u>	<u>127,500</u>
Classified as			
Current	11	127,500	127,500
		<u>127,500</u>	<u>127,500</u>

McKinlay Shire Council
Notes to the Financial Statements
For the year ended 30 June 2017

12

30-Jun-17 Note

Property, plant & equipment

Basis of measurement

Asset values

Opening gross value as at 1 July 2016

Additions

Disposals

Write off of flood damaged roads on statement of comprehensive income

Revaluation adjustment to other comprehensive

Transfers between classes

Closing gross value as at 30 June 2017

	Land	Buildings	Office Furniture & Fittings	Plant and equipment	Road & Street Infrastructure	Water Infrastructure	Sewerage Infrastructure	Other Structures	Work in progress	Total
	Fair Value	Fair Value	Cost	Cost	Fair Value	Fair Value	Fair Value	Fair Value	Cost	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
	1,754,000	27,041,650	610,149	7,691,308	168,225,265	7,318,510	7,750,931	9,977,809	88,249	230,457,871
	-	-	60,007	1,163,429	-	-	-	-	16,759,520	17,982,956
5	-	-	-	(108,909)	-	-	-	-	-	(108,909)
	-	-	-	-	-	-	-	-	-	-
16	-	1,041,659	-	-	2,345,025	110,100	84,031	310,527	-	3,891,342
	-	2,720,045	-	-	10,784,304	21,467	823,654	373,100	(14,722,570)	-
	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

Accumulated depreciation and impairment

Opening balance as at 1 July 2016

Depreciation provided in period

Depreciation on disposals

Write off of flood damaged roads on statement of comprehensive income

Revaluation adjustment to asset revaluation surplus

Transfers between classes

Accumulated depreciation as at 30 June 2017

	-	3,598,038	328,007	3,822,830	36,815,368	4,128,349	4,241,740	2,233,958	-	55,168,290
	-	511,785	38,815	702,599	2,175,426	128,499	148,209	214,838	-	3,920,171
5	-	-	-	(44,137)	-	-	-	-	-	(44,137)
	-	-	-	-	-	-	-	-	-	-
16	-	143,844	-	-	510,779	63,853	43,022	73,464	-	834,962
	-	-	-	-	-	-	-	-	-	-
	-	4,253,667	366,822	4,481,292	39,501,573	4,320,701	4,432,971	2,522,260	-	59,879,286

Total written down value as at 30 June 2017

Residual value

Range of estimated useful life in years

	1,754,000	26,549,687	303,334	4,264,536	141,853,021	3,129,376	4,225,645	8,139,176	2,125,199	192,343,974
	1,754,000	-	-	-	-	-	-	-	-	-
	Land: Not depreciated.	10 - 200	3 - 20	2 - 20	10 - 200	10 - 200	10 - 200	15 - 200	-	

Additions comprise:

Renewals

Other additions

Total additions

	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
									12,730,837	12,730,837
									5,252,119	5,252,119
	-	-	-	-	-	-	-	-	17,982,956	17,982,956

McKinlay Shire Council
Notes to the Financial Statements
For the year ended 30 June 2017

12. (cont.)

30-Jun-16 Note

Property, plant & equipment

Basis of measurement

Asset values

Opening gross value as at 1 July 2015

Additions

Disposals

Write off of flood damaged roads on statement of comprehensive income

Revaluation adjustment to other comprehensive income(asset revaluation surplus)

Transfers between classes

Closing gross value as at 30 June 2016

	Land	Buildings	Office Furniture & Fittings	Plant and equipment	Road & Street Infrastructure	Water Infrastructure	Sewerage Infrastructure	Other Structures	Work in progress	Total
	Fair Value	Fair Value	Cost	Cost	Fair Value	Fair Value	Fair Value	Fair Value	Cost	
	\$	\$	\$	\$	\$	\$	\$	\$		\$
	1,874,883	28,603,001	568,639	7,566,759	153,623,535	7,650,535	7,654,038	12,716,342	1,401,083	221,658,815
	-	-	-	-	-	-	-	-	11,432,552	11,432,552
5	-	-	-	(177,350)	-	-	-	-	-	(177,350)
	-	-	-	-	(5,296,627)	-	-	-	-	(5,296,627)
16	(120,883)	(2,543,497)	-	-	7,069,495	(472,738)	(17,952)	(1,073,944)	-	2,840,481
	-	982,146	41,510	301,899	12,828,862	140,713	114,845	(1,664,589)	(12,745,386)	-
	1,754,000	27,041,650	610,149	7,691,308	168,225,265	7,318,510	7,750,931	9,977,809	88,249	230,457,871

Accumulated depreciation and impairment

Opening balance as at 1 July 2015

Depreciation provided in period

Depreciation on disposals

Write off of flood damaged roads on statement of comprehensive income

Revaluation adjustment to asset revaluation surplus

Transfers between classes

Accumulated depreciation as at 30 June 2016

	-	5,861,651	292,556	3,171,418	48,026,664	3,922,180	4,021,999	3,117,197	-	68,413,665
	-	332,503	35,451	748,068	2,807,432	113,721	112,132	241,196	-	4,390,503
5	-	-	-	(96,656)	-	-	-	-	-	(96,656)
	-	-	-	-	(1,937,377)	-	-	-	-	(1,937,377)
16	-	(2,596,116)	-	-	(12,416,840)	92,448	107,609	(788,946)	-	(15,601,845)
	-	-	-	-	335,489	-	-	(335,489)	-	-
	-	3,598,038	328,007	3,822,830	36,815,368	4,128,349	4,241,740	2,233,958	-	55,168,290

Total written down value as at 30 June 2016

Residual value

Range of estimated useful life in years

	1,754,000	23,443,612	282,142	3,868,478	131,409,897	3,190,161	3,509,191	7,743,851	88,249	175,289,581
	1,754,000	-	-	1,448,375	-	-	-	-	-	
	Land: Not depreciated.	10 - 200	3 - 20	2 - 20	10 - 200	10 - 200	10 - 200	15 - 200	-	

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

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.

Land under roads

Land under the road network within the Council area that has been dedicated and opened for public use under the Land Act 1994 or the Land Title Act 1994 is not controlled by Council but is controlled by the state pursuant to the relevant legislation. Therefore this land is not recognised in these financial statements.

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.

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

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, Australian Pacific Valuers (APV) as at 30 June 2016. 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 Australian Pacific Valuers (APV) as at 30 June 2016. Management have internally reviewed and assessed these values as at 30 June 2017 and applied an index adjustment as determined by APV at 3.5% for buildings and 3% for other structures. 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.

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

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.

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.

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.

	2017	2016
	\$	\$
Buildings (level 2 and 3)	26,549,687	23,443,612
Other structures (level 2 and 3)	8,139,176	7,743,851
	<u>34,688,863</u>	<u>31,187,463</u>

Infrastructure assets (level 3)

The last comprehensive valuation of Council infrastructure classes was undertaken by Australian Pacific Valuers (APV) as at 30 June 2016. Management have internally reviewed and assessed these values as at 30 June 2017 and applied an index adjustment as determined by APV. The amounts applied to roads & streets infrastructure was 1.31%, water infrastructure was 1.50% and sewerage infrastructure was 0.98%. 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.

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

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.

Indexation considerations

The asset revaluation index for engineering construction, building cost construction indices and other relevant cost data indicates that prices for civil engineering work has increased but that this increase has not been significant and is not considered material to the relevant asset classes. Notwithstanding this, management has considered it appropriate to apply an index adjustment to the carrying values of these asset classes in line with the relevant indices as published by the Australian Bureau of Statistics. Management has considered the suitability of these Queensland indices to North West Queensland and believe anecdotal evidence is supportive of their appropriateness and localised applicability.

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.

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

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.

APV's cost models were derived from the following sources:
• APV database
• Schedule rates for construction of asset or similar assets
• Cost curves derived by APV
• 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.

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

	<u>Note</u>	<u>2017</u>	<u>2016</u>
		\$	\$
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.			
Current			
Creditors and accruals		2,181,568	1,057,711
Annual leave		367,044	374,411
Other entitlements		33,940	28,141
		<u>2,582,552</u>	<u>1,460,263</u>

14 Borrowings

Borrowings are initially recognised at fair value plus any directly attributable transaction costs. Thereafter, they are measured at amortised cost.

All borrowings are in \$A denominated amounts and interest is expensed as it accrues. No interest has been capitalised during the current or comparative reporting period. Council paid out its last remaining balance during the 2017 financial year. There have been no defaults or breaches of the loan agreement during the period.

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

Current

Loans - Queensland Treasury Corporation	-	192,587
	<u>-</u>	<u>192,587</u>

Loans - Queensland Treasury Corporation

Opening balance at beginning of financial year	192,587	368,308
Loans raised		
Principal repayments	<u>(192,587)</u>	<u>(175,721)</u>
Book value at end of financial year	<u>-</u>	<u>192,587</u>

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

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

	<u>Note</u>	<u>2017</u> \$	<u>2016</u> \$
15 Provisions			
<i>Long Service Leave</i>			
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.			
Current			
Long service leave		89,886	61,220
		<u>89,886</u>	<u>61,220</u>
Non-current			
Long service leave		359,542	346,917
		<u>359,542</u>	<u>346,917</u>
Details of movements in provisions:			
Long service leave			
Balance at beginning of financial year		408,137	347,876
Long service leave entitlement arising		71,801	68,610
Long Service entitlement extinguished			-
Long Service entitlement paid		(30,510)	(8,349)
Balance at end of financial year		<u>449,428</u>	<u>408,137</u>

16 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	59,702,613	41,260,287
Net adjustment to non-current assets at end of period to reflect a change in current fair value:		
Land	-	(120,883)
Buildings	897,815	52,619
Road & streets infrastructure	1,834,246	19,486,335
Water infrastructure	46,247	(565,186)
Sewerage infrastructure	41,009	(125,561)
Other structures	237,063	(284,998)
Balance at end of financial year	<u>62,758,993</u>	<u>59,702,613</u>

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

Asset revaluation surplus analysis

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

Land	453,411	453,411
Buildings	9,193,302	8,295,487
Road & streets infrastructure	47,744,915	45,910,669
Water infrastructure	2,107,495	2,061,248
Sewerage infrastructure	1,634,982	1,593,973
Other structures	1,624,888	1,387,825
	<u>62,758,993</u>	<u>59,702,613</u>

17 Commitments for expenditure

The McKinlay Shire Council does not have any current contractual commitments.

18 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 2017 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 \$69,117.

19 Events after the balance date

There were no material adjusting events after the balance date.

20 Superannuation

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

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

The scheme has three elements referred to as:

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

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

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

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

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

<u>Note</u>	<u>2017</u> \$	<u>2016</u> \$
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To ensure the ongoing solvency of the Regional DBF, the scheme's trustee can vary the rate of contributions from relevant local government employers subject to advice from the scheme's actuary. As at the reporting date, no changes had been made to prescribed employer contributions which remain at 12% of employee assets and there are no known requirements to change the rate of contributions.

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

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

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

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

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

There are currently 68 councils contributing to the Regional DBF plan and any changes in contribution rates would apply equally to all 72 councils. McKinlay Shire Council made less than 4% of the total contributions to the plan in the 2016-17 financial year.

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

The amount of superannuation contributions paid by Council to the scheme in this period for the benefit of employees was:

6	449,361	443,542
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21 Reconciliation of net result for the year to net cash inflow (outflow) from operating activities

Net result		16,486,521	5,392,444
Non-cash items:			
Depreciation and amortisation	12	3,920,171	4,390,503
Write-off of flood damaged roads	12	-	3,359,250
Revaluation adjustments		-	-
		3,920,171	7,749,753
Investing and development activities:			
Net (profit)/loss on disposal of non-current assets	5	(12,182)	(7,891)
Capital grants and contributions	4 (b)	(12,553,867)	(10,377,534)
		(12,566,049)	(10,385,425)
Changes in operating assets and liabilities:			
(Increase)/ decrease in receivables		(1,091,750)	466,995
(Increase)/decrease in inventory		8,520	21,578
Increase/(decrease) in payables		1,122,289	(280,346)
Increase/(decrease) in other provisions		41,291	60,261
		80,350	268,488
Net cash inflow from operating activities		7,920,993	3,025,260

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

22 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 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 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	2017	2016
		\$	\$
Financial assets			
Cash and cash equivalents	8	15,665,531	13,289,260
Receivables - rates	9	158,192	252,641
Receivables - other	9	1,625,255	452,643
Other credit exposures			
Guarantees	18	69,117	68,852
Total financial assets		<u>17,518,095</u>	<u>14,063,396</u>

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.

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

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

30th June 2017	Fully				Total
	Performing	<30 days	30 - 60 days	61 - 90 days	
Receivables	1,620,026	2,337	11,316	160,868	1,794,547
Less impairment	-	-	-	(11,100)	(11,100)
Net receivables	<u>1,620,026</u>	<u>2,337</u>	<u>11,316</u>	<u>149,768</u>	<u>1,783,447</u>

30th June 2016	Fully				Total
	Performing	<30 days	30 - 60 days	61 - 90 days	
Receivables	385,303	50,379	16,071	267,331	719,084
Less impairment	-	-	-	(13,800)	(13,800)
Net receivables	<u>385,303</u>	<u>50,379</u>	<u>16,071</u>	<u>253,531</u>	<u>705,284</u>

Liquidity risk

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

McKinlay Shire Council is exposed to liquidity risk through its normal course of business and through its borrowings with QTC.

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 cashflows (principal and interest) of financial liabilities at the end of the reporting period, excluding the impact of netting agreements:

	0 to 1 year	1 to 5 years	Over 5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
2017					
Trade and other payables	2,181,568	-	-	2,181,568	2,181,568
Loans - QTC	-	-	-	-	-
	<u>2,181,568</u>	<u>-</u>	<u>-</u>	<u>2,181,568</u>	<u>2,181,568</u>
2016					
Trade and other payables	1,057,711	-	-	1,057,711	1,057,711
Loans - QTC	201,834	-	-	201,834	192,587
	<u>1,259,545</u>	<u>-</u>	<u>-</u>	<u>1,259,545</u>	<u>1,250,298</u>

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

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

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 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					
2017					
Financial assets	17,448,978	174,490	(174,490)	174,490	(174,490)
Financial liabilities	-	-	-	-	-
Net total	<u>17,448,978</u>	<u>174,490</u>	<u>(174,490)</u>	<u>174,490</u>	<u>(174,490)</u>
2016					
Financial assets	13,994,544	139,945	(139,945)	139,945	(139,945)
Financial liabilities	192,587	(1,926)	1,926	(1,926)	1,926
Net total	<u>13,801,957</u>	<u>138,020</u>	<u>(138,020)</u>	<u>138,020</u>	<u>(138,020)</u>

Fair value

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

The fair value of borrowings with QTC is based on the market value of debt outstanding. The market value of a debt obligation is the discounted value of future cash flows based on prevailing market rates and represents the amount required to be repaid if this was to occur at balance date. The market value of debt is provided by QTC and is discussed below/ disclosed in Note 14.

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

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

23 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 2017.

McKinlay Shire Council
Notes to the financial statements
For the year ended 30 June 2017

24 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 2016/17 comprises:

	2017
	\$
Short-term employee benefits	999,280
Post-employment benefits	63,653
Long-term benefits	10,205
Termination benefits	0
Total	1,073,138

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	2017
		\$
Payments charged by entities controlled by key management personnel	24(b)(i)	1,454,975
Payments charged by Council to entities controlled by key management personnel	24(b)(ii)	3,703
Employee expenses for close family members of key management personnel	24(b)(iii)	314,908

(i) The fees and charges charged 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 total disclosed includes the following:

Payments charged by entities controlled by key management personnel	Details of related party	\$
Purchase of materials and services from entities controlled by key management personnel	KW Murphy Holdings Pty Ltd is a company controlled by a close family member of Councillor Belinda Murphy. The company has been engaged on commercial terms by Council to undertake a number of construction and plant hire related projects throughout the year. Each project was awarded in accordance with Council's relevant procurement policy. Councillor Belinda Murphy declared her material personal interest in this matter and did not participate in any decisions related to the relevant jobs where applicable.	676,066
Purchase of materials and services from entities controlled by key management personnel	Marwill Pty Ltd is a company controlled by Councillor Janene Fegan. The company has been engaged on commercial terms by Council to undertake various works throughout the year. Each job was awarded in accordance with Council's relevant procurement policy. Where applicable Councillor Janene Fegan declared her material personal interest in this matter and did not participate in any decisions related to the relevant jobs where applicable.	442,710
Purchase of materials and services from entities controlled by key management personnel	Councillor Shauna Royes has a close family member associated with the Julia Creek Lions Ladies Auxiliary. The Lions auxiliary is a not for profit community group which receives periodic support and donations from Council. All support is provided in accordance with Council's standard community charter.	305
Purchase of materials and services from entities controlled by key management personnel	Felsie's Mobile Workshop is operated by a close family member of Councillor Shauna Royes. Felsie's Mobile Workshop is periodically engaged by Council to provide tooling services on commercial terms. Each award is in accordance with Council's relevant procurement policies.	26,907
Purchase of materials and services from entities controlled by key management personnel	A close family member of Councillor Shauna Royes is associated with the Julia Creek Pony Club. The Pony Club is a not for profit community organisation which receives periodic support and donations from Council. All support is provided in accordance with Council's standard community charter.	2,566
Purchase of materials and services from entities controlled by key management personnel	Mr Arthur Fontaine is a close family member of Council's works manager, Mr Kerry Krogh. Arthur Fontaine is engaged on commercial terms by Council as a contractor and also supplies some equipment hire. The awards to Arthur Fontaine are in accordance with Council's relevant procurement policy.	274,428
Purchase of materials and services from entities controlled by key management personnel	Council's Works Manager, Mr Kerry Krogh is the current President of the Julia Creek Turf Club. The Julia Creek Turf Club is a not for profit community organisation which receives periodic support and donations from Council. All support is provided in accordance with Council's standard community charter.	20,850
Purchase of materials and services from entities controlled by key management personnel	Council's Director of Corporate & Community Services, Mrs Tenneil Cody is the current treasurer of the Sedan Dip Sports & Recreation Inc. The Sedan Dip Sports & Recreation Inc is a not for profit community organisation which receives periodic support and donations from Council. All support is provided in accordance with Council's standard community charter.	11,143
Total		1,454,975

(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 total disclosed includes the following:

Payments charged by Council to entities controlled by key management personnel	Details of related party	\$
Supply of materials and services to entities controlled by key management personnel	Councillor Shauna Royes has a close family member who holds an agistment lease on the town common. The agistment is provided on commercial terms and in accordance with Council's policies and guidelines.	2,076
Supply of materials and services to entities controlled by key management personnel	Councillor Belinda Murphy has a close family member who holds an agistment lease on the town common. The agistment is provided on commercial terms and in accordance with Council's policies and guidelines.	1,627
Total		3,703

Councillor Shauna Royes is a leasee of a part of the Nelia Town Common. During the year an issue was identified with some boundaries and accordingly a request was submitted to council in relation to an overpayment of lease fees over multiple years. In acknowledgment of this fact, Council agreed to waive the remaining fees on the lease, over the remaining 2 year period. The expected net waiver is \$30,000. The request was considered by Council in the ordinary course of business and Councillor Royes declared a conflict of interest and left the meeting during its consideration.

(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 75 staff of which only 7 are close family members of key management personnel. The total amount paid to such close family members was \$314,908.

(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
Past due 31-60 days	\$135
Past due 61-90 days	\$0
More than 90 days overdue	\$692
Total Owing	\$827

(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.

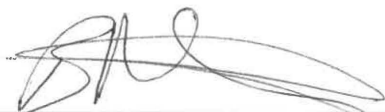
McKinlay Shire Council
Financial statements
For the year ended 30 June 2017

Management Certificate
For the year ended 30 June 2017

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.

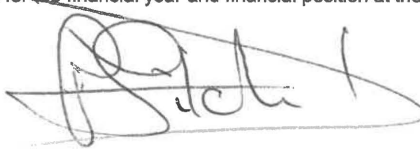
In accordance with section 212(5) of the Regulation we certify that:

- (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 30, present a true and fair view, in accordance with Australian Accounting Standards, of the Council's transactions for the financial year and financial position at the end of the year.



Mayor
Cr Belinda Murphy

Date: 10 / 10 / 2017.



Chief Executive Officer
Peter Fitchat

Date: 10 / 10 / 2017

INDEPENDENT AUDITOR'S REPORT

To the Councillors of McKinlay Shire Council

Report on the Audit of the Financial Report

Opinion

I have audited the financial report of McKinlay Shire Council.

In my opinion, the financial report:

- a) gives a true and fair view of the council's financial position as at 30 June 2017, and of its 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 2017, 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 certificate given by the Mayor and 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 2017, 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 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.

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:

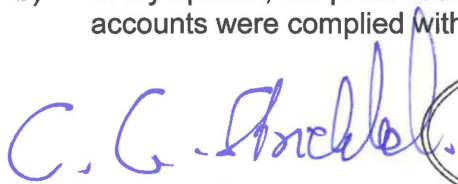

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material 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 2017:

- 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.

C G STRICKLAND
as Delegate of the Auditor-General

Queensland Audit Office
Brisbane

**McKinlay Shire Council
Current-year Financial Sustainability Statement
For the year ended 30 June 2017**

Measures of Financial Sustainability	How the measure is calculated	Actual - Council	Target
Council's performance at 30 June 2017 against key financial ratios and targets:			
Operating surplus ratio	Net result (excluding capital items) divided by total operating revenue (excluding capital items)	18.1%	between 0% and 10%
Asset sustainability ratio	Capital expenditure on the replacement of assets (renewals) divided by depreciation expense	324.8%	greater than 90%
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue (excluding capital items)	-68.0%	not greater than 60%

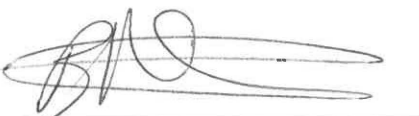
Note 1 - Basis of Preparation

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 2017.

Certificate of Accuracy
For the year ended 30 June 2017

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: 10 / 10 / 2017.



Chief Executive Officer
Peter Fitchat

Date: 10 / 10 / 2017.

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 financial sustainability statement of McKinlay Shire Council for the year ended 30 June 2017, 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 2017 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 2017, 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 Report and 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

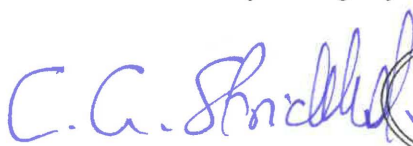
My objectives are to obtain reasonable assurance about whether the current year financial sustainability statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, 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.




C G STRICKLAND
as Delegate of the Auditor-General

Queensland Audit Office
Brisbane

**McKinlay Shire Council
Long-Term Financial Sustainability Statement
Prepared as at 30 June 2017**

Measures of Financial Sustainability	Measure	Target	Actuals at 30 June 2017	Projected for the years ended							
				30 June 2018	30 June 2019	30 June 2020	30 June 2021	30 June 2022	30 June 2023	30 June 2024	30 June 2025
Operating surplus ratio	Net result divided by total operating revenue	between 0% and 10%	18.11%	-31.64%	-21.59%	-19.67%	-18.55%	-17.63%	-17.42%	-17.12%	-17.34%
Asset sustainability ratio	Capital expenditure on the replacement of assets (renewals) divided by depreciation expense	greater than 90%	324.83%	326.45%	82.44%	92.57%	98.42%	122.05%	105.88%	119.01%	110.73%
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue	not greater than 60%	-67.97%	-154.33%	-67.82%	-64.54%	-60.66%	-50.61%	-46.08%	-37.31%	-31.07%

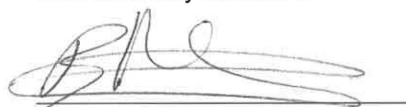
McKinlay Shire Council's Financial Management Strategy

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 future needs.

**Certificate of Accuracy
For the long-term financial sustainability statement prepared as at 30 June 2017**

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: 10 / 10 / 2017



Chief Executive Officer
Peter Fitchat

Date: 10 / 10 / 2017