



**Douglas Shire Council
Financial Statements
for the period 1 January 2014 to 30 June 2014**

Douglas Shire Council

Financial statements

For the period 1 January 2014 to 30 June 2014

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Douglas Shire Council
Statement of Comprehensive Income
For the period 1 January 2014 to 30 June 2014

	Note	2014 \$
Income		
Revenue		
Recurrent revenue		
Rates, levies and charges	3(a)	13,212,121
Fees and charges	3(b)	1,273,165
Rental income	3(c)	302,543
Interest received	3(d)	372,939
Other recurrent revenue	3(e)	935,684
Grants, subsidies, contributions and donations	4(a)	244,932
		<u>16,341,383</u>
Capital revenue		
Grants, subsidies, contributions and donations	4(b)	510,441
		<u>16,851,824</u>
Total revenue		<u>16,851,824</u>
Gain on restructure of local government	15	339,632,547
Capital income	5	22,876
		<u>356,507,247</u>
Total income		<u>356,507,247</u>
Expenses		
Recurrent expenses		
Employee benefits	6	(5,574,636)
Materials and services	7	(10,437,177)
Finance costs	8	(87,369)
Depreciation and amortisation	9	(5,443,314)
		<u>(21,542,496)</u>
Capital expenses	10	(13,749,606)
		<u>(35,292,102)</u>
Total expenses		<u>(35,292,102)</u>
		<u>321,215,145</u>
Net result		<u>321,215,145</u>
		<u>321,215,145</u>

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

Douglas Shire Council
Statement of Financial Position
as at 30 June 2014

	Note	2014 \$
Current assets		
Cash and cash equivalents	11	16,062,186
Short term deposits	12	2,000,000
Trade and other receivables	13	6,927,845
Inventories	14	65,255
Total current assets		<u>25,055,287</u>
Non-current assets		
Property, plant and equipment	16	310,936,001
Intangible assets	18	1,164,770
Total non-current assets		<u>312,100,771</u>
Total assets		<u>337,156,058</u>
Current liabilities		
Trade and other payables	19	4,784,560
Borrowings	20	112,375
Provisions	21	1,846,708
Total current liabilities		<u>6,743,643</u>
Non-current liabilities		
Borrowings	20	2,118,413
Provisions	21	7,078,857
Total non-current liabilities		<u>9,197,269</u>
Total liabilities		<u>15,940,913</u>
Net community assets		<u>321,215,145</u>
Community equity		
Retained surplus/(deficiency)	22	321,215,145
Total community equity		<u>321,215,145</u>

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

Douglas Shire Council
Statement of Changes in Equity
For the period 1 January 2014 to 30 June 2014

	Retained Surplus	Total
Note	22	
	\$	\$
Balance as at 1 January 2014	-	-
Net operating result	321,215,145	321,215,145
Other comprehensive income for the year		
Increase in asset revaluation surplus	-	-
Total comprehensive income for the period	<u>321,215,145</u>	<u>321,215,145</u>
Balance as at 30 June 2014	<u><u>321,215,145</u></u>	<u><u>321,215,145</u></u>

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

Douglas Shire Council
Statement of Cash Flows
For the period 1 January 2014 to 30 June 2014

	<u>Note</u>	<u>2014</u> <u>\$</u>
Cash flows from operating activities		
Receipts from customers		13,088,575
Payments to suppliers and employees		<u>(13,262,007)</u>
		(173,432)
Interest received		372,939
Rental income		302,543
Non capital grants and contributions		244,932
Borrowing costs		<u>(87,369)</u>
Net cash inflow (outflow) from operating activities	27	<u>659,612</u>
Cash flows from investing activities		
Payments for property, plant and equipment		(1,807,057)
Payments for intangible assets		(971,144)
Proceeds from sale of property plant and equipment		50,251
Net movement in short term investments		(2,000,000)
Grants, subsidies, contributions and donations		<u>451,006</u>
Net cash inflow (outflow) from investing activities		<u>(4,276,944)</u>
Cash flows from financing activities		
Repayment of borrowings		<u>(51,706)</u>
Net cash inflow (outflow) from financing activities		<u>(51,706)</u>
Net increase (decrease) in cash and cash equivalent held		<u>(3,669,037)</u>
Cash and cash equivalents arising from de-amalgamation	15	19,731,222
Cash and cash equivalents at end of the financial year	11	<u>16,062,185</u>

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

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

1 Significant accounting policies

1.1 Basis of preparation

As a result of the Local Government (De-amalgamation Implementation) Regulation 2013 (LGDIR) the Douglas Shire Council was re-established on 1 January 2014, based on the boundaries as they existed immediately prior to the 2008 amalgamations. The de-amalgamation was conducted in accordance with the LGDIR and De-amalgamation Transfer Methodology. A Transfer Committee, comprising the Transfer Manager and Cairns Regional Council's Chief Executive Officer, was responsible for making decisions on matters such as the transfer of assets and liabilities to Douglas Shire Council, establishment of joint agreements to ensure continuity of business and deciding on de-amalgamation costs. From 1 January 2014 until final agreement on the transfer of assets and liabilities Douglas Shire Council's Chief Executive Officer and Cairns Regional Council's Chief Executive Officer comprised the membership of the Transfer Committee.

These general purpose financial statements are for the period 1 January 2014 to 30 June 2014 and have been prepared in compliance with the requirements of the *Local Government Act 2009* and the *Local Government Regulation 2012*. Consequently, these financial statements have been prepared in accordance with all Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements issued by the Australian Accounting Standards Board (AASB).

These financial statements have been prepared under the historical cost convention except for some classes of Non Current Assets where the revaluation method under AASB 116 has been applied.

1.2 Statement of compliance

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

1.3 Constitution

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

1.4 Date of authorisation

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

1.5 Currency

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

1.6 Adoption of new and revised Accounting Standards

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

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

	Effective for annual report periods beginning on or after:
AASB 9 <i>Financial Instruments</i> (December 2009)	1 January 2018
AASB 1055 <i>Budgetary Reporting</i>	1 July 2014
2009-11 <i>Amendments to Australian Accounting Standards arising from AASB 9</i> (December 2009)	1 January 2015
AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9</i> (December 2010)	1 January 2015
AASB 2013-1 <i>Amendments to AASB 1049 - Relocation of Budgetary Reporting Requirements</i>	1 July 2014

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AASB 9 Financial Instruments (effective from 1 January 2018)

AASB 9, which replaces AASB 139 *Financial Instruments: Recognition and Measurement*, is effective for reporting periods beginning on or after 1 January 2018 and must be applied retrospectively. The main impact of AASB 9 is to change the requirements for the classification, measurement and disclosures associated with financial assets. Under the new requirements the four current categories of financial assets stipulated in AASB 139 will be replaced with two measurement categories: fair value and amortised cost and financial assets will only be able to be measured at amortised cost where very specific conditions are met. The extent of the impact of AASB 9 has not yet been determined.

1.7 Critical accounting judgements and key sources of estimation uncertainty

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

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

- Valuation of property, plant and equipment - Note 1.15(c), Note 1.15(e), Note 9 and Note 17
- Impairment of property, plant and equipment - Note 1.18 and Note 16(a)
- Restoration provision - Note 1.22(a) and Note 21
- Annual leave - Note 1.20(b) and Note 19
- Long service leave - Note 1.20(e) and Note 21
- Contingent liabilities - Note 24

1.8 Revenue Recognition

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

a) Rates and levies

Where rate monies are received prior to the commencement of the rating/levying period, the amount is recognised as revenue in the period in which they are received, otherwise rates are recognised at the commencement of the rating period.

b) Grants and subsidies

Grants, subsidies and contributions are recognised as revenue in the year in which Council obtains control over them. Council only receives grants, subsidies and contributions that are non-reciprocal in nature. Where control is obtained over a grant, subsidy or contribution and payment has not been received, this revenue is accrued and is reported in Note 13 as a receivable.

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.

c) Non-cash contributions

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

Physical assets contributed to Council by developers in the form of roadworks, stormwater, water and wastewater infrastructure and park equipment are recognised as revenue when the development becomes "on maintenance" (i.e. the Council obtains control of the assets and becomes liable for any ongoing maintenance) and there is sufficient data in the form of drawings and plans to determine the approximate specifications and values of such assets. All non-cash contributions are recognised at the fair value of the contribution received on the date of acquisition.

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d) Cash Contributions

Council receives cash contributions from property developers to construct assets such as roads and footpaths and to connect new property developments to water and sewerage networks in the local government area. Where agreements between Council and the developers relating to these contributions are determined to fall within the scope of AASB Interpretation 18 Transfers of Assets from Customers these contributions are recognised as revenue when the related service obligations are fulfilled.

Developers also pay infrastructure charges for trunk infrastructure, such as pumping stations, treatment works, mains, sewers and water pollution control works. These infrastructure charges are not within the scope of AASB Interpretation 18 because there is no performance obligation associated with them. Consequently, the infrastructure charges are recognised as income when received.

e) Rental income

Rental revenue from property is recognised as income on a straight line basis over the lease term.

f) Interest

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

g) Fees and Charges

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

h) Sales revenue

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

Council generates revenues from a number of services including contracts for road and earthworks. Revenue from contracts and recoverable works generally comprises a recoupment of material costs together with an hourly charge for use of equipment and employees. Contract revenue and associated costs are recognised by reference to the stage of completion of the contract activity at the reporting date. Revenue is measured at the fair value of consideration received or receivable in relation to that activity. 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.

i) Other revenue

Other revenue is recognised as a receivable when it is probable that it will be received and the amount is known, otherwise the amount is recognised upon receipt.

1.9 Financial assets and financial liabilities

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

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

Financial assets

Cash and cash equivalents - Note 1.10

Receivables - measured at amortised cost - Note 1.11

Financial liabilities

Payables - measured at amortised cost - Note 1.19

Borrowings - measured at amortised cost - Note 1.21

Douglas Shire Council
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Financial assets and financial liabilities are presented separately from each other and offsetting has not been applied.

The fair value of financial instruments is determined as follows:

The fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities approximate their carrying amounts and are not disclosed separately.

The fair value of borrowings, as disclosed in Note 21 to the accounts, is determined by reference to published price quotations in an active market and/or by reference to pricing models and valuation techniques. It reflects the value of the debt if Council repaid it in full at balance date. As it is the intention of Council to hold its borrowings for their full term, no adjustment provision is made in these accounts.

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

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

All other disclosures relating to the measurement and financial risk management of financial instruments are included in Note 29.

1.10 Cash and cash equivalents

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

1.11 Receivables

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

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

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

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 any rate receivables.

1.12 Inventories

Stores and raw materials are valued at the lower of cost and net realisable value and include, where applicable, direct material, direct labour and an appropriate portion of variable and fixed overheads. Cost is determined using average price for stores and cost price for other items.

Inventories held for distribution (internal consumption) 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 and adjusted where applicable for any loss of service potential.

1.13 Other financial assets

Other financial assets are recognised at cost.

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1.14 Investments

Term deposits in excess of three months are reported as short term deposits with deposits of less than three months being reported as cash equivalents.

1.15 Property, plant and equipment

Each class of property, plant and equipment is stated at cost or fair value less, where applicable, any accumulated depreciation and accumulated impairment loss. All items of plant and equipment have an asset capitalisation threshold of \$5,000 except for:

- Land and library books which have no threshold; and
- Computers, communications equipment and office furniture and fittings which have a capitalisation threshold of \$1,000.

'Network assets are an aggregate of interrelated assets that perform a specific service and which individually are likely to be below the capitalisation threshold levels but collectively are above the capitalisation threshold for their class. Networked assets include computers, communication equipment and components of infrastructure assets.

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

- Land and land improvements
- Buildings and other structures
- Plant and equipment
- Office furniture and fittings
- Transport assets
- Water, Sewerage and Soild waste disposal
- Drainage
- Other assets
- Work in progress

a) Acquisition of assets

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

Property, plant and equipment received in the form of contributions, is recognised as assets and revenues at fair value by Council valuation where that value exceeds the recognition thresholds for the respective asset class. Fair value is the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date.

b) Capital and operating expenditure

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

c) Valuation

Land and improvements, buildings and all infrastructure assets are measured on the revaluation basis, at fair value, in accordance with AASB 116 Property, Plant & Equipment and AASB 13 Fair Value Measurement. Other plant and equipment, office furniture and fittings, other assets and work in progress are measured at cost.

Non-current physical assets measured at fair value are revalued, where required, so that the carrying amount of each class of asset does not materially differ from its fair value at the reporting date. This is achieved by engaging independent, professionally qualified valuers to determine the fair value for each class of property, plant and equipment assets at least once every 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, management performs a desktop valuation on each asset class. A desktop valuation involves management assessing the condition and cost assumptions associated with each asset class and considering the movements in the Road and Bridge Construction Index and the Non-residential Building Construction Queensland Index as published by the Australian Bureau of Statistics. Together these are used to form the basis of the desktop valuation.

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

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

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

d) Capital work in progress

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

e) Depreciation

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

Assets are depreciated from the date they are placed in service.

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 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. The condition assessments and subsequent estimation of remaining useful lives performed as part of the comprehensive revaluation process for assets measured at depreciated current replacement cost are used to estimate the characteristic and remaining useful lives of these assets at each reporting date. Generally all above ground assets are individually inspected at a comprehensive revaluation and a statistically significant sample of below ground assets are inspected in accordance with industry standards. Details of the range of estimated characteristic useful lives for each class of asset are shown in Note 16.

At each comprehensive revaluation the characteristic life and remaining life for each asset is determined. In between revaluations a council resolution or specific significant events i.e. natural disasters result in individual asset inspections and the remaining life is changed accordingly. In all other cases the remaining life is decreased by one year between comprehensive revaluations which is consistent with the duty cycle and maintenance regime of the asset in question.

f) 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.

Douglas Shire Council
Notes to the financial statements
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1.16 Intangible assets

Expenditure on internally generated assets, up to the decision to generate the asset in a particular form, is research expenditure and is not capitalised. It is recognised as an expense in the period in which it is incurred.

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

Amortisation methods, estimated useful lives and residual values are reviewed at the end of each reporting period and adjusted where appropriate. Details of the estimated useful lives assigned to each class of intangible assets are shown in Note 18.

At the reporting date intangible assets consist of software only.

1.17 Impairment of non-current assets

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

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

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

1.18 Leases

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

Operating leases

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

1.19 Payables

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

1.20 Liabilities - employee benefits

Liabilities are recognised for employee benefits such as wages and salaries, annual leave and long service leave in relation to services provided by the employees up to the reporting date. Liabilities for employee benefits are assessed at each reporting date.

a) Salaries and wages

A liability for salaries and wages is recognised and measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date. This liability represents an accrued expense and is reported in Note 19 as a payable.

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b) Annual leave

A liability for annual leave is recognised and is calculated using current pay rates and projected future increases in those rates and includes related employee on-costs. This liability represents an accrued expense and is reported in Note 19 as a payable.

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

c) Sick leave

Council has an obligation to pay sick leave on termination to certain employees and therefore a liability has been recognised for this obligation. This liability represents an accrued expense and is reported in Note 19 as a payable.

d) Superannuation

The superannuation expense for the reporting period is the amount of the contribution Council makes to the superannuation plan which provides benefits to its employees. Details of those arrangements are set out in Note 25.

e) Long service leave

A liability for long service leave is measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. The value of the liability is calculated using current pay rates and projected future increases in those rates and includes related employee on-costs. The estimates are adjusted for the probability of the employee remaining in Council's employment or other associated employment which would result in Council being required to meet the liability. Adjustments are then made to allow for the proportion of the benefit earned to date, and the result is discounted to present value. The interest rates attaching to Commonwealth Government guaranteed securities at the reporting date are used to discount the estimated future cash outflows to their present value. This liability is reported in Note 21 as a provision.

f) RDO liability

A liability for rostered days off (RDO) is recognised, and measured as the amount unpaid at reporting date, at current pay rates in respect of employees' services up to that date.

1.21 Borrowings and borrowing costs

Borrowings are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost. All borrowing costs are expensed in the period in which they are incurred. No borrowing costs are capitalised on qualifying assets.

Borrowing costs, which include interest calculated using the effective interest rate method and administration fees, are expensed in the period in which they arise. Costs that are not settled in the period in which they arise are included in payables.

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

In accordance with the Local Government Regulation 2012 Council adopts an annual debt policy that sets out Council's planned borrowings for the next ten years.

1.22 Other provisions

a) Restoration provision

A provision is made for the cost of restoration of assets and other future restoration costs where it is probable Council will be liable, or required, to incur such a cost on the cessation of use of the facility. Further details can be found in Note 21.

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

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Restoration on land not controlled by Council

Where the restoration site is on State reserves which Council does not control, the cost of the provision for restoration of these sites has to be treated as an expense in the reporting period the provision is first recognised. Changes in the provision due to time, discount rate or expected future cost are treated as an expense or income in the reporting period in which they arise.

Restoration on land controlled by Council

Where the restoration site is on Council controlled land, the cost of the restoration provision is added to the cost of the land as an improvement and amortised over the expected useful life. Changes in the provision, not arising from the passing of time, are added to or deducted from the asset revaluation surplus for land. If there is no available revaluation surplus, increases in the provision are treated as an expense and recovered out of future decreases, if any.

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

1.23 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.

The asset revaluation surplus applicable to assets transferred was not transferred from Cairns Regional Council as this is not allowed under the Accounting Standards.

1.24 Rounding

Amounts included in the financial statements have been rounded to the nearest dollar.

1.25 Trust funds held for outside parties

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

The monies are disclosed in the notes to the financial statements for information purposes only in Note 26.

1.26 Taxation

Income of local authorities and public authorities is exempt from Commonwealth taxation. Council is subject to 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.

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

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 :

Corporate and Community

Corporate and Community is responsible for the provision of efficient, effective and accountable financial and administrative services to Council and the communities it serves. The core functions include Governance, Finance, Libraries, Information Services, Community and Economic Development.

Infrastructure

Infrastructure includes the provision of essential transport, drainage and parks infrastructure, maintenance, construction and operational services to Council's communities.

Development and Environment

Development and Environment includes Development Assessment, Environmental Assessment, Planning Strategies and Local Laws administration.

Water and Waste

Water and Waste is responsible for the treatment and provision of water, wastewater and solid waste services to consumers throughout the Council area.

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

2 Analysis of results by function

(b) Income and expenses defined between recurring and capital are attributed to the following functions:

Period ended 30 June 2014

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							
	2014	2014	2014	2014		2014	2014				
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		
Corporate and Community	145,640	6,601,292	12,000	339,632,547	346,391,479	(4,502,378)	(2,210,064)	(6,712,442)	2,244,554	339,679,036	51,257,446
Infrastructure	98,292	1,893,872	463,677	22,876	2,478,717	(10,698,186)	(8,406,153)	(19,104,339)	(8,706,022)	(16,625,622)	189,021,661
Development and Environment	1,000	380,872			381,872	(784,798)	-	(784,798)	(402,926)	(402,926)	-
Water and Waste		7,220,414	34,764	-	7,255,178	(5,557,134)	(3,133,389)	(8,690,523)	1,663,281	(1,435,345)	96,876,950
Total Council	244,932	16,096,450	510,441	339,655,423	356,507,246	(21,542,496)	(13,749,607)	(35,292,102)	(5,201,113)	321,215,144	337,156,057

*The Net result from recurrent operations includes de-amalgamation expenses of \$2,613,483 (refer Note 15(ii))

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

	<u>Note</u>	<u>2014</u> <u>\$</u>
3 Revenue analysis		
(a) Rates, levies and charges		
Rates		6,201,838
Water		2,678,521
Sewerage		2,753,125
Waste		1,729,155
Less: Pensioner remissions		(150,518)
Net rates and utility charges		<u>13,212,121</u>
(b) Fees and charges		
Building and property fees		196,774
Ferry		822,178
Other fees and charges		254,212
		<u>1,273,165</u>
(c) Rental income		
Rental income		302,543
		<u>302,543</u>
(d) Interest received		
Investments		207,216
Overdue rates and utility charges		165,723
		<u>372,939</u>
(e) Other recurrent revenue		
Reimbursements and cost recoveries		747,712
Sundry and other recurrent revenue		187,973
		<u>935,684</u>
Total revenue		<u>16,096,451</u>

4 Grants, subsidies, contributions and donations

(a) Recurrent - grants, subsidies, contributions and donations are analysed as follows:

General purpose grants	143,800
State government subsidies and grants	101,132
	<u>244,932</u>

(b) Capital – grants, subsidies, contributions and donations are analysed as follows:

(i) Monetary revenue designated for capital funding purposes:	
Government subsidies and grants	414,342
Contributions	36,664
	<u>451,006</u>
(ii) Non-monetary revenue received:	
Developer assets contributed by developers at fair value	59,435
	<u>510,441</u>

Conditions over contributions

Contributions recognised as income during the reporting period and which were obtained on the condition that they be expended in a manner specified by the contributor but had not been expended at the reporting date:

Non-reciprocal grants for expenditure on infrastructure	238,818
	<u>238,818</u>

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

	<u>Note</u>	<u>2014</u> <u>\$</u>
5 Capital income		
Gain on disposal of non-current assets		
Proceeds from the sale of property, plant and equipment		50,251
Less: Book value of property, plant and equipment disposed of		(27,375)
Total capital income		<u>22,876</u>

6 Employee benefits		
Total staff wages and salaries		4,106,861
Councillors' remuneration		102,878
Annual, sick and long service leave entitlements		889,890
Superannuation	25	485,249
		<u>5,584,878</u>
Other employee related expenses		6,969
		<u>5,591,848</u>
Less: Capitalised employee expenses		(17,212)
		<u>5,574,636</u>

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

Total Council employees at the reporting date:

	No. employees
Elected members	5
Administration staff	66
Depot and outdoors staff	78
Total full time equivalent employees	<u>149</u>

7 Materials and services		
Advertising and marketing		35,841
Audit services		44,545
Accounting services		20,000
Consultancy		457,858
Contractors		2,110,948
Communications and IT		149,869
Donations		306,695
Electricity		404,985
Insurances		262,554
Legal		152,446
Motor vehicles		236,211
Other materials and services		747,440
Postage		19,411
Repairs and maintenance		2,834,211
Subscriptions and registration fees		31,084
Travel expenses		9,596
De-amalgamation costs		2,613,483
		<u>10,437,177</u>

8 Finance costs		
Bank charges		13,866
Finance costs charged by the Queensland Treasury Corporation		73,503
		<u>87,369</u>

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

	<u>Note</u>	<u>2014</u> <u>\$</u>
9 Depreciation and amortisation		
Depreciation of non-current assets		
Land improvements		78,261
Buildings		758,260
Major plant		354,167
Office furniture and fitting		7,676
Transport assets		1,733,903
Water, sewerage and solid waste disposal		2,149,076
Drainage		201,571
Other assets		21,253
	16	<u>5,304,167</u>
Amortisation of intangible assets		
Software	18	139,147
Total depreciation and amortisation		<u><u>5,443,314</u></u>

10 Capital expenses

Revaluation decrement

Revaluation down of property, plant and equipment	16	5,343,454
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Loss on write-off

Loss on write-off of assets damaged by natural disaster	16	8,406,153
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Total capital expenses		<u><u>13,749,606</u></u>
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The loss on write-off of assets classified as transport assets relates to damage caused by two natural disasters in early 2014 (a monsoonal event and Cyclone Ita). The damage is mainly to roads and restoration work will include rock protection, road reconstruction, resheeting and surface re-instatement and will be undertaken with funding assistance from the Natural Disaster Relief and Recovery Arrangements (NDRRA).

11 Cash and cash equivalents

Cash at bank and on hand	562,186
Deposits at call	15,500,000
Balance per Statement of Cash Flows	<u><u>16,062,186</u></u>

Councils cash and cash equivalents are subject to a number of internal and external restrictions that limit amounts available for discretionary or future use. These include:

Externally imposed expenditure restrictions at the reporting date relate to the following cash assets:

Unspent government grants and subsidies	238,818
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Internally imposed expenditure restrictions at the reporting date:

Future capital works	3,002,704
Future constrained works	6,160,551
Future recurrent expenditure	41,945
Total unspent restricted cash	<u><u>9,444,018</u></u>

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

	<u>Note</u>	<u>2014</u> <u>\$</u>
12 Short term deposits		
Current fixed short term investments		
Unrestricted		2,000,000
		<u>2,000,000</u>

All cash investments are in Australian dollars. Investments are held with Bendigo and Adelaide Bank Ltd and are considered to be low risk investments

13 Trade and other receivables

Current

Rateable revenue and utility charges	3,888,466
Other debtors	1,649,707
Less impairment	(161,431)
Lease receivables	75,950
Accrued interest on investments	91,630
Grants receivable	91,520
Other accrued revenue	1,164,620
GST recoverable	127,383
	<u>6,927,845</u>

Interest is charged on outstanding rates at a rate of 11% per annum. No interest is charged on other debtors.

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

Opening balance at 1 January 2014	161,431
Closing Balance at 30 June	<u>161,431</u>

14 Inventories

Stores	65,255
Total inventories	<u>65,255</u>

15 (i) Gain on restructure of local government

As a result of the Local Government (De-amalgamation Implementation) Regulation 2013 (LGDIR) the Douglas Shire Council was re-established on 1 January 2014, based on the boundaries as they existed immediately prior to the 2008 amalgamations. The de-amalgamation was conducted in accordance with the LGDIR and De-amalgamation Transfer Methodology. A Transfer Committee, comprising the Transfer Manager and Cairns Regional Council's Chief Executive Officer, was responsible for making decisions on matters such as the transfer of assets and liabilities to Douglas Shire Council, establishment of joint agreements to ensure continuity of business and deciding on de-amalgamation costs. From 1 January 2014 until final agreement on the transfer of assets and liabilities Douglas Shire Council's Chief Executive Officer and Cairns Regional Council's Chief Executive Officer comprised the membership of the Transfer Committee.

The assets and liabilities of Douglas Shire Council have been recognised at the amounts at which they were recognised by the Transfer Committee as at the changeover day. Douglas Shire Council adopted consistent accounting policies from its commencement date of 1 January 2014. In some cases, this resulted in adjustments to the measurement of assets and liabilities transferred from Cairns Regional Council as at 1 January 2014.

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

	<u>Note</u>	<u>2014</u> <u>\$</u>	
Details are as follows:			
	Original	Adjustments	Final
	\$	\$	\$
ASSETS			
Cash and Cash Equivalents	19,731,222	-	19,731,222
Receivables	4,738,589	(143,139)	4,595,450
Inventories	59,484	-	59,484
Property Plant & Equipment	331,307,521	(3,151,929)	328,155,592
Intangible assets	377,962	(50,123)	327,839
Total assets	<u>356,214,778</u>	<u>(3,345,191)</u>	<u>352,869,587</u>
LIABILITIES			
Trade and other payables	1,810,378	-	1,810,378
Provisions	11,911,834	(2,859,616)	9,052,218
Borrowings	2,282,493	-	2,282,493
Other	91,951	-	91,951
Total liabilities	<u>16,096,656</u>	<u>(2,859,616)</u>	<u>13,237,040</u>
Net community assets	<u>340,118,122</u>	<u>(485,575)</u>	<u>339,632,547</u>

The adjustments reflected above are as follows:

a) Receivables

A fair value adjustment of \$143,139 was made to Receivables for amounts deemed to not be recoverable. This includes an amount of \$136,805 for NDRRA funding.

b) Property Plant and Equipment

A fair value adjustment of \$5,117,272 was processed to Property, Plant and Equipment to adjust the transferred assets to fair value as at 31 December 2013. This included a reclassification from intangible assets to physical property, plant and equipment totalling \$8,447 at 31 December 2013.

Council also undertook a review of the assets transferred from Cairns Regional Council at 31 December 2013 and identified several items that required subsequent write down from their carrying value as the future use of those assets is uncertain within the new Council. This resulted in a valuation decrement of \$8,269,201.

c) Intangible assets

Intangible assets were adjusted for fair value to 31 December 2013, resulting in a net reduction of \$50,123. This included a reclassification from intangible assets to physical property, plant and equipment totalling \$8,447 at 31 December 2013.

d) Provisions

A fair value adjustment of \$2,859,616 was made to Provisions to reflect a decrease in the value for the landfill restoration provision as at 31 December 2013. The decrease is due to a recalculation of the estimated costs and forecasted years to present values for both of Council's landfill sites.

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

<u>Note</u>	<u>2014</u> <u>\$</u>
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(ii) De-amalgamation costs

The expenses incurred as a result of the De-amalgamation are as follows:

Governance, planning and implementation	894,637
Accounting and financial due diligence	481,668
Information technology transition costs	257,179
Establishment and other costs	123,646
Salaries and Redundancy payments	856,353
	<u>2,613,483</u>

(iii) De-amalgamation capital expenses

The capital expenses incurred as a result of the De-amalgamation are as follows:

Plant and equipment	495,869
Intangibles	971,143
	<u>1,467,012</u>

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

16 Property, plant and equipment

30 June 2014

Note

Basis of measurement
Asset values

	Land and land improvements	Buildings and other structures	Plant and equipment	Office furniture and fittings	Transport assets	Water, Sewerage and Solid waste Disposal	Drainage	Other assets	Work in Progress	Total
	Fair Value	Fair Value	Cost	Cost	Fair Value	Fair Value	Fair Value	Cost	Cost	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Opening gross value as at 1 January 2014	-	-	-	-	-	-	-	-	-	-
Transfer on de-amalgamation from Cairns Regional Council	21,767,195	19,074,499	3,539,373	50,969	139,945,332	100,088,681	31,684,994	158,659	11,845,889	328,155,592
Additions	-	-	470,963	-	112,397	24,907	-	-	1,198,791	1,807,057
Disposals	-	-	(27,375)	-	-	-	-	-	-	(27,375)
Revaluation adjustment to expense (capital expense)	-	-	-	-	-	5,876,456	1,959,911	-	-	7,836,367
Write-off assets damaged by natural disaster	-	-	-	-	(8,472,861)	-	-	-	-	(8,472,861)
Transfers between classes	-	-	(328,959)	-	-	328,959	-	-	-	-
Transfer to intangible assets	-	-	-	-	-	-	-	-	(4,934)	(4,934)
Contributed assets	-	-	-	-	-	-	59,434	-	-	59,434
Internal transfers from work in progress	25,777	1,614,125	862,600	-	7,322,106	579,896	61,643	26,133	(10,492,280)	-
Closing gross value as at 30 June 2014	21,792,972	20,688,624	4,516,602	50,969	138,906,974	106,898,899	33,765,982	184,792	2,547,466	329,353,280

Accumulated depreciation and impairment

Opening balance as at 1 January 2014

Depreciation provided in period

Depreciation on disposals

Revaluation adjustment to expense (capital expense)

Write-off assets damaged by natural disaster

Transfers between classes

Accumulated depreciation as at 30 June 2014

Opening balance as at 1 January 2014	-	-	-	-	-	-	-	-	-	-
Depreciation provided in period	78,261	758,260	354,167	7,676	1,733,903	2,149,076	201,571	21,253	-	5,304,167
Depreciation on disposals	-	-	-	-	-	-	-	-	-	-
Revaluation adjustment to expense (capital expense)	-	-	-	-	-	9,009,843	4,169,977	-	-	13,179,820
Write-off assets damaged by natural disaster	-	-	-	-	(66,708)	-	-	-	-	(66,708)
Transfers between classes	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation as at 30 June 2014	78,261	758,260	354,167	7,676	1,667,195	11,158,919	4,371,548	21,253	-	18,417,279

Total written down value as at 30 June 2014

Residual value

Range of estimated useful life in years

Total written down value as at 30 June 2014	21,714,711	19,930,364	4,162,435	43,293	137,239,780	95,739,980	29,394,434	163,539	2,547,466	310,936,001
Residual value	20,068,400	-	237,201	-	1,179,579	-	-	-	-	-
Range of estimated useful life in years	3 - 100	5 - 60	3 - 10	5 - 10	10 - 100	9 - 100	40 - 80	7	-	-

Additions comprise:

	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Renewals	-	-	470,962	-	112,397	24,907	-	-	879,694	1,487,960
Other additions	-	-	-	-	-	-	-	-	319,097	319,097
Total additions	-	-	470,962	-	112,397	24,907	-	-	1,198,791	1,807,057

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

17 Fair Value Measurements

(i) Recognised fair value measurements

Council measures and recognises the following assets at fair value on a recurring basis:

- Property, plant and equipment
 - Land and land improvements
 - Buildings and other structures
 - Transport assets
 - Water, Sewerage and Solid waste disposal
 - Drainage

Council does not measure any liabilities at fair value on a recurring basis.

Council has assets and liabilities which are not measured at fair value, but for which fair values are disclosed in other notes.

Council borrowings are measured at amortised cost with interest recognised in profit or loss when incurred. The fair value of borrowings disclosed in note 20 is provided by the Queensland Treasury Corporation and represents the contractual undiscounted cash flows at balance date (level 2).

The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature (Level 2).

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)

The following table categorises fair value measurements as either level 2 or level 3 in accordance with AASB 13. Council does not have any assets or liabilities measured at fair value which meet the criteria for categorisation as level 1.

The fair values of the assets are determined using valuation techniques which maximise the use of observable data, where it is available, and minimise the use of entity specific estimates. If all significant inputs required to fair value an asset are observable, the asset is included in level 2. If one or more of the significant inputs is not based on observable market data, the asset is included in level 3. This is the case for Council infrastructure assets, which are of a specialist nature for which there is no active market for similar or identical assets. These assets are valued using a combination of observable and unobservable inputs.

The table presents Council's assets and liabilities measured and recognised at fair value at 30 June 2014.

At 30 June 2014	Note	Level 2	Level 3	Total
		(Significant other observable inputs)	(Significant unobservable inputs)	
		\$	\$	\$
Recurring fair value measurements				
Land	16	20,068,400		20,068,400
Land improvements	16		1,646,310	1,646,310
Residential buildings	16	35,893		35,893
Other buildings and other structures	16		19,894,471	19,894,471
Transport assets	16		137,239,780	137,239,780
Water, Sewerage and Solid waste disposal	16		95,739,980	95,739,980
Drainage	16		29,394,434	29,394,434
		20,104,293	283,914,975	304,019,268

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

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

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

Specific valuation techniques used to value Council assets comprise:

Land and land improvements (level 2 and 3)

Current replacement cost

Land fair values were determined by independent valuer, Knight Frank effective 30 June 2013. Fair value was derived by reference to market based evidence including observable historical sales data for properties of similar nature and specification within the Douglas region.

For the reporting period land improvements have been categorised as level 3 as it is considered that one or more significant inputs required to determine fair value for this class of assets is not based on observable market data.

A review was undertaken as at 30 June 2014 based on the Non-Residential Building Construction Index. This index increased by 0.90% since 30 June 2013. As the movement was not material, no revaluation adjustments have been provided for as at 30 June 2014.

Buildings and other structures (level 2 and 3)

Current replacement cost

The fair value of buildings was also determined by independent valuer, Knight Frank effective 30 June 2013. Where there is a market for Council building assets, fair value has been derived from the sales prices of comparable properties after adjusting for differences in key attributes such as property size. The most significant inputs into this valuation approach were price per square metre.

For the reporting period Council has only one residential building that is considered to have all of the observable attributes required to determine fair value and therefore all other buildings and structures have been categorised as level 3.

A review was undertaken as at 30 June 2014, based on the Non-Residential Building Construction Index. The index increased by 0.90% since 30 June 2013. As the movement was not material, no revaluation adjustments have been provided for as at 30 June 2014.

Accumulated depreciation

In determining the level of accumulated depreciation, estimates of expired service potential and remaining useful lives were determined on a straight line basis based on industry standard practices and past experience, supported by maintenance programs.

Estimated useful lives and residual values are disclosed in note 16.

Transport assets (level 3)

Current replacement cost

All Council road and bridge networks were fair valued using the depreciated current replacement cost methodology. This valuation comprises the asset's current replacement cost 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.

Current replacement cost 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 Council's planning horizon.

An internal comprehensive review of road assets was undertaken as at 30 June 2011 and an internal comprehensive review of bridge network assets was undertaken as at 30 June 2012. Both reviews were based on a stocktake and condition assessment. The stocktake was undertaken by Puredata Pty Ltd to provide an independently assessed condition of Council's roadway assets. In subsequent years a desktop review of the values for these assets was undertaken.

A review was undertaken as at 30 June 2014, based on the Road and Bridge Construction Queensland Index. The index increased by 0.85% since 30 June 2013. As the movement was not material, no revaluation adjustments have been provided for as at 30 June 2014.

Accumulated depreciation

In determining the level of accumulated depreciation, road and bridge assets were disaggregated into significant components which exhibited different useful lives.

Estimates of expired service potential and remaining useful lives were determined on a straight line basis based on industry standard practices and past experience, supported by maintenance programs.

Estimated useful lives and residual values are disclosed in note 16.

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

Sensitivity of valuation to unobservable inputs

Council's road and bridge network has been valued using depreciated 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 years of experience, different judgements could result in a different valuation. The table below summarises the effect that changes in the most significant unobservable inputs would have on the valuation.

Significant unobservable input	Range of inputs	Relationship of unobservable inputs to fair value
Number of labour hours	5-100hrs/linear metre or sqm	The higher the labour hours, the higher the fair value.
Standard material and plant usage quantities	Varies depending upon the type of material	The higher the usage quantities, the higher the fair value.
Condition rating (useful life)	4-5 (lowest) to 1-2 (highest)	The higher the condition rating, the higher the fair value.
Remaining useful life	10-100 years	The longer the remaining useful life, the higher the fair value.
Residual value (road pavement)	0% to 100%	The higher the residual value the higher the fair value.

Water

Current replacement cost

Water pump stations and treatment plants, water reservoirs and water intake structures were comprehensively reviewed by Cardno (QLD) Pty Ltd as at 30 June 2013. Water mains pipe networks (including manholes, meter, valves and hydrants) were comprehensively reviewed by Cardno (QLD) Pty Ltd as at 30 June 2012. In the following year a desktop review of the values for these assets was undertaken. The fair value of water assets is measured using the depreciated replacement cost method.

A review was undertaken as at 30 June 2014 based on the Road and Bridge Construction Queensland Index. This index increased by 0.85% since 30 June 2013. As the movement was not material, no revaluation adjustments have been provided for as at 30 June 2014.

Accumulated depreciation

In determining the level of accumulated depreciation, water assets were disaggregated into significant components which exhibited different useful lives.

Estimates of expired service potential and remaining useful lives were determined on a straight line basis based on industry standard practices and past experience, supported by maintenance programs.

Estimated useful lives and residual values are disclosed in note 16.

Sensitivity of valuation to unobservable inputs

The method used to value Council's water assets 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 years of experience, different judgements could result in a different valuation. The table below summarises the effect that changes in the most significant unobservable inputs would have on the valuation:

Significant unobservable input	Range of inputs	Relationship of unobservable inputs to fair value
Number of labour hours	5-100hrs/linear metre or sqm	The higher the labour hours, the higher the fair value.
Standard material and plant usage quantities	Varies depending upon the type of material	The higher the usage quantities, the higher the fair value.
Condition rating (useful life)	4-5 (lowest) to 1-2 (highest)	The higher the condition rating, the higher the fair value.
Remaining useful life	9-100 years	The longer the remaining useful life, the higher the fair value.
Residual value (sewer pipes)	0% to 50%	The higher the residual value the higher the fair value.

Sewerage and Other Infrastructure

Current replacement cost

Sewerage treatment plant fair values were determined by independent valuers, Cardno (Qld) Pty Ltd, effective 30 June 2014. Current replacement cost for these assets 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.

As there is a significant level of professional judgement used in determining the valuation due to the level of unobservable data, the valuation of sewerage assets has been determined as Level 3.

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The valuation process involved the collection and review of asset information, condition based assessment and scoring, review and update of unit rates, application of adjustment factors as well as the review of asset useful and remaining useful lives.

A site inspection was conducted by Cardno on all assets. The purpose of the inspection was to:

- Confirm the existence and extent of the assets as indicated by records;
- Confirm details and measurements;
- Obtain further information on the assets; and
- Determine current condition

Cardno's unit rates were derived from the following sources:

- Cardno's database
- Scheduled rates for construction of assets or similar assets
- Cost models derived by Cardno
- Building Price Index tables
- Recent contract and tender data
- Rawlinson's rates for building and construction

Valuation unit rates (replacement costs) were increased by 20% to allow for Council project overheads including survey, environmental and investigation (6%), engineering design (5%), engineering supervision (3%) and project management (6%)

Accumulated depreciation

The depreciation method used should reflect the predicted pattern of consumption of the asset's future economic benefits. For Council, the "straight line" methodology incorporating condition data (where appropriate) best reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

In determining the level of accumulated depreciation, sewerage treatment plant assets were disaggregated into significant components which exhibited different useful lives. Useful lives are as follows:

Asset Category	Useful Life
Civil	80
Civil - Steel	50
Mechanical	20
Earthworks	100
Electrical	15
Pipework	80
Valves	30
Buildings	60
Buildings - metal	30
Roads	20
Sheds	20
Telemetry	10
Signage, Landscaping & Fencing	20
Odour	20
Metalworks	40
Tanks	30
Scada and Controls	10
Bores	60
Generators	20

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, the assets were allocated a condition assessment, which was used to estimate remaining useful life. Condition scoring explanations and effect on the remaining useful life are as follows:

Condition Rating	Condition Name	Description	Remaining Useful Life %
1	Excellent	Asset is in 'as new' condition	95%
2	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%
3	Fair	Asset is reliable and operates as intended but early stages of deterioration are evident.	50%
4	Poor	Asset still operates but does not meet intended duty or does not appear sound.	25%
5	Unserviceable	Asset not functioning/needs immediate attention.	5%

Douglas Shire Council
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Where site inspections were not conducted (i.e. assets not comprehensively valued in 2014), the remaining useful life was calculated on an age basis. This assessment was made on the basis that maintenance schedules for the assets were adhered to and defect notifications were inspected and actioned in a timely manner throughout the period.

The 2014 comprehensive revaluation of wastewater treatment plants resulted in an increase in accumulated depreciation. This movement is mostly attributable to a reassessment of remaining useful lives.

Estimated useful lives and residual values are disclosed in note 16.

Other sewerage assets

Sewerage pump stations were comprehensively reviewed by Cardno (QLD) Pty Ltd as at 30 June 2011. Sewerage mains pipe networks were comprehensively reviewed by Cardno (QLD) Pty Ltd as at 30 June 2012. Telemetry assets were comprehensively reviewed by Cardno (QLD) Pty Ltd as at 30 June 2010. In subsequent years a desktop review of the values for these assets was undertaken.

A review was undertaken as at 30 June 2014 based on the Road and Bridge Construction Queensland Index. This index increased by 0.85% since 30 June 2013. As the movement was not material, no revaluation adjustments have been provided for as at 30 June 2014.

Solid waste disposal

Current replacement cost

Solid waste disposal fair values were determined by independent valuers, Cardno (Qld) Pty Ltd effective 30 June 2014. 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.

As there is a significant level of professional judgement used in determining the valuation due to the level of unobservable data, the valuation of solid waste assets has been determined as Level 3.

The valuation process involved the collection and review of asset information, condition based assessment and scoring, review and update of unit rates as well as the review of asset useful and remaining useful lives.

A site inspection was conducted by Cardno on all assets. The purpose of the inspection was to:

- Confirm the existence and extent of the assets as indicated by records;
- Confirm details and measurements;
- Obtain further information on the assets; and
- Determine current condition

Cardno's unit rates were derived from the following sources:

- Cardno's database
- Scheduled rates for construction of assets or similar assets
- Cost models derived by Cardno
- Building Price Index tables
- Recent contract and tender data
- Rawlinson's rates for building and construction

Valuation unit rates (replacement costs) were increased by 20% to allow for Council project overheads including survey, environmental and investigation (6%), engineering design (5%), engineering supervision (3%) and project management (6%)

Accumulated depreciation

In determining the level of accumulated depreciation, solid waste disposal assets were disaggregated into significant components which exhibited different useful lives. Useful lives are as follows:

Asset Category	Useful Life
Building	60
Civil	60
Earthworks	150
Electrical	15
Mechanical	20
Metalwork	40
Pipework	60
Roads & Drainage	20
Shed	25
Signage, Fencing and Landscaping	20
Tanks	15
Telemetry	10

In determining accumulated depreciation, assets were either subject to a site inspection or an assessment to determine remaining useful life.

Douglas Shire Council
Notes to the financial statements
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Where site inspections were conducted, the assets were allocated a condition assessment, which was used to estimate remaining useful life. Condition scoring explanations and effect on the remaining useful life are as follows:

Condition Rating	Condition Name	Description	Remaining Useful Life %
1	Excellent	Asset is in 'as new' condition	95%
2	Good	Asset is reliable, asset operates as intended and its appearance and structural integrity is up to the	75%
3	Fair	Asset is reliable and operates as intended but early stages of deterioration are evident.	50%
4	Poor	Asset still operates but does not meet intended duty or does not appear sound.	25%
5	Unserviceable	Asset not functioning/needs immediate attention.	5%

The 2014 comprehensive revaluation of solid waste disposal assets resulted in an increase in accumulated depreciation. This movement is mostly attributable to a reassessment of remaining useful lives.

Estimated useful lives and residual values are disclosed in note 16.

Drainage infrastructure

Current replacement cost

Drainage infrastructure fair values were determined by independent valuers, Cardno (Qld) Pty Ltd effective 30 June 2014. Current replacement costs 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.

As there is a significant level of professional judgement used in determining the valuation due to the level of unobservable data, the valuation of drainage assets has been determined as Level 3.

The valuation process involved the collection and review of asset information, condition based assessment and scoring, review and update of unit rates, application of adjustment factors as well as the review of asset useful and remaining useful lives.

A site inspection was conducted by Cardno on a statistically representative sample of the asset class based on diameter, location and age. Visual inspections were undertaken on the structures and inspections via CCTV were undertaken on a sample of pipes.

The purpose of the inspection was to:

- Confirm the existence and extent of the assets as indicated by records;
- Confirm details and measurements;
- Obtain further information on the assets; and
- Determine current condition

Cardno's unit rates were derived from the following sources:

- Cardno's database
- Scheduled rates for construction of assets or similar assets
- Cost models derived by Cardno
- Building Price Index tables
- Recent contract and tender data
- Rawlinson's rates for building and construction

Construction costs for passive assets vary significantly depending on the level of surrounding development and the local ground conditions. It is far easier to construct a pipeline in open country rather than in an urban environment which requires much greater service location, restoration works and traffic control. Similarly, construction in rock is much slower, and therefore more expensive than in good soil. The list of factors taken into consideration is as follows:

Development factors

Rural - Construction within areas categorised as rural have less restoration costs as there is generally an absence of permanent infrastructure (e.g. driveways, roads) which would need restoration at the end of the project. In addition, there would be few services to relocate and very limited traffic control would be required.

Urban - Areas zoned residential are generally contained within this category. Construction within this area would require some reinstatement of road pavement and driveways. The rate of construction would be slower due to the need to locate and/or relocate some services etc. Traffic control would also be required.

CBD - This category is used for the central business district of a town. This area would have large amounts of footpaths, road pavement and associated infrastructure as well as congested services. Construction would involve disruption to traffic.

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

Soil factors

Sand - Areas where soil is sandy and difficult to excavate and would require shoring.
 Good Soil - Areas where the soil is generally free of rock and presents no great difficulty for excavation.
 Poor Soil - Areas where the water table is relatively high and dewatering is required.

Valuation unit rates (replacement costs) were increased by 20% to allow for Council project overheads including survey, environmental and investigation (6%), engineering design (5%), engineering supervision (3%) and project management (6%)

Accumulated depreciation

The depreciation method used should reflect the predicted pattern of consumption of the asset's future economic benefits. For Council, the "straight line" methodology incorporating condition data (where appropriate) best reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Residual values are used to reflect the value of excavation works associated with the development of unlined open drains.

In determining the level of accumulated depreciation, drainage assets were disaggregated into significant components which exhibited different useful lives. Assets were either subject to a site inspection or an assessment to determine remaining useful life. Where site inspections were conducted, the assets were allocated a condition assessment, which was used to estimate remaining useful life as tabled below

Condition scoring explanations and effect on the remaining useful lives are as follows:

Score	Description	Remaining Useful Life %
1 - 2	As New to Good	100% - 85%
2 - 3	Good to Fair	85% - 65%
3 - 4	Fair to Poor	65% - 40%
4 - 5	Poor to Very Poor	40% - 5%

The remaining useful life of assets was calculated as follows:

- Condition based - This was applied to the inspected assets as per the condition scoring table above.
- Condition based (extrapolated) - This was applied to the majority of the non-inspected assets, as per the remaining useful life calculation method table below.
- Age based - This was applied to the assets that were not inspected.

Remaining useful life Calculation Method:

Asset Class	Inspected	Useful Life (years)	Age (years)	Adopted
Concrete Pipes and culverts	Yes			Inspection score
Concrete Pipes and culverts	No	100	<=25	Condition 1
Concrete Pipes and culverts	No	100	>20, <=50	Condition 2
Concrete Pipes and culverts	No	100	>100	Condition 3
Concrete Pipes and culverts	No	100	>50	Age based
Steel culverts	No	40		Age based
Steel pipes	No	40		Condition 2
All other pipes	No			Age based
Open drains	Yes			Inspection score
Open drains	No			Condition 2

The 2014 comprehensive revaluation of solid waste disposal assets resulted in an increase in accumulated depreciation. This movement is mostly attributable to a reassessment of remaining useful lives.

Estimated useful lives and residual values are disclosed in note 16.

(iii) Valuation processes

Council's valuation policies and procedures are reviewed annually taking into consideration an analysis of movements in fair value and other relevant information. Council's current policy for the valuation of property, plant and equipment is outlined in Note 1.15.

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

	<u>2014</u> \$
18 Intangible assets	
Software	
Opening gross carrying value	-
Transfer on de-amalgamation from Cairns Regional Council	327,839
Transfer from work in progress	4,934
Additions	971,144
Closing gross carrying value	<u>1,303,917</u>
Accumulated amortisation	
Opening balance	-
Amortisation in the period	139,147
Closing balance	<u>139,147</u>
Net carrying value at end of financial year	<u>1,164,770</u>
Software has a finite life estimated at 5 years. Straight line amortisation has been used with no residual value.	
Total intangible assets	<u><u>1,164,770</u></u>

19 Trade and other payables

Current

Creditors and accruals	3,053,968
Annual leave	1,500,059
Sick leave	202,319
Other entitlements	28,213
	<u>4,784,560</u>

20 Borrowings

Current

Loans - Queensland Treasury Corporation	112,375
	<u>112,375</u>

Non-current

Loans - Queensland Treasury Corporation	2,118,413
	<u>2,118,413</u>

Loans - Queensland Treasury Corporation

Opening balance	-
Transfer in from Cairns Regional Council	2,282,493
Loans raised	-
Principal repayments	(51,706)
Book value at end of financial year	<u>2,230,787</u>

The QTC loan market value at the reporting date was \$2,616,582. This represents the value of the debt if Council repaid it at that date. As it is the intention of Council to hold the debt for its term, no provision is required to be made in these accounts.

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

All borrowings are in \$A denominated amounts and carried at amortised cost, interest being expensed as it accrues. No interest has been capitalised during the current reporting period. Expected final repayment dates vary from 30 September 2026 to 31 March 2028. There have been no defaults or breaches of the loan agreement during the period.

Principal and interest repayments are made monthly in arrears.

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

	2014 \$
21 Provisions	
Current	
Landfill restoration	540,000
Long service leave	1,306,708
	1,846,708
Non-current	
Landfill restoration	6,838,064
Long service leave	240,793
	7,078,857
Details of movements in provisions:	
Property restoration: Landfill sites	
Transfer from Cairns Regional Council	7,378,064
Balance at end of financial year	7,378,064
Council has two landfill sites located at Newell Beach and Killaloe. The provision is stated at the present value of the estimated cost of restoring the landfill site to a standard required under licensing conditions.	
Long service leave	
Transfer from Cairns Regional Council	1,674,154
Long service leave entitlement arising	166,802
Long Service entitlement paid	(293,455)
Balance at end of financial year	1,547,501
22 Retained surplus/(deficiency)	
Movements in the retained surplus were as follows:	
Retained surplus at beginning of period	-
Net result attributable to Council	321,215,145
Retained surplus at end of financial year	321,215,145
23 Commitments for expenditure	
Contractual commitments	
Contractual commitments at the reporting date but not recognised in the financial statements are as follows:	
Operating expenditure	
Not later than 1 year	4,314,168
Later than 1 year but not later than 5 years	7,142,580
Later than 5 years	5,541,593
	16,998,341
Capital expenditure	
Not later than 1 year	1,463,725
Later than 1 year but not later than 5 years	-
Later than 5 years	-
	1,463,725

Douglas Shire Council
Notes to the financial statements
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24 Contingent liabilities

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

Local Government Mutual

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 being 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 to the total pool contributions in respect to any year that a deficit arises.

As at 30 June 2013 the financial statements reported an accumulated surplus and it is not anticipated any liability will arise.

Local Government Workcare

Council is a member of the Queensland local government worker's compensation self-insurance scheme, Local Government Workcare. Under this scheme 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. Council has received advice that as a newly de-amalgamated Council it will not have an indemnity liability towards the LGW bank guarantee until the establishment of the 2014/15 guarantee.

25 Superannuation

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

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

The scheme has three elements referred to as:

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

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

The Accumulation Benefits Fund (ABF)

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

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. 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 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.

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 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 2012. The actuary indicated that "the Regional DBF is currently in a satisfactory but modest financial position and remains vulnerable to adverse short and medium term experience."

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

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

There are currently 72 entities contributing to the Regional DBF plan and any changes in contribution rates would apply equally to all 72 entities. Douglas Shire Council made less than 4% of the total contributions to the plan in the 2013-14 financial year.

The next actuarial investigation will be conducted as at 1 July 2015.

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

	<u>Note</u>	<u>2014</u>
		<u>\$</u>
The amount of superannuation contributions paid by Council to the scheme in this period for the benefit of employees was:	6	485,249

26 Trust funds

Trust funds held for outside parties

Monies collected or held on behalf of other entities yet to be paid out to or on behalf of those entities	529,719
	<u>529,719</u>

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

After the reporting date a further \$21,513 of trust funds was transferred to Council from Cairns Regional Council.

27 Reconciliation of net result for the period to net cash inflow (outflow) from operating activities

Net result	321,215,145
Non-cash items:	
Depreciation and amortisation	5,443,314
Revaluation adjustments	5,343,454
Loss on asset write-off	8,406,153
Gain on de-amalgamation	(339,632,547)
	<u>(320,439,627)</u>
Investing and development activities:	
Net (profit) on disposal of non-current assets	(22,876)
Capital grants and contributions	(510,441)
	<u>(533,317)</u>
Changes in operating assets and liabilities:	
(Increase)/ decrease in receivables	(2,332,395)
(Increase)/decrease in inventory	(5,771)
Increase/(decrease) in payables	2,974,182
Increase/(decrease) in liabilities	(91,951)
	<u>417,411</u>
Net cash inflow from operating activities	<u>659,612</u>

28 Events after the reporting period

There were no material adjusting events after the balance date

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

29 Financial instruments

Council has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

This note provides information (both qualitative and quantitative) to assist statement users evaluate the significance of financial instruments on Council's financial position and financial performance, including the nature and extent of risks and how Council manages these exposures.

Financial risk management

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

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

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. Council aims to manage volatility to minimise potential adverse effects on its financial performance.

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 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	2014
Financial assets		\$
Cash and cash equivalents	11	16,062,186
Receivables - rates	13	3,888,466
Receivables - other	13	3,039,379
Other financial assets	12	2,000,000
Total financial assets		<u>24,990,031</u>

Cash and cash equivalents

Council may be exposed to credit risk through its investments held with financial institutions. All cash and cash equivalents are held in financial institutions which are rated AAA to AA- based on rating agency ratings, and whilst not capital guaranteed, the likelihood of a credit failure is assessed as remote.

Other financial assets

Other investments are term deposits held with Bendigo Bank, which are rated A-- and whilst not capital guaranteed, the likelihood of a credit failure is assessed as remote.

Trade and other receivables

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

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

In other cases, 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 area. Also as the area is largely agricultural or is concerned with tourism activities, there is also a concentration in these sectors.

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

	2014
	\$
Not past due	2,859,352
Past due 31-60 days	22,598
Past due 61-90 days	27,140
More than 90 days	4,180,186
Impaired	(161,431)
Total	<u><u>6,927,845</u></u>

Liquidity risk

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

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 and undrawn facilities to cater for unexpected volatility in cash flows. These facilities are disclosed in note 20. The following line of credit was available at the end of the reporting period:

	2014
	\$
Overdraft - QTC working capital facility	4,000,000
Available at 30 June	4,000,000

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
	\$	\$	\$	\$	\$
2014					
Trade and other payables	3,053,968	-	-	3,053,968	3,053,968
Loans - QTC	254,944	1,019,777	2,068,776	3,343,497	2,373,357
	<u><u>3,308,912</u></u>	<u><u>1,019,777</u></u>	<u><u>2,068,776</u></u>	<u><u>6,397,465</u></u>	<u><u>5,427,325</u></u>

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

Market risk

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

Douglas Shire Council
Notes to the financial statements
For the period 1 January 2014 to 30 June 2014

Interest rate risk

Council is exposed to interest rate risk through borrowings with QTC and investments with other 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
	\$	\$	\$	\$	\$
2014					
Deposits at call	15,500,000	155,000	(155,000)	155,000	(155,000)
Short term deposits	2,000,000	20,000	(20,000)	20,000	(20,000)
Loans - QTC*	(2,230,787)	(22,308)	22,308	(22,308)	22,308
Net total	15,269,213	152,692	(152,692)	152,692	(152,692)

In relation to the QTC loans held by the Council, the following has been applied:

*QTC Generic Debt Pool - the generic debt pool products approximate a fixed rate loan. There is a negligible impact on interest sensitivity from changes in interest rates for generic debt pool borrowings.

Douglas Shire Council
Financial statements
For the period 1 January 2014 to 30 June 2014

Management Certificate
For the period 1 January 2014 to 30 June 2014

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

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

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

Mayor
Julia Leu

Chief Executive Officer
Linda Cardew

Date: ____/____/____

Date: ____/____/____

Douglas Shire Council
Current-year Financial Sustainability Statement
For the period 1 January 2014 to 30 June 2014

Measures of Financial Sustainability

	How the measure is calculated	Actual - Council	Target
Council's performance at 30 June 2014 against key financial ratios and targets:			
Operating surplus ratio	Net result (excluding capital items) divided by total operating revenue (excluding capital items)	-32%	between 0% and 10%
Asset sustainability ratio	Capital expenditure on the replacement of assets (renewals) divided by depreciation expense.	28%	greater than 90%
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue (excluding capital items)	-56%	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 period ended 30 June 2014.

Certificate of Accuracy
For the period ended 30 June 2014

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
Julia Leu

Chief Executive Officer
Linda Cardew

Date: ____/____/____

Date: ____/____/____

Douglas Shire Council
Long-Term Financial Sustainability Statement
Prepared as at 30 June 2014

Measures of Financial Sustainability	Measure	Target	Actuals at 30 June 2014	Projected for the years ended								
				30 June 2015	30 June 2016	31 June 2017	30 June 2018	30 June 2019	30 June 2020	30 June 2021	30 June 2022	30 June 2023
Council												
Operating surplus ratio	Net result divided by total operating revenue	between 0% and 10%	-32%	-15%	-11%	-8%	-4%	-1%	2%	5%	8%	11%
Asset sustainability ratio	Capital expenditure on the replacement of assets (renewals) divided by depreciation expense.	greater than 90%	28%	40%	26%	31%	36%	42%	46%	46%	46%	46%
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue	not greater than 60%	-56%	-3%	-5%	-7%	-9%	-10%	-13%	-18%	-27%	-38%

Douglas 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

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
Julia Leu

Chief Executive Officer
Linda Cardew

Date: ____/____/____

Date: ____/____/____