

Lockhart River Aboriginal Shire Council
Financial Statements
for the year ended 30 June 2015

Lockhart River Aboriginal Shire Council

Financial statements

For the year ended 30 June 2015

Table of contents

	Page
Statement of Comprehensive Income	1
Statement of Financial Position	2
Statement of Changes in Equity	3
Statement of Cash Flows	5
Notes to the financial statements	
1 Significant accounting policies	6 - 16
2 Analysis of results by function	17 - 18
3 Revenue analysis	19
4 Grants, subsidies, contributions and donations	20
5 Capital income	20
6 Employee benefits	21
7 Materials and services	21
8 Finance costs	22
9 Other expenses	22
10 Capital expenses	22
11 Cash and cash equivalents	22
12 Trade and other receivables	22
13 Inventories	23
14 Other financial assets	23
15 Investments	24
16 Property, plant and equipment	24
17 Fair value measurements	25 - 28
18 Trade and other payables	29 - 35
19 Provisions	36
20 Asset revaluation surplus	36
21 Commitments for expenditure	36
22 Contingent liabilities	37
23 Superannuation	37
24 Trust funds	38
25 Reconciliation of net result for the year to net cash inflow (outflow) from operating activities	38
26 Correction of error	39
27 Events after the reporting period	39
28 Financial instruments	39
29 Tied grants by project	40 - 43
Management Certificate	44 - 46
Independent Auditors's Report	47
	48 - 49

Lockhart River Aboriginal Shire Council
Statement of Comprehensive Income
For the year ended 30 June 2015

	Note	Consolidated		Council	
		2015 \$	2014-Restated \$	2015 \$	2014-Restated \$
Income					
Revenue					
Recurrent revenue					
Rates, levies and charges	3(a)	116,069	111,821	116,069	111,821
Rental income	3(b)	418,245	681,075	390,616	673,279
Interest received	3(c)	77,487	72,354	60,063	54,713
Sales revenue	3(d)	7,404,352	3,807,880	6,439,640	2,901,423
Other income	3(e)	166,166	132,565	166,166	132,565
Grants, subsidies, contributions and donations	4(a)	5,124,834	4,047,348	5,124,834	4,047,348
		<u>13,307,153</u>	<u>8,853,043</u>	<u>12,297,388</u>	<u>7,921,149</u>
Capital revenue					
Grants, subsidies, contributions and donations	4(b)	5,020,003	3,014,480	5,020,003	3,014,480
Total revenue		<u>18,327,155</u>	<u>11,867,523</u>	<u>17,317,391</u>	<u>10,935,629</u>
Capital income	5	-	24,502	-	24,502
Total income		<u>18,327,155</u>	<u>11,892,025</u>	<u>17,317,391</u>	<u>10,960,131</u>
Expenses					
Recurrent expenses					
Employee benefits	6	(3,967,194)	(4,203,082)	(3,543,390)	(3,723,923)
Materials and services	7	(4,453,118)	(3,971,537)	(3,894,493)	(3,554,770)
Finance costs	8	(114,719)	(541)	(22,481)	3,514
Depreciation and amortisation	16	(1,276,238)	(2,440,819)	(1,075,729)	(2,121,477)
Other expenses	9	(717,905)	-	(717,905)	-
		<u>(10,529,174)</u>	<u>(10,615,980)</u>	<u>(9,253,998)</u>	<u>(9,396,657)</u>
Capital expenses	10	(27,000)	(8,478,753)	(27,000)	(8,478,753)
Total expenses		<u>(10,556,175)</u>	<u>(19,094,733)</u>	<u>(9,280,999)</u>	<u>(17,875,410)</u>
Net result		<u>7,770,981</u>	<u>(7,202,708)</u>	<u>8,036,392</u>	<u>(6,915,279)</u>
Other comprehensive income					
Items that will not be reclassified to net result					
Increase / (decrease) in asset revaluation surplus		4,259,880	772,824	3,770,652	537,960
Total other comprehensive income for the year		<u>4,259,880</u>	<u>772,824</u>	<u>3,770,652</u>	<u>537,960</u>
Total comprehensive income for the year		<u>12,030,861</u>	<u>(6,429,885)</u>	<u>11,807,044</u>	<u>(6,377,319)</u>

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

**Lockhart River Aboriginal Shire Council
Statement of Financial Position
as at 30 June 2015**

	Note	Consolidated		Council	
		2015 \$	2014-Restated \$	2015 \$	2014-Restated \$
Current assets					
Cash and cash equivalents	11	4,855,783	3,104,374	4,101,197	2,394,262
Trade and other receivables	12	2,554,396	1,156,633	2,404,484	1,015,248
Inventories	13	237,634	278,082	143,487	158,423
Other financial assets	14	221,211	143,619	221,211	143,619
Total current assets		7,869,023	4,682,708	6,870,379	3,711,552
Non-current assets					
Other financial assets	14	7,309,761	5,551,946	7,309,761	5,551,946
Investments	15	-	-	100	100
Property, plant and equipment	16	60,478,585	52,422,687	54,312,627	46,667,878
Total non-current assets		67,788,346	57,974,633	61,622,489	52,219,924
Total assets		75,657,369	62,657,341	68,492,867	55,931,476
Current liabilities					
Trade and other payables	18	2,348,904	1,367,324	2,204,502	1,432,733
Provisions	19	74,521	96,701	61,517	86,589
Total current liabilities		2,423,426	1,464,025	2,266,019	1,519,322
Non-current liabilities					
Provisions	19	114,839	105,072	102,243	94,593
Total non-current liabilities		114,839	105,072	102,243	94,593
Total liabilities		2,538,265	1,569,096	2,368,263	1,613,915
Net community assets		73,119,105	61,088,243	66,124,605	54,317,561
Community equity					
Asset revaluation surplus	20	35,738,392	31,478,512	32,535,205	28,764,553
Retained surplus/(deficiency)		37,380,712	29,609,731	33,589,399	25,553,007
Total community equity		73,119,105	61,088,243	66,124,605	54,317,561

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

Lockhart River Aboriginal Shire Council
Statement of Changes in Equity
For the year ended 30 June 2015

Consolidated	Asset revaluation surplus	Retained surplus	Total
	20		
	\$	\$	\$
Balance as at 1 July 2014	31,478,512	29,609,731	61,088,243
Net result	-	7,770,981	7,770,981
Other comprehensive income for the year			
Increase / (decrease) in asset revaluation surplus	4,259,880	-	4,259,880
Total comprehensive income for the year	4,259,880	7,770,981	12,030,861
Balance as at 30 June 2015	35,738,392	37,380,712	73,119,104
Balance as at 1 July 2013	30,705,688	36,812,439	67,518,127
Net result	-	(7,202,708)	(7,202,708)
Other comprehensive income for the year			
Increase / (decrease) in asset revaluation surplus	772,824	-	772,824
Total comprehensive income for the year	772,824	(7,202,708)	(6,429,884)
Balance as at 30 June 2014 - Restated	31,478,512	29,609,731	61,088,243

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

**Lockhart River Aboriginal Shire Council
Statement of Changes in Equity
For the year ended 30 June 2015**

Council	Asset revaluation surplus 20	Retained Surplus	Total
	\$	\$	\$
Balance as at 1 July 2014	28,764,553	25,553,007	54,317,560
Net operating surplus	-	8,036,392	8,036,392
Other comprehensive income for the year			
Increase / (decrease) in asset revaluation surplus	3,770,652	-	3,770,652
Total comprehensive income for the year	<u>3,770,652</u>	<u>8,036,392</u>	<u>11,807,044</u>
Balance as at 30 June 2015	<u>32,535,205</u>	<u>33,589,399</u>	<u>66,124,604</u>
Balance as at 1 July 2013	28,226,593	32,468,286	60,694,879
Net operating surplus	-	(6,915,279)	(6,915,279)
Other comprehensive income for the year			
Increase / (decrease) in asset revaluation surplus	537,960	-	537,960
Total comprehensive income for the year	<u>537,960</u>	<u>(6,915,279)</u>	<u>(6,377,319)</u>
Balance as at 30 June 2014-Restated	<u>28,764,553</u>	<u>25,553,007</u>	<u>54,317,560</u>

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

**Lockhart River Aboriginal Shire Council
Statement of Cash Flows
For the year ended 30 June 2015**

	Note	Consolidated		Council	
		2015	2014	2015	2014
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts from customers		6,446,903	3,588,573	5,332,639	2,712,616
Payments to suppliers and employees		(7,683,494)	(7,976,614)	(6,691,080)	(6,917,349)
		<u>(1,236,591)</u>	<u>(4,388,042)</u>	<u>(1,358,442)</u>	<u>(4,204,733)</u>
Interest received		77,487	72,354	60,063	54,713
Rental income		418,245	681,075	390,616	673,279
Non capital grants and contributions		5,124,834	4,047,348	5,124,834	4,047,348
Net cash inflow (outflow) from operating activities	25	<u>4,383,975</u>	<u>412,735</u>	<u>4,217,071</u>	<u>570,607</u>
Cash flows from investing activities					
Payments for property, plant and equipment		(5,028,936)	(4,635,139)	(4,906,507)	(4,620,991)
Finance lease receipts		343,838	50,860	343,838	50,860
Proceeds from sale of property plant and equipment		42,182	57,056	42,182	57,056
Grants, subsidies, contributions and donations		2,010,350	2,902,488	2,010,350	2,902,488
Net cash inflow (outflow) from investing activities		<u>(2,632,567)</u>	<u>(1,624,734)</u>	<u>(2,510,137)</u>	<u>(1,610,586)</u>
Net increase (decrease) in cash and cash equivalents held		<u>1,751,408</u>	<u>(1,211,999)</u>	<u>1,706,934</u>	<u>(1,039,979)</u>
Cash and cash equivalents at the beginning of the financial year		3,104,375	4,316,374	2,394,262	3,434,241
Cash and cash equivalents at end of the financial year	11	<u>4,855,783</u>	<u>3,104,375</u>	<u>4,101,196</u>	<u>2,394,262</u>

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

Lockhart River Aboriginal Shire Council
Notes to the financial statements
For the year ended 30 June 2015

1 Significant accounting policies

1.A Basis of preparation

These general purpose financial statements are for the period 1 July 2014 to 30 June 2015 and have been prepared in compliance with the requirements of the *Local Government Act 2009* and the *Local Government Regulation 2012*. Consequently, these financial statements have been prepared in accordance with all Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements issued by the Australian Accounting Standards Board.

These financial statements have been prepared under the historical cost convention except for certain classes of property, plant and equipment and other financial assets (finance lease) which are measured at fair value.

Recurrent/capital classification

Revenue and expenditure are presented as "recurrent" or "capital" in the Statement of Comprehensive Income on the following basis:

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

The disposals of non-current assets are classified as either "Capital Income" or "Capital Expenses" depending on whether they result in accounting gains or losses.

All other revenue and expenses have been classified as "recurrent".

1.B Statement of compliance

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

1.C Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of the entity controlled by the Lockhart River Aboriginal Shire Council as at 30 June 2015 and the results of the controlled entity for the year then ended. The Council and its controlled entity together form the economic entity which is referred to in these financial statements as the consolidated entity.

In the process of reporting the Council as a single economic entity, all transactions with the entity controlled by the Council have been eliminated. In addition the accounting policies of the controlled entity have been adjusted, where necessary, on consolidation to ensure that the financial report of the consolidated entity is prepared using accounting policies that are consistent with those of the Council. Information on the controlled entity is included in Note 1.O and Note 15.

1.D Constitution

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

1.E Date of authorisation

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

1.F Currency

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

Lockhart River Aboriginal Shire Council
Notes to the financial statements
For the year ended 30 June 2015

1.G Adoption of new and revised Accounting Standards

Current year

In the current year, Council adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period. The adoption of the new suite of consolidation standards did not result in any material changes to Council's accounting policies. These standards comprised AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 127 (revised 2011) *Separate Financial Statements* and AASB 128 (revised 2011) *Investments in Associates and Joint Ventures*. These standards had an immaterial impact on the consolidated financial statements of the Council and Lockhart River Aerodrome Company Pty Ltd (controlled entity).

Future years

Lockhart River Aboriginal Shire Council has not applied any Australian Accounting Standards and Interpretations that have been issued but are not yet effective. Council applies standards and interpretations in accordance with their respective commencement dates.

At the date of authorisation of the financial report, AASB 9 *Financial Instruments* is the only new accounting standard with a future application date that is expected to have a material impact on the Council's financial statements.

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.

As a result, Council will be required to measure its financial assets, including its investment in Lockhart River Aerodrome Company Pty Ltd (refer Note 1.O), at fair value. Had this requirement been adopted at 30 June 2015, management estimate that the fair value of this investment would have been \$6,994,597 in the Council's separate statement of financial position. There would also have been a corresponding gain in equity. There would have been no financial impact on the consolidated financial statements.

Due to the recent release of AASB 15 *Revenue from Contracts with Customers*, Council is still reviewing the way that revenue is measured and recognised to identify whether it will have a material impact. To date no impact has been identified. AASB 15 is effective from 1 January 2017 and will replace AASB 118 *Revenue*, AASB 111 *Construction Contracts* and a number of Interpretations. It contains a comprehensive and robust framework for the recognition, measurement and disclosure of revenue from contracts with customers.

Lockhart River Aboriginal Shire Council
Notes to the financial statements
For the year ended 30 June 2015

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

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

Based on AASB Action Alert on 28 May 2015, the Council revised the depreciation estimates by removing all residual values from Buildings, Housing and Infrastructure assets after the AASB made a decision in relation to nil recognition of residual value for Infrastructure Assets. In addition, assets in these classes have been componentised into Short Life and Long Life and estimates of useful lives revised accordingly. In accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* the impacts that this has had on the financial statements have been accounted for as a consequence of changes in estimates.

The impacts relate to:

- revaluation adjustments (Note 16), although the revaluation adjustments also incorporate the immaterial effect of small movements in the relevant indexes; and
- a decrease in depreciation expense for 2014-15 of approximately \$1,095,000 for the consolidated entity and \$980,000 for Council.

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

Valuation and depreciation of property, plant and equipment - Note 1.P, Note 16 and Note 17
Impairment of property, plant and equipment - Note 1.Q
Provisions - Note 1.T and Note 19
Valuation of finance leases - Note 1.R and Note 17
Contingent liabilities - Note 22.

1.I Revenue

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

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 rating period.

Grants and subsidies

Grants, subsidies and contributions that are non-reciprocal in nature are recognised as revenue in the year in which Council obtains control over them. Unspent non-reciprocal grants are accounted using internal management accounting system. External restrictions that have been placed on Council's cash and cash equivalents due to unspent grants are disclosed in Note 11.

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

Non-cash contributions

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

The Council did not receive any non-cash contributions during the financial year.

Rental income

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

Interest

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

Lockhart River Aboriginal Shire Council
Notes to the financial statements
For the year ended 30 June 2015

Sales revenue

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

The Council generates revenues from a number of services including motor vehicle repairs and 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.

Fees and charges

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

Other income

Other income 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 other goods and services.

1.J Financial assets and financial liabilities

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

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

Financial assets

Cash and cash equivalents (Note 1.K)
Receivables - measured at amortised cost (Note 1.L)
Other financial assets (finance leases) - measured at fair value (Note 1.N)

Financial liabilities

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

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

All other disclosures relating to the measurement and financial risk management of financial instruments are included in Note 28.

1.K Cash and cash equivalents

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

Lockhart River Aboriginal Shire Council
Notes to the financial statements
For the year ended 30 June 2015

1.L Receivables

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

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

All known bad debts were written-off at 30 June. 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.

The Council does not provide loans to community residents for compassionate and emergent needs, hence no lending policy is maintained.

1.M Inventories

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

Inventories held for distribution are:

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

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

Inventories held for sale are:

- fuel (aviation fuel and diesel); and
- motel stock (snack packs and soft drinks).

These goods are valued at lower of cost and net realisable value.

1.N Other financial assets

Refer to Note 1.R for the accounting policy relating to finance lease assets.

Lockhart River Aboriginal Shire Council
Notes to the financial statements
For the year ended 30 June 2015

1.0 Investments

Term deposits in excess of three months are reported as investments, with deposits of less than three months being reported as cash equivalents. At 30 June 2015 Council did not have any term deposits in excess of three months.

The Council's investment in the controlled entity, the Lockhart River Aerodrome Company Pty Ltd, is accounted for at cost in the Council's separate financial statements. This investment is eliminated in the financial statements of the consolidated entity upon consolidation. Lockhart River Aboriginal Shire Council holds 100% of the shares in the controlled entity. The shares in this company are not listed on any stock exchange.

As the holder of 100% of the shares in Lockhart River Aerodrome Company Pty Ltd (the Company), Council has 100% voting rights in the Company enabling Council to direct the Company's activities. Council uses these rights to ensure that the Company provides reliable runway services to the residents and affordable motel accommodation to the visitors, congruent with Council's policy objectives.

1.P Property, plant and equipment

Each class of property, plant and equipment is stated at amortised cost or fair value. Items of plant and equipment with a total value of less than \$5,000, and infrastructure assets and buildings with a total value of less than \$10,000 are treated as an expense in the year of acquisition. All other items of property, plant and equipment are capitalised.

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

- Land
- Buildings
- Housing
- Plant and equipment
- Furniture and office equipment
- Infrastructure
 - Road, drainage and bridge network
 - Water
 - Sewerage
 - Other infrastructure assets
- Work in progress

Acquisition of assets

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

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

Capital and operating expenditure

Direct labour and materials and an appropriate proportion of overheads incurred in the acquisition or construction of assets are treated as capital expenditure. Assets under construction are not depreciated until they are completed and commissioned, at which time they are reclassified from work in progress to the appropriate property, plant and equipment class.

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.

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

Lockhart River Aboriginal Shire Council
Notes to the financial statements
For the year ended 30 June 2015

Valuation

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

Non-current physical assets measured at fair value are revalued, where required, so that the carrying amount of each class of asset does not materially differ from its fair value at the reporting date. This is achieved by engaging independent, professionally qualified valuers to determine the fair value for each class of property, plant and equipment assets at least once every 3 years. This process involves the valuer physically sighting a representative sample of Council assets across all asset classes and making their own assessments of the condition of the assets at the date of inspection.

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

An analysis performed by management has indicated that, on average, the variance between an indexed asset value and the valuation by an independent valuer when performed is not significant and the indices used by Council are sound. Further details in relation to valuers, the methods of valuation and the key assumptions used are disclosed in Note 17.

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.

Capital work in progress

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

Lockhart River Aboriginal Shire Council
Notes to the financial statements
For the year ended 30 June 2015

Depreciation

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

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

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

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

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

Depreciation methods, estimated useful lives and residual values of property, plant and equipment assets are reviewed at the end of each reporting period and adjusted where necessary to reflect any changes in the pattern of consumption, physical wear and tear, technical or commercial obsolescence, or management intentions. The condition assessments performed as part of the annual valuation process for assets measured at written down current replacement cost are used to estimate the useful lives of these assets at each reporting date. Details of the range of estimated useful lives for each class of asset are shown in Note 16.

Land under roads

Land under roads acquired before 30 June 2008 is recognised as a non-current asset where the Council holds title or a financial lease over the asset. Lockhart River Aboriginal Shire Council currently does not have any such land holdings.

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

Deed of Grant in Trust Land

The Council is located on land assigned to it under a Deed of Grant in Trust (DOGIT) under Section 341 of the Land Act 1994. It comprises an area of approximately 354,072 hectares.

The land is administered by the Department of Natural Resources and Mines and the Council has restricted use of this land for the benefit of shire inhabitants. The DOGIT land has not been taken up in the Council's assets as it cannot be reliably measured.

Lockhart River Aboriginal Shire Council
Notes to the financial statements
For the year ended 30 June 2015

1.Q Impairment of non-current assets

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

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

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

1.R Leases

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

Finance leases as lessor

Council has leased 78 dwellings as lessor to the Queensland Government for 40 years. The total lease payment per dwelling in the current year was \$2,811 after adjusting for change in the Consumer Price Index (All Groups) for Brisbane. As the gross lease payments are insufficient to cover the fair value (depreciated replacement cost) of the leased properties, there is no interest rate implicit in the leases and therefore no finance income will arise from the leases. Consequently, the leases are recognised at the present value of the expected future lease payments receivable (fair value). Gains on revaluation of finance lease assets are recognised as other income.

There is nil unearned finance income, unguaranteed residual values accruing to the benefit of Council, accumulated allowance for uncollectible minimum lease payments receivable or contingent rents recognised as income applicable to the 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.S Payables

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