

# Somerset

REGIONAL COUNCIL

**Financial Statements**  
**For the year ended 30 June 2011**

**SOMERSET REGIONAL COUNCIL**  
**Statement of Financial Position**  
**As at 30 June 2011**

	Note	2011 (\$ 000's)	2010 (\$ 000's)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	15	60,824	58,014
Trade and other receivables	16	6,713	6,104
Inventories	17	969	2,465
		<u>68,506</u>	<u>66,583</u>
<b>Non-Current Assets</b>			
Trade and other receivables	18	13,804	-
Investment in associate	19	21,685	-
Property, plant and equipment	20	153,499	217,725
		<u>188,988</u>	<u>217,725</u>
<b>TOTAL ASSETS</b>		<u>257,494</u>	<u>284,308</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	22	6,112	5,679
Borrowings	23	-	-
Provisions	24	150	168
		<u>6,262</u>	<u>5,847</u>
<b>Non-Current Liabilities</b>			
Trade and other payables	22	-	-
Borrowings	23	-	-
Provisions	24	1,764	1,467
		<u>1,764</u>	<u>1,467</u>
<b>TOTAL LIABILITIES</b>		<u>8,026</u>	<u>7,313</u>
<b>NET COMMUNITY ASSETS</b>		<u>249,468</u>	<u>276,995</u>
<b>Community Equity</b>			
Retained surplus		217,324	231,366
Asset revaluation surplus	25	3,793	19,841
Reserves	26	28,351	25,788
<b>TOTAL COMMUNITY EQUITY</b>		<u>249,468</u>	<u>276,995</u>

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

**SOMERSET REGIONAL COUNCIL**  
**Statement of Comprehensive Income**  
**For the year ended 30 June 2011**

	<b>Note</b>	<b>2011 (\$ 000's)</b>	<b>2010 (\$ 000's)</b>
<b>Continuing operations</b>			
Revenue components			
Capital Revenue	3	2,756	9,092
Recurrent Revenue	3	48,799	29,666
Share of the profit of associated entity accounted for using the equity method	19	<u>1,082</u>	<u>-</u>
<b>Revenue</b>	3	52,637	38,759
Expenses	4	(50,878)	(27,252)
Loss on net assets transferred to associated entity (Queensland Urban Utilities)	35	<u>(9,561)</u> <u>(60,439)</u>	<u>-</u> <u>(27,252)</u>
Finance costs	5	-	-
Revaluation decrement of road assets in excess of balance held in asset revaluation surplus	20	(5,646)	-
<b>Net result from continuing operations</b>		<u>(13,448)</u>	<u>11,506</u>
<b>Discontinued operations</b>			
Profit from discontinued operations		-	2,084
<b>Net result for year</b>		<u>(13,448)</u>	<u>13,590</u>
<b>Other comprehensive income</b>			
Increase in asset revaluation surplus	25	2	10,615
Decrease in asset revaluation surplus	25	(14,081)	(228)
<b>Total other comprehensive income for the year</b>		<u>(14,079)</u>	<u>10,387</u>
<b>Total comprehensive income for the year</b>		<u><u>(27,527)</u></u>	<u><u>23,977</u></u>

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

**SOMERSET REGIONAL COUNCIL**  
**Statement of Cash Flows**  
**For the year ended 30 June 2011**

	<b>Note</b>	<b>2011 (\$ 000's)</b>	<b>2010 (\$ 000's)</b>
<b>Cash flows from operating activities</b>			
Receipts from customers		49,070	40,206
Payments to suppliers and employees		<u>(45,885)</u>	<u>(25,322)</u>
		3,185	14,884
Interest received		4,307	2,170
Dividend received		377	-
Finance costs		-	-
<b>Net cash inflow (outflow) from operating activities</b>	<b>32</b>	<u><b>7,869</b></u>	<u><b>17,054</b></u>
<b>Cash flow from investing activities</b>			
Payments for property, plant and equipment		(5,630)	(11,954)
Net movement in loans and advances		-	-
Proceeds from sale of property, plant and equipment		<u>571</u>	<u>384</u>
<b>Net cash inflow (outflow) from investing activities</b>		<u><b>(5,059)</b></u>	<u><b>(11,570)</b></u>
<b>Cash flow from financing activities</b>			
Proceeds from borrowings		-	-
Repayments made on finance leases		-	-
Repayment of borrowings		<u>-</u>	<u>-</u>
<b>Net cash inflow (outflow) from financing activities</b>		<u><b>-</b></u>	<u><b>-</b></u>
<b>Net increase (decrease) in cash held</b>		<b>2,810</b>	<b>5,484</b>
Cash at beginning of reporting period		<u>58,014</u>	<u>52,530</u>
<b>Cash at end of reporting period</b>	<b>15</b>	<u><b>60,824</b></u>	<u><b>58,014</b></u>

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

**SOMERSET REGIONAL COUNCIL**  
**Statement of Changes in Equity**  
**For the year ended 30 June 2011**

	Total		Retained surplus				Asset revaluation surplus				Reserves	
	As at 30 June 2011 (\$ 000's)	As at 30 June 2010 (\$ 000's)	As at 30 June 2011 (\$ 000's)	As at 30 June 2010 (\$ 000's)	As at 30 June 2011 (\$ 000's)	As at 30 June 2010 (\$ 000's)	As at 30 June 2011 (\$ 000's)	As at 30 June 2010 (\$ 000's)	As at 30 June 2011 (\$ 000's)	As at 30 June 2010 (\$ 000's)	As at 30 June 2011 (\$ 000's)	As at 30 June 2010 (\$ 000's)
Balance at beginning of period	276,995	253,018	231,366	217,890	19,841	9,454	25,788	25,674				
Net result for the period	(13,448)	13,590	(13,448)	13,590	-	-	-	-	-	-	-	-
Transfers to reserves	-	-	(5,505)	(7,504)	-	-	5,505	7,504				
Transfers from reserves	-	-	2,941	7,390	-	-	(2,941)	(7,390)				
Transfer from asset revaluation surplus to retained earnings	-	-	1,970	-	(1,970)	-	-	-				
Other comprehensive income for the year - nett increase/(decrease) in asset revaluation surplus	(14,079)	10,387	-	-	(14,079)	10,387	-	-				
Balance at end of period	<b>249,468</b>	<b>276,995</b>	<b>217,324</b>	<b>231,366</b>	<b>3,793</b>	<b>19,841</b>	<b>28,351</b>	<b>25,788</b>				

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

**SOMERSET REGIONAL COUNCIL****Notes to the financial statements****For the year ended 30 June 2011****Note 1**

The basis of preparation and the significant accounting policies that have been adopted in the preparation of these financial statements are:

**Basis of preparation****1.01 General**

These general purpose financial statements for the period 1 July 2010 to 30 June 2011 have been prepared in accordance with all Australian Accounting Standards, Australian Accounting Interpretations and other pronouncements issued by the Australian Accounting Standards Board. They also comply with the requirements of the Local Government Act 2009 and the Local Government (Finance, Plans and Reporting) Regulation 2010.

These financial statements have been prepared under the historical cost convention except for the revaluation of certain non-current assets.

**1.02 Statement of Compliance**

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). 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 Statements does not comply with IFRS. The main impacts are in:

- the offsetting of revaluation and impairment gains and losses within a class of assets
- the timing of recognition of non-reciprocal grant revenue

**1.03 Currency**

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

**1.04 Constitution**

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

**1.05 Date of authorisation**

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

**1.06 Changes to Accounting Policies**

Unless otherwise stated, accounting policies have been consistently applied throughout the period.

**1.07 Adoption of new and revised Accounting Standards**

In the current year, Council adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period. The adoption of the new and revised Standards and Interpretations has not resulted in any material changes Council's accounting policies.

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

**Effective for annual  
report periods  
beginning on or after:**

AASB 9 Financial Instruments (December 2009)	1 January 2013
AASB 124 Related Party Disclosures (December 2009)	1 January 2011
AASB 1053 Application of Tiers of Australian Accounting Standards	1 July 2013
AASB 1054 Australian Additional Disclosures	1 July 2011
2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (December 2009)	1 January 2013
2009-12 Amendments to Australian Accounting Standards in relation to AASB 8 Operating Segments (December 2009)	1 January 2011
2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement (Interpretation 14) (December 2009)	1 January 2011
AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	1 July 2013
AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2011
AASB 2010-5 Amendments to Australian Accounting Standards	1 January 2011
AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets	1 July 2011
AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 January 2013
AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets	1 January 2012
AASB 2010-9 Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of	1 July 2011

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**  
**Note 1**

Fixed Dates for First-time Adopters	
AASB 2010-10 Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters	1 January 2013
AASB 2011-01 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project	1 July 2011
AASB 2011-02 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements	1 July 2013
AASB 2011-03 Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments	1 July 2012

Management have yet to assess the impact that AASB 9 Financial Instruments and 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 is likely to have on the financial statements of Council as it is anticipated that further amendments will occur. Council does not expect to implement the amendments prior to the adoption date of 1 January 2013.

The reported results and position of the council will not change on adoption of the other pronouncements as they do not result in any changes to the council's existing accounting policies. Adoption will, however, result in changes to information currently disclosed in the financial statements. The council does not intend to adopt any of these pronouncements before their effective dates.

**1.08 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 1.17 and Note 20  
 Impairment of property, plant and equipment - Note 1.20 and Note 20  
 Investments - Note 1.14, 1.15 and Note 19  
 Provisions - Note 1.23 and 1.25 and Note 24  
 Contingencies - Note 28

It is considered that there is significant uncertainty regarding the valuation of certain property, plant and equipment as a result of damage caused by severe flooding in January 2011. This uncertainty is detailed at 1.17 (vii).

**1.09 Revenue**

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

Council applies AASB 118 Revenue in respect of contributions received in respect of property development.

**(i) Rates and levies**

Where rate monies are received prior to the commencement of the rating 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.

**(ii) Grants and subsidies**

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

Where the Council has an obligation to use a non-reciprocal grant or subsidy in a particular manner the amount is recognised as revenue on receipt. An equivalent amount is placed in an appropriate reserve until the obligation is satisfied.

Where grants or subsidies are received that are reciprocal in nature, revenue is recognised over the term of the funding arrangements.

Council did not have any reciprocal grants during the year where the conditions over the grant had not been satisfied.

**(iii) Non-cash contributions**

Non-cash contributions in excess of the recognition thresholds set out in note 1.17 in value, 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 road works, stormwater infrastructure and park equipment are recognised as revenue when the development becomes "on maintenance" (i.e. the Council obtains control of the assets

**SOMERSET REGIONAL COUNCIL**

**Notes to the financial statements**

**For the year ended 30 June 2011**

**Note 1**

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

No non-cash contribution received during the year resulted in Council bearing any performance obligation (such as new roads that were yet to be connected to the general road network.)

**(iv) Rental income**

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

**(v) Interest**

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

**(vi) Sales contracts and recoverable works**

Contract revenue is recognised at the agreed contract price due at the time of sale or service delivery.

The majority of revenue achieved during 2010/2011 related to road maintenance contracts with State Government.

**(vii) Fees and charges**

Fees and charges consist of both cost-recovery fees as defined in the Local Government Act 2009 for which Council has a statutory power to collect and commercial fees and charges which are collected on a contractual basis for matters such as cemetery operations and waste operations. The majority of fee revenue Council has a statutory power to collect.

Fees and charges are brought to account as revenue on receipt.

**(viii) Other revenue including cash contributions**

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.

Donations and contributions excluding reserve land, are recognised as revenue when the significant risks and rewards relating to the corresponding assets have been transferred to Council.

Unreceived contributions where the significant risks and rewards have been transferred to Council are recognised as receivables.

AASB Interpretation 18 has been applied prospectively to transfers of assets from customers received on or after 1 July 2009.

**1.10 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 1.11)

Receivables - measured at amortised cost (Note 1.12)

Investment in associate - measured at amortised cost (Note 1.14)

Term deposits - measured at amortised cost (Note 1.15)

**Financial liabilities**

Payables - measured at amortised cost (Note 1.22)

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.

Council had no interest bearing borrowings during the year.

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 31.



#### **1.11 Cash and cash equivalents**

For the purposes of the statement of financial position and the statement of cash flows, cash and cash equivalents include cash on hand, all cash and cheques receipted but not banked at year end and deposits at call with financial institutions. It also includes bank overdrafts and liquid investments with short periods to maturity that are readily convertible to cash at the Council's option without penalty and that are subject to a low risk of changes in value. The Council considers term deposits, being for periods of less than six months to be cash equivalents.

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.

#### **1.12 Receivables**

Trade debtors are recognised at the amounts due at the time of sale or service delivery, settlement on trade debtors being generally required within 30 days from the invoice date. Rate debts fall due 42 days after issue of a rate assessment notice.

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. All known bad debts were written-off at balance date.

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

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.

Council held a shareholder debt with Queensland Urban Utilities valued at \$13,804,033 as at balance date.

The loan receivable is subject to an agreement that provides for a fixed interest rate of 6.7834% with monthly interest-only payments until 30 June 2013. Following these initial payments, the terms will be renegotiated with the Authority. This debt was not secured. The shareholder debt is treated as a non-current receivable.

#### **1.13 Inventories including land held for resale**

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. 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 the lower of cost and replacement cost.

Land acquired with the intention of reselling it (with or without further development) is classified as inventory. As inventory this land is valued at the lower of cost and net realisable value. Inventory items are always treated as current assets.

Profit arising upon sale of land is recognised in the statement of comprehensive income on the signing of a valid unconditional contract of sale.

Land acquired for use by the Council which is no longer required is reclassified within property, plant and equipment to land held for development and resale. It continues to be measured at fair value until it is actively being marketed and expected to be sold within one year. When this occurs it is transferred to current assets held for resale and revalued at fair value less costs to sell.

#### **1.14 Investments - term deposits**

Financial institution deposits at call and term deposits which will mature less than 6 months after balance date are treated as cash equivalents, whilst deposits at call and term deposits which will mature beyond 6 months after balance date are treated as current investments. At 30 June 2011, the Council did not have any term deposits in excess of 6 months.

#### **1.15 Investments in associate and other entities - Queensland Urban Utilities and other entities**

The Queensland Water Commission's report to the Queensland Government on the Urban Water Supply Arrangements in South East Queensland proposed a range of structural and regulatory reforms for water supply arrangements in South East Queensland including changes to economic regulation and pricing.

The South East Queensland Water (Distribution and Retail Restructuring) Act 2009 (the Act) established a statutory body called the Central SEQ Distributor-Retailer Authority on 3 November 2009 to deliver water and wastewater services to customers within the local government areas of Somerset Regional Council, Brisbane City Council, Ipswich City Council, Lockyer Valley Regional Council and Scenic Rim Regional Council.

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**  
**Note 1**

This Authority was one of three Distributor-Retailer entities established.

On 1 July 2010 the Authority acquired legislative power to begin trading, using the business name Queensland Urban Utilities.

Queensland Urban Utilities is an unincorporated entity and is domiciled in Brisbane, Australia.

Under the Act, governance arrangements for the Authority were established in a Participation Agreement, which was approved by the State Government on 25 June 2010. The Agreement provides for participation rights to be held by the participating councils to be negotiated between the councils.

The participation rights held by Somerset Regional Council have been determined and Somerset Regional Council holds 0.826% of the rights to participate in the profits of Queensland Urban Utilities.

These rights held are recognised as investment assets as they represent a resource controlled by Council as a result of past events and from which future economic benefits are expected to flow.

Notwithstanding that the South-East Queensland Water (Distribution and Retail Restructuring) Act 2009 does not permit the transfer of participation rights to another party (except by Ministerial approval), Council controls the investment in participation rights because it is entitled to the benefits of holding and realising the investment.

Included in the definition of financial assets is any asset that is an investment in an associated entity. As discussed above the participation rights represent equity of the Distributor-Retailers and accordingly the participation rights held by Council meets the definition of a financial asset.

An investment in an associate is recognised and measured in accordance with the requirements of AASB 128.

Although Council holds less than 1% of the participation rights of Queensland Urban Utilities, the operation of the participation agreement allows Council to exert significant influence over Queensland Urban Utilities because any three of the minority participants (that is any three of Ipswich City Council, Lockyer Valley Regional Council, Scenic Rim Regional Council and Somerset Regional Council) are potentially able to operate together to prevent a board appointment. Conversely any two minority participants together with Brisbane City Council are able to appoint board members to Queensland Urban Utilities.

The Authority's Board is comprised of independent directors. No individual Council has the ability to dominate the Authority's decision making so as to obtain greater benefits from its activities than any other participant.

AASB 128 requires an investment in an associate to be accounted for using the equity method.

AASB 128.11 requires that "under the equity method, the investment in associate is initially recognised at cost."

When the local government participants transferred the relevant assets to the Distributor-Retailers on 1 July 2010 the participation rights that they received were determined on the basis of their proportionate share of Regulatory Asset Base ("RAB") of the total water assets transferred to the relevant Distributor-Retailer.

Council has been advised that the RAB (and the weighted average cost of capital) will provide the owner of the water assets with a commercial return commensurate with the risks inherent in the assets and accordingly the RAB is what a private sector operator might be willing to pay for the assets in an arms-length transaction as it represents the returns that the current operator can generate in the current regulatory environment. Together with the fact that the RAB is the basis upon which the relevant participation rights have been determined indicates that the RAB is an appropriate methodology to determine the fair value of the transferred assets.

Council has brought to account a loss in respect of the fair value of the water assets transferred to the Distributor-Retailer in exchange for the participation rights plus transaction costs directly attributable to the acquisition. Transaction costs that might apply to similar transactions in the private sector such as stamp duty did not apply.

The Authority operates under a tax equivalent regime; with all tax paid distributed to the participating Councils on a pro-rata basis to their participation rights. Tax is payable quarterly based on a percentage of the Authority's gross revenue.

As a party to the Participation Agreement, the Council receives a proportional share of net profits as a participation return. Returns are paid from post-tax operating profits (after adjusting for capital receipts).

Details of the transactions regarding the transfer of assets to Queensland Urban Utilities and the loss on investment following revaluation are detailed at note 35.

Council holds minor shareholdings in SEQ Distribution Entity (Interim) Pty Ltd (a \$1 shareholding) and SEQ Regional Recreational Facilities Pty Ltd (8,000 shares of 1,100,000 shares issued). Both holdings were initially recorded at cost (\$8,001)

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**  
**Note 1**

however have subsequently been fully impaired and now have a nil value.

**1.16 Investment property**

Council holds immaterial assets that are held by lessees under operating leases.

These assets are incorporated in property, plant and equipment and are included in the "land" and "buildings and other assets" categories in note 20. The assets are maintained on short term leases so that they can be used for Council owner occupier purposes in the future.

It is considered that these assets do not meet the definition of investment property under AASB140.5.

Lease amounts receivable are disclosed in note 27 (e).

**1.17 Property, plant and equipment**

Each class of property, plant and equipment is stated at cost or fair value less, where applicable, any accumulated depreciation and accumulated impairment loss.

Items of property, plant and equipment with a total value of less than the following thresholds are treated as an expense in the year of acquisition. All other items of property, plant and equipment are capitalised.

• Land	\$	1
• Plant and equipment	\$	5,000
• Other assets	\$	10,000

Other assets includes assets in the classes of buildings and other structures, roads, bridges, underground drainage and water and sewerage. All water and sewerage assets were disposed of on 1 July 2010 as outlined in note 1.15.

**(i) 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 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 means the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**(ii) Capital and operating expenditure**

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

**(iii) Valuation**

Land, buildings and infrastructure are measured on the revaluation basis, at fair value, in accordance with AASB116 Property, Plant and Equipment and the Local Government Finance Standard 2005. All other non-current assets, principally plant and equipment is 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 revaluation involves either the application of a suitable index to the cost elements of each asset or involves an independent assessment of the value.

Details of valuers and methods of valuations are disclosed in Note 20.

Any revaluation increment arising on the revaluation of an asset is credited to the asset revaluation surplus of the appropriate class, 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 relating to 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.

Plant and equipment is measured at depreciated cost. The carrying amounts for plant and equipment measured at depreciated cost does not differ materially from their fair value.

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**  
**Note 1**

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

(iv) Depreciation

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

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

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

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.

The estimated useful lives of property, plant and equipment are reviewed annually.

The range of useful lives for each class of asset are as follows:

Asset	Range of Estimated Useful Life in Years	Depreciation method used
Land	Not depreciated	Not depreciated
Buildings and Other Structures	7 to 100	Straight line
Plant and Equipment	3 to 20	Straight line
Infrastructure		
Roads	10 to 200	Straight line
Water and sewerage network	5 to 80	Straight line
Bridges	30 to 100	Straight line

(v) Land under roads

Somerset Regional Council does not control any land under roads. All land under the road network within the council area has been dedicated and opened for public use under the Land Act 1994 or the Land Title Act 1994 and 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.

(vi) 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.

(vii) Impact of flooding

In January 2011 a significant flood event occurred within Council's boundaries. This flood event caused extensive damage to Council's road and bridge assets.

The assets were assessed by independent engineers following the flood to determine the condition of the assets and the extent of work required to restore these assets to their pre-flood condition.

The Council has used this information in assessing the fair value of the assets at reporting date and in updating the assets' useful lives. This condition related change combined with increases in the cost of road construction has resulted in a total nett write-down of the value of road assets of \$19.726 million comprising the following:

Decrease in asset revaluation surplus	\$ 14.0808 million
Revaluation down of road assets in excess of balance held in asset revaluation surplus	\$ 5.6455 million
	<u>\$ 19.726 million</u>

While Council has made every effort to quantify the impact the floods had on its roads and bridges, the inspection by the independent engineers was not a full comprehensive valuation for financial reporting purposes and information gathered was used by Council engineers conducting valuations in addition to data from other sources about the condition of road assets.

**SOMERSET REGIONAL COUNCIL**

**Notes to the financial statements**

**For the year ended 30 June 2011**

**Note 1**

The prime reason for the inspection was for the purpose of determining which assets needed immediate restoration to be fit for use by the community, and it was completed on an urgent basis within a short time frame.

The detailed inspections by consulting engineers focussed on 2102 sections of road which were known to be flood affected. Whilst it is likely that damage to affected assets will be uncovered in future periods that were not inspected by independent consulting engineers as at 30 June 2011, because all roads were under traffic at 30 June 2011, the valuations are believed to be materially correct.

Due to these matters, there is significant uncertainty in relation to the value of the road and bridge assets and the reduction in the carrying value recorded this year.

This uncertainty will be resolved once all restorative work is completed and a full comprehensive valuation is performed.

Assets that were destroyed by the flood have been treated as a disposal of a capital asset (in note 8).

Assets that were damaged by the flood but not destroyed have been revalued as outlined above.

**1.18 Intangible Assets**

Intangible assets with a cost or other value exceeding \$10,000 are recognised as intangible assets in the financial statements, items with a lesser value being expensed.

Expenditure on research activities relating to internally-generated intangible assets 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.

It has been determined that there is not an active market for any of the Council's intangible assets. Therefore, the assets are recognised and carried at cost less accumulated amortisation and accumulated impairment losses.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if the following are demonstrated:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (b) Council's intention to complete the intangible asset and use or sell it;
- (c) Council's ability to use or sell the intangible asset;
- (d) whether the intangible asset will generate probable future economic benefits;
- (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (f) Council's ability to measure reliably the expenditure attributable to the intangible asset during its development.

As at balance date, Council has no intangible assets that require recognition under its accounting policy.

**1.19 Biological Assets**

The Council operates a nursery to produce bedding plants and trees for its own use. In view of the immaterial nature of this operation the accounting procedures related to biological assets have not been applied. The costs incurred in this operation are included in Council's general operations as they are incurred.

**1.20 Impairment of non-current assets**

All non-current physical and intangible assets are assessed for indicators of impairment on an annual basis.

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 asset's recoverable amount is determined as the higher of the asset's fair value less costs to sell and depreciated replacement cost.

An impairment loss is recognised immediately 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.

#### **1.21 Leases**

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

##### **(i) Finance leases**

Where Council enters into a finance lease, Council recognises an asset equal to the lower of fair value of the leased property and the present value of the minimum lease payments. The lease liability is recognised at the same amount. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are charged as finance costs. The asset is accounted for on the same basis as other assets of the same class. Contingent rentals are written off as an expense in the accounting period in which they are incurred.

Council had no finance leases at 30 June 2011.

##### **(ii) 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.

#### **1.22 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.

#### **1.23 Employee benefits**

Liabilities are recognised for employee benefits such as wage and salaries, annual leave and long service leave in respect of services provided by the employees up to the reporting date. Liabilities for employee entitlements are assessed at each reporting date. Where it is expected that the leave will be taken in the next twelve months the liability is treated as a current liability. Otherwise the liability is treated as non-current.

##### **(i) 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 is treated as a payable and not as a provision.

##### **(ii) Annual leave**

A liability for annual leave is recognised. The current portion (based on the expected payment date) is based on current wage and salary levels and includes related employee on-costs. The non current portion is based on projected future wage and salary levels and related employee on-costs discounted to present values. This liability is treated as a payable and not as a provision.

##### **(iii) Sick leave**

Sick leave taken in the future will be met by future entitlements and hence no recognition of sick leave has been made in these financial statements. Council has no obligation to pay sick leave on termination to any employee.

##### **(iv) Superannuation**

The superannuation expense for the reporting period is the amount of the contribution the local government makes to the superannuation plan which provides benefits to its employees. Details of those arrangements are set out in Note 29.

##### **(v) Long service leave**

A liability for long service leave is measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. The value of the liability is calculated using current pay rates and projected future increases in those rates and includes related employee on-costs. The estimates are adjusted for the probability of the employee remaining in the council's employment or other associated employment which would result in the Council being required to meet the liability. Adjustments are then made to allow for the proportion of the benefit earned to date, and the result is discounted to present value. The interest rates attaching to Commonwealth Government guaranteed securities at the reporting date are used to discount the estimated future cash outflows to their present value. This liability is reported in Note 24 as a provision.

Long service leave liabilities were previously reported as payable rather than as a provision and comparative balances have been amended to reflect the change in classification.

The change in classification of a balance sheet item has no impact on the statement of comprehensive income, the statement of cash flows or the statement of changes in equity.

**SOMERSET REGIONAL COUNCIL**

**Notes to the financial statements**

**For the year ended 30 June 2011**

**Note 1**

(vi) Remuneration of senior contract employees

Note 30 provides disclosures required under section 201 of the Local Government Act 2009.

The remuneration disclosed at note 30 represents the total of:

1. Gross salary paid to relevant employees as detailed on the statements of earnings issued by Council for the 2010/2011 income year.
2. Reportable superannuation contributions in favour of the relevant employees as detailed on the statements of earnings issued by Council for the 2010/2011 income year to those employees.
3. Reportable fringe benefits provided to relevant employees at the value detailed on the statements of earnings issued by Council for the 2010/2011 income year to those employees.

**1.24 Borrowings**

Loans payable are measured at amortised cost. Interest is recognised as it accrues.

Finance costs are treated as an expense and not capitalised. All loans are unsecured.

**1.25 Restoration provision**

A provision is made for future restoration costs where it is probable the Council will be liable, or required, to incur such a cost on the cessation of use of the facility. This liability is provided in respect of roadside gravel pits.

The provision is measured at the expected cost of the work required discounted to current day values using an appropriate Commonwealth Government guaranteed rate.

Gravel pits are on State reserves which the Council does not control. The cost of the provisions for restoration of these is therefore treated as an expense in the year the provision is first recognised. Changes in the provision not arising from the passing of time are treated as an expense or income.

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

**1.26 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 in the surplus in respect of that asset is retained in the asset revaluation surplus and is not transferred to retained surplus, unless an entire class is disposed in which case the full amount in the asset revaluation surplus pertaining to the class is transferred to retained surplus.

**1.27 Reserves**

The following reserves are cash backed reserves and represent funds that are accumulated within the Council to meet anticipated future needs. In each case the amount relates to a perceived future requirement which is not currently a liability.

(i) Asset Replacement Reserve

This reserve was created for replacement of non current assets not specifically identified.

(ii) Plant Reserve

This reserve was created for acquisition of Council's plant in line with Council's asset management program.

(iii) Capital Grants Reserve

This reserve was used to hold capital grants and subsidies which Council has received for specific capital works but the funds have not been expended as at year end. The constraint that applies to such grants and subsidies is that they can only be used for the purpose for which they have been given and for no other purpose unless specific prior approval is given by the granting authority.

(iv) Constrained Works Reserve

This reserve is created to ensure sufficient funds are available to carry out future capital works which the Council is legally obliged to perform together with non-binding commitments. It represents unspent infrastructure charges, capital grants and similar items.

**SOMERSET REGIONAL COUNCIL**

**Notes to the financial statements**

**For the year ended 30 June 2011**

**Note 1**

**(v) Building Reserve**

This reserve was created to provide funding for future buildings.

**(vi) Road Maintenance Special Levy Reserves (various names)**

These reserves exist to ensure transparency in how Council manages road maintenance special charges and asset management activities on roads for which a special charge applied. The nett difference between special charges raised for a road and relevant expenditure on that road is transferred to or from the reserve.

**(vii) Tennis Court Major Maintenance Reserve**

This reserve was created for the purpose of providing funding for future tennis court major maintenance projects at the Moore, Esk and Toogoolawah Council owned tennis courts for which a lease rental is paid by local clubs.

**(viii) Light Plant Fleet Reserve**

This reserve is held for the purpose of replacing vehicles currently held under operating leases with purchased vehicles if at the time of making a replacement decision, the estimated whole of life costs of owning the replacement vehicle are less than the replacement vehicle are less than the cost of leasing.

**(ix) Environmental Reserve**

This reserve was created to provide funding for future compliance with obligations required under the Environmental Protection Act.

**(x) Legal Expenses Reserve**

This reserve was created to provide a contingency amount to offset any legal costs which may be required.

**(xi) New Financial System Reserve**

This reserve is held for the purpose of funding the replacement of Council's financial system.

**(xii) Disaster Management Reserve**

This reserve was created to provide a contingency amount for any unforeseen adverse events.

**(xiii) Recurrent Revenue Reserve**

This reserve was used to hold recurrent revenue which Council has received for specific projects but the funds have not been expended as at year end. The constraint that applies to such grants and subsidies is that they can only be used for the purpose for which they have been given and for no other purpose unless specific prior approval is given by the granting authority. The reserve also holds an amount equivalent to rates received in advance of physical rate levies which have been recognised as revenue but which are potentially refundable.

**(xiv) Elections Reserve**

This reserve was created to fund future elections and by-elections as required.

**(xv) Esk Showground Sport and Recreation Reserve Fund**

This reserve was created to separately record the accumulated surplus (if any) of rentals and contributions over the costs of the Esk Showground Sport and Recreation Reserve.

**(xvi) Land Sales Reserve**

This reserve was established to represent the sale proceeds of properties sold by Council since July 2001, to provide funding for land development projects.

**1.28 Retained Surplus**

This represents the amount of Council's net funds not set aside in reserves to meet specific future needs. The main part of this amount is not available for Council to spend as it has already been invested in assets used to provide services.

**1.29 Rounding and Comparatives**

Amounts included in the financial statements have been rounded to the nearest \$1,000 or, where that amount is \$500 or less, to zero. There may be differences between financial statements and notes to the financial statements due to the rounding.

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

Long service leave provisions which were included with payables for 2009/2010 have for 2010/2011 been included with provisions. Comparatives have been restated to reflect this change in classification.

**1.30 National Competition Policy**

The Council has reviewed its activities to identify business activities. Details of business activities are disclosed in Note 36.

**1.31 Trust funds held for outside parties**



**SOMERSET REGIONAL COUNCIL**

**Notes to the financial statements**

**For the year ended 30 June 2011**

**Note 1**

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 the Council. The Council performs only a custodian role in respect of these monies and because the monies cannot be used for Council purposes, they are not considered revenue nor brought to account in the financial statements.

The monies are disclosed in the notes to the financial statements for information purposes only in Note 33.

**1.32 Taxation**

Income of local authorities and public authorities is exempt from Commonwealth taxation except for Fringe Benefits Tax and Goods and Services Tax ('GST'). The net amount of GST recoverable from the Australian Taxation Office (ATO) or payable to the ATO is shown as an asset or liability respectively.

**1.33 Financial risk management**

The Council minimises its exposure to financial risk on investments in the ways outlined in its investment policy.

Under this policy and applicable legislation, risk management strategies include:

- Restrictions on what types of financial institutions and products council will invest in as outlined in note 31.
- The Council does not invest in derivatives or other high risk investments.
- When the Council borrows, it borrows from the Queensland Treasury Corporation unless another financial institution can offer a more beneficial rate, taking into account any risk.

The Statutory Bodies Financial Arrangements Act 1982 regulates the Council's investment activities.

Details of financial instruments and the associated risks are shown at note 31.

The Council's financial instruments consist mainly of at call deposits with banks, short-term deposit investments, accounts receivable and payable and loans from Queensland Treasury Corporation.

Council's major financial risk exposure is interest rate risk and credit risk. Further disclosure on these risks as well as liquidity risk is detailed in note 31.

**1.34 Discontinued operations**

The disposal of Council's water and sewerage assets and operations to Queensland Urban Utilities on 1 July 2010 represents a discontinued operation as defined in AASB 5.

Disclosures about discontinued operations are made at note 37.

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

**Note 2 (a) - Analysis of Results by Function**

	Subsidy and Grant Income		Other Income		Total Income		Expenses		Net Result		Total Assets	
	2011 (\$ 000's)	2010 (\$ 000's)	2011 (\$ 000's)	2010 (\$ 000's)	2011 (\$ 000's)	2010 (\$ 000's)	2011 (\$ 000's)	2010 (\$ 000's)	2011 (\$ 000's)	2010 (\$ 000's)	2011 (\$ 000's)	2010 (\$ 000's)
Community and Corporate Services Executive	395	1,437	676	668	1,071	2,105	5,963	4,404	(4,891)	(2,300)	-	-
Finance	3,285	3,111	21,929	19,724	25,214	22,835	950	953	(950)	(953)	-	-
Human Resources	60	38	1	2	60	40	17,153	1,152	8,061	21,683	103,995	66,584
Operations	10,351	3,423	11,372	6,563	21,723	9,986	624	631	(564)	(591)	-	-
Planning/ Development	14	20	1,289	1,813	1,303	1,833	37,513	17,180	(15,789)	(7,194)	147,692	168,617
Plant	71	73	31	-	102	73	2,384	1,953	(1,081)	(119)	-	-
Waste management	-	-	2,081	1,888	2,081	1,888	189	(218)	(87)	291	5,807	5,702
Water and sewerage	-	58	-	7,638	-	7,696	1,309	1,199	772	688	-	-
Share of profit from associate	-	-	1,082	-	1,082	-	-	5,612	-	2,084	-	43,406
<b>Total</b>	<b>14,176</b>	<b>8,159</b>	<b>38,460</b>	<b>38,296</b>	<b>52,637</b>	<b>46,454</b>	<b>66,084</b>	<b>32,865</b>	<b>(13,448)</b>	<b>13,590</b>	<b>257,494</b>	<b>284,308</b>

**Note 2.(b)** Description of Component Programs/ Functions

- Community and Corporate Services includes general administrative activities such as customer service, information systems, records management, insurance and community and cultural activities like community services and grants, libraries, arts, swimming pools, tourism promotion, Centrelink and QGAP agencies and recreation.
- Executive includes the elected council and support and advice to council as well as ensuring the implementation of council resolutions, policies and decisions, providing leadership and coordination of departmental operations and performance, corporate planning and public relations management.
- Finance includes rates, non-rates debtors and revenue, grants and subsidies, investment of surplus funds, loans, purchasing and stores, payment of suppliers, payroll, maintaining fixed asset registers, costing of jobs and financial reporting, planning and budgeting, taxation and internal controls.
- Human Resources deals with personnel issues including training, traineeships, recruitment and workplace, health and safety.
- Operations includes design, construction, management and maintenance of Council's infrastructure, town stewardship including grass control, State Emergency Services and disaster risk management, public toilets, camping areas, maintenance of recreational facilities and cemeteries and contract works for other parties.
- Planning and Development includes land use planning and building issues, economic development and regulatory services including animal control.
- Plant includes the costs and revenues resulting from the operations and ownership of Council's plant fleet including a maintenance workshop.
- Waste Management includes the collection and disposal of domestic and other refuse, recycling and the operation of a landfill and 3 refuse and recycling centres.
- Water and sewerage operations included acquisition, testing and reticulation of water and collection, treatment and disposal of sewage. Water and sewerage operations were transferred from the Council on 1 July 2010. (refer note 1.15)
- Share of profit from associate is detailed at note 35 and relates to Central SEQ Distributor-Retailer Authority trading as Queensland Urban Utilities.

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

	Note	2011 (\$ 000's)	2010 (\$ 000's)
<b>3. Ordinary revenue activity comprises:</b>			
<b>Operating income</b>			
General rates		14,126	12,652
Road maintenance special charges		35	40
Various inspection program special charges	14f	77	73
Rural fire levy special charge		160	163
Environmental separate charge		102	101
State Emergency Service separate charge		139	135
Water - access charges		-	1,760
Water - consumption charges		-	2,396
Sewerage		-	2,040
Garbage charges		2,237	1,994
Total gross rates and charges		<u>16,875</u>	<u>21,356</u>
<b>Less: Discounts and pensioner remissions</b>			
Discount - General rates		(1,890)	(1,698)
Discount - Water - access charges		-	(228)
Discount - Sewerage		-	(266)
Discount - Garbage charges		(296)	(258)
Pensioner remissions		(6)	(8)
Total rate and charges discounts and pensioner remissions		<u>(2,192)</u>	<u>(2,458)</u>
<b>Net rates and utility charges</b>		<u>14,683</u>	<u>18,898</u>
<b>Other operating income</b>			
Fees and charges	14a	1,619	2,401
Sales contracts and recoverable works	14b	10,504	6,377
Government grants, contributions and donations	6a	13,183	4,936
Gain (loss) on sale of developed land	7	2,849	852
Interest received from investments	14c	4,384	2,390
Penalty interest from rates and charges	14d	160	147
Rental income		239	233
Other	14e	1,178	1,130
<b>Total operating income</b>		<u>48,799</u>	<u>37,362</u>
<b>Gain on restructure of local government:</b>			
<b>Capital income:</b>			
Government grants and contributions	6b	994	3,223
Contribution of monetary assets by developers	6c	703	891
Other contributions	6d	92	671
Gain on the disposal of capital assets	8	-	896
Other capital income	9	968	3,411
<b>Total capital income</b>		<u>2,756</u>	<u>9,092</u>
<b>Share of the profit of associated entity accounted for using the equity method</b>			
	35	<u>1,082</u>	<u>-</u>
Total revenue from ordinary activities		<u>52,637</u>	<u>46,454</u>
Consisting of:			
Continuing operations		52,637	38,758
Discontinued operations	37	-	7,696
		<u>52,637</u>	<u>46,454</u>
<b>4. Ordinary expense activity comprises:</b>			
<b>Operating expenses before interest</b>			
Materials/ services (incl construction materials/ services)		37,047	25,266
Employee costs (capital and operating)	10	11,764	11,333
Less: Capitalised employee, materials/ services costs	13	(5,189)	(11,804)
Depreciation	11	5,695	7,134
Loss on the disposal of capital assets	8	10,047	-
Other expenses	12	1,075	936
Total operating expenses before finance costs		<u>60,439</u>	<u>32,864</u>
Consisting of:			
Continuing operations		60,439	27,252
Discontinued operations	37	-	5,612
		<u>60,439</u>	<u>32,864</u>
<b>Operating expenses included the following significant costs:</b>			
Expenditure pursuant to Natural Disaster Relief and Recovery Arrangements		<u>16,392</u>	<u>784</u>

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

	Note	2011 (\$ 000's)	2010 (\$ 000's)
<b>5. Finance cost</b>			
Finance costs charged by the Queensland Treasury Corporation		-	-
		<u>-</u>	<u>-</u>
<b>6. Contributions, grants and subsidies</b>			
<b>Contributions, subsidies and grants are analysed as follows:</b>			
<b>a. Government subsidies/ grants used for recurrent expenditure</b>			
Financial Assistance Grant		3,285	3,111
CROSS social services program		119	115
Fuel tax credits		71	73
Immunisation		14	19
Library book purchases		70	93
Lowood Neighbourhood Centre building repairs		-	40
Lowood Neighbourhood Centre operations		109	35
Memorials restoration		8	12
Natural disaster relief arrangements		9,346	1,299
Other recurrent grants and subsidies		3	3
Regional Arts Development Fund		25	23
Sport and recreation mid-Brisbane River study		-	17
Sport and recreation participation including Brisbane Valley Rail Trail		61	36
Sport and recreation - tennis courts - Fernvale school		-	17
State Emergency Service		12	7
Training and development		60	38
Total operational revenue		<u>13,183</u>	<u>4,936</u>
<b>b. General/ special purpose government capital subsidies/ grants</b>			
Commonwealth and State Water Grants		-	55
Fernvale Indoor Sports Centre		-	1,050
Nuisance and animal management grants		-	2
Regional Community Infrastructure Program		153	142
Roads to Recovery - Commonwealth road funding		658	1,242
Rural Living Infrastructure Program		-	10
Schoolsafe program		-	5
Transport Infrastructure Development		183	719
Total capital grants and subsidies		<u>994</u>	<u>3,223</u>
<b>c. Contributions constrained for capital purposes</b>			
Contribution of monetary assets by developers		703	891
Total capital contributions		<u>703</u>	<u>891</u>
<b>d. Other contributions</b>			
Esk Gatton Laidley Water Board contribution (cash)		92	671
Total other contributions		<u>92</u>	<u>671</u>

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

	Note	2011 (\$ 000's)	2010 (\$ 000's)
<b>7. Gain (loss) on sale of developed land (inventory asset)</b>			
Proceeds from sale of land developed for resale		4,209	1,261
Less: Current cost of developed land sold		(1,360)	(409)
Gain (loss) on sale of developed land (inventory asset)		<u>2,849</u>	<u>852</u>
<b>8. Gain (loss) on the disposal of capital assets</b>			
(i) Proceeds from the disposal of property, plant and equipment:			
Buildings and other structures		-	1,570
Plant and equipment		521	335
Water and sewerage infrastructure		33,426	-
Bridges		-	-
Less: Book value of property, plant and equipment disposed			
Buildings and other structures		-	(659)
Plant and equipment	20	(433)	(329)
Water and sewerage infrastructure	20	(42,987)	(14)
Bridges	20	(579)	-
		<u>(10,053)</u>	<u>904</u>
(ii) Proceeds from the disposal of land (not held for redevelopment)		970	49
Less : Book value of land disposed	20	(964)	(57)
Gain (loss) on the disposal of land		6	(8)
Gain (loss) on the disposal of capital assets		<u>(10,047)</u>	<u>896</u>
Gains on the disposal of capital assets are included with income.			
Losses on the disposal of capital assets are included with expenses.			
<b>9. Other capital income</b>			
Capital income recognised during the period arose from:			
Contribution of non-monetary non-current assets by developers at fair value	20	968	1,720
Contribution of non-monetary non-current assets by others at fair value		-	1,691
		<u>968</u>	<u>3,411</u>
<b>10. Employee benefits</b>			
Total wages and salaries		10,130	10,057
Annual leave, accrued hours and long service leave entitlements		275	220
Superannuation		1,227	1,159
		<u>11,632</u>	<u>11,436</u>
Other employee related expenses		132	(103)
Total employee costs		<u>11,764</u>	<u>11,333</u>
Employed for:			
Capital purposes		584	1,329
Operating purposes		11,180	10,004
		<u>11,764</u>	<u>11,333</u>
<b>11. Depreciation</b>			
Depreciation and amortisation was charged in respect of:			
Buildings and other structures		830	825
Roads		3,580	3,713
Bridges		439	454
Underground drainage		40	37
Plant and equipment		805	805
Water and sewerage network		-	1,299
		<u>5,695</u>	<u>7,134</u>
<b>12. Other expenses</b>			
Included in other expenses are the following :			
Audit services		87	74
Operating lease rentals		437	335
Councillors' remuneration		430	428
Other Councillor costs		121	99
		<u>1,075</u>	<u>936</u>

Councillor remuneration represents salary, superannuation contributions and other allowances paid in respect of carrying out their duties. In addition to these amounts, the Mayor received the use of a fully maintained motor vehicle and all Councillors received reimbursement for various expenses incurred. Council has resolved that councillors are not employees. Councillor remuneration is therefore not included in employee costs.

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

	Note	2011 (\$ 000's)	2010 (\$ 000's)
<b>13. Capitalised expenditure</b>			
Capitalised expenditure includes the following:			
New assets commissioned	20	11,459	8,528
Capital work in progress - opening balance		(7,507)	(820)
Capital work in progress - at year end	21	1,238	7,507
		<u>5,189</u>	<u>15,215</u>
Less other adjustments		-	(3,411)
		<u>5,189</u>	<u>11,804</u>
<b>14. Revenue dissections (refer note 3)</b>			
a. Fees and charges revenue was derived from:			
Animal control/ local law fees		160	144
Building fees		472	555
Cemetery fees		121	102
Change of ownership fees		47	53
Health fees		8	4
Planning and engineering fees		573	946
Property search fees		120	139
Sewerage fees and charges		-	48
Waste fees		119	133
Water fees and charges		-	279
Total		<u>1,619</u>	<u>2,401</u>
b. Sales contracts and recoverable works revenue was derived from:			
State Government transport entities		10,332	2,939
Water entities		22	731
Other		150	2,707
Total		<u>10,504</u>	<u>6,377</u>
c. Interest received from investments was derived from:			
Queensland Treasury Corporation		1,808	1,902
Queensland Urban Utilities		950	-
Various banks		1,626	488
Total		<u>4,384</u>	<u>2,390</u>
d. Penalty interest from rates and utility charges was derived from:			
General rates and other charges		139	87
Water		-	28
Sewerage		-	13
Garbage charges		21	18
Total		<u>160</u>	<u>147</u>
e. Other income was derived from:			
Centrelink agency fees		46	35
Commissions earned		59	58
Ex-Gratia Queensland Treasury payments		901	852
Sponsorships and contributions		1	45
Other income		172	139
Total		<u>1,178</u>	<u>1,130</u>
f. Various inspection program special charges comprised:			
Food Act inspection special charge		19	18
Dangerous Goods Safety Management Regulation charge		6	6
Environmental Protection Act inspection special charge		14	16
Extractive industries inspection program special charge		15	12
Kennels inspection program special charge		7	7
Intensive poultry farm inspection program special charge		16	15
Total		<u>77</u>	<u>73</u>

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

	Notes	2011 (\$ 000's)	2010 (\$ 000's)
<b>15. Cash and cash equivalents</b>			
Cash on hand – petty cash and cash floats		16	15
Cash at bank - operating fund (including unpresented cheques)		2,228	1,410
Less cheques drawn on operating fund but not presented at balance date		(2,112)	(464)
Cash at bank – trust fund		1,202	3,417
Term deposits		30,000	20,000
Short term investments at call		29,490	33,636
Balance per statement of cash flows		<u>60,824</u>	<u>58,014</u>
Externally imposed expenditure restrictions at the reporting date relate to the following cash assets:			
Unspent developer contributions		-	3,417
Total unspent restricted funds for capital and recurrent projects		<u>-</u>	<u>3,417</u>
Short term investments at call are held with the Queensland Treasury Corporation. The short term investments at call bear floating interest rates as detailed in note 31.			
<b>16. Trade and other receivables (current)</b>			
Rates and utility charges levied		1,691	1,422
Less: impairment of rates debtors		(15)	(19)
		<u>1,676</u>	<u>1,403</u>
Add: water charges not levied at balance date		-	1,138
		<u>1,676</u>	<u>2,541</u>
GST recoverable		425	113
Other debtors accrued		1,539	2,061
Other debtors levied		2,809	1,137
Less: impairment of non-rates debtors		(88)	(71)
		<u>4,685</u>	<u>3,240</u>
Prepayments		351	323
		<u>6,713</u>	<u>6,104</u>
Interest is charged on outstanding rates at a rate of 11% per annum. No interest is charged on other debtors. There is no concentration of credit risk for rates and utility charges and fees.			
Movement in accumulated impairment losses (rates and other debtors) is as follows:			
Opening balance - total impairment of rates and other debtors		(90)	(86)
Impairment		(13)	(4)
Closing balance - total impairment of rates and other debtors		<u>(103)</u>	<u>(90)</u>
<b>17. Inventories - current</b>			
Inventories held for sale			
Land purchased for development and sale		443	1,802
Inventories held for distribution			
Stores, sundry and road making materials		526	663
Total current inventories		<u>969</u>	<u>2,465</u>
Movement in land held for development and sale			
Opening balance		1,802	1,999
Land designated as inventories		-	212
Less: cost of developed land sold		(1,360)	(409)
Land purchased for development and sale (current and non-current)		<u>443</u>	<u>1,802</u>
Dissected as:			
Current		443	1,802
Non-current		-	-
		<u>443</u>	<u>1,802</u>
<b>18. Trade and other receivables (non-current)</b>			
Shareholder loan - Central SEQ Distributor-Retailer Authority trading as Queensland Urban Utilities	35	<u>13,804</u>	<u>-</u>

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

	Notes	2011 (\$ 000's)	2010 (\$ 000's)
<b>19. Investment in associate and other investments</b>			
<b>19a Carrying value of investments</b>			
<b>Non-Current</b>			
Right to participate in the profits of Central SEQ Distributor-Retailer Authority trading as Queensland Urban Utilities at 1 July 2010 - initial adjusted value	35	20,982	-
Plus 0.826% share of income of Queensland Urban Utilities less distributions received	35	704	-
Closing balance - investment in associate accounted for using the equity method	35	<u>21,685</u>	<u>-</u>

Council held a 1 share in SEQ Distribution Entity (Interim) Pty Ltd at year end and 8,000 shares in SEQ Regional Recreation Facilities Pty Ltd. Neither company is traded on an active market and both investments are valued at nil. Please refer note 1.15. Both holdings were initially recorded at cost (\$8,001) and have subsequently been fully impaired and now have a nil value.

**19b Summarised financial information**

The following table illustrates summarised financial information of the associate, Queensland Urban Utilities:

**Extract from the associate's statement of financial position:**

	2011 (\$ 000's)	2010 (\$ 000's)
Current assets	253,332	-
Non-Current assets	<u>4,350,936</u>	<u>-</u>
	<u>4,604,268</u>	<u>-</u>
Current liabilities	226,984	-
Non-Current liabilities	<u>1,797,824</u>	<u>-</u>
	<u>2,024,808</u>	<u>-</u>
Net assets	<u>2,579,460</u>	<u>-</u>
Share of associate's net assets	<u>21,685</u>	<u>-</u>

**Extract from the associate's statement of comprehensive income:**

	2011 (\$ 000's)	2010 (\$ 000's)
Revenue	874,283	-
Net profit	<u>130,934</u>	<u>-</u>
Share of associate's net profit	<u>1,082</u>	<u>-</u>



20. PROPERTY, PLANT AND EQUIPMENT

For the year ended 30 June 2011

Basis of measurement	Land	Buildings and other structures	Roads	Bridges	Underground drainage	Plant and Equipment	Water and sewerage	Total completed assets	Work in progress (see note 21)	Total
Asset Values	Revaluation 2011 (\$'000's)	Revaluation 2011 (\$'000's)	Revaluation 2011 (\$'000's)	Revaluation 2011 (\$'000's)	Revaluation 2011 (\$'000's)	Cost 2011 (\$'000's)	Revaluation 2011 (\$'000's)	2011 (\$'000's)	2011 (\$'000's)	2011 (\$'000's)
Opening balance	11,244	33,513	211,642	24,957	3,842	7,576	45,725	338,500	7,507	346,007
Additions at cost		4,609	2,383	3,125	-	1,342	-	11,459	(6,270)	5,189
Contribution of non-monetary assets by developers at fair value		-	626		341	-	-	968	-	968
Disposals *	(964)	-	-	(1,350)	-	(575)	(45,725)	(48,614)	-	(48,614)
Revaluation adjustment to the asset revaluation surplus		-	10,003	773	-	-	-	10,776	-	10,776
Revaluation adjustment to income	-	-	-	-	-	-	-	-	-	-
Assets classified as held for sale	-	-	-	-	-	-	-	-	-	-
Transferred between classes	-	-	-	-	-	-	-	-	-	-
Closing gross value	10,280	38,122	224,654	27,505	4,183	8,344	-	313,088	1,238	314,326

Accumulated Depreciation and Impairment

Opening balance	-	11,621	102,489	9,444	116	1,874	2,738	128,282	-	128,282
Depreciation provided in period	-	830	3,580	439	40	805	-	5,695	-	5,695
Depreciation on disposals *	-	-	-	(771)	-	(142)	(2,738)	(3,651)	-	(3,651)
Revaluation adjustment to the asset revaluation surplus	-	-	5,032	771	-	-	-	5,803	-	5,803
Revaluation adjustment to the asset revaluation surplus - due to 2011 Flood Event	-	-	19,052	-	-	-	-	19,052	-	19,052
Revaluation adjustment to Income - due to 2011 Flood Event	-	-	5,646	-	-	-	-	5,646	-	5,646
Impairment on disposals	-	-	-	-	-	-	-	-	-	-
Assets classified as held for sale	-	-	-	-	-	-	-	-	-	-
Internal transfers	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation at period end	-	12,451	135,798	9,884	156	2,537	-	160,826	-	160,826
Book value at period end	10,280	25,671	88,856	17,621	4,027	5,807	-	152,262	1,238	153,499

Revaluation adjustments

Total revaluation adjustments (overall decrement) (\$'000's)	-	-	(19,726)	2	-	-	-	(19,724)	-	(19,724)
Adjustment to asset revaluation surplus	-	-	(14,081)	2	-	-	-	(14,079)	-	(14,079)
Revaluation adjustment to Income - due to 2011 Flood Event	-	-	(5,646)	-	-	-	-	(5,646)	-	(5,646)
Book value of assets disposed of (refer note 8)	(964)	-	-	(579)	-	(433)	(42,987)	(44,963)	-	(44,963)

\* Bridges that were completely destroyed in the 2011 Flood Event have been included in Loss on Disposal of Capital Assets, refer Note 8

20. PROPERTY, PLANT AND EQUIPMENT

For the period ended 30 June 2010

Basis of measurement

Asset Values

Opening balance  
Additions at cost  
Contribution of non-monetary assets by developers at fair value  
Disposals  
Revaluation adjustment to the asset revaluation surplus  
Revaluation adjustment to income  
Assets classified as held for sale  
Transferred between classes  
Closing gross value

	Land	Buildings and other structures	Roads	Bridges	Underground drainage	Plant and Equipment	Water and sewerage	Total completed assets	Work in progress (see note 21)	Total
	Revaluation 2010 (\$ 000's)	Revaluation 2010 (\$ 000's)	Revaluation 2010 (\$ 000's)	Revaluation 2010 (\$ 000's)	Revaluation 2010 (\$ 000's)	Cost 2010 (\$ 000's)	Revaluation 2010 (\$ 000's)	2010 (\$ 000's)	2010 (\$ 000's)	2010 (\$ 000's)
	11,513	32,337	202,946	24,866	3,287	6,382	44,605	325,955	820	326,775
		2,548	4,161			1,640	179	8,528	6,687	15,215
	(57)	(1,371)	208		556		956	1,720		1,720
				(559)		(446)	(15)	(2,447)		(2,447)
			4,326	629				4,956		4,956
	(212)									
								(212)		(212)
	11,244	33,513	211,642	24,957	3,842	7,576	45,725	338,500	7,507	346,007

Accumulated Depreciation and Impairment

Opening balance  
Depreciation provided in period  
Depreciation on disposals  
Revaluation adjustment to the asset revaluation surplus  
Impairment adjustment to the asset revaluation surplus  
Impairment adjustment to income  
Impairment on disposals  
Internal transfers  
Accumulated depreciation at period end  
Book value at period end

	-	11,508	105,084	8,692	79	1,187	1,440	127,969	-	127,969
	-	825	3,713	454	37	805	1,299	7,134	-	7,134
	-	(712)		(559)		(117)	(1)	(1,389)	-	(1,389)
	-		(6,289)	857				(5,432)	-	(5,432)
	-								-	-
	-								-	-
	-								-	-
	-								-	-
	-								-	-
	-								-	-
	-								-	-
	-								-	-
	-	11,621	102,489	9,444	116	1,874	2,738	128,282	-	128,282
	11,244	21,893	109,153	15,512	3,727	5,702	42,987	210,218	7,507	217,725

Revaluation adjustments to the asset revaluation reserve

Total revaluation adjustments (overall increments) (\$'000's)

	-	-	10,615	(228)	-	-	-	10,387	-	10,387
--	---	---	--------	-------	---	---	---	--------	---	--------

Book value of assets disposed of (refer note 8)

(57)	(659)	-	-	-	-	(329)	(14)	(1,058)	-	(1,058)
------	-------	---	---	---	---	-------	------	---------	---	---------

## 20. PROPERTY, PLANT AND EQUIPMENT

Valuations of Non-Current Assets were determined by reference to the following:

### (i) Land

Land assets were independently valued as at 30 June 2009 at their fair value by Mr Neil Nelson (Registered Valuer No 3124) and Mr Dominic Power (Registered Valuer No 3135) of Rushion AssetVal Pty Ltd. Reserve land does not have a value for the purpose of the financial statements of Somerset Regional Council. The valuers indicated that they considered "relevant market information and economic factors" in arriving at their valuations. Land values were determined based on relevant sales of land in the locality and research of the various submarkets within the regional council area was undertaken through the analysis of sales evidence and discussions with real estate agents.

### (ii) Buildings and other structures

Buildings and other structures were independently valued as at 30 June 2009 at their fair value which represents depreciated replacement cost by Mr Neil Nelson (Registered Valuer No 3124) and Mr Dominic Power (Registered Valuer No 3135) of Rushion AssetVal Pty Ltd. The valuers noted in their report that "valuations have been prepared on an abbreviated bill of quantity methodology. We have relied upon costing references contained within Rawlinsons Australia Construction Handbook 2008 and 2009 encompassing Civil Works and Building costs. Rushion also has a database built up from research of building and site improvement costs. Actual costs of improvements identified during valuation exercises and also through research and contact with suppliers and builders have been collated. Discussions with building suppliers are particularly useful for assets such as sheds, park shelters, shade shelters, gazebos, barbeques, toilet blocks and transportable buildings. An assessment of the economic life and remaining economic life of the various assets has been derived by the Valuer from experience valuing similar assets and this forms the basis of the depreciated value of the asset." Buildings and other structures added during the year to 30 June 2011 have been brought to account at cost which represents fair value.

### (iii) Roads

Road assets were valued by Council's Manager of Operations, Mr Tony Jacobs (B Eng (Civil)), Registered Professional Engineer (RPEQ) and Registered Local Government Engineer and Fellow of the Institute of Public Works Engineering Australia) and Council Technical Officer, Mr G Winter (B Sc (Geology) and Assoc Dip Civil Engineering). Road assets were valued as at 1 July 2010 and again as at 30 June 2011. Mr Jacobs and Mr Winter relied on dimensional, condition, costing and other data collected during the period to assess the values of road assets and their components as at these dates.

Roads been valued at fair value being depreciated replacement cost. During the year, Council has sought to obtain further data in respect of the condition of its road assets particularly following major flooding during January 2011. The application of this new data and costing and other asset data has resulted in changes to accounting estimates of road asset valuations.

The changes in accounting estimates relating to road asset valuations are an increase in road asset values of \$10,003 million mainly arising from the effect of increased road construction costs and an increase in road asset accumulated depreciation and impairment of \$29,729 million mainly arising from the application of new asset condition data.

Please refer to note 1.17 (vii) for further information regarding the significant uncertainty inherent in the valuation of roads after major flooding in January 2011.

### (iv) Bridges

Council's bridges and hydraulic structures were valued by Council's Manager of Operations, Mr Tony Jacobs (B Eng (Civil)), Registered Professional Engineer (RPEQ) and Registered Local Government Engineer and Fellow of the Institute of Public Works Engineering Australia). Bridges were valued at fair value being depreciated replacement cost as at 30 June 2011. Mr Jacobs relied on dimensional, condition, costing and other data collected during the period to assess the values as at this date.

Please refer to note 1.17 (vii) for further information regarding the significant uncertainty inherent in the valuation of bridges after major flooding in January 2011. Four bridges were completely destroyed by severe flooding during January 2011.

### (v) Underground Drainage

Underground drainage assets were valued by Council's Manager of Operations, Mr Tony Jacobs (B Eng (Civil)), Registered Professional Engineer (RPEQ) and Registered Local Government Engineer and Fellow of the Institute of Public Works Engineering Australia). Underground drainage was valued at fair value being depreciated replacement cost as at 30 June 2010 plus additions to 30 June 2011 at fair value being depreciated replacement cost. Mr Jacobs relied on dimensional, condition, costing and other data collected to assess the values of underground drainage assets as at 30 June 2010. The movements in the valuation of underground drainage between 30 June 2010 and 30 June 2011 are not believed to be material by reference to Australian Bureau of Statistics producer price index class 3020 (non-residential construction). Above ground drainage is valued with road assets.

### (vi) Plant and equipment

Plant and equipment are shown in the statements at historical cost less accumulated depreciation.

### (vii) Water assets and sewerage assets

All network water and sewerage assets were transferred to Queensland Urban Utilities on 1 July 2010. Details of the transfer are disclosed at note 1.15 and note 35.

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

	Note	2011 (\$ 000's)	2010 (\$ 000's)	
<b>21. Capital works in progress component of property, plant and equipment</b>				
Capital works in progress is stated at cost and is represented by the following categories at the reporting date:				Movement 2010/2011
Bridges		253	2,826	(2,573)
Roads		567	514	53
Water and sewerage		-	419	(419)
Buildings and other structures		418	3,748	(3,330)
Total capital works in progress		<u>1,238</u>	<u>7,507</u>	<u>(6,270)</u>
<b>22. Trade and other payables</b>				
<b>Current</b>				
Trade creditors		923	726	
Sundry accruals		3,744	3,998	
Other liabilities		489	-	
Employee entitlements - annual leave		893	894	
Employee entitlements - accrued hours		63	61	
		<u>6,111</u>	<u>5,679</u>	
<b>23. Interest bearing liabilities</b>				
<b>Current</b>				
Loans - Queensland Treasury Corporation		<u>-</u>	<u>-</u>	
<b>Non-Current</b>				
Loans - Queensland Treasury Corporation		<u>-</u>	<u>-</u>	
The Council has an unsecured overdraft facility to a limit of:		50	50	
Unused portion:		<u>50</u>	<u>50</u>	

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

	Note	2011 (\$ 000's)	2010 (\$ 000's)
<b>24. Provisions</b>			
<b>Current</b>			
Long service leave		<u>150</u>	<u>168</u>
<b>Non-Current</b>			
Long service leave		1,625	1,333
Restoration of gravel pits		<u>139</u>	<u>134</u>
		<u>1,764</u>	<u>1,467</u>
Total long service leave provisions		<u>1,775</u>	<u>1,501</u>
Long service leave has been reclassified as a provision (formerly included with payables)			
Details of movements in provisions:			
Long service leave			
Balance at beginning of financial year		1,501	
Long service leave entitlement arising		425	
Long service leave entitlement extinguished		-	
Long service leave entitlement paid		<u>(150)</u>	
Balance at end of financial year		<u>1,775</u>	
Restoration of gravel pits			
Balance at beginning of financial year		134	
Increase in provision due to unwinding of discount			
Increase/(decrease) in provision due to change in discount rate		<u>5</u>	
Balance at end of financial year		<u>139</u>	
This is the present value of the estimated cost of restoring the quarry sites to a usable state at the end of their useful lives. The projected cost that is expected to be incurred in 2027 is:			
		<u>269</u>	<u>297</u>

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

	Note	2011 (\$ 000's)	2010 (\$ 000's)
<b>25. Asset revaluation surplus</b>			
Balance at beginning of period		19,841	9,454
Net adjustment to non-current assets at end of period to reflect a change in current fair value or (impairment)			
Land	20	-	-
Buildings and other structures	20	-	-
Road assets	20	(14,081)	10,615
Bridge assets	20	2	(228)
Underground drainage assets	20	-	-
Water and sewerage assets	20	-	-
		<u>(14,079)</u>	<u>10,387</u>
Less: transfer to retained surplus on disposal of class of assets - water and sewerage assets		<u>(1,970)</u>	<u>-</u>
Balance of asset revaluation surplus at end of period		<u><u>3,793</u></u>	<u><u>19,841</u></u>
 Asset revaluation surplus analysis			
The asset revaluation surplus consists of the following components:			
Land		686	686
Buildings and other structures		2,932	2,932
Road assets		-	14,081
Bridge assets		175	173
Underground drainage assets		-	-
Water and sewerage assets		-	1,970
Balance of asset revaluation surplus		<u><u>3,793</u></u>	<u><u>19,841</u></u>

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

**26. Reserves**

**As at 30 June 2011**

**A. Reserves held for future capital expenditure**

	Opening balance (\$ 000's)	Transfer from retained surplus for future expected expenditure (\$ 000's)	Transfers to retained surplus, amount expended in the period (\$ 000's)	Closing balance (\$ 000's)
Capital grants reserve	-	-	-	-
Asset replacement reserve	13,558	-	-	13,558
Plant reserve	300	-	-	300
Constrained works reserve	3,417	703	(2,919)	1,202
Building reserve	197	-	-	197
Atkinson Dam Road Maint Reserve	88	-	(14)	74
Pine Mountain Road Maint Reserve	4	-	(3)	2
Rocky Gully Road Maint Reserve	12	-	(0)	12
Sinnamons Lane Road Maint Reserve	14	5	-	19
Skew Gully Road Maint Reserve	12	5	-	16
Tennis court major maintenance reserve	115	7	-	122
Light plant fleet reserve	1,075	-	-	1,075
Buaraba Creek Road Maint Reserve	6	-	(6)	-
Kavanaghs Road Maint Reserve	1	-	(1)	-
<b>Total reserves held for future capital expenditure</b>	<b>18,799</b>	<b>720</b>	<b>(2,941)</b>	<b>16,577</b>

**B. Reserves held for future recurrent expenditure**

Environmental reserve				
Elections reserve	216	-	-	216
Esk Showground Sport + Recreation Reserve	95	25	-	120
Legal expenses reserve	-	-	-	-
Disaster management reserve	248	-	-	248
New financial system reserve	180	236	-	416
Recurrent revenue reserve	328	272	-	600
Land Sales Reserve	245	6	-	251
<b>Total reserves held for future recurrent expenditure</b>	<b>5,677</b>	<b>4,245</b>	<b>-</b>	<b>9,923</b>
<b>Grand total</b>	<b>6,989</b>	<b>4,785</b>	<b>-</b>	<b>11,774</b>
	<b>25,788</b>	<b>5,505</b>	<b>(2,941)</b>	<b>28,351</b>

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

**26. Reserves**

**As at 30 June 2010**

**A. Reserves held for future capital expenditure**

	Opening balance (\$ 000's)	Transfer from retained surplus for future expected expenditure (\$ 000's)	Transfers to retained surplus, amount expended in the period (\$ 000's)	Closing balance (\$ 000's)
Capital grants reserve	1,604	-	(1,604)	-
Asset replacement reserve	8,340	5,219	-	13,558
Plant reserve	300	-	-	300
Constrained works reserve	8,294	891	(5,767)	3,417
Building reserve	197	-	-	197
Atkinson Dam Road Maint Reserve	89	-	(1)	88
Pine Mountain Road Maint Reserve	6	-	(2)	4
Rocky Gully Road Maint Reserve	18	-	(6)	12
Sinnamons Lane Road Maint Reserve	11	3	-	14
Skew Gully Road Maint Reserve	6	6	-	12
Tennis court major maintenance reserve	104	11	-	115
Light plant fleet reserve	1,075	-	-	1,075
Buaraba Creek Road Maint Reserve	8	-	(3)	6
Kavanaghs Road Maint Reserve	9	-	(8)	1
<b>Total reserves held for future capital expenditure</b>	<b>20,059</b>	<b>6,129</b>	<b>(7,390)</b>	<b>18,799</b>

**B. Reserves held for future recurrent expenditure**

	Opening balance (\$ 000's)	Transfer from retained surplus for future expected expenditure (\$ 000's)	Transfers to retained surplus, amount expended in the period (\$ 000's)	Closing balance (\$ 000's)
Environmental reserve	216	-	-	216
Elections reserve	70	25	-	95
Esk Showground Sport + Recreation Reserve	-	-	-	-
Legal expenses reserve	248	-	-	248
Disaster management reserve	180	-	-	180
New financial system reserve	328	-	-	328
Recurrent revenue reserve	206	39	-	245
Land Sales Reserve	4,367	1,310	-	5,677
<b>Total reserves held for future recurrent expenditure</b>	<b>5,615</b>	<b>1,375</b>	<b>-</b>	<b>6,989</b>
<b>Grand total</b>	<b>25,674</b>	<b>7,504</b>	<b>(7,390)</b>	<b>25,788</b>



**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

	2011 (\$ 000's)	2010 (\$ 000's)
<b>27. Commitments and contracts</b>		
(a) Finance lease commitments (expenditure)		
At the reporting date, the Council had no obligations under finance leases		
(b) Operating lease commitments (expenditure)		
At the reporting date, the Council had the following minimum obligations under non-cancellable operating leases (these obligations are not recognised as liabilities):		
Not later than 1 year	290	217
Later than 1 year, but not later than 5 years	141	135
Later than 5 years	-	-
	<u>431</u>	<u>352</u>
Operating lease expenditure incurred during the period:	<u>437</u>	<u>335</u>
(c) Contractual commitments – recurrent expenditure		
At the reporting date, the Council had the following obligations under contract and which have not been recognised as liabilities:		
Not later than 1 year	737	583
Later than 1 year, but not later than 5 years	2,333	959
Later than 5 years	2,454	-
	<u>5,524</u>	<u>1,542</u>
(d) Contractual commitments – capital expenditure		
At the reporting date, the Council had the following obligations under contract and which have not been recognised as liabilities:		
Buildings	165	840
Plant and equipment	155	90
Infrastructure assets	259	38
	<u>579</u>	<u>968</u>
These expenditures are payable within the next 12 months.		
(e) Operating leases where Council is lessor (revenue)		
Council leases commercial premises under short term operating leases. The minimum lease payments are as follows:		
Not later than 1 year	99	75
Later than 1 year, but not later than 5 years	176	169
Later than 5 years	72	-
	<u>347</u>	<u>244</u>

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

**28. Contingent Liabilities**

Various claims may be made against Council in the ordinary course of its business activities.

After consulting legal advisers, Council considers that there are no claims against Council as at 30 June 2011 that required a provision to be recognised or a contingent liability to be disclosed in the financial report.

**Memberships of Insurance Schemes**

Somerset Regional Council is a member of the local government self-insurance scheme, Local Government Workcare. Under this scheme the Council has provided an indemnity towards a bank guarantee to cover bad debts which may remain should the self insurance licence be cancelled and there was insufficient funds available to cover outstanding liabilities. Only the Queensland Government's workers compensation authority may call on any part of the guarantee should the above circumstances arise.

	<b>2011</b>	<b>2010</b>
	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>
The Council's maximum exposure is:	<u>530</u>	<u>455</u>

Somerset Regional 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 is to the total pool contributions in respect to any year that a deficit arises. As at 30 June 2010 the financial statements reported an accumulated equity of \$16.2 million (30 June 2009 - \$9.7 million). As at the reporting date the Council's share of any liability (if any) cannot be reliably estimated.

**Landfill**

Council operates a landfill near Esk. Whilst it is believed that Council is meeting its current legal and licence obligations under the Environmental Protection Act and other environmental regulations in operating this landfill including carrying out site remediation work as part of ongoing operations, a contingent liability may exist for future work that may be required if the specifications for environmental protection are changed or if there is an unforeseen leakage or other environmental contamination. No reliable estimate can be made in respect of any potential liability (if any).

## **29. Superannuation**

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

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

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

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

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

The audited general purpose financial report of the scheme as at 30 June 2010 (the most recent available) which was not subject to any audit qualification, indicates that the assets of the scheme are sufficient to meet the vested benefits.

The most recent actuarial assessment of the scheme was undertaken as at 1 July 2009.

The actuary indicated that "the DBF is in a very modest financial position with regard to the net asset coverage of vested liabilities. Investment returns will be volatile under the required investment strategy, particularly over short periods. The DBF therefore needs sufficient reserves to be able to withstand a reasonable range of such influences. Because the DBF is now running down and cash flows are negative, the VBI (vested benefit index) should not be allowed whenever possible to retreat below 100%. Once below 100%, benefits drawn reduce the available assets for remaining members and hence the net asset coverage of vested benefits declines further. In order to withstand a one in ten 'low return' outcome, the DBF would need reserves of the order of 8% to 10% having regard to the investment strategy adopted. Given the current position of the DBF, such reserve can essentially only eventuate from either excess investment returns over salary increases or additional employer contributions. "

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

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

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

<b>2011</b>	<b>2010</b>
<b>(\$ 000's)</b>	<b>(\$ 000's)</b>
<u>1,227</u>	<u>1,159</u>

## **30. Executive remuneration**

Disclosures under S 201 of the Local Government Act 2009

Total remuneration packages payable to senior contract employees:

<u>890</u>
------------

The number of senior contract employees was:

2 senior contract employees with a total remuneration package in the range of \$120000–\$149000

2 senior contract employees with a total remuneration package in the range of \$150000–\$175000

1 senior contract employee with a total remuneration package in the range of \$200000–\$299000

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

**31. Financial instruments**

Somerset Regional Council's activities expose it to a variety of financial risks including interest rate risk and credit risk.

**(a) Interest rate risk**

The Council's exposure to interest rate risk, which is the risk that the value of a financial instrument will fluctuate as a result of changes in market rates and the weighted average interest rate by maturity periods is set out in the table below. For interest rates applicable to each class of asset or liability refer to individual notes to the financial statements.

Exposure arises predominantly from assets and liabilities bearing variable interest rates. At 30 June 2011, Council has no fixed rate or variable rate borrowings and interest rate risk on borrowings is managed through the absence of borrowings.

Borrowing by the Council is constrained by the provisions of the Statutory Bodies Financial Arrangements Act 1982.

Council has an investment policy which sets an objective to maximize earnings on cash investments within approved risk guidelines and to ensure the security of funds.

Interest rate risk relating to investments has been managed through the use of both Queensland Treasury Corporation (QTC) Cash Fund investments so that Council achieves Queensland State Government investment returns and through investment in term deposits with fixed interest rates where appropriate. Council does not undertake any hedging of interest rate risk.

In terms of Standard and Poors ratings, all investments were AA-rated products with AA-rated institutions or better,

As at 30 June 2011 all cash investments complied with the investment policy.

In assessing whether to invest in AA rated products other than Queensland Government investments, Council officers assess whether the investment product would have a more advantageous rate of interest available at the time, for that investment type, and in a way that is considered most appropriate given the circumstances.

Council also holds a shareholder loan receivable with Queensland Urban Utilities with a fixed interest rate described in note 1.12.

Actual cash and investment balances as at balance date were as follows:

	<b>2011</b>	<b>2010</b>
	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>
Working cash, trust funds and cash on hand	1,333	4,378
AA-rated products at AA-rated financial institutions or better	30,000	20,000
QIC/QTC Pooled Cash Management Fund	29,490	33,636
Shareholder loan - Queensland Urban Utilities	13,804	-
<b>Total</b>	<b>74,628</b>	<b>58,014</b>

Interest rate risk has been measured using sensitivity analysis.

The sensitivity analysis described below is unchanged on the method reported in the financial statements for the year ended 30 June 2010.

If market interest rates increased or decreased by 1%, the net result attributable to the Council in respect of cash assets and cash equivalents would be increased or decreased as follows:

<b>Interest rate risk sensitivity analysis</b>	<b>2011</b>	<b>2010</b>
	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>
Impact on carrying amount of 1% increase in market interest rates on financial assets	-	-
Impact on net result of 1% increase in market interest rates on financial assets	607	571
Impact on equity of 1% increase in market interest rates on financial assets	607	571

The above interest rate sensitivity analysis depicts the outcome to net result should there be a 1% increase in market interest rates. The calculations assume that the rate would be held constant over the next financial year, with the change occurring at the beginning of that year. It is assumed that interest rates on overdue rates would not change. If the rates decreased by 1% the impact would be equal in amount in the reverse direction. Because Council holds no interest bearing liabilities, there is no interest rate risk in respect of financial liabilities and no sensitivity analysis is required.

The above analysis does not incorporate the shareholder loan for which a fixed rate of interest applies until 30 June 2013.

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

**31. Financial instruments**

**Interest rate and maximum credit risk disclosures**

Financial Instrument	Floating Interest Rate (\$ 000's)	Fixed Interest Rate (\$ 000's)	Non-interest Bearing (\$ 000's)	Total (\$ 000's)	Weighted average effective interest rate %
<b>As at 30 June 2011</b>					
<b>Financial Assets</b>					
Cash assets and cash equivalents - 1	-	-	132	132	0.00%
Cash assets and cash equivalents - 2	30,692	-	-	30,692	5.48%
Cash assets and cash equivalents - 3	-	30,000	-	30,000	6.23%
Receivables - 1	-	1,691	-	1,691	11.00%
Receivables - 2	-	-	5,022	5,022	0.00%
Investments	-	-	13,804	13,804	6.78%
Total financial assets	30,692	31,691	18,957	81,340	
Weighted average interest rate	5.48%	6.48%	4.94%	5.74%	
<b>Financial liabilities</b>					
Payables	-	-	6,112	6,112	0.00%
Provisions	-	-	1,914	1,914	0.00%
Total financial liabilities	-	-	8,026	8,026	
	0.00%	0.00%	0.00%	0.00%	
Net financial assets	30,692	31,691	10,932	73,315	
<b>As at 30 June 2010</b>					
<b>Financial Assets</b>					
Cash assets and cash equivalents - 1	-	-	961	961	0.00%
Cash assets and cash equivalents - 2	37,053	-	-	37,053	5.18%
Cash assets and cash equivalents - 3	-	20,000	-	20,000	6.00%
Receivables - 1	-	1,422	-	1,422	11.00%
Receivables - 2	-	-	4,682	4,682	0.00%
Investments	-	-	-	-	0.00%
Total financial assets	37,053	21,422	5,643	64,118	
Weighted average interest rate	5.18%	6.33%	0.00%	5.11%	
<b>Financial liabilities</b>					
Payables	-	-	5,679	5,679	0.00%
Provisions	-	-	1,914	1,914	0.00%
Total financial liabilities	-	-	7,593	7,593	
	0.00%	0.00%	0.00%	0.00%	
Net financial assets	37,053	21,422	(1,949)	56,525	

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

**31. Financial instruments**

**(b) Credit risk exposure**

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

The credit risk on financial assets of the Council which have been recognised on the statement of financial position is generally the carrying amount less impairment and the maximum exposure to credit risk is as indicated in the previous table.

As at 30 June 2011, \$2.697 million out of a total \$2.809 million of other debtors levied was owing by the Queensland State Government.

There is not considered to be any other concentration of credit risk in relation to receivables.

Credit risk on receivables is mainly managed through the existence and use of the sale of land for rate arrears powers contained in applicable legislation and credit risk on non-rate debtors is managed through Council policies which require security such as bank guarantees before contracts are entered into with non-government bodies. No collateral is held as security relating to the financial assets held by the Council.

Credit risk relating to investments is managed through the use of Queensland Treasury Corporation Cash Fund investments for all funds under investment so that Council's capital is guaranteed by the Queensland State Government. The Queensland State Government and therefore, Queensland Treasury Corporation has a long term credit rating of AA+ by rating agency Standard and Poor's. Credit risk on debtors is measured through regular analysis of aging of debts. Impairment due to doubtful debts are disclosed at note 16.

**Past due or impaired**

No financial assets have had their terms renegotiated so as to prevent them from being past due or impaired, and are stated at the carrying amounts as indicated. The following table represents an analysis of the age of the Council's financial assets that are either fully performing, past due or impaired:

<b>Aging analysis</b>		<b>Receivables</b>	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>
			<b>2011</b>	<b>2010</b>
	Fully performing		4,289	4,503
	Past due	Less than 30 days	-	-
	Past due	30-60 days	585	107
	Past due	61-90 days	553	617
	Past due	More than 90 days	1,182	788
	Impaired		103	90
	<b>Total</b>		<b>6,713</b>	<b>6,104</b>

The ageing analysis used is unchanged on the method reported in the financial statements for the year ended 30 June 2010.

**(c) Liquidity risk**

Liquidity risk refers to the situation where the Council may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Council has no interest bearing financial liabilities and there is considered to be negligible liquidity risk.

The Council had an overdraft facility up to \$50,000 that was unused as at both 30 June 2011 and 30 June 2010. Council's investment policy requires that the investment portfolio will maintain sufficient liquidity to meet all reasonably anticipated operating cash flow requirements of Council, as and when they fall due, without incurring significant transaction costs due to being required to sell an investment.

The following analysis is presented to illustrate why there is considered to be negligible liquidity risk.

<b>Maturity analysis</b>		<b>(\$ 000's)</b>	<b>(\$ 000's)</b>
		<b>2011</b>	<b>2010</b>
Cash and cash equivalents		60,824	58,014
Less: investments with maturity dates more than 5 months after balance date		-	-
Liquid cash and cash equivalents		60,824	58,014
Payments to suppliers and employees for the year ended 30 June		(45,885)	(25,322)
Payments for property, plant and equipment for the year ended 30 June		(5,630)	(11,954)
Cash balance held at year end less total prior financial year cash outflows		9,309	20,738

The maturity analysis used was not reported in the financial statements for the year ended 30 June 2010 as the risk was (and is) considered negligible.

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

	Note	2011 (\$ 000's)	2010 (\$ 000's)
<b>32. Reconciliation of net result attributable to Council to net cash inflows from operating activities</b>			
Net result from continuing operations		(13,448)	13,590
Non-cash operating items :			
Contribution of non-monetary non-current assets at fair value	9	(968)	(3,411)
Share of the profit of associated entity accounted for using the equity method	35	(1,082)	-
Add back distributions received from the profits of associated entity	35	377	-
Revaluation decrement of road assets in excess of balance held in asset revaluation surplus		5,646	-
Depreciation and amortisation	4	<u>5,695</u>	<u>7,134</u>
		9,669	3,723
Investing and development activities :			
Net (profit) loss on sale of developed land	7	(2,849)	(852)
Proceeds from sale of developed land	7	4,209	1,261
Net (profit) loss on disposal of non current assets	8	<u>10,047</u>	<u>(896)</u>
		11,407	(487)
Changes in operating assets and liabilities :			
(Increase) decrease in receivables		(609)	(2,477)
(Increase) decrease in inventories held for distribution		137	(129)
Increase (decrease) in provisions		280	6
Increase (decrease) in payables		<u>433</u>	<u>2,828</u>
		241	229
Net cash inflow from operating activities		<u><u>7,869</u></u>	<u><u>17,054</u></u>
<b>33. Trust Funds</b>			
Monies collected or held on behalf of another entity yet to be paid out to or on behalf of that entity		<u><u>1,104</u></u>	<u><u>1,161</u></u>

Council performs only a custodial role in respect of these monies, and because the monies cannot be used for Council, they are not brought to account in these financial statements.

**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

**34. Events after balance date**

**Water reform**

The Minister for Energy and Water Utilities wrote to Council on 12 May 2011 requiring council to advise of its preferred approach to the future structure of water and wastewater services in its region and in particular whether Council wished to remain as a participant in Queensland Urban Utilities (refer note 1.15) or whether it wished for relevant water and sewerage assets and operations within the Somerset Regional Council area to be returned to the Council while meeting all related disestablishment costs.

The Minister's letter advised as follows in regard to disestablishment costs:

"It is solely a decision on the part of a council to disaggregate their water and wastewater business from their respective distributor-retailer. It follows that any disestablishment costs are not only entirely avoidable by a council but in any event should be borne by the relevant withdrawing council. Furthermore, if a council chooses to withdraw, any reasonable consequential costs incurred by the remaining participating local governments must also be borne by the withdrawing council."

Council resolved as follows on 26 July 2011:

"That Somerset Regional Council advise the Minister for Energy and Water Utilities that it is Council's final position to remain with Queensland Urban Utilities."



**SOMERSET REGIONAL COUNCIL**  
**Notes to the financial statements**  
**For the year ended 30 June 2011**

**35. Transfer of assets to Queensland Urban Utilities and acquisition of equity and loan receivable**

As outlined in note 1.15, Council's water and sewerage assets and operations transferred to Queensland Urban Utilities on 1 July 2010 in exchange for an investment (known as "participation rights") in that associated entity.

A loss was incurred in respect of this transfer.

The investment in Queensland Urban Utilities comprises the participation rights and a fixed rate interest only shareholder loan (see note 1.12).

The transactions are dissected as follows:

	Note	2011 (\$ 000's)
<b>Transfer of assets and operations to Queensland Urban Utilities</b>		
<b>Book value of assets and liabilities transferred</b>		
Water and sewerage infrastructure assets		42,986
Land used for water and sewerage purposes		919
Water and sewerage work in progress		423
Plant and equipment used for water and sewerage purposes		202
Total assets transferred		44,530
Less employee entitlements at cost transferred		(183)
Nett value of assets and liabilities transferred		<u>44,347</u>
<b>Fair value of compensation received</b>		
Investment in associated entity		20,981
Net shareholder debt at valuation		13,804
		<u>34,785</u>
<b>Net gain/(loss) on transfer of assets and liabilities to Queensland Urban Utilities</b>		<u><u>9,562</u></u>

### **36. National Competition Policy**

#### **Activities to which the code of competitive conduct applies**

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

(a) Roads business activity means :

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

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

(b) Business activity means

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

(ii) the submission of a competitive tender in the local government's own tendering process in competition with others for the provision of goods and services to itself.

Excluded activities are (a) library services and (b) an activity or part thereof prescribed by legislation. These business activities are referred to as type 3 activities.

Larger Councils may also be subject to provisions involving type 1 or type 2 business activities. Somerset Regional Council has no activities with expenditure amounts in excess of type 1 or type 2 thresholds. Local governments may elect to apply a Code of Competitive Conduct (CCC) to their identified business activities. This requires the application of full cost pricing, identifying the cost of community service obligations (CSO) and eliminating the advantages and disadvantages of public ownership within that activity. The application of the CCC to the roads business activity is compulsory. Council had no roads business transactions as defined in 2010/2011.

On 14 May 2008, Council resolved to no longer apply the Code of Competitive Conduct to any business activity.

### **37. Discontinued operations**

The disposal of Council's water and sewerage assets and operations to Queensland Urban Utilities on 1 July 2010 represents a discontinued operation as defined in AASB 5.

The following disclosures are made in relation to the water and sewerage discontinued operations:

	Note	2011 (\$ 000's)	2010 (\$ 000's)
Revenue from discontinued operations	2	-	7,696
Expenses from discontinued operations	2	-	(5,612)
Profit from discontinued operations	2	-	2,084
Related income tax expense		-	-
Gain or loss recognised on the disposal of the assets constituting discontinued operations	35	(9,562)	-
Related income tax expense		-	-
Depreciation - discontinued operations	11	-	1,299
Net cash flow from discontinued operations - operating activities		-	3,383
Net cash flow from discontinued operations - investing activities	20	-	179
Net cash flow from discontinued operations - financing activities		-	-

**SOMERSET REGIONAL COUNCIL**

**MANAGEMENT CERTIFICATE**

For the year ended 30 June 2011

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

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

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

In addition we certify that, in our opinion:

- (i) the prescribed requirements of the Local Government Act 2009 and associated Regulations for the establishment and keeping of accounts have been complied with in all material respects; and
- (ii) the general purpose financial statements have been prepared in accordance with Australian accounting standards (including Australian Accounting Interpretations and other authoritative pronouncements issued by the Australian Accounting Standards Board); and
- (iii) the general purpose financial statements present a true and fair view of the Council's financial position as at 30 June 2011 and of its financial performance and cash flows for the financial year ended on that date.



---

Cr Graeme Lehmann  
Mayor

Date: 2/12/11



---

Robert Bain  
Chief Executive Officer

Date: 2/12/11

## INDEPENDENT AUDITOR'S REPORT

To the Mayor of Somerset Regional Council

### Report on the Financial Report

I have audited the accompanying financial report of Somerset Regional Council, which comprises the statement of financial position as at 30 June, 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and certificates given by the Mayor and Chief Executive Officer.

#### *The Council's Responsibility for the Financial Report*

The Council is responsible for the preparation of the financial report that gives a true and fair view in accordance with prescribed accounting requirements identified in the *Local Government Act 2009* and *Local Government (Finance, Plans and Reporting) Regulation 2010*, including compliance with Australian Accounting Standards. The Council's responsibility also includes such internal control as the Council determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial report.

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

#### *Independence*

The *Auditor-General Act 2009* promotes the independence of the Auditor-General and all authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

## Opinion

In accordance with s.40 of the *Auditor-General Act 2009* –

- (a) I have received all the information and explanations which I have required; and
- (b) in my opinion -
  - (i) the prescribed requirements in relation to the establishment and keeping of accounts have been complied with in all material respects; and
  - (ii) the financial report presents a true and fair view, in accordance with the prescribed accounting standards, of the financial performance and cash flows of Somerset Regional Council for the financial year 1 July 2010 to 30 June 2011 and of the financial position as at the end of that year.

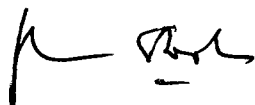
### *Emphasis of Matter - Significant Uncertainty Regarding the Valuation of Road and Bridge Assets*

Attention is drawn to Note 1.17(vii) to the financial statements which describes the uncertainty around the reported written down values for road and bridge assets at 30 June 2011 following the extensive damage suffered by Council as a result of the January 2011 flood event. My opinion is not modified in respect of this matter.

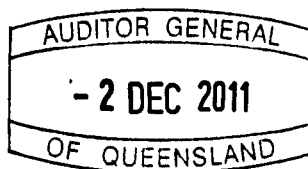
### **Other Matters - Electronic Presentation of the Audited Financial Report**

This auditor's report relates to the financial report of Somerset Regional Council for the year ended 30 June, 2011. Where the financial report is included on Somerset Regional Council's website the Council is responsible for the integrity of Somerset Regional Council's website and I have not been engaged to report on the integrity of Somerset Regional Council's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or otherwise included with the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

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



G G POOLE FCPA  
Auditor-General of Queensland



Queensland Audit Office  
Brisbane