COMMUNITY FINANCIAL REPORT

(section 184 Local Government Regulation 2012)

The Community Financial Report is designed to give interested parties a better understanding of the financial performance and financial position of Council for the financial year. The information presents a summary of the financial results for the 2018-2019 year.

Revenue

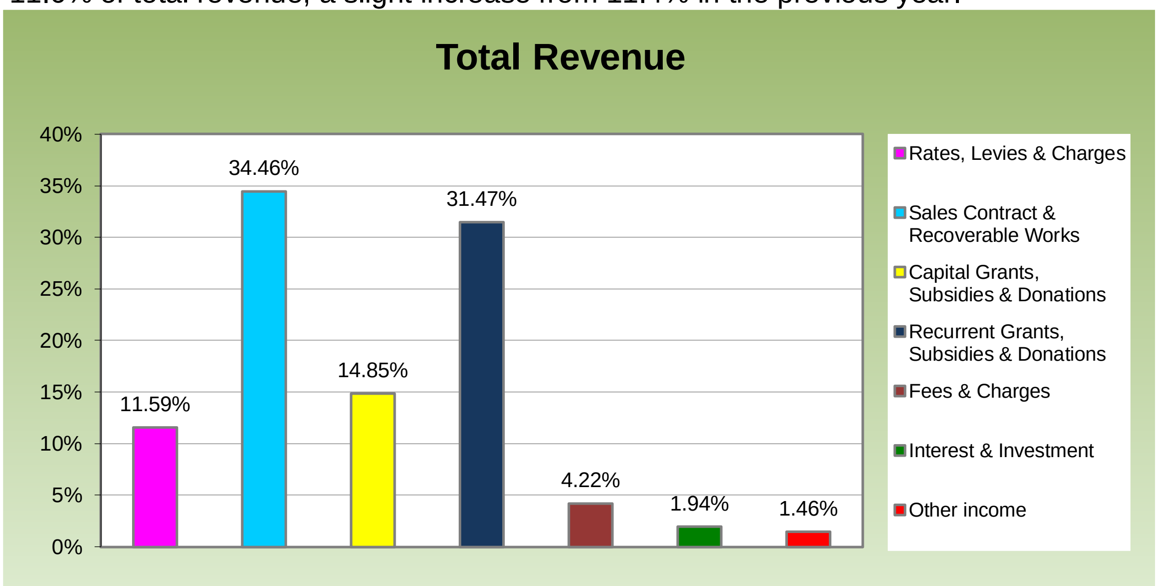
The two main categories of revenue are recurrent revenue and capital revenue. Council's recurrent revenue is money raised that is used to fund the operations of Council. Council raises recurrent revenue from income sources such as rates, levies and charges, grants, subsidies and donations, contract and recoverable works revenue, interest, fees and charges, rents and other income. Council's capital revenue is sourced for the purpose of constructing and/or reconstructing Council's assets now and into the future. Capital revenue consists of grants, subsidies and donations, as well as gains/losses on disposal of assets.

Total recurrent revenue has increased slightly from $29.1M in 2017-18 to $29.8M in 2018-19. Whilst there were overall increases in rates and charges, fees and charges and these were offset by a reduction in sales contract and recoverable works revenue. Recurrent grants revenue received in 2018-19 increased from the previous year by $2.9M. Sales contract and recoverable works revenue comprised 40.4% and grants, subsidies, contributions and donations was 37% of recurrent revenue.

It is important to note that sales contract and recoverable works revenue is almost all related to Transport and Main Roads contract works on state owned assets. An analysis of income shows these works have decreased in the amount of $2.7M compared to the previous financial year. Council is heavily reliant on both sales contract and recoverable works and grant revenue and although there was revenue for the year in this area the amount was still substantial.

Capital revenue of $5.2M marginally higher than the previous year of $4.5M. Capital revenue is sourced for the purpose of constructing assets, including upgrades and renewals.

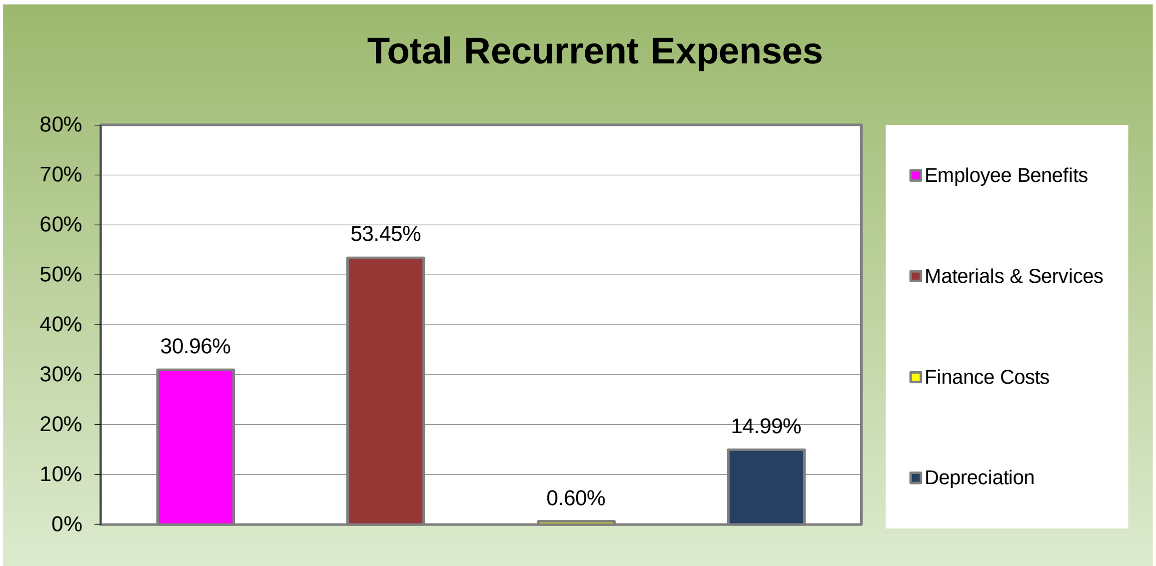
Council's ability to raise income from rates, levies and charges is limited. The income generated from this source is 11.6% of total revenue, a slight increase from 11.4% in the previous year.



Expenses

Council's recurrent expenses include employee benefits, materials and services, finance costs and depreciation. These line items represent the cost to Council of providing services, operating facilities and maintaining assets.

Council's recurrent expenditure increased by $0.8M compared to the previous year. This was not surprising given the significant increase in sales contract and recoverable works.



The Statement of Financial Position

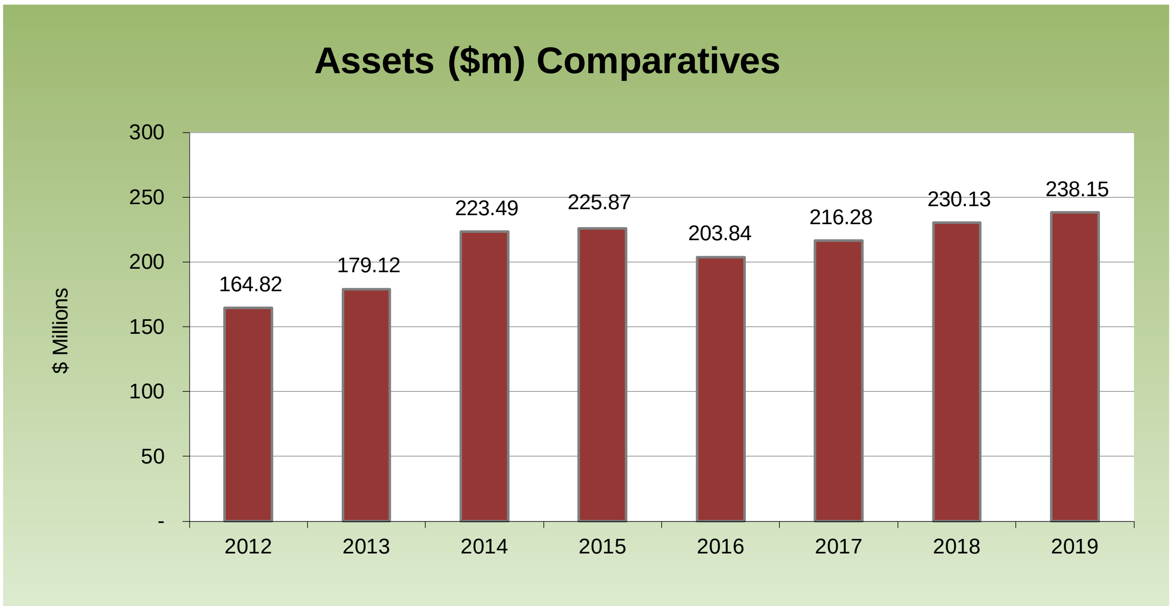
This statement is often referred to as the balance sheet and summarises the financial position of Council at the end of the financial year. The statement measures what Council owns (assets) and what Council owes (liabilities) at the end of the financial year with the difference between these two components being the net community wealth (equity of Council).

Assets

Property plant and equipment increased by $13.4M which is the net result of asset purchases/additions, disposals, depreciation and revaluations. Trade and other receivables increased in the amount of $0.7M.

There was a decrease in the cash balance of $6.1M, this decrease was due mainly to investment in the Lake Project.

Council had $16.5M invested in a cash management account with Queensland Treasury Corporation. A short term deposit amounting to $3M was also held with the National Australia Bank. Interest received on cash investments for the year was $0.7M.



Property, plant and equipment is the largest asset type comprising $211.9M. Property, plant and equipment is made up of Council asset classes including land, buildings, recreation facilities, plant and equipment, corporate and IT, road network, water network, sewer network, stormwater drainage network, waste / landfill and works in progress. Council's road network assets are the largest component of property, plant and equipment amounting to $118.4M.

Liabilities

Council's liabilities comprise amounts owing for provisions, borrowings and trade and other payables. The provisions balance comprises employee entitlements for long service leave and the restoration of the Hughenden Landfill in future years. Trade and other payables are made up of annual leave entitlements in future years.

Borrowings of $1.9M relate to loans from Queensland Treasury Corporation. Council has not had any borrowings for many years and these loans have been taken out to construct a new sewer network in North Hughenden, upgrade the Sewerage Treatment Plant and replace Caravan Park infrastructure.

The Statement of Changes in Equity

Community equity is represented by Council's net worth. This is calculated by what Council own, minus what Council owes.

Total Assets $238.1M – Total Liabilities $5.6M = Community Equity $232.5M

Community equity increased by $8.3M compared to the previous year. An annual condition assessment of Council's assets undertaken by Council's engineers resulted in a $0.4M increment in the asset revaluation surplus.

Council's retained surplus represents amounts which have been invested into assets to provide services. The asset revaluation surplus comprises amounts representing the asset retained capital and other change in the value of Council's assets over time.

The Statement of Cash Flows

The Statement of Cash Flows identifies the cash received and cash spent throughout the year. The statement shows Council's ability to cover its expenditures and where those funds are derived. Council's cash balance decreased in the amount of $6.1M compared to the previous year.

Council's cash flows from operating activities incorporate the recurrent activities of Council. The cash flows from investing activities shows Council spent $17.8M investing in property, plant and equipment. This includes capital works on Council's road network assets and other asset classes.

Cash flows from financing activities shows that Council made principal repayments of $0.274M on all loans during the year.

Financial Ratios

Section 169 of the *Local Government Regulation 2012* requires the inclusion of the relevant measures of financial sustainability. These ratios are also included in Council's long term financial plan with reviews conducted on a regular basis. The targets have been set by the Department of Local Government and Planning.

The Operating Surplus Ratio

The operating surplus ratio measures the extent to which revenue raised (excluding capital grants and contributions) covers operational expenses.

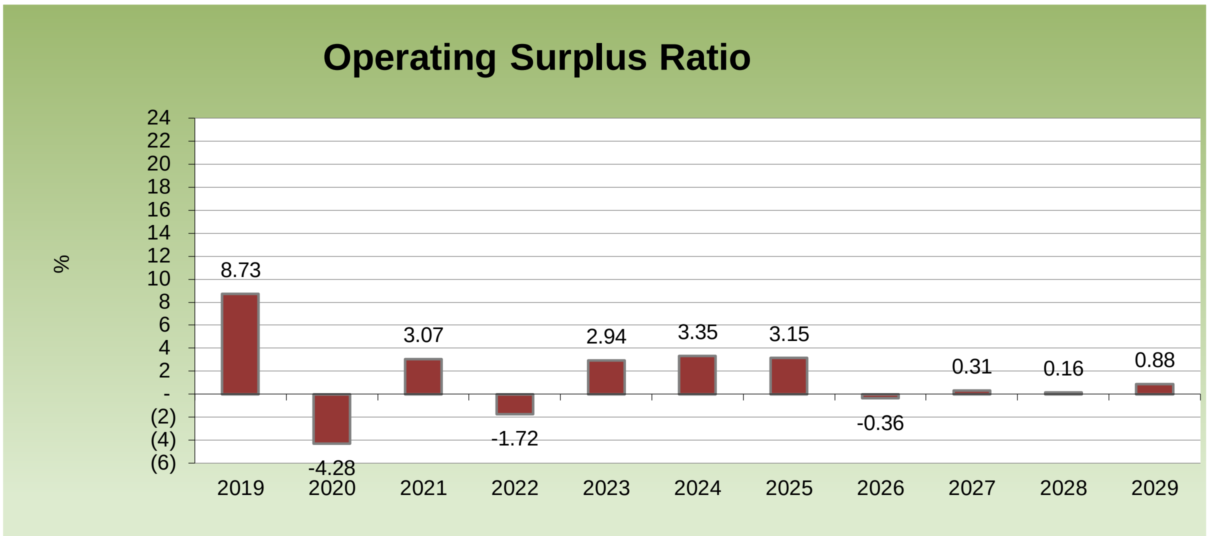
Net Result (excluding Capital items)

Total Operating Revenue (excluding Capital items)

The target for the operating surplus ratio is between 0 and 10%.

At the end of the financial year Council's operating surplus ratio was 8.7%.

In future years' forecasts indicate Council will operate close to break even, with small surpluses through to 2029. Council is mindful that changes can occur during the year, and Management regularly conducts reviews to ensure any budget variances are addressed as soon as possible. Council is aware of the need to conduct service level reviews to ensure operational expenses are going to be sustainable in the longer term.



Asset Sustainability Ratio

This ratio measures the amount of capital expenditure on renewal of existing assets compared to the depreciation expense.

Capital Expenditure on the replacement of Assets (Renewals)

Depreciation Expense

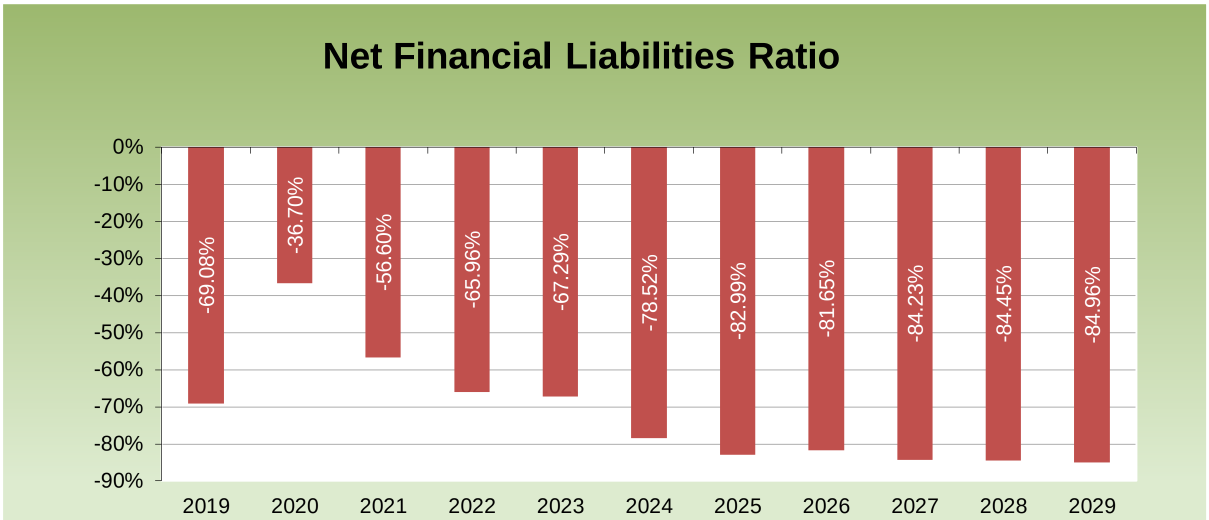
The target for this ratio is for it to be greater than 90%.

Council's 2018-19 Asset Sustainability Ratio was 11.4%

The long term forecast indicates that Council may not meet this target in some of the coming years due to non-renewal of some assets. It should be noted that Council's assumptions in its long term forecast were to be conservative in capital expenditure given the reliance on grant funding for large capital projects, therefore it is probable actual expenditure on asset renewals will be higher than predicted.

Net Financial Liabilities Ratio

This ratio measures the extent to which Council can fund its liabilities through its operating revenues.



Total Liabilities less Current Assets

Total Operating Revenue (excluding Capital items)

The target for this ratio is less than 60%.

Council's current Net Financial liabilities ratio at 30 June 2019 was -69.08%.

Council borrowings at year end were of $1.9M and trade and other payables of $2.6M thus with few other liabilities the ratio is low.