



**MORNINGTON
SHIRE COUNCIL**



2018 - 2019

Annual Report





Disclaimer

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CONTENTS

OUR WELCOME.....	4
MESSAGE FROM THE MAYOR.....	5
MESSAGE FROM THE CEO.....	6
MORNINGTON SHIRE COUNCIL REGION.....	9
OUR COUNCILLORS.....	10
GOVERNANCE.....	11
OUR EXECUTIVE TEAM.....	13
COMMUNITY FINANCIAL REPORT.....	14
FINANCIAL STATEMENTS.....	19



MESSAGE FROM THE MAYOR

Bradley Wilson

Message from the Mayor

Mayor Brad Wilson

Another year has passed, and I am very pleased to be able to reflect on how far we have come as a Council in the last twelve months and how we have been able to support our community during this time. Council continues to work hard to make our community bigger, better and stronger than it has ever been. Our Council continues to be a strong and united voice to the government, and I would like to thank the Councillors and all our staff who have made this year such a rewarding one.

Council's focus again this year has been on infrastructure and major projects that have been complete include the end of the airport upgrade and opening of the new terminal building, a new bulk fuel and service station, remediation of our road network a new animal health facility and completion of a major upgrade of the concrete batching plant. Our staff showed they can build and deliver quality housing with completion of the seniors' units and plug-ins.

We have a hard working and committed team employed by Council and they continue to show they can deliver if given the opportunity. Council will continue to support the employment of local people in full-time long-term jobs and our local workforce continues to grow.

We recognise there are always challenges in attracting the right people to support our local employees and I am very pleased to say that our relationship with Hobsons Bay City Council, from Melbourne has been a great success with a project manager working with us for twelve months to deliver some of our major infrastructure projects and support local staff along the way.

Council will continue to challenge and work with the State and Commonwealth Governments on service delivery and alcohol management plan reforms and we are proving we can lead the reforms and empower our community at the same time.

We have undergone a massive transformation over the last 12 months and have set a path for full sustainability of Council within five years. Our "behind the scenes" teams have been working on





new ways of doing business and our new Technology Programs and systems will set the foundations for the future with cloud-based technology that can host new and improved software platforms to increase efficiencies and decrease costs to Council.

Council will continue to work tirelessly for our community, and I look forward to working with all to make the changes necessary to improve health and well-being for everyone of Gununa.

Cr Bradley Wilson

Mayor@Mornington.qld.gov.au





MESSAGE FROM THE CEO

Frank Mills

As the Chief Executive Officer of Mornington Shire Council, I am responsible for the production of an Annual Report in accordance with Division 3 of the Queensland Local Government Regulations 2012 and Section 104 (7) of the Queensland Local Government Act 2009.

Our Council delivers services in one of Queensland's more remote and unique Local Government locations. Made up of the Wellesley Islands archipelago, the complexities we face daily in terms of locality, climate, environment, culture and history are as challenging as they are inspiring and rewarding.

Despite our uniqueness we do share commonalities with other remote local governments including, reliance on grant funding, no rates base, unprecedented increases in insurance costs, restrictions with land tenure, limited capacity for commercial and economic development and our ability to generate own source revenue is not only challenging but requires innovative solutions.

Adapting to the natural, social and economic environment of the Wellesley Islands is essential as we continue to move forward and deliver our services to best practice standards.

Council's vision is:

To empower our Community – Our people

To feel solid and strong like the rock in Mundalbe

To taste and hear the breaking waves of change

To establish clean, safe, healthy lifestyles togetherness

Pride and respect for each other in our culture, achievements and successes.

To see and smell the compassion and peacefulness of our community

Commensurate to our vision, council and community recognise:





There is a need to balance the demands of growth and change with the needs of our environment and community.

Our highly skilled and educated community live here for a special reason:

The opportunity to live and work in harmony with the pristine waterways and native bushland central to our quality of traditional life.

Protecting our precious environment is one of our main priorities and is an integral part of our vision.

With a clear path now set for the future, during 2018 – 2019 Council continued to build on the momentum of change and progress achieving our community vision and organisational goals. Council invested significant time and resources in the formulation of a new suite of planning including, annual operational and corporate 5-year plan, budgets and long-term financial plans. Commitment and continued focus on strengthening Council and community economic development and indigenous employment opportunities underpins what we do. Adherence to Council's new planning and direction places Council in a position of progression towards financial sustainability within 5 years.

Significantly during 2018 – 2019, Council's investment in infrastructure was evidenced by completion of several projects that include:

Multi-faceted airport project culminating in safety upgrades, lighting upgrades, runway repairs, new infrastructure and the grand opening of a new terminal building. Remediation of the entire road network on Mornington Island resulting from cyclonic weather events in 2018 and 2019. Environmentally compliant bulk fuel facility and service station infrastructure as well as a major upgrade to Council's store. Construction of housing and units within the aged precinct along with the "plug in" constructions saw the addition of valuable housing stocks for the community. Completion of our new animal health facility and the concrete batching plant add positively to environmental health and supports Council's vision of long-term sustainable employment of local people.

Despite a focus by Council on alleviating the acute shortage of land available for future development on Mornington Island, the Master Planning process has been thwarted with land tenure challenges that will take some time to resolve. Council will continue to pursue partnership outcomes with the State of Queensland and the Gulf Regional Aboriginal Corporation to resolve

Council's passion and commitment to service delivery reform, empowerment of local people and return of decision-making back to community, came to fruition during 2018 – 2019, with the State Government endorsing Council's model for Service Delivery and Alcohol Management Reform. Commitment from the State Government for the reforms for Mornington Island has supported by the provision of funding for the first 2 years of this pilot program.



Integral to Council's forward direction and commitment to continual improvement of community facilities, Council has been successful in being awarded of funding for future infrastructure projects such as a new civic centre and purpose-built extreme weather shelter, upgrade of Lelka Murrin Tavern and "cyclone" proofing Council and community assets. Additional funding was also awarded for further community housing development which will occur during 2019 – 2020.

Throughout 2018 – 2019, Council commenced the transition from outdated and inefficient information Technology Program and systems to setting the foundations for the future with cloud-based technology that can host new and improved software platforms to increase efficiencies and decrease costs to Council. Implementation of a suite of platforms and programs supporting future financial, payroll, governance, project framework and management, asset management and communications needs for Council commenced and will continue through to the 2019 – 2020 financial year.

Council will continue to invest in capacity and capability building of staff and acknowledging them as our greatest asset. Support and investment in our staff are essential for Council to be able to strengthen our operating model and focus on best practice service delivery for our community. It is therefore fitting that I take time to commend Council and our staff for their outstanding contributions during 2018 – 2019 and acknowledge their commitment and support in re-defining the pathway forward for Mornington Shire.



Frank Mills
CEO, Mornington Shire Council

MORNINGTON SHIRE COUNCIL REGION

Mornington Shire incorporates twenty-two islands of the Wellesley Group in the Gulf of Carpentaria. The Wellesley Islands are remnants of the mainland now submerged by the syncline

that formed the Gulf of Carpentaria and are essentially flat platforms with little relief. There are substantial areas of intertidal flats and fringing reefs associated with most Islands.

Mornington Island is the largest island in the group covering an area of 700 square kilometres, is located 16°30' south and 139°30' east in the Gulf of Carpentaria, about 125kms north-west of Burketown, 200kms west of Karumba and 444kms from Mt Isa. The Shire has an area of 1,248.4 sq. kms.

Gununa (a Lardil people word), which was founded in 1914, is the primary residence of majority of the Shire's population. Public utilities in Gununa are well developed with reticulated power, water, sewerage and storm water drainage. Town streets are bitumen-sealed. The aerodrome is of an all-weather standard and Regional Express Airlines services the Island from Mt Isa and Cairns Monday to Friday. Council operates the barge shed and works with Carpentaria Freight, which operates the barges service from Karumba.

Aspirations

We aspire to be one of Australia's most sustainable regions-culturally diverse, pristine and viable in every sense.

According to our corporate Plan, Mornington Shire aims to be a community where:

- Our people are happy, healthy and safe
- Our natural environment is valued and well managed
- Our culture is retained
- We have quality infrastructure
- We have a sustainable local economy
- Governance and ownership of community direction is by Council
- We have a transparency of government and open communication between the three tiers of government.

OUR COUNCILLORS

The role of elected councillors, as part of the governing body of a council, is spelled out in section 12 of the Local Government Act 2009. It is to:



- Represent the current and future interests of the residents of Mornington Shire Council
- Ensuring Mornington Shire discharges its responsibilities under the Act, achieves its corporate plan and complies with all laws that apply to the Shire
- Providing high quality leadership to the Shire and the community
- Participating in Council Meeting, policy development and decision making for the benefit of Mornington Shire
- Being accountable to the Community for the Shire's performance

Councillors play a very important policy-making role, requiring the identification of community needs, setting objectives to meet those needs, establishing priorities between competing demands and allocating resources.

Under the leadership of Mayor Bradley Wilson, Councillor Robert (Bobby) Thompson, Councillor Jane Ah Kit, Councillor Claire Farrell and Deputy Mayor Sarah Isaacs Council is achieving the milestones initially set in 2016, with the determination to make big changes in the Local Government arena.

Council have confidence in the spirit and determination of the organisation and its commitment to delivering our vision. Our workforce is highly skilled, dynamic and adaptable in its approaches to tackling the range of challenges facing us ahead. Above all, our staff are committed to delivering high quality services. This is an important time for the Mornington Shire and for the organisation far

reaching decisions and actions will be set in train over the next five years which will significantly shape the future of the region. Mornington Shire Council are gearing up for the exciting times ahead.



GOVERNANCE

Mornington Shire Council aims for great governance. To make this achievable, our emerging priorities include:

- Ethical, accountable and transparent decision-making
- Effective business management
- Strong financial management
- Highly skilled, engaged and valued local workforce (currently at 80% indigenous staff)
- Advocacy and partnerships
- An informed and engaged community
- Excellence in customer service.

Council aspires to be recognised as a highly regarded and reputable organisation.

We have an obligation to show leadership and engage with the community, operate according to the law, ensure professional and ethical standards and plan services to meet the needs of current and future generations. Great governance will allow council to achieve these goals and build community trust and pride in our organisation.

Councillor Remuneration

2019

Councillor	Payroll	Salary & Allowances	Superannuation	Total
Bradley Wilson	103,873.86	103,873.86	11,271.07	115,144.93
Robert Thompson	69,932.00	69,932.00	8,225.64	78,157.64
Jane Ah Kit	69,959.67	69,959.67		69,959.67
Sarah Isaacs	61,337.98	61,337.98		61,337.98
Claire Farrell	24,869.78	24,869.78		24,869.78
		329,973.29	19,496.71	349,470.00



NUMBER OF MEETINGS THAT MORNINGTON SHIRE COUNCIL ELECTED MEMBERS ATTENDED DURING 2018/19 FINANCIAL YEAR

Section 186 (c) of the Local Government Regulation 2012

Councillor	No. of Meetings
Mayor Bradley Wilson	8 of 12
Deputy Mayor Sarah Isaacs	8 of 12
Councillor Robert Thompson	12 of 12
Councillor Claire Farrell	1 of 4
Councillor Jane Ah Kit	9 of 12

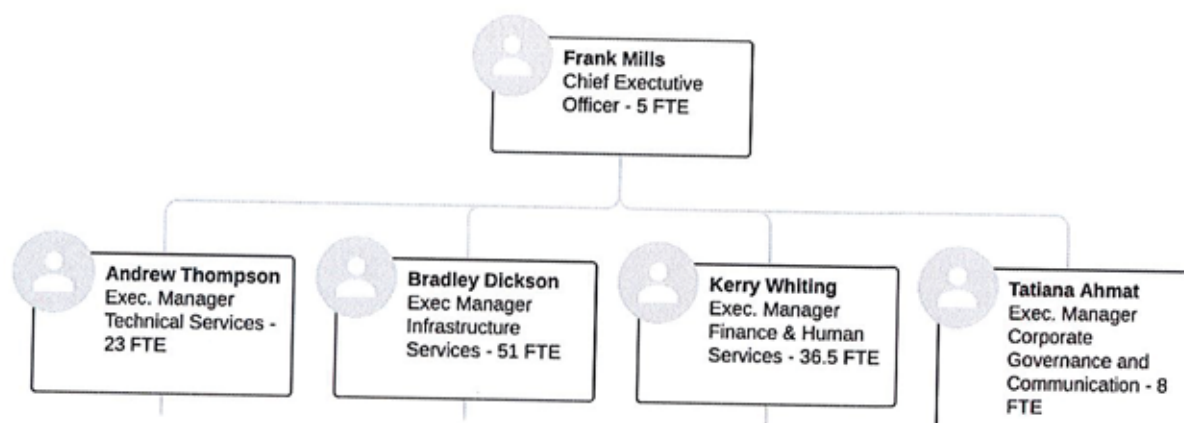
There are a number of requirements contained within Section 186 and 187 of the Local Government Regulation 2012, that are required to be reported within the Annual Report regarding complaints made about Councillors. During the 2018/2019 financial year there was 1 complaint received against a of the Councillors.

Breaches against the Code of Conduct	1
Total number of staff code of conduct breaches	Nil
Information on Councillors breaching the code of conduct	1
Number of complaints about code of conduct breaches by Councillors	1
Number of recommendations from conduct review panel	Nil
Number of complaints resolved	Nil



OUR EXECUTIVE TEAM

The Chief Executive Officer and all the Executive Team make up Council's Executive Leadership Team. This team has the shared responsibility for providing the organisation with leadership and direction to achieve the outcomes determined by Council



Key Management Staff Remuneration

Remuneration	Number of KMS
\$50,000-\$150,000	1
\$150,000-\$250,000	2
\$250,000-\$350,000	1

Community Financial Report

30 June 2019

- Financial summary
- Revenue
- Expenses
- Assets
- Liabilities
- Community Equity
- Measures of Financial Sustainability

Financial Summary

Operational Revenue

\$19.9 million

Capital Revenue

\$16.63 million

Expenditure

\$30.4 million

Total Assets

\$123.5 million

Total Current Liabilities

\$3.3 million

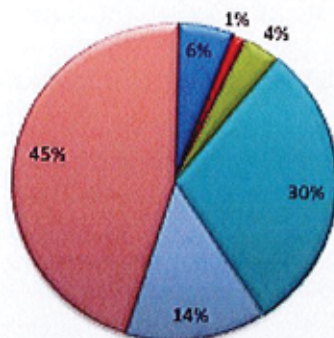
Community Equity

\$120.1 million

This report summarises Council's financial position at 30 June 2019 in plain English.

Revenue

Council received \$36.6 million in revenue and other income for the year ended 30 June 2019.



- Levies and Charges
- Fees and Charges
- Rental Income
- Interest & Investment Revenue
- Sales Revenue
- Other
- Grants & Contributions - Operating
- Grants & Contributions - Capital
- Capital Income

Total revenue increased by \$11.8m (+48%) on the previous year. Principal movements included:

- **Capital Grants \$16.6 million** (+\$7.6m)
Capital grants funding was received for major infrastructure projects including:
 - Airport Terminal and Safety Upgrades
 - Road Reconstruction (NDRRA)
 - Batch Plant
 - Service Station and Fuel Upgrade

- **Sales Revenue \$10.8 million** (+\$5.87m)

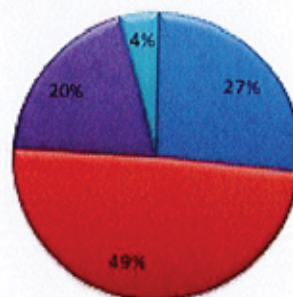
Sales Revenue, which consists predominantly of recoverable works, increased as the result of Council successfully completing residential construction contracts for community housing.

Expenses

Council spent more than \$46.1 million during the year between operations (\$30.4 million) and payments for capital projects (\$15.7 million).

The main operational expenses for Council include:

- Employee Benefits
- Materials and Services
- Finance Costs
- Depreciation and Amortisation
- Movement in 40 year lease value

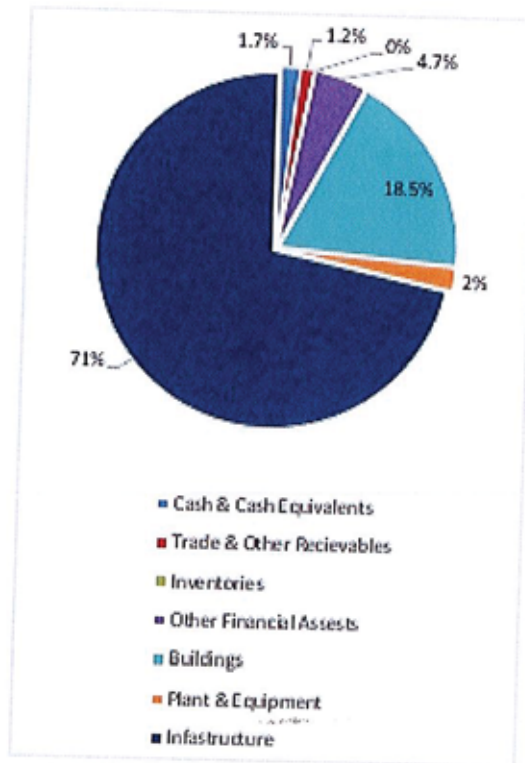


- Employee Benefits
- Materials and Services
- Finance Costs
- Depreciation and Amortisation
- Capital Expenses

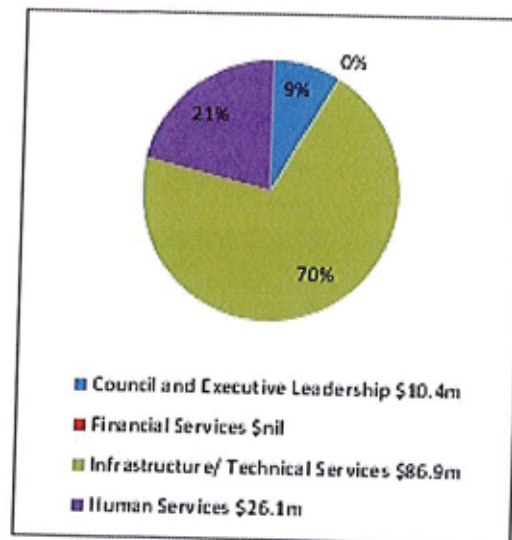
Assets

As at 30 June 2019, Council's assets were valued at \$123.5 million.

What Council Owns



How the money is invested



Liabilities

At 30 June 2019, Council's liabilities totalled \$3.3 million. This was made up of the following:

- Amounts owing to suppliers, and
- Employee leave entitlements

The significant decrease in liabilities was largely due to timing of large contract works, with road reconstruction being completed early in the first quarter of 2019.

Community Equity

Council's community equity is defined as its net worth – what we own, less what we owe. At 30 June 2019, Council's community equity was \$120.1 million.

Measures of financial sustainability

The Local Government Regulation 2012 requires that Council report its results for the financial year against selected financial sustainability ratios. These ratios, their definitions and Council's results at 30 June 2019 are stated below.

Ratio	How the measure is calculated	Target	Actual
Operating Surplus Ratio	Net result (excluding capital) divided by total operating revenue (excluding capital)	0% to 10%	-46.2%
Asset Sustainability Ratio	Capital expenditure on the replacement of assets (renewals) divided by depreciation expense	>90%	234%
Net Financial Liabilities Ratio	Total liabilities less current assets divided by total operating revenue (excluding capital items)	<60%	-6%

Council's current year financial sustainability statement, the Auditor-General's report on it and Council's long-term financial sustainability statement are located following Council's Annual Financial Statements in this report.

Mornington Shire Council Financial Statements

For the year ended 30 June 2019

Table of Contents

	Reference Page
Statement of Comprehensive Income	1
Statement of Financial Position	2
Statement of Cash Flows	3
Statement of Changes in Equity	4
Notes to the Financial Statements	
1 Significant Accounting Policies	5-8
2 Analysis of Results by Function	9-10
Revenue	
3 Revenue	11
4 Grants, Subsidies and Contributions	12
5 Capital Income	13
Expenses	
6 Employee Benefits	13
7 Materials and Services	13
8 Finance Costs	14
9 Capital Expenses	14
Assets	
10 Cash and Cash Equivalents	14-15
11 Trade and Other Receivables	15
12 Other Financial Assets	15
13 Property, Plant and Equipment	17-21
14 Fair Value Measurements	21-23
Liabilities	
15 Trade and Other Payables	24
16 Provisions	24-25
Equity	
17 Asset Revaluation Surplus	25-26
Cash Flow Information	
18 Reconciliation of net result for the year to net cash inflow (outflow) from operating activities	26
Risk	
19 Financial Instruments	27-29
Other Disclosures	
20 Superannuation	30
21 Transactions With Related Parties	31-32
22 Commitments for Expenditure	32
23 Contingent Liabilities	32
24 Events after the reporting period	32
Management Certificate	33
Independent Auditor's Report (General Purpose Financial Statements)	34-36
Current Year Financial Sustainability Statement	37
Certificate of Accuracy - for the Current Year Financial Sustainability Statement	38
Independent Auditor's Report (Current Year Financial Sustainability Statement)	39-41
Long Term Financial Sustainability Statement	42
Certificate of Accuracy - for the Long Term Financial Sustainability Statement	43



**Mornington Shire Council
Statement of Comprehensive Income
For the year ended 30 June 2019**

	Note	Council	
		2019 \$	2018 \$
Income			
Revenue			
Recurrent revenue			
Levies and charges	3(a)	2,051,943	1,877,362
Fees and charges	3(b)	498,274	431,272
Rental income	3(c)	1,287,083	1,308,138
Interest revenue	3(d)	76,303	188,400
Sales revenue	3(e)	10,866,026	4,996,985
Other income	3(f)	61,711	101,268
Grants, subsidies and contributions	4(a)	5,127,652	5,360,441
		<u>19,968,992</u>	<u>14,323,866</u>
Capital revenue			
Grants, subsidies and contributions	4(b)	16,634,018	9,022,685
Other capital income	5	-	1,362,146
Total capital revenue		<u>16,634,018</u>	<u>10,384,831</u>
Total income		<u>36,603,010</u>	<u>24,708,697</u>
Expenses			
Recurrent expenses			
Employee benefits	6	(8,007,285)	(6,906,194)
Materials and services	7	(14,968,515)	(7,329,632)
Finance costs	8	(44,347)	(155,628)
Depreciation	13	(0,111,477)	(5,979,867)
		<u>(29,191,624)</u>	<u>(20,371,321)</u>
Capital expenses	9	(1,288,800)	(62,241)
Total expenses		<u>(30,480,514)</u>	<u>(20,433,562)</u>
Net result		<u>6,122,496</u>	<u>4,275,135</u>
Other comprehensive income			
Items that will not be reclassified to net result			
Movement in asset revaluation surplus	13	(8,512,693)	6,670,304
Total other comprehensive income for the year	17	<u>(8,512,693)</u>	<u>6,670,304</u>
Total comprehensive income for the year		<u>(2,390,197)</u>	<u>10,945,439</u>

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





**Mornington Shire Council
Statement of Financial Position
as at 30 June 2019**

	Note	Council	
		2019 \$	2018 \$
Current Assets			
Cash and Cash Equivalents	10	2,181,211	7,403,873
Trade and Other Receivables	11	1,570,188	2,024,714
Inventories		573,239	499,731
Other Financial Assets	12	208,091	201,045
Total Current Assets		4,532,729	10,129,363
Non-Current Assets			
Other Financial Assets	12	5,909,712	5,870,554
Property, Plant and Equipment	13	113,117,095	112,981,061
Total Non-Current Assets		119,026,807	118,851,615
Total Assets		123,559,537	128,980,979
Current Liabilities			
Trade and Other Payables	15	2,072,592	6,272,009
Provisions	16	84,206	79,336
Total Current Liabilities		2,156,800	6,351,345
Non-Current Liabilities			
Provisions	16	1,215,074	52,674
Total Non-Current Liabilities		1,215,074	52,674
Total Liabilities		3,372,774	6,404,019
Net Community Assets		120,186,763	122,576,960
Community Equity			
Asset Revaluation Surplus	17	99,160,197	107,672,690
Retained Surplus		21,026,566	14,904,070
Total Community Equity		120,186,763	122,576,960

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





**Morrington Shire Council
Statement of Cash Flows
For the year ended 30 June 2019**

	Note	Council 2019 \$	2018 \$
Cash flows from operating activities			
Receipts from customers		13,822,473	0,250,751
Payments to suppliers and employees		(22,250,788)	(13,027,182)
		(8,428,315)	(7,376,431)
Interest received		76,303	188,400
Rental income		1,287,083	1,368,138
Operating grants and contributions		5,127,652	5,360,441
Net cash inflow (outflow) from operating activities	18	<u>(1,937,277)</u>	<u>(459,452)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(20,249,028)	(9,836,272)
Proceeds from sale of property plant and equipment	9	-	464
Finance lease receipts	12	329,622	201,047
Grants, subsidies, contributions and donations		16,834,018	9,022,685
Net cash inflow (outflow) from investing activities		<u>(3,285,388)</u>	<u>(612,076)</u>
Net increase (decrease) in cash and cash equivalent held		<u>(5,222,665)</u>	<u>(1,071,528)</u>
Cash and equivalents at the beginning of the financial year		7,403,873	8,475,402
Cash and equivalents at end of the financial year	10	<u>2,181,211</u>	<u>7,403,873</u>

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





Mornington Shire Council
Statement of Changes in Equity
For the year ended 30 June 2019

	Note	Asset Revaluation Surplus 17 \$	Retained Surplus \$	Total \$
Balance as at 1 July 2018		107,672,830	14,904,070	122,576,900
Net operating surplus		-	6,122,496	6,122,496
Other comprehensive income for the year				
Increase / (decrease) in asset revaluation surplus	17	(8,512,693)	-	(8,512,693)
Balance as at 30 June 2019		<u>99,160,137</u>	<u>21,026,566</u>	<u>120,186,703</u>
Balance as at 1 July 2017		101,002,556	10,628,935	111,631,521
Net operating surplus		-	4,275,135	4,275,135
Other comprehensive income for the year				
Increase / (decrease) in asset revaluation surplus		6,670,304	-	6,670,304
Balance as at 30 June 2018		<u>107,672,860</u>	<u>14,904,070</u>	<u>122,576,930</u>

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





**Morrington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019**

1 Significant Accounting Policies

1.A Basis of Preparation

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

These general purpose financial statements are for the period 1 July 2018 to 30 June 2019 and have been prepared in compliance with the requirements of the Local Government Act 2009 and the Local Government Regulation 2012.

They comply with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB). Council is a not-for-profit entity and the Australian Accounting Standards include requirements for not-for-profit entities which are inconsistent with International Financial Reporting Standards (IFRS). Therefore in some instances these financial statements do not comply with IFRS. The main impacts are the offsetting of revaluation gains and losses within a class of assets and the timing of recognition of non-reciprocal grant revenue.

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

Current/ Non-Current Classification

Assets and liabilities are presented as "current" or "non-current" in the Statement of Financial Position on the following basis:

Current assets and liabilities include financial and non-financial items which are either held primarily for the purpose of trading or is expected to arise and be realised or settled in the normal course of the operating cycle, or does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Non-current assets and liabilities include financial and non-financial items which are either not expected to be realised or settled in the normal course of the operating cycle, or contain an unconditional right to defer settlement for a period greater than 12 months.

Recurrent/Capital Classification

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

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

The following transactions are classified as either "Capital Income" or "Capital Expenses" depending on whether they result in accounting gains or losses:

- disposal of non-current assets
- revaluations of infrastructure assets
- revaluation of housing leases

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





Mornington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019

1.8 Adoption of New and Revised Accounting Standards

This year Council has applied AASB 9 *Financial Instruments* for the first time. AASB 9 replaces AASB 139 and relates to the recognition, classification and measurement of financial assets and financial liabilities. Implementing AASB 9 has resulted in a change to the way Council calculates impairment provisions, which are now based on expected credit losses instead of incurred credit losses.

The classification, measurement category and carrying amounts of financial instruments were re-assessed in accordance with AASB 9. The assessment confirmed that cash, receivables and other financial assets are to be measured at amortised cost. The introduction of AASB 9 does not have a material impact.

Some Australian Accounting Standards and Interpretations have been issued but are not yet effective. Those standards have not been applied in these financial statements. Council will implement them when they are effective. The standards that may have a material impact upon council's future financial statements are:

Standard and Impact

Date Applicable

AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities 1-Jul-19
and AASB 2016-8 Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities

AASB 1058 clarifies and simplifies the income recognition requirements that apply to not-for-profit (NFP) entities, in conjunction with AASB 15, and AASB 2016-8. These Standards supersede the majority of income recognition requirements relating to public sector NFP entities, previously in AASB 1004 *Contributions*.

Identifiable impacts at the date of this report are:

Some grants received by the Council may be recognised as a liability, and subsequently recognised progressively as revenue as the Council satisfies its performance obligations under the grant. At present, such grants are recognised as revenue upfront.

Grants that are not enforceable and/or not sufficiently specific will not qualify for deferral, and continue to be recognised as soon as they are controlled. Council receives several grants from the Federal Government and State Government for which there are no sufficiently specific performance obligations these are expected to continue being recognised as revenue upfront assuming no change to the current grant arrangement.

Depending on the respective contractual terms, the new requirements of AASB 15 may potentially result in a change to the timing of revenue from sales of the Council's goods and services such that some revenue may need to be deferred to a later reporting period to the extent that the Council has received payment but not met its associated performance obligations (such amounts would be reported as a liability in the meantime).

Based on Council's assessment, if Council had adopted the new standards in the current financial year it would have had the following impacts:

- Costs to fulfil a contract would be initially recognised as a contract asset (to the extent that it is expected to be recovered) and amortised consistent with recognition of performance obligations. There were no continuing contracts for construction at 30 June 2019
- revenue decrease of approximately \$516,000 due to deferral of capital grants with sufficiently specific performance obligations

A range of new disclosures will also be required by the new standards in respect of the council's revenue.





Mornington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019

Transition method

Council intends to apply the practical expedients available for the full retrospective method. Where revenue has been recognised under AASB 1004, prior to 1 July 2019, but where AASB 1058 would have required income to be recognised before that date, no adjustment is required. Further, Council is not required to restate income for completed contracts that start and complete within a financial year. This means where income under AASB 1004 was recognised in the comparative financial year (i.e. 2018/19), these also do not require restatement.

AASB 16 Leases

1-Jul-19

The Council has assessed the impacts of the new standard that initial application of AASB 16 will have on its financial statements, however, the actual impacts may differ as the as the new accounting policies are subject to change until the Council presents its first financial statements that include the date of initial application.

AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

Leases in which the Council is a lessee

The Council currently holds a number of operating leases for motor vehicles expiring within 12 months which Council has elected to not recognise under the AASB 16 as they have been assessed as being short-term leases under the standard.

No significant impact is expected for the Council's finance leases.

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

1.C 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 and depreciation of property, plant and equipment - Note 13 and Note 14
- Impairment of property, plant and equipment - Note 13
- Provisions - Note 16
- Valuation of finance leases - Note 12
- Contingent liabilities - Note 23
- Financial instruments and financial liabilities - Note 19

1.D Inventories

Stores and raw materials held for resale are valued at the lower of cost and net realisable value. Costs are assigned on the basis of weighted average cost.





Morrington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019

1.E National Competition Policy

The Council has reviewed its activities and has identified that there are no business activities to which the code of competitive conduct applies.

1.F Rounding and Comparatives

The financial statements have been rounded to the nearest \$1. Comparative information is restated where necessary to be consistent with disclosures in the current reporting period.

1.G Taxation

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





Mornington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019

2. Analysis of Results by Function

2(a) Components of Council Functions

The activities relating to the Council's components reported on in Note 2(b) are as follows:

Council and Executive Leadership Team

Council's current structure consists of three departments each headed by an Executive Manager, and a Governance Sector. The Executive Managers, along with the Chief Executive Officer form the Executive Leadership Team.

Financial Services

This comprises the support functions for the management of Council's finances, information technology and financial reporting obligations.

Activities performed by Financial Services were previously the responsibility of the Corporate Services Function.

Infrastructure/ Technical Services

To provide and maintain infrastructure such as roads, drainage, footpaths, aerodromes, marine facilities, water supply and services, sewerage, plant and machinery, and the construction and maintenance of community buildings and facilities.

Human Services

The Human Services function includes:

- Administration
- Human Resources and Payroll
- Property Management (Residential and Commercial)
- Grants
- Council Stores
- Sports and Recreation
- Bakery





Morrington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019

2 Analysis of Results by Function

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

Year ended 30 June 2019

Functions	Gross program income				Total income	Gross program expenses		Total expenses	Net result from recurring operations	Net Result	Assets
	Recurring		Capital			Recurring	Capital				
	Grants	Other	Grants	Other							
	2019	2019	2019	2019							
	2019	2019	2019	2019							
Council and Executive Leadership Team	3,080	443,225	-	-	446,305	(1,729,230)	-	(1,729,230)	(1,282,925)	(1,282,925)	15,442,400
Financial Services	4,570,541	89,495	715,900	-	5,475,937	(2,025,451)	375,028	(1,650,423)	2,734,605	3,025,512	-
Infrastructure Technical Services	322,173	12,877,036	15,181,895	-	28,381,027	(28,917,213)	(1,664,716)	(22,581,826)	(1,718,004)	5,906,016	80,945,022
Human Services	138,758	1,411,583	727,200	-	2,377,541	(4,519,732)	-	(4,519,732)	(2,906,330)	(2,925,182)	26,172,075
Total Council	5,074,552	14,861,339	16,624,995	-	36,660,886	(24,191,821)	(1,289,688)	(13,485,514)	(5,222,451)	6,122,405	121,559,527

Year ended 30 June 2018

Functions	Gross program income								Total income	Gross program expenses				Net result from recurring operations	Net Result	Assets	
	Recurring				Capital					Recurring		Capital					
	Grants		Other		Grants		Other			Expenditures		Capital					
	2018	2018	2018	2018	2018	2018	2018	2018		2018	2018	2018	2018				2018
	\$	\$	\$	\$	\$	\$	\$	\$		\$	\$	\$	\$				\$
Council and Executive Leadership Team	4,270	5,403	-	-	-	-	-	-	9,673	(1,121,721)	-	-	(1,121,721)	(1,112,026)	(1,112,026)	11,999,612	
Financial Services	4,924,143	225,523	-	1,312,149	-	-	-	-	6,561,815	(1,543,420)	232,907	-	(1,310,513)	3,677,543	5,376,651	-	
Infrastructure Technical Services	354,129	7,606,515	8,130,085	-	-	-	-	-	16,470,729	(13,620,447)	(204,406)	-	(13,814,853)	(5,209,628)	1,555,540	80,493,023	
Human Services	57,900	1,704,789	893,030	-	-	-	-	-	2,655,686	(4,066,037)	-	-	(4,066,037)	(2,329,351)	(1,440,365)	24,497,245	
Total Council	5,396,442	8,963,478	9,023,115	1,312,149	-	-	-	-	24,705,647	(19,211,503)	(271,499)	-	(19,482,992)	(2,843,409)	4,275,825	129,990,679	





Mornington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019

3 Revenue

Revenue is recognised at the fair value of the consideration received or receivable, at the time indicated below.

	2019 \$	2018 \$
(a) Levies and Charges		
Where monies are received prior to the commencement of the levying period, the amount is recognised as revenue in the period in which they are received.		
Water	908,652	813,030
Sewerage	553,503	535,869
Garbage charges	589,788	528,493
	<u>2,051,943</u>	<u>1,877,392</u>
(b) Fees and Charges		
Fees and charges relate to local government levy, levy on staff houses and airport landing fees. Levels of fees and charges are determined by Council at the commencement of each year and recognised as revenue upon receipt.		
Fees and charges	438,274	431,272
	<u>438,274</u>	<u>431,272</u>
(c) Rental Income		
Rental revenue from property subject to leases is recognised as income on a periodic straight line basis over the lease term. Rental revenue from other cancellable, short-term property rental is recognised on a periodic straight line basis.		
Property rental - leased	488,520	392,776
Other property rental	708,583	975,302
	<u>1,287,083</u>	<u>1,368,138</u>
(d) Interest Revenue		
Interest received from term deposits is accrued over the term of the investment.		
Interest received on deposits	76,303	188,400
	<u>76,303</u>	<u>188,400</u>
(e) Sales Revenue		
Sale of goods revenue is recognised when the significant risks and rewards of ownership are transferred to the buyer, generally when the customer has taken undisputed delivery of the goods.		
Contract and recoverable works include construction and maintenance works for locals and local businesses. The amount recognised as revenue for contract revenue during the financial year is the amount receivable in respect of invoices issued during the period. There are no contracts in progress at the year end. The contract work carried out is not subject to retentions.		
Sale of Services		
Contract works	8,072,578	2,550,920
Other recoverable works	1,746,024	1,583,232
	<u>9,818,602</u>	<u>4,134,152</u>
Sale of goods		
Sale of goods	1,047,424	862,833
	<u>1,047,424</u>	<u>862,833</u>
	<u>10,866,026</u>	<u>4,996,985</u>
(f) Other Income		
Other Income	61,711	101,268
	<u>61,711</u>	<u>101,268</u>





Morrington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019

4 Grants, Subsidies and Contributions

Grants, subsidies, donations and contributions that are non-reciprocal in nature are recognised as revenue when Council obtains control over them, which is usually upon receipt of funds.

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

	2019 \$	2018 \$
(a) Recurrent		
Commonwealth government subsidies and grants	3,080	11,954
General purpose grants	4,777,713	4,994,143
State government subsidies and grants	325,062	340,445
Other	21,797	7,900
	<u>5,127,652</u>	<u>5,360,441</u>

Grants and contributions are to be classified as operating or capital depending on the purpose for which they were received and not on the purpose for which they were spent. General purpose grants and contributions are all classified as operating regardless of how they are spent.

(b) Capital

Capital Revenue includes grants and subsidies received which are tied to specific projects for the replacement or upgrade of existing non-current assets and/or investment in new assets.

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

Commonwealth government subsidies and grants	900,000	1,500,000
NORRA funding	12,500,151	5,719,835
State government subsidies and grants	<u>3,143,887</u>	<u>1,802,849</u>
	<u>16,544,038</u>	<u>9,022,684</u>

c) Conditions over Contributions

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

Non-reciprocal grants	<u>2,676,245</u>	<u>3,264,783</u>
	<u>2,676,245</u>	<u>3,264,783</u>





**Morrington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019**

	2019	2018
	\$	\$
5 Capital Income		
Fair value of newly recognised controlled assets	-	1,352,145
Total Capital Income	-	1,352,145

	2019	2018
	\$	\$
6 Employee Benefits		
Total staff wages and salaries	6,242,337	5,508,835
Councillors' remuneration	321,512	312,585
Annual, sick and long service leave entitlements	1,008,734	844,970
Superannuation	845,175	645,418
	8,417,758	7,311,808
Other employee related expenses	73,260	119,520
	8,491,018	7,431,328
Less: Capitalised employee expenses	(423,733)	(525,134)
	8,067,285	6,906,194

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

Total Council employees at the reporting date:	2019	2018
Elected members	5	6
Administration staff	22	18
Depot and outdoors staff	84	85
Total full time equivalent employees	111	109

	2019	2018
	\$	\$
7 Materials and Services		
Administration expenses	142,365	254,302
Audit of annual financial statements *	69,619	92,500
Building services operating expenses	7,523,440	2,676,793
Civic, Governance & Executive operating expenses	360,032	382,532
Communications and IT	414,131	310,755
Community & human services operating expenses	666,088	318,240
Council Enterprise operating expenses (Bakery, External Accommodation)	59,814	246,063
Finance operating expenses	480,283	440,555
Insurance	258,784	223,089
Plant maintenance expenses	889,366	489,726
Private works operating expenses	468,754	37,703
Public facilities & conveniences expenses	1,059,093	540,078
Staff Housing operating expenses	224,214	177,755
Storeyard operating expenses	683,350	448,430
Workshop operating expenses	1,462,278	690,190
	14,968,515	7,329,632

* Total estimated audit fees by the OAO relating to the 2019 annual financial statements are \$77,000 (2018 Actual \$80,595).





**Morrington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019**

	2019 \$	2018 \$
8 Finance Costs		
Bank charges	3,617	11,315
Impairment of debts	40,730	144,313
	<u>44,347</u>	<u>155,628</u>
	2019 \$	2018 \$
9 Capital Expenses		
Gain / (loss) on revaluation of lease assets		
Initial recognition of new leases		-
Gain / (loss) on revaluation of lease assets	375,626	232,167
Total Gain / (loss) on revaluation of lease assets	<u>375,626</u>	<u>232,167</u>
Gain / (loss) on disposal of non-current assets		
Proceeds from the sale of property, plant and equipment		454
Less: Book value of property, plant and equipment disposed	(569,900)	(294,672)
Total Gain / (loss) on disposal of non-current assets	<u>(569,900)</u>	<u>(294,408)</u>
Provision for restoration of landfill		
Initial recognition of refuse restoration provision	(1,094,816)	-
	<u>(1,094,816)</u>	<u>-</u>
Total Capital Expenses	<u>(1,289,090)</u>	<u>(62,241)</u>

10 Cash and Cash Equivalents

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

	2019 \$	2018 \$
Cash at bank and on hand	1,658,444	7,115,898
Deposits at call	522,767	287,975
Balance per Statement of Cash Flows	<u>2,181,211</u>	<u>7,403,873</u>

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

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

Unspent government grants and subsidies	2,676,245	3,294,783
Total unspent restricted cash	<u>2,676,245</u>	<u>3,294,783</u>





**Mornington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019**

	2019 \$	2018 \$
Trust funds held for outside parties		
The Council performs only a custodial role in respect of these monies. As these funds cannot be used by the Council, they are not brought to account in these financial statements.		
Monies collected or held on behalf of other entities yet to be paid out to or on behalf of those entities	80	80
	<u>80</u>	<u>80</u>

11 Trade and Other Receivables

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

Debts are regularly assessed for collectability and allowance is made, where appropriate, for impairment. All known bad debts were written-off at 30 June. If an amount is recovered in a subsequent period it is recognised as revenue.

Subsequent recoveries of amounts previously written off in the same period are recognised as finance costs in the Statement of Comprehensive Income.

	2019 \$	2018 \$
Current		
Trade debtors	1,716,995	2,169,788
Less: Impairment	(216,502)	(170,394)
GST recoverable	69,704	31,319
	<u>1,570,197</u>	<u>2,024,714</u>

No interest is charged on debtors. There is no concentration of credit risk for service charges, fees and other debtors receivable.

	2019 \$	2018 \$
Movement in accumulated impairment provisions is as follows:		
Opening balance at 1 July	176,394	40,302
Impairment debts written off during the year	-	-
Additional impairments recognised	40,108	143,207
Impairments reversed	-	(13,175)
Closing balance at 30 June	<u>216,502</u>	<u>170,394</u>





**Morrington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019**

12 Other Financial Assets

Council has leased 230 dwellings as lessor to the Queensland Government for 40 years. The total lease payment per dwelling in the current year is between \$800 - \$907.60. These lease payments are required to be adjusted each year by the change in the Consumer Price Index (All Groups) for Brisbane. As the gross lease payments are insufficient to cover the fair value (current replacement cost) of the leased properties, there is no interest rate implicit in the leases and therefore no finance income will arise from the leases. Consequently, the leases are recognised at the present value of the expected future lease payments receivable (fair value). Gains on revaluation of finance lease assets are recognised as other income.

There are no unearned finance income, unguaranteed residual values accruing to the benefit of Council, accumulated allowance for uncollectible minimum lease payments receivable or contingent rents recognised as income applicable to the leases.

	2019 \$	2018 \$
Current		
Finance leases	208,091	201,046
	<u>208,091</u>	<u>201,046</u>
Non-Current		
Finance leases	5,999,712	5,870,554
	<u>5,999,712</u>	<u>5,870,554</u>
A reconciliation between the gross investment in the lease and the fair value of lease payments is as follows:		
Gross minimum lease payments receivable:		
Not later than one year	208,091	201,046
Later than one year but not later than five years	832,368	804,185
Later than five years	<u>5,587,002</u>	<u>5,580,125</u>
Add: Estimated contingent rent	6,627,461	6,594,356
Less: Present value adjustment	<u>3,327,843</u>	<u>3,441,783</u>
Fair value of lease payments	<u>6,117,803</u>	<u>6,071,600</u>
The fair value of lease payments are receivable as follows:		
Not later than one year	208,091	201,046
Later than one year but not later than five years	817,351	789,687
Later than five years	<u>5,092,351</u>	<u>5,080,867</u>
	<u>6,117,803</u>	<u>6,071,600</u>
Movements in finance leases were as follows:		
Opening balance	6,071,600	6,040,479
Add: Initial recognition of new leases	-	-
Less: Lease receipts	<u>(329,622)</u>	<u>(201,047)</u>
Add: Gain/ (loss) on revaluation	375,826	232,168
Closing balance	<u>6,117,803</u>	<u>6,071,600</u>





Mornington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019

12 Property, Plant and Equipment

Council - 30 June 2019

State of Measurement

Asset Values

Opening gross value as at 1 July 2018

Additions

Disposals

Revaluation adjustments to other components of

income (asset revaluation surplus)

Transfers between classes

Closing gross value as at 30 June 2019

Accumulated depreciation and impairment

Opening balance as at 1 July 2018

Depreciation provided in period

Depreciation on disposals

Revaluation adjustment to asset revaluation surplus

Transfers between classes

Accumulated depreciation as at 30 June 2019

Total written down value as at 30 June 2019

Residual Value

Range of estimated useful life in years

Additional Comments

Revaluations

CFM: 003116

Total assets

Note

	Buildings	Plant and Equipment	Road and Driveway Paving/A	Water	Sewerage	Other Infrastructure Assets	Work in Progress	Total
	Fair Value	Cost	Fair Value	Fair Value	Fair Value	Fair Value	Cost	\$
	44,543,958	5,431,156	55,243,771	32,502,881	13,473,758	21,158,117	12,814,626	180,137,071
	-	(50,265)	-	-	-	-	15,718,257	15,718,257
17	17,618,508	(16,265)	-	-	-	(672,681)	(279,015)	(2,133,453)
	976,242	-	117,188,718	814,017	136,843	611,433	-	119,837,253
	1,727,232	945,282	19,014,463	-	233,618	419,582	(21,101,446)	-
	45,147,442	6,231,972	65,074,528	33,316,898	14,944,419	21,957,542	5,714,255	186,515,267
	21,358,118	3,179,420	28,583,457	11,935,422	7,900,512	3,412,068	-	76,825,562
	1,125,915	384,610	2,835,418	373,817	211,815	1,089,333	-	6,111,477
17	(1,816,531)	(22,504)	-	-	-	(233,686)	-	(2,072,721)
	491,732	-	17,228,126	3,06,901	202,412	126,393	-	18,615,564
	-	-	-	-	-	-	-	-
	21,961,240	3,542,086	28,596,743	12,418,219	8,104,327	4,305,807	-	75,478,273
	23,210,192	2,357,817	35,518,265	20,756,495	5,760,130	18,524,659	5,824,255	115,917,007
	-	-	-	-	-	-	-	-
	15-60	5-40	5-50	10-150	10-100	1-50	-	-
	\$	\$	\$	\$	\$	\$	\$	\$
	-	-	-	-	-	-	17,355,484	17,355,484
	-	-	-	-	-	-	2,314,767	2,314,767
	-	-	-	-	-	-	15,718,257	15,718,257





Mornington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019

13. Property, Plant and Equipment

Council - 30 June 2018

Class of Measurement

Asset Values

Opening gross value as at 1 July 2017

Additions

Restatement of previously decomposed asset

Disposals

Revaluation adjustment to other comprehensive

income (asset revaluation surplus)

Transfers between classes

Closing gross value as at 30 June 2018

Accumulated Depreciation and impairment

Opening balance as at 1 July 2017

Depreciation provided in period

Depreciation on disposals

Revaluation adjustment to asset revaluation surplus

Transfers between classes

Accumulated depreciation as at 30 June 2018

Total written down value as at 30 June 2018

Residual value

Range of estimated useful life in years

Note

Buildings	Plant and Equipment	Road and Drainage Networks	Water	Sewerage	Other Infrastructure Assets	Works in Progress	Total
Car Value	Cost	Car Value	Car Value	Car Value	Car Value	Cost	
\$	\$	\$	\$	\$	\$	\$	\$
42 208 431	4 812 125	59 204 378	21 319 647	52 440 105	18 425 339	4 004 064	158 971 294
-	579 042	-	-	-	-	13 756 015	14 335 057
614 436	-	677 858	-	-	-	-	1 292 294
(1 221 000)	(37 246)	-	-	-	-	-	(1 258 246)
827 328	-	2 367 768	1 656 108	452 935	644 712	-	5 348 851
1 429 722	76 865	-	144 834	80 485	3 072 069	14 874 475	-
44 048 959	5 468 032	59 204 378	21 319 647	52 440 105	18 425 339	17 924 635	162 807 073
24 375 502	5 277 822	24 257 570	16 107 487	9 414 189	2 208 077	-	75 312 513
1 042 187	343 838	2 847 005	472 717	219 343	8 028 758	-	5 874 847
(978 121)	(57 356)	-	-	-	-	-	(1 035 477)
(2 545 442)	-	1 478 874	456 919	268 995	112 741	-	(1 281 902)
-	-	-	-	-	-	-	-
21 368 119	5 513 454	24 257 570	16 580 413	7 950 512	3 418 318	-	75 827 912
22 882 879	5 852 058	25 826 328	20 575 289	8 572 275	18 725 348	17 924 635	112 581 301
-	-	-	-	-	-	-	-
15-20	5-40	5-50	10-120	15-100	1-50	-	-





Mornington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019

13 Property, Plant and Equipment (Continued)

a) Recognition

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 plant and equipment with a total value of less than \$5,000, and infrastructure assets and buildings with a total value of less than \$10,000 are treated as an expense in the year of acquisition. All other items of property, plant and equipment are capitalised.

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.

Deed of Grant in Trust Land

Council is located on land assigned to it under a Deed of Grant in Trust (DOGIT) under Section 341 of the Land Act 1994.

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

b) Measurement

Acquisition of assets

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

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

Capital 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.

c) Depreciation

Depreciation on other property, plant and equipment assets is calculated on a straight-line basis so as to write-off the net cost or revalued amount of each depreciable asset, less its estimated residual value, progressively over its estimated useful life to the Council. Management believe that the straight-line basis appropriately reflects the pattern of consumption of all Council assets.

Where assets have separately identifiable components that are subject to regular replacement, these components are assigned useful lives distinct from the asset to which they relate. Any expenditure that increases the originality 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.





**Mornington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019**

13 Property, Plant and Equipment (Continued)

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

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

Key judgements and estimates:

Straight line depreciation is used as that is consistent with the even consumption of service potential of these assets over their useful life to the Council.

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and IT equipment.

d) Impairment

The recoverable amount of specialised non-current assets held for continuing use of their service capacity is considered to be materially equivalent to its fair value.

Other non-specialised non-current physical asset and group of assets are assessed for indicators of impairment annually. If an indicator of possible impairment exists, the Council determines the asset's recoverable amount. Any amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

Key judgements and estimates:

In assessing impairment, management estimates the recoverable amount of each asset, based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

e) Valuation

Key judgements and estimates:

Some of the Council's assets and liabilities are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Council uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Council engages third party qualified valuers to perform the valuation. The Council works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed within this note.





**Mornington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019**

f) Valuation Processes

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

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

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

14 Fair Value Measurements

(i) Recognised Fair Value Measurements

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

- Property, plant and equipment
 - Buildings
 - Road and Drainage
 - Water
 - Sewerage
 - Other Infrastructure Assets

In accordance with AASB 13 fair value measurements are categorised on the following basis:

- Fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Fair value based on inputs that are directly or indirectly observable for the asset or liability (Level 2)
- Fair value based on unobservable inputs for the asset and liability (Level 3)

Council does not have any assets measured at fair value which meet the criteria for categorisation as level 1 or level 2.

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





**Morrington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019**

14 Fair Value Measurements (Continued)

(i) Valuation techniques used to derive fair values for level 3 valuations

Buildings (Level 3)

The last full valuation of Council's building assets was performed effective 30 June 2018 by AssetVal Pty Ltd with reference to detailed condition assessments performed by CT Management. A desktop revaluation was performed at 30 June 2019 based on movement in construction indices by AssetVal Pty Ltd. The indexation assessment is based on inputs from producer price data, construction indices and recent cost guides. This resulted in an increase of 2.3% from 1 July 2018 to 30 June 2019. Due to the nature of Morrington Island, there is neither an active market for the assets or the Council buildings are of a specialist nature. Therefore the determination of fair value has been performed using the Cost approach valuation technique.

The valuer has determined the fair value of building infrastructure through the following process:

* Where there is no market for an asset (consideration of either a principal market or most advantageous), the net current value of the asset is the gross current value less accumulated depreciation to reflect the consumed or expired service potential of the asset.

* Published/ available market data for recent projects, and/or published cost guides were utilised to determine the estimated replacement cost (gross value) of the asset, including allowances for preliminaries and professional fees. The replacement cost of the assets was determined by applying unit rates to each component of the asset.

The unit rates applied include all materials, labour and overheads. These unit rates are estimated using information collated from similar recent project costs, direct quotations from suppliers, unit rate databases, indices and Radlson's Construction Handbook.

* A condition assessment was applied, based on factors such as the age of the asset, overall condition as noted through physical inspection, economic and/or functional obsolescence. The condition assessment was utilised to calculate and reflect the current serviceability level of the asset.

In determining the level of accumulated depreciation for building assets, the assets were disaggregated into significant components which exhibit different patterns of consumption (useful lives).

The assessment of remaining useful life was made by the valuer taking into consideration the current physical condition of assets, construction date, evidence of recent repairs or capital works and the surrounding environmental factors.

Infrastructure Assets (Level 3)

All Council infrastructure assets were valued using written down current replacement cost. There is no market for Council's roads, water, sewerage and drainage assets and other structure assets as these are held to provide essential services to the community. The fair value comprises the estimated current cost of replacement of the asset with a similar asset which is not necessarily an exact reproduction but which has similar service potential and function (plus where applicable an amount for installation), less an amount for depreciation in the form of accrued physical wear and tear, economic and functional obsolescence.

Current replacement cost was calculated by reference to the assets linear and width characteristics, overhead allocations and service costs. Where construction is outsourced, current replacement cost was based on the average of similar projects over the last few years. Reference was also made to recent costs for construction.





**Morrington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019**

14 Fair Value Measurements (Continued)

The last full valuation of Council's water, sewer and other infrastructure was undertaken by AssetVal Pty Ltd effective 30 June 2017. The current replacement cost of infrastructure at 30 June 2019 was determined by AssetVal Pty Ltd using a composite utilities index developed by combining the Electrical Equipment Manufacturing Index, the Engineering Design and Management Index, the Metal Product Manufacturing Index and the Concrete Product Manufacturing Index from the ABS Producer Price Index. The weighting of each index is based on an estimated project cost breakdown at 10%, 40%, 10% and 40% respectively. This resulted in an increase of 2.5% from 1 July 2018 to 30 June 2019 (2018: +3.5%).

The last full valuation of Council road infrastructure was undertaken by AssetVal Pty Ltd effective 30 June 2017. Current replacement cost at 30 June 2019 was determined by AssetVal Pty Ltd using the ABS Producers' Price Index 'Roads and Bridges Construction' which was 2.8% (2018: +3.5%).

A desktop road condition assessment was performed by CT Management for the year ended 30 June 2019. The assessment of condition was performed with reference to completion photos of restoration works for damage incurred during declared weather events in 2017 and 2018. The condition ratings of roads damaged during declared weather events in March 2019 were subsequently reassessed based on the nature and extent of damage with consideration of required restoration methods. Road assets which had not been damaged since the last comprehensive revaluation have been revised based on deterioration assumptions and overall asset lives.

Componentisation

Council categorises the road infrastructure into urban and rural roads with further sub categories of sealed and unsealed roads. Council assumes that environmental factors such as soil type, climate and topography are consistent across each segment. Council also assumes a segment is designed and constructed to the same standard and uses a consistent amount of labour and materials.

Calculating Remaining Useful Lives

The remaining useful lives used in the depreciation calculations are estimated using the following methods:

- * Condition;
- * Known Age; and
- * Estimated Age

In determining total useful life, remaining life and accumulated depreciation, assets were generally subject to an inspection or an assessment to determine remaining life. Where site inspections were conducted, (i.e. for active assets, buildings and roads), the assets were allocated a condition assessment, which was used to estimate remaining life.

Where water and sewer assets are located underground and physical inspection is not possible, the age, size and type of construction material, together with current and planned maintenance records are used to determine the fair value at reporting date.

Where detailed condition is not available or the age of the asset is known, the remaining life is estimated using the current age of the assets, adjusted for obsolescence after visual inspection.

In determining the level of accumulated depreciation for infrastructure assets, the assets were disaggregated into significant components which exhibit different patterns of consumption (useful lives). Annual depreciation is calculated on a straight line basis over the remaining life of the asset.





**Morrington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019**

15 Trade and Other 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.

The fair value of trade payables is assumed to approximate the value of the original

A liability for annual leave is recognised. All amounts have been recognised as current due to the entitlement of staff to take their leave at any time, subject to operational requirements.

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

	2019 \$	2018 \$
Current		
Creditors and accruals	1,302,424	5,015,487
Annual leave	610,306	520,843
Other payables	90,862	129,670
	<u>2,003,592</u>	<u>5,665,999</u>

16 Provisions

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.

Where employees have met the prerequisite length of service and council does not have an unconditional right to defer this liability beyond 12 months long service leave is classified as a current liability. Otherwise it is classified as non-current.

Refuse dump restoration

A provision is made for the cost of restoring refuse dumps where it is probable the Council will be liable, or required, to do this when the use of the facilities is complete.

The provision for refuse restoration is calculated as the present value of anticipated future costs associated with the closure of the dump sites, decontamination and monitoring of historical residues and leaching on these sites. The calculation of this provision requires assumptions such as application of environmental legislation, site closure dates, available technologies and engineering cost estimates. These uncertainties may result in future actual expenditure differing from amounts currently provided. Because of the long-term nature of the liability, the most significant uncertainty in estimating the provision is the costs that will be incurred. The provision recognised for dump sites is reviewed at least annually and updated based on the facts and circumstances available at the time. Management estimates that the current trenches will close in 2030 and that the restoration and monitoring will occur progressively over the subsequent 30 years.





Morrington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019

16 Provisions

	2019 \$	2018 \$
Current		
Long service leave	84,208	79,330
	<u>84,208</u>	<u>79,330</u>
Non-current		
Long service leave	121,158	52,674
Refuse restoration	1,094,816	-
	<u>1,215,974</u>	<u>52,674</u>
	2019 \$	2018 \$
Details of movements in provisions		
Long service leave		
Balance at beginning of financial year	132,010	127,146
Long service leave entitlement arising	77,949	42,410
Long Service entitlement extinguished	(4,472)	(26,428)
Long Service entitlement paid	(121)	(11,127)
Balance at end of financial year	<u>205,366</u>	<u>132,010</u>
Refuse restoration		
Balance at beginning of financial year	-	-
Initial recognition of restoration costs	1,094,810	-
Increase in provision due to unwinding of discount	-	-
Increase (decrease) in provision due to change in discount rate	-	-
Balance at end of financial year	<u>1,094,810</u>	-

17 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 revaluation surplus.

When an asset is disposed of, the amount reported in surplus in respect of that asset is retained in the revaluation surplus and not transferred to retained surplus.

Movements in the asset revaluation surplus were as follows:

	2019 \$	2018 \$
Balance at beginning of financial year	107,672,890	101,002,586
Net adjustment to non-current assets at end of period to reflect a		
- Buildings	484,482	4,372,770
- Road and drainage network	(10,186,592)	888,834
- Water	505,036	601,209
- Sewerage	134,841	185,920
- Other structures	520,540	531,571
Balance at end of financial year	<u>99,160,197</u>	<u>107,672,890</u>





Morrington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019

17 Asset Revaluation Surplus

Asset revaluation surplus analysis

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

Buildings	94,411,043	63,926,561
Road and drainage network	7,933,733	18,100,325
Water	10,290,701	15,794,665
Sewerage	3,463,232	3,328,391
Other structures	7,052,487	6,522,947
	<u>90,100,197</u>	<u>107,672,890</u>

	Note	2019 \$	2018 \$
18 Reconciliation of net result for the year to net cash inflow (outflow) from operating activities			
Net result		6,122,490	4,275,135
Non-cash items:			
Depreciation and amortisation	13	6,111,477	5,979,857
Initial recognition of refuse restoration provision		1,094,816	
Fair value of newly recognised controlled assets	5	-	(1,362,146)
Brought forward work in progress expensed in current year	13	390,095	-
(Gain) on revaluation of finance leases	12	(375,820)	(232,167)
		<u>7,220,562</u>	<u>4,385,554</u>
Investing and development activities:			
Net (profit)/loss on disposal of non-current assets	9	569,900	294,408
Capital grants and contributions		(10,634,018)	(9,022,685)
		<u>(10,064,119)</u>	<u>(8,728,277)</u>
Changes in operating assets and liabilities:			
(Increase)/decrease in receivables		454,526	(926,622)
(Increase)/decrease in inventory		(73,505)	(89,352)
Increase/(decrease) in payables		329,408	619,256
Increase/(decrease) in other provisions		73,356	4,864
		<u>783,784</u>	<u>(391,864)</u>
Net cash inflow from operating activities		<u>(1,037,277)</u>	<u>(450,452)</u>





**Morrington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019**

19 Financial Instruments

Morrington Shire Council has exposure to the following risks arising from financial instruments

- credit risk
- liquidity risk
- market risk

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

Risk Management Framework

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

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

The Council's risk management policies are established to identify and analyse the risks faced, to set appropriate limits and controls and to monitor these risks and adherence against limits. The Council aims to manage volatility to minimise potential adverse effects on the financial performance of the Council.

Morrington Shire Council does not enter into derivatives.

Credit Risk

Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations. These obligations arise principally from the Council's investments and receivables from customers.

Exposure to credit risk is managed through regular analysis of credit counterparty ability to meet payment obligations. The carrying amount of financial assets represents the maximum credit exposure.

No collateral is held as security relating to the financial assets held by Morrington Shire Council.

The carrying amount of financial assets at the end of the reporting period represent the maximum exposure to credit risk for the Council.

Cash and cash equivalents

The Council may be exposed to credit risk through its investments in the QTC Cash Fund and QTC Working Capital Facility. The QTC Cash Fund is an asset management portfolio that invests with a wide range of high credit rated counterparties. Deposits with the QTC Cash Fund are capital guaranteed. Working Capital Facility deposits have a duration of one day and all investments are required to have a minimum credit rating of 'A-', therefore the likelihood of the counterparty having capacity to meet its financial commitments is strong.

Other financial assets

Other investments are held either with financial institutions or the State Government, which are rated AA- based on rating agency ratings, and whilst not capital guaranteed, the likelihood of a credit failure is assessed as remote.





Mornington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019

19 Financial Instruments

Trade and other receivables

The Council assesses the credit risk before providing goods or services and applies normal business credit protection procedures to minimise the risk.

By the nature of the Council's operations, there is a geographical concentration of risk in the Council's area. This is due to economic issues e.g. low employment and various cultural issues all of which have a general economic impact.

At 30 June 2019, the exposure to credit risk for trade receivables by type of counterparty was as follows:

	2019 \$	2018 \$
Property charges	38,004	141,227
GST recoverable	69,704	31,319
Community organisations	1,159,759	2,028,695
Other	519,222	(124)
	<u>1,785,690</u>	<u>2,201,108</u>

A summary of the Council's exposure to credit risk for trade receivables is as follows:

	2019 Not credit-	2019 Credit-	2018
	Impaired \$	Impaired \$	\$
Not past due	1,383,648	11,025	1,238,198
Past due 31-60 days	113,588	9,736	611,136
Past due 61-90 days	(4,602)	16,271	54,378
More than 90 days	77,554	179,470	297,396
Total gross carrying amount	<u>1,570,188</u>	<u>216,502</u>	<u>2,201,108</u>
Loss allowance	-	(216,502)	(170,394)
	<u>1,570,188</u>	<u>-</u>	<u>2,024,714</u>

For impaired financial assets the factors the Council considered when impairing the asset included the ageing of receivables, historical collection rates and specific knowledge of the debtors financial position.

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

Liquidity Risk

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

Council manages its exposure to liquidity risk by maintaining sufficient cash deposits to cater for volatility in cash flows.

All of Council's payables will mature within 12 months.





Mornington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019

19 Financial Instruments

Market Risk

Council is not exposed to foreign exchange and price risk.

Interest rate risk

Mornington Shire Council is exposed to interest rate risk through investments with financial institutions.

The Council has access to a mix of variable and fixed rate funding options through QTC so that interest rate risk exposure can be minimised.

Sensitivity

Sensitivity to interest rate movements is shown for variable financial assets and liabilities based on the carrying amount at reporting date.

The Council does not account for any fixed-rate financial assets or financial liabilities at Fair Value through Profit or Loss, therefore a change in interest rates at the reporting date would not affect profit or loss.

The following interest rate sensitivity analysis depicts what effect a reasonably possible change in interest rates (assumed to be 1%) would have on the profit and equity, based on the carrying values at the end of the reporting period. The calculation assumes that the change in interest rates would be held constant over the period.

	Net carrying \$	Effect on Net Result		Effect on Equity	
		1% increase \$	1% decrease \$	1% increase \$	1% decrease \$
2019					
Other Deposits	2,181,211	21,812	(21,812)	21,812	(21,812)
Net total	2,181,211	21,812	(21,812)	21,812	(21,812)
2018					
Other Deposits	7,403,873	74,039	(74,039)	74,039	(74,039)
Net total	7,403,873	74,039	(74,039)	74,039	(74,039)





**Mornington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019**

20 Superannuation

Council contributes to the LGAsuper Regional Defined Benefits Fund (the scheme), at the rate of 12% for each permanent employee who is a defined benefit member. This rate is set in accordance with the LGAsuper trust deed and may be varied on the advice of an actuary. The Regional Defined Benefits Fund is a complying superannuation scheme for the purpose of the Commonwealth Superannuation Industry (Supervision) legislation and is also governed by the Local Government Act 2009.

The scheme is a defined benefit plan, however Council is not able to account for it as a defined benefit plan in accordance with AASB 119 because LGAsuper is unable to account for its proportionate share of the defined benefit obligation, plan assets and costs.

Any amount by which the scheme is over or under funded may affect future benefits and result in a change to the contribution rate, but has not been recognised as an asset or liability of the Council.

Technically Council can be liable to the scheme for a portion of another local governments' obligations should that local government be unable to meet them. However the risk of this occurring is extremely low and in accordance with the LGAsuper trust deed changes to council's obligations will only be made on the advice of an actuary.

The last completed actuarial assessment of the scheme was undertaken as at 1 July 2018. The actuary indicated that "At the valuation date of 1 July 2018, the net assets of the scheme exceeded the vested benefits and the scheme was in a satisfactory financial position as at the valuation date." The Council is not aware of anything that has happened since that time that indicates the assets of the scheme are not sufficient to meet the vested benefits, as at the reporting date.

No changes have been made to prescribed employer contributions which remain at 12% of employee assets and there are no known requirements to change the rate of contributions.

The next triennial actuarial review is not due until 1 July 2021.

The most significant risks that may result in LGAsuper increasing the contribution rate, on the advice of the actuary, are:

Investment risk - The risk that the scheme's investment returns will be lower than assumed and additional contributions are needed to fund the shortfall.

Salary growth risk - The risk that wages or salaries will rise more rapidly than assumed, increasing vested benefits to be funded.

There are currently 62 entities contributing to the scheme and any changes in contribution rates would apply equally to all 62 entities. Council made less than 4% of the total contributions to the plan in the 2018-19 financial year.

Note	2019 \$	2018 \$
Superannuation contributions made to the Regional Defined Benefits Fund	780,041	638,744
Other superannuation contributions for employees	55,234	6,674
Total superannuation contributions paid by Council for employees:	835,275	645,418
	2020 \$	2019 \$
Contributions council expects to make to the Regional Defined Benefits Fund for 2019-20	700,000	700,000





**Mornington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019**

21 Transactions With Related Parties

a) Key Management Personnel Compensation

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether Executive or otherwise) of that entity.

KMP include the Mayor, Councillors, Council's Chief Executive Officer and Executive Managers. The compensation paid to KMP for 2018/19 comprises:

	2019	2018
	\$	\$
Short-term employee benefits	1,023,460	881,741
Post-employment benefits	90,353	78,326
Termination benefits	30,000	-
Total	1,143,813	960,067

Detailed remuneration disclosures are provided in Council's Annual Report.

b) Transactions with other related parties

Other related parties include the close family members of KMP and any entities controlled or jointly controlled by KMP or their close family members. Close family members include a spouse, child and dependent of a KMP or their spouse.

Details of transactions between Council and other related parties are

	2019	2018
	\$	\$
Employee expenses for close family members of key management personnel	344,679	277,576

All close family members of key management personnel were employed through an arm's length process. They are paid in accordance with the Award for the job they perform.

The council employs 106 staff of which 6 are close family members of key management personnel.

c) Other related entities

On the 18th of June 2019 a beneficial entity comprising three KMP was registered with ASIC. The entity, Mundalbe Enterprises Limited is a public company limited by guarantee and was established as an entity to undertake a range of services in and around the Mornington Shire Council local government area. The first service that Mundalbe will be involved with is a joint venture with Bynoe CACs Ltd to undertake the Community Development Program (CDP) funded by the Commonwealth. Mundalbe Enterprises Limited had not commenced trading at 30 June 2019. No transactions have occurred between Council and Mundalbe Enterprises Limited to 30 June 2019.

d) Loans and guarantees to/from related parties

Council does not have any loans to/from related parties. No guarantees have been provided.

e) Commitments to/from other related parties

Council has no outstanding commitments to/from other related parties.





**Morrington Shire Council
Notes to the Financial Statements
For the year ended 30 June 2019**

21 Transactions With Related Parties

f) Transactions with related parties that have not been disclosed

Most of the entities and individuals that are related parties of council live and work within the Morrington Shire Council. Therefore, on a regular basis ordinary citizen transactions occur between Council and its related parties. Some examples include:

- Purchase of fuel and other workshop services
- Purchase of gas bottles and other general stores items
- Payment of barge handling and other fees

Council has not included these types of transactions in its disclosure, where they are made on the same terms and conditions available to the general public.

Due to the size and location of Morrington Shire, Council is one of the primary employers. Therefore staff members may be identified as close family members of key management personnel.

22 Commitments for Expenditure

Council is not party to any non-cancellable operating leases as at 30 June 2019.

Council has not entered into any contractual arrangements at year end which are not recognised in the financial statements.

23 Contingent Liabilities

Local Government Mutual

The Council is a member of the local government mutual liability self-insurance pool, LGM Queensland. In the event of the pool being wound up or it is unable to meet its debts as they fall due, the trust deed and rules provide that any accumulated deficit will be met by the individual pool members in the same proportion as their contribution is to the total pool contributions in respect to any year that a deficit arises.

The latest audited financial statements for LGM Queensland are as at 30 June 2018 and show accumulated member funds (equity) of \$75,834,341.

Local Government Workcare

The Council is a member of the Queensland local government worker's compensation self-insurance scheme, Local Government Workcare. Under this scheme the Council has provided an indemnity towards a bank guarantee to cover bad debts which may remain should the self insurance licence be cancelled and there was insufficient funds available to cover outstanding liabilities. Only the Queensland Government's workers compensation authority may call on any part of the guarantee should the above circumstances arise. The Council's maximum exposure to the bank guarantee is \$128,856.

The latest audited financial statements for Local Government Workcare are as at 30 June 2018 and show accumulated member funds of \$49,663,198. It is not anticipated that any liability will arise.

24 Events after the reporting period

There were no material adjusting events after the balance date.






Mornington Shire Council
Financial Statements
For the year ended 30 June 2019

Management Certificate
For the year ended 30 June 2019

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

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

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



Mayor
Bradley Wilson
Date: 10, 9, 19



Chief Executive Officer
Frank Mills
Date: 10, 09, 2019





INDEPENDENT AUDITOR'S REPORT

To the Councillors of Mornington Shire Council

Report on the Audit of the Financial Report

Opinion

I have audited the financial report of Mornington Shire Council.

In my opinion, the financial report:

- gives a true and fair view of the council's financial position as at 30 June 2019, and of its financial performance and cash flows for the year then ended
- complies with the *Local Government Act 2009*, the *Local Government Regulation 2012* and Australian Accounting Standards.

The financial report comprises the statement of financial position as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including significant accounting policies and other explanatory information, and the certificate given by the Mayor and Chief Executive Officer.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of my report.

I am independent of the council in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General of Queensland Auditing Standards*.

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

Other information

Other information comprises the information included in Mornington Shire Council's annual report for the year ended 30 June 2019, but does not include the financial report and my auditor's report thereon. At the date of this auditor's report, the other information was the current year financial sustainability statement and long-term financial sustainability statement.

My opinion on the financial report does not cover the other information and accordingly I do not express any form of assurance conclusion thereon. However, as required by the *Local Government Regulation 2012*, I have expressed a separate opinion on the current year financial sustainability statement.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report and my knowledge obtained in the audit or otherwise appears to be materially misstated.





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If, based on the work I have performed, I conclude that there is a material misstatement of this information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the council for the financial report

The council is responsible for the preparation of the financial report that gives a true and fair view in accordance with the *Local Government Act 2009*, the *Local Government Regulation 2012* and Australian Accounting Standards, and for such internal control as the council determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The council is also responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless it is intended to abolish the council or to otherwise cease operations.

Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the council.
- Conclude on the appropriateness of the council's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the council to cease to continue as a going concern.





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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on other legal and regulatory requirements

In accordance with s.40 of the *Auditor-General Act 2009*, for the year ended 30 June 2019:

- a) I received all the information and explanations I required.
- b) In my opinion, the prescribed requirements in relation to the establishment and keeping of accounts were complied with in all material respects.

20 September 2019

Sri Narasimhan
as delegate of the Auditor-General

Queensland Audit Office
Brisbane





Morrington Shire Council
Current-year Financial Sustainability Statement
For the year ended 30 June 2019

Measures of Financial Sustainability

Council's performance at 30 June 2019 against key financial ratios and targets

Ratio	How the measure is calculated	Actual	Target
Operating Surplus Ratio	Net result (excluding capital) divided by total operating revenue (excluding capital)	-48.2%	8% to 10%
Asset Sustainability Ratio	Capital expenditure on replacement of assets (renewals) divided by depreciation expense	234%	> 90%
Net Financial Liabilities Ratio	Total liabilities less current assets divided by total operating revenue (excluding capital items)	-6%	< 60%

Note 1 - Basis of Preparation

The current year financial sustainability statement is a special purpose statement prepared in accordance with the requirements of the Local Government Regulation 2012 and the Financial Management (Sustainability) Guideline 2013. The amounts used to calculate the three reported measures are prepared on an accrual basis and are drawn from the Council's audited general purpose financial statements for the year ended 30 June 2019.






Mornington Shire Council
Certificate of Accuracy
For the year ended 30 June 2019

This current-year financial sustainability statement has been prepared pursuant to Section 178 of the Local Government Regulation 2012 (the regulation).

In accordance with Section 212(5) of the Regulation we certify that this current-year financial sustainability statement has been accurately calculated.



Mayor
Bradley Wilson
Date 13.9.19.



Chief Executive Officer
Frank Mills
Date 12.09.2019





INDEPENDENT AUDITOR'S REPORT

To the Councillors of Morningsong Shire Council

Report on the Current-Year Financial Sustainability Statement

Opinion

I have audited the accompanying current year financial sustainability statement of Morningsong Shire Council for the year ended 30 June 2019, comprising the statement, explanatory notes, and the certificate of accuracy given by the Mayor and the Chief Executive Officer.

In accordance with section 212 of the Local Government Regulation 2012, in my opinion, in all material respects, the current year financial sustainability statement of Morningsong Shire Council for the year ended 30 June 2019 has been accurately calculated.

Basis of opinion

I conducted my audit in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the current year financial sustainability statement* section of my report.

I am independent of the council in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the statement in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General of Queensland Auditing Standards*.

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

Emphasis of matter – basis of accounting

I draw attention to Note 1 which describes the basis of accounting. The current year financial sustainability statement has been prepared in accordance with the Financial Management (Sustainability) Guideline 2013 for the purpose of fulfilling the council's reporting responsibilities under the Local Government Regulation 2012. As a result, the statement may not be suitable for another purpose. My opinion is not modified in respect of this matter.

Other Information

Other information comprises the information included in Morningsong Shire Council's annual report for the year ended 30 June 2019, but does not include the current year financial sustainability statement and my auditor's report thereon. At the date of this auditor's report, the other information was the general purpose financial statements and long-term financial sustainability statement.

My opinion on the current year financial sustainability statement does not cover the other information and accordingly I do not express any form of assurance conclusion thereon. However, as required by the Local Government Regulation 2012, I have expressed a separate opinion on the general purpose financial report.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report and my knowledge obtained in the audit or otherwise appears to be materially misstated.





If, based on the work I have performed, I conclude that there is a material misstatement of this information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the council for the current year financial sustainability statement

The council is responsible for the preparation and fair presentation of the current year financial sustainability statement in accordance with the Local Government Regulation 2012. The council's responsibility also includes such internal control as the council determines is necessary to enable the preparation and fair presentation of the statement that is accurately calculated and is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the current year financial sustainability statement

My objectives are to obtain reasonable assurance about whether the current year financial sustainability statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this statement.

My responsibility does not extend to forming an opinion on the appropriateness or relevance of the reported ratios, nor on the council's future sustainability.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the council.
- Evaluate the overall presentation, structure and content of the statement, including the disclosures, and whether the statement represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Sri Narasimhan
as delegate of the Auditor-General

20 September 2019

Queensland Audit Office
Brisbane





**Morrington Shire Council
Long-Term Financial Sustainability
Prepared as at 30 June 2018**

**Measures of Financial Sustainability
Council**

Measures of Financial Sustainability	Metric	Target	Actual 30 June 2018	Financial Year projections						
				30 June 2019	30 June 2020	30 June 2021	30 June 2022	30 June 2023	30 June 2024	30 June 2025
Operating Surplus Ratio	Net result divided by total operating revenue	85% to 95%	76%	74%	73%	73%	72%	71%	70%	69%
Asset Sustainability Ratio	Capital expenditure on non-current assets divided by depreciation expense	< 80%	104%	95.1%	93.8%	93.8%	93.7%	93.5%	93.4%	93.3%
Net Financial Liabilities Ratio	Total liabilities less current assets divided by total operating revenue	< 30%	4%	5.5%	4.3%	4.4%	4.1%	3.8%	4.1%	3.7%

Morrington Shire Council's Financial Management Strategy

Council measures revenue and expenditure trends over time as a guide to future requirements and to make decisions about the efficient allocation of resources to ensure the most effective provision of services. Council ensures that its financial management strategy is prudent and that its long-term financial forecast shows a sound financial position whilst also being able to meet the community's current and future needs.





Mornington Shire Council
For the long-term financial sustainability
Prepared as at 30 June 2019

This long-term financial sustainability statement has been prepared pursuant to Section 178 of the Local Government Regulation 2012 (the regulation).

In accordance with Section 212(5) of the Regulation we certify that this long-term financial sustainability statement has been accurately calculated.



Mayor
Bradley Wilson
Date 12.9.19.



Chief Executive Officer
Frank Mills
Date 12.09.2019

