

**Mornington Shire Council**  
**Financial Statements**  
**for the year ended 30 June 2015**

# Mornington Shire Council

## Financial Statements

For the year ended 30 June 2015

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**Mornington Shire Council**  
**Statement of Comprehensive Income**  
For the year ended 30 June 2015

	Note	Council	
		2015 \$	2014 \$
<b>Income</b>			
<b>Revenue</b>			
<b>Recurrent revenue</b>			
Levies and charges	3(a)	1,017,304	986,041
Fees and charges	3(b)	237,806	413,647
Rental income	3(c)	523,013	390,884
Interest received	3(d)	225,217	230,562
Sales revenue	3(e)	3,533,711	867,662
Other income	3(f)	207,768	156,047
Grants, subsidies and contributions	4(a)	4,422,013	3,087,061
		<u>10,166,833</u>	<u>6,131,904</u>
<b>Capital revenue</b>			
Grants, subsidies and contributions	4(b)	12,202,009	6,251,836
<b>Total revenue</b>		<u>22,368,842</u>	<u>12,383,740</u>
<b>Capital income</b>	5	3,994,066	4,723,630
<b>Total income</b>		<u>26,362,909</u>	<u>17,107,370</u>
<b>Expenses</b>			
<b>Recurrent expenses</b>			
Employee benefits	6	(4,418,424)	(2,946,921)
Materials and services	7	(5,760,925)	(4,238,187)
Finance costs	8	(36,435)	(10,414)
Depreciation	14	(5,009,041)	(2,429,202)
		<u>(15,224,826)</u>	<u>(9,624,725)</u>
<b>Capital expenses</b>	9	(259,043)	(1,485,857)
<b>Total expenses</b>		<u>(15,483,869)</u>	<u>(11,110,582)</u>
<b>Net Result</b>		<u>10,879,040</u>	<u>5,996,788</u>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to net result</b>			
Increase revaluation surplus	18	-	29,115,092
<b>Total other comprehensive income for the year</b>		<u>-</u>	<u>29,115,092</u>
<b>Total comprehensive income for the year</b>		<u>10,879,040</u>	<u>35,111,880</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 2015

	Note	Council	
		2015 \$	2014 \$
<b>Current Assets</b>			
Cash and Equivalents	10	6,632,397	6,814,885
Trade and Other Receivables	11	591,005	774,458
Inventories	12	298,506	460,091
Other Financial Assets	13	679,462	669,910
<b>Total Current Assets</b>		<b>8,201,370</b>	<b>8,719,344</b>
<b>Non-Current Assets</b>			
Other Financial Assets	13	26,034,532	22,719,927
Property, Plant and Equipment	14	97,016,016	88,474,939
<b>Total Non-Current Assets</b>		<b>123,050,548</b>	<b>111,194,866</b>
<b>Total Assets</b>		<b>131,251,918</b>	<b>119,914,210</b>
<b>Current Liabilities</b>			
Trade and Other Payables	16	1,112,682	593,202
Provisions	17	11,548	67,188
<b>Total Current Liabilities</b>		<b>1,124,230</b>	<b>660,390</b>
<b>Non-Current Liabilities</b>			
Provisions	17	95,326	100,502
<b>Total Non-Current liabilities</b>		<b>95,326</b>	<b>100,502</b>
<b>Total Liabilities</b>		<b>1,219,556</b>	<b>760,892</b>
<b>Net Community Assets</b>		<b>130,032,362</b>	<b>119,153,321</b>
<b>Community equity</b>			
Revaluation Surplus	18	102,715,961	102,715,961
Retained Surplus		27,316,401	16,437,361
<b>Total Community Equity</b>		<b>130,032,362</b>	<b>119,153,321</b>

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

**Mornington Shire Council**  
**Statement of Cash Flows**  
For the year ended 30 June 2015

	Note	Council	
		2015	2014
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers		5,741,529	7,816,663
Payments to suppliers and employees		(10,157,019)	(7,384,859)
		(4,415,490)	431,804
Interest received		225,217	230,562
Rental income		523,013	390,884
Operating grants and contributions		4,422,013	3,087,061
<b>Net cash inflow (outflow) from operating activities</b>	23	<u>754,753</u>	<u>4,140,311</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(13,809,162)	(7,427,501)
Proceeds from sale of property plant and equipment		-	1,013
Finance lease receipts		669,910	718,342
Grants, subsidies, contributions and donations		12,202,009	362,249
<b>Net cash inflow (outflow) from investing activities</b>		<u>(937,243)</u>	<u>(6,345,897)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		-	-
Repayment of borrowings		-	-
<b>Net cash inflow (outflow) from financing activities</b>		<u>-</u>	<u>-</u>
<b>Net increase (decrease) in cash and cash equivalent held</b>		<u>(182,488)</u>	<u>(2,205,586)</u>
<b>Cash and equivalents at the beginning of the financial year</b>		6,814,885	9,020,472
<b>Cash and equivalents at end of the financial year</b>	10	<u><u>6,632,397</u></u>	<u><u>6,814,885</u></u>

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

**Mornington Shire Council**  
**Statement of Changes in Equity**  
For the year ended 30 June 2015

Note	Revaluation Surplus 18 \$	Retained Surplus \$	Total \$
<b>Balance as at 1 July 2014</b>	102,715,961	16,437,361	119,153,321
Net operating surplus	-	10,879,040	10,879,040
Other comprehensive income for the year			
Increase / (decrease) in revaluation surplus	-	-	-
<b>Balance as at 30 June 2015</b>	<b>102,715,961</b>	<b>27,316,401</b>	<b>130,032,362</b>
<b>Balance as at 1 July 2013</b>	73,600,869	10,440,574	84,041,443
Net operating surplus	-	5,996,787	5,996,787
Other comprehensive income for the year			
Increase / (decrease) in revaluation surplus	29,115,092	-	29,115,092
<b>Balance as at 30 June 2014</b>	<b>102,715,961</b>	<b>16,437,361</b>	<b>119,153,321</b>

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

**Mornington Shire Council**  
**Notes to the Financial Statements**  
For the year ended 30 June 2015

**1 Significant Accounting Policies**

**1.A Basis of Preparation**

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

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

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.

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 investment property and property, plant and equipment.

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

**1.B Statement of Compliance**

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

**1.C Constitution**

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

**1.D Date of Authorisation**

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

**1.E Currency**

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

**1.F Adoption of new and revised Accounting Standards**

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

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

Due to its recent release, Council is still reviewing the way that revenue is measured and recognised to identify whether AASB 15 Revenue from Contracts with Customers will have a material impact. To date no impact has been identified.

From 1 July 2016 AASB 124 Related Party Disclosures will apply to Council. This means that council will disclose more information about related parties and transactions with those related parties. Council is currently preparing for this change by identifying related parties. Related parties will include the Mayor, councillors and some council staff. In addition the close family members of those people and any organisations that they control or are associated with will be classified as related parties."

**Mornington Shire Council**  
**Notes to the Financial Statements**  
For the year ended 30 June 2015

**1.G 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 1.O and Note 15

Impairment of property, plant and equipment - Note 1.P

Provisions - Note 1.S and Note 17

Valuation of finance leases - Note 1.Q

Contingent liabilities - Note 20

**1.H Revenue**

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

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.

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.

Grants and Subsidies

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

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

Non-Cash Contributions

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

Rental Income

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

Interest Income

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

Sales Revenue

Sale of goods and recoverable works 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 works include construction and maintenance works for locals and local businesses.

Social housing construction involves Council as principal contractor in the construction of new social housing for the State Government. Revenue was recognised when agreed milestones were met by Council.

**Mornington Shire Council**  
**Notes to the Financial Statements**  
For the year ended 30 June 2015

**1.I Financial Assets and Financial Liabilities**

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

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

Financial Assets

Cash and cash equivalents (Note 1.J)

Receivables - measured at amortised cost (Note 1.K)

Other financial assets (finance leases) - measured at fair value (Note 1.Q)

Financial Liabilities

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

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

**1.J Cash and Equivalents**

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

**1.K Receivables**

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

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

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

Loans and advances are recognised in the same way as other receivables. Terms are usually a maximum of five years with interest charged at commercial rates. Security is not normally obtained.

**1.L 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.

**1.M Other Financial Assets**

Refer to Note 1.Q for the accounting policy relating to finance lease assets. Other financial assets are recognised at cost.

**1.N Investments**

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

**Mornington Shire Council**  
**Notes to the Financial Statements**  
For the year ended 30 June 2015

**1.0 Property, Plant and Equipment**

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

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

Buildings  
Plant and Equipment  
Road and Drainage Network  
Water  
Sewerage  
Other Infrastructure Assets  
Work in Progress

Acquisition of assets

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

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

Capital and Operating Expenditure

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.

Valuation

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

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

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

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

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

**Mornington Shire Council**  
**Notes to the Financial Statements**  
For the year ended 30 June 2015

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.

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.

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

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

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

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

Depreciation methods, estimated useful lives and residual values of property, plant and equipment assets are reviewed at the end of each reporting period and adjusted where necessary to reflect any changes in the pattern of consumption, physical wear and tear, technical or commercial obsolescence, or management intentions. The condition assessments performed as part of the annual valuation process for assets measured at written down current replacement cost are used to estimate the useful lives of these assets at each reporting date. Details of the range of estimated useful lives for each class of asset are shown in Note 14.

Land Under Roads

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

Deed of Grant in Trust Land

Council is located on land assigned to it under a Deed of Grant in Trust (DOGIT) under Section 34I 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.

**1.P Impairment of Non-Current Assets**

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

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

**Mornington Shire Council**  
**Notes to the Financial Statements**  
For the year ended 30 June 2015

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

**1.Q Leases**

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

**Finance leases as lessor**

Council has leased 222 dwellings as lessor to the Queensland Government for 40 years. The total lease payment per dwelling in the current year was an average of \$2,999.62. 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 (depreciated replacement cost) of the leased properties, there is no interest rate implicit in the leases and therefore no finance income will arise from the leases. Consequently, the leases are recognised at the present value of the expected future lease payments receivable (fair value). Gains on revaluation of finance lease assets are recognised as other income.

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

**1.R Payables**

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

**1.S Liabilities - Employee Benefits**

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

**Salaries and Wages**

A liability for salaries and wages is recognised and measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date. This liability represents an accrued expense and is reported in Note 16 as a payable.

**Annual Leave**

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. This liability represents an accrued expense and is reported in Note 16 as a payable.

**Sick Leave**

Sick leave taken in the future will be met by future entitlements and hence no recognition of sick leave has been made in these financial statements.

**Superannuation**

The superannuation expense for the reporting period is the amount of the contribution the Council makes to the superannuation plan which provides benefits to its employees. Details of those arrangements are set out in Note 21.

**Mornington Shire Council**  
**Notes to the Financial Statements**  
For the year ended 30 June 2015

Long Service Leave

A liability for long service leave is measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. The value of the liability is calculated using current pay rates and projected future increases in those rates and includes related employee on-costs. The estimates are adjusted for the probability of the employee remaining in the Council's employment or other associated employment which would result in the Council being required to meet the liability. Adjustments are then made to allow for the proportion of the benefit earned to date, and the result is discounted to present value. The interest rates attaching to Commonwealth Government guaranteed securities at the reporting date are used to discount the estimated future cash outflows to their present value. This liability is reported in Note 17 as a provision.

**1.T Revaluation Surplus**

The 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.

Increases and decreases on revaluation are offset within a class of assets. Where a class of assets is decreased on revaluation, that decrease is offset first against the amount remaining in the revaluation surplus in respect of that class. Any excess is treated as an expense.

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

**1.U Retained Surplus**

In reference to the comparative figures for the year ended 30 June 2014, this represents the amount of Council's net funds not set aside in reserves to meet specific future needs.

**1.V 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.W Rounding and Comparatives**

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

**1.X 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.

**1.Y Treatment of Significant Asset Transactions**

Public Housing Assets

On 15 March 2011 the Council leased public housing assets and associated leasehold land to the Queensland Government, as part of the Indigenous Housing Arrangement 40 year lease.

On 07 February 2013, there were 11 additional houses added to the lease agreement.

The lease is classified as a finance lease. As such, Council has recognised the lease receivable and derecognised the relevant assets in the financial statements.

Community Development Employment Programs (CDEP)

On the 12 August 2013, the Council ceased running and managing the CDEP Program and was transferred to Jobfind. The assets that were acquired and managed under the CDEP Program were retained by Council.

## **2. Analysis of Results by Function**

### **2(a) Components of Council Functions**

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

#### **Corporate Services**

This comprises the support functions for the management of Council's finances, information technology and administration, and support for the Mayor and Councillors, Council and committee meetings and statutory requirements.

#### **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.

#### **Community services**

Community services and facilities including cultural, health, welfare, environmental and recreational services.

This function includes:

Community recreational facilities

Environmental and animal management

#### **Community Development and Employment**

Operation of the funded Community Development and Employment Program and related activities.

**Mornington Shire Council**  
**Notes to the Financial Statements**  
For the year ended 30 June 2015

**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 2015**

Functions	Gross Program Income				Total Income	Gross Program Expenses		Total Expenses	Net Result from Recurrent Operations	Net Result	Assets
	Recurrent		Capital			Recurrent	Capital				
	Grants	Other	Grants	Other							
	2015	2015	2015	2015		2015	2015				
\$	\$	\$	\$	\$	\$						
Corporate Services	3,436,422	1,395,095	-	3,994,066	8,825,583	(5,406,445)	-	(5,406,445)	(574,928)	3,419,138	34,343,194
Technical Services	309,671	3,609,518	12,202,009	-	16,121,198	(8,379,701)	(259,043)	(8,638,744)	(4,460,512)	7,482,454	69,505,138
Community Services	123,072	732,531	-	-	855,603	(1,282,118)	-	(1,282,118)	(426,515)	(426,515)	26,956,725
Community Development and Employment	552,848	7,676	-	-	560,524	(156,562)	-	(156,562)	403,962	403,962	446,858
<b>Total Council</b>	<b>4,422,013</b>	<b>5,744,820</b>	<b>12,202,009</b>	<b>3,994,066</b>	<b>26,362,909</b>	<b>(15,224,826)</b>	<b>(259,043)</b>	<b>(15,483,869)</b>	<b>(5,057,993)</b>	<b>10,879,040</b>	<b>131,251,918</b>

**Year ended 30 June 2014**

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							
	2014	2014	2014	2014		2014	2014				
\$	\$	\$	\$	\$	\$						
Corporate Services	2,970,650	1,129,086	5,889,587	4,723,630	14,712,953	(4,334,662)	(1,485,857)	(5,820,519)	(234,926)	8,892,434	7,547,308
Technical Services	92,131	1,371,266	362,249	-	1,825,646	(3,808,793)	-	(3,808,793)	(2,345,396)	(1,983,147)	59,335,645
Community Services	10,000	493,816	-	-	503,816	(867,517)	-	(867,517)	(363,701)	(363,701)	50,738,574
Community Development and Employment	14,280	50,675	-	-	64,955	(613,753)	-	(613,753)	(548,798)	(548,798)	2,292,685
<b>Total Council</b>	<b>3,087,061</b>	<b>3,044,843</b>	<b>6,251,836</b>	<b>4,723,630</b>	<b>17,107,370</b>	<b>(9,624,725)</b>	<b>(1,485,857)</b>	<b>(11,110,582)</b>	<b>(3,492,821)</b>	<b>5,996,788</b>	<b>119,914,210</b>

During the current financial year Council reviewed the classification of all its assets. The aim was to align the assets better to the function they were principally used for. These reclassifications have not been retrospectively applied to the prior year balances.

**Mornington Shire Council  
Notes to the Financial Statements  
For the year ended 30 June 2015**

	Council	
	2015	2014
Note	\$	\$
<b>3 Revenue Analysis</b>		
<b>(a) Levies and charges</b>		
Water	493,280	502,975
Sewerage	335,270	311,766
Garbage charges	188,754	171,300
	<u>1,017,304</u>	<u>986,041</u>
<b>(b) Fees and Charges</b>		
Fees and charges	237,806	413,647
	<u>237,806</u>	<u>413,647</u>
<b>(c) Rental Income</b>		
Property rental	523,013	390,884
	<u>523,013</u>	<u>390,884</u>
<b>(d) Interest Received</b>		
Interest received on deposits	225,217	230,562
	<u>225,217</u>	<u>230,562</u>
<b>(e) Sales Revenue</b>		
<b>Sale of Services</b>		
Contract and recoverable works	1,142,622	867,662
Social Housing Construction	2,391,089	-
	<u>3,533,711</u>	<u>867,662</u>
<p>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.</p>		
<b>(f) Other Income</b>		
Sundry Income	66,975	83,108
Recouped Administrative Costs - CDEP	-	15,000
Plant Hire - Internal	-	46,316
Other Income	140,793	11,622
	<u>207,768</u>	<u>156,046</u>
<b>4 Grants, Subsidies, Contributions and Donations</b>		
<b>(a) Recurrent</b>		
General purpose grants	3,436,422	2,559,801
State government subsidies and grants	221,502	101,631
Commonwealth government subsidies and grants	764,089	425,628
	<u>4,422,013</u>	<u>3,087,060</u>
<b>(b) Capital</b>		
Commonwealth Government Subsidies and Grants	111,626	362,249
NDRRA Funding	12,090,383	-
Other Capital Grants	-	5,889,587
	<u>12,202,009</u>	<u>6,251,836</u>
<b>Conditions over Contributions</b>		
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	105,140	-
	<u>105,140</u>	<u>-</u>
<b>5 Capital Income</b>		
<b>Gain / loss on disposal of non-current assets</b>		
Profit (Loss) on Sale N/C Assets	-	1,013
Gain on Revaluation of Lease Assets	3,994,066	4,722,617
Total Capital Income	<u>3,994,066</u>	<u>4,723,630</u>

**Mornington Shire Council**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2015**

	Note	Council	
		2015 \$	2014 \$
<b>6 Employee Benefits</b>			
Total staff wages and salaries		3,018,585	1,998,326
Councillors' remuneration		304,405	281,379
Annual, sick and long service leave entitlements		406,434	403,002
Superannuation	21	337,453	316,283
		4,066,877	2,998,990
Other employee related expenses		427,614	87,241
		4,494,491	3,086,231
Less: Capitalised employee expenses		(76,067)	(139,309)
		4,418,424	2,946,922

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

Total Council employees at the reporting date:	2015	2014
Elected members	5	5
Administration staff	13	12
Depot and outdoors staff	53	38
Total full time equivalent employees	71	55

**7 Materials and Services**

Advertising and marketing	2,298	2,515
Administration supplies and consumables	25,825	14,570
Audit Fees	89,430	81,056
Communications and IT	217,957	193,452
Consultants	155,602	264,187
Power	30,753	28,660
Rentals - operating leases	14,445	28,969
Subscriptions and registrations	42,060	63,505
Travel	67,241	115,137
Civic Receptions, Entertainment and Council Meetings	6,004	7,976
General Expenses	205,292	17,632
Insurance	261,328	283,231
Legal Expenses	97,336	240,012
Storeyard Operating Expenses	268,925	12,501
Storeyard Cartage	106,426	122,109
Workshop Operating Costs	87,706	54,989
Plant Maintenance - Materials	-	301,450
Construction Camp - Operating Expenses	53,007	54,501
Water Operating Expenses	34,686	60,231
Water Repairs and Maintenance	-	36,549
Airport Operating Expenses	42,368	4,551
Animal Control Costs	68,667	92,173
Pest Control Costs	32,795	16,250
Sport and Recreation Expenses	26,034	96,560
Purchase of Call Cards	12,891	15,869
Operating Expenses Cemetery	10,186	4,502
Library Operating Expenses	313	638
Private Works - Operating Expenses	2,765,875	109,277
CD&S Expenses	367,163	6,451
CDEP Insurance Assets	-	2,370
CDEP Activity Materials	-	17,352
CDEP Bakery Activity Materials	-	4,625
CDEP Motor Vehicle Expenses	-	15,569
CDEP Training	-	6,355
Other Materials and Services	668,311	1,862,414
	5,760,925	4,238,187

**Mornington Shire Council**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2015**

Note	Council	
	2015 \$	2014 \$
<b>8 Finance Costs</b>		
Bank Charges	12,858	10,414
Impairment of Debts	23,577	-
	<u>36,435</u>	<u>10,414</u>
<b>9 Capital Expenses</b>		
<b>Gain / loss on disposal of non-current assets</b>		
Proceeds from the sale of property, plant and equipment	-	-
Less: Book value of property, plant and equipment disposed off	259,043	1,485,857
Total capital expenses	<u>259,043</u>	<u>1,485,857</u>
<b>10 Cash and Equivalents</b>		
Cash at bank and on hand	6,361,137	6,552,116
Deposits at call	271,260	262,769
Balance per Statement of Cash Flows	<u>6,632,397</u>	<u>6,814,885</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	105,140	724,543
Total unspent restricted cash	<u>105,140</u>	<u>724,543</u>
<b>11 Trade and Other Receivables</b>		
<b>Current</b>		
Trade Debtors	673,578	951,796
Other Debtors	34,134	104,579
Less: Impairment	(245,090)	(283,199)
GST Recoverable	128,383	1,282
	<u>591,005</u>	<u>774,458</u>
No interest is charged on debtors. There is no concentration of credit risk for service charges, fees and other debtors receivable.		
Movement in accumulated impairment provisions is as follows:		
Opening balance at 1 July	283,199	377,660
Impairment Debts written off during the year	(23,577)	(65,347)
Additional impairments recognised	23,577	-
Impairments reversed	(38,109)	(29,114)
Closing Balance at 30 June	<u>245,090</u>	<u>283,199</u>
<b>12 Inventories</b>		
Stores inventory	298,506	460,091
Total Inventories	<u>298,506</u>	<u>460,091</u>

**Mornington Shire Council**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2015**

Note	Council	
	2015 \$	2014 \$
<b>13 Other Financial Assets</b>		
Current		
Finance Leases	679,462	669,910
	<u>679,462</u>	<u>669,910</u>
Non-Current		
Finance Leases	26,034,532	22,719,927
	<u>26,034,532</u>	<u>22,719,927</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	679,462	669,910
Later than one year but not later than five years	2,717,847	2,679,640
Later than five years	20,927,543	21,303,262
	<u>24,324,852</u>	<u>24,652,812</u>
Add: Estimated contingent rent	18,292,788	19,296,190
Less: Present value adjustment	(15,903,646)	(20,559,165)
Fair value of lease payments	<u>26,713,994</u>	<u>23,389,837</u>

The fair value of lease payments are receivable as follows:

Not later than one year	679,462	669,910
Later than one year but not later than five years	2,743,214	2,644,883
Later than five years	23,291,318	20,075,044
	<u>26,713,994</u>	<u>23,389,837</u>

Movements in finance leases were as follows:

Opening balance	23,389,837	19,319,685
Add: Initial recognition of new leases	-	-
Less: Lease receipts	(669,910)	(652,465)
Add: Gain on revaluation	3,994,066	4,722,617
Closing balance	<u>26,713,994</u>	<u>23,389,837</u>

The calculation of fair value has included an estimate of average annual CPI increases of (3% for both 2013/14 and 2014/15) and a discount rate of (3.54% for 2013/14 and 2.62% for 2014/15).

**Mornington Shire Council  
Notes to the Financial Statements  
For the year ended 30 June 2015**

**14 Property, Plant and Equipment - 30 June 2015**

	Buildings	Plant and Equipment	Road and Drainage Network	Water	Sewerage	Other Infrastructure Assets	Work in Progress	Total
Basis of Measurement	Fair Value	Cost	Fair Value	Fair Value	Fair Value	Fair Value	Cost	
Asset Values	\$	\$	\$	\$	\$	\$	\$	\$
Opening Gross Value as at 1 July 2014	38,182,055	6,066,638	39,646,550	31,654,587	11,240,000	14,026,478	826,878	141,643,186
Additions	-	193,079	13,396,782	-	-	-	219,301	13,809,162
Disposals	-	(1,266,060)	-	-	-	-	(259,043)	(1,525,103)
Transfers Between Classes	10,989	56,410	-	-	-	16,820	(84,219)	-
<b>Closing Gross Value as at 30 June 2015</b>	<b>38,193,044</b>	<b>5,050,067</b>	<b>53,043,332</b>	<b>31,654,587</b>	<b>11,240,000</b>	<b>14,043,298</b>	<b>702,917</b>	<b>153,927,245</b>

**Accumulated Depreciation**

Opening balance as at 1 July 2014	18,762,955	4,549,761	11,642,915	8,144,770	5,391,701	4,676,144	-	53,168,246
Depreciation provided in period	1,214,194	279,530	1,808,587	708,743	329,860	668,127	-	5,009,041
Depreciation on disposals	-	(1,266,060)	-	-	-	-	-	(1,266,060)
<b>Accumulated Depreciation as at 30 June 2015</b>	<b>19,977,149</b>	<b>3,563,231</b>	<b>13,451,504</b>	<b>8,853,513</b>	<b>5,721,561</b>	<b>5,344,271</b>	<b>-</b>	<b>56,911,229</b>

**Total Written Down Value as at 30 June 2015**

	18,215,895	1,486,836	39,591,828	22,801,074	5,518,439	8,699,027	702,917	97,016,016
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Range of Estimated Useful Life in Years

15 - 50	2 - 20	10 - 25	10 - 150	20 - 60	20 - 40	-	-
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Additions Comprise:

	\$	\$	\$	\$	\$	\$	\$	\$
Renewals	-	193,079	13,396,782	-	-	-	103,021	13,692,882
Other Additions	-	-	-	-	-	-	116,280	116,280
Total additions	-	193,079	13,396,782	-	-	-	219,301	13,809,162

**Property, Plant and Equipment - 30 June 2014**

	Buildings	Plant and Equipment	Road and Drainage Network	Water	Sewerage	Other Infrastructure Assets	Work in Progress	Total
Basis of Measurement	Fair Value	Cost	Fair Value	Fair Value	Fair Value	Fair Value	Cost	
Asset Values	\$	\$	\$	\$	\$	\$	\$	\$
Opening Gross Value as at 1 July 2013	38,245,720	6,281,271	30,387,249	11,715,362	8,250,800	8,543,261	709,810	104,133,473
Additions	-	-	-	-	-	-	7,422,659	7,422,659
Disposals	(1,413,332)	(467,715)	(683,500)	(2,499,985)	(66,500)	(310,000)	-	(5,441,032)
Revaluation Adjustment to ARR	412,223	-	9,942,800	16,549,623	3,055,700	5,567,739	-	35,528,085
Transfers Between Classes	937,444	253,082	-	5,889,587	-	225,478	(7,305,591)	-
<b>Closing Gross Value as at 30 June 2014</b>	<b>38,182,055</b>	<b>6,066,638</b>	<b>39,646,550</b>	<b>31,654,587</b>	<b>11,240,000</b>	<b>14,026,478</b>	<b>826,878</b>	<b>141,643,185</b>

**Accumulated Depreciation**

Opening balance as at 1 July 2013	20,486,622	4,654,748	10,860,113	5,775,051	3,603,979	2,838,665	-	48,219,178
Depreciation Provided in Period	886,812	267,888	674,961	206,391	101,202	291,948	-	2,429,202
Depreciation on Disposals	(681,197)	(372,875)	(571,781)	(1,964,645)	(58,330)	(244,300)	-	(3,893,128)
Revaluation Adjustment to Revaluation Surplus	(1,929,282)	-	679,622	4,127,973	1,744,850	1,789,831	-	6,412,994
<b>Accumulated depreciation as at 30 June 2014</b>	<b>18,762,955</b>	<b>4,549,761</b>	<b>11,642,915</b>	<b>8,144,770</b>	<b>5,391,701</b>	<b>4,676,144</b>	<b>-</b>	<b>53,168,246</b>

**Total written down value as at 30 June 2014**

	19,419,100	1,516,877	28,003,635	23,509,817	5,848,299	9,350,334	826,878	88,474,939
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**Mornington Shire Council**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2015**

**15 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 Network
  - 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)

The following table categorises fair value measurements as either level 2 or level 3 in accordance with AASB 13. Council does not have any assets 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.

The table presents the Council's assets measured and recognised at fair value at 30 June 2015.

At 30 June 2015	Note	Level 3 - 2015 (Significant unobservable inputs) \$	Level 3 - 2014 (Significant unobservable inputs) \$
<b>Recurring fair value measurements</b>			
Buildings	14	18,215,895	19,419,100
Road and Drainage Network	14	39,591,828	28,003,635
Water	14	22,801,074	23,509,817
Sewerage	14	5,518,439	5,848,299
Other Structures	14	8,699,027	9,350,334
		<b>94,826,263</b>	<b>86,131,185</b>

There were no transfers between levels 1 and 2 during the year, nor between levels 2 and 3.

Council's policy is to recognise transfers in and out of the fair value hierarchy levels as at the end of the reporting period.

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

**Buildings (Level 3)**

The fair value of buildings were also determined by independent valuer, Propell National Valuers effective 30 June 2014. Due to the nature of Mornington Island, there is neither an active market for the assets or the Council buildings are of a specialist nature. Therefore fair value has been determined on the basis of replacement with a new asset having similar service potential including allowances for preliminaries and professional fees.

The Gross Current Values have been derived from reference to market data for recent projects and costing guides issued by the Australian Institute of Quantity Surveyors, Rawlinson's (Australian Construction Handbook). Due to this limited market, the net current value of a building asset is the fair value using Depreciated Replacement Cost assessed with reference to the Gross Replacement Cost and the Remaining Life or potential service of the asset. The average cost of construction used to calculate the gross current value of Council's buildings was \$2,250/sqm for residential buildings and \$3,800/sqm for commercial buildings.

In determining the level of depreciation for the asset, consideration has been given to the typical life cycle and renewal treatments of each component, and at what point the asset is considered to be no longer available to meets its primary objective. Condition was assessed taking into consideration both physical characteristics as well as functionality, capability, utilisation and obsolescence.

**Mornington Shire Council**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2015**

The below table details the condition rate scale utilised when assessing building assets.					
	Very Good Condition	Good Condition	Moderate Condition	Poor Condition	Very Poor Condition
Estimated proportion of life consumed	Up to 45%	Between 45% to 90%			Up to 90%
Structure	Sound Structure	Functionally Sound Structure	Adequate structure, some evidence of foundation movement, minor cracking.	Structure functioning but with problems due to foundation movement. Some significant cracking	Structure has serious problems and concern is held for the integrity of the structure.
External	Fabric constructed with sound materials, true to line and level. No evidence of deterioration or discoloration	Showing minor wear and tear and minor deterioration of surfaces.	Appearance affected by cracking, staining, or minor leakage. Indications of breaches of weatherproofing. Minor damage to coatings.	Fabric damaged, weakened or displaced. Appearance affected by cracking, staining, overflows or breakages. Breaches of waterproofing evident. Coatings in need of heavy maintenance or renewal.	Fabric is badly damaged or weakened. Appearance affected by cracking, staining, overflows, leakage or wilful damage. Breaches of waterproofing. Coatings badly damaged or non-existent.
Internal			Appearance affected by minor cracking, staining, or minor leakage, some dampness or mildew. Minor damage to wall/ceiling finishes.	Fabric damaged, weakened or displaced. Appearance affected by cracking, staining, dampness, leakage or breakages. Breaches of waterproofing evident. Finishes of poor quality and in need of replacement.	Fabric is badly damaged or weakened. Appearance affected by cracking, staining, overflows, leakage or wilful damage. Breaches of waterproofing. Finishes badly damaged, marked and in need of replacement.
Services	All components operable and well maintained.	All components operable.	Occasional outages, breakdowns or blockages. Increased maintenance required.	Failures of plumbing, electrical and mechanical components common place.	Plumbing electrical and mechanical components are unsafe or inoperable.
Fittings	Well secured and operational, sound of function and appearance.	Operational and functional, minor wear and tear.	Generally operational. Minor breakage.	Fittings of poor quality and appearance, often inoperable and damaged.	Most are inoperable or damaged.
Maintenance	Well maintained and cleaned	Increased maintenance inspections required	Regular and programmed maintenance inspections essential	Frequent maintenance inspections essential. Short term element replacement rehabilitation.	Minimum life expectancy, requiring urgent rehabilitation or replacement.

**Mornington Shire Council**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2015**

**Sensitivity of valuation to unobservable Inputs – Buildings**

While the unit rates are based on square metres can be support by market evidence (Level 2), the estimates of residual values, useful life, pattern of consumption and asset condition that are used to calculate accumulated depreciation comprise unobservable inputs (Level 3). Where these other inputs are significant to the valuation the overall valuation has been classified as level 3. The valuation's sensitivity to these inputs are summarised below.

Significant Unobservable Input	Range of Inputs	Relationship of unobservable Inputs to Fair Value
Condition Ratings	100% – 0%	Higher the condition rating, lower the Fair Value
Remaining Life	10 – 50 years	Longer remaining useful life, higher the fair value

**Infrastructure Assets (Level 3)**

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. For the purpose of assessing fair value for financial reporting purposes value has been determined by using Depreciated Replacement Cost. This valuation 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.

Fair value of assets was determined by independent valuer, Propell National Valuers effective 30 June 2014. Condition was assessed by inspection from the valuers with additional reference to the CT Management condition report prepared in November 2013. This report detailed the Road's lengths and width that had been measured by GPS and also to provide an assessment of condition allowing the assessment of the change in condition within a six month span providing greater clarity to the useful life of a Road assets. All above ground assets were physically inspected.

**1(a) Road and Drainage Network - calculation of current replacement cost**

**Roads and Drainage**

*Current replacement cost*

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.

Current replacement cost was calculated by reference to the assets linear and width characteristics, overhead allocations and service costs. With regard to unsealed roads, it is assumed that base raw materials can be sourced from local quarries where possible, otherwise other material is assumed to be transported to the Island. 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 works within the similar remote locations and Rawlinson's Construction Cost Guide.

Fair value of assets was determined by independent valuer, Propell National Valuers effective 30 June 2014. Condition was inspected as far as practical for all accessible sites (with the access to eastern end of Ballelah Road being prevented due to flooding). Current Replacement Cost was calculated by reference to asset linear and area specifications, estimated labour and material inputs, services costs and overhead allocations.

**Sensitivity of valuation to unobservable inputs – Infrastructure**

As detailed above Council's road and drainage infrastructure have been valued using the depreciated replacement cost methodology. This method utilises a number of inputs that require judgement and are therefore classed as unobservable. Whilst these judgements are made with the greatest care, and based upon experience, different judgements could result in a different valuation. The table below summaries the effect that changes in the most significant unobservable inputs would have on the valuation.

Significant Unobservable Input	Range of Inputs	Relationship of unobservable Inputs to Fair Value
Terrain– Subterranean	Depending upon difficulty	Higher the difficulty, higher the fair value
Condition Ratings	10 - 0	Higher the condition rating, the lower the fair value
Remaining Life	10 – 25 years	The longer the remaining useful life, the higher the

**Drainage infrastructure**

*Current replacement cost*

A full valuation of drainage infrastructure was undertaken by independent valuers, Propell National Valuers, effective 30 June 2014. Similar to roads, drainage assets are managed in segments of 200m; pits, pipes and channels being the major components.

Consistent with roads, Council assumes that environmental factors such as soil type, climate and topography are consistent across each segment and that a segment is designed and constructed to the same standard and uses a consistent amount of labour and materials. Where drainage 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. Construction estimates were determined on a similar basis to roads.

**Mornington Shire Council**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2015**

**2(a) Water, Sewerage and Other Infrastructure – Calculation of written down current replacement cost**

Water and Sewerage

*Current replacement cost*

Water and sewerage infrastructure fair values were determined by independent valuers, Propell National Valuers effective 30 June 2014. Current Replacement Cost was calculated based on expected replacement costs. In all cases the assets were disaggregated to component level to ensure a reliable measure of cost and service capacity and deterioration of estimated remaining life.

Valuation unit rates (replacement costs) were increased by 25% - 40% to allow for project overheads including survey, environmental and investigation costs, engineering design, planning and project management. The percentages above have been adopted based upon the most recent projects of the airport upgrade and water upgrade contracts.

Consistent with roads, it is assumed that environmental factors such as soil type, climate and topography are consistent across each segment and that a segment is designed and constructed to the same standard and uses a consistent amount of labour and materials. Where 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 the date of valuation.

Water assets cost of replacement we adopted from recent projects completed which provided unit rates as well as preliminaries, site establishment and other associated costs. Sewerage cost of replacement was determined by scheduled rates for construction of assets of similar assets. These rates have been indexed taking into account the remote locations and reference has also been given to Rawlinson's Construction Cost Guide.

Condition Rating	Condition Definition	Description Explanation	Remaining Useful Life
0	As new condition / Excellent	Asset is as new	95% - 100%
1	Very Good	Asset is close to new	75% - 94%
2	Good	Asset is in good condition	55% - 74%
3	Fair	Asset is in fair condition	30% - 54%
4	Poor	Asset is in poor condition	5% - 29%
5	Unserviceable	Asset is in very poor condition and has failed or is in fear of failing	0% - 4%

**Sensitivity of valuation to unobservable inputs**

The method used to value Council's water and sewerage assets utilise a number of inputs that require judgement and are therefore classed as unobservable. While these judgements are made with the greatest of care, and based upon experience, different judgements could result in a different calculation. The below table summarises the effect that the changes in the most significant unobservable inputs would have in the valuation.

Significant Unobservable Input	Range of Inputs	Relationship of unobservable Inputs to Fair Value
Standard material usage quantities	Varies upon type of material	Higher the usage quantities, higher the fair value
Condition Ratings	0 - 5	Higher the condition rating, lower the Fair Value
Remaining Life	10 – 150 years	Longer remaining useful life, higher the fair value

**Accumulated Depreciation**

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.

**Mornington Shire Council**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2015**

**16 Trade and Other Payables**

Note	2015 \$	2014 \$
<b>Current</b>		
Creditors and accruals	767,442	312,847
Annual leave	201,594	131,885
Other payables	143,646	148,469
	<u>1,112,682</u>	<u>593,202</u>

**17 Provisions**

<b>Current</b>		
Long service leave	11,548	67,188
	<u>11,548</u>	<u>67,188</u>
<b>Non-current</b>		
Long service leave	95,326	100,502
	<u>95,326</u>	<u>100,502</u>

Details of movements in provisions:

**Long service leave**

Balance at beginning of financial year	167,690	139,798
Long service leave entitlement arising	20,894	35,155
Long Service entitlement extinguished	(10,672)	-
Long Service entitlement paid	(71,038)	(7,263)
Balance at end of financial year	<u>106,874</u>	<u>167,690</u>

**18 Revaluation Surplus**

**Movements in the asset revaluation surplus were as follows:**

Balance at beginning of financial year	102,715,961	73,600,869
Net adjustment to non-current assets at end of period to reflect a change in current fair value:		
Buildings	-	2,341,506
Road and Drainage Network	-	9,263,178
Water	-	12,421,650
Sewerage	-	1,310,850
Other Structures	-	3,777,908
Balance at end of financial year	<u>102,715,961</u>	<u>102,715,961</u>

**Asset revaluation surplus analysis**

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

Buildings	58,368,107	58,368,107
Road and Drainage Network	19,686,060	19,686,060
Water	16,357,012	16,357,012
Sewerage	2,585,838	2,585,838
Other Structures	5,718,944	5,718,944
	<u>102,715,961</u>	<u>102,715,961</u>

**Mornington Shire Council  
Notes to the Financial Statements  
For the year ended 30 June 2015**

Note	2015 \$	2014 \$
<b>19 Commitments for Expenditure</b>		
<b>Operating leases</b>		
Minimum lease payments in relation to non-cancellable operating leases are as follows:		
Within one year	-	40,001
One to five years	-	-
Later than five years	-	-
	-	40,001

**20 Contingent Liabilities**

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

**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.

As at 30 June 2015 the financial statements reported an accumulated surplus and it is not anticipated any liability will arise.

**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 \$101,190.

**21 Superannuation**

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

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

The scheme has three elements referred to as:

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

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

The Accumulation Benefits Fund (ABF)

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

There are currently 72 entities contributing to the Regional DBF plan and any changes in contribution rates would apply equally to all 72 entities. Mornington Shire Council made less than 4% of the total contributions to the plan in the 2014/15 financial year.

To ensure the ongoing solvency of the Regional DBF, the scheme's trustee can vary the rate of contributions from relevant local government employers subject to advice from the scheme's actuary. As at the reporting date, no changes had been made to prescribed employer contributions which remain at 12% of employee assets and there are no known requirements to change the rate of contributions.

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

**Mornington Shire Council**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2015**

**21 Superannuation**

As at the reporting date, the assets of the scheme are sufficient to meet the vested benefits.

The most recent actuarial assessment of the scheme was undertaken as at 1 July 2015. The actuary indicated that "At the valuation ate of 1 July 2015, the net assets of the scheme exceeded the vested benefits and the scheme was in satisfactory financial position as at the valuation date".

In the 2015 actuarial report the actuary has recommended no change to the employer contribution levels at this time.

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

There are currently 72 entities contributing to the Regional DBF plan and any changes in contribution rates would apply equally to all 72 entities. Mornington Shire Council made less than 4% of the total contributions to the plan in the 2014/15 financial year.

The next actuarial investigation will be conducted as at 1 July 2018.

	Note	2015 \$	2014 \$
Superannuation contributions paid by Council to the scheme for the benefit of employees was:	6	337,453	316,283

**22 Trust Funds**

**Trust funds held for outside parties**

Monies collected or held on behalf of other entities yet to be paid out to or on behalf of those entities

	5,525	2,009
	<u>5,525</u>	<u>2,009</u>

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.

**23 Reconciliation of net result for the year to net cash inflow (outflow) from operating activities**

	Note	2015 \$	2014 \$
Net result		10,879,040	5,996,787
Non-cash items:			
Depreciation and amortisation		5,009,041	2,429,202
Revaluation adjustments		-	-
(Gain) on revaluation of finance leases		(3,994,066)	(4,722,617)
		<u>1,014,975</u>	<u>(2,293,415)</u>
Investing and development activities:			
Net (profit)/loss on disposal of non-current assets		259,043	1,485,857
Capital grants and contributions		(12,202,009)	(362,249)
		<u>(11,942,966)</u>	<u>1,123,608</u>
Changes in operating assets and liabilities:			
(Increase)/ decrease in receivables		183,454	(396,312)
(Increase)/decrease in inventory		161,586	(34,131)
Increase/(decrease) in payables		519,480	(284,116)
Increase/(decrease) in other provisions		(60,816)	27,892
		<u>803,704</u>	<u>(686,668)</u>
Net cash inflow from operating activities		<u>754,753</u>	<u>4,140,311</u>

**Mornington Shire Council  
Notes to the Financial Statements  
For the year ended 30 June 2015**

**24 Events after the reporting period**

There were no material adjusting events after the balance date. The following events occurred after the end of the reporting period:

- The Mornington Island airstrip suffered damage due to weather events in December 2015. This damage prevented larger passenger transport aircraft from landing for a period of time. The airstrip is currently operating normally but restoration works are required. The costs of restoration have not yet been reliably estimated;

- The jetty on Mornington Island was demolished and written-off in 2016. The jetty was in use throughout the year until its demolition. Council is intending for a new jetty to be constructed in the 2017 financial year;

- Council elections were held in March 2016. A number of new councillors were elected which may result in changes to Council's long-term vision.

**25 Prior year adjustment**

At 30 June 2014 road infrastructure assets were revalued. The revaluation did not take into consideration damage caused by flooding in February 2014. This damage has been quantified and Mornington Shire Council has made the following retrospective restatement due to the correction of this prior period error.

**Mornington Shire Council  
Statement of Financial Position  
as at 30 June 2014**

	2014 \$	Adjustment \$	Restated Actual 2014 \$
<b>Non-Current Assets</b>			
Property, Plant and Equipment	97,646,707	(9,171,767)	88,474,939
<b>Total Non-Current Assets</b>	97,646,707	(9,171,767)	88,474,939
<b>Net Community Assets</b>	128,325,089	(9,171,767)	119,153,321
<b>Community equity</b>			
Revaluation Surplus	111,887,728	(9,171,767)	102,715,961
<b>Total Community Equity</b>	128,325,089	(9,171,767)	119,153,321

**Mornington Shire Council  
Statement of Comprehensive Income  
For the year ended 30 June 2014**

	2014 \$	Adjustment \$	Restated Actual 2014 \$
<b>Items that will not be reclassified to net result</b>			
Increase revaluation surplus	38,286,859	(9,171,767)	29,115,092
<b>Total other comprehensive income for the year</b>	38,286,859	(9,171,767)	29,115,092
<b>Total comprehensive income for the year</b>	44,283,646	(9,171,767)	35,111,880

**Mornington Shire Council**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2015**

**26 Financial Instruments**

Mornington 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.

**Financial Risk Management**

Mornington 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.

Mornington 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 Mornington Shire Council.

The following table represents the maximum exposure to credit risk based on the carrying amounts of financial assets at the end of the reporting period:

	Note	2015 \$	2014 \$
<b>Financial Assets</b>			
Cash and equivalents	10	6,632,397	6,814,885
Receivables - other	11	591,005	774,458
Other financial assets	13	26,713,994	23,389,837
<b>Other Credit Exposures</b>			
Guarantees	20	101,190	119,540
<b>Total Financial Assets</b>		<u>34,038,586</u>	<u>31,098,720</u>

**Cash and 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 AAA based on rating agency ratings, and whilst not capital guaranteed, the likelihood of a credit failure is assessed as remote.

**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.

**Mornington Shire Council**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2015**

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

	2015	2014
	\$	\$
Not past due	13,827	628,451
Past due 31-60 days	0	9,825
Past due 61-90 days	180,533	24,119
More than 90 days	<b>641,735</b>	395,262
Impaired	(245,090)	(283,199)
Total	<u>591,005</u>	<u>774,458</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.

**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.

The following table sets out the liquidity risk in relation to financial liabilities held by the Council. It represents the remaining contractual cashflows (principal and interest) of financial liabilities at the end of the reporting period, excluding the impact of netting agreements:

	0 to 1 year	1 to 5 years	Over 5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
<b>2015</b>					
Trade and Other Payables	911,088	-	-	911,088	911,088
	<u>911,088</u>	<u>-</u>	<u>-</u>	<u>911,088</u>	<u>911,088</u>
<b>2014</b>					
Trade and Other Payables	461,317	-	-	461,317	461,317
	<u>461,317</u>	<u>-</u>	<u>-</u>	<u>461,317</u>	<u>461,317</u>

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

**Market Risk**

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

*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.

**Mornington Shire Council**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2015**

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

	Net carrying amount \$	Effect on Net Result		Effect on Equity	
		1% increase \$	1% decrease \$	1% increase \$	1% decrease \$
<b>2015</b>					
QTC Cash Fund	6,230,196	62,302	(62,302)	62,302	(62,302)
Other Deposits	402,201	4,022	(4,022)	4,022	(4,022)
<b>Net total</b>		<b>66,324</b>	<b>(66,324)</b>	<b>66,324</b>	<b>(66,324)</b>
<b>2014</b>					
QTC Cash Fund	6,055,711	60,557	(60,557)	60,557	(60,557)
Other Deposits	759,174	7,592	(7,592)	7,592	(7,592)
<b>Net total</b>		<b>68,149</b>	<b>(68,149)</b>	<b>68,149</b>	<b>(68,149)</b>

**Fair Value**

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


**Mornington Shire Council  
Financial Statements  
For the year ended 30 June 2015**

**Management Certificate  
For the year ended 30 June 2015**

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, as set out on pages 1 to 29, 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

  
\_\_\_\_\_  
Acting Chief Executive Officer  
Andrew Thompson

Date: 29, 8, 16.

Date: 29, 8, 16

## INDEPENDENT AUDITOR'S REPORT

To the Mayor of Mornington Shire Council

### Report on the Financial Report

I have audited the accompanying financial report of Mornington Shire Council, which comprises the statement of financial position as at 30 June 2015 the statement of comprehensive income, statement of changes in equity and statement of cash for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and certificates given by the Mayor and Chief Executive Officer.

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

The Council is responsible for the preparation of the financial report that gives a true and fair view in accordance with prescribed accounting requirements identified in the *Local Government Act 2009* and *Local Government Regulation 2012*, including compliance with Australian Accounting Standards. The Council's responsibility also includes such internal control as the Council determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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

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

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

#### *Independence*

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

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

*Opinion*

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

- (a) I have received all the information and explanations which I have required; and
- (b) in my opinion -
  - (i) the prescribed requirements in relation to the establishment and keeping of accounts have been complied with in all material respects; and
  - (ii) the financial report presents a true and fair view, in accordance with the prescribed accounting standards, of the financial performance and cash flows of Mornington Shire Council for the financial year 1 July 2014 to 30 June 2015 and of the financial position as at the end of that year.

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

Those viewing an electronic presentation of these financial statements should note that audit does not provide assurance on the integrity of the information presented electronically and does not provide an opinion on any information which may be hyperlinked to or from the financial statements. If users of the financial statements are concerned with the inherent risks arising from electronic presentation of information, they are advised to refer to the printed copy of the audited financial statements to confirm the accuracy of this electronically presented information.

  
C G STRICKLAND CA  
(as Delegate of the Auditor-General of Queensland)



Queensland Audit Office  
Brisbane

**Mornington Shire Council**  
**Current-year Financial Sustainability Statement**  
**For the year ended 30 June 2015**

**Measures of Financial Sustainability**

	How the measure is calculated	Actual	Target
Council's performance at 30 June 2015 against key financial ratios and targets:			
Operating Surplus Ratio	Net result (excluding capital) divided by total operating revenue (excluding capital)	-49.7%	0% to 10%
Asset Sustainability Ratio	Capital expenditure on replacement of assets (renewals) divided by depreciation expense.	273%	> 90%
Net Financial Liabilities Ratio	Total liabilities less current assets divided by total operating revenue (excluding capital items)	-69%	< 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 2015.

**Certificate of Accuracy**  
**For the year ended 30 June 2015**

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: 29, 8, 16



Acting Chief Executive Officer  
 Andrew Thompson

Date: 29, 8, 16

QAO  
 certified statements

## INDEPENDENT AUDITOR'S REPORT

To the Mayor of Mornington Shire Council

### **Report on the Current-Year Financial Sustainability Statement**

I have audited the accompanying current-year financial sustainability statement, which is a special purpose financial report of Mornington Shire Council for the year ended 30 June 2015 comprising the statement and explanatory notes, and certificates given by the Mayor and Chief Executive Officer.

#### *The Council's Responsibility 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 Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the statement 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the statement.

My responsibility is to form an opinion as to whether the statement has been accurately calculated based on the Council's general purpose financial report. 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.

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

### *Independence*

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

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

### *Opinion*

In accordance with s.212 of the *Local Government Regulation 2012*, in my opinion, in all material respects, the current-year financial sustainability statement of Mornington Shire Council for the year ended 30 June 2015 has been accurately calculated.

### *Emphasis of Matter – Basis of Accounting*

Without modifying my opinion, attention is drawn 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.

### **Other Matters - Electronic Presentation of the Audited Statement**

Those viewing an electronic presentation of this special purpose financial report should note that audit does not provide assurance on the integrity of the information presented electronically and does not provide an opinion on any information which may be hyperlinked to or from the financial statements. If users of the financial statements are concerned with the inherent risks arising from electronic presentation of information, they are advised to refer to the printed copy of the audited financial statements to confirm the accuracy of this electronically presented information.

C G STRICKLAND CA  
(as Delegate of the Auditor-General of Queensland)

Queensland Audit Office  
Brisbane

**Mornington Shire Council**  
**Long-Term Financial Sustainability**  
 Prepared as at 30 June 2015

Measures of Financial Sustainability	Measure	Target	Actuals 30 June 2015	Projected for the years ended								
				30 June 2016	30 June 2017	30 June 2018	30 June 2019	30 June 2020	30 June 2021	30 June 2022	30 June 2023	30 June 2024
<b>Council</b>												
Operating Surplus Ratio	Net result divided by total operating revenue	0% to 10%	-49.7%	-11.1%	-9.5%	-9.1%	-8.8%	-7.4%	-7.5%	-6.6%	-5.7%	-5.8%
Asset Sustainability Ratio	Capital expenditure on renewals divided by depreciation expense.	> 90%	273%									
Net Financial Liabilities Ratio	Total liabilities less current assets divided by total operating revenue	< 60%	-68%	-45%	-46%	-36%	-35%	-33%	-25%	-24%	-23%	-23%


**Mornington Shire Council's Financial Management Strategy**

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

**Certificate of Accuracy**  
**For the long-term financial sustainability**

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: 29, 8, 16

  
 \_\_\_\_\_  
 Acting Chief Executive Officer  
 Andrew Thompson  
 Date: 29, 8, 16