

SHIRE OF MORAWA
FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

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COMMUNITY VISION

The Shire of Morawa: Breaking New Ground.
Our vision is a welcoming and inclusive community with diverse regional partnerships that have created a vibrant and growing economy.

Principal place of business:
26 Winfield Street
Morawa, WA 6623

**SHIRE OF MORAWA
FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020**

*Local Government Act 1995
Local Government (Financial Management) Regulations 1996*

STATEMENT BY CHIEF EXECUTIVE OFFICER

The attached financial report of the Shire of Morawa for the financial year ended 30 June 2020 is based on proper accounts and records to present fairly the financial position of the Shire of Morawa at 30 June 2020 and the results of the operations for the financial year then ended in accordance with the Local Government Act 1995 and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

Signed on the _____ day of _____ 2020

Chief Executive Officer

Scott Wildgoose
Name of Chief Executive Officer

SHIRE OF MORAWA
STATEMENT OF COMPREHENSIVE INCOME
BY NATURE OR TYPE
FOR THE YEAR ENDED 30 JUNE 2020

	NOTE	2020 Actual \$	2020 Budget \$	2019 Actual \$
Revenue				
Rates	25(a)	1,892,644	1,874,969	1,831,043
Operating grants, subsidies and contributions	2(a)	1,902,277	1,400,149	4,361,996
Fees and charges	2(a)	745,758	814,488	812,972
Interest earnings	2(a)	90,609	139,000	159,078
Other revenue	2(a)	125,697	62,215	252,003
		4,756,985	4,290,821	7,417,092
Expenses				
Employee costs		(1,783,901)	(1,893,942)	(1,657,664)
Materials and contracts		(1,685,401)	(2,510,451)	(3,858,161)
Utility charges		(360,377)	(356,338)	(295,280)
Depreciation on non-current assets	11(b)	(1,917,260)	(1,870,082)	(1,876,499)
Interest expenses	2(b)	(11,808)	(11,919)	(14,017)
Insurance expenses		(216,375)	(191,691)	(183,175)
Other expenditure	2(b)	(120,509)	(150,658)	(195,306)
		(6,095,631)	(6,985,081)	(8,080,102)
		(1,338,646)	(2,694,260)	(663,010)
Non-operating grants, subsidies and contributions	2(a)	868,767	933,776	542,444
Profit on asset disposals	11(a)	0	0	9,978
(Loss) on asset disposals	11(a)	(85,184)	(146,000)	(303,685)
Fair value adjustments to financial assets at fair value through profit or loss		865	0	0
		784,448	787,776	248,737
Net result for the period		(554,198)	(1,906,484)	(414,273)
Other comprehensive income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes in asset revaluation surplus	13	5,535	0	479,751
Total other comprehensive income for the period		5,535	0	479,751
Total comprehensive income for the period		(548,663)	(1,906,484)	65,478

This statement is to be read in conjunction with the accompanying notes.

SHIRE OF MORAWA
STATEMENT OF COMPREHENSIVE INCOME
BY PROGRAM
FOR THE YEAR ENDED 30 JUNE 2020

	NOTE	2020 Actual \$	2020 Budget \$	2019 Actual \$
Revenue				
Governance		2,680	0	935
General purpose funding		3,727,247	2,881,453	3,702,744
Law, order, public safety		29,376	22,319	22,663
Health		4,235	10,350	7,537
Education and welfare		9,050	2,400	5,319
Housing		83,430	92,820	100,715
Community amenities		435,461	445,977	434,933
Recreation and culture		46,725	57,316	114,726
Transport		155,812	495,611	2,699,055
Economic services		95,413	147,775	157,365
Other property and services		167,556	134,800	171,100
		4,756,985	4,290,821	7,417,092
Expenses				
Governance		(391,490)	(505,366)	(417,674)
General purpose funding		(173,424)	(182,246)	(162,306)
Law, order, public safety		(86,363)	(117,819)	(104,801)
Health		(137,006)	(205,026)	(181,815)
Education and welfare		(198,862)	(202,983)	(120,701)
Housing		(231,479)	(236,223)	(260,382)
Community amenities		(573,453)	(637,887)	(528,128)
Recreation and culture		(1,559,716)	(1,356,789)	(1,458,828)
Transport		(2,040,699)	(2,573,582)	(4,056,915)
Economic services		(680,948)	(943,772)	(650,364)
Other property and services		(10,383)	(11,469)	(124,171)
		(6,083,823)	(6,973,162)	(8,066,085)
Finance Costs				
Housing	2(b)	(11,808)	(11,919)	(14,017)
		(11,808)	(11,919)	(14,017)
		(1,338,646)	(2,694,260)	(663,010)
Non-operating grants, subsidies and contributions	2(a)	868,767	933,776	542,444
Profit on disposal of assets	11(a)	0	0	9,978
(Loss) on disposal of assets	11(a)	(85,184)	(146,000)	(303,685)
Fair value adjustments to financial assets at fair value through profit or loss		865	0	0
		784,448	787,776	248,737
Net result for the period		(554,198)	(1,906,484)	(414,273)
Other comprehensive income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes in asset revaluation surplus	13	5,535	0	479,751
Total other comprehensive income for the period		5,535	0	479,751
Total comprehensive income for the period		(548,663)	(1,906,484)	65,478

This statement is to be read in conjunction with the accompanying notes.

SHIRE OF MORAWA
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	NOTE	2020 \$	2019 \$
CURRENT ASSETS			
Cash and cash equivalents	3	7,114,588	7,106,771
Trade and other receivables	6	523,228	661,780
Inventories	7	12,307	10,168
Other assets	8	4,147	3,737
TOTAL CURRENT ASSETS		7,654,270	7,782,456
NON-CURRENT ASSETS			
Trade and other receivables	6	28,157	28,961
Other financial assets	5(a)	53,416	52,551
Property, plant and equipment	9	22,339,038	22,360,809
Infrastructure	10	47,444,292	47,450,053
TOTAL NON-CURRENT ASSETS		69,864,903	69,892,374
TOTAL ASSETS		77,519,173	77,674,830
CURRENT LIABILITIES			
Trade and other payables	14	550,934	399,612
Contract liabilities	15	62,324	0
Borrowings	16(a)	14,049	25,432
Employee related provisions	17	370,554	331,893
TOTAL CURRENT LIABILITIES		997,861	756,937
NON-CURRENT LIABILITIES			
Borrowings	16(a)	279,078	281,208
Employee related provisions	17	76,363	35,487
TOTAL NON-CURRENT LIABILITIES		355,441	316,695
TOTAL LIABILITIES		1,353,302	1,073,632
NET ASSETS		76,165,871	76,601,198
EQUITY			
Retained surplus		34,659,817	34,755,490
Reserves - cash backed	4	5,202,521	5,540,310
Revaluation surplus	13	36,303,533	36,305,398
TOTAL EQUITY		76,165,871	76,601,198

This statement is to be read in conjunction with the accompanying notes.

SHIRE OF MORAWA
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020

	NOTE	RETAINED SURPLUS \$	RESERVES CASH BACKED \$	REVALUATION SURPLUS \$	TOTAL EQUITY \$
Balance as at 1 July 2018		35,036,076	5,673,997	35,825,647	76,535,720
Comprehensive income					
Net result for the period		(414,273)	0	0	(414,273)
Other comprehensive income	13	0	0	479,751	479,751
Total comprehensive income		(414,273)	0	479,751	65,478
Transfers from reserves	4	455,678	(455,678)	0	0
Transfers to reserves	4	(321,991)	321,991	0	0
Balance as at 30 June 2019		34,755,490	5,540,310	36,305,398	76,601,198
Change in accounting policy	29(b)	120,736	0	(7,400)	113,336
Restated total equity at 1 July 2019		34,876,226	5,540,310	36,297,998	76,714,534
Comprehensive income					
Net result for the period		(554,198)	0	0	(554,198)
Other comprehensive income	13	0	0	5,535	5,535
Total comprehensive income		(554,198)	0	5,535	(548,663)
Transfers from reserves	4	972,430	(972,430)	0	0
Transfers to reserves	4	(634,641)	634,641	0	0
Balance as at 30 June 2020		34,659,817	5,202,521	36,303,533	76,165,871

This statement is to be read in conjunction with the accompanying notes.

SHIRE OF MORAWA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

	NOTE	2020 Actual \$	2020 Budget \$	2019 Actual \$
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts				
Rates		1,966,972	1,954,969	1,794,216
Operating grants, subsidies and contributions		1,956,510	1,400,149	4,912,813
Fees and charges		745,758	814,488	812,972
Interest received		90,609	139,000	159,078
Goods and services tax received		341,638	0	92,208
Other revenue		125,697	62,215	220,523
		5,227,184	4,370,821	7,991,810
Payments				
Employee costs		(1,686,400)	(1,868,942)	(1,725,101)
Materials and contracts		(1,432,696)	(2,390,451)	(3,827,009)
Utility charges		(360,377)	(356,338)	(295,280)
Interest expenses		(11,808)	(11,919)	(14,017)
Insurance paid		(216,375)	(191,691)	(183,175)
Goods and services tax paid		(269,679)	0	0
Other expenditure		(120,509)	(150,658)	(195,306)
		(4,097,844)	(4,969,999)	(6,239,888)
Net cash provided by (used in) operating activities	18	1,129,340	(599,178)	1,751,922
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for purchase of property, plant & equipment	9(a)	(916,266)	(953,050)	(373,366)
Payments for construction of infrastructure	10(a)	(1,240,056)	(1,452,751)	(1,126,057)
Non-operating grants, subsidies and contributions	2(a)	868,767	933,776	542,444
Proceeds from sale of property, plant & equipment	11(a)	179,545	194,000	54,932
Net cash provided by (used in) investment activities		(1,108,010)	(1,278,025)	(902,047)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of borrowings	16(b)	(13,513)	(13,513)	(75,142)
Net cash provided by (used in) financing activities		(13,513)	(13,513)	(75,142)
Net increase (decrease) in cash held		7,817	(1,890,716)	774,733
Cash at beginning of year		7,106,771	7,085,700	6,332,038
Cash and cash equivalents at the end of the year	18	7,114,588	5,194,984	7,106,771

This statement is to be read in conjunction with the accompanying notes.

SHIRE OF MORAWA
RATE SETTING STATEMENT
FOR THE YEAR ENDED 30 JUNE 2020

NOTE	2020 Actual \$	2020 Budget \$	2019 Actual \$
OPERATING ACTIVITIES			
Net current assets at start of financial year - surplus/(deficit)	26 (b) 1,849,977	1,771,446	1,413,167
	1,849,977	1,771,446	1,413,167
Revenue from operating activities (excluding rates)			
Governance	2,680	0	935
General purpose funding	1,840,650	1,006,484	1,867,073
Law, order, public safety	29,376	22,319	22,663
Health	4,235	10,350	7,537
Education and welfare	9,050	2,400	5,319
Housing	83,430	92,820	100,715
Community amenities	435,461	445,977	434,933
Recreation and culture	46,725	57,316	114,726
Transport	155,812	495,611	2,709,033
Economic services	95,413	147,775	157,365
Other property and services	167,556	134,800	171,100
	2,870,388	2,415,852	5,591,399
Expenditure from operating activities			
Governance	(391,490)	(505,366)	(417,674)
General purpose funding	(173,424)	(182,246)	(162,306)
Law, order, public safety	(86,363)	(117,819)	(336,599)
Health	(145,993)	(207,026)	(181,865)
Education and welfare	(198,862)	(202,983)	(120,701)
Housing	(243,287)	(248,142)	(274,399)
Community amenities	(581,490)	(645,887)	(528,128)
Recreation and culture	(1,559,716)	(1,356,789)	(1,461,074)
Transport	(2,079,612)	(2,680,582)	(4,106,515)
Economic services	(680,948)	(943,772)	(650,364)
Other property and services	(39,630)	(40,469)	(144,162)
	(6,180,815)	(7,131,081)	(8,383,787)
Non-cash amounts excluded from operating activities	26(a) 2,049,663	2,016,082	2,116,293
Amount attributable to operating activities	589,213	(927,701)	737,072
INVESTING ACTIVITIES			
Non-operating grants, subsidies and contributions	2(a) 868,767	933,776	542,444
Proceeds from disposal of assets	11(a) 179,545	194,000	54,932
Purchase of property, plant and equipment	9(a) (916,266)	(953,050)	(373,366)
Purchase and construction of infrastructure	10(a) (1,240,056)	(1,452,751)	(1,126,057)
Amount attributable to investing activities	(1,108,010)	(1,278,025)	(902,047)
FINANCING ACTIVITIES			
Repayment of borrowings	16(b) (13,513)	(13,513)	(75,142)
Transfers to reserves (restricted assets)	4 (634,641)	(496,908)	(321,991)
Transfers from reserves (restricted assets)	4 972,430	850,958	455,678
Amount attributable to financing activities	324,276	340,537	58,545
Surplus/(deficit) before imposition of general rates	(194,521)	(1,865,189)	(106,430)
Total amount raised from general rates	25(a) 1,887,462	1,874,969	1,835,671
Surplus/(deficit) after imposition of general rates	26(b) 1,692,941	9,780	1,729,241

This statement is to be read in conjunction with the accompanying notes.

SHIRE OF MORAWA
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FOR THE YEAR ENDED 30 JUNE 2020

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1. BASIS OF PREPARATION

The financial report comprises general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (as they apply to local governments and not-for-profit entities) and Interpretations of the Australian Accounting Standards Board, and the *Local Government Act 1995* and accompanying regulations.

AMENDMENTS TO LOCAL GOVERNMENT (FINANCIAL MANAGEMENT) REGULATIONS 1996

The *Local Government (Financial Management) Regulations 1996* take precedence over Australian Accounting Standards. Prior to 1 July 2019, *Financial Management Regulation 16* arbitrarily prohibited a local government from recognising as assets Crown land that is a public thoroughfare, i.e. land under roads, and land not owned by but under the control or management of the local government, unless it is a golf course, showground, racecourse or recreational facility of State or regional significance. Consequently, some assets pertaining to vested land, including land under roads acquired on or after 1 July 2008, were not recognised in previous financial reports of the Shire. This was not in accordance with the requirements of AASB 1051 *Land Under Roads* paragraph 15 and AASB 116 *Property, Plant and Equipment* paragraph 7.

From 1 July 2019, the Shire has applied AASB 16 Leases which requires leases to be included by lessees in the statement of financial position. Also, the *Local Government (Financial Management) Regulations 1996* have been amended to specify that vested land is a right-of-use asset to be measured at cost. All right-of-use assets (other than vested improvements) under zero cost concessionary leases are measured at zero cost (i.e. not included in the statement of financial position) rather than at fair value. The exception is vested improvements on concessionary land leases such as roads, buildings or other infrastructure which continue to be reported at fair value, as opposed to the vested land which is measured at zero cost. The measurement of vested improvements at fair value is a departure from AASB 16 which would have required the Shire to measure any vested improvements at zero cost.

The Shire has accounted for the removal of the vested land values associated with vested land previously recognised by removing the land value and associated revaluation reserve as at 1 July 2019. The comparative year amounts have been retained as AASB 16 does not require comparatives to be restated in the year of transition.

Therefore the departure from AASB 1051 and AASB 16 in respect of the comparatives for the year ended 30 June 2019 remains.

Accounting policies which have been adopted in the preparation of this financial report have been consistently applied unless stated otherwise. Except for cash flow and rate setting information, the report has been prepared on the accrual basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and liabilities.

NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE YEARS

On 1 July 2020 the following new accounting standards are to be adopted:

- AASB 1059 *Service Concession Arrangements: Grantors*
- AASB 2018-7 *Amendments to Australian Accounting Standards - Materiality*

AASB 1059 *Service Concession Arrangements: Grantors* is not expected to impact the financial report.

Specific impacts of AASB 2018-7 *Amendments to Australian Accounting Standards - Materiality*, have not been identified.

CRITICAL ACCOUNTING ESTIMATES

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances; the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

THE LOCAL GOVERNMENT REPORTING ENTITY

All funds through which the Shire controls resources to carry on its functions have been included in the financial statements forming part of this financial report.

In the process of reporting on the local government as a single unit, all transactions and balances between those funds (for example, loans and transfers between funds) have been eliminated.

Any monies held in the Trust Fund are excluded from the financial statements for FY2019/2020.

SHIRE OF MORAWA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

2. REVENUE AND EXPENSES

REVENUE RECOGNITION POLICY

Recognition of revenue is dependant on the source of revenue and the associated terms and conditions associated with each source of revenue and recognised as follows:

Revenue Category	Nature of goods and services	When obligations typically satisfied	Payment terms	Returns/Refunds/Warranties	Determination of transaction price	Allocating transaction price	Measuring obligations for returns	Timing of revenue recognition
Rates	General Rates	Over time	Payment dates adopted by Council during the year	None	Adopted by council annually	When taxable event occurs	Not applicable	When rates notice is issued
Specified area rates	Rates charge for specific defined purpose	Over time	Payment dates adopted by Council during the year	Refund in event monies are unspent	Adopted by council annually	When taxable event occurs	Not applicable	When rates notice is issued
Service charges	Charge for specific service	Over time	Payment dates adopted by Council during the year	Refund in event monies are unspent	Adopted by council annually	When taxable event occurs	Not applicable	When rates notice is issued
Grant contracts with customers	Community events, minor facilities, research, design, planning evaluation and services	Over time	Fixed terms transfer of funds based on agreed milestones and reporting	Contract obligation if project not complete	Set by mutual agreement with the customer	Based on the progress of works to match performance obligations	Returns limited to repayment of transaction price of terms breached	Output method based on project milestones and/or completion date matched to performance obligations as inputs are shared
Grants, subsidies or contributions for the construction of non-financial assets	Construction or acquisition of recognisable non-financial assets to be controlled by the local government	Over time	Fixed terms transfer of funds based on agreed milestones and reporting	Contract obligation if project not complete	Set by mutual agreement with the customer	Based on the progress of works to match performance obligations	Returns limited to repayment of transaction price of terms breached	Output method based on project milestones and/or completion date matched to performance obligations as inputs are shared
Grants with no contract commitments	General appropriations and contributions with no reciprocal commitment	No obligations	Not applicable	Not applicable	Cash received	On receipt of funds	Not applicable	When assets are controlled
Licences/ Registrations/ Approvals	Building, planning, development and animal management, having the same nature as a licence regardless of naming.	Single point in time	Full payment prior to issue	None	Set by State legislation or limited by legislation to the cost of provision	Based on timing of issue of the associated rights	No refunds	On payment and issue of the licence, registration or approval
Pool inspections	Compliance safety check	Single point in time	Equal proportion based on an equal annually fee	None	Set by State legislation	Apportioned equally across the inspection cycle	No refunds	After inspection complete based on a 4 year cycle
Other inspections	Regulatory Food, Health and Safety	Single point in time	Full payment prior to inspection	None	Set by State legislation or limited by legislation to the cost of provision	Applied fully on timing of inspection	Not applicable	Revenue recognised after inspection event occurs
Waste management collections	Kerbside collection service	Over time	Payment on an annual basis in advance	None	Adopted by council annually	Apportioned equally across the collection period	Not applicable	Output method based on regular weekly and fortnightly period as proportionate to collection service
Waste management entry fees	Waste treatment, recycling and disposal service at disposal sites	Single point in time	Payment in advance at gate or on normal trading terms if credit provided	None	Adopted by council annually	Based on timing of entry to facility	Not applicable	On entry to facility
Airport landing charges	Permission to use facilities and runway	Single point in time	Monthly in arrears	None	Adopted by council annually	Applied fully on timing of landing/take-off	Not applicable	On landing/departure event
Property hire and entry	Use of halls and facilities	Single point in time	In full in advance	Refund if event cancelled within 7 days	Adopted by council annually	Based on timing of entry to facility	Returns limited to repayment of transaction price	On entry or at conclusion of hire
Memberships	Pool membership	Over time	Payment in full in advance	Refund for unused portion on application	Adopted by council annually	Apportioned equally across the access period	Returns limited to repayment of transaction price	Output method Over 12 months matched to access right
Fees and charges for other goods and services	Cemetery services, library fees, reinstatements and private works	Single point in time	Payment in full in advance	None	Adopted by council annually	Applied fully based on timing of provision	Not applicable	Output method based on provision of service or completion of works
Sale of stock	Aviation fuel, kiosk and visitor centre stock	Single point in time	In full in advance, on 15 day credit	Refund for faulty goods	Adopted by council annually, set by mutual agreement	Applied fully based on timing of provision	Returns limited to repayment of transaction price	Output method based on goods
Commissions	Commissions on licencing and ticket sales	Over time	Payment in full on sale	None	Set by mutual agreement with the customer	On receipt of funds	Not applicable	When assets are controlled
Reimbursements	Insurance claims	Single point in time	Payment in arrears for claimable event	None	Set by mutual agreement with the customer	When claim is agreed	Not applicable	When claim is agreed

SHIRE OF MORAWA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

2. REVENUE AND EXPENSES

(a) Grant revenue

Grants, subsidies and contributions are included as both operating and non-operating revenues in the Statement of Comprehensive Income:

	2020 Actual \$	2020 Budget \$	2019 Actual \$
Operating grants, subsidies and contributions			
General purpose funding	1,731,060	860,819	1,654,075
Law, order, public safety	20,826	14,819	14,295
Health	0	10,000	0
Education and welfare	6,260	0	633
Housing	0	3,500	0
Community amenities	0	1,000	0
Recreation and culture	2,000	20,000	10,318
Transport	142,131	480,111	2,681,766
Economic services	0	0	909
Other property and services	0	9,900	0
	1,902,277	1,400,149	4,361,996
Non-operating grants, subsidies and contributions			
Community amenities	80,000	80,000	0
Recreation and culture	11,000	0	4,348
Transport	777,767	853,776	538,096
	868,767	933,776	542,444
	2,771,044	2,333,925	4,904,440
Total grants, subsidies and contributions			
Fees and charges			
Governance	2,368	0	608
General purpose funding	12,935	3,500	5,997
Law, order, public safety	2,564	3,500	3,686
Health	0	350	0
Education and welfare	2,790	2,400	3,763
Housing	79,885	89,320	96,882
Community amenities	432,223	444,977	431,599
Recreation and culture	29,807	37,316	50,876
Transport	0	500	6,257
Economic services	95,412	147,725	156,455
Other property and services	87,774	84,900	56,849
	745,758	814,488	812,972

SIGNIFICANT ACCOUNTING POLICIES

Grants, subsidies and contributions

Operating grants, subsidies and contributions are grants, subsidies or contributions that are not non-operating in nature.

Non-operating grants, subsidies and contributions are amounts received for the acquisition or construction of recognisable non-financial assets to be controlled by the local government.

Fees and Charges

Revenue (other than service charges) from the use of facilities and charges made for local government services, sewerage rates, rentals, hire charges, fee for service, photocopying charges, licences, sale of goods or information, fines, penalties and administration fees.

SHIRE OF MORAWA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

2. REVENUE AND EXPENSES (Continued)

(a) Revenue (Continued)	2020 Actual \$	2020 Budget \$	2019 Actual \$
Contracts with customers and transfers for recognisable non-financial assets			
Revenue from contracts with customers and transfers to enable the acquisition or construction of recognisable non-financial assets to be controlled by the Shire was recognised during the year for the following nature or types of goods or services:			
Operating grants, subsidies and contributions	29,086	84,819	0
Fees and charges	740,395	807,738	0
Other revenue	54,834	19,050	0
Non-operating grants, subsidies and contributions	868,767	933,776	0
	1,693,082	1,845,383	0
Revenue from contracts with customers and transfers to enable the acquisition or construction of recognisable non-financial assets to be controlled by the Shire is comprised of:			
Other revenue from contracts with customers recognised during the year	824,315	911,607	0
Other revenue from performance obligations satisfied during the year	868,767	933,776	0
	1,693,082	1,845,383	0
Information about receivables, contract assets and contract liabilities from contracts with customers along with financial assets and associated liabilities arising from transfers to enable the acquisition or construction of recognisable non financial assets is:			
Trade and other receivables from contracts with customers	24,908		0
Contract liabilities from contracts with customers	(2,500)		0
Financial assets held from transfers for recognisable financial assets	59,824		0
Contract liabilities from transfers for recognisable non financial assets	(59,824)		0

Impairment of assets associated with contracts with customers are detailed at note 2 (b) under 'Other expenditure'.

Contract liabilities for contracts with customers primarily relate to grants with performance obligations received in advance, for which revenue is recognised over time as the performance obligations are met.

Information is not provided about remaining performance obligations for contracts with customers that had an original expected duration of one year or less.

Consideration from contracts with customers is included in the transaction price.

Performance obligations in relation to contract liabilities from transfers for recognisable non financial assets are satisfied as project milestones are met or completion of construction or acquisition of the asset. All associated performance obligations are expected to be met over the next 12 months.

SHIRE OF MORAWA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

2. REVENUE AND EXPENSES (Continued)

(a) Revenue (Continued)

Revenue from statutory requirements

Revenue from statutory requirements was recognised during the year for the following nature or types of goods or services:

General rates
 Statutory permits and licences
 Fines

Significant revenue

WANDRRA flood damage

Other revenue

Reimbursements and recoveries
 Sale of inventory
 Other

Interest earnings

Interest on reserve funds
 Rates instalment and penalty interest (refer Note 25(c))
 Other interest earnings

	2020 Actual \$	2020 Budget \$	2019 Actual \$
	1,887,462	1,874,969	0
	4,025	4,750	0
	1,338	2,000	0
	1,892,825	1,881,719	0
	0	0	2,543,493
	70,863	43,165	150,811
	0	0	48,641
	54,834	19,050	52,551
	125,697	62,215	252,003
	54,258	100,000	110,083
	28,369	27,000	36,146
	7,982	12,000	12,849
	90,609	139,000	159,078

SIGNIFICANT ACCOUNTING POLICIES

Interest earnings

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest earnings (continued)

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

(b) Expenses

Significant expense

WANDRRA flood damage

Auditors remuneration

- Audit of the Annual Financial Report
 - Other services

Interest expenses (finance costs)

Borrowings

Other expenditure

Impairment loss on trade and other receivables from contracts with customers
 Sundry expenses

Note	2020 Actual \$	2020 Budget \$	2019 Actual \$
	0	0	2,460,766
	29,997	38,000	37,176
	2,000	9,500	3,850
	31,997	47,500	41,026
16(b)	11,808	11,919	14,017
	11,808	11,919	14,017
	16,359	0	0
	104,150	150,658	195,306
	120,509	150,658	195,306

SHIRE OF MORAWA
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30 JUNE 2020

3. CASH AND CASH EQUIVALENTS

NOTE	2020	2019
	\$	\$
Cash at bank and on hand	5,014,588	5,006,771
Term deposits	2,100,000	2,100,000
Total cash and cash equivalents	7,114,588	7,106,771

Restrictions

The following classes of assets have restrictions imposed by regulations or other externally imposed requirements which limit or direct the purpose for which the resources may be used:

- Cash and cash equivalents	5,284,858	5,561,381
	5,284,858	5,561,381

The restricted assets are a result of the following specific purposes to which the assets may be used:

Reserves - cash backed	4	5,202,521	5,540,310
Contract liabilities from contracts with customers	15	2,500	0
Contract liabilities from transfers for recognisable non financial assets	15	59,824	0
Bonds and deposits held		20,013	21,071
Total restricted assets		5,284,858	5,561,381

SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash at bank, deposits available on demand with banks and 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. Bank overdrafts are reported as short term borrowings in current liabilities in the statement of financial position.

Restricted assets

Restricted asset balances are not available for general use by the local government due to externally imposed restrictions. Externally imposed restrictions are specified in an agreement, contract or legislation. This applies to reserves, unspent grants, subsidies and contributions and unspent loans that have not been fully expended in the manner specified by the contributor, legislation or loan agreement.

SHIRE OF MORAWA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

4. RESERVES - CASH BACKED

	2020 Actual Opening Balance	2020 Actual Transfer to	2020 Actual Transfer (from)	2020 Actual Closing Balance	2020 Budget Opening Balance	2020 Budget Transfer to	2020 Budget Transfer (from)	2020 Budget Closing Balance	2019 Actual Opening Balance	2019 Actual Transfer to	2019 Actual Transfer (from)	2019 Actual Closing Balance
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
(a) Leave reserve	218,600	6,404	0	225,004	218,600	8,946	0	227,546	209,270	9,330	0	218,600
(b) Unspent grants reserve	0	0	0	0	0	0	0	0	26,413	345	(26,758)	0
(c) Plant Reserve	833,618	255,347	(621,674)	467,291	833,618	265,046	(644,050)	454,614	1,015,608	21,010	(203,000)	833,618
(d) Building Reserve	93,594	20,601	0	114,195	93,594	21,689	0	115,283	121,089	22,505	(50,000)	93,594
(e) Economic Development Reserve	112,812	701	(110,000)	3,513	112,812	2,036	(100,000)	14,848	110,526	2,286	0	112,812
(f) Community Development Reserve	1,242,317	12,720	0	1,255,037	1,242,317	22,423	0	1,264,740	1,217,918	24,399	0	1,242,317
(g) Sewerage Reserve	246,040	51,580	(75,000)	222,620	246,040	54,441	(75,000)	225,481	218,716	27,324	0	246,040
(h) Morawa Future Funds Interest Reserve	240,224	25,814	(41,622)	224,416	240,224	36,244	0	276,468	126,630	127,737	(14,143)	240,224
(i) Morawa Community Future Funds Reserve	2,079,696	28,393	(74,134)	2,033,955	2,079,696	37,539	(31,908)	2,085,327	2,165,470	38,226	(124,000)	2,079,696
(j) Refuse Transfer Station Reserve	0	0	0	0	0	0	0	0	27	0	(27)	0
(k) Aged Care Units Reserve	9,424	61	0	9,485	9,424	170	0	9,594	9,233	191	0	9,424
(l) ST-Morawa Revitalisation Reserve	0	0	0	0	0	0	0	0	37,705	45	(37,750)	0
(m) Business Units Reserve	125,003	20,803	0	145,806	125,003	22,256	0	147,259	102,875	22,128	0	125,003
(n) Legal Fees Reserve	25,927	167	0	26,094	25,927	468	0	26,395	25,402	525	0	25,927
(o) Road Reserve	146,191	939	0	147,130	146,191	2,639	0	148,830	143,228	2,963	0	146,191
(p) Aged Care ex MCC Unit 1-4 Reserve	70,143	450	0	70,593	70,143	1,266	0	71,409	68,721	1,422	0	70,143
(q) Aged Care Unit 5 Reserve	56,307	362	0	56,669	56,307	1,016	0	57,323	55,166	1,141	0	56,307
(r) Swimming Pool Reserve	40,414	20,259	0	60,673	40,414	20,729	0	61,143	20,000	20,414	0	40,414
(s) COVID-19 Emergency Response Reserve	0	190,040	(50,000)	140,040	0	0	0	0	0	0	0	0
	5,540,310	634,641	(972,430)	5,202,521	5,540,310	496,908	(850,958)	5,186,260	5,673,997	321,991	(455,678)	5,540,310

All reserves are supported by cash and cash equivalents and are restricted within equity as Reserves - cash backed.

In accordance with Council resolutions or adopted budget in relation to each reserve account, the purpose for which the reserves are set aside and their anticipated date of use are as follows:

Name of Reserve	Anticipated date of use	Purpose of the reserve
(a) Leave reserve	Ongoing	To be used to fund leave requirements.
(c) Plant Reserve	Ongoing	To be used to upgrade, replace or purchase new plant and equipment.
(d) Building Reserve	Ongoing	To be used to refurbish, replace, extend or establish Council owned buildings.
(e) Economic Development Reserve	Ongoing	To be used to create economic development initiatives in the local community.
(f) Community Development Reserve	Ongoing	To be used for Community Projects within the Shire of Morawa.
(g) Sewerage Reserve	Ongoing	To be used to repair, replace or extend the sewerage facility.
(h) Morawa Future Funds Interest Reserve	Ongoing	To allocate funding to community based projects financed from the interest received on the underlying reserves.
(i) Morawa Community Future Funds Reserve	Ongoing	To provide an ongoing conduit for benefits to the people and environment with the Sinosteel Midwest Corporation Morawa Future Fund Foundation Memorandum.
(j) Refuse Transfer Station Reserve	Used	Used for Landfill closure and Refuse Transfer Station project R4R funds 2011/12. No plans for re-use or re-instating this reserve.
(k) Aged Care Units Reserve	Ongoing	To fund future expenditure relating to the Units.
(l) ST-Morawa Revitalisation Reserve	Used	Super Town funds used for the Morawa Town Revitalisation Project. No plans for re-use or re-instating this reserve.
(m) Business Units Reserve	Ongoing	To fund future expenditure relating to the Units.
(n) Legal Fees Reserve	Ongoing	A provision for unforeseen legal fees.
(o) Road Reserve	Ongoing	A provision for (emergency) road expenditure in addition to the annual budget for road infrastructure.
(p) Aged Care ex MCC Unit 1-4 Reserve	Ongoing	To fund future expenditure relating to the Units 1-4.
(q) Aged Care Unit 5 Reserve	Ongoing	To fund future expenditure relating to Unit 5.
(r) Swimming Pool Reserve	Ongoing	To be used for the maintenance/upgrade to Morawa Swimming Pool.
(s) COVID-19 Emergency Response Reserve	Ongoing	To reserve funding for businesses or residents who may see financial hardship due to COVID-19 related issues.

SHIRE OF MORAWA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

5. OTHER FINANCIAL ASSETS

(a) Non-current assets

Financial assets at fair value through profit and loss

	2020	2019
	\$	\$
	53,416	52,551
	53,416	52,551
	53,416	52,551
	53,416	52,551

Financial assets at fair value through profit and loss

Units in Local Government House Trust

Local Government House Trust

The Shire holds 3 of the 620 units in the Local Government House Trust which purchased the Local Government House. The total contribution by all Shires and Councils towards the purchase of the Building was \$582,000.

Based on net assets, the value of 1 unit is \$17,805.27. The Shire has 3 units which comes to \$53,416 for this financial year.

SIGNIFICANT ACCOUNTING POLICIES

Other financial assets at amortised cost

The Shire classifies financial assets at amortised cost if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cashflows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

Financial assets at fair value through profit and loss

The Shire classifies the following financial assets at fair value through profit and loss:

- debt investments which do not qualify for measurement at either amortised cost or fair value through other comprehensive income.
- equity investments which the Shire has not elected to recognise fair value gains and losses through other comprehensive income.

Impairment and risk

Information regarding impairment and exposure to risk can be found at Note 27.

SHIRE OF MORAWA
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30 JUNE 2020

6. TRADE AND OTHER RECEIVABLES

Current

Rates receivable	
Trade and other receivables	
GST receivable	
Allowance for impairment of receivables	

Non-current

Pensioner's rates and ESL deferred	
------------------------------------	--

2020	2019
\$	\$
514,679	589,363
24,908	32,377
0	71,959
(16,359)	(31,919)
523,228	661,780
28,157	28,961
28,157	28,961

SIGNIFICANT ACCOUNTING POLICIES

Trade and other receivables

Trade and other receivables include amounts due from ratepayers for unpaid rates and service charges and other amounts due from third parties for goods sold and services performed in the ordinary course of business.

Trade receivables are recognised at original invoice amount less any allowances for uncollectible amounts (i.e. impairment). The carrying amount of net trade receivables is equivalent to fair value as it is due for settlement within 30 days.

Impairment and risk exposure

Information about the impairment of trade receivables and their exposure to credit risk and interest rate risk can be found in Note 27.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification and subsequent measurement

Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade receivables are held with the objective to collect the contractual cashflows and therefore measures them subsequently at amortised cost using the effective interest rate method.

Due to the short term nature of current receivables, their carrying amount is considered to be the same as their fair value. Non-current receivables are indexed to inflation, any difference between the face value and fair value is considered immaterial.

SHIRE OF MORAWA
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30 JUNE 2020

7. INVENTORIES

Current

Fuel and materials

	2020	2019
	\$	\$
	12,307	10,168
	12,307	10,168
	10,168	14,846
	0	(4,678)
	2,139	0
	12,307	10,168

The following movements in inventories occurred during the year:

Carrying amount at beginning of period

Inventories expensed during the year

Additions to inventory

Carrying amount at end of period

SIGNIFICANT ACCOUNTING POLICIES

General

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

SHIRE OF MORAWA
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30 JUNE 2020

8. OTHER ASSETS

Other assets - current

Accrued income

	2020	2019
	\$	\$
	4,147	3,737
	4,147	3,737

SIGNIFICANT ACCOUNTING POLICIES

Other current assets

Other non-financial assets include prepayments which represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

Non-current assets held for sale

Assets are classified as "held for sale" where the carrying amount will be recovered through a sale rather than continuing use and the asset is available for immediate sale with a sale being highly probable.

Non-current assets held for sale (Continued)

Non-current assets classified as "held for sale" are valued at the lower of the carrying amount and fair value less costs to sell.

The fair value of land and buildings was determined using the sales comparison approach using comparable properties in the area. This is a level 2 measurement as per the fair value hierarchy set out in Note 30(h).

SHIRE OF MORAWA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

9. PROPERTY, PLANT AND EQUIPMENT

(a) Movements in Carrying Amounts

Movement in the carrying amounts of each class of property, plant and equipment between the beginning and the end of the current financial year.

	Land - freehold land	Land - vested in and under the control of Council	Total land	Buildings - non-specialised	Buildings - specialised	Total buildings	Total land and buildings	Furniture and equipment	Plant and equipment	Work in progress	Total property, plant and equipment
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2018	1,225,296	7,400	1,232,696	4,205,622	14,906,199	19,111,821	20,344,517	76,866	2,091,135	0	22,512,518
Additions	5,329	0	5,329	6,598	97,920	104,518	109,847	14,343	249,176		373,366
(Disposals)	0	0	0	0	0	0	0	(20,041)	(328,598)	0	(348,639)
Revaluation increments / (decrements) transferred to revaluation surplus	0	0	0	0	0	0	0	3,239	476,512	0	479,751
Depreciation (expense)	0	0	0	(105,778)	(284,501)	(390,279)	(390,279)	(15,834)	(250,074)	0	(656,187)
Carrying amount at 30 June 2019	1,230,625	7,400	1,238,025	4,106,442	14,719,618	18,826,060	20,064,085	58,573	2,238,151	0	22,360,809
Comprises:											
Gross carrying amount at 30 June 2019	1,230,625	7,400	1,238,025	4,316,102	15,288,620	19,604,722	20,842,747	58,573	2,238,151	0	23,139,471
Accumulated depreciation at 30 June 2019	0	0	0	(209,660)	(569,002)	(778,662)	(778,662)	0	0	0	(778,662)
Carrying amount at 30 June 2019	1,230,625	7,400	1,238,025	4,106,442	14,719,618	18,826,060	20,064,085	58,573	2,238,151	0	22,360,809
Change in accounting policy	0	(7,400)	(7,400)	0	0	0	(7,400)	0	0	0	(7,400)
Carrying amount at 1 July 2019	1,230,625	0	1,230,625	4,106,442	14,719,618	18,826,060	20,056,685	58,573	2,238,151	0	22,353,409
Additions	0	0	0	0	20,699	20,699	20,699		895,567	0	916,266
(Disposals)	0	0	0	0	0	0	0	0	(264,729)	0	(264,729)
Revaluation increments / (decrements) transferred to revaluation surplus	0	0	0	0	0	0	0	1,300	4,235	0	5,535
Depreciation (expense)	0	0	0	(106,000)	(289,483)	(395,483)	(395,483)	(6,360)	(269,600)	0	(671,443)
Transfers	0	0	0	20,634	(20,699)	(65)	(65)	0	(20,634)	20,699	0
Carrying amount at 30 June 2020	1,230,625	0	1,230,625	4,021,076	14,430,135	18,451,211	19,681,836	53,513	2,582,990	20,699	22,339,038
Comprises:											
Gross carrying amount at 30 June 2020	1,230,625	0	1,230,625	4,336,736	15,288,620	19,625,356	20,855,981	59,100	2,836,308	20,699	23,772,088
Accumulated depreciation at 30 June 2020	0	0	0	(315,660)	(858,485)	(1,174,145)	(1,174,145)	(5,587)	(253,318)	0	(1,433,050)
Carrying amount at 30 June 2020	1,230,625	0	1,230,625	4,021,076	14,430,135	18,451,211	19,681,836	53,513	2,582,990	20,699	22,339,038

SHIRE OF MORAWA
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30 JUNE 2020

9. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Fair Value Measurements

Asset Class	Fair Value Hierarchy	Valuation Technique	Basis of Valuation	Date of Last Valuation	Inputs Used
Land and buildings					
Land - freehold land	2	Market approach using recent observable market data for similar properties	Independent Registered Valuers	June 2017	Price per hectare
Land - freehold land	3	Improvements to land valued using cost approach using depreciated replacement cost	Independent Registered Valuers	June 2017	Improvements to land using construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs
Land - vested in and under the control of Council	3	Income Approach	Independent Registered Valuers	June 2017	Comparative income and expense data
Buildings - non-specialised	2	Market approach using recent observable market data for similar properties	Independent Registered Valuers	June 2017	Price per square metre
Buildings - specialised	3	Improvements to land valued using cost approach using depreciated replacement cost	Independent Registered Valuers	June 2017	Improvements to land using construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs
Furniture and equipment	3	Cost approach using depreciated replacement cost	Independent registered valuers	June 2019	Price per item

SHIRE OF MORAWA
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30 JUNE 2020

9. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Fair Value Measurements (Continued)

Asset Class	Fair Value Hierarchy	Valuation Technique	Basis of Valuation	Date of Last Valuation	Inputs Used
Plant and equipment					
Independent valuation 2019	2	Market approach using recent observable market data for similar items	Independent registered valuers	June 2019	Price per item
Independent valuation 2019	3	Cost approach using depreciated replacement cost	Independent registered valuers	June 2019	Price per item
Management valuation 2019	3	Cost approach using depreciated replacement cost	Management valuation	June 2019	Purchase costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs

Level 3 inputs are based on assumptions with regards to future values and patterns of consumption utilising current information. If the basis of these assumptions were varied, they have the potential to result in a significantly higher or lower fair value measurement.

During the period there were no changes in the valuation techniques used by the local government to determine the fair value of property, plant and equipment using either level 2 or level 3 inputs.

Following a change to *Local Government (Financial Management) Regulation 17A*, plant and equipment type assets (being plant and equipment and furniture and equipment) are to be measured under the cost model, rather than at fair value. This change is effective from 1 July 2019 and represents a change in accounting policy. Revaluations carried out previously were not reversed as it was deemed fair value approximates cost at the date of change.

SHIRE OF MORAWA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

10. INFRASTRUCTURE

(a) Movements in Carrying Amounts

Movement in the carrying amounts of each class of infrastructure between the beginning and the end of the current financial year.

	Infrastructure - roads \$	Other infrastructure - footpaths \$	Other infrastructure - Parks & Ovals \$	Other infrastructure - Sewerage \$	Other infrastructure - Airfields \$	Other infrastructure - Dams \$	Other infrastructure - Playground Equipment \$	Other infrastructure - Other \$	Total Infrastructure \$
Balance at 1 July 2018	37,777,325	385,767	774,577	2,199,968	522,675	638,237	90,832	5,154,927	47,544,308
Additions	1,077,107	0	6,443	23,251	0	0	0	19,256	1,126,057
Depreciation (expense)	(718,647)	(15,734)	(46,173)	(67,882)	(51,325)	(45,204)	(12,368)	(262,979)	(1,220,312)
Carrying amount at 30 June 2019	38,135,785	370,033	734,847	2,155,337	471,350	593,033	78,464	4,911,204	47,450,053
Comprises:									
Gross carrying amount at 30 June 2019	68,559,456	1,106,056	1,526,594	3,672,800	2,103,500	2,192,150	230,650	9,739,782	89,130,988
Accumulated depreciation at 30 June 2019	(30,423,671)	(736,023)	(791,747)	(1,517,463)	(1,632,150)	(1,599,117)	(152,186)	(4,828,578)	(41,680,935)
Carrying amount at 30 June 2019	38,135,785	370,033	734,847	2,155,337	471,350	593,033	78,464	4,911,204	47,450,053
Additions	1,159,931	6,719	0	23,902	0	0	49,504	0	1,240,056
Depreciation (expense)	(740,919)	(15,734)	(46,173)	(68,277)	(51,326)	(45,166)	(15,243)	(262,979)	(1,245,817)
Carrying amount at 30 June 2020	38,554,797	361,018	688,674	2,110,962	420,024	547,867	112,725	4,648,225	47,444,292
Comprises:									
Gross carrying amount at 30 June 2020	69,719,387	1,112,774	1,526,594	3,696,702	2,103,500	2,192,150	280,154	9,739,782	90,371,043
Accumulated depreciation at 30 June 2020	(31,164,590)	(751,756)	(837,920)	(1,585,740)	(1,683,476)	(1,644,283)	(167,429)	(5,091,557)	(42,926,751)
Carrying amount at 30 June 2020	38,554,797	361,018	688,674	2,110,962	420,024	547,867	112,725	4,648,225	47,444,292

SHIRE OF MORAWA
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30 JUNE 2020

10. INFRASTRUCTURE (Continued)

(b) Fair Value Measurements

Asset Class	Fair Value Hierarchy	Valuation Technique	Basis of Valuation	Date of Last Valuation	Inputs Used
Infrastructure - roads	3	Cost approach using depreciated replacement cost	Management Valuation	June 2018	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs.
Other infrastructure - footpaths	3	Cost approach using depreciated replacement cost	Management Valuation	June 2018	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs.
Other infrastructure - Parks & Ovals	3	Cost approach using depreciated replacement cost	Independent Registered Valuers	June 2017	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs.
Other infrastructure - Sewerage	3	Cost approach using depreciated replacement cost	Independent Registered Valuers	June 2017	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs.
Other infrastructure - Airfields	3	Cost approach using depreciated replacement cost	Independent Registered Valuers	June 2017	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs.
Other infrastructure - Dams	3	Cost approach using depreciated replacement cost	Independent Registered Valuers	June 2017	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs.
Other infrastructure - Playground Equipment	3	Cost approach using depreciated replacement cost	Independent Registered Valuers	June 2017	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs.
Other infrastructure - Other	3	Cost approach using depreciated replacement cost	Independent and Management Valuations	June 2017	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs.

Level 3 inputs are based on assumptions with regards to future values and patterns of consumption utilising current information. If the basis of these assumptions were varied, they have the potential to result in a significantly higher or lower fair value measurement.

During the period there were no changes in the valuation techniques used to determine the fair value of infrastructure using level 3 inputs.

SHIRE OF MORAWA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

11. FIXED ASSETS

SIGNIFICANT ACCOUNTING POLICIES

Fixed assets

Each class of fixed assets within either plant and equipment or infrastructure, is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Initial recognition and measurement between mandatory revaluation dates

Assets for which the fair value as at the date of acquisition is under \$5,000 are not recognised as an asset in accordance with *Financial Management Regulation 17A (5)*. These assets are expensed immediately

Where multiple individual low value assets are purchased together as part of a larger asset or collectively forming a larger asset exceeding the threshold, the individual assets are recognised as one asset and capitalised.

In relation to this initial measurement, cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. For assets acquired at zero cost or otherwise significantly less than fair value, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed by the Shire includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

Individual assets that are land, buildings, infrastructure and investment properties acquired between initial recognition and the next revaluation of the asset class in accordance with the mandatory measurement framework, are recognised at cost and disclosed as being at fair value as management believes cost approximates fair value. They are subject to subsequent revaluation at the next anniversary date in accordance with the mandatory measurement framework.

Revaluation

The fair value of land, buildings, infrastructure and investment properties is determined at least every five years in accordance with the regulatory framework. This includes buildings and infrastructure items which were pre-existing improvements (i.e. vested improvements) on vested land acquired by the Shire.

At the end of each period the valuation is reviewed and where appropriate the fair value is updated to reflect current market conditions. This process is considered to be in accordance with *Local Government (Financial Management) Regulation 17A (2)* which requires land, buildings, infrastructure, investment properties and vested improvements to be shown at fair value.

Increases in the carrying amount arising on revaluation of assets are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same class of asset are recognised against revaluation surplus directly in equity. All other decreases are recognised in profit or loss.

AUSTRALIAN ACCOUNTING STANDARDS - INCONSISTENCY

Land under control prior to 1 July 2019

In accordance with the then *Local Government (Financial Management) Regulation 16(a)(ii)*, the Shire was previously required to include as an asset (by 30 June 2013), vested Crown Land operated by the local government as a golf course, showground, racecourse or other sporting or recreational facility of State or regional significance.

Upon initial recognition, these assets were recorded at cost in accordance with AASB 116. They were then classified as Land and revalued along with other land.

Land under roads prior to 1 July 2019

In Western Australia, most land under roads is Crown Land, the responsibility for managing which, is vested in the local government.

Effective as at 1 July 2008, Council elected not to recognise any value for land under roads acquired on or before 30 June 2008. This accords with the treatment available in *Australian Accounting Standard AASB 1051 Land Under Roads* and the then *Local Government (Financial Management) Regulation 16(a)(i)* which arbitrarily prohibited local governments from recognising such land as an asset. This regulation has now been deleted.

In respect of land under roads acquired on or after 1 July 2008, as detailed above, the then *Local Government (Financial Management) Regulation 16(a)(i)* prohibited local governments from recognising such land as an asset.

Whilst such treatment is inconsistent with the requirements of AASB 1051, *Local Government (Financial Management) Regulation 4(2)* provides, in the event of such an inconsistency, the *Local Government (Financial Management) Regulations* prevail. Consequently, any land under roads acquired on or after 1 July 2008 was not included as an asset of the Shire.

Land under roads from 1 July 2019

As a result of amendments to the *Local Government (Financial Management) Regulations 1996*, effective from 1 July 2019, vested land, including land under roads, are treated as right-of-use assets measured at zero cost. Therefore, the previous inconsistency with AASB 1051 in respect of non-recognition of land under roads acquired on or after 1 July 2008 has been removed, even though measurement at zero cost means that land under roads is still not included in the statement of financial position.

The Shire has accounted for the removal of the vested land values associated with vested land previously recognised by removing the land value and associated revaluation reserve as at 1 July 2019. The comparatives have not been restated.

Vested improvements from 1 July 2019

The measurement of vested improvements at fair value in accordance with *Local Government (Financial Management) Regulation 17A(2)(iv)* is a departure from AASB 16 which would have required the Shire to measure the vested improvements as part of the related right-of-use assets at zero cost.

Refer to Note 12 that details the significant accounting policies applying to leases (including right of use assets).

SHIRE OF MORAWA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

11. FIXED ASSETS

(a) Disposals of Assets

	2020 Actual Net Book Value	2020 Actual Sale Proceeds	2020 Actual Profit	2020 Actual Loss	2020 Budget Net Book Value	2020 Budget Sale Proceeds	2020 Budget Profit	2020 Budget Loss	2019 Actual Net Book Value	2019 Actual Sale Proceeds	2019 Actual Profit	2019 Actual Loss
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Furniture and equipment	0	0	0	0	0	0	0	0	20,041	0	0	(20,041)
Plant and equipment	264,729	179,545	0	(85,184)	340,000	194,000	0	(146,000)	328,598	54,932	9,978	(283,644)
	264,729	179,545	0	(85,184)	340,000	194,000	0	(146,000)	348,639	54,932	9,978	(303,685)

The following assets were disposed of during the year.

	2020 Actual Net Book Value	2020 Actual Sale Proceeds	2020 Actual Profit	2020 Actual Loss
Plant and Equipment				
Health				
A563 0- Toyota RAV4 (Doctors Vehicle)	19,896	10,909	0	(8,987)
Community amenities				
A470 - Toyota Coaster - Community Bus	12,582	4,545	0	(8,037)
Transport				
A331 - CAT 12M Grader	133,219	100,000	0	(33,219)
A256 - Ford Ranger Crewcab	20,695	15,000	0	(5,695)
Other property and services				
A605 - Toyota Kluger	54,678	35,455	0	(19,223)
A586 - Honda CRV	23,659	13,636	0	(10,023)
	264,729	179,545	0	(85,184)
	264,729	179,545	0	(85,184)

SHIRE OF MORAWA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

11. FIXED ASSETS

(b) Depreciation

	2020 Actual	2020 Budget	2019 Actual
	\$	\$	\$
Buildings - non-specialised	106,000	105,036	105,778
Buildings - specialised	289,483	285,243	284,501
Furniture and equipment	6,360	15,834	15,834
Plant and equipment	269,600	250,074	250,074
Infrastructure - roads	740,919	712,230	718,647
Other infrastructure - footpaths	15,734	15,734	15,734
Other infrastructure - Parks & Ovals	46,173	46,173	46,173
Other infrastructure - Sewerage	68,277	67,882	67,882
Other infrastructure - Airfields	51,326	51,325	51,325
Other infrastructure - Dams	45,166	45,204	45,204
Other infrastructure - Playground Equipment	15,243	12,368	12,368
Other infrastructure - Other	262,979	262,979	262,979
	1,917,260	1,870,082	1,876,499

Revision of useful lives of plant and equipment

No changes were implemented during the annual review of remaining useful life for this financial year.

SIGNIFICANT ACCOUNTING POLICIES

Depreciation

The depreciable amount of all fixed assets including buildings but excluding freehold land and vested land, are depreciated on a straight-line basis over the individual asset's useful life from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful life of the improvements.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income in the period in which they arise.

Depreciation rates

Typical estimated useful lives for the different asset classes for the current and prior years are included in the table below:

Asset Class	Useful life
Buildings	40 to 100 years
Furniture and equipment	5 to 10 years
Plant and equipment	5 to 15 years
Sealed roads and streets	
- clearing and earthworks	not depreciated
- construction/road base	40 years
- seal	
- bituminous seals	20 years
Gravel roads	
- clearing and earthworks	not depreciated
- construction/road base	40 years
- gravel sheet	12 years
Formed roads (unsealed)	
- clearing and earthworks	not depreciated
- construction/road base	50 years
Footpaths - slab	50 years
Drainage	50 years
Other infrastructure	10 to 50 years
Parks and ovals	50 years
Airfields	50 years

Depreciation on revaluation

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

- (a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
- (b) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Amortisation

All intangible assets with a finite useful life, are amortised on a straight-line basis over the individual asset's useful life from the time the asset is held for use.

The residual value of intangible assets is considered to be zero and the useful life and amortisation method are reviewed at the end of each financial year.

Amortisation is included within Depreciation on non-current assets in the Statement of Comprehensive Income and in the note above.

12. LEASES

As at 30 June 2020, the Shire did not have any leases or contracts containing leases.

SIGNIFICANT ACCOUNTING POLICIES

Leases

At inception of a contract, the Shire assesses if the contract contains or is a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date, a right-of-use asset is recognised at cost and lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Shire uses its incremental borrowing rate.

All contracts that are classified as short-term leases (i.e. a lease with a remaining term of 12 months or less) and leases of low value assets are recognised as an operating expense on a straight-line basis over the term of the lease.

Leases for right-of-use assets are secured over the asset being leased.

Right-of-use assets - valuation

Right-of-use assets are measured at cost. This means that all right-of-use assets (other than vested improvements) under zero cost concessionary leases are measured at zero cost (i.e. not included in the statement of financial position). The exception is vested improvements on concessionary land leases such as roads, buildings or other infrastructure which are reported at fair value.

Refer to Note 11 for details on the significant accounting policies applying to vested improvements.

Right-of-use assets - depreciation

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the shortest. Where a lease transfers ownership of the underlying asset, or the cost of the right-of-use asset reflects that the Shire anticipates to exercise a purchase option, the specific asset is amortised over the useful life of the underlying asset.

SHIRE OF MORAWA
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FOR THE YEAR ENDED 30 JUNE 2020

13. REVALUATION SURPLUS

	2020 Opening Balance	2020 Change in Accounting Policy	2020 Revaluation Increment	2020 Revaluation (Decrement)	Total Movement on Revaluation	2020 Closing Balance	2019 Opening Balance	2019 Revaluation Increment	2019 Revaluation (Decrement)	Total Movement on Revaluation	2019 Closing Balance
	\$		\$	\$	\$	\$	\$	\$	\$	\$	\$
Revaluation surplus - Land and buildings	10,023,810	(7,400)	0	0	0	10,016,410	10,023,810	0	0	0	10,023,810
Revaluation surplus - Furniture and equipment	34,913	0	1,300	0	1,300	36,213	31,674	3,239	0	3,239	34,913
Revaluation surplus - Plant and equipment	1,048,061	0	4,235	0	4,235	1,052,296	571,549	476,512	0	476,512	1,048,061
Revaluation surplus - Infrastructure - roads	21,696,026	0	0	0	0	21,696,026	21,696,026	0	0	0	21,696,026
Revaluation surplus - Other Infrastructure - Footpaths	52,807	0	0	0	0	52,807	52,807	0	0	0	52,807
Revaluation surplus - Other Infrastructure - Parks & Ovals	167,732	0	0	0	0	167,732	167,732	0	0	0	167,732
Revaluation surplus - Other Infrastructure - Sewerage	1,407,329	0	0	0	0	1,407,329	1,407,329	0	0	0	1,407,329
Revaluation surplus - Other Infrastructure - Airfields	311,142	0	0	0	0	311,142	311,142	0	0	0	311,142
Revaluation surplus - Other Infrastructure - Dams	664,870	0	0	0	0	664,870	664,870	0	0	0	664,870
Revaluation surplus - Other Infrastructure - Playground Equipment	86,870	0	0	0	0	86,870	86,870	0	0	0	86,870
Revaluation surplus - Other Infrastructure - Other	811,838	0	0	0	0	811,838	811,838	0	0	0	811,838
	36,305,398	(7,400)	5,535	0	5,535	36,303,533	35,825,647	479,751	0	479,751	36,305,398

Movements on revaluation of property, plant and equipment (including infrastructure) are not able to be reliably attributed to a program as the assets were revalued by class as provided for by AASB 116 Aus 40.1.

SHIRE OF MORAWA
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30 JUNE 2020

14. TRADE AND OTHER PAYABLES

Current

Sundry creditors	409,983
Prepaid rates	48,305
Accrued salaries and wages	25,841
ATO liabilities	43,043
Bonds and deposits held	20,013
Accrued expenditure	2,232
Accrued interest on loan	1,517

2020	2019
\$	\$
409,983	279,829
48,305	0
25,841	10,658
43,043	40,262
20,013	21,071
2,232	46,163
1,517	1,629
550,934	399,612

SIGNIFICANT ACCOUNTING POLICIES

Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Shire prior to the end of the financial year that are unpaid and arise when the Shire becomes obliged to make future payments in respect of the purchase of these goods and services.

The amounts are unsecured, are recognised as a current liability and are normally paid within 30 days of recognition.

Prepaid rates

Prepaid rates are, until the taxable event has occurred (start of the next financial year), refundable at the request of the ratepayer. Rates received in advance are initially recognised as a financial liability. When the taxable event occurs, the financial liability is extinguished and the Shire recognises revenue for the prepaid rates that have not been refunded.

15. CONTRACT LIABILITIES

Current

Contract liabilities from contracts with customers
 Contract liabilities from transfers for recognisable non financial assets

	2020	2019
	\$	\$
	2,500	0
	59,824	0
	<u>62,324</u>	<u>0</u>

Performance obligations from contracts with customers are expected to be recognised as revenue in accordance with the following time bands:

Less than 1 year

<u>62,324</u>
62,324

SIGNIFICANT ACCOUNTING POLICIES

Contract Liabilities

Contract liabilities represent the the Shire's obligation to transfer goods or services to a customer for which the Shire has received consideration from the customer.

With respect to transfers for recognisable non-financial assets, contract liabilities represent performance obligations which are not yet satisfied.

Contract liabilities are recognised as revenue when the performance obligations in the contract are satisfied.

SHIRE OF MORAWA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

16. INFORMATION ON BORROWINGS

(a) Borrowings

	2020	2019
	\$	\$
Current	14,049	25,432
Non-current	279,078	281,208
	293,127	306,640

(b) Repayments - Borrowings

Particulars	Loan Number	Institution	Interest Rate	30 June 2020					30 June 2020					30 June 2019				
				Actual Principal 1 July 2019	Actual New Loans	Actual Principal repayments	Actual Interest repayments	Actual Principal outstanding	Budget Principal 1 July 2019	Budget New Loans	Budget Principal repayments	Budget Interest repayments	Budget Principal outstanding	Actual Principal 1 July 2018	Actual New Loans	Actual Principal repayments	Actual Interest repayments	Actual Principal outstanding
Housing																		
24 Harley Street	136	WATC*	3.93%	306,640	0	13,513	11,808	293,127	306,640	0	13,513	11,919	293,127	319,637	0	12,997	12,370	306,640
2 Broad Avenue	134	WATC*	6.20%	0	0	0	0	0	0	0	0	0	25,680	0	25,680	242	0	
GEHA House	133	WATC*	6.55%	0	0	0	0	0	0	0	0	0	36,465	0	36,465	1,405	0	
				306,640	0	13,513	11,808	293,127	306,640	0	13,513	11,919	293,127	381,782	0	75,142	14,017	306,640
				306,640	0	13,513	11,808	293,127	306,640	0	13,513	11,919	293,127	381,782	0	75,142	14,017	306,640

* WA Treasury Corporation

SHIRE OF MORAWA
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FOR THE YEAR ENDED 30 JUNE 2020

16. INFORMATION ON BORROWINGS (Continued)

	2020	2019
	\$	\$
(c) Undrawn Borrowing Facilities		
Credit Standby Arrangements		
Credit card limit	15,000	15,000
Credit card balance at balance date	(1,040)	(1,591)
Total amount of credit unused	13,960	13,409
Loan facilities		
Loan facilities - current	14,049	25,432
Loan facilities - non-current	279,078	281,208
Total facilities in use at balance date	293,127	306,640
Unused loan facilities at balance date	0	0

SIGNIFICANT ACCOUNTING POLICIES

Financial liabilities

Financial liabilities are recognised at fair value when the Shire becomes a party to the contractual provisions to the instrument.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Borrowing costs

Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset. Where this is the case, they are capitalised as part of the cost of the particular asset until such time as the asset is substantially ready for its intended use or sale.

Risk

Information regarding exposure to risk can be found at Note 27.

SHIRE OF MORAWA
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30 JUNE 2020

17. EMPLOYEE RELATED PROVISIONS

(a) Employee Related Provisions

Opening balance at 1 July 2019

	Provision for Annual Leave	Provision for Long Service Leave	Total
	\$	\$	\$
Current provisions	162,386	169,507	331,893
Non-current provisions	0	35,487	35,487
	162,386	204,994	367,380

Additional provision

	26,876	52,661	79,537
Balance at 30 June 2020	189,262	257,655	446,917

Comprises

Current	189,262	181,292	370,554
Non-current	0	76,363	76,363
	189,262	257,655	446,917

Amounts are expected to be settled on the following basis:

	2020	2019
	\$	\$
More than 12 months from reporting date	406,954	358,239
Expected reimbursements from other WA local governments	39,963	9,141
	446,917	367,380

Timing of the payment of current leave liabilities is difficult to determine as it is dependent on future decisions of employees. Expected settlement timings are based on information obtained from employees and historical leave trends and assumes no events will occur to impact on these historical trends.

SIGNIFICANT ACCOUNTING POLICIES

Employee benefits

Short-term employee benefits

Provision is made for the Shire's obligations for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Shire's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position.

Other long-term employee benefits

The Shire's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

Long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at

Other long-term employee benefits (Continued)

rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Shire's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Shire does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

Provisions

Provisions are recognised when the Shire has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

18. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes cash and cash equivalents, net of outstanding bank overdrafts. Cash at the end of the reporting period is reconciled to the related items in the Statement of Financial Position as follows:

	2020 Actual	2020 Budget	2019 Actual
	\$	\$	\$
Cash and cash equivalents	7,114,588	5,194,984	7,106,771
Reconciliation of Net Cash Provided By Operating Activities to Net Result			
Net result	(554,198)	(1,906,484)	(414,273)
Non-cash flows in Net result:			
Adjustments to fair value of financial assets at fair value through profit and loss	(865)	0	0
Recognition of units in LG House trust	0	0	(52,551)
Depreciation on non-current assets	1,917,260	1,870,082	1,876,499
(Profit)/loss on sale of asset	85,184	146,000	293,707
Changes in assets and liabilities:			
(Increase)/decrease in receivables	139,356	80,000	606,198
(Increase)/decrease in other assets	(410)		0
(Increase)/decrease in inventories	(2,139)	0	4,678
(Increase)/decrease in contract assets	170,201	0	0
Increase/(decrease) in payables	101,857	145,000	(18,245)
Increase/(decrease) in provisions	79,537	0	(1,647)
Increase/(decrease) in contract liabilities	62,324	0	0
Non-operating grants, subsidies and contributions	(868,767)	(933,776)	(542,444)
Net cash from operating activities	1,129,340	(599,178)	1,751,922

SHIRE OF MORAWA
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
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19. TOTAL ASSETS CLASSIFIED BY FUNCTION AND ACTIVITY

	2020	2019
	\$	\$
Governance	2,226,568	1,932,611
General purpose funding	596,252	670,874
Law, order, public safety	275,883	294,780
Health	808,117	701,718
Education and welfare	512,696	528,297
Housing	3,768,463	3,857,552
Community amenities	2,970,730	3,056,077
Recreation and culture	13,054,687	13,406,641
Transport	40,545,627	40,516,604
Economic services	9,518,431	9,814,632
Other property and services	2,772,187	2,351,225
Unallocated	469,532	543,819
	77,519,173	77,674,830

20. CONTINGENT LIABILITIES

The Shire of Morawa has, in compliance with the Contaminated Sites Act 2003 s11, listed sites to be possible sources of contamination:

- The Shire of Morawa Works Depot Reserve 36276
- The Shire of Morawa Landfill site (existing) Reserve 20087
- The Shire of Morawa Waste Water Treatment Plant Reserve 37310
- The Old Hospital located on Caulfield Road Reserve 52057

Until the Shire conducts an investigation to determine the presence and scope of contamination, assess the risk and agree with the DWER the need and criteria for remediation, the Shire is unable to accurately quantify its clean-up liabilities for potentially contaminated sites. The Shire is continuing to monitor the sites and will progressively undertake site investigations and remediation on a risk based approach. This approach is consistent with the DWER guidelines.

The Shire's Environmental Health Officer (EHO) has not identified any need to undertake investigations on or at the locations. Therefore, no investigations, other than the Asbestos Risk Assessment for the old hospital, are scheduled or anticipated in the coming - at least - 24 months. When the Shire decides to undertake further investigations, the Shire will determine if a potential contingent liability may arise. In that case, the Shire will ensure adequate funding in line with the accounting standards as required.

Old Morawa Hospital

The Shire was granted a management order over Reserve 52057 on 22 April 2015 (the Old Hospital Site). The buildings on the site are in a state of disrepair, and it is assumed, include asbestos containing materials (ACM's) within the building's fabric.

The Shire has the intention to further investigate its options by assessing the asbestos levels in collaboration with expert parties.

A comprehensive asbestos risk assessment is scheduled to be undertaken in Financial Year 20/21.

The Shire has been working with the Department of Planning Lands and Heritage (the department) regarding the future ownership of the old hospital. The Department will first need to consider whether native title rights and interest have been extinguished over the whole or portion of the subject reserve.

Upon confirming the native title status for Reserve 52057, both the Shire and the Department will consider their options which may include (but are not limited to):

- The subject reserve remains with the Shire with an undertaking that building is demolished; or
- Sold via a divestment with the Department's Land Asset program for divestment.

Other than the matters noted above, the Shire is not aware of any potential contingent liabilities as at 30 June 2020.

21. RELATED PARTY TRANSACTIONS

Elected Members Remuneration

The following fees, expenses and allowances were paid to council members and/or the President.

	2020 Actual	2020 Budget	2019 Actual
	\$	\$	\$
Meeting fees	64,000	64,000	64,000
President's allowance	17,000	17,000	17,000
Deputy President's allowance	4,250	4,250	4,250
Travelling expenses	0	200	0
Telecommunications allowance	76	1,500	0
	<u>85,326</u>	<u>86,950</u>	<u>85,250</u>

Key Management Personnel (KMP) Compensation Disclosure

The total of remuneration paid to KMP of the Shire during the year are as follows:

	2020 Actual	2019 Actual
	\$	\$
Short-term employee benefits	424,601	459,873
Post-employment benefits	45,793	51,127
Other long-term benefits	6,468	60,027
Termination benefits	3,391	15,756
	<u>480,253</u>	<u>586,783</u>

Short-term employee benefits

These amounts include all salary, fringe benefits and cash bonuses awarded to KMP except for details in respect to fees and benefits paid to elected members which may be found above.

Post-employment benefits

These amounts are the current-year's estimated cost of providing for the Shire's superannuation contributions made during the year.

Other long-term benefits

These amounts represent long service benefits accruing during the year.

Termination benefits

These amounts represent termination benefits paid to KMP (Note: may or may not be applicable in any given year).

21. RELATED PARTY TRANSACTIONS (Continued)

Transactions with related parties

Transactions between related parties and the Shire are on normal commercial terms and conditions, no more favourable than those available to other parties, unless otherwise stated.

No outstanding balances or provisions for doubtful debts or guaranties exist in relation to the related parties at year end.

The following transactions occurred with related parties:	2020 Actual	2019 Actual
	\$	\$
Purchase of goods and services	301,580	188,832
Amounts outstanding from related parties:		
Trade and other receivables	109	0
Elected member - rates outstanding	63,982	66,189
Amounts payable to related parties:		
Trade and other payables	166	872

Related Parties

The Shire's main related parties are as follows:

i. Key management personnel

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any elected member, are considered key management personnel.

ii. Other Related Parties

The associate person of KMP was employed by the Shire under normal employment terms and conditions.

iii. Entities subject to significant influence by the Shire

An entity that has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement.

iv. Joint venture entities accounted for under the proportionate consolidation method

The Shire has 2% interest in the supply of single person accommodation with Homewest. The interest in this joint venture (JV) is accounted for in these financial statement using the proportionate consolidation method of accounting. For details please refer to Note 22.

22. JOINT ARRANGEMENTS

The Shire of Morawa has entered into a joint arrangement, based on a Deed of Trust, with Homeswest for the construction of 2 x 1 bedroom unit and 1 x 2 bedroom units in Dreghorn Street, Morawa. The provision of this housing aims to provide accommodation to single persons. The Shire of Morawa has a 2% interest in the assets of this joint arrangement. All revenue and expenditure, as well as liabilities, of the joint arrangement are recognised in the relevant financial statements of Council.

Carrying amount of investment in associate

Non-current assets

Land and buildings
 Less accumulated depreciation

	2020	2019
	\$	\$
	3,260	3,260
	(229)	(152)
	3,031	3,108

SIGNIFICANT ACCOUNTING POLICIES

Interests in joint arrangements

Joint arrangements represent the contractual sharing of control between parties in a business venture where unanimous decisions about relevant activities are required.

Separate joint arrangements providing joint ventures with an interest to net assets are classified as a joint venture and accounted for using the equity method. The equity method of accounting, whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Shire's share of net assets of the associate. In addition, the Shire's share of the profit or loss of the associate is included in the Shire's profit or loss.

Interests in joint arrangements (Continued)

Joint operations represent arrangements whereby joint operators maintain direct interests in each asset and exposure to each liability of the arrangement. The Shire's interests in the assets, liabilities, revenue and expenses of joint operations are included in the respective line items of the financial statements.

23. MAJOR LAND TRANSACTIONS

The Shire of Morawa has not undertaken or participated in any Major Land Transactions in the Financial Year 2019/2020.

24. TRADING UNDERTAKINGS AND MAJOR TRADING UNDERTAKINGS

The Shire of Morawa has not participated in any Trading Undertakings in the Financial Year 2019/2020.

SHIRE OF MORAWA
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FOR THE YEAR ENDED 30 JUNE 2020

25. RATING INFORMATION

(a) Rates

RATE TYPE	Rate in \$	Number of Properties	2019/20 Actual Rateable Value \$	2019/20 Actual Rate Revenue \$	2019/20 Actual Interim Rates \$	2019/20 Actual Back Rates \$	2019/20 Actual Total Revenue \$	2019/20 Budget Rate Revenue \$	2019/20 Budget Interim Rate \$	2019/20 Budget Back Rate \$	2019/20 Budget Total Revenue \$	2018/19 Actual Total Revenue \$
Differential general rate / general rate												
Gross rental valuations												
GRV Residential /Commercial	0.078919	267	2,790,744	220,243	26	0	220,269	220,243	0	0	220,243	215,830
Unimproved valuations												
UV Rural	0.022815	205	66,657,000	1,520,779	0		1,520,779	1,520,779	0	0	1,520,779	1,487,257
UV Mining	0.301974	18	519,775	156,959	4,320		161,279	148,410	0	0	148,410	145,433
Sub-Total		490	69,967,519	1,897,981	4,346	0	1,902,327	1,889,432	0	0	1,889,432	1,848,520
Minimum payment												
	Minimum \$											
Gross rental valuations												
GRV Residential /Commercial	303	44	27,054	13,332	49	0	13,381	13,332			13,332	12,432
Unimproved valuations												
UV Rural	303	8	76,100	2,424	0	0	2,424	2,424	0	0	2,424	2,072
UV Mining	683	8	7,595	5,464	0	0	5,464	4,781	0	0	4,781	4,676
Sub-Total		60	110,749	21,220	49	0	21,269	20,537	0	0	20,537	19,180
		550	70,078,268	1,919,201	4,395	0	1,923,596	1,909,969	0	0	1,909,969	1,867,700
Discounts (Note 25(b))							(36,134)				(35,000)	(32,029)
Total amount raised from general rate							1,887,462				1,874,969	1,835,671
Concessions (Note 25(b))							(983)				0	(161)
Ex-gratia rates							6,165				0	6,027
Movement in Excess Rates							0				0	(10,494)
Totals							1,892,644				1,874,969	1,831,043

SIGNIFICANT ACCOUNTING POLICIES

Rates

Control over assets acquired from rates is obtained at the commencement of the rating period.

Prepaid rates are, until the taxable event has occurred (start of the next financial year), refundable at the request of the ratepayer. Rates received in advance are initially recognised as a financial liability. When the taxable event occurs, the financial liability is extinguished and the Shire recognises revenue for the prepaid rates that have not been refunded.

SHIRE OF MORAWA
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 FOR THE YEAR ENDED 30 JUNE 2020

25. RATING INFORMATION (Continued)

(b) Discounts, Incentives, Concessions, & Write-offs

Rates Discounts

Rate or Fee Discount Granted	Discount %	Discount \$	2020 Actual \$	2020 Budget \$	2019 Actual \$	Circumstances in which Discount is Granted
General Rates	2.50%		36,134	35,000	32,029	A discount of 2.50% of the current rates levied (excluding rates for Rubbish and ESL) is applied to those rate payers who pay their rates in full by the due date.
			36,134	35,000	32,029	

Waivers or Concessions

Rate or Fee and Charge to which the Waiver or Concession is Granted	Type	Discount %	Discount \$	2020 Actual \$	2020 Budget \$	2019 Actual \$
General rates	Write off	0.00%	0	983	0	161
				983	0	161
Total discounts/concessions (Note 25(a))				37,117	35,000	32,190

Rate or Fee and Charge to which the Waiver or Concession is Granted	Circumstances in which the Waiver or Concession is Granted and to whom it was available	Objects of the Waiver or Concession	Reasons for the Waiver or Concession
General rates	Small balances appearing on rates debtor accounts	Write off of small balances on rates debtor accounts	Difficult to recover small balances and administratively expensive

25. RATING INFORMATION (Continued)

(c) Interest Charges & Instalments

Instalment Options	Date Due	Instalment Plan Admin Charge \$	Instalment Plan Interest Rate %	Unpaid Rates Interest Rate %
Option One				
Single full payment	13/09/2019	0.00		5.5%
Option Two				
First instalment	13/09/2019			5.5%
Second instalment	13/11/2019	5.00	5.5%	5.5%
Third instalment	13/01/2020	5.00	5.5%	5.5%
Fourth instalment	13/03/2020	5.00	5.5%	5.5%
		2020 Actual \$	2020 Budget \$	2019 Actual \$
Interest on unpaid rates		25,221	25,000	33,793
Interest on instalment plan		3,148	2,000	2,353
Charges on instalment plan		1,035	1,000	820
		29,404	28,000	36,966

SHIRE OF MORAWA
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FOR THE YEAR ENDED 30 JUNE 2020

26. RATE SETTING STATEMENT INFORMATION

	2019/20 (30 June 2020 Carried Forward)	2019/20 Budget (30 June 2020 Carried Forward)	2019/20 (1 July 2019 Brought Forward)	2018/19 (30 June 2019 Carried Forward)
Note	\$	\$	\$	\$
(a) Non-cash amounts excluded from operating activities				
The following non-cash revenue or expenditure has been excluded from amounts attributable to operating activities within the Rate Setting Statement in accordance with <i>Financial Management Regulation 32</i> .				
Adjustments to operating activities				
Less: Profit on asset disposals	0	0	(9,978)	(9,978)
Less: Recognition of units in LG house trust	0	0	(52,551)	(52,551)
Less: Movement in liabilities associated with restricted cash	6,404		9,330	9,330
Less: Fair value adjustments to financial assets at fair value through profit and loss	(865)	0	0	0
Movement in pensioner deferred rates (non-current)	804	0	(6,001)	(6,001)
Movement in employee benefit provisions (non-current)	40,876	0	(4,691)	(4,691)
Add: Loss on disposal of assets	85,184	146,000	303,685	303,685
Add: Depreciation on non-current assets	1,917,260	1,870,082	1,876,499	1,876,499
	2,049,663	2,016,082	2,116,293	2,116,293
(b) Surplus/(deficit) after imposition of general rates				
The following current assets and liabilities have been excluded from the net current assets used in the Rate Setting Statement in accordance with <i>Financial Management Regulation 32</i> to agree to the surplus/(deficit) after imposition of general rates.				
Adjustments to net current assets				
Less: Reserves - cash backed	(5,202,521)	(5,186,260)	(5,540,310)	(5,540,310)
Add: Current liabilities not expected to be cleared at end of year				
- Current portion of borrowings	14,049	(13,513)	25,432	25,432
- Employee benefit provisions	225,004	218,600	218,600	218,600
Total adjustments to net current assets	(4,963,468)	(4,981,173)	(5,296,278)	(5,296,278)
Net current assets used in the Rate Setting Statement				
Total current assets	7,654,270	5,753,039	7,952,657	7,782,456
Less: Total current liabilities	(997,861)	(762,086)	(806,402)	(756,937)
Less: Total adjustments to net current assets	(4,963,468)	(4,981,173)	(5,296,278)	(5,296,278)
Net current assets used in the Rate Setting Statement	1,692,941	9,780	1,849,977	1,729,241
(c) Adjustments to current assets and liabilities at 1 July 2019 on application of new accounting standards				
Total current assets at 30 June 2019				
- Contract assets				7,782,456
Total current assets at 1 July 2019				<u>170,201</u> 7,952,657
Total current liabilities at 30 June 2019				
- Rates paid in advance				(756,937)
Total current liabilities at 1 July 2019				<u>(49,465)</u> (806,402)

SHIRE OF MORAWA
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30 JUNE 2020

27. FINANCIAL RISK MANAGEMENT

This note explains the Shire's exposure to financial risks and how these risks could affect the Shire's future financial performance.

Risk	Exposure arising from	Measurement	Management
Market risk - interest rate	Long term borrowings at variable rates	Sensitivity analysis	Utilise fixed interest rate borrowings
Credit risk	Cash and cash equivalents, trade receivables, financial assets and	Aging analysis Credit analysis	Diversification of bank deposits, credit limits. Investment policy
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

The Shire does not engage in transactions in a foreign currency denomination. The Shire is, therefore, not subject to foreign currency risk.

Financial Risk Management (FRM) is carried out by the finance area directed by policies approved and adopted by Council. The finance area identifies, evaluates and manages financial risks in close co-operation with the operating divisions. Council has approved the overall risk management policy and provides area specific policies such as credit card use and investments.

(a) Interest rate risk

Cash and cash equivalents

The Shire's main interest rate risk arises from cash and cash equivalents with variable interest rates, which exposes the Shire to cash flow interest rate risk. Short term overdraft facilities also have variable interest rates however these are repaid within 12 months, reducing the risk level to minimal.

Excess cash and cash equivalents are invested in fixed interest rate term deposits which do not expose the Shire to cash flow interest rate risk. Cash and cash equivalents required for working capital are held in variable interest rate accounts and non-interest bearing accounts. Carrying amounts of cash and cash equivalents at the 30 June and the weighted average interest rate across all cash and cash equivalents and term deposits held disclosed as financial assets at amortised cost are reflected in the table below.

	Weighted Average Interest Rate	Carrying Amounts	Fixed Interest Rate	Variable Interest Rate	Non Interest Bearing
	%	\$	\$	\$	\$
2020					
Cash and cash equivalents	0.39%	7,114,588	2,100,000	4,993,925	20,663
2019					
Cash and cash equivalents	1.00%	5,006,771	0	4,996,305	10,466
Financial assets at amortised cost	1.00%	2,100,000	2,100,000	0	0

Sensitivity

Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates.

	2020	2019
	\$	\$
Impact of a 1% movement in interest rates on profit and loss and equity*	49,939	49,963

* Holding all other variables constant

Borrowings

Borrowings are subject to interest rate risk - the risk that movements in interest rates could adversely affect funding costs. The Shire manages this risk by borrowing long term and fixing the interest rate to the situation considered the most advantageous at the time of negotiation. The Shire does not consider there to be any interest rate risk in relation to borrowings. Details of interest rates applicable to each borrowing may be found at Note 16(b).

SHIRE OF MORAWA
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27. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

Trade and Other Receivables

The Shire's major receivables comprise rates annual charges and user fees and charges. The major risk associated with these receivables is credit risk – the risk that the debts may not be repaid. The Shire manages this risk by monitoring outstanding debt and employing debt recovery policies. It also encourages ratepayers to pay rates by the due date through incentives.

Credit risk on rates and annual charges is minimised by the ability of the Shire to recover these debts as a secured charge over the land, that is, the land can be sold to recover the debt. The Shire is also able to charge interest on overdue rates and annual charges at higher than market rates, which further encourages payment.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

The Shire applies the AASB 9 simplified approach to measuring expected credit losses using a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, rates receivable are separated from other trade receivables due to the difference in payment terms and security for rates receivable.

The expected loss rates are based on the payment profiles of rates and fees and charges over a period of 36 months before 1 July 2019 or 1 July 2020 respectively and the corresponding historical losses experienced within this period. Historical credit loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors such as the ability of ratepayers and residents to settle the receivables. Housing prices, unemployment rates and mining down turn have been identified as the most relevant factor in repayment rates, and accordingly adjustments are made to the expected credit loss rate based on these factors. There are no material receivables that have been subject to a re-negotiation of repayment terms.

The loss allowance as at 30 June 2019 and 1 July 2018 (on adoption of AASB 9) was determined as follows for rates receivable.

	Current	More than 1 year past due	More than 2 years past due	More than 3 years past due	Total
30 June 2020					
Rates receivable					
Expected credit loss	1.25%	1.25%	1.25%	1.25%	
Gross carrying amount	177,411	142,210	112,715	110,500	542,836
Loss allowance	2,218	1,778	1,409	1,381	6,786 *
30 June 2019					
Rates receivable					
Expected credit loss	1.25%	1.25%	1.25%	1.25%	
Gross carrying amount	54,046	193,134	185,383	185,761	618,324
Loss allowance	678	2,421	2,324	2,329	7,752 *

The loss allowance as at 30 June 2020 and 30 June 2019 was determined as follows for trade receivables.

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
30 June 2020					
Trade and other receivables					
Expected credit loss	0.05%	0.05%	0.05%	0.05%	
Gross carrying amount	4,264	10,372	0	10,272	24,908
Loss allowance	2	5	0	5	12 *
30 June 2019					
Trade and other receivables					
Expected credit loss	0.05%	0.05%	0.05%	0.05%	
Gross carrying amount	7,294	1,758	10,170	13,155	32,377
Loss allowance	4	1	5	7	16 *

* - After considering the above loss allowances, the Shire elected to recognise a provision of \$31,919 in 18/19 and \$16,359 in 19/20 based on known doubtful receivables. Refer to Note 2b for further information.

27. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk

Payables and borrowings

Payables and borrowings are both subject to liquidity risk – that is the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due. The Shire manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer. Payment terms can be extended and overdraft facilities drawn upon if required and disclosed in Note 15(c).

The contractual undiscounted cash flows of the Shire's payables and borrowings are set out in the liquidity table below. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Due within 1 year	Due between 1 & 5 years	Due after 5 years	Total contractual cash flows	Carrying values
	\$	\$	\$	\$	\$
2020					
Payables	550,934	0	0	550,934	550,934
Borrowings	25,432	101,729	267,038	394,199	293,127
Contract liabilities	62,324	0	0	62,324	62,324
	638,690	101,729	267,038	1,007,457	906,385
2019					
Payables	399,612	0	0	399,612	399,612
Borrowings	25,432	101,729	292,471	419,632	306,640
	425,044	101,729	292,471	819,244	706,252

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28. INITIAL APPLICATION OF AUSTRALIAN ACCOUNTING STANDARDS

During the current year, the Shire adopted all of the new and revised Australian Accounting Standards and Interpretations which were compiled, became mandatory and which were applicable to its operations.

(a) AASB 15: Revenue from Contracts with Customers

The Shire adopted AASB 15 Revenue from Contracts with Customers (issued December 2014) on 1 July 2019 resulting in changes in accounting policies. In accordance with the transition provisions AASB 15, the Shire adopted the new rules retrospectively with the cumulative effect of initially applying these rules recognised on 1 July 2019. In summary, there were no adjustments made to the amounts recognised in the balance sheet at the date of initial application (1 July 2019).

(b) AASB 1058: Income For Not-For-Profit Entities

The Shire adopted AASB 1058 Income for Not-for-Profit Entities (issued December 2016) on 1 July 2019 which will result in changes in accounting policies. In accordance with the transition provisions AASB 1058, the Shire adopted the new rules retrospectively with the cumulative effect of initially applying AASB 1058 recognised at 1 July 2019. Comparative information for prior reporting periods was not restated in accordance with AASB 1058 transition requirements.

In applying AASB 1058 retrospectively with the cumulative effect of initially applying the Standard on 1 July 2019 changes occurred to the following financial statement line items by application of AASB 1058 as compared to AASB 118: Revenue and AASB 1004: Contributions before the change:

Note	AASB 118 and AASB 1004 carrying amount	Reclassification	AASB 1058 carrying amount
	30 June 2019		01 July 2019
	\$	\$	\$
Contract assets	0	170,201	170,201
Trade and other payables			
Rates paid in advance	0	(49,465)	(49,465)
Adjustment to retained surplus from adoption of AASB 1058	29(b) 0	120,736	120,736

Prepaid rates are, until the taxable event for the rates has occurred, refundable at the request of the ratepayer. Therefore the rates received in advance gave rise to a financial liability that is within the scope of AASB 9. On 1 July 2019 the prepaid rates were recognised as a financial asset and a related amount recognised as a financial liability and no income recognised by the Shire. When the taxable event occurred, the financial liability was extinguished and the Shire recognised income for the prepaid rates that have not been refunded.

Assets that were acquired for consideration, that were significantly less than fair value principally to enable the Shire to further its objectives, may have been measured on initial recognition under other Australian Accounting Standards at a cost that was significantly less than fair value. Such assets are not required to be remeasured at fair value.

Volunteer Services in relation to Volunteer Bush Fire Services were not recognised as the fair value of the services cannot be reliably estimated.

SHIRE OF MORAWA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

28. INITIAL APPLICATION OF AUSTRALIAN ACCOUNTING STANDARDS (Continued)

The table below provides details of the amount by which each financial statement line item is affected in the current reporting period by the application of this Standard as compared to AASB 118 and 1004 and related Interpretations that were in effect before the change.

		2020 \$		2020 \$
	Note	As reported under AASB 15 and AASB 1058	Adjustment due to application of AASB 15 and AASB 1058	Compared to AASB 118 and AASB 1004
Statement of Comprehensive Income				
Revenue				
Rates	25(a)	1,892,644	48,305	1,940,949
Operating grants, subsidies and contributions	2(a)	1,902,277	2,500	1,904,777
Fees and charges	2(a)	745,758	0	745,758
Non-operating grants, subsidies and contributions	2(a)	868,767	59,824	928,591
Net result		(554,198)	110,629	(443,569)
Statement of Financial Position				
Trade and other payables	14	550,934	(48,305)	502,629
Contract liabilities	15	62,324	(62,324)	0
Net assets		76,165,871	110,629	76,276,500
Statement of Changes in Equity				
Net result		(554,198)	110,629	(443,569)
Retained surplus		34,659,817	110,629	34,770,446

Refer to Note 2 for new revenue recognition accounting policies as a result of the application of AASB 15 and AASB 1058.

(c) AASB 16: Leases

The Shire adopted AASB 16 retrospectively from 1 July 2019 which resulted in changes in accounting policies. The Shire had no leases in place which required recognition on application of AASB 16.

SHIRE OF MORAWA

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2020

29. CHANGE IN ACCOUNTING POLICIES

(a) Change in Accounting Policies due to regulation changes

Effective 6 November 2020, *Local Government (Financial Management) Regulation 16* was deleted and *Local Government (Financial Management) Regulation 17A* was amended with retrospective application. The changes were effective for financial years ending on or after 30 June 2020 so are required to be applied retrospectively with cumulative effect applied initially on 1 July 2019.

In accordance with the changes, the City was required to remove the values attributable to certain crown land assets previously required to be recognised, as well as the associated revaluation surplus at 1 July 2019. These assets have been measured as concessionary lease right-of-use assets at zero cost in accordance with AASB 16. For further details relating to these changes, refer to Note 11.

In summary the following adjustments were made to the amounts recognised in the statement of financial position at the date of initial application (1 July 2019):

	Note	Carrying amount 30 June 2019 \$	Reclassification \$	Carrying amount 01 July 2019 \$
Property, plant and equipment	9	22,360,809	(7,400)	22,353,409
Revaluation surplus	13	36,305,398	(7,400)	36,297,998

Also, following changes to *Local Government (Financial Management) Regulation 17A*, plant and equipment type assets (being plant and equipment and furniture and equipment) are to be measured under the cost model, rather than at fair value. This change is effective from 1 July 2019 and represents a change in accounting policy. Revaluations carried out previously or during the year were not reversed as it was deemed fair value approximates cost at the date of the change.

(b) Changes in equity due to change in accounting policies

The impact on the City's opening retained surplus due to the adoption of AASB 15 and AASB 1058 as at 1 July 2019 was as follows:

	Note	Adjustments	2019 \$
Retained surplus - 30 June 2019			34,755,490
Adjustment to retained surplus from adoption of AASB 15	28(a)	0	
Adjustment to retained surplus from adoption of AASB 1058	28(b)	120,736	120,736
Retained surplus - 1 July 2019			34,876,226

The impact on the City's opening revaluation surplus resulting from *Local Government (Financial Management) Regulation 16* being deleted and the amendments to *Local Government (Financial Management) Regulation 17A* as at 1 July 2019 was as follows:

	Note	Adjustments	2019 \$
Revaluation surplus - 30 June 2019			36,305,398
Adjustment to revaluation surplus from deletion of FM Reg 16	29(a)	(7,400)	
Adjustment to revaluation surplus from deletion of FM Reg 17	29(a)	0	(7,400)
Revaluation surplus - 1 July 2019			36,297,998

SHIRE OF MORAWA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

30. OTHER SIGNIFICANT ACCOUNTING POLICIES

a) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows.

b) Current and non-current classification

The asset or liability is classified as current if it is expected to be settled within the next 12 months, being the Shire's operational cycle. In the case of liabilities where the Shire does not have the unconditional right to defer settlement beyond 12 months, such as vested long service leave, the liability is classified as current even if not expected to be settled within the next 12 months. Inventories held for trading are classified as current or non-current based on the Shire's intentions to release for sale.

c) Rounding off figures

All figures shown in this annual financial report, other than a rate in the dollar, are rounded to the nearest dollar. Amounts are presented in Australian Dollars.

d) Comparative figures

Where required, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

When the Shire applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements that has a material effect on the statement of financial position, an additional (third) statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

e) Budget comparative figures

Unless otherwise stated, the budget comparative figures shown in this annual financial report relate to the original budget estimate for the relevant item of disclosure.

f) Superannuation

The Shire contributes to a number of Superannuation Funds on behalf of employees. All funds to which the Shire contributes are defined contribution plans.

g) Fair value of assets and liabilities

Fair value is the price that the Shire would receive to sell the asset or would have to pay to transfer a liability, in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

h) Fair value hierarchy

AASB 13 requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurement into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1

Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2

Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3

Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

Valuation techniques

The Shire selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Shire are consistent with one or more of the following valuation approaches:

Market approach

Valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.

Income approach

Valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.

Cost approach

Valuation techniques that reflect the current replacement cost of the service capacity of an asset.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Shire gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

i) Impairment of assets

In accordance with Australian Accounting Standards the Shire's cash generating non-specialised assets, other than inventories, are assessed at each reporting date to determine whether there is any indication they may be impaired.

Where such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount.

Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. AASB 116) whereby any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

For non-cash generating specialised assets that are measured under the revaluation model, such as roads, drains, public buildings and the like, no annual assessment of impairment is required. Rather AASB 116.31 applies and revaluations need only be made with sufficient regulatory to ensure the carrying value does not differ materially from that which would be determined using fair value at the ends of the reporting period.

SHIRE OF MORAWA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

31. ACTIVITIES/PROGRAMS

Shire operations as disclosed in these financial statements encompass the following service orientated activities/programs.

PROGRAM NAME AND OBJECTIVES	ACTIVITIES
<p>GOVERNANCE To manage Councils' Elected Members</p>	<p>Includes Members of Council, Civic Functions and Public Relations, Council Elections, Training/Education of members.</p>
<p>GENERAL PURPOSE FUNDING To manage Councils' finances</p>	<p>Includes Rates, Loans Investment and Grants</p>
<p>LAW, ORDER, PUBLIC SAFETY To provide, develop & manage services in response to community needs.</p>	<p>Includes Emergency Services, Fire Services and Animal Control</p>
<p>HEALTH To provide, develop & manage services in response to community needs.</p>	<p>Includes Environmental Health, Medical and Health facilities and providers</p>
<p>EDUCATION AND WELFARE To provide, develop & manage services in response to community needs</p>	<p>Includes Education, Welfare & Children's Services, Youth Development</p>
<p>HOUSING To ensure quality housing and appropriate infrastructure is maintained.</p>	<p>Includes Staff and other housing, including aged care units and Dreghorn Street units.</p>
<p>COMMUNITY AMENITIES To provide, develop & manage services in response to community needs</p>	<p>Includes Refuse Collection, Sewerage, Cemetery, Building Control and Town Planning</p>
<p>RECREATION AND CULTURE To ensure the recreational & cultural needs of the community are met.</p>	<p>Includes the Swimming Pool, Halls, Library, Oval, Parks and Gardens and Recreational Facilities</p>
<p>TRANSPORT To effectively manage transport infrastructure within the shire.</p>	<p>Includes Roads, Footpaths, Private Works, Plant Operating Costs, Outside Crew wages and maintenance of the Airstrip.</p>
<p>ECONOMIC SERVICES To foster economic development, tourism & rural services in the district</p>	<p>Includes Tourism, Rural Services, Economic Development & Caravan Park</p>
<p>OTHER PROPERTY AND SERVICES To provide control accounts and reporting facilities for all other operations.</p>	<p>Includes Private Works, Public Works Overheads, Plant Operating Costs, Administrative Overheads and Unclassified items.</p>

SHIRE OF MORAWA
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30 JUNE 2020

32. FINANCIAL RATIOS

	2020 Actual	2019 Actual	2018 Actual
Current ratio	3.43	4.29	2.95
Asset consumption ratio	0.50	0.62	0.52
Asset renewal funding ratio	0.92	0.84	0.87
Asset sustainability ratio	0.72	0.77	0.64
Debt service cover ratio	19.99	10.47	1.66
Operating surplus ratio	(0.51)	(0.32)	(0.54)
Own source revenue coverage ratio	0.45	0.35	0.42

The above ratios are calculated as follows:

Current ratio	$\frac{\text{current assets minus restricted assets}}{\text{current liabilities minus liabilities associated with restricted assets}}$
Asset consumption ratio	$\frac{\text{depreciated replacement costs of depreciable assets}}{\text{current replacement cost of depreciable assets}}$
Asset renewal funding ratio	$\frac{\text{NPV of planned capital renewal over 10 years}}{\text{NPV of required capital expenditure over 10 years}}$
Asset sustainability ratio	$\frac{\text{capital renewal and replacement expenditure}}{\text{depreciation}}$
Debt service cover ratio	$\frac{\text{annual operating surplus before interest and depreciation}}{\text{principal and interest}}$
Operating surplus ratio	$\frac{\text{operating revenue minus operating expenses}}{\text{own source operating revenue}}$
Own source revenue coverage ratio	$\frac{\text{own source operating revenue}}{\text{operating expense}}$

ASSURANCE & ADVISORY SERVICES



SHIRE OF MORAWA

Audit Closing Report

30 June 2020 Financial Statements



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1 EXECUTIVE SUMMARY

1.1 Purpose of the Closing Report

The primary purpose of this Audit Closing Report is to brief the Shire of Morawa (**Shire**) on the results of our substantially completed audit of the 30 June 2020 financial statements. This report should be read in conjunction with our Audit Planning Memorandum (**APM**) provided to the Shire on 21 April 2020.

1.2 Scope and approach

There have been no changes to the audit scope or approach set out in the APM.

1.3 Key deliverables

1.3.1 Annual financial statements audit report

The Auditor General is required to issue an opinion on the financial statements of the Shire for the year ended 30 June 2020. In accordance with section 7.9(1) of the *Local Government Act 1995 (LG Act)*, the audit report will be addressed to the Shire President, with a copy being forwarded to the Chief Executive Officer (**CEO**) and the Minister for Local Government.

We will recommend to the Auditor General that an unqualified audit opinion is issued on the financial statements (refer section 2.1).

1.3.2 Report on other legal and regulatory requirements

The Auditor General is also required by regulation 10(3) of the *Local Government (Audit) Regulations 1996* to report:

- Any matters indicating non-compliance with Part 6 of the LG Act or the *Local Government (Financial Management) Regulations 1996 (Financial Management Regulations)* or applicable financial controls;
- Any material matters indicating significant adverse trends in the financial position or the financial management practices;
- Whether all required information and explanations were obtained during the audit;
- Whether audit procedures were satisfactorily completed; and
- Whether the Asset Consumption Ratio and the Asset Renewal Ratio, disclosed in the notes to the financial statements, were supported by verifiable information and reasonable assumptions.

During the audit we identified three matters that require reporting under regulation 10(3) of the *Local Government (Audit) Regulations 1996* (refer section 2.3). We will recommend to the Auditor General that these matters are mentioned in the audit report.

1.3.3 Management letters

Two significant findings and four moderate findings were identified during the 2019/20 preliminary audit and one moderate finding was identified during the 2019/20 final audit (refer section 2.4).

1.4 Matters of significance

In accordance with section 24(1) of the *Auditor General Act 2006*, the Auditor General is required to report to Parliament on matters arising out of the performance of the Auditor General's functions that are, in the opinion of the Auditor General, of such significance as to require reporting.

We confirm that no such matters came to our attention during our audit work.

1.5 COVID-19

We concur with the Shire's assessment that there is no significant impact on the Shire's financial statements or operations due to the COVID-19 pandemic (refer section 6).

1.6 Independence

RSM Australia's audit methodology requires that we conduct a regular evaluation of our independence. We have fully satisfied ourselves that we do not have any actual or perceived conflict of interest.

1.7 Our appreciation

We wish to express our thanks for the co-operation shown by Council and Shire staff during the audit.

2 AUDIT COMPLETION

2.1 Statutory financial statements and audit opinion

We have completed the audit fieldwork on the statutory financial statements of the Shire for the year ended 30 June 2020.

The financial statements are general purpose financial report prepared in accordance with the LG Act, accompanying regulations and, to the extent that they are not inconsistent with the LG Act, Australian Accounting Standards.

We have discussed all significant auditing and accounting issues with management, and these have been satisfactorily resolved and are discussed in this report. The audit and assurance procedures are designed to support the audit and assurance opinions and they cannot be expected to identify all weaknesses or inefficiencies in the Shire's systems and working practices.

Based on the evidence, which has been assessed during our audit, we expect to conclude that the financial statements of the Shire:

- (i) Are based on proper accounts and records; and
- (ii) Fairly represent, in all material respects, the results of the operations of the Shire for the year ended 30 June 2020 and its financial position at the end of that period in accordance with the LG Act and, to the extent that they are not inconsistent with the LG Act, Australian Accounting Standards.

We will recommend to the Auditor General that an unqualified opinion is issued on the financial statements.

2.2 Emphasis of matter – basis of accounting

During the audit we identified the following matters which, although they will not require any modification to the audit opinion, are of such importance to require additional communication in the auditors' report in the form of an Emphasis of Matter paragraph:

2.2.1 Vested improvements on vested land

Note 11 to the financial statements describes the basis of accounting for vested improvements on vested land. Regulation 17A of the Financial Management Regulations, requires the Shire to measure vested improvements at fair value and the associated vested land at zero cost. This is a departure from AASB 16 *Leases*, which requires the Shire to also measure vested improvements at zero cost.

2.2.2 Land under roads

Note 1 to the financial statements describes the basis of accounting for land under roads. In respect of the comparatives for the previous year ended 30 June 2019, the former regulation 16 of the Financial Management Regulations did not allow the Shire to recognise some categories of land, including land under roads, as assets in the financial statements.

2.3 Report on other legal and regulatory requirements

As disclosed in Note 32 to the financial statements, the following material matters indicate significant adverse trends in the financial position of the Shire:

- The Asset Sustainability Ratio has been below the Department of Local Government, Sport and Cultural Industries (**DLGSCI**) standard threshold of 0.8 for the last three financial years.
- The Operating Surplus Ratio has been below the DLGSCI standard threshold of zero (0) for the last three financial years.

As mentioned in section 2.4.2 the Shire has not developed formal policies and supporting procedures for the proper control of the payroll function. For one employee, there was no signed employment contract in the Shire's records

We will recommend to the Auditor General that these matters are communicated in the audit report.

2.4 Management letter – control weaknesses

Our audit approach involves the use of a rotation methodology when planning our test of controls. Consequently, not all control cycles are subject to testing and only certain transaction cycles are in audit scope each year. In accordance with the APM, we performed key management control testing over the revenue, payment and fixed assets transaction cycles.

Based on our testing, the following control weaknesses were identified during prior period audits and the 2019/20 audit:

2.4.1 Prior period audits

Four moderate findings and one minor finding were reported during the prior year audit:

Findings	Rating	Status
1. Incorrect allocation of leave taken	Moderate	Resolved
2. Recognition of depreciation expenses	Moderate	Resolved
3. Recognition of accrued expenses	Moderate	Resolved
4. Documentation of management valuation inputs	Moderate	Resolved
5. Primary and annual returns	Minor	Resolved

2.4.2 2019/20 preliminary audit

Two significant findings and four moderate findings were identified during the 2019/20 preliminary audit:

Findings	Rating
1. Impact of changes to accounting standards	Significant
2. Payroll procedures	Significant
3. Annual returns	Moderate
4. Backdating of purchase orders	Moderate
5. Petty cash policies	Moderate
6. Purchasing policy – obtaining quotations	Moderate

2.4.3 2019/20 final audit

One moderate finding was identified during the 2019/20 final audit:

Findings	Rating
1. Excess leave management	Moderate

The action taken by the Shire to address the 2019/20 management letter findings will be reviewed during the 2020/21 audit.

2.5 Compliance with laws and regulations

We have reviewed the Shire's controls to manage the risk of systemic failure to comply with relevant laws and regulations. We also reviewed Council and other relevant committee minutes of meetings throughout the year to identify any recorded non-compliance with relevant laws and regulations.

As a result of our procedures, nothing has come to our attention, within the scope of the audit, to indicate non-compliance with relevant laws and regulations.

2.6 Unadjusted audit differences

There were no unadjusted audit differences noted during the audit.

2.7 Summary of audit adjustments

One audit adjustment was processed by the Shire during the course of the final audit:

Entry	Account description	Debit (\$)	Credit (\$)
1	Grants and subsidies (revenue) Retained earnings (equity) <i>Being reversal of prior period revenue on adoption of AASB 15 Revenue from Contracts with Customers</i>	170,201	170,201

2.8 Subsequent events

Management has represented that, other than those matters disclosed in the financial statements, there are no significant subsequent events between the end of the financial year and the date of this Audit Closing Report, which may significantly impact the results of the operations and the state of affairs of the Shire for the financial year.

2.9 Contingent liabilities and commitments

Management has represented to us that, other than those matters disclosed in the financial statements and at section 2.10 below, there are no other outstanding or pending litigation, contingent liabilities or commitments.

We have received and reviewed the solicitors' confirmations and, except for those matters detailed in the notes to the financial statements, we have not become aware of any other material contingent liabilities, pending litigation or commitments.

2.10 Environmental matters

Currently the Shire has four contaminated sites. We have reviewed the key controls used by the Shire to manage the risk of failure to comply with *Contaminated Sites Act 2003*. We also reviewed Council and committee minutes of meetings throughout the year to identify any reported non-compliance with the relevant environmental laws and regulations.

The Shire represented that all identified contaminated sites are reported to the Department of Water and Environmental Regulation (**DWER**) and recorded in the DWER Contaminated Sites Database.

The Shire is unable to accurately quantify its clean-up liabilities for potentially contaminated sites as at 30 June 2020.

Based on our work within the scope of our engagement, nothing came to our attention to indicate the key controls around contaminated sites are ineffective.

2.11 Outstanding audit matters

The audit opinion is subject to the finalisation of our audit process. The key matters still outstanding are:

- a) Our final review of the financial statements;
- b) Our receipt of the signed management representation letter; and
- c) Our performance of subsequent events review up to date the audit report is issued.

3 NEW ACCOUNTING STANDARD ADOPTED IN THE CURRENT YEAR

3.1 AASB 15 Revenue from Contracts with Customers

The Shire adopted AASB 15 *Revenue from Contracts with Customers* on 1 July 2019, which resulted in changes to accounting policies. In accordance with the transition provisions of AASB 15, the Shire adopted the new rules retrospectively with the cumulative effect of initially applying AASB 15 recognised as at 1 July 2019. Comparative information for prior reporting periods was not restated in accordance with AASB 15 transition requirements.

As disclosed in the Note 28(a) to the financial statements and section 2.7 above, the impact of AASB 15 as at 1 July 2019 was not material.

We have audited the Shire's application of the impact of adopting AASB 15 and we conclude that the Shire has correctly applied the requirements and made appropriate disclosures in the notes to the financial statements.

3.2 AASB 1058 *Income of Not-for-Profit Entities*

The Shire adopted AASB 1058 *Income for Not-for-Profit Entities* on 1 July 2019, which resulted in changes to accounting policies. In accordance with the transition provisions of AASB 1058, the Shire adopted the new rules retrospectively with the cumulative effect of initially applying AASB 1058 recognised as at 1 July 2019. Comparative information for prior reporting periods were not restated in accordance with AASB 1058 transition requirements.

As disclosed in the Note 28(b) to the financial statements, the impact of AASB 1058 as at 1 July 2019 amounted to \$49,465.

We have audited the Shire's application of the impact of the initial adoption of AASB 1058 and we conclude that the Shire has correctly applied the requirements and made appropriate disclosures in the notes to the financial statements.

3.3 AASB 16 *Leases*

The Shire adopted AASB 16 *Leases* on 1 July 2019, which resulted in changes to accounting policies. In accordance with the transition provisions of AASB 16, the Shire has applied AASB 16 to its leases retrospectively, with effect from 1 July 2019. The Shire applied the modified retrospective approach, which did not require the comparatives to be restated.

AASB 16 requires vested land and vested improvements to be accounted for as a single lease component. In accordance with the Financial Management Regulations, which take precedence over Australian Accounting Standards, the Shire is required to measure vested improvements at fair value and the associated vested land at zero cost. This is a departure from AASB 16, which requires the Shire to measure the vested improvements also at zero cost.

We have audited the Shire's application of the impact of applying AASB 16 and we conclude that the Shire has correctly applied the requirements and made appropriate disclosures in the notes to the financial statements. However, although the Shire's departure from AASB16 will not result in a qualification to the audit report, there will be an Emphasis of Matter paragraph included in the audit report to draw users' attention to this matter (refer section 2.2).

4 AMENDMENTS TO LOCAL GOVERNMENT FINANCIAL MANAGEMENT REGULATIONS

Effective 6 November 2020, Financial Management Regulations were amended with regulation 16 being removed and regulation 17A being amended with effect from 1 July 2019.

4.1 Impact of removal of regulation 16

The Shire is required to de-recognise the values attributable to certain vested crown land assets previously required to be recognised as assets, as well as the associated revaluation surplus from 1 July 2019. These assets have been measured as concessionary lease right-of-use assets at zero cost in accordance with AASB 16.

As disclosed in Note 29 to the financial statements, the impact of applying the amendment as at 1 July 2019 was the derecognition of vested land (golf course) was not material.

We have audited the Shire's assessment of the impact of the removal of regulation 16 and we conclude that the Shire has correctly addressed the requirements and made appropriate disclosures in the notes to the financial statements.

4.2 Impact of amendment of regulation 17A

Plant and equipment type assets (being plant and equipment and furniture and equipment) are to be measured under the cost model, rather than at fair value with effect from 1 July 2019. Immaterial revaluations carried out during the year were not reversed, as it was deemed by the Shire that fair value approximates the cost model value at the date of the change.

We have audited the Shire's assessment of the impact of the of applying amended regulation 17A and we conclude that the Shire has correctly addressed the requirements and made appropriate disclosures in the notes to the financial statements.

5 AREAS OF AUDIT EMPHASIS

As mentioned in the APM, our audit focus was on those areas where we assessed there to be a significant risk of material misstatement in the financial statements. We designed and performed procedures to be able to conclude, with reasonable assurance, whether each significant risk area is free from material misstatement. The following is a summary of the significant risk balances for the past three financial years:

Significant risk area	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2018 \$'000
Revenue recognition			
• Rates	1,893	1,831	1,809
• Fees and charges	746	813	853
• Trade and other receivables	523	662	1,278
Procurement			
• Materials and contracts	1,433	3,827	2,722
• Property, plant and equipment (additions)	916	373	80
• Infrastructure (additions)	1,240	1,126	1,344
Fixed assets			
• Property, plant and equipment	22,339	22,361	22,513
• Infrastructure	47,444	47,450	47,544

The outcome of our audit procedures for each significant risk area is summarised in the following table:

Significant risk area	Key risks	Free from material misstatement
Revenue recognition <ul style="list-style-type: none"> • Rates • Fees and charges • Trade and other receivables 	<p>Rates, fees and charges revenue are material and a significant risk due to the multifaceted method of calculation, the high dependency on information systems and the significant regulatory compliance regime.</p> <p>Compliance with AASB 15 and AASB 1058 can be complex and requires detailed analysis of contracts and appropriate application of revenue recognition policies.</p> <p>Calculation and recording of the expected credit loss provision in accordance with <i>AASB 9 Financial Instruments</i> can also be complex and is subject to estimation.</p>	✓
Procurement <ul style="list-style-type: none"> • Materials and contracts • Property, plant and equipment (additions) • Infrastructure (additions) 	<p>These expenditure items are a significant risk due to the materiality of the amounts, the different cost allocation methods, the strict and complex requirements of the Shire's purchasing policy and the risk of management override of controls.</p>	✓
Fixed assets <ul style="list-style-type: none"> • Property, plant and equipment • Infrastructure 	<p>Property, plant and equipment and Infrastructure are material assets in the Statement of Financial Position.</p> <p>Removal of regulation 16 and compliance with amended regulation 17A of the Financial Management Regulations can be complex and require some material adjustments to the carrying value of assets and associated asset revaluation reserves.</p>	✓

6 IMPACT OF COVID-19

As the COVID-19 pandemic continues to evolve, developments throughout 2020 have been causing great uncertainty for the global economy. Whilst the initial effects were being felt most by the travel industry and education providers, the impact is now considerably wider and is creating significant uncertainty for supply chains and the global economy. This uncertainty is creating additional risks that entities may not have encountered before.

The Shire advised that the COVID-19 pandemic did not have any significant impacts during 2019/20. There were some minor impacts on operations, including:

- Temporary suspension of rates payments for a local business
- Early closure of the pool
- Suspension of rental payments for a local business
- Incurred approximately \$50,000 on costs associated with the COVID-19 responses

We concur with the Shire's assessment that the COVID-19 pandemic did not have any significant impact on the Shire's operations or the 2019/20 financial statements.

7 OTHER CRITICAL DISCLOSURES IN THE FINANCIAL STATEMENTS

We also audited the following critical disclosures in the financial statements by verifying the underlying calculations and auditing the evidence to support the amounts disclosed:

Critical disclosure	Key risks	Comply with accounting standards
Related party	Disclosures of key management personnel remuneration and related party transactions are not in accordance with AASB 124 <i>Related Party Disclosures</i> .	✓
Financial ratios	The underlying data is incomplete or inaccurate and the calculations of the ratios are incorrect and not in accordance with Financial Management Regulations.	✓

8 FRAUD RISK

Under Australian Auditing Standard ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, when planning and performing audit procedures and evaluating the results, the auditor must consider the risk of material misstatement in the financial statements because of fraud and error. To address our responsibilities relating to fraud, we designed and implemented audit procedures to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud. Procedures and the results of our testing are detailed below:

8.1 Management override of control

Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Management override can occur in areas such as journal entries, accounting estimates and judgements.

Based on our work, nothing has come to our attention to indicate that the Shire does not have proper processes and controls to manage the risk of management override of controls and that material key estimates and judgments are properly assessed and brought to account. Our audit did not detect any instances of fraud.

8.2 Element of unpredictability

We also incorporated an element of unpredictability in our audit procedures to address the risk of Shire staff, who are familiar with the normal audit procedures, being more able to conceal fraudulent activity.

Due to the risks of unauthorised transactions that may be associated with the use of corporate credit cards, our unpredictable testing selected a sample of credit card transactions. We tested whether:

- The purchases are supported by appropriate documentation
- The purchases were proper
- The credit card transactions are reviewed and approved by management in a timely manner.

The elected members that make up the Shire's Council cannot use these cards as the LG Act does not allow them to incur debts. Instead, local governments pay allowances or reimburse expenses to an elected member.

During our audit work, nothing came to our attention to suggest the fraudulent use of corporate credit cards.

8.3 Fraud incidences during the audit

We have made enquiries of Council, the CEO and management regarding whether they have knowledge of any incidences of material fraud during the financial year. Based on our enquiries and other audit procedures, we did not become aware of any incidences of misconduct or fraud, which would have a material impact on the financial statements.

9 NEW ACCOUNTING STANDARDS APPLICABLE IN FUTURE YEARS

There are no new accounting standards, which would materially impact the Shire's financial statements in future financial years. We reviewed and concur with the Shire's disclosures in the notes to the financial statements regarding new accounting standards.

10 MATTERS RELATING TO FUTURE AUDIT

Based on our discussion with the Shire's management, the following matters will be materially relevant for the 30 June 2021 financial statement audit:

- Adoption of AASB 16 and regulation 17A requires right-of-use assets (vested improvements) to be disclosed separately on the statement of financial position; and
- Adoption of regulation 17A requires plant and equipment to be held using the cost model and any revaluation reserve held in relation to plant and equipment in equity may be reversed out.

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INDEPENDENT AUDITOR'S REPORT

To the Councillors of the Shire of Morawa

Report on the Audit of the Financial Report

Opinion

I have audited the annual financial report of the Shire of Morawa which comprises the Statement of Financial Position as at 30 June 2020, and the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity, Statement of Cash Flows and Rate Setting Statement for the year then ended, as well as notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by the Chief Executive Officer.

In my opinion the annual financial report of the Shire of Morawa:

- (i) is based on proper accounts and records; and
- (ii) fairly represents, in all material respects, the results of the operations of the Shire for the year ended 30 June 2020 and its financial position at the end of that period in accordance with the *Local Government Act 1995* (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of the Shire in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the annual financial report. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – Basis of Accounting

I draw attention to Notes 1 and 11 to the annual financial report, which describe the basis of accounting. The annual financial report has been prepared for the purpose of fulfilling the City's financial reporting responsibilities under the Act, including the Local Government (Financial Management) Regulations 1996 (Regulations). My opinion is not modified in respect of these matters:

- (i) Regulation 17A requires a local government to measure vested improvements at fair value and the associated vested land at zero cost. This is a departure from AASB 16 *Leases* which would have required the entity to measure the vested improvements also at zero cost.
- (ii) In respect of the comparatives for the previous year ended 30 June 2019, Regulation 16 did not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report.

Responsibilities of the Chief Executive Officer and Council for the Financial Report

The Chief Executive Officer (CEO) of the Shire is responsible for the preparation and fair presentation of the annual financial report in accordance with the requirements of the Act, the Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards. The CEO is also responsible for such internal control as the CEO determines is necessary to enable the preparation of the annual financial report that is free from material misstatement, whether due to fraud or error.

In preparing the annual financial report, the CEO is responsible for assessing the Shire's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the State Government has made decisions affecting the continued existence of the Shire.

The Council is responsible for overseeing the Shire's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Report

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

A further description of my responsibilities for the audit of the annual financial report is located on the Auditing and Assurance Standards Board website at https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This includes the identification and assessment of the risk of material misstatement due to fraud arising from management override of controls. This description forms part of my auditor's report.

Report on Other Legal and Regulatory Requirements

In accordance with the Local Government (Audit) Regulations 1996 I report that:

- (i) In my opinion, the following material matters indicate significant adverse trends in the financial position of the Shire:
 - a. The Asset Sustainability and Operating Surplus Ratios have been below the Department of Local Government, Sport and Cultural Industries standard for the last three years. The financial ratios are reported at note 32 of the annual financial report.
- (ii) The following material matters indicating non-compliance with Part 6 of the *Local Government Act 1995*, the Local Government (Financial Management) Regulations 1996 or applicable financial controls of any other written law were identified during the course of my audit:
 - a. Shire has not developed formal policies and supporting procedures for the proper control of the payroll function. For 1 employee, there was no signed employment contract in the Shire's records.
- (iii) All required information and explanations were obtained by me.
- (iv) All audit procedures were satisfactorily completed.
- (v) In my opinion, the Asset Consumption Ratio and the Asset Renewal Funding Ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the annual financial report of the Shire of Morawa for the year ended 30 June 2020 included on the Shire's website. The Shire's management is responsible for the integrity of the Shire's website. This audit does not provide assurance on the integrity of the Shire's website. The auditor's report refers only to the annual financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this annual financial report. If users of the annual financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited annual financial report to confirm the information contained in this website version of the annual financial report.

Audit Exit Meeting

FINANCIAL ATTEST AUDIT OF SHIRE OF MORAWA FOR THE YEAR ENDED 30 JUNE 2020

ATTENDEES:

Shire of Morawa:

Cr	Karen Chappel	Shire President
Cr	Dean Carslake	Deputy Shire President
Cr	Jane Coaker	Councillor
Cr	Debbie Collins	Councillor
Cr	Yvette Harris	Councillor
Cr	Shirley Katona	Councillor
Cr	Ken Stokes	Councillor
	Scott Wildgoose	CEO
	Paul Buist	Executive Manager Works & Assets
	John van der Meer	Executive Manager Corporate & Community Services

Office of the Auditor General:

	Caroline Spencer	Auditor General
	Subha Gunalan	Director

RSM Australia Pty Ltd:

	David Wall	Director
	Krushna Hirani	Manager

Meeting Date & Time: Thursday 17 December 2020, 4:30pm

Location: Zoom Meeting (invite sent by the Shire)



Agenda

- 1 Introduction**
- 2 Matters arising from the audit**
 - 2.1 Financial statements - refer to Audit Closing Report
 - 2.2 Controls and legal compliance issues - refer to Audit Closing Report
- 3 Actions for next year audit**
- 4 General and closing comments**

