MERCY SHIPS AUSTRALIA LTD

ABN: 30 097 037 922

Financial Report For The Year Ended 31 December 2019

Mercy Ships Australia Ltd

ABN: 30 097 037 922

Financial Report For The Year Ended 31 December 2019

CONTENTS	Page

MERCY SHIPS AUSTRALIA LTD
ABN: 30 097 037 922
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 $	2018 $
Revenue	2	103,985	106,251
Other income	2	7,855,066	7,432,292
Employee benefits expense		(554,321)	(412,438)
Depreciation and amortisation expense	3	(11,213)	(12,569)
Rental expense	3	(14,538)	(12,757)
Audit, legal and consultancy fees		(6,091)	(4,880)
Marketing expenses		(747,196)	(657,821)
Donations made - Mercy Ships projects		(3,952,729)	(3,762,097)
Donations made - contributed services		(2,513,765)	(2,499,346)
Sundry expenses		(151,602)	(150,467)
Current year surplus before income tax		7,596	26,168
Income tax expense		-	-
Net current year surplus		7,596	26,168
Other comprehensive income			
Other comprehensive income		-	-
Total other comprehensive (losses)/income for the year		-	-
Total comprehensive income for the year		7,596	26,168
Surplus attributable to members of the entity		7,596	26,168
Total comprehensive income attributable to members of the entity		7,596	26,168

The accompanying notes form part of these financial statements.

MERCY SHIPS AUSTRALIA LTD
ABN: 30 097 037 922
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	2019 $	2018 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	3,837,220	2,855,148
Accounts receivable and other debtors	5	38,911	29,815
Inventories	6	9,465	14,046
Other current assets	7	29,955	27,423
TOTAL CURRENT ASSETS		3,915,551	2,926,432
NON-CURRENT ASSETS			
Property, plant and equipment	8	36,917	39,027
Intangible assets	9	100	100
Right-of-use assets	10	18,031	-
TOTAL NON-CURRENT ASSETS		55,048	39,127
TOTAL ASSETS		3,970,599	2,965,559
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and other payables	11	3,413,718	2,465,292
Lease liabilities	11	10,389	-
Employee provisions	12	77,729	56,797
TOTAL CURRENT LIABILITIES		3,501,836	2,522,089
NON-CURRENT LIABILITIES			
Accounts payable and other payables	11	-	-
Lease liabilities	11	8,353	-
Employee provisions	12	34,738	25,394
TOTAL NON-CURRENT LIABILITIES		43,091	25,394
TOTAL LIABILITIES		3,544,927	2,547,483
NET ASSETS		425,672	418,076
EQUITY			
Retained surplus		425,672	418,076
TOTAL EQUITY		425,672	418,076

The accompanying notes form part of these financial statements.

MERCY SHIPS AUSTRALIA LTD
ABN: 30 097 037 922
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER

	Retained Surplus $	Total $
Balance at 1 January 2018	391,908	391,908
Comprehensive Income		
Surplus for the year attributable to owners of the entity	26,168	26,168
Other comprehensive income for the year	-	-
Total other comprehensive income	-	-
Total comprehensive income attributable to owners of the entity	26,168	26,168
Balance at 31 December 2018	418,076	418,076
Balance at 1 January 2019	418,076	418,076
Comprehensive Income		
Surplus for the year attributable to owners of the entity	7,596	7,596
Other comprehensive income for the year	-	-
Total other comprehensive income	-	-
Total comprehensive income for the year	7,596	7,596
Transactions with members, in their capacity as members, and other transfers	-	-
Total transactions with members and other transfers	-	-
Balance at 31 December 2019	425,672	425,672

The accompanying notes form part of these financial statements.

MERCY SHIPS AUSTRALIA LTD
ABN: 30 097 037 922
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019	2018
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Commonwealth, state and local government grants		-	29,424
Receipts from donations, bequests and raffles		5,361,916	4,927,706
Payments to suppliers and employees		(4,445,015)	(3,871,138)
Interest received		74,274	61,638
Net cash generated from operating activities	17	991,175	1,147,630
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		-	3,000
Payment for property, plant and equipment		(9,103)	(38,717)
Net cash used in investing activities		(9,103)	(35,717)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		-	-
Increase in borrowings		-	-
Net cash used in financing activities		-	-
Net increase in cash held		982,072	1,111,913
Cash on hand at beginning of the financial year		2,855,148	1,743,235
Cash on hand at end of the financial year	4	3,837,220	2,855,148

The accompanying notes form part of these financial statements.

The financial statements cover Mercy Ships Australia Ltd as an individual entity, incorporated and domiciled in Australia. Mercy Ships Australia Ltd is a company limited by guarantee.

The financial statements were authorised for issue on 15th March, 2020 by the directors of the company.

Note 1 Summary of Significant Accounting Policies

Accounting Policies

(a) Revenue

Revenue recognition

The Entity has applied AASB 15: Revenue from Contracts with Customers and AASB 1058: Income of Not-for-Profit Entities using the cumulative effective method; that is, by recognising the cumulative effect of initially applying AASB 15 and AASB 1058 as an adjustment to the opening balance of equity at 1 January 2019. Therefore, the comparative information has not been restated and continues to be presented under AASB 118: *Revenue* and AASB 1004: *Contributions*. The details of accounting policies under AASB 118 and AASB 1004 are disclosed separately since they are different from those under AASB 15 and AASB 1058, and the impact of changes is disclosed in this note.

In the current year

Operating grants, donations and bequests

When the entity received operating grant revenue, donations or bequests, it assesses whether the contract is enforceable and has sufficiently specific performance obligations in accordance with AASB 15.

When both these conditions are satisfied, the Entity:

- identifies each performance obligation relating to the grant;
- recognises a contract liability for its obligations under the agreement; and
- recognises revenue as it satisfies its performance obligations.

Where the contract is not enforceable or does not have sufficiently specific performance obligations, the Entity:

- recognises the asset received in accordance with the recognition requirements of other applicable accounting standards (eg AASB 9. AASB 16, AASB 116 and AASB 138);
- recognises related amounts (being contributions by owners, lease liability, financial instruments, provisions, revenue or contract liability arising from a contract with a customer); and
- recognises income immediately in profit or loss as the difference between the initial carrying amount of the asset and the related amount.

If a contract liability is recognised as a related amount above, the Entity recognises income in profit or loss when or as it satisfies its obligations under the contract.

Capital grant

When the Entity receives a capital grant, it recognises a liability for the excess of the initial carrying amount of the financial asset received over any related amounts (being contributions by owners, lease liability, financial instruments, provisions, revenue or contract liability arising from a contract with a customer) recognised under other Australian Accounting Standards.

The Entity recognises income in profit or loss when or as the Entity satisfies its obligations under the terms of the grant.

Interest income

Interest income is recognised using the effective interest method.

All revenue is stated net of the amount of goods and services tax.

In the comparative period

Non-reciprocal grant revenue was recognised in profit or loss when the Entity obtained control of the grant and it was probable that the economic benefits gained from the grant would flow to the Entity and the amount of the grant could be measured reliably.

If conditions were attached to the grant which must be satisfied before the Entity was eligible to receive the contribution, the recognition of the grant as revenue was deferred until those conditions were satisfied.

When grant revenue was received whereby the Entity incurred an obligation to deliver economic value directly back to the contributor, this was considered a reciprocal transaction and the grant revenue was recognised in the statement of financial position as a liability until the service had been delivered to the contributor; otherwise, the grant was recognised as income on receipt.

Donations and bequests were recognised as revenue when received.

Interest revenue was recognised using the effective interest method, which for floating rate financial assets is the rate inherent in the instrument.

Revenue from the rendering of a service was recognised upon the delivery of the service to the customer.

(b) Inventories

The entity shall measure inventories held for distribution at cost, adjusted when applicable for any loss of service potential.

Inventories acquired at no cost or for nominal consideration are measured at the current replacement cost as at the date of acquisition.

(c) Fair Value of Assets and Liabilities

The entity measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the company would receive to sell an 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 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.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, accumulated depreciation and impairment losses.

Plant and Equipment

Plant and equipment are measured on the cost basis and are therefore carried at cost less accumulated depreciation and any accumulated impairment losses. In the event the carrying amount of plant and equipment is greater than its estimated recoverable amount, the carrying amount is written down immediately to its estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(g) for details of impairment).

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss in the financial period in which they are incurred.

Plant and equipment that have been contributed at no cost or for nominal cost are recognised at the fair value of the asset at the date it is acquired.

Depreciation

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

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Motor vehicles	20%
Plant and equipment	10% - 40%

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are recognised as income in profit or loss in the period in which they arise. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained surplus.

(e) Leases

The Entity as lessee

At inception of a contract, the Entity assesses if the contract contains or is a lease. If there is a lease present, a right-of-use asset and a corresponding lease liability is recognised by the Entity where the Entity is a lessee. However, all contracts that are classified as short-term leases (ie a lease with a remaining lease 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.

Initially, the lease liability is measured at the present value of the lease payments still to be paid at commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the Entity uses the incremental borrowing rate.

Lease payments included in the measurement of the lease liability are as follows:

- fixed lease payments less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- lease payments under extension options if lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

The right-of-use assets comprise the initial measurement of the corresponding lease liability as mentioned above, any lease payments made at or before the commencement date as well as any initial direct costs. The subsequent measurement of the right-of-use assets is at cost less accumulated depreciation and impairment losses.

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 Entity anticipates to exercise a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

(f) Financial Instruments

Initial Recognition and Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the entity commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Trade receivables are initially measured at the transaction price if the trade receivables do not contain significant financing component or if the practical expedient was applied as specified in AASB 15.63.

(g) Impairment of Assets

At the end of each reporting period, the entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use, is compared to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised in profit or loss.

Where the assets are not held primarily for their ability to generate net cash inflows – that is, they are specialised assets held for continuing use of their service capacity – the recoverable amounts are expected to be materially the same as fair value.

Where it is not possible to estimate the recoverable amount of an individual asset, the entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where an impairment loss on a revalued individual asset is identified, this is recognised against the revaluation surplus in respect of the same class of asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that class of asset.

(h) Employee Provisions

Short-term employee provisions

Provision is made for the entity's obligation 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, sick leave and annual leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

Other long-term employee provisions

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other 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 rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that have maturity dates that approximate the terms of the obligations. Upon the remeasurement of obligations for other long-term employee benefits, the net change in the obligation is recognised in profit or loss as part of employee provisions expense.

The entity's obligations for long-term employee benefits are presented as non-current employee provisions in its statement of financial position, except where the entity 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 employee provisions.

(i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at-call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(j) Accounts receivable and other debtors

Accounts receivable and other debtors include amounts due from members as well as amounts receivable from customers for goods sold in the ordinary course of business. 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.

Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(g) for further discussion on the determination of impairment losses.

(k) 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 the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other 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 included in receipts from customers or payments to suppliers.

(l) Income Tax

No provision for income tax has been raised as the entity is exempt from income tax under Div 50 of the *Income Tax Assessment Act 1997* .

(m) Intangible Assets

Data Files

Data files are recorded at cost. It has a finite life and is carried at cost less accumulated amortisation and any impairment losses. It is assessed annually for impairment.

(n) Provisions

Provisions are recognised when the entity has a 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 recognised represent the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(o) Comparative Figures

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

When the entity retrospectively applies an accounting policy, makes a retrospective restatement or reclassifies items in its financial statements, a third statement of financial position as at the beginning of the preceding period, in addition to the minimum comparative financial statements, must be disclosed.

(p) Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the entity.

Note 2 Revenue and Other Income

	2019	2018
Revenue	$	$
Revenue from grants		
— State/federal government grants – operating	7,066	29,424
Total revenue	7,066	29,424
Other revenue		
Interest received on investments and bank accounts	96,919	76,827
	96,919	76,827
Total revenue	103,985	106,251

Other income		
— Donations received	5,336,558	4,648,199
— Sale of goods	4,743	8,968
— Donations received - contributed services	2,513,765	2,499,346
— Bequests received	-	275,779
Total other income	7,855,066	7,432,292
Total revenue and other income	7,959,051	7,538,543

Note 3 Surplus for the year

	2019 $	2018 $
a. Expenses		
Employee benefits expense:		
— contributions to defined contribution superannuation funds	44,957	34,492
— Salaries and wages	509,364	377,946
Total employee benefits expense	554,321	412,438
Depreciation and amortisation:		
— motor vehicles	3,035	9,278
— furniture and equipment	8,178	3,291
Total depreciation and amortisation	11,213	12,569
Rental expense on operating leases:		
— minimum lease payments	14,538	12,757
Total rental expense	14,538	12,757
Audit fees:		
— audit services	4,600	4,500
— Relief fund audits	400	380
Total audit remuneration	5,000	4,880

Note 4 Cash and Cash Equivalents

	2019 $	2018 $
CURRENT		
General account	55,138	32,357
Relief account	3,782,082	2,822,791
Total cash on hand as stated in the statement of financial position and	3,837,220	2,855,148
statement of cash flows	3,837,220	2,855,148

Note 5 Accounts Receivable and Other Debtors

	2019 $	2018 $
CURRENT		
Accounts receivable	-	5,240
Other debtors	38,911	24,575
Total current accounts receivable and other debtors	38,911	29,815

Note 6 Inventories

	2019 $	2018 $
CURRENT		
At cost:		
Inventory	9,465	14,046
	9,465	14,046
At current replacement cost:		
Donated inventory	-	-
	-	-
	9,465	14,046

Note 7 Other Current Assets

	2019	2018
	$	$
Accrued Income	22,645	21,685
Prepayments	7,310	5,738
	29,955	27,423

Note 8 Property, Plant and Equipment

	2019	2018
	$	$
PLANT AND EQUIPMENT		
Motor Vehicles		
At cost	21,314	21,314
Accumulated depreciation	(6,214)	(3,178)
	15,100	18,136
Furniture and Fixtures		
At cost	6,288	6,288
Accumulated depreciation	(1,514)	(242)
	4,774	6,046
Office Equipment		
At cost	30,682	23,061
Accumulated depreciation	(13,639)	(8,216)
	17,043	14,845
Total plant and equipment	36,917	39,027
Total property, plant and equipment	36,917	39,027

Movements in Carrying Amounts

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

	Motor Vehicles	**Plant and Equipment**	**Total**
	$	**$**	**$**
2018			
Balance at the beginning of the year	9,100	6,779	15,879
Additions at cost	21,314	17,403	38,717
Disposals	(3,000)		(3,000)
Depreciation expense	(9,278)	(3,291)	(12,569)
Carrying amount at the end of the year	18,136	20,891	39,027
2019			
Balance at the beginning of the year	18,136	20,891	39,027
Additions at cost		9,104	9,104
Depreciation expense	(3,036)	(8,178)	(11,214)
Carrying amount at the end of the year	15,100	21,817	36,917

Note 9 Intangible Assets

	2019	2018
	$	$
Data Files - at cost	5,900	5,900
Accumulated amortisation	(5,800)	(5,800)
Net carrying amount	100	100

Movements in Carrying Amount	Data Files
	$
2018	
Balance at the beginning of the year	100
Additions	-
Disposals	-
Amortisation charge	-
	100

2019	
Balance at the beginning of the year	100
Additions	-
Disposals	-
Amortisation charge	-
	100

Note 10 Right-of-use assets

The entity has entered into a lease for the head office from which the entity operates. The lease is for a term of 3 years, commencing in October, 2018.

i) AASB 16 related amounts recognised in the balance sheet

Right-of-use assets	**2019** **$**
Leased building	28,334
Accumulated depreciation	(10,303)
Total right-of-use asset	18,031

Movements in carrying amounts:

Leased buildings:	
Recognised on initial application of AASB 16 (previously classified as operating leases under AASB 117)	28,334
Depreciation expense	(10,303)
Net carrying amount	18,031

Note 11 Accounts Payable and Africa Mercy Projects

	Note	2019 $	2018 $
CURRENT			
Accounts payable		139,893	136,905
Other current payables		13,825	28,387
Payable to Mercy Ships Projects		3,260,000	2,300,000
	11a	3,413,718	2,465,292
NON-CURRENT			
Accounts payable		-	-
		-	-

			2019 $	2018 $
a	**Financial liabilities at amortised cost classified as accounts payable and other payables**			
	Accounts payable and other payables:			
	— Total current		3,413,718	2,465,292
	— Total non-current		-	-
			3,413,718	2,465,292
	Less other payables (net amount of GST payable)		-	-
	Financial liabilities as accounts and other payables	18	3,413,718	2,465,292
b	**Contract liabilities**			
	Balance at the beginning of the year		-	-
	Reclassified from deferred income on initial application of AASB 15		28,334	
	Less:			
	— Amortised during the year		(9,592)	-
	— Closing balance at the end of the year		18,742	-

Note 12 Employee Provisions

	2019	2018
CURRENT	$	$
Provision for employee benefits: annual leave	77,729	56,797
Provision for employee benefits: long service leave	-	-
	77,729	56,797
NON-CURRENT		
Provision for employee benefits: long service leave	34,738	25,394
	34,738	25,394
	112,467	82,191

Analysis of total provisions:	Employee Benefits	Total
Opening balance at 1 January 2019	82,191	82,191
Additional provisions raised during the year	30,276	30,276
Amounts used		-
Balance at 31 December 2019	112,467	112,467

Provision for employee benefits

Provision for employee benefits represents amounts accrued for annual leave and long service leave.

The current portion for this provision includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the entity does not expect the full amount of annual leave or long service leave balances classified as current liabilities to be settled within the next 12 months. However, these amounts must be classified as current liabilities since the entity does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement.

The non-current portion for this provision includes amounts accrued for long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service.

In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based upon historical data. The measurement and recognition criteria for employee benefits have been discussed in Note 1(h).

Note 13 Capital and Leasing Commitments

(a) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

	2019	2018
Payable – minimum lease payments	$	$
— not later than 12 months	11,436	11,436
— between 12 months and five years	8,577	20,013
	20,013	31,449

The property lease commitments are non-cancellable operating leases contracted for but not recognised in the financial statements with a three year term. Increases in lease commitments may occur in line with the consumer price index (CPI).

Note 14 Contingent Liabilities and Contingent Assets

	2019	2018
	$	$
There were no contingent assets or liabilities identified by the directors as having to be reported at the date of preparation of this report.	-	-

Note 15 Events After the Reporting Period

The directors are not aware of any significant events since the end of the reporting period.

Note 16 Related Party Transactions

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 director (whether executive or otherwise) is considered key management personnel (KMP).

Other related parties include close family members of Key Management Personnel, and entities that are controlled or jointly controlled by those Key Management Personnel individually or collectively with their close family members.

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

Note 17 Cash Flow Information

	2019 $	2018 $
a. Reconciliation of Cash Flows from Operating Activities with Net Current Year Surplus		
Net current year surplus	7,596	26,168
Adjustment for:		
Depreciation and amortisation expense	11,213	12,569
Movement in working capital changes:		
(Increase)/decrease in accounts receivable and other debtors	(9,096)	(20,429)
Increase/(decrease) in accounts payable and other payables	967,168	1,147,735
(Increase)/decrease in other current assets	(2,532)	(21,896)
(Increase)/decrease in right-of-use assets	(18,031)	-
Increase/(decrease) in employee provisions	30,276	7,531
(Increase)/decrease in inventories on hand	4,581	(4,048)
	991,175	1,147,630

Note 18 Financial Risk Management

The entity's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable, and lease liabilities.

The totals for each category of financial instruments, measured in accordance with AASB 9: *Financial Instruments* as detailed in the accounting policies to these financial statements, are as follows:

	Note	2019 $	2018 $
Financial assets			
Financial assets at fair value through profit or loss:			
Financial assets:			
— cash and cash equivalents	4	3,837,220	2,855,148
— accounts receivable and other debtors	5	38,911	29,815
Total financial assets		3,876,131	2,884,963
Financial liabilities			
Financial liabilities at amortised cost:			
— accounts payable and other payables	11a	3,413,718	2,465,292
— lease liabilities		18,742	-
Total financial liabilities		3,432,460	2,465,292

Financial Risk Management Policies

The directors are responsible for monitoring and managing the entity's compliance with its risk management strategy. The director's overall risk management strategy is to assist the entity in meeting its financial targets while minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed by the directors on a regular basis. These include credit risk policies and future cash flow requirements.

Specific Financial Risk Exposures and Management

The main risks the entity is exposed to through its financial instruments are credit risk, liquidity risk and market risk relating to interest rate risk and other price risk.

There have been no substantive changes in the types of risks the entity is exposed to, how these risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

(a) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the company.

The company does not have any material credit risk exposures as its major source of revenue is the receipt of donations.

Credit risk exposures

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

Accounts receivable and other debtors that are neither past due nor impaired are considered to be of high credit quality. Aggregates of such amounts are detailed at Note 5.

The entity has no significant concentrations of credit risk exposure to any single counterparty or group of counterparties. Details with respect to credit risk of accounts receivable and other debtors are provided in Note 5.

(b) Liquidity risk

Liquidity risk arises from the possibility that the company might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The company manages this risk through the following mechanisms:

— preparing forward-looking cash flow analyses in relation to its operating, investing and financing activities;
— maintaining a reputable credit profile;
— managing credit risk related to financial assets;
— only investing surplus cash with major financial institutions; and
— comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The table below reflects an undiscounted contractual maturity analysis for non-derivative financial liabilities. The company does not hold any derivative financial liabilities directly.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates.

Financial liability and financial asset maturity analysis

	Within 1 Year		1 to 5 years		Over 5 years		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Financial liabilities due for payment	$	$	$	$	$	$	$	$
Accounts payable and other payables (excluding estimated annual leave and deferred income)	3,413,718	2,465,292					3,413,718	2,465,292
Lease liabilities	10,389	-	8,353				18,742	-
Total expected outflows	3,424,107	2,465,292	8,353	-	-	-	3,432,460	2,465,292
Financial Assets - cash flows realisable								
Cash and cash equivalents	3,837,220	2,855,148					3,837,220	2,855,148
Accounts receivable and other debtors	38,911	29,815					38,911	29,815
Total anticipated inflows	3,876,131	2,884,963	-	-	-	-	3,876,131	2,884,963
Net (outflow) / inflow on financial instruments	452,024	419,671	(8,353)	-	-	-	443,671	419,671

(c) Market Risk

i. *Interest rate risk*

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The company is also exposed to earnings volatility on floating rate instruments.

The financial instruments that expose the company to interest rate risk are limited to fixed interest securities and cash at bank.

Sensitivity analysis

The following table illustrates sensitivities to the company's exposures to changes in interest rates and equity prices. The table indicates the impact of how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

These sensitivities assume that the movement in a particular variable is independent of other variables.

Year ended 31 December 2019	Surplus $	Equity $
+/- 1% in interest rates	38,372	38,372

Year ended 31 December 2018	Surplus $	Equity $
+/- 1% in interest rates	28,551	28,551

No sensitivity analysis has been performed on foreign exchange risk as the company has no material exposures to currency risk.

There have been no changes in any of the assumptions used to prepare the above sensitivity analysis from the prior year.

Note 19 Entity Details

The registered office of the entity is:

Mercy Ships Australia Ltd
Unit 4
24 Bulcock Street
Caloundra Qld 4551

The principal place of business is:

Mercy Ships Australia Ltd
Unit 4
24 Bulcock Street
Caloundra Qld 4551

Note 20 Members' Guarantee

The entity is incorporated under the Corporations Act 2001 and is a company limited by guarantee. If the entity is wound up, the constitution states that each member is required to contribute a maximum of $10 towards meeting any outstanding obligations of the entity.

MERCY SHIPS AUSTRALIA LTD
ABN: 30 097 037 922
DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Mercy Ships Australia Ltd, the directors of the Registered Entity declare that, in the directors' opinion:

1. The financial statements and notes, as set out on pages 1 to 15, are in accordance with the Australian Charities and Not-for-profits Commission Act 2012 and:

    (a) comply with Australian Accounting Standards; and

    (b) give a true and fair view of the financial position of the registered entity as at 31 December 2019 and of its performance for the year ended on that date.

2. There are reasonable grounds to believe that the registered entity will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with subs 60.15(2) of the Australian Charities and Not-for-profits Commission Regulation 2013.

Director

Chairman Richard Wankmuller

Dated this 15th day of March 2020

MERCY SHIPS AUSTRALIA LTD
ABN: 30 097 037 922
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
MERCY SHIPS AUSTRALIA LTD

Opinion

We have audited the financial report of Mercy Ships Australia Ltd (the Registered Entity), which comprises the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

In our opinion, the accompanying financial report of the Registered Entity is in accordance with Division 60 of the Australian Charities and Not-for-profits Commission Act 2012 (the ACNC Act), including:

i. giving a true and fair view of the Registered Entity's financial position as at 31 December 2019 and of its financial performance for the year then ended; and

ii. complying with Australian Accounting Standards to the extent described in Note 1 and Division 60 of the Australian Charities and Not-for-profits Commission Regulation 2013.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Registered Entity in accordance with the auditor independence requirements of the ACNC Act, the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110: Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the Registered Entity's financial reporting responsibilities under the Australian Charities and Not-for-profits Commission Act 2012. As a result, the financial report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of the Directors for the Financial Report

The directors of the Registered Entity are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the Australian Charities and Not-for-profits Commission Act 2012 and is appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Registered Entity'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 directors either intend to liquidate the Registered Entity or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

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

— Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Registered Entity's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

— Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Registered Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Registered Entity to cease to continue as a going concern.

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

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Auditor's name and signature: Stephen J Shirley
Registered Company Auditor No: 290262

Address: ***sps audit***
Suite 8b, Matlow Place
19 Birtwill Street
COOLUM BEACH QLD 4573

Dated this 15th day of March 2020