

Policy Document
Accounting Policy

Policy No: DCSB-FM-07.07	Version No: 5.0	Administered by: Manager, Corporate Services
Approved by: Council	Approved on: 21 February 2019	Agenda Item/Minute Book No or Approval Ref: 33/19
Last Reviewed: February 2019	Review Date February 2020	File No: 16/351
Classification: Financial Management		
Strategic Plan link: Strategy 1.2 Maintain financial viability and accountability in budgeting and administration		
References and related Policies & Procedures: <i>Local Government Act 1999</i> Local Government (Financial Management) Regulations 2011 Australian Accounting Standards Board		

1. Introduction

This policy provides direction to management, staff and Council in the preparation and presentation of the annual financial statements and is included in full with the annual statements.

2. Policy Objectives

- Ensure that the appropriate accounting treatments are applied in a consistent manner;
- Provides accurate and reliable information to all users;
- Ensure that Council's recording of financial transactions is in accordance with its legislative and common law responsibilities.
- Ensure assets are managed efficiently, and therefore acquired, upgraded or renewed in a financially responsible manner.

3. Policy Statements

3.1 Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.2 Basis of Preparation

Compliance with Australian Accounting Standards

This general purpose financial report has been prepared on a going concern basis using the historical cost convention in accordance with Australian Accounting Standards as they apply to not-for-profit entities, other authoritative pronouncements of the Australian Accounting Standards Board, Interpretations and relevant South Australian legislation.

The financial report was authorised for issue by certificate under regulation 14 of the *Local Government (Financial Management) Regulations 2011*.

Historical Cost Convention

Except as stated below, these financial statements have been prepared in accordance with the historical cost convention.

Critical Accounting Estimates

The preparation of financial statements in conformity with the Australian Accounting Standards requires the use of certain critical accounting estimates and requires management to exercise its judgement in applying Council's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are specifically referred to in relevant sections of these Notes.

Rounding

All amounts in the financial statements have been rounded to the thousand dollars (\$'000).

3.3 The Local Government Reporting Entity

District Council of Streaky Bay is incorporated under the *SA Local Government Act 1999* and has its principal place of business at 29 Alfred Terrace, Streaky Bay. These financials include the Council's direct operations and all entities through which Council controls resources to carry on its functions. In the process of reporting on the Council as a single unit, all transactions and balances between activity areas and controlled entities have been eliminated.

3.4 Income Recognition

Income is measured at the fair value of the consideration received or receivable. Income is recognised when the Council obtains control over the assets comprising the income, or when the amount due constitutes an enforceable debt, whichever first occurs.

Where grants, contributions and donations recognised as incomes during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the amounts subject to those undischarged conditions are disclosed in the notes to the financial statements. Also disclosed is the amount of grants, contributions and receivables recognised as incomes in a previous reporting period which were obtained in respect of the Council's operations for the current reporting period.

In recent years the payment of untied financial assistance grants has varied from the annual allocation, and because these grants are untied, the Australian Accounting Standards require that payments be recognised upon receipt. Accordingly, the operating results are often distorted compared to those that would have been reported had the grants been paid in the year to which they were allocated.

In Note 15 of the Financial Statements, the Operating Surplus Ratio disclosed is also calculated after adjusting for the distortions resulting from the differences between actual grants received and the grants entitlements allocated.

3.5 Cash, Cash Equivalents and other Financial Instruments

Cash Assets include all amounts readily convertible to cash on hand at Council's option with an insignificant risk of changes in value with a maturity of three months or less from the date of acquisition.

Receivables for rates and annual charges are secured over the subject land, and bear interest at rates determined in accordance with the *Local Government Act 1999*. Other receivables are generally unsecured and do not bear interest.

All receivables are reviewed as at the reporting date and adequate allowance made for amounts the receipt of which is considered doubtful.

All financial instruments are recognised at fair value at the date of recognition. A detailed statement of the accounting policies applied to financial instruments forms part of Note 13 to the financial statements.

3.6 Inventories

Inventories held in respect of stores have been valued by using the weighted average cost on a continual basis, after adjustment for loss of service potential. Inventories held in respect of business undertakings have been valued at the lower of cost and net realisable value.

3.6.1 Real Estate Assets Developments

Real Estate Assets developments have been classified as inventory in accordance with AASB 5 and are valued at the lower of carrying amount and fair value less costs to sell.

Revenues arising from the sale of property are recognised in the operating statement when settlement is completed, when settlement is completed.

3.6.2 Other Real Estate held for resale

Properties not acquired for development, but which Council has decided to sell as surplus to requirements, are recognised at the carrying value at the time of that decision.

Certain properties, auctioned for non-payment of rates in accordance with the Local Government Act but which failed to meet the reserve set by Council and are available for sale by private treaty, are recorded at the lower of the unpaid rates and charges at the time of auction or the reserve set by Council. Holding costs in relation to these properties are recognised as an expense when incurred.

3.7 Infrastructure, Property, Plant & Equipment

Initial Recognition

All assets are recognised at cost. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition.

All non-current assets purchased or constructed are capitalised as the expenditure is incurred and depreciated as soon as the asset is held 'ready for use'. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including architect's fees and engineering design fees and all other costs incurred. The cost of non-current assets constructed by the Council includes the cost of all materials used in construction, direct labour and an appropriate proportion of variable and fixed overhead.

Materiality

Assets with an economic life in excess of one year are only capitalised where the cost of acquisition exceeds materiality thresholds established by Council for each type of asset. In determining (and in annually reviewing) such thresholds, regard is had to the nature of the asset and its estimated service life.

Examples of capitalisation thresholds applied during the year are as follows:

- Buildings and other Structures.....\$10,000
- Roads Infrastructure..... \$10,000
 - Kerbs.....\$ 2,000
 - Footpaths.....\$ 2,000
- Stormwater Infrastructure..... \$ 5,000
 - Pipes.....\$ 5,000
 - Drains & Culverts.....\$ 5,000
- Community Water & Effluent Infrastructure.....\$ 5,000
- Other Plant and Equipment..... \$ 2,000
- Office Furniture and Equipment..... \$ 2,000
- Parks Furniture and Equipment.....\$ 3,000

No capitalisation threshold is applied to the acquisition of land or interests in land.

Subsequent Recognition

All material asset classes are revalued on a regular basis such that the carrying values are not materially different from fair value. Significant uncertainties exist in the estimation of fair value of a number of asset classes including land, buildings and associated structures and infrastructure. Further details of valuations, methods and valuers are provided in Note 7 of Financial Statements.

Depreciation of Non-Current Assets

Other than land, all infrastructures, property, plant and equipment assets recognised are systematically depreciated over their useful lives on a straight-line basis which, in the opinion of Council, best reflects the consumption of the service potential embodied in those assets.

Depreciation methods, useful lives and residual values of classes of assets are reviewed annually.

Major depreciation periods for each class of asset are shown below. Depreciation periods for infrastructure assets have been estimated based on the best information available to Council, but appropriate records covering the entire life cycle of these assets are not available, and extreme care should be used in interpreting financial information based on these estimates:

Plant, Furniture & Equipment

Office Furniture & Equipment	3 to 15 years
Vehicles and Road-making Equip	3 to 25 years
Other Plant & Equipment	3 to 20 years

Building & Other Structures

Buildings – masonry	50 to 100 years
Buildings – other construction	20 to 40 years
Park Structures – masonry	50 to 100 years
Park Structures – other construction	20 to 40 years
Playground equipment	15 to 20 years
Benches, seats, etc	10 to 25 years

Infrastructure

Sealed Roads – Surface	20 to 25 years
Sealed Roads – Structure	100 years
Unsealed Roads	12 to 33 years
Paving & Footpaths, Kerbs & Gutter	20 to 50 years
Drains & Culverts	50 to 100 years
Reticulation Pipes – PVC	70 to 80 years
Pumps & Telemetry	20 to 25 years

Impairment

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (which is the higher of the present value of future cash outflows or value in use).

For assets whose future economic benefits are not dependent on the ability to generate cash flows, and where the future economic benefits would be replaced if Council were deprived thereof are not subject to impairment testing. Where an asset that has been revalued is subsequently impaired, the impairment is first offset against such amount as stands to the credit of that class of assets in Asset Revaluation Reserve, any excess being recognised as an expense.

Borrowing Costs

Borrowing costs in relation to qualifying assets (net of offsetting investment revenue) have been capitalised in accordance with AASB 123 'Borrowing Costs'. The amounts of borrowing costs recognised as an expense or as part of the carrying amount of qualifying assets are disclosed in Note 3 to the financial statements, and the amount (if any) of interest revenue offset against borrowing costs in Note 2 to the financial statements.

3.8 Payables

Goods & Services

Creditors are amounts due to external parties for the supply of goods and services and are recognised as liabilities when the goods and services are received. Creditors are normally paid 30 days after the period of invoice. No interest is payable on these amounts.

Payments Received in Advance & Deposits

Amounts other than grants received from external parties in advance of service delivery, and security deposits held against possible damage to Council assets, are recognised as liabilities until the service is delivered or damage reinstated, or the amount is refunded as the case may be.

3.9 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period to which it relates, and is recorded as part of 'Payables'.

3.10 Employee Benefits

Salaries, Wages & Compensated Absences

Liabilities for employees' entitlements to salaries, wages and compensated absences expected to be paid or settled within 12 months of reporting date are accrued at nominal amounts (including payroll based on costs) measured in accordance with AASB 119.

Liabilities for employee benefits not expected to be paid or settled within 12 months are measured as the present value of the estimated future cash outflows (including payroll based on costs) to be made in respect of services provided by employees up to the reporting date. Present values are calculated using government guaranteed securities rates with similar maturity terms.

No accrual is made for sick leave as Council experience indicates that, on average, sick leave taken in each reporting period is less than the entitlement accruing in that period, and this experience is expected to recur in future reporting periods. Council does not make payment for untaken sick leave.

Superannuation

The Council makes employer superannuation contributions in respect of its employees to the Statewide Superannuation Scheme. The Scheme has two types of membership, each of which is funded differently. No changes in accounting policy have occurred during either the current or previous reporting periods. Details of the accounting policies applied and Council's involvement with the schemes are reported in Note 18 to the financial statements.

3.11 Provisions for Reinstatement, Restoration and Rehabilitation

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and the remediation and rehabilitation of disturbed areas. Estimated close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, and are carried at the net present value of estimated future costs.

Although estimated future costs are based on a draft closure plan, such plans are based on current environmental requirements which may change. Council's policy to maximise recycling is extending the operational life of these facilities, and significant uncertainty exists

in the estimation of the future closure date. Liability for monitoring has been calculated for the next 5 years, and will be subject to ongoing reviews.

3.12 Construction Contracts

Construction works undertaken by Council for third parties are generally on an agency basis where the third party reimburses Council for actual costs incurred; and usually do not extend beyond the reporting period.

As there is no profit component, and such works will not be retained for the future benefit of Council they are treated as 100% completed. Reimbursements not received are recognised as receivables and reimbursements received in advance are recognised as 'payments received in advance'.

3.13 Leases

Lease arrangements have been accounted for in accordance with Australian Accounting Standard AASB 117.

In respect of finance leases, where Council substantially carries the entire risks incident to ownership, the leased items are initially recognised as assets and liabilities equal in amount to the present value of the minimum lease payments. The assets are disclosed within the appropriate asset class, and are amortised to expense over the period during which the Council is expected to benefit from the use of the leased assets. Lease payments are allocated between interest expense and reduction of the lease liability, according to the interest rate implicit in the lease.

In respect of operating leases, where the lessor substantially retains all of the risks and benefits incident to ownership of the leased items, lease payments are charged to expense over the lease term.

3.13 GST Implications

In accordance with UIG Abstract 1031 "Accounting for the Goods & Services Tax"

- Receivables and Creditors include GST receivable and payable.
- Except in relation to input taxed activities, revenues and operating expenditures exclude GST receivable and payable.
- Non-current assets and capital expenditures include GST net of any recoupment.
- Amounts included in the Statement of Cash Flows are disclosed on a gross basis.

New accounting standards and UIG interpretations

In the current year, Council adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period. The adoption of the new and revised Standards and Interpretations has not resulted in any material changes to Council's accounting policies.

The District Council of Streaky Bay has not applied any Australian Accounting Standards and Interpretations that have been issued but are not yet effective.

This year Council has applied AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 for the first time. As a result, Council hasn't needed to disclose additional information to explain changes in liabilities arising from financing activities.

Some Australian Accounting Standards and Interpretations have been issued but are not yet effective. Those standards have not been applied in these financial statements. Council will implement them when they are effective.

The standards are not expected to have a material impact upon Council's future financial statements are:

Effective for annual reporting periods beginning on or after 1 January 2017

- AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*
- AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15*
- AASB 2016-7 *Amendments to Australian Accounting Standards - Deferral of AASB 15 for Not-for-Profit Entities*

Effective for annual reporting periods beginning on or after 1 January 2018

- AASB 9 *Financial Instruments*
 - AASB 15 *Revenue from Contracts with Customers*
 - AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*
 - AASB 2014-1 *Amendments to Australian Accounting Standards (Part E)*
 - AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*
 - AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15*
 - AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*
 - AASB 2016-6 *Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*
 - AASB 2017-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 4*

Effective for annual reporting periods beginning on or after 1 January 2019

- AASB 16 *Leases*
- AASB 16 *Leases (Appendix D)*
- AASB 1058 *Income of Not-for-Profit Entities*
- AASB 1058 *Income of Not-for-Profit Entities (Appendix D)*
- AASB 2016-8 *Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities*
- AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*
- AASB 2017-4 *Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments*

- AASB 1059 *Service Concession Arrangements: Grantors*
- AASB 1059 *Service Concession Arrangements: Grantors* (Appendix D)

Effective for annual reporting periods beginning on or after 1 January 2021

- AASB 17 *Insurance Contracts*
- AASB 17 *Insurance Contracts* (Appendix D)

4. Records Management

All records shall be kept and disposed of in accordance with Councils Records Management Policy & procedure and the General Disposal Schedule 20 Version 5.

5. Availability of Policy

This policy will be available for inspection at the Council's principal office during ordinary business hours at no charge and Council's website. Copies of this policy may be obtained upon request at a cost to be determined by Council from time to time.