# ACCOUNTING

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| **Originated Date:** | Adopted 30 June 1994 (as Policy 1) |
| **Amended Date/s:** | Amended 12 March 2002<br>Amended 24 April 2006 – Minute No. 137/06<br>Amended 21 September 2009 – Minute No. 255/09<br>Amended 19 January 2015 – Minute No. 13/15<br>Amended 12 December 2016 – Minute No. 364/16 |
| **Applicable Legislation:** | *Local Government Act 1993 – Section 84* |
| **Objective** | The general purpose financial report will be prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Local Government Act 1993 (as amended). |
| **Administration:** | Corporate Services |
| **Review Cycle/Date:** | Next review 2020 |

## 1. BASIS OF ACCOUNTING

Council's financial report is a general purpose financial report that consists of the Statements of Comprehensive Income, Financial Position, Changes in Equity, Cash Flows, and notes accompanying the financial statements. The general purpose financial report will comply with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, and the Local Government Act 1993 (as amended).

The general purpose financial reports of Council will be prepared under the historical cost convention, as modified by the revaluation of certain classes of property, plant and infrastructure.

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

The estimates and underlying assumptions will be reviewed on an ongoing basis. Revisions to accounting estimates will be recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by Council that have significant effects on the Financial Report will be disclosed in the relevant notes as follows:

- *Fair Value of Property Plant & Infrastructure*
  Assumptions and judgements are utilised in determining the fair value of Council's property, plant and infrastructure including useful lives and depreciation rates. These assumptions are discussed at Points 5and 6.
- *Defined benefit superannuation fund obligations*
  Actuarial assumptions will be utilised in the determination of Council's defined benefit superannuation fund obligations.
- *Employee entitlements*
  Assumptions will be utilised in the determination of Council's employee entitlement provisions. These assumptions are discussed at Point 11.

- *Investment in Water Corporation*
  Assumptions utilised in determination of Council's valuation of its investment in TasWater are discussed at Point 9.

## 2. LOCAL GOVERNMENT REPORTING ENTITY

All funds through which Council controls resources to carry out its functions have been included in the financial report.

In the process of reporting on the Northern Midlands Council as a single unit, all transactions and balances between those funds (e.g. loans and transfers) will be eliminated. The recording of transactions and balances for internal borrowings will be eliminated.

## 3. DEFINING ACTIVITIES

Activities of Council are classified into the following functions:

### I) GOVERNANCE

The provision of elected representation, executive support, strategic planning and public relations.

### II) INFRASTRUCTURE & WORKS

The provision of engineering, waste management, maintenance and construction works of Council infrastructure and facilities.

### III) CORPORATE SERVICES

The provision of financial and information management to other functional areas of Council.

### IV) PLANNING & DEVELOPMENT

The provision of:

- Land Use Planning
- Building Services
- Public and Environmental Health
- Urban Design
- Environmental & Natural Resources

### V) ECONOMIC & COMMUNITY DEVELOPMENT

The provision of:

- Economic & Tourism Development
- Education
- Social (Human) Services
- Recreation

## 4. REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Revenue is measured on major income categories as follows:

### I) RATES, GRANTS AND CONTRIBUTIONS

Rates, grants, donations and other contributions (including developer contributions) will be recognised as revenues when Council obtains control over the assets comprising these receipts.

Control over assets acquired from rates will be obtained at the commencement of the rating period or, where earlier, upon receipt of the rates.

Control over granted assets will be normally obtained upon their receipt or upon prior notification that a grant has been secured.

Donations and other contributions that are not subject to accompanying conditions that they be expended in a particular manner or for a particular purpose will be recognised as revenue in the reporting period when Council obtains control over the assets comprising the contributions and donations.

Non-monetary contributions (including developer contributions) with a value in excess of the recognition thresholds', will be recognised as revenue and as non-current assets. Non-monetary contributions below the thresholds will be recorded as revenue.

### II) USER CHARGES

User charges and fines will be recognised as revenue when the service has been provided, the payment is received, or when the penalty has been applied, whichever first occurs. A provision for impairment of debts is recognised when collection in full is no longer probable.

### III) SALE OF PROPERTY, PLANT AND INFRASTRUCTURE

The profit or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer.

### IV) INTEREST AND RENTS

Interest and rents will be recognised as revenue on a proportional basis when the payment is due, the value of the payment is notified, or the payment is received, whichever first occurs.

### V) DIVIDENDS

Dividend revenue will be recognised when Council's right to receive payment is established.

## 5. EXPENSE RECOGNITION

Expenses will be recognised in the Statement of Comprehensive Income when a decrease in future economic benefits related to a decrease in asset or an increase of a liability has arisen that can be measured reliably.

### (I) EMPLOYEE BENEFITS

Employee benefits include, where applicable, entitlements to wages and salaries, annual leave, sick leave, long service leave, superannuation and any other post-employment benefits.

### II) DEPRECIATION OF PROPERTY, PLANT & INFRASTRUCTURE

Buildings, land improvements, plant, infrastructure and other assets having limited useful lives will be systematically depreciated over their useful lives to the Council in a manner which reflects consumption of the service potential embodied in those assets. Estimates of remaining useful lives and residual values will be made on a regular basis with major asset classes reassessed annually. Depreciation rates and methods will be reviewed annually.

Where assets have separate identifiable components that are subject to regular replacement, these components are to be assigned distinct useful lives and residual values and a separate depreciation rate is determined for each component.

Road earthworks are not to be depreciated on the basis that they are assessed as not having a limited useful life.

Land is not depreciated.

Straight line depreciation will be charged based on the residual useful life as determined each year.

Major depreciation periods to be used are listed below:

| Asset | | Life (Years) |
|---|---|---|
| Land | | Unlimited |
| Land Under Roads | | Unlimited |
| Buildings | - Structure | 75-150 |
| | - Roof Cladding | 75-150 |
| | - External fabric | 75-150 |
| | - Internal Fitout | 50-75 |
| | - Services | 40-75 |
| | - Site Services | 40-75 |
| Flood Levee Infrastructure | - Depreciable Component | 100 |
| | - Non-Depreciable Component | Unlimited |
| Furniture, Fittings, Office Equipment & Computers | | 2 – 20 |
| Fleet | | 2 – 20 |
| Heritage Assets | - Depreciable Component | 20 - 100 |
| | - Non-Depreciable Component | Unlimited |
| Plant | | 10 |
| Roads Infrastructure | - Formation | Unlimited |
| | - Pavement | 10-90 |
| | - Surface Treatment | 12-80 |
| | - Footpaths | 15-70 |
| | - Kerb & Gutter | 15-100 |
| | - Street Furniture | 15-100 |
| Bridges | | 30 – 100 |
| Stormwater & Drainage | | 80 – 100 |

### III) REPAIRS & MAINTENANCE

Routine maintenance, repair costs, and minor renewal costs will be expensed as incurred. Where repair relates to the replacement of a component of an asset and the cost exceeds the capitalisation threshold the cost is capitalised and depreciated. The carrying value of the replaced asset is expensed.

## 6. RECOGNITION AND MEASUREMENT OF ASSETS

### I) ASSETS

The Council controls and owns assets that are required to provide the services for which it has responsibility. These assets include:

- land,
- buildings,
- fleet,
- plant and infrastructure; i.e. roads, bridges and stormwater.

### II) ACQUISITION AND RECOGNITION

The cost method of accounting will be used for the initial recording of all acquisitions of assets.

'Cost' represents the fair value of these assets given as consideration plus costs incidental to their acquisition (including architects fees, engineering design fees, and administration charges and all other costs incurred) in getting the asset ready for use.

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

In determining the cost of non-current assets constructed by the Council, 'Cost' includes all materials used in the construction, direct labour on the project and an appropriate proportion of variable and fixed overheads. The cost of all materials includes all consulting and engineering fees.

Non-monetary assets received in the form of grants or donations will be recognised as assets and revenues at their fair value at the date of receipt.

'Fair value' means the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arms length transaction. In relation to infrastructure assets it is represented by depreciated replacement cost.

Council applies a capitalisation threshold and assets purchased or constructed with a value less than this threshold will be charged to the Statement of Comprehensive Income in the year of purchase (Other than where they form part of a group of similar items which are material in total).

The following classes of assets are to be recognised in the general purpose financial reports of Council, the threshold limits detailed below will be applied when recognising assets within an applicable asset.

| Asset | Threshold $ |
|---|---|
| Land | Nil |
| Land Under Roads | Nil |
| Buildings | 5,000 |
| Flood Levee Infrastructure | 3,000 |
| Furniture, Fittings, Office Equipment & Computers | 1,000 |
| Fleet | 1,000 |
| Plant | 1,000 |
| Roads Infrastructure | 5,000 |
| Bridges | 5,000 |
| Stormwater & Drainage | 3,000 |
| Heritage Assets | 1,000 |

### III) VALUATION OF NON-CURRENT ASSETS

Subsequent to the initial recognition of assets, non-current physical assets, other than asset categories listed in the table below as at cost, will be measured at their fair value in accordance with AASB 116 Property, Plant and Equipment and AASB 13 Fair Value Measurement. At balance date, Council will review the carrying value of the individual classes of assets measured at fair value to ensure that each asset class materially approximated its fair value. Where the carrying value materially differs from the fair value at balance date the class of asset will be revalued.

In addition, Council undertakes a formal revaluation of land, buildings and infrastructure assets on a regular basis to ensure valuations represent fair value. The valuation is performed either by experienced Council officers or independent experts.

Where the assets are revalued, the revaluation increments will be credited directly to the asset revaluation surplus except to the extent that an increment reverses a prior year decrement for that class of asset that had been recognised as an expense in which case the increment is recognised as revenue up to the amount of the expense.

Revaluation decrements will be recognised as an expense except where prior increments are included in the asset revaluation surplus for that class of asset in which case the decrement is taken to the reserve to the extent of the remaining increments. Within the same class of assets, revaluation increments and decrements within the year are to be offset.

Council has adopted the following valuation basis for its non-current assets:

| Asset | Valuation basis |
|---|---|
| Land | Fair value |
| Land Under Roads | Fair value |
| Buildings | Fair value |
| Flood Levee Infrastructure | Cost |
| Furniture, Fittings, Office Equipment & Computers | Cost |
| Fleet | Cost |
| Plant | Cost |
| Roads Infrastructure | Fair value |
| Bridges | Fair value |
| Stormwater & Drainage | Fair value |
| Heritage Assets | Cost |

### IV) *IMPAIRMENT OF ASSETS*

At each reporting date, Council will review the carrying value of its assets to determine whether there is any indication that these 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 to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value of its recoverable amount is expensed to the Statement of Comprehensive Income, unless the asset is carried at the revalued amount in which case, the impairment loss is recognised directly against the revaluation reserve 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 same class of asset.

Assets that have an indefinite useful life will not be subject to amortisation and will be tested annually for impairment. Assets that are subject to amortisation will be 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. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For non-cash generating assets of Council such as roads, bridges, stormwater & drainage and the like, value in use is represented by the deprival value of the asset approximated by its written down replacement cost.

### V) *MAINTENANCE VS CAPITALISATION*

Officers of the Council will determine at the occurrence of an event whether to capitalise or expense costs incurred in property, plant and infrastructure. The following formula is provided as a guide, "maintenance, repair costs and minor renewals will be charged as expenses as incurred unless their total value exceeds 10% of the written down current value and increases the economic life by more than 10%".

## 7. CASH & CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits at call with financial institutions, other short-term, highly liquid investments with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

## 8. INVENTORIES

Inventories held for distribution will be measured at cost adjusted when applicable for any loss of service potential.

## 9. INVESTMENT IN WATER CORPORATION

Council's investment in TasWater will be valued at its fair value at balance date. Fair value will be determined by using Council's ownership interest against the water corporation's net asset value at balance date based on the Final Treasurer's Allocation Order in 2011. Council has an ownership interest of 2.52% in the corporation.

Councils Investment is not traded in an active market and is only sensitive to fluctuations in the value of TasWater's net assets.

Any unrealised gains and losses on holdings at balance date will be recognised through the Statement of Comprehensive Income to a Financial assets available for sale Reserve each year

Council classifies this asset as an Available-for-Sale financial asset as defined in AASB 139 Financial Instruments: Recognition and Measurement and follows AASB 132 Financial Instruments: Presentation and AASB 7 Financial Instruments: Disclosures to value and present the asset in the financial report.

## 10. TRUST FUNDS

The financial reports of the Council will incorporate only those items over which the Council has control.

Amounts received as tender deposit and retention amounts controlled by Council will be included in the amount disclosed as creditors with current liabilities until they are refunded or forfeited.

## 11. EMPLOYEE BENEFITS

### I) SHORT TERM OBLIGATIONS

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service will be recognised in respect of employees' services up to the end of the reporting period and will be measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave will be recognised in the provision for employee benefits. All other short-term employee benefit obligations will be presented as payables.

### II) OTHER LONG TERM EMPLOYEE BENEFIT OBLIGATIONS

The liability for long service leave and annual leave which is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service will be recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is to be given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments will be discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations will be presented as current liabilities in the statement of financial position if Council does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

#### III) RETIREMENT BENEFIT OBLIGATIONS

All employees of the Council are entitled to benefits on retirement, disability or death. Council contributes to various defined benefit plans and defined contribution plans on behalf of its employees.

##### DEFINED BENEFIT PLANS

A liability or asset in respect of defined benefit superannuation plans would ordinarily be recognised in the statement of financial position, and measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. However, when this information is not reliably available, Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans i.e as an expense when it becomes payable.

Council makes superannuation contributions for a number of its employees to the Quadrant Defined Benefits Fund, which is a sub fund of the Quadrant Superannuation Scheme. The Quadrant Defined Benefits Fund has been classified as a multi-employer sponsored plan. As the Fund's assets and liabilities are pooled and are not allocated by employer, the Actuary is unable to allocate benefit liabilities, assets and costs between employers. As provided under paragraph 32(b) of AASB 119 Employee Benefits, Council does not use defined benefit accounting for these contributions.

##### DEFINED CONTRIBUTION PLANS

Contributions to defined contribution plans will be recognised as an expense as they become payable. Prepaid contributions will be recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### IV) SICK LEAVE

Council does not recognise a liability for sick leave because such leave is non-vesting and because it is probable that sick leave expected to be taken in future reporting periods will be less than entitlements which are expected to accrue in those periods. Employees receive 10 days sick leave per year.

#### V) ROSTERED DAYS OFF

A liability for accrued rostered days off is recognised at the current rates of pay including related oncosts, for expected future payments to be made in respect of accruals by employees of the Council.

## 12. ACCRUALS/PREPAYMENTS

Accruals and Prepayments will be recognised in accordance with generally accepted accounting practices with materiality a major factor in determining their applicability.

## 13. NET FAIR VALUES OF FINANCIAL ASSETS & LIABILITIES

Net fair values of financial instruments will be determined on the following basis:

- *Monetary financial assets and liabilities* - carrying amounts of trade debtors, trade creditors and accruals (which approximates net market value).
- *Interest bearing loans* – will be carried at their principal amount, which represents the present value of future

cash flows associated servicing the debt. Interest is accrued.

## 14. SIGNIFICANT BUSINESS ACTIVITIES

The Local Government Act requires the reporting of operating capital and competitive neutrality in respect of each significant business activity undertaken by Council

Council has determined, based upon an assessment of the activities it undertakes that it has no significant business activities.

## 15. LEASES

### *Operating leases as lessee*

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Council as lessee will be classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) will be charged to the income statement on a straight-line basis over the period of the lease.

Council leases several parcels of Crown land under lease agreements with the State Government. These leases, in general, do not reflect commercial arrangements, are long-term and have minimal lease payments. Crown land is recognised as an asset in the Statement of Financial Position and carried at fair value when Council establishes that (i) it has control over the land and (ii) it will derive economic benefits from it.

### *Operating leases as lessor*

Council is a lessor and enters into agreements with a number of lessees. These include commercial and non-commercial agreements.

Where leases are non-commercial agreements, these are generally with not for profit, such as sporting, organisations. In these cases subsidised or peppercorn rents are charged because Council recognises part of its role is community service and community support. In these situations, Council will record lease revenue on an accruals basis and the associated properties as part of land and buildings within property, plant and equipment. Buildings will be recognised at depreciated replacement cost.

Where leases are commercial agreements, but properties leased are part of properties predominantly used by Council for its own purposes, Council will record lease revenue on an accruals basis and will record the associated properties as part of land and buildings within property, plant and equipment. Buildings will be recognised at depreciated replacement cost.

## 16. TAXATION

Council is exempt from all forms of taxation except Fringe Benefits Tax, Payroll Tax and Goods and Services Tax.

Revenues, expenses and assets will be recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST will be recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables will be stated with the amount of GST included.

The net amount of GST recoverable or payable to the ATO will be included as a current asset or current liability in the statement of financial position.

Cash flows will be included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recovered from, or paid to, the ATO will be classified as operating cash flows.

## 17. CONTINGENT ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

Contingent assets and contingent liabilities will not be recognised in the Statement of Financial Position, but will be disclosed by way of a note and, if quantifiable, will be measured at nominal value. Contingent assets and liabilities will be presented inclusive of GST receivable or payable respectively.

Commitments will not be recognised in the Statement of Financial Position. Commitments will be disclosed at their nominal value inclusive of the GST payable.