



## Statutory Financial Reporting Policy

<b>Reference Number:</b>	3.15
<b>Type:</b>	Council
<b>Category:</b>	Corporate Services
<b>Relevant Community Plan Outcome:</b>	<ul style="list-style-type: none"> <li>Be bold and innovative in our practices, leadership and decision making.</li> <li>Adaptive and sustainable management of the City's finances.</li> </ul>
<b>Responsible Officer(s):</b>	Manager Financial Services
<b>First Issued/Approved:</b>	August 2008
<b>Minutes Reference:</b>	CoS 4/02/2019, Item 3.6
<b>Last Reviewed:</b>	February 2019
<b>Next Review Due:</b>	February 2021
<b>Applicable Legislation:</b>	Local Government Act 1999 Local Government (Financial Management) Regulations 2011 Australian equivalents to International Accounting Standards (AIFRS)
<b>Related Policies:</b>	
<b>Related Procedures:</b>	

### 1. Purpose

This policy seeks to clarify Council's position on significant accounting policies in ensuring compliance with applicable accounting standards and the Local Government Act 1999 in preparation of the annual financial statements.

### 2. Scope

This policy gives guidance to relevant stakeholders on Council's policy position for significant accounting policies in preparation of the annual financial statements.

### 3. Policy Statement

Annual financial statements shall be prepared in accordance with applicable Australian Accounting Standards and the Local Government (Financial Management) Regulations 2011

Audited financial statements will be presented to Council for adoption no later than 31 October of each year.

Audited financial statements will be submitted to the relevant Minister and to other bodies as prescribed in the Regulations before 30 November of each year.

All accounting records, accounts and financial statements of Council will be prepared and maintained in accordance with applicable Australian Accounting Standards and Local Government Accounting Regulations.

By no later than 31 December each year council must prepare a report showing the audited financial results for the previous financial year compared with the estimated financial results set out in the budget for that same year and explains any material variances. The format must be in a manner consistent with the Model Financial Statements

A summary of significant Accounting Policies for the purpose of preparing the annual audited financial statements are as follows:

### **Summary of Significant Accounting Policies**

**1. Basis of Accounting**

The financial report is prepared as a general purpose financial report in accordance with Australian Accounting standards as they apply for not-for-profit entities, other authoritative pronouncements of the Australian Accounting Standards Board, Interpretations and relevant South Australian legislation.

**2. Historical Cost Convention**

The financial statements have been prepared on the accrual basis under the convention of historical cost accounting.

**3. Comparative Information**

Comparative information has been reclassified to be consistent with the current year disclosure of equivalent information in accordance with Australian Accounting standards.

**4. Critical Accounting Estimates**

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates and requires management to exercise its judgement in applying council 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 the notes to the financial statements.

**5. Trust Funds**

The Council is required under the Local Government Act 1999 to maintain a separate and distinct Trust Fund to account for all monies and property received by the Council in trust which must be applied only for the purposes of or in accordance with the trust relating to those monies.

**6. Infrastructure, Property, Plant and Equipment**

All assets are initially recognised at cost. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including architects' fees and engineering design fees and all other costs incurred in getting the assets for use. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition.

Capital works still in progress at balance date are recognised as other non-current assets and transferred to Infrastructure, Property, Plant and Equipment when completed ready for use.

Council elects to not recognise land under roads in acquired prior to 1 July 2008 as an asset in accordance with AASB 1051 land Under Roads. Land under roads acquired after 30 June 2008 has not been recognised as in the opinion of council it is not possible to reliably attribute a fair value, and further that such value if determined would be immaterial.

The cost of non-current assets constructed by the Council includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overhead.

**7. Revaluations of Non-Current Assets**

Certain classes of assets are re-valued on a regular basis such that the carrying values are not materially different from fair value. Fair value valuations are determined in accordance with a valuations hierarchy as per AASB13. For infrastructure and other asset classes where no active market exists (Roads, footpaths, kerbs, gutters and drains) fair value is determined to be the current replacement costs of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

Revaluations of infrastructure, land and buildings is undertaken every 3 to 5 years and performed by either experienced council officers or independent experts.

**8. Depreciation of Non-Current Assets**

All non-current assets brought to account having a limited useful life are systematically depreciated over their useful lives in a manner which reflects the consumption of the service potential embodied in those assets. Land is not a depreciable asset.

Depreciation is recognised on a straight-line basis over the estimated useful life of each asset, using rates which are reviewed each reporting period.

**9 Maintenance and Repairs**

Maintenance, repair costs and minor renewals are charged as expenses as incurred.

**10. Inventories**

Inventories held in respect of stores are 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 are valued at the lower of cost and net realisable value and recognised when goods are received.

Loose tools are expensed when purchased.

**11. Real Estate Assets Developments**

Real estate Assets developments (Land held for development and/or resale) are classified at the lower of cost or net realisable value. Cost includes the cost of acquisition, development, borrowing and other costs incurred on financing of that acquisition and up to the time of sale. Any amount by which costs exceeds the net realisable value is recognised as an expense.

Revenue arising from the sale of land is recognised in the operating statement when settlement is complete.

**12. Employee Entitlements**

Liabilities for employee's 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 is 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.

The superannuation expense for the reporting period is the amount of the statutory contribution the Council makes to the superannuation plan which provides benefits to its employees.

**13. 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 (as amended). Other receivables are generally unsecured and do not bear interest. All financial instruments are recognised at fair value at the date of recognition.

**14. Leases**

Lease arrangements have been accounted for in accordance with Australian Accounting Standards AASB 117. In respect of finance leases, where Council substantially carries all of the 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 as assets under lease and are amortised to expenses 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.

**15. Payables**

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 month of the invoice. No interest is payable on these amounts.

**16. Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised when the Council obtains control over the assets comprising the revenue, or when the amount constitutes an enforceable debt, whichever occurs first. Special purpose grants for which there is reasonable likelihood that the grants will have to be refunded if obligations are not discharged in accordance with terms and conditions will be recognised as a liability until funds are expended in accordance with relevant agreements.

Where grants, contributions, donations recognised as revenue 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 and the amounts are not refundable, the nature of and amounts pertaining to those undischarged conditions are disclosed in the notes.

Also disclosed is the amount of grants, contributions and receivables recognised as revenues in a previous reporting period which were obtained in respect of the Council's operations for the current reporting period.

**17. Receivables**

Receivables are recorded at amounts due less any provision for doubtful debts.

**18. Controlling Authorities**

Council participates in cooperative arrangements with other Councils for the provision of services and facilities. Council's interests are accounted for, if material, in accordance with AASB128 and operate as Regional Subsidiaries pursuant to Section 43 of the Local Government Act 1999 and which are not consolidated with Council's financial reports

**19. Borrowings**

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". Interest free loans are carried at their nominal amounts, interest revenues forgone by the lender effectively being a reduction of interest expense in the period to which it relates.

**20. Goods and Service Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

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

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to the ATO are classified as operating cash flows.

**21. Impairment of Assets**

Assets that have an indefinite life are not subject to depreciation and are reviewed annually for 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, the *value*

*in use* is the depreciated replacement cost. In assessing impairment for these assets, a rebuttable assumption is made that the current replacement cost exceeds the original cost of acquisition.

## 22. **Financial Instruments**

Under AASB139: Financial Instruments: Recognition and Measurement, financial assets are required to be classified into 4 categories which determines the accounting treatment of the respective item. The categories and various treatments are:

- held to maturity, measured at amortised cost;
- held for trading, measured at fair value with unrealised gains or losses charged to profit and loss;
- loans and receivables, measured at amortised cost; and
- available for sale instruments, measured at fair value with unrealised gains or losses taken to equity.

The City of Charles Sturt's financial assets comprise available for sale financial instruments. Under AASB139, the measurement of available for sale instruments at fair value differs to current accounting policy which measures non-current investments at cost with an annual review to ensure the carrying amounts are not in excess of the recoverable value of the instruments. The impact of the change is likely to increase the value of non-current other financial assets in relation to available for sale instruments.

## 23. **Non Interest-Bearing Liabilities**

Accommodation Bonds are amounts payable under the Aged Care Act 1997 and are controlled by legislation and individual contracts. The repayment of the loan balance is required within a short period of time and the resident leaving the retirement unit. To recognise this repayment requirement all accommodation bonds are recorded as a current liability as per AASB 101: Presentation of Financial Statements even though historical experience indicates that bonds may not be repaid within one year.

## 24. **Construction Contracts**

Construction works undertaken by Council for third parties are generally on an agency basis where the third party reimburses Council for the actual costs incurred, and usually do not extend beyond the reporting period. As there is not a profit component, such works are treated as 100% completed. Reimbursements not received are recognised as receivables and reimbursements received in advance as "payments received in advance".

## 4. **Definitions**

N/A