South Australia

Model Financial Statements

2024

Published by the
Local Government Association of South Australia under the technical guidance of the
South Australian Local Government Financial Management Group Inc.

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INTRODUCTION

These Model Financial Statements have been prepared for the Local Government Association of South Australia (LGA), under the technical guidance of the SA Local Government Financial Management Group Inc. (FMG).

The *Local Government Act* 1999 section 127 requires a Council must prepare financial statements and notes in accordance with standards prescribed by the regulations, and other statements or documentation relating to the financial affairs of the Council required by the regulations for each financial year. Regulation 13 of the *Local Government (Financial Management) Regulations* 2011 requires that the Annual Financial Statements of a Council, Council subsidiary or regional subsidiary (other than notes and other explanatory documentation) must be in accordance with the requirements set out in the *Model Financial Statements*.

For the purposes of the definition of *Model Financial Statements*, the document entitled the *Model Financial Statements* published by the LGA on 23 August 2006, as in force from time to time, is adopted by the *Local Government (Financial Management) Regulations 2011,* pursuant to section 303(4) of the Act. These Model Statements, when authorised by the Minister, become the *Model Financial Statements* referred to in Regulation 4(3). The Local Government Association notifies all Councils when the statutory procedures have been completed.

The Model Financial Statements set out a recommended format for the presentation of the 2024 Annual Financial Statements for South Australian Councils and all other bodies, including regional subsidiaries, established pursuant to the *Local Government Act*. As such, they provide an example of the level of information that the LGA and FMG consider is appropriate to provide, and an example of the manner in which this information may be presented. The amounts shown are entirely fictitious and are intended only to illustrate the various relationships between different portions of the statements. Amounts given are shown as being rounded to the nearest thousand dollars ($'000), and this is recommended, but rounding to the nearest dollar may also be used.

The Model Statements are illustrative only. As such, it is unlikely that any one Council or subsidiary will find all of the disclosures appropriate to its circumstances. Similarly, it is likely that most Council's or subsidiaries will need to make one or more disclosures not shown in the Model Statements, and guidance on many of these is given in explanatory text.

To assist in interpreting the Model Statements the following is format is used throughout:

- Model Statements and Mandatory requirements are contained within **Red** boxes;
- Recommended disclosures (which should be tailored to Council's circumstances are within **Green** boxes;
- Additional guidance of high import is contained within **Blue** boxes;
- Bold and/or uppercase font has been used for emphasis; and
- Notations in the **Blue** boxes on the left-hand margins of statements and notes are references to relevant Australian Accounting Standards (AASB) and Legislation.

In preparing Annual Financial Statements in the Model Statements format, **it is the responsibility of each Council or subsidiary to ensure that its reports comply with:**

- **the Australian Accounting Standards and Interpretations as they apply to not-for-profit entities and local government, and having regard to interpretations in these Model Statements, and**
- **additional requirements (if any) imposed under South Australian legislation.**

A fundamental objective is that the format of the four principal financial statements together with the notes entitled Financial Indicators (numbered Note 15 in these Model Statements) and Uniform Presentation of

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Finances (numbered Note 16 in these Model Statements) be adopted by all Councils in the format shown (other reporting entities are not required to supply Notes 15 & 16). Any variation from the format shown must have a strong justification. However, any user may:

(a) include additional disclosures not provided for in the Model Statements where these are required by any Australian Accounting Standard or Interpretation.

(b) use more specific descriptions of any accounting classification where this is appropriate to the user, notwithstanding that a generic description appears in the Model Statements.

(c) omit descriptions on the face of the principal statements, policies in the *Statement of Material Accounting Policies,* and detailed Notes in whole or in part, where those descriptions, policies and Notes are not relevant to the Council or subsidiary, and where all disclosures for the current and previous reporting periods would be NIL.

If a Council or subsidiary has no amounts in either the current or previous reporting period for any line item it should **NOT** be shown unless otherwise indicated in these Model Financial Statements.

With ongoing modifications to the Australian Accounting Standards, it is anticipated that these Model Statements will be updated annually.

Councils **MUST** use the most recently authorised version of these Model Financial Statements when preparing their Annual Financial Statements.

These Model Statements are designed to be used in electronic soft copy. If it is necessary to print, please print on both sides of the paper.

Planning and Timeliness

Effective project management is key to successful financial statements preparation and producing high quality Annual Financial Statements within time and resource constraints.

A clear plan should be developed at commencement of the Annual Statement Preparation Process. This plan should include all key dates for critical tasks and dependencies and roles and responsibilities. Key tasks may include but not be limited to preparing draft statements, key inputs required (such as valuations), closing the ledger, auditing and audit committee dates, finalising and authorisation.

Audit Committee meetings play a key role in the corporate governance of the financial reporting process. These meetings should be scheduled to align with key Annual Financial Statement and audit timelines. Where necessary a special meeting should be scheduled. For further information regarding the important role of the Audit Committee Refer to *Financial Sustainability Information Paper 3 Audit Committee*

Initiate early communication with auditors to ensure their availability, align timelines and to understand their requirements.

Lessons learned from prior years should be considered and embedded in planning to drive continuous improvement.

Materiality

Except where these Model Statements describe a disclosure as ***prescribed*** or ***mandatory,*** Councils are expected to apply the key accounting concept of ***materiality*** as defined in AASB 101 *Presentation of Financial Statements* (AASB 101.7) to disclosures throughout the Annual Financial Statements.

> "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

Councils may apply the following guidelines, in assessing materiality for disclosures in the Annual Financial Statements. However, the use of quantitative thresholds should not override the definition of materiality noted above.

(a) an amount which is equal to or greater than 10 per cent of the appropriate base amount may be presumed to be material unless there is evidence or convincing argument to the contrary; and

(b) an amount which is equal to or less than 5 per cent of the appropriate base amount may be presumed not to be material unless there is evidence, or convincing argument, to the contrary.

Councils are encouraged to review materiality of disclosures with a view to simplifying financial statements and removing immaterial or irrelevant disclosures.

Sustainability Reporting

Climate change and broader sustainability disclosures are becoming mainstream public policy and corporate governance tools for government, business and finance to measure and adapt to physical and transitional risks of climate change. There is also increasing community pressure on governments to provide transparent reporting

These Model Statements do not currently include example sustainability disclosures. Councils at their discretion may include additional sustainability disclosures in their Annual Financial Statements.

In late 2021 the International Financial Reporting Standards Foundation launched the International Sustainability Standards Board (a sister of the International Financial Reporting Standards Board) to develop a comprehensive global baseline of sustainability standards.

As at the time of issue of these Model Financial Statements the Australian Accounting Standards Board (AASB) have released Exposure Draft ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*.

ED SR1 includes three proposed Australian Sustainability Reporting Standards (ASRS) that are broadly consistent with the baseline IFRS® Sustainability Disclosure Standards:

- [draft] ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information* – based on IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* - but limited to climate-related financial disclosure;
- [draft] ASRS 2 *Climate-related Financial Disclosures* – based on IFRS S2 *Climate Related Disclosures* with Australian-specific requirements; and

- [draft] ASRS 101 *References in Australian Sustainability Reporting Standards*, a draft service Standard to list the relevant versions of any non-legislative documents published in Australia and foreign documents referenced in ASRS Standards.

While a decision is yet to be made regarding application of these requirements by South Australian Local Governments, these mandatory climate-related financial disclosures are proposed for entities required to lodge financial reports under Chapter 2M of the *Corporations Act 2001* and Commonwealth Government entities that either: Meet the prescribed size thresholds; or are a ‘controlling corporation’ under the *National Greenhouse and Energy Reporting Act 2007* (‘NGER Act’). A staged approach for reporting will commence for these captured entities for reporting periods commencing on or after 1 January 2025.

Until a decision and associated legislative amendments are made regarding the application of ASRS to the South Australian Local Government, Councils are **NOT** required to include sustainability disclosures in their Annual Financial Statements and should **NOT** voluntarily early adopt the requirements of ED SR1. However, Councils **MAY** at their discretion include additional sustainability disclosures.

Notwithstanding that Councils are not yet required to produce these disclosures, it is highlighted that these requirements and their implications are far reaching. Early gap analysis, collaboration across Councils (between risk, sustainability and finance teams) and assessment of climate risks and opportunities will be key to successful implementation of these requirements. It is imperative that any sustainability information reported in the Annual Financial Statements is consistent both internally within the Annual Financial Statements, but also with other sustainability reporting and communications of Council.

It is also highlighted that as these requirements include disclosure of Green House Gas Emissions, including indirect emissions in an entities value chain, Councils are likely to be approached by corporate and Commonwealth Government entities for which these disclosures are mandatory, seeking information about Councils emissions as they relate to the Corporate’s or entity’s value chain (including but not limited to Council transport and commuter, waste and water services).

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It is recommended that a *Contents* page be provided as a convenience to users.

SA MODEL COUNCIL

General Purpose Financial Reports
for the year ended 30 June 2024

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The Annual Financial Statements are not complete unless the Council Certificate and Audit Reports (including independence certificates) are supplied. Annual Financial Statements may be supplied electronically or in paper form and should only be supplied as a complete set. Paper copies are to be bound or stapled.

Numbering of Notes

Notes are to be presented in a systematic manner and cross-referenced to any related information in the notes (AASB101.112-116). However, cross-referencing is not necessary when an amount is not material, and when details are not presented in the subsidiary Note.

The Model Statement Notes have been numbered in accordance with the main headings on the Statement of Comprehensive Income and Statement of Financial Position, with separate sections within these notes for the line items shown on those statements. The main numbering sequence is then continued for notes that deal with the Council as a whole before continuing with specific items required by the standards relating to a line item within a note (which are also the notes that are required by a lesser number of Councils).

It is intended that this will result in increased commonality of note numbers across Councils, which will facilitate cross-Council comparisons, and increased familiarity with the differing areas contained within the reports.

It is anticipated that most Councils will use Notes 1 to 19 inclusive, and that subsequent notes that are used will be numbered consecutively. Councils may choose to adopt another numbering sequence if desired. However, all notes should be listed on the *contents* page.

Notes that would have NIL disclosure should not be supplied, and subsequent notes should be renumbered.

Regional subsidiaries and other single purpose reporting entities will probably state their purpose in Note 1 (*section 2 - the reporting entity*) and dispense with Note 12, renumbering all subsequent notes. Regional subsidiaries and other single purpose reporting entities are also not required to supply Notes 15 & 16, and subsequent notes would also be renumbered.

Note Descriptions

Councils may amend the descriptions of individual notes to more accurately reflect the content of the note as used by that Council.

Comparative Figures

A complete set of financial statements comprises (AASB101.10):

- (a) a statement of financial position as at the end of the period;
- (b) a statement of comprehensive income for the period;
- (c) a statement of changes in equity for the period;
- (d) a statement of cash flows for the period;
- (e) notes, comprising a summary of material accounting policies and other explanatory information; and
- (ea) comparative information in respect of the preceding period (AASB 101.38 and AASB 101.38a); and
- (f) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements (AASB 101.40A-40D).

Where a retrospective policy change or restatement occurs, an additional statement of financial position for an additional preceding period and the previous period comparatives are required (AASB 101.38-44). Additional comparative information on the retrospective change must also be included in the Notes.

These Model Statements do not contain an example of an additional comparative period recognition and disclosure.

Local Government Association of South Australia

SALGFMG South Australian Local Government Financial Management Group Inc.

COUNCIL CERTIFICATE

The format of certification of the Annual Financial Statements is determined by the Minister and governed by Regulation 14 of the *Local Government (Financial Management) Regulations 2011*.

An important consideration in locating Council's Certificate at the head of the Annual Financial Statements is that the legislation places the responsibility for preparing accurate statements upon the Council, not the Auditor. The Auditor's role is limited to forming and expressing an opinion as to whether those statements show a true and fair view of the matters reported. Accordingly, the Council's Certificate prefaces the Annual Financial Statements, then the statements complete with notes, then the Auditor's Reports and the independence certificates.

Separately, the following procedures surrounding the certification process (which Councils are free to adapt to meet their own requirements) are designed to integrate with Audit Committee requirements in the legislation, and it is envisaged that they will operate in the following manner:

- Prior to the completion of the Annual Financial Statements, the Council will authorise the principal member of the Council and the Chief Executive Officer to sign the certification of the statements in their final form when completed.
- The officer responsible for preparing the Annual Financial Statements, who may or may not be the chief executive officer, will prepare draft statements for submission to the Audit Committee, and for external audit.
- The Audit Committee will review the draft statements to ensure that they present fairly the affairs of the Council. This review will be conducted independently of the external audit. However, it is anticipated that the Audit Committee will have the benefit of any information available (informal or otherwise) on particular matters raised by the auditor up until the time of the review. Any suggested changes will be provided to the officer responsible for preparing the statements.
- Following the external audit, the officer responsible for preparing the statements and the auditor will propose any necessary amendments to the draft statements, which will be referred to the certifying officers for consideration.
- The certifying officers will review the proposed amendments to the draft statements and will either refer them to the Audit Committee for further consideration or may, if satisfied that the proposed amendments are appropriate, complete and date the certificate.
- The date of the certificate will be the date of authorisation for issue of the Annual Financial Statements. (AASB 110.17)
- Thereafter, the Annual Financial Statements (including the accompanying auditor's report and other certificates) will be sent to the Local Government Grants Commission and will be tabled at an ordinary Council meeting.

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Local Government Association of South Australia

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SA MODEL COUNCIL

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 June 2024

CERTIFICATION OF FINANCIAL STATEMENTS

We have been authorised by the Council to certify the financial statements in their final form. In our opinion:

- the accompanying financial statements comply with the *Local Government Act 1999, Local Government (Financial Management) Regulations 2011* and Australian Accounting Standards.
- the financial statements present a true and fair view of the Council's financial position at 30 June 2024 and the results of its operations and cash flows for the financial year.
- internal controls implemented by the Council provide a reasonable assurance that the Council's financial records are complete, accurate and reliable and were effective throughout the financial year.
- the financial statements accurately reflect the Council's accounting and other records.

(insert name)	(insert name)
CHIEF EXECUTIVE OFFICER	**MAYOR/COUNCILLOR**
Date:	Date:

Alternate wording for third dot point:

"internal controls implemented by the Council provide a reasonable assurance that the Council's financial records are complete, accurate and reliable and were effective throughout the financial year, with the exception of controls related to xxxx which will be improved during 20xx-xx."

STATEMENT OF COMPREHENSIVE INCOME

In drafting the Model Financial Statements and the Statement of Comprehensive Income in the format presented, a large number of matters were considered.

- AASB 101 requires that a Statement of Comprehensive Income MUST be presented, even if there is a separate Income Statement.
- The Statement of Comprehensive Income must show, as a minimum, the Net Surplus / Deficit, and each item of other comprehensive income individually.
- It is very likely that most Councils will only have ONE item of other comprehensive income, revaluation transfer arising from revaluations of infrastructure, property, plant and equipment.
- Presenting a Statement with only 3 (or even 2) lines of information is not considered acceptable.

Details of the content of line items are given in the relevant notes below.

There is an expectation that no other line item descriptions will be used in the Statement of Comprehensive Income.

If there are no items of other comprehensive income, a line entitled “other comprehensive income”, with amounts of “0” in the value columns, **MUST** still be shown.

Items of other comprehensive income that do not apply to a Council should **NOT** be shown.

Local Government Association of South Australia

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SA MODEL COUNCIL

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2024

Source Reference		Notes	2024 $'000	2023 $'000
AASB 101.85/ AASB 101.82(a)/ AASB 15/ AASB 1058	**INCOME**			
	Rates	2	**5,734**	5,431
	Statutory charges	2	**4,400**	4,608
	User charges	2	**1,172**	1,281
	Grants, subsidies and contributions - Capital	2	**508**	484
	Grants, subsidies and contributions - Operating	2	**1,524**	850
AASB 101.82(a), (b)	Investment income	2	**948**	983
	Reimbursements	2	**2,273**	1,595
	Other income	2	**728**	691
AASB 101.82(c)	Net gain - equity accounted Council businesses	19	**101**	395
	Total Income		**17,388**	16,318
AASB 101.85 & 99	**EXPENSES**			
	Employee costs	3	**5,824**	5,710
	Materials, contracts & other expenses	3	**8,345**	7,986
AASB 116.48	Depreciation, amortisation & impairment	3	**3,625**	1,488
AASB 101.82(b)	Finance costs	3	**399**	598
	Net loss - equity accounted Council businesses	19	**174**	48
	Total Expenses		**18,367**	15,830
AASB 101.81A(a)	**OPERATING SURPLUS / (DEFICIT)**		**(979)**	488
AASB 101.7/ AASB 116. Aus 39.1, Aus 40.1	Asset disposal & fair value adjustments	4	**624**	874
AASB 101.85	Amounts received specifically for new or upgraded assets	2	**85**	141
AASB 101.85	Physical resources received free of charge	2	**851**	958
AASB 101.82(ea)/ AASB 5.33(a)	Operating result from discontinued operations	20	**60**	53
	NET SURPLUS / (DEFICIT) transferred to Equity Statement		**641**	2,514
	Other Comprehensive Income			
AASB 101.82A(a)	*Amounts which will not be reclassified subsequently to operating result*			
AASB 101.7 AASB 116. Aus 39.1, Aus40.1	Changes in revaluation surplus - infrastructure, property, plant & equipment	9	**3,308**	1,462
AASB 101.82(c)	Share of other comprehensive income - equity accounted Council businesses	19	**(33)**	188
AASB 136.60, Aus 61.1	Impairment (expense) / recoupments offset to asset revaluation reserve	9	**(279)**	-
AASB 3. Aus63.1-7	Net assets transferred - Council restructure		**xx**	xx
AASB 116.41	Transfer to accumulated surplus on sale of revalued infrastructure, property, plant & equipment		**-**	-
	Total Other Comprehensive Income		**2,996**	1,650
AASB 101.106(a)	**TOTAL COMPREHENSIVE INCOME**		**3,637**	4,164

Shown only if material and applicable

This Statement is to be read in conjunction with the attached Notes.

Impairment Expense

Impairment on non-financial assets is not required to be separately disclosed on the face of the Statement of Comprehensive Income (AASB 136.126).

These Model Financial Statements include disclosures of impairment of *infrastructure, property, plant and equipment* in Note 7 – "FIXED" ASSETS (per AASB 136.128), and impairment of *receivables* through use of an allowance account in Note 5 - CURRENT ASSETS (per AASB 9.5.5). For further commentary on impairment, see Impairment**.**

In the context of a recent natural disaster (i.e. flood events) impacting Councils the following guidance can be applied:

- **Assets damaged, where there is an intention to repair, but repair has not yet been conducted as at reporting date -** will need to be assessed for impairments. Any actual impairment will need to be accounted for.
- **Assets repaired or replaced prior to reporting date** – and are in use at normal capacity by reporting date will not need to be assessed for impairment, as the carrying value and use has returned to pre- natural disaster conditions.
- **Assets completely destroyed, where no repair is intended** – the carrying value should be written down, or written off during reporting the period (AASB 116.67). Hence, no further impairment testing should be required in respect of these assets.

Any assessment must be based in best available knowledge and experience, recognising that Council's may not be able to gain access to complete an assessment.

The associated disclosures will be required refer to AASB 136 for more information. (AASB 136.130)

Any repairs, replacement or improvements are accounted for in accordance with AASB 116. For further information see NOTE 7 – "FIXED" ASSETS.

Discontinued Operations

A discontinued operation is "a component of an entity that either has been disposed of or is classified as held for sale and:

(a) represents a separate major line of business or geographical area of operations;

(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

(c) is a subsidiary acquired exclusively with a view to resale" (AASB 5.3.2).

It does not include a "restructuring of a local government (AASB 5 Aus.2.4)". As such, it has limited applicability to Councils. These Model Statements include disclosure of operating results from discontinued operations (AASB 5.33) in Note 20 - NON-CURRENT ASSETS HELD FOR SALE.

Other Comprehensive Income (OCI)

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Australian Accounting Standards. (AASB 101.7[1]: AASB 101.81 to 86 and AASB 101.90 to 96)

These Model Statements include disclosures of changes in revaluation surplus of infrastructure, property, plant and equipment in Note 9 (per AASB 116.Aus 39.1, Aus 40.1), share of other comprehensive income of equity accounted Council businesses in Note 19 (per AASB 101.82C) and recoupments offset to asset revaluation reserve in Note 9 (per AASB 136.60, Aus 61.1).

Other components of other comprehensive income relevant to local government's include:

- changes in revaluation surplus (see AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*);
- actuarial gains and losses on defined benefit plans (see recognised in accordance with AASB 119 *Employee Benefits* paragraph 93A);
- gains and losses arising from translating the financial statements of a foreign operation (see AASB 121 *The Effects of Changes in Foreign Exchange Rates*);
- gains and losses on remeasuring financial assets designated as fair value through OCI (see AASB 9 *Financial Instruments)*;
- the effective portion of gains and losses on hedging instruments in a cash flow hedge (see AASB 9); and
- gains and losses where assets and liabilities are transferred to a local government from another local government at no cost, or for nominal consideration, pursuant to legislation, ministerial directive or other externally imposed requirement (see AASB 3 *Business Combinations* paragraphs Aus 63.1 - Aus 63.9).

Many Councils will not have any items of other comprehensive income to report in any given reporting period. In this case, the amount "0" **MUST** be shown against the sub-heading other comprehensive income and the detailed rows hidden.

The totals NET SURPLUS / (DEFICIT) transferred to Equity Statement and TOTAL COMPREHENSIVE INCOME MUST still be shown.

Other comprehensive income may be positive or negative in amount.

Both **ARE** termed other comprehensive income.

Sub-classifications within Other Comprehensive Income

Other comprehensive is grouped into those that, in accordance with other Australian Accounting Standards:

(a) will not be reclassified subsequently to profit or loss; and

(b) will be reclassified subsequently to profit or loss when specific conditions are met (AASB 101.82A)

[1] AASB 101.7 Definitions; additional information relating to other comprehensive income is provided in paragraphs 81 - 86 and 90 - 96 of the Standard.

The description of this grouping MUST be shown unless there are no relevant items of other comprehensive income.

Other Comprehensive Income - Equity accounted Council businesses

This item includes Councils share of all amounts shown below the *Operating Surplus / (Deficit)* in the *Statement of Comprehensive Income* of the joint venture / associated entity / regional subsidiary (AASB 101.82(c)). This includes:

- Asset disposal & fair value adjustments
- Amounts received specifically for new and upgraded assets
- Physical resources received free of charge
- Operating result from discontinued operations

  (All of the above show in the *Accumulated Surplus* column in the *Statement of Changes in Equity.)*
- Changes in revaluation surplus - infrastructure, property, plant & equipment

  (Shown in *Asset Revaluation Reserve* column.)
- Fair value through OCI Financial Assets - change in fair value

  (Shown in *Fair value through OCI Financial Instruments* column.)
- Impairment (expense) / recoupments offset to asset revaluation reserve

  (Shown in *Asset Revaluation Reserve* column.)
- Transfer to accumulated surplus on sale of revalued infrastructure, property, plant & equipment

  (Shown DR in *Asset Revaluation Reserve; CR* in *Accumulated Surplus;* Net *NIL.*)
- Transfer to accumulated surplus for Fair Value through OCI financial assets Financial Instruments

  (Shown in *Fair value through OCI Financial Instruments* column.)

Thus, the line in the Statement of Changes in Equity for Other Comprehensive Income - Joint Ventures and Associates may have amounts in up to 3 different columns.

For further information on equity accounted Council business, refer to Statement of Changes in Equity.

Council Restructures

Council restructures fall within the ambit of AASB 3 *Business Combinations*.(AASB 3 Aus 63.1 and Aus 63.9) Any gain or loss arising from the transfer “to a local government from another local government at no cost, or for nominal consideration, pursuant to legislation, ministerial directive or other externally imposed requirement” (AASB 3.Aus 63.1) “shall be separately disclosed in the statement of comprehensive income” (AASB 3.Aus 63.7).

A separate note must be included disclosing the assets and liabilities transferred (including classes) and the name of the transferring Council (AASB 3.Aus 63.6), and the note reference number shown.

Examples of such disclosures are not included in these Model Statements.

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Non-Controlling Interests

There are a limited number of Councils whose interest in an entity (e.g. regional subsidiary) is such that they are in a position of control. For discussion and examples of control, see Note 19 - INTERESTS IN OTHER ENTITIES .

In such cases the entity must be consolidated into the financial statements. AASB 101.81B requires The Council's, and the non-controlling interest's (NCI), share of the profit or loss for the period, and of total comprehensive income must be shown (AASB 101.81B).

A short summary should be shown at the foot of the Statement of Comprehensive Income:

		2024		2023	
Share of Net Surplus / (Deficit)					
Council		**$xxxx**		$xxxx	
	Non-controlling interest	**$xxxx**	**$xxxx**	$xxxx	$xxxx
Share of other comprehensive income					
Council		**$xxxx**		$xxxx	
	Non-controlling interest	**$xxxx**	**$xxxx**	$xxxx	$xxxx
Total			**$xxxx**		$xxxx

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STATEMENT OF FINANCIAL POSITION

Details of the content of line items are given in the relevant notes below.

If your Council has applied an accounting policy retrospectively, or made a retrospective restatement of items in its Annual Financial Statements, or reclassified items that affect the Statement of Financial Position, you must show an **additional set of comparative figures** - see Comparative Figures (Non-material reclassifications within a section of a Note, provided they do not affect any amount transferred to the Statement of Financial Position may be exempted from this.) Where additional comparatives are shown, additional comparatives should also be shown for the relevant section of the Note.

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Local Government Association of South Australia

SALGFMG South Australian Local Government Financial Management Group Inc.

SA MODEL COUNCIL

STATEMENT OF FINANCIAL POSITION
for the year ended 30 June 2024

Source Reference		Notes	2024 $'000	2023 $'000
	ASSETS			
	Current Assets			
AASB 101.54(i)	Cash and cash equivalents	5	**4,791**	3,712
AASB 101.54(h)	Trade & other receivables	5	**2,448**	2,980
AASB 101.54(d)	Other financial assets	5	**3,445**	3,504
AASB 101.54(g)	Inventories	5	**1,012**	453
			11,696	10,649
AASB 101.54(j) AASB 5.38 & 40	Non-current assets held for sale	20	**836**	822
	Total Current Assets		**12,532**	11,471
	Non-current Assets			
AASB 101.54(d)	Financial assets	6	**1,039**	1,223
AASB 101.54(e)	Equity accounted investments in Council businesses	6	**559**	765
AASB 101.54(b)	Investment property	7	**1,538**	1,588
AASB 101.54(a)	Infrastructure, property, plant & equipment	7	**242,833**	238,046
AASB 101.55	Other non-current assets	6	**2,784**	2, 591
	Total Non-current Assets		**248,753**	244,213
	Total Assets		**261,285**	255,684
	LIABILITIES			
	Current Liabilities			
AASB 101.54(k)	Trade & other payables	8	**4,195**	3,400
AASB 101.54(m)	Borrowings	8	**1,606**	1,047
AASB 101.54(l)	Provisions	8	**2,960**	2,633
AASB 101.55	Other current liabilities	8	**92**	86
			8,853	7,166
AASB 5.38 & 40	Liabilities relating to Non-current assets held for sale	20	**44**	36
	Total Current Liabilities		**8,897**	7,202
	Non-current Liabilities			
AASB 101.54(k)	Trade & other payables	8	**270**	251
AASB 101.54(m)	Borrowings	8	**6,129**	6,153
AASB 101.54(l)	Provisions	8	**1,828**	1,743
AASB 101.54(e)	Liability - Equity accounted Council businesses	8,19	**101**	-
	Other Non-current Liabilities	8	**45**	26
	Total Non-current Liabilities		**8,373**	8,173
	Total Liabilities		**17,270**	15,375
	NET ASSETS		**244,015**	240,309
	EQUITY			
AASB 101.78(e)	Accumulated surplus		**202,354**	200,789
AASB 101.108	Asset revaluation reserves	9	**39,398**	36,402
AASB 101.54(r)	Other reserves	9	**2,263**	3,118
	TOTAL EQUITY		**244,015**	240,309

This Statement is to be read in conjunction with the attached Notes.

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Non-current assets held for sale

An asset may be classified under this heading if:

- it is normally classified as a non-current asset,
- it's carrying amount will be recovered principally through a sale transaction rather than through continuing use,
- available for immediate sale in its present condition,
- and its sale must be *highly probable.*

All elements ***must*** be satisfied (AASB 5.6 to 8).

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. In addition, the sale should be expected to be completed within one year from the date of classification.

These Model Statements include disclosure of non-current assets held for sale in Note 20 - NON-CURRENT ASSETS HELD FOR SALE.

Investment property

Where a Council has investment property (see Investment Property for definition) it is required to be disclosed on the face of the Statement of Financial Position (AASB 101.54(b))

Liability - Equity accounted Council businesses

The Accounting Standards do not provide for a line item of this nature. However the enabling legislation under which some regional subsidiaries are established does not permit a Council to "walk away" from a negative equity situation (converting a provision to an actual liability). The matter is further discussed under Note 19 - INTERESTS IN OTHER ENTITIES.

Reserves

There are two basic types of reserves:

- Asset Revaluation Reserves arise in compliance with the accounting standards as a consequence of the disclosure of certain assets on the fair value basis.
- Reserves for future expenditure arise as a result of a formal resolution by Council to set aside a portion of its resources for a specified future purpose. Appropriate use of the reserves is discussed further in Other Reserves.

It is considered appropriate that the totals of the two types of reserves are separately disclosed in the Statement of Changes in Equity, and consequently on the face of the Statement of Financial Position.

These Model Statements include disclosures of Asset Revaluation Reserves and Other Reserves in Note 9 - RESERVES.

Local Government Association of South Australia

SALGFMG South Australian Local Government Financial Management Group Inc.

Non-controlling Interests

For those few Councils whose interest in a joint venture / associated entity (e.g. regional subsidiary) is such that they are deemed to be in a position of control, that the total of the amounts attributable to the Council, and the non-controlling, must be shown separately. (AASB 101.54(q))

A short summary should be shown in the Equity section of the Statement of Financial Position:

EQUITY		
	2024	**2023**
Accumulated Surplus	$xxxx	$xxxx
Asset Revaluation Reserves	$xxxx	$xxxx
Available for sale Financial Assets	$xxxx	$xxxx
Other Reserves	$xxxx	$xxxx
Total Council Equity	**$xxxx**	**$xxxx**
Non-controlling Interests	$xxxx	$xxxx
TOTAL EQUITY	**$xxxx**	**$xxxx**

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STATEMENT OF CHANGES IN EQUITY

There are specific requirements setting out items to be presented in the Statement of changes in equity (AASB 101.106).

Movements in Accumulated Surplus ***MUST*** always be shown.

For each item of other comprehensive income an entity presents, either in the Statement of Changes in Equity or in the Notes, an analysis of other comprehensive income by item is required (AASB 101.106A). The balances of each class of other comprehensive income are also required to be shown on the Statement of Changes in Equity. Thus, in the totals column, the *Statement of Changes in Equity* largely duplicates the bottom section of the *Statement of Comprehensive Income.* The columns to which the relevant movements are allocated are largely self-explanatory.

Refer to STATEMENT OF COMPREHENSIVE INCOME for information on equity accounted council businesses, Council Restructures and Non-Controlling Interests.

Details of the content of other line items are given in the relevant notes below.

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If these items are used, note references **MUST** be given.

SA MODEL COUNCIL

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2024

Source Reference	2024	Notes	Accumulated Surplus	Asset Revaluation Reserve	Other Reserves	TOTAL EQUITY
			$'000	$'000	$'000	$'000
AASB 101.106 - 110	Balance at end of previous reporting period		**200,789**	**36,402**	**3,118**	**240,309**
AASB 101.106(b)/ AASB 108.28	Adjustment due to compliance with revised Accounting Standards					-
AASB101.106(b)/ AASB 108.29	Adjustment to give effect to changed accounting policies					-
	Restated opening balance		**200,789**	**36,402**	**3,118**	**240,309**
	Net Surplus / (Deficit) for Year		**641**			**641**
	Other Comprehensive Income					
	Gain on revaluation of infrastructure, property, plant & equipment			**3,308**		**3,308**
AASB 116.Aus 39.4, Aus40.1	Impairment (expense) / recoupments offset to asset revaluation reserve			**(279)**		**(279)**
	Transfer to accumulated surplus on sale of infrastructure, property, plant & equipment		-	-		-
	Net assets transferred - Council restructure					
AASB 101.82(c)	Share of other comprehensive income - equity accounted Council businesses	19		**(33)**		**(33)**
	Other equity adjustments - equity accounted Council businesses		**69**			**69**
	Transfers between reserves		**855**		**(855)**	-
	Balance at end of period		**202,354**	**39,398**	**2,263**	**244,015**
	2023					
AASB 101.106 - 110	Balance at end of previous reporting period		197,241	35,275	2,214	234,730
AASB 101.106(b)/ AASB 108.28	Adjustment due to compliance with revised Accounting Standards					-
AASB 101.106(b) /AASB 108.29	Adjustment to give effect to changed accounting policies		1,403			1,403
	Restated opening balance		198,644	35,275	2,214	236,133
	Net Surplus / (Deficit) for Year		2,514			2,514
	Other Comprehensive Income					
	Changes in revaluation surplus - infrastructure, property, plant & equipment			1,462		1,462
	Impairment (expense) / recoupments offset to asset revaluation reserve			-		-
	Transfer to accumulated surplus on sale of infrastructure, property, plant & equipment		523	(523)		-
	Net assets transferred - Council restructure					-
AASB 101.82(c)	Share of other comprehensive income - equity accounted Council businesses	19	-	188		188
	Other equity adjustments - equity accounted Council businesses		12			12
	Transfers between reserves		(904)		904	-
	Balance at end of period		200,789	36,402	3,118	240,309

This Statement is to be read in conjunction with the attached Notes.

Local Government Association of South Australia

SALGFMG South Australian Local Government Financial Management Group Inc.

Accumulated Surplus

Adjustments due to compliance with revised accounting standards

Changes in Accounting Standards that will first apply to the 2023/24 reporting period (refer New Accounting Standard section) and potentially the 2022/23 comparatives, may require disclosure under this item. Whether comparatives are required to be restated or not depends on the transition method adopted. If the standards are adopted from 1 July 2022, then a transition adjustment may need to be reflected against Accumulated Surplus in 2023 and comparatives restated. If the standards are adopted from 1 July 2023 then the adjustment to Accumulated Surplus will be shown in 2024 and comparatives not restated.

Changes in Accounting Policy

There are many accounting policies that underly the preparation of financial statements. These may be changed where "required by an Australian Accounting Standard" or where, in the opinion of Council, the change in policy "results in the financial report providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. (AASB 108.14).

An example of this type of change would be a decision to measure investment property at fair value instead of on the cost basis.

The change in accounting policy **MUST** be adjusted retrospectively, and comparative figures adjusted - and this results in a change in the opening accumulated surplus***.***

The following are the only exceptions:

"The initial application of a policy to revalue assets in accordance with AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets* is a change in an accounting policy to be dealt with as a revaluation in accordance with AASB 116 or AASB 138, rather than in accordance with this Standard (AASB 108.17)

A revision in interpretation mandated by these Model Statements may, with the concurrence of the SA Local Government Auditors' Group, be declared to be a change in accounting standard interpretation applicable to SA Councils for which the disclosure of additional comparatives does not apply. Any such declarations will not involve a change in *accumulated surplus*.

Full disclosures **MUST** be made in accordance with Accounting Standard AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Examples of such disclosures are not included in these Model Statements.

Disclosure of the changes resulting from a changed accounting policy would also necessitate the disclosure of additional comparative figures in the Statement of Financial Position - see Comparative Figures.

Accounting Errors

It can happen that an accounting error affecting a previous year's financial statements is detected long after they have been completed. Such an error might be the accidental omission of a number of (say) infrastructure assets during a revaluation, or the double-counting of assets.

Where the error is sufficiently material, the correction must be made retrospectively (AASB 108.42)

Full disclosures **MUS**T be made in accordance with Accounting Standard AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Examples of such disclosures are not included in these Model Statements

In these cases, the description shown is amended to read *"adjustment to correct prior period errors".*

Disclosure of the changes resulting from correction of accounting errors would also necessitate the disclosure of additional comparative figures in the Statement of Financial Position - see Comparative Figures.

Changes in Accounting Estimates

Accounting estimates include estimates of useful life or residual value of infrastructure, property, plant and equipment, of impairment of receivables, or of future outgoings in relation to a liability. These estimates are reviewed annually and updated to the latest best available estimate. The effects of the changes to estimates are only recognised ***prospectively.***

Do **NOT** retrospectively calculate what the amounts would have been if the previous estimates had been more accurate, However, it may be appropriate to assess whether an impairment should be recognised - see Impairment.

Asset Revaluation Reserve

Infrastructure, Property, Plant & Equipment

Relevant for Councils who have adopted the fair value basis for some or all of their infrastructure, property, plant & equipment assets (AASB 108.39) (as required by the *Local Government (Financial Management) Regulation* - see Fair Value Model).

Transfers to and from Asset Revaluation Reserve are classified as ***other comprehensive income.***

Voluntary transfer to accumulated surplus on sale of infrastructure, property, plant & equipment assets is permitted, but not compulsory.(AASB 116.41) - For further information see Asset Revaluation Reserve. It is recommended that this procedure NOT be adopted.

Other Reserves

Transfers to or from other reserves do not meet the definitions of either *revenues* or *expenses*, and are made directly from and to *accumulated surplus*. Note also the commentary under Other Reserves.

Local Government Association of South Australia

SALGFMG South Australian Local Government Financial Management Group Inc.

STATEMENT OF CASH FLOWS

The *cash flows* reported in the Statement of Cash Flows are "*inflows and outflows of cash and cash equivalents*" (AASB 107.6 Definitions). For further information refer to AASB 107.

The Standard goes on to note:

> "However, in some countries, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn. (AASB 107.8)
>
> This situation applies in Australia. The Local Government Finance Authority of South Australia (LGFA) provides various types of short-term draw down facility - see Local Government Finance Authority of SA Financial Products - which may be used in lieu of bank overdraft by Councils.

A borrowing that is used both for short term cash management purposes and to fund a long-term financing requirement should be apportioned according to the purpose it is used. It would normally be presumed that such a borrowing with a nominal maturity date beyond the end of the next reporting period would not be for cash management purposes except for such portion realistically expected to be repaid within 90 days of reporting date.

> The total of cash and cash equivalents **MUST** agree with the total of cash and cash equivalents disclosed on the face of the statement of financial position less bank overdraft/LGFA short term draw down facility.

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SA MODEL COUNCIL

STATEMENT OF CASH FLOWS
for the year ended 30 June 2024

Source Reference		Notes	2024 $'000	2023 $'000
AASB 101.111 AASB 107.10	**CASH FLOWS FROM OPERATING ACTIVITIES**			
AASB 107.14	Receipts			
	Rates - general & other		**6,024**	5,745
	Fees & other charges		**4,816**	4,014
	User charges		**1,415**	1,769
AASB 107.31	Investment receipts		**1,000**	566
	Grants utilised for operating purposes		**1,455**	3,955
	Reimbursements		**2,502**	1,025
	Other revenues		**1,852**	635
AASB 107.14	Payments			
	Employee costs		**(6,426)**	(5,214)
	Materials, contracts & other expenses		**(9,242)**	(6,533)
AASB 107.31	Finance payments		**(274)**	(3,452)
	Net Cash provided by (or used in) Operating Activities		**3,122**	2,510
AASB 107.10	**CASH FLOWS FROM INVESTING ACTIVITIES**			
AASB 107.16	Receipts			
	Amounts specifically for new or upgraded assets		**48**	202
	Grants utilised for capital purposes		**486**	1,319
	Sale of replaced assets		**2,000**	636
	Sale of surplus assets		**1,101**	433
	Sale of investment property		**163**	1,551
	Net disposal of investment securities		**80**	-
	Sale of real estate developments		**1,055**	137
	Repayments of loans by community groups		**97**	40
	Distributions received from equity accounted Council businesses		**623**	72
AASB 107.16	Payments			
	Expenditure on renewal/replacement of assets		**(4,066)**	(4,575)
	Expenditure on new/upgraded assets		**(2,004)**	-
	Purchase of investment property		**(222)**	(340)
	Net purchase of investment securities		**-**	-
	Development of real estate for sale		**(1,277)**	(114)
	Loans made to community groups		**(53)**	-
	Capital contributed to equity accounted Council businesses		**(353)**	(1,116)
	Net Cash provided by (or used in) Investing Activities		**(2,322)**	(1,755)
AASB 107.10	**CASH FLOWS FROM FINANCING ACTIVITIES**			
AASB 107.17	Receipts			
	Proceeds from borrowings		**1,000**	1,432
	Proceeds from aged care facility deposits		**232**	-
AASB 107.17	Payments			
	Repayments of borrowings		**(181)**	(1,293)
	Repayment of principal portion of lease liabilities		**(314)**	-
	Repayment of aged care facility deposits		**(141)**	-
	Net Cash provided by (or used in) Financing Activities		**596**	139
	Net Increase (Decrease) in cash held		**1,396**	894
	Cash & cash equivalents at beginning of period	11	**3,241**	2,347
	Cash & cash equivalents at end of period	11	**4,637**	3,241

This Statement is to be read in conjunction with the attached Notes

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Operating Activities

Operating activities are the principal revenue-producing activities of the entity (AASB 107.14) and other activities that are not investing or financing activities.

These Model Statements split operating receipts and payments to substantially match the disclosures in the Statement of Comprehensive Income. Differences between accruals and cash amounts for these items can provide useful information to a user of the financial statements.

The amounts of interest and dividends received and interest paid MUST be shown. (AASB 107.31)

Operating cash flows are to be grossed up to include GST in accordance with Interpretation 1031 Accounting for the Goods and Services Tax (GST). For further information refer to the consensus. (Interpretation 1031.6 to 11).

Disclosure of GST Receipts and Payments

As both *rates* and *salaries and wages* are GST free, the amount of GST on taxable transactions is almost always below the materiality threshold, and separate disclosure of these amounts is **NOT** encouraged.

Investing Activities

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents *(*AASB 107.6 *Definitions).* There is some discussion as to where to draw the line between *investing* and *financing* activities, and items in the classifications set out below are to be adopted.

Amounts received specifically for new or upgraded assets should generally be regarded as an *investing activity* (For the definition of these amounts see Grants, Subsidies and Contributions below; other grants are included in the operating receipts section). These Model Statements have adopted the approach that grant funding normally has a significant influence on the investment decision and have classified them as an *investing activity.*

The differentiation between *expenditure on renewal/replacement of assets* and *expenditure on new or upgraded assets,* and *sale of replaced assets* and *sale of surplus assets,* is **MANDATORY**, and is used in the calculation of financial indicators (see Note 15 - FINANCIAL INDICATORS) and the uniform presentation of finances (see Note 16 - UNIFORM PRESENTATION OF FINANCES).

These are regarded as mandatory disclosures. (See Definition - new/upgraded & renewal/replacement of assets for definitions.)

Movements in investments may be shown on a gross basis, or a net basis. (AASB 107.22 & 23A)

***If your Council has loans to community groups these* may well be financing activities as far as the group itself is concerned (see definition of *financing activities* below) but are not normally regarded as being related to the borrowing requirement of the Council, and hence fall within *investing* activities.**

Financing Activities

Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity. (AASB 107.6 Definitions)

Aged Care Facility deposits usually form a material component in the financing of the facility and have been interpreted as a *financing activity.*

Note 1 - MATERIAL ACCOUNTING POLICIES

This Note is entitled "Material Accounting Policies" and there is an implication that policies need not be stated where amounts are not material[2]. Because of the wide range of activities of Councils, there will always be a large number of accounting policies that are material and do need disclosure in Note 1.

> **Certain accounting policies, while not material in the context of the Council's operations, may still be required disclosures under the Australian Accounting Standards. The disclosure of these in the relevant Note, rather than in Note 1, is encouraged.**
>
> An example of this within these Model Statements may be found in relation to Financial Instruments - see Note 13 - FINANCIAL INSTRUMENTS.

There is a great deal of professional judgment, and range of professional opinion, on the policies that are material, and require disclosure, the extent of the disclosure, and the amount of detail to be provided. Consult with your auditor in determining the final contents and wording of Note 1 to your Council's Annual Financial Statements.

The examples provided here are intended to be just that - examples of the types of policies that are commonly regarded as material, and examples of the types of wording that may be appropriate, for an example Council. The example Council does not match the characteristics of your Council, and hence the examples given are unlikely to match the disclosures that are appropriate to your Council.

The example wordings do not necessarily exactly match the range of permissible accounting treatments that are contained in the other example notes. **You will need to modify the wording so that, for your Council's statements, a correct description is provided of the accounting policies adopted.**

The accounting policies should be described in specific terms, rather than in generalities. Similarly, where a range of values is provided (as in estimated useful lives for assets), ensure that the range shown is that applied by your Council - and not merely the ranges given in the example Note - and that the range is not excessive.

Do not provide accounting policies where your Council has not had transactions to which the policy applies during this and the previous reporting period - such a policy is unlikely to be material. Similarly, do not provide useful lives for asset groups that are not material in value.

As a guide for the disclosure of accounting policies - and, indeed, all disclosures in the Annual Financial Statements except items denoted in these Model Statements as mandatory disclosures:

- Say it once.
- Say it as clearly as possible.
- Say it in as few words as possible.
- If it is not necessary, don't say it at all.

Basis of Preparation

Compliance with Australian Accounting Standards – not-for-profit entities are exempt from making a statement of compliance with IFRS (AASB 101.Aus 16.3), but AASB 1054 *Additional Australian Disclosures* specifically requires:

- A statement of compliance with the Australian Accounting Standards (AASB 1054.7),
- the statutory basis for preparation of the statements and whether the entity is a not-for-profit entity (AASB 1054.8), and
- whether the statements are *general purpose financial statements* (AASB 1054.9).

An example of a possibly suitable wording is:

> 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.

Going concern basis - Although under the Accounting Standards disclosure is only required where the going concern basis has not been applied (AASB 101.25), a change in the Australian Auditing Standards requires that the Auditors explicitly comment on the use of the "going concern" basis and the Council's disclosure of that fact. This disclosure does not need to be made in a separate statement and has been included in the above *basis of preparation* paragraph.

Historical cost convention - the disclosure of the use of the historical cost convention has also been included in the above *basis of preparation* paragraph. AASB 101.117(a).

There is no need to specifically refer to the fact that certain assets are being carried at fair value, as this occurs ***within*** the historical cost convention, and adequate disclosure is made elsewhere. (The alternative to the *historical cost convention* is *current cost accounting*. Fair values can also be used for certain assets under *current cost accounting,* exactly the same as under the *historical cost convention.*)

> Accounting Standards adopted early - these Model Statements **DO NOT** recommend the early adoption of any Accounting Standards

Authorisation for issue – disclosure (AASB 110.17).

An example of a possibly suitable wording is:

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

It is considered important that the actual date be shown - although the Annual Financial Statements should always be accompanied by the Council certificate (and Auditors reports) the certificates do not actually form part of the statements.

Critical accounting estimates - summary disclosure (AASB 101.125): additional disclosures in relation to specific items are given in relation to particular assets and liabilities in the relevant sections below, or where less material, in other notes.

An example of a possibly suitable wording is:

> 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's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are material to the financial statements are specifically referred to in the relevant sections of these Notes.

The above wording is probably suitable where the main areas of accounting estimates are limited to allowances for doubtful debts, residual values and useful lives of infrastructure property, plant and equipment and estimation of future long service leave payable. However, estimation of the future costs and timing of tip restoration involve a greater degree of uncertainty and may warrant specific mention.

An example of a possibly suitable wording is:

> 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's accounting policies. Particular areas involving a high degree of judgement or complexity include the estimation of future payments and timing in relation to tip restoration liability. Further information in relation to the estimation of these liabilities is given in the relevant sections of these Notes.

It may be that there is a material level of uncertainty in an associated entity (i.e. with the potential to materially affect Council's own results). An example of a possibly suitable wording is:

> 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's accounting policies. In particular, Council's associated entity *name the entity here* reports significant uncertainty in the estimation of future payments and timing in relation to tip restoration. Further information in relation to the estimation of these liabilities are given in Note 21. Other areas of estimation uncertainty in relation to other liabilities are given in the relevant sections of these Notes.

It is not necessary to provide details of the estimation process in this part of Note 1 - this is still the introductory section of the note, where a high-level overview of the financial reports is being given.

Rounding - amounts given are shown as being rounded to the nearest thousand dollars ($'000), and this is recommended, but rounding to the nearest dollar may also be used.

An example of a possibly suitable wording is:

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

Or:

> All amounts in the financial statements have been rounded to the nearest dollar.

Covid-19 - Covid-19, an infectious disease caused by a new virus, was declared a world-wide pandemic by the WHO on 11 March 2020. In Australia the impacts of the Covid-19 pandemic are no longer pervasive, and specific commentaries by Council's on potential impacts of the Covid-19 Pandemic are no longer likely to be required. Any potential impacts have not been considered in these Model Statements. However, Councils should consider relevant accounting and disclosure requirements with regards to going concern, and judgements in measurement of assets and liabilities. Any disclosures in previous statements should be reassessed.

Estimates and assumptions

Councils make a number of judgements, estimates and assumptions in preparing financial statements. Any judgements made in applying Council's accounting policies and that have the most significant effect on the amounts recognised in the financial statements must be disclosed (AASB 101.122).

The Local Government Reporting Entity

Control is defined in AASB 10 *Consolidated Financial Statements (*AASB 10.6 to 7). An investor has control over an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect returns through its power over the investee. Control in a *public sector environment* is considered in more detail in AASB 10 Appendix E.

Accordingly, these Model Statements require that the general purpose financial report of a local government is to encompass *all business and non-business operations which the governing body controls*, either directly or through the operations of controlled entities.

Regional subsidiaries and other single purpose entities should state the purpose for which the subsidiary was established and the names of the constituent Councils. Note 12 can then be dispensed with, and subsequent notes renumbered.

Legal form and domicile - disclosure (AASB 101.138).

An example of a possibly suitable wording is:

> SA Model Council is incorporated under the SA Local Government Act 1999 and has its principal place of business at 1 Lorem Ipsum Street, Lorem Ipsum.

Principles of consolidation

The financial report is to include all entities over which Council has control, **but there is no requirement to separately disclose "holding company" amounts as well as consolidated**.

> Prior to inserting policies relating to this heading, reference should be made to Note 19 - INTERESTS IN OTHER ENTITIES where the subject is treated in detail.

An example of a possibly suitable wording is:

> These consolidated financial statements 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.
>
> Other entities in which Council has an interest but does not *control* are reported in Note 19.

Refer to Note 19 - INTERESTS IN OTHER ENTITIES for further required disclosures in this section of Note 1.

Income recognition

Accounting Standards AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* applied from the beginning of the accounting periods commencing on or after 1 January 2019 - i.e. from 1 July 2019.

For further information on the operation of these Standards see ADDITIONAL MATERIALS.

Council revenue predominantly falls within AASB 1058, however, there are certain types of transactions that will be captured by AASB 15. For example, contracts where the Council needs to perform a service or deliver goods to earn the revenue e.g. a contract to construct an asset for another party, a grant that has specific obligations (refer Additional Materials guidance) that need to be performed for another party (i.e. doesn't include a grant that is required to be spent on an asset the Council will control themselves.) The guidance in the Additional Materials should be applied to determine which accounting standard is applicable for each source of revenue.

An example of a possibly suitable wording is:

The Council recognises revenue under AASB 1058 *Income of Not-for-Profit Entities* (AASB 1058) or AASB 15 *Revenue from Contracts with Customers* (AASB 15) when appropriate. In cases where there is an 'enforceable' contract with a customer with 'sufficiently specific' performance obligations, the transaction is accounted for under AASB 15 where income is recognised when (or as) the performance obligations are satisfied (i.e. when it transfers control of a product or service to a customer). Revenue is measured based on the consideration to which the Council expects to be entitled in a contract with a customer. In other cases, AASB 1058 applies when Council enters into transactions where the consideration to acquire an asset is significantly less than the fair value of the asset principally to enable the entity to further its objectives. The excess of the asset recognised (at fair value) over any 'related amounts' is recognised as income immediately, except in the case where a financial asset has been received to enable the council to acquire or construct a recognisable non-financial asset that is to be controlled by the council. In this case, the council recognises the excess as a liability that is recognised over time in profit and loss when (or as) the entity satisfies its obligations under the transfer.

Additional detail should be disclosed in the revenue accounting policies where necessary for the understanding of the accounting. Examples could be where the Council has construction contracts accounted for under AASB 15 or where the Council is acting as an agent. Additional example policies are below under "reimbursement contracts" and "fixed price contracts".

The prepayment of Grants Commission financial assistance grants by the Federal Government out of future year allocations has resulted in major distortions of Councils' operating results, as these *untied grants* must be recognised upon receipt. This now is a regular feature of the payment of these grants, and the distortions that these practices create, and their effect on the interpretation of the financial reports should be clearly stated.

An example of a possibly suitable wording in relation to this is:

In recent years the payment of untied grants (financial assistance grants/ local roads/ supplementary grants) has varied from the annual allocation as shown in the table below:

	Cash Payment Received	Annual Allocation	Difference		Net Timing Adjustments
2021/22	$xxx xxx	$xxx xxx	-	$xxx xxx	FY23 $xxx xxx
2022/23	$xxx xxx	$xxx xxx	+	$xxx xxx	
2023/24	$xxx xxx	$xxx xxx	-	$xxx xxx	FY 24 $xxx xxx

Because these grants are untied, the Australian Accounting Standards require that payments be recognised upon receipt. Accordingly, the operating results of these periods have been distorted compared to those that would have been reported had the grants been paid in the year to which they were allocated. The amount of the distortion for FY 24 is $xxx xxx (FY23: $ xxx xxx).

The Adjusted Operating Surplus Ratio disclosed in Note 15 has also been calculated after adjusting for the distortions resulting from the differences between the actual grants received and the grants entitlements allocated.

Where revenues from construction contracts are material, it is appropriate to report the policy for recognition of these revenues. Where the Council is reimbursed by a government authority for actual costs incurred the revenue is described as a *reimbursement*, but for fixed price contracts the more accurate description is *user charges – see* Construction Contract Revenue.

For reimbursements revenue, an example of a possibly suitable wording is:

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. Reimbursements not received are recognised as receivables and reimbursements received in advance are recognised as “payments received in advance”.

Note that if no fee is received, the transaction is not within AASB 15 which requires consideration to be earned. If there was a fee received by the council for the construction works, the Council would need to assess if they are an agent or not based on AASB 15 guidance. The Council would be considered an agent if its obligation is to arrange the construction works to be carried out rather than carry them out themselves and the council does not control the goods or services provided prior to them being transferred to the customer.

Fixed price contracts, an example of a possibly suitable wording is:

For works undertaken on a fixed price contract basis, revenues are recognised over time using the input method, with costs incurred compared to total expected costs used as a measure of progress. . . When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Cash and Cash Equivalent Assets

It is important that the same definition of cash and cash equivalent assets is used for the Statement of Financial Position and the Statement of Cash Flows. Because of the importance of these items in the interpretation of financial statements, this definition should be shown. It is also common practice to repeat the definition in the detailed note that gives the reconciliation between operating result and cash generated from operating activities, but this is not obligatory.

An example of a possibly suitable wording is:

> 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.

Other Financial Instruments

Financial instruments are discussed in more detail in the commentary on Note 13 - FINANCIAL INSTRUMENTS, and, in relation to disclosure of accounting policies, under the heading of Accounting Policies.

Technically, rates debtors do not fall within the definition of *financial instruments* - as it is a tax and is not based on a contract – however, not-for-profit entities are required to apply the recognition and measurement requirements of AASB 9 to non-contractual receivables arising from statutory requirements as if those receivables are financial instruments (AASB 9 Aus 2.1.1).

An example of a possibly suitable wording is:

> 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, except for trade receivables from a contract with a customer, which are measured at the transaction price. A detailed statement of the accounting policies applied to financial instruments forms part of Note 13.

The wording here provides an example of a situation where some accounting policies have been judged to be not sufficiently material to warrant disclosure in Note 1, but to still require disclosure in another Note. For additional examples see Accounting Policies.

Inventories

General - disclosure (AASB 102.36(a)). Where *inventories held for distribution* are material, the basis of recognition must be disclosed (see also Stores and materials).

An example of a possibly suitable wording is:

> 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.

If inventories are not material in amount, no disclosure is required, or it may be appropriate to make the disclosure in Note 5.

Real Estate Assets Developments - if Council has no such developments, no accounting policy needs to be disclosed.

An example of a possibly suitable wording is:

Real Estate Assets developments have been classified as Inventory in accordance with AASB 102 and are valued at the lower of cost or net realisable value. Cost includes the costs of acquisition, development, borrowing and other costs incurred on financing of that acquisition and up to the time of sale. Any amount by which cost exceeds the net realisable value has been recognised as an expense.

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

Other Real Estate held for Resale - if Council has no such assets, no accounting policy needs to be disclosed (see Other Real Estate held for resale).

An example of a possibly suitable wording is:

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.

A Council resolution to the effect that it intends to sell a non-current asset (or disposal group) is **NOT** sufficient to support classification as "held for sale" - see Note 20 - NON- CURRENT ASSETS HELD FOR SALE- and upon the passage of Council's resolution to that effect the asset would be transferred from IPP&E to Inventory.

Properties retained after an auction for non-payment of rates would **not** be described as "Non-current Assets held for resale", because they would always have been intended to be re-sold - i.e. *held for trading.* They therefore have always met the definition of *Inventory,* not *Non-Current Assets.*

Infrastructure, Property, Plant & Equipment

Particularly in relation to infrastructure, property, plant and equipment, care should be taken to differentiate between the disclosure of the *accounting policy* and disclosure of detail, including disclosures specifically required by the accounting standards. However, where disclosure of a policy detail would otherwise be required for each individual class of assets, it may be included in either Note 1 or Note 7.

Initial recognition - disclosure (AASB 116.73(a)).

An example of a possibly suitable wording is:

All assets are initially 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 architects' 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 on the project and an appropriate proportion of variable and fixed overhead.

Materiality - It is suggested that examples of capitalisation thresholds are detail rather than policy. These Model Statements make the detail disclosure in Note 7, but entities with fewer classes of assets than local government frequently include these details in Note 1.

An example of a possibly suitable wording is:

> 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 given in Note 7. No capitalisation threshold is applied to the acquisition of land or interests in land.

Subsequent recognition - disclosure (AASB 116.73(a)).

An example of a possibly suitable wording is:

> 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 detail of these uncertainties, and of existing valuations, methods and valuers are provided at Note 7.

Depreciation of non-current assets - disclosure (AASB 116.73(b) & (c)). Again, it is suggested that examples of useful lives are disclosure detail rather than the basic accounting policy.

An example of a possibly suitable wording is:

> Other than land, all infrastructure, 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 in Note 7. 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.

Impairment - this policy refers principally to non-financial assets, as the “expected credit loss” method is used for non-contractual receivables arising from statutory requirements and financial assets (AASB 9.5.2.2)

An example of a possibly suitable wording is:

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.

Other 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 inflows or value in use).

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.

If Council has not impaired any assets in the current or previous reporting periods it would be sufficient to include only the first two paragraphs of the above example policy. (Impairment of receivables is covered by the example wording in Other Financial Instruments).

Note that Council is only required to revalue asset classes that are *material.* Although it is possible to argue that the potential for impairment would therefore always be non-material, it is suggested that the Auditor should be consulted before omitting all policy reference to *impairment.*

Borrowing costs - disclosure (AASB 123 Aus 26.1). See also Capitalisation of Interest.

An example of a possibly suitable wording is:

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, and the amount (if any) of interest revenue offset against borrowing costs in Note 2.

Impairment of receivables is covered by the example wording in Other Financial Instruments).

Payables

Optional disclosures.

An example of a possibly suitable wording is:

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 month 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.

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Borrowings

An example of a possibly suitable wording is:

> 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.

The wording below in relation to low- and no-interest borrowings conflicts with the procedures set out in No- and Low- Interest Loans. If those procedures have been complied with, the wording above is sufficient.

> 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 initially recognised at fair value with any difference between fair value and proceeds recognised in the profit and loss. The loan is subsequently measured at amortised cost with interest being recognised using the effective interest rate method.

Provisions

Employee benefits

Many accountants have their preferred wordings for these policies. Use the wording with which you are most comfortable provided, it is an accurate statement of the accounting policies actually applied. The procedures for accruing these amounts are given in Annual Leave and Long Service Leave.

Weighted average rates - optional disclosures included as an example of best practice.

An example of a possibly suitable wording is:

> **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.
>
> | | |
> |---|---|
> | Weighted average discount rate | a% (20xx, b%) |
> | Weighted average settlement period | c years (20xx, d years) |
>
> 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 - do not replicate the wording in Note 18 as there is no discretionary accounting policy to be disclosed.

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An example of a possibly suitable wording is:

> The Council makes employer superannuation contributions in respect of its employees to the Hostplus Superannuation Scheme. The Scheme has two types of membership, each of which is funded differently. Details of the accounting policies applied and Council's involvement with the schemes are reported in Note 18.

Provisions for reinstatement, restoration, rehabilitation, etc.

There are significant uncertainties in the estimation of future costs and timing for the discharge of these liabilities. Where the amount is material, it is important to provide information of the accounting policies adopted and to indicate the nature of these uncertainties - see "Future Reinstatement / Restoration, etc.".

An example of a possibly suitable wording is:

> Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and 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 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.

Leases

> For further information on the operation of the lease Standard see – "Overview of AASB 16".

A 'peppercorn' lease is where a nominal amount is made as payment to the lessor, for example, $1 per year. The lease is accounted for using AASB 16, however, there is a choice as to whether the right-of-use asset is initially measured at cost (AASB116.24) of AASB 16 or at fair value (AASB 116.Aus 25.1) Councils should not use fair value at this stage. However, it should be noted that this choice is considered to be a temporary relief and in future a not-for-profit entity may be required to use fair value measurement once additional guidance on this area has been developed. If the right-of-use assets arising from significantly below market leases are measured at fair value at the inception of the lease a difference arises as the lease liability is recognised at present value of peppercorn lease payment amounts. The difference between the lease asset and liability is recorded as income under AASB1058. It should also be noted that if a Council has material peppercorn leases and is accounting for the right-of-use asset at cost, there are additional disclosures required. ((AASB 16.Aus 59.1 and Aus 59.2)

An example of a possible suitable wording is provided below for where the council is a lessee, however, only select the relevant sections for your Council. If the Council is a lessor this may also require a policy if material. If the Council has peppercorn leases the fact that the temporary relief (as noted above) has been applied should be mentioned in the policy.

For a cemetery, it should be noted that different accounting treatments have been noted across the industry for burial site contracts. Some businesses have concluded that the contract is a lease and they are therefore a lessor captured by AASB 16. If a contract was assessed as a lease under AASB 117 then no change in accounting is expected on transition to AASB 16. Others have concluded that the contract is not a lease and should be accounted for using AASB 15.

Leases The Council assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Council as a lessee

The Council recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Council recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and the estimate of costs to be incurred to restore the leased asset. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Plant and equipment XX to XX years
- Computers XX to XX years

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (s) Impairment of non-financial assets.

ii) Lease liabilities

At the commencement date of the lease, the Council recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Council uses its incremental borrowing rate or the interest rate implicit in the lease.

iii) Short-term leases and leases of low-value assets – [*This section is only required to be disclosed if applicable*]

The Council applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date). It also applies the low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

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Joint Ventures and Associated Entities

Although commerce generally uses the terms *joint ventures* and *associated entities,* usage within SA local government tends to refer to section 42 and 43 *regional subsidiaries.*

In an attempt to use a term that will be suitable to meet the needs of both types of users, these Model Statements have adopted the term ***equity accounted Council businesses*** to refer to all forms of joint ventures and associated entities in which Councils may be involved, other than those consolidated within the Annual Financial Statements. For accounting purposes joint venture is defined in AASB 11 and associate entity is defined in AASB 128.

Prior to inserting policies relating to this heading, reference should be made to "Note 19 - INTERESTS IN OTHER ENTITIES" below where the subject is treated in detail.

Council participates in cooperative arrangements with other Councils for the provision of services and facilities. Council's interests in cooperative arrangements are accounted for in accordance with AASB 128 *Investments in Associates* and are set out in detail in Note 19.

Goods and Services Tax

GST revenues and expenses (to the extent that they are recoverable) are excluded from the Income Statement, but because they represent material cash inflows and outflows are required to be included in the Statement of Cash Flows. It is conventional to confirm that this procedure has been complied with.

An example of a possibly suitable wording is:

In accordance with Interpretation 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.

Comparative Information

Technically, the comparative figures should be identical to the amounts shown in last year's Annual Financial Statements. Where amounts have been reclassified and specifically requires additional comparatives are required (AASB 101.41) - see "Comparative Figures" above.

However, it is suggested that this may not be appropriate for very minor reclassifications within the same broad classification, and common sense should always be applied. If in doubt, discuss with your Auditor.

Where an additional set of comparatives is provided for the Statement of Financial Position, it would also be appropriate to supply additional comparatives for the relevant detailed note(s).

New Accounting Standards

When preparing this note Council's should review new and amended AASB standards and Interpretations that apply to the 2024 financial reporting period. Where there has been a material impact to Council's reported position, performance or cash flows on adoption of a standard relevant disclosures should be made (AASB 108.28) along with any transition disclosure requirements within the new standard itself.

Council's are also required to disclose the known or estimable impacts of accounting standards issued but not yet effective (AASB 108.30).

It is not necessary to refer to standards that do not apply to local government, and those with minimal effect should have commensurate disclosure. Full listings of applicable accounting standards and interpretations, and of new and amended standards and interpretations is provided in Appendix A. For assistance in using the appendix, see "How to use this Appendix".

Example wording for new and amended standards and interpretations is provided below.

New and amended standards and interpretations

The Council applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023. New standards and amendments relevant to the Council are listed below. The Council has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Please refer to Appendix A for a listing of all new accounting standards. To determine relevant standards for inclusion in this note.

Other accounting policies

The above list of policies is not exhaustive, and you may consider including additional items where these are ***material*** to your Council's operations.

- Investment Property
- Taxation (normally only taxable entities) - there is a presumption that Councils are non-taxable.

Local Government Association of South Australia

SALGFMG South Australian Local Government Financial Management Group Inc.

REVENUE RECOGNITION
Note 2 - INCOME

Other Comprehensive Income

Amounts that are defined as *other comprehensive income (OCI)* must not be included in any item contained within this Note.

Individually material items

Individually material items are amounts that are either unusual in nature, or usual in nature but unusual in amount (or both), and sufficiently material to require separate disclosure (and hence, also specific explanation).

On the revenue side, individually material items can occur under virtually any classification.

- **The item must be material** and should not be used to disguise poor budgeting.
- Most commonly individually material items on the revenue side occur as a result of decisions taken by State or Commonwealth Governments. These may relate to timing differences or may arise from a temporary increase in existing grant allocations.
- Even if the State or Commonwealth Governments describe an increase in grant allocation as temporary or refuse to commit to similar increases in future years, if it has been received for 3 consecutive years it is probably not appropriate to describe the amount as an *individually material item*[3].
- Where an *individually material item* is disclosed, it is usually appropriate to show *adjusted ratios* in Note 15 *Financial Indicators* - see "Adjustments to Ratios".
- If better disclosure can be achieved in Note 1, make the disclosure there and ensure that you include appropriate cross-references.

Explanations should be clear but succinct, and a user of the Annual Financial Statements should be able to readily identify the reason why the item was considered material. In drafting the explanation, do not assume that the reader is as familiar with the affairs of the Council as you are - what is clear to you may not be so clear to the user. If there is no amount to be disclosed in either the current or previous reporting period, do not show the classification.

- Where an *individually material item* was disclosed in the previous reporting period, the full narrative disclosure must still be made so that users can fully appreciate its effects on the two years shown.
- Where different *individually material items* are disclosed in the current and previous reporting periods, full narrative disclosures of **both** items must be made.

[3] State and Commonwealth Governments are understandingly wary of committing themselves to future expenditures by way of grants to Councils (except during election campaigns). If a particular grant has been received for (say) 5 years, it is appropriate to treat this as an ongoing item irrespective of any lack of future commitments by other governments but highlight the cessation of the program if and when it occurs.

Deciding the disclosures to be made

Consideration should be given to the commentary in "Materiality". In particular, attention should be given to disclosure of items that indicate significant variations from the previous year.

Subject to the above comments, the following may be used as a guide after consultation with your auditor:

- For the purposes of the assessment of materiality of income items, the "base amount" is considered to be total revenues less rates revenues and other grants, subsidies and contributions.
- Where total income for any of the following headings amounts to less than 10% of the base amount, no further disclosure in relation to that heading is required in Note 2.
- Where any individual income line item exceeds 5% of the base amount, a summary of the revenues under that heading should be included in Note 2, and the revenue item separately disclosed within that group.
- Where a summary of income under one of the following headings is 120 income line item comprising more than 20% of the total income for that heading should be separately disclosed. The amount shown as sundry should not normally exceed 25% of the classification total.
- It is usually appropriate to apply a lower disclosure threshold to investment income.
- Additional disclosures may be made where considered appropriate.

Revenue Accounting Standards

Revenue accounting predominantly comes under AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*. Guidance for determining which standard a particular inflow of funds is covered under is included in the Additional Materials section. It is important to determine which standard is applicable as the timing of when revenue is recognised differs under each standard and the disclosure requirements are also different. An indication of which standard each category of revenue listed below falls under is included below although the particular facts and circumstances of each revenue inflow will need to be considered in case they differ from the general descriptions. The disclosures under each standard are as follows:

AASB 15 Disclosure Requirements

AASB 15 has comprehensive disclosure requirements. (AASB 15.110 to 129). The total value of "revenue from contracts with customers" must be disclosed if material. Below are some of the key disclosures, however, where material revenue from contracts with customers exists the full list of disclosures from AASB 15 should be included where appropriate.

- A breakdown of total revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. (AASB 15.114 to 115)
- Information about contract balances i.e. revenue received in advance or services/goods provided in advance of revenue being receivable. (AASB 15: 116 to 118)
- Details of performance obligations i.e. how they are typically satisfied, significant payments terms.(AASB 15. 119)

AASB 1058 Disclosure Requirements

There are also disclosure requirements for revenue accounted for under AASB 1058 (AASB 1058.23 to 41). A brief summary of the disclosures is included below:

- Total revenue under AASB 1058 should disclosed a breakdown into categories that reflect how the amounts are affected by economic factors. (AASB 1058.26).
- Income from statutory requirements (such as taxes, fines and rates) should be disclosed separately and also broken into categories that reflect how they are impacted by economic factors.(AASB 1058.28)
- Any asset or liability recognised under AASB 1058 should also have information disclosed about these balances. For example, a liability recognised for prepaid taxes or receivables of rates. Information includes any interest recognised, impairment recognised etc. This may be appropriate to include in the note where the asset or liability is disclosed. (AASB 1058.29)
- Information regarding taxation income, for which a taxable event occurs, but which the Council cannot reliably measure. (AASB 1058.30)
- Information that needs to be disclosed where assets have been received for the Council to acquire or construct a non-financial asset that the Council will control. For example, what is the obligation, how it typically satisfied this obligation, an explanation of when it expects to recognise as income any liability for unsatisfied obligations as at the end of the period. (AASB 1058.31 to 36)
- Any externally imposed restrictions that limit or direct the purpose for which resources controlled by the entity may be used. (AASB 1058.37).

General Rates

The intention is that this section discloses the effective income to the Council from general rates - i.e. compulsory payments where the payer receives no direct, tangible benefit. The determination of the rate is not directly related to the levels of service provided to, or used by, the ratepayer. General rates are accounted for under AASB 1058 as there is no contract with a customer and no “sufficiently specific” performance obligations that the Council must perform to earn the rates.

Rates refers to all charges the structure of which includes an *ad valorem amount calculated by reference to a valuation* and including any fixed charge or minimum amounts included within that structure. It also includes *annual* or *service charges* where these are levied in lieu of an *ad valorem* rate.

Amount to be shown as income

In principle, the amount to be shown as rates incomes is the gross amount required to be levied under the *Local Government Act,* from which disclosure is made of various rebates and other deductions.

Mandatory rates rebates allowed (for example pursuant to sections 159 and 165 of the *Local Government Act)* are required, under the legislation, to be raised and then written off. **They MUST be separately disclosed as there is no choice in the level of income foregone as distinct from the amounts that Council resolves to concede by way of discretionary rebates.**

Where discretionary rates rebates are allowed (for example pursuant to sections 161, 165 and 166 of the *Local Government Act),* rates notices commonly show the total rates levied, and a deduction of the rebated amount. These rebates are not netted against gross rates revenues raised, but are included in the item *discretionary rebates, remissions & write offs.*

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SA MODEL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2024

NOTE 2 - INCOME

Source Reference		Notes	2024 $'000	2023 $'000
AASB 115.15 & 19/ AASB 1058.25				
AASB 1058	**RATES REVENUES**			
	General Rates		**5,115**	4,922
	Less: Mandatory rebates		**(521)**	(504)
	Less: Discretionary rebates, remissions & write offs		**(23)**	(19)
			4,571	4,399
	Other Rates (including service charges)			
	Landscape levy		**124**	113
	Waste collection		**325**	296
	Water supply		**457**	402
	Community wastewater management systems		**201**	172
	Separate and Special Rates			
	Electricity Supply			
			1,107	983
	Other Charges			
	Penalties for late payment		**59**	57
	Legal & other costs recovered		**16**	15
			75	72
	Less: Discretionary rebates, remissions & write offs			(23)
			(19)	
			5,734	5,431
AASB 1058	**STATUTORY CHARGES**			
	Development Act fees		**1,654**	1,588
	Town planning fees		**729**	987
	Health & Septic Tank Inspection fees		**65**	62
	Animal registration fees & fines		**603**	579
	Parking fines / expiation fees		**678**	748
	Environment control fines		**467**	448
	Other licences, fees, & fines		**204**	195
			4,400	4,609
AASB 15.115/ AASB 15.119	**USER CHARGES**			
	Cemetery/crematoria fees		**182**	366
	Commercial activity (1)		**11**	11
	Commercial activity (2)		**220**	230
	Hall & equipment hire		**124**	224
	Parking fees		**301**	154
	Sales - general		**63**	47
	Subsidies received on behalf of users		**223**	201
	Sundry		**48**	48
			1,172	1,281
	INVESTMENT INCOME			
AASB 9	Interest on investments			
	Local Government Finance Authority		**696**	674
	Banks & other		**221**	245
	Loans to community groups		**10**	10
	Investment property rental income		**10**	54
	Premiums & discounts recognised		**10**	0
	Unwinding of premiums & discounts		**1**	0
			948	983

Remissions (for example pursuant to section 182 of the *Local Government Act)* reduce the amount that will be collected from rates that are legally due and payable and are included in the amounts deducted - see "Discretionary Rebates, Remissions & Write-offs" below - from the gross rates raised.

If a Council makes a donation to any organisation, irrespective of whether the donation equates to any amount payable to the Council for any reason, the donation is recognised as expenditure rather than as a reduction in revenue.

The proportion of a Council's total general rate revenue derived from different types of general rates may be regarded as information that would assist an independent user in assessing a Council's financial affairs, and voluntary disclosure is permitted.

Refunds or reversals of general rates due to an objection, review or appeal should be netted against rates revenue as, after completion of the process required by the legislation, the amounts were never actually due to the Council.[4] Separate disclosure is not required.

Council's *Rating Policy* contains comprehensive information relating to valuations and other information relating to each rate and charge levied, including purposes, rates in the dollar and anticipated yields, and accordingly, disclosure of this information in the Annual Financial Statements is not appropriate.

Discretionary Rebates, Remissions & Write-offs

Discretionary rebates, remissions and write-offs relating to general rates are disclosed under the general rates heading, and other discretionary rebates, remissions and write-offs disclosed below.

Other Rates

Where a council has declared a separate rate, or a service rate or service charge, for a specific purpose, e.g. Landscape levy (previously NRM levy), community wastewater management systems [previously STEDS], waste management, water, parking, etc. this should be disclosed under "Other Rates". Grants Commission return forms also include electricity supply, and garbage under this heading[5].

Each separate & special rate should be individually shown, but classifications that are not required for a particular Council are not to be shown.

Refunds or reversals of special rates due to an objection, review or appeal should be included as an offset to rates revenue. Separate disclosure of this amount is not required.

Landscape levy (previously Natural Resource Management (NRM) levy)

Under the *Landscape South Australia Act* 2019, and the *Landscape South Australia (General) Regulations* 2020, Councils are liable to pay the landscape levy to the regional landscape board (section 66(1)). Broadly, these payments are due for payment on 30 September, 31 December, 31 March and 30 June in each year (section 67(1)).

Councils are entitled to reimburse themselves by levying ratepayers (section 69) for the amount (or as near as reasonably practicable - section 69(6)) of the landscape levy they have paid (although the levy by Councils on ratepayers is not invalid by reason of being more or less than the levy paid by the Council - section 69(9)).

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4 South Australian Local Government Accounting Manual, version 2.1, January 2005, Appendix A, page 9.

5 SA Local Government Grants Commission supplementary return for the year ended 30th June 2005, OPST.

Councils may invoice the regional landscape board for their costs in collecting the landscape levy on ratepayers (section 70(1)); invoices should be issued to the regional board by 31 March, and are to be calculated as set out in the Regulations (reg. 14(13)).

The LGA and FMG have determined that the accounting consequences of these provisions are as follows:

- The landscape levy paid by Council to the regional landscape board is to be recognised as Council expenditure, and is to be included as *materials, contracts & other expenses.*
- The landscape levy made on ratepayers is to be recognised as Council revenue and is to be separately disclosed as a *special rate.*
- The costs incurred by the Council in processing all landscape levies (both revenue and expenditure elements) are to be included as *employee costs, materials contracts, etc.* without separate disclosure in the Annual Financial Statements.
- The reimbursement of Council's costs made by the regional landscape board is to be recognised as Council revenue, and included within the revenue item *reimbursements,* and need not be separately disclosed unless otherwise required by the Accounting Standards - see "Reimbursements".
- Amounts due to Council by ratepayers in respect of the landscape levy at the end of the reporting period are to be recognised as a receivable and included in *rates - general and other.* The amount due in relation to landscape levy need not be separately disclosed unless otherwise required by the Accounting Standards.
- Amounts due to Council by regional landscape boards at the end of the reporting period in respect of the reimbursement of Council costs are to be recognised as an amount due by *other levels of government* and need not be separately disclosed unless otherwise required by the Accounting Standards.
- Amounts due by Council to regional landscape boards at the end of the reporting period are to be recognised as *trade and other payables* and unless separate disclosure is otherwise required by the Accounting Standards may be included within *goods and services* classification.
- In the event that a Council levies or collects more landscape levy from ratepayers than required to be remitted to the regional landscape board, there is NO amount recognised as a liability, nor is there any amount reported as a restricted asset.
- In the event that a Council levies or collects less landscape levy from ratepayers than required to be remitted to the regional NRM board, there is NO amount recognised as an asset (other than amounts already levied on ratepayers but unpaid, which are recognised as *rates receivables* as above).

Other Charges - penalties for late payment

Penalties raised on outstanding general rates should be shown as a separate item within the rates revenue classification. However, unless individually material, it is not necessary to separately disclose amounts levied on different types of rates. The fact that the penalty is calculated in the same manner as interest, or is described as a fine, does not change its fundamental nature as a penalty. Penalties would be accounted for under AASB 1058 for the same reason as General Rates.

Refunds or reversals of penalties for late payment due to an objection, review or appeal should also be included as an offset to this amount, but where they are not material in amount need not be separately shown.

Other Charges - Legal & other costs recovered

Advertising and legal and other costs associated with the enforcement of Council's security for rates debts also ranks as a charge on the land. Amounts not so ranking should be included as reimbursements, see "Reimbursements".

Remissions and write-offs - from other rates

Discounts for early payment, discretionary rate rebates, remissions and write-offs from other rates are shown as a deduction from other rates revenue. Amounts allowed for the non-collection of rates raised is also shown as a deduction from rates revenues. Where the allowance for doubtful rates has reduced, a negative amount would be shown. Unless separate disclosure is otherwise required by the Accounting Standards, all such amounts may be grouped. Note that AASB 9 requires an expected credit loss allowance to be raised on all financial assets, which includes rates receivables (in certain circumstances). Any change in this allowance shall not be netted against revenue but shown as an expense.

It is anticipated that, other than in relation to general rates, discretionary rebates, remissions and write-offs from all other rates & levies will not be individually material, and they are accordingly grouped at the foot of this section.

Statutory Charges

Statutory charges are fees from regulatory services and are accounted for under AASB 1058. They are associated with the granting of a permit/licence, the regulation of an activity or penalties for non-compliance with a regulatory requirement. They include:

> Planning, Development and Infrastructure Act fees; Town planning fees; Rate searches; Animal registration fees and fines; Parking fines and expiation fees; Litter fines; Health fines; Environmental control fines; Litter control fines; Septic tank fees; Other licences/fees/fines.

Where statutory charges are not material in relation to Council's non-rates revenues, this section need not be supplied. Where it is supplied, show the major components separately and minor items as *sundry.* For further information, see "Deciding the disclosures to be made".

User Charges

User charges are income from the sales of goods and services or rent of property/facilities (other than rental of investment property as defined in the accounting standards - see "Investment Property". User charges should be assessed to determine if they fall within the scope of AASB 15 or AASB 1058 using the guidance in the "Additional Materials" and the standards. They are voluntary charges for which the payer receives a direct benefit. They include:

> Admission charges; Burning off fees; Bus fares; Caravan park fees; Cemetery/crematoria fees; Parking fees; Patient fees; Building rents; Library fees/fines; Road Moieties; Rubbish collection fees and tip fees (for on demand services); Sundry sales; Sale of minor plant/ loose tools; Hall Hire; Equipment Hire; Client Contributions (Home Assist).
>
> Exclude: Fees of a regulatory nature (refer "Statutory charges") and amounts received as payments for work done acting as an agent for other government and private bodies. (Refer "Reimbursements").

Construction Contract Revenue

Revenues from fixed price construction contracts should be included as part of user charges, irrespective of whether or not the works were undertaken for a government authority. On the other hand, works undertaken on a reimbursement of costs basis should be classified as *reimbursements*

- see "Reimbursements". Fixed price construction contracts are likely to be accounted for under AASB 15 and the guidance in the standard and Additional Materials should be referred to.
- In brief, AASB 15 will require the fixed price to be recognised in revenue over the period of time that the performance obligation is fulfilled i.e. as the construction is carried out. AASB 15 gives two methods for determining how much revenue is allocated as the construction occurs. One approach typically used is the input method which looks at the costs incurred in the construction as a measure of how much work has been completed. This requires the amount of costs incurred up to the reporting date to be compared to the total expected costs for the project. The percentage calculated is then applied to the fixed transaction price and this amount is reflected in revenue at the reporting date. Costs are expensed as incurred unless they meet very specific criteria which are noted in the Additional Materials. As the revenue is recorded, the other side of the entry is to a "contract asset" account. When the revenue becomes unconditionally receivable, the contract asset is transferred into a "receivable" account.

Commercial Activity Revenue

Income from commercial activities is income from activities carried out solely to generate revenue. Examples of commercial activities carried out by SA councils include caravan parks, aged care facilities, clubs, golf courses and nurseries. (The fact that a Council operates one of these does not automatically make it a *commercial activity* - the activity has to be capable of, and be operated for the purpose of, generating net revenue.)

This revenue should be assessed as to whether it falls within the scope of AASB 15.

The nature of the commercial activity should be disclosed.

Subsidies received on behalf of users

Subsidies of this type include patient/resident fee subsidies for aged care facilities, and childcare subsidies.

These subsidies from the Commonwealth are in the nature of personal benefit payments to house- holders (residents etc.). However, instead of the Commonwealth paying the money into the residents' bank accounts and the residents then using this money to pay aged care residential fees or child care fees (i.e. Council user charges), the Commonwealth short circuits the process and pays the money directly to Councils on behalf of the residents.

This treatment is consistent with Local Government Grants Commission and Australian Bureau of Statistics interpretations.

Other aged care or child care facility grants or subsidies, not paid on a unit of service basis, are included as "***Grants, Subsidies and Contributions***".

Where user charges are not material in relation to Council's non-rates revenues, this section need not be supplied. Where it is supplied, show the major components separately and minor items as *sundry*. For further information, see "Deciding the disclosures to be made".

Investment Income

Investment income is income from financial investments or loans to community groups. It includes:

- Interest received from the LGFA or banks; and
- Interest received on loans to community groups.

The dissection of interest received by "type of borrower" may be required for Grants Commission and Australian Bureau of Statistics purposes. The presentation shown in the example note may be condensed into a single line. This income is accounted for under AASB 9.

Rental Income from Investment Property

For the definition and examples of Investment Property, see "Investment Property".

In accordance with the policy implicit in the Australian Accounting Standards, rental income from Investment Property is to be disclosed as Investment Income and ***not*** as User Charges. Rental income from the hire of other Council facilities and assets is disclosed as User Charges.

Most commercial rental contracts are non-cancellable operating leases for which additional disclosures are required - see "Leases providing revenue to the Council". Leases to which the *Residential Tenancies Act* applies are cancellable, and do not require additional disclosure.

Premiums & discounts recognised, and Unwinding of premiums & discounts

Where Council receives a low- or no-interest loan, the discount is recognised as income at the time the loan is received, and the unwinding of the discount represents a *finance charge* over the term of the loan. Where Council makes a low- or no-interest loan the reverse is the case, with the discount recognised as a *finance charge* immediately, and the unwinding of the discount represents income over the term of the loan.

It is not expected that many Councils will need to make these calculations, but disclosure is required where they are material. (Details and an example of the calculation method are given at "No- and Low-Interest Loans". For further information, see "Deciding the disclosures to be made"

Reimbursements

Reimbursements are amounts received as payment for work done by the council acting as an agent for other government bodies and property owners, organisations other councils and individuals. It also includes "contributions" received by the parent or main operating council from member councils for a joint undertaking. They include:

- Reimbursement for road works - state government, public corporations, private bodies/private roads, councils
- Private works
- Joint undertakings - dog control, health/building inspection boards, libraries
- Recoveries from other bodies for work done - Construction Industry Training Fund Levy collection fees
- Reimbursement of collection costs for Landscapes levy - see "Landscapes levy".

Exclude amounts received from council management committees or subsidiaries - these amounts should be dissected according to the appropriate revenue category, e.g. charges, donations etc.

Where reimbursements income is not material, this section need not be supplied. Where it is supplied, show the major components separately and minor items as *sundry*. For further information, see "Deciding the disclosures to be made".

Other Income

Other income is income not classified elsewhere.

Examples of income within this classification include insurance recoupments, rebates, commissions and the like. If a rebate etc. is deducted (or received) by Council concurrently with payment, the net amount of the payment is included in expenditure and no amount is shown as income. If Council pays the gross amount and subsequently receives payment for the rebate etc., the gross amount is included in expenditure and the amount received is recognised as income.

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Source Reference

SA MODEL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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NOTE 2 – INCOME (continued)

Source Reference		Notes	2024 $'000	2023 $'000
AASB 1058.15	**REIMBURSEMENTS**			
	- for roadworks		**1,245**	879
	- for private works		**501**	49
	- by joint undertakings		**452**	604
	- other		**75**	63
			2,273	1,595
	OTHER INCOME			
AASB 116.74(d)	Insurance & other recoupments – infrastructure, property, plant & equipment		**375**	360
	Rebates received		**284**	272
	Sundry		**69**	59
			728	691
AASB 15.115 & 119	**GRANTS, SUBSIDIES and CONTRIBUTIONS**			
	Amounts received specifically for new or upgraded assets		**85**	141
AASB 1058.26	Other grants, subsidies and contributions – Capital			
	Untied – Local Roads & Community Infrastructure Program Grants		**508**	484
			508	484
	Other grants, subsidies and contributions – Operating			
	Untied – Financial Assistance Grants		**460**	94
	Roads to Recovery		**146**	-
	Home and Community Care Grant		**641**	580
	Library & Communications		**183**	361
	Sundry		**94**	3
	The functions to which operating grants relate are shown in Note 12.		**1,524**	850
			2,117	1,475
	Sources of grants			
	Commonwealth government		**641**	580
	State government		**1,461**	892
	Other		**15**	3
			2,117	1,475

Sources of grants total must match total above in Grants, Subsidies and Contributions

Individually Material Item

Although it is possible to have an *individually material item* in relation to revenue, the wording previously included in relation to FAGs grants is superfluous if disclosure is made in Note 1.

Any other *individually material item* in relation to revenue must be fully described

Government Disaster Recovery Grants/ Other Special Local Roads grant could also be considered here

Contributions that are related to services rendered by the Council to the contributor should be classified as *reimbursements.* Developer contributions received should be classified as *grants and contributions specifically for new/upgraded assets.*

Amounts received for long service leave on the transfer of an employee from another Council are credited direct to *provision for long service leave* (or, if paid, are debited direct against the provision) and are not shown as income.

A council should disclose by way of a note the separate amounts related to the items listed if they are of a material nature.

Where other income is not material in relation to Council's non-rates incomes, this section need not be supplied. Where it is supplied, show the major components separately and minor items as *sundry*.

Grants, Subsidies and Contributions

Grants, subsidies, and the like are to be classified on the Statement of Comprehensive Income as either:

- Grants, subsidies and contributions - Capital
- Grants, subsidies and contributions – Operating or
- Amounts received specifically for new or upgraded assets.

All grants, subsidies and contributions etc. that do not meet the criteria for disclosure as *grants specifically for new or upgraded assets* **MUST** be included in *grants, subsidies and contributions – Capital or grants, subsidies and contributions – Operating. Amounts received specifically for new or upgraded assets* includes all amounts paid to Council specifically for the acquisition or construction of new or upgraded assets, irrespective of how these amounts are described - *grant, subsidy, contribution, donation, etc.*

For recognition of capital grant revenue, users should refer to the revenue recognition guidance in the "Additional Materials"

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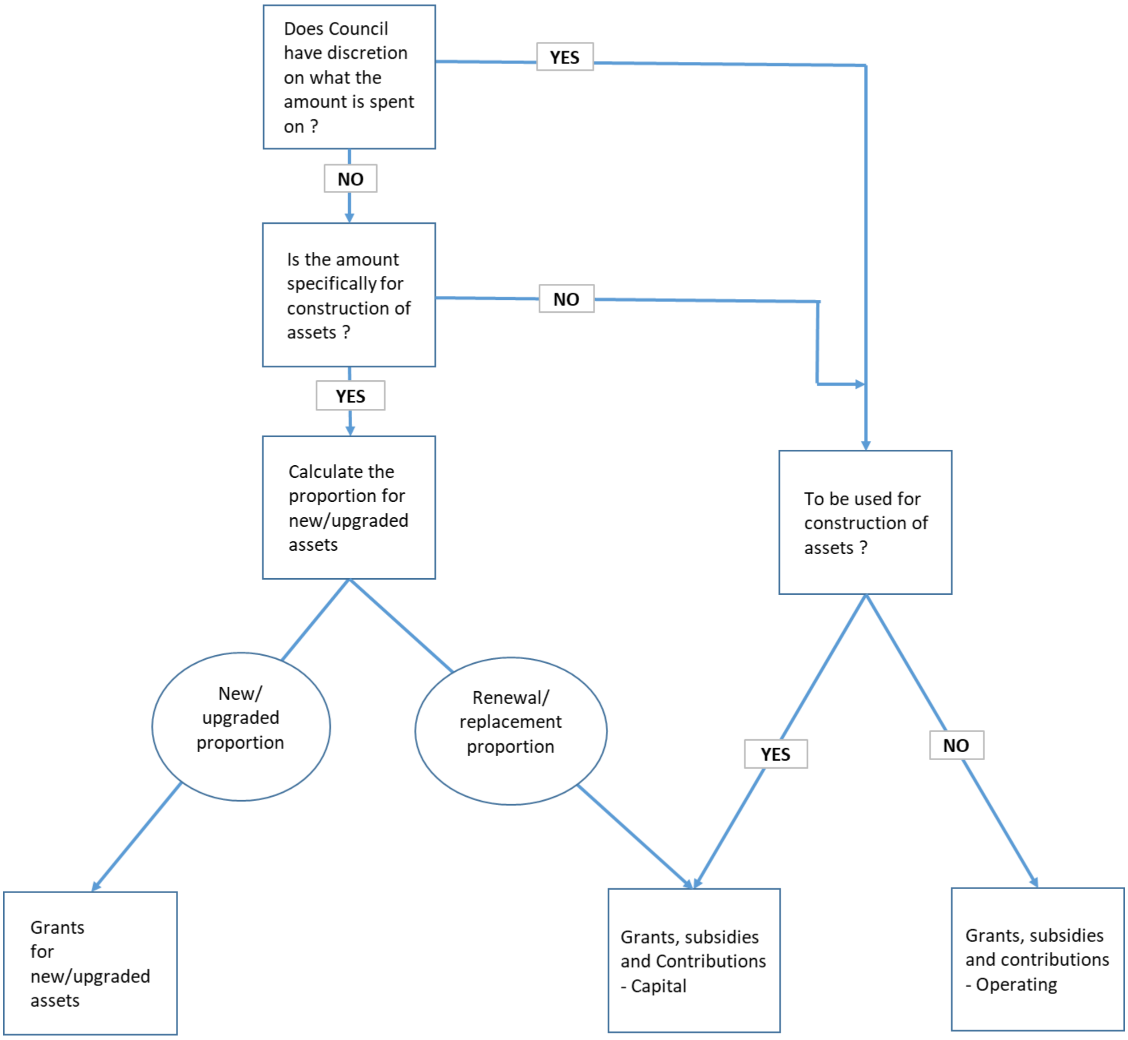
The following decision tree provides further guidance determining how grants, subsidies, and the like are to be classified on the Statement of Comprehensive Income.



What are amounts received specifically for new or upgraded assets?

Firstly, the amount must have been paid to Council for a specific, nominated project(s).

If Council is itself entitled to determine the purpose or the project on which the amount is spent, then it is classified as *grants, subsidies and contributions.* These grants would be accounted for under AASB 1058.

This immediately excludes, for example:

- general purpose financial assistance (Grants Commission) grants - both general purpose and local roads components
- Federal Roads to Recovery grants
- Local Roads & Community Infrastructure Program (LRCIP)

Secondly, the nominated project must include the construction or enhancement of assets.

This excludes, for example:

- Library operating subsidies
- Disaster relief grants (paid only for restoration / reinstatement of assets).

For definitions of new/upgraded assets and renewal/replacement of assets see "Definition - new/upgraded & renewal/replacement of assets".

Grants for both new/upgraded and renewal/replacement of assets

Where the project includes both the renewal or replacement of existing assets, and the acquisition or construction of new or upgraded assets, the amount will need to be apportioned between each component. (See "Definition - new/upgraded & renewal/replacement of assets"). The proportion of the amount that is attributable to renewal/replacement of assets is classified as *grants, subsidies and contributions.*

If a project includes both renewal/replacement and new/upgraded components, but the amount is received specifically for the new/upgraded component, it is classified as an *amount received specifically for new or upgraded assets.*

The apportionment between renewal/replacement and new/upgraded is made *pro rata* on the estimated expenditure of the project (where necessary based on engineering estimates), for example:

Estimated total cost of the project	$2.5 million
Estimated cost of renewal/replacement components	$1.5 million
Estimated cost of new/upgraded components	$1.0 million
Amount received	$1.75 million
Apportioned to *amounts received specifically for new/upgraded*	$0.70 million
Apportioned to *other grants, subsidies etc.*	$1.05 million

See "Capital v. Maintenance Expenditure" for further discussion on the distinction between *new/upgraded, replacement/renewal* and *maintenance* of assets.

Grants received by a Council to acquire or construct an asset that the Council will control is not recognised immediately in Revenue. When the grant is received, a liability is created. The liability is then released into Revenue systematically as the asset is constructed or when the asset is acquired.

The total shown here MUST AGREE with the total *Grants, Subsidies and Contributions* shown above.

Disclosure Guidance

Within the context of the Annual Financial Statements, disclosures of grants, subsidies and contributions should indicate the nature of the amounts received rather than the program or function to which they relate (disclosed in Note 12) or to the manner of calculation by the grantor.

A Council may choose to allocate all or a portion of its untied Financial Assistance Grant to fund road maintenance or construction. This choice does not in any way affect the nature of the grant received - it is untied[6]

Many grants etc. are for small amounts - these should be aggregated by type into material amounts or included in a “sundry” amount. Again, within the context of the Annual Financial Statements, disclosure of each individual grant does not usually convey information that is significant to the understanding and interpretation of the statements.

General disclosure requirements, noted above, for AASB 15 and AASB 1058 should be considered depending on which standard the revenue falls under. Refer to decision tree in Additional Materials.

Special Local Roads Program grants, although largely sourced from Grants Commission funds, are not *general purpose financial assistance grants*. The Special Local Roads Program includes grants for both new/upgraded roads and renewal/replacement of existing roads and careful analysis of the terms and conditions of each grant will be necessary.

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[6] The Financial Assistance Grant component that is calculated by reference to local roads bridges and road lengths became untied in June 1991.

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Source Reference

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NOTE 2 – INCOME (continued)

AASB 15.123 (a), AASB 124/ AASB 1058.37

Conditions over grants & contributions

Grants and contributions which were obtained on the condition that they be expended for specified purposes or in a future period, but which are not yet expended in accordance with those conditions, and are required to be repaid to the funding body if not expended, are as follows:

	Notes	2024 $'000	2023 $'000
Unexpended at the close of the previous reporting period		***393***	*87*
Less: expended during the current period from revenues recognised in previous reporting periods			
Roads Infrastructure		***(48)***	*(42)*
Heritage & Cultural Services		***(24)***	*(21)*
Subtotal		***(72)***	*(63)*
Plus: amounts recognised as revenues in this reporting period but not yet expended in accordance with the conditions			
Roads Infrastructure		***62***	*246*
Heritage & Cultural Services		***31***	*123*
Subtotal		***93***	*369*
Unexpended at the close of this reporting period		***414***	*393*
Net increase (decrease) in assets subject to conditions in the current reporting period		***21***	*306*

List only material

List only material

AASB 1058

		2024 $'000	2023 $'000
PHYSICAL RESOURCES RECEIVED FREE OF CHARGE			
Land & Improvements		**201**	635
Roads, Bridges & Footpaths		**241**	102
Stormwater Drainage		**62**	65
		45	35
		302	122
TOTAL PHYSICAL RESOURCES RECEIVED		**851**	958

Amend descriptions to match your own

Sources of Grants, etc.

Commonwealth government grants are paid directly to Council by a Commonwealth agency, some examples of which are:

- nursing home - operating subsidy
- aged care hostel - operating subsidy (SA Local Government Grants Commission supplementary return for the year ended 30th June 2005, OPST)

Patient/resident fee subsidies for aged care facilities, and childcare subsidies are subsidies **to the user** which are paid in bulk to the Council as a matter of convenience. They are not a subsidy to the Council, and are included as *user charges* - see "Subsidies received on behalf of users".

Grants paid to Council by a State Government department / agency are shown as sourced from *State Government,* even where - as with the Financial Assistance Grants from the Local Government Grants Commission - the original source of the funds was the Commonwealth Government.

Conditions over grants and contributions

Special purpose grants are paid subject to the condition that they be expended for the specific purpose for which the funds were granted, failing which they are to be refunded to the grantor. (Some grants also require that the monies be held in cash or investments until expended, and this is addressed in "Note 10 – RESTRICTIONS ON ASSETS".

Show and describe the major components separately and minor items as *sundry*. If Council has no unexpended grants, say so.

To assist with the reconciliation of amounts of grants received, expended and unexpended, these model accounts include an example working paper for the purpose - see "WP 1 - GRANTS RECEIVED & EXPENDED". The working paper does not form part of, and should not be supplied with, the Annual Financial Statements.

The amounts shown as *received but not expended during the yea*r, or as *previously received and now expended*, will not necessarily match any other amounts shown in the statements.

Councils should maintain a grant register, as this is a key control mechanism to support accurate financial recognition and disclosure of grant revenue, utilisation and monitoring of conditions.

Listing of grants, subsidies, etc. received

While it is necessary, as part of the process of preparing the Annual Financial Statements, to list and reconcile all grants and subsidies received, the LGA and FMG are of the view that it is not necessary to include a full listing of all grants received as part of the Annual Financial Statements.

Physical resources received free of charge

Physical resources received free of charge or at nominal cost are initially recognised at fair value at the date of recognition (AASB 116. Aus15.1). (The assets received are described as being *at cost AASB 116. Aus15.3),* fair value being merely the process by which the *cost* is ascertained.) AASB 1058 should be referred to when considering the recognition of revenue associated with receiving the physical resources for free. Show and describe the major components separately and minor items as *sundry*. If Council has not received any physical resources free of charge, do not show the classification.

Note 3 - EXPENSES

Deciding the disclosures to be made

Consideration should be given to the commentary in "Materiality". In particular, attention should be given to disclosure of items that indicate significant variations from the previous year.

Subject to the above comments, the following may be used as a guide after consultation with your auditor:

- *Finance costs*, *prescribed expenses* and *amounts capitalised and distributed* are material irrespective of amount.
- The split up *depreciation, amortisation and impairment* must be the same as for *infrastructure, property, plant & equipment*.
- For the purposes of the assessment of materiality of other expense classifications, the "base amount" is considered to be the total amount of the classification.
- Where any individual expense line item exceeds 25% of the base amount, a summary of the expenses under that heading should be included in Note 3, and the expense item separately disclosed within that classification. The amount shown as *sundry* should not normally exceed 25% of the classification total.
- Where a Council has investment property (as defined - see "Investment Property" the supplementary disclosure at the foot of Note 3 is material irrespective of amount. Where no investment property is held, no disclosure is made.
- Additional disclosures may be made (except as *prescribed expenses*) where considered appropriate.

Employee Costs

Employee benefits are "all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment (AASB 119.8 Definitions.) "It does not limit this to amounts paid directly to or on behalf of employees, and hence would include superannuation costs directly related to the employment of those persons.

In principle, the intention is for this classification to disclose the **total costs of employing the Council's employees**[7], and includes all costs necessarily incurred as a result of their employment. (It may alternatively be described as ***direct labour plus direct labour oncosts.***) It therefore includes such items as superannuation and workers compensation costs.

An employee benefit expense is a personal benefit given to an employee, or cost incurred on behalf of the employee, in consideration for the employee performing their job. It does not include costs associated with the employee's employment that are not a personal benefit to the employee. For example, safety equipment may be required for the employee to perform their duties but does not give the employee any personal benefit. Certain items may be provided to employees as part of their packages, such as phones, cars or accommodation. Where the item is provided predominantly for business purposes it should be excluded from employee benefits. Material items that have a dual purpose may need to be split between employee benefits and other costs. Where a cost is included in employee benefits any associated FBT should also be included.

[7] Elected members are not employees of the Council.

The classification will therefore include all expenses that clearly fall within the AASB 119 definition of *employee benefits,* and the sub-classifications will clearly identify the material components, enabling users to adapt the information to their own interpretation of the definition.

Salaries & Wages

Salaries and wages reflect payments made to (or, under a contract package, for) employees as remuneration for their labour and include:

- Direct labour (including accrued); ex gratia payments (wages and salaries related); allowances (award and E.B.).
- Exclude paid leave, as this is included in *employee leave expense,* below.

Employee leave expense

This expense includes the costs of all paid leave applicable to the reporting period, including annual leave, long service leave, sick leave, maternity leave, parental leave or other forms of leave.

The expense will differ from the actual amount paid to employees for such leave (which should be debited against the provision when actually paid).

In calculating the increased liability in the provision, on-costs must be included (see "Long Service Leave"). These Model Statements take the view that on-costs are not considered employee benefits and should therefore be excluded from the disclosed *employee leave expense* unless they are immaterial.

Superannuation contributions

Separate disclosure of contributions to defined contribution funds is required (AASB 119.53) and hence the remaining contributions (to defined benefit funds) would also need to be separately disclosed.

Workers Compensation Insurance

Subject to materiality (see "Deciding the disclosures to be made"), workers compensation insurance costs are to be separately disclosed within this classification.

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Note 3 - EXPENSES

Source Reference		Notes	2024 $'000	2023 $'000
AASB 101.29				
AASB 101.104	**EMPLOYEE COSTS**			
	Salaries and Wages		**4,685**	4,360
	Employee leave expense		**765**	629
AASB 119.53	Superannuation - defined contribution plan contributions	18	**198**	216
	Superannuation - defined benefit plan contributions	18	**243**	210
	Workers' Compensation Insurance		**521**	295
	Other employment related costs		**104**	-
	Less: Capitalised and distributed costs		**(692)**	-
	Total Operating Employee Costs		**5,824**	5,710
	Total Number of Employees		***125***	*132*
Voluntary - encouraged	*(Full time equivalent at end of reporting period)*			
	MATERIALS, CONTRACTS & OTHER EXPENSES			
SA Grants Commission AASB 1054.10	Prescribed Expenses			
	Auditor's Remuneration			
	- Auditing the financial reports		**27**	24
	Bad and Doubtful Debts		**44**	-
	Elected members' expenses		**89**	97
	Election expenses		**23**	-
	– Service Contracts		**30**	22
AASB 16.53(d)	Lease expense – low value assets/short term leases		**22**	124
AASB 16.53(e)	Lease expense – variable payments		**16**	-
	Subtotal - Prescribed Expenses		**251**	267
	Other Materials, Contracts & Expenses			
	Contractors		**2,255**	2,199
	Energy		**1,254**	954
	Individually Material Items		**175**	601
	Maintenance		**1,324**	1,145
	Legal Expenses		**45**	33
	Levies paid to government - NRM levy		**123**	115
	- Other Levies		**17**	25
	Parts, accessories & consumables		**1,504**	1,395
	Professional services		**1,034**	926
	Sundry (should not be a material amount)		**363**	326
	Subtotal - Other Materials, Contracts & Expenses		**8,094**	7,719
			8,345	7,986
	INDIVIDUALLY MATERIAL ITEMS			
	If it applies, include a succinct description of the nature of the significant expense in this text box, otherwise delete		***175***	*601*

Capitalised and Distributed Costs

These Model Statements require the disclosure of the gross amounts of employee emoluments and various direct labour overhead costs. It commonly happens that a material share of this expenditure is incurred in the construction of infrastructure or other capital assets, rather than expenses recognised in the Statement of Comprehensive Income. Accordingly, the capital construction component is deducted, leaving only the expense component to be carried to the Statement of Comprehensive Income.

From the gross employee costs shown in the first part of this classification, *deduct* the amounts of direct labour (and associated oncosts) that have been expended on capital works[8].

For definitions and discussion of capital works see "Capital v. Maintenance Expenditure".

Direct Labour Oncosting Procedures

Certain expenses, other than emoluments paid or debited direct, are incurred whenever an employee is engaged, and a number of these are listed above and required to be separately disclosed. These are allocated as a percentage of direct labour to the various classifications on which the employee was engaged. (Depending on Council structure, one or more *direct labour oncost percentages* may be used.)

The initial calculation of the *direct labour oncost percentage(s)* to be applied is based on estimates, both of the overheads or oncosts to be allocated and the employee emoluments which form the basis of allocation.

At the end of the year the under / over-allocation of overheads should be identified, and if this is likely to result in a material mis-statement, should be adjusted to actual.

Employee numbers

Disclosure is voluntary but encouraged. Employee numbers are calculated as *full-time equivalents* at the end of the reporting period. (Fractional employees are incongruous and not best practice.)

Other Materials, Contracts & Expenses

The breakdown offline shown in the example note may be appropriate for your Council but may be modified if desired. Use "Deciding the disclosures to be made" as a guide. There is no requirement to disclose non-material items.

Effectively, this classification includes all expenses that are NOT *employee costs, finance costs,* or *depreciation, amortisation & impairment*. Where an expense is incurred that is (a) material in amount and (b) unusual in amount or nature, give consideration to disclosure as an *individually material item.*

Prescribed Expenses

These are specific items for which disclosure is required by an Accounting Standard, or for governmental or statistical purposes, and only the various expenses listed are to be disclosed under this heading.

The list of Prescribed Expenses will be reviewed annually, and the Steering Committee (FMG, SALGAG, Office of LG, LGA) welcomes suggestions for inclusions and exclusions to the list. Any suggestion for inclusion on the list should explain the benefits to general purpose or other users of the statements arising from the inclusion of the item.

Auditors fees

Councils are required to disclose fees paid to each auditor or reviewer for audit or review of the financial statements and other services performed during the period AASB 1054.10). The statutory restrictions on

8 This information is usually readily available from costing reports for capital works.

auditors undertaking non-audit assignments for Council mean that the additional disclosure rows set out in the Standard are probably not required in SA[9]. You will be able to rely on your Auditor to ensure that disclosure is correct.

Auditors fees are regarded as being material irrespective of amount, and the information that the amount is NIL is regarded as being material. If the amount for any of the sub-classifications is NIL, show NIL.

Bad and Doubtful Debts Expense

Bad debts expense is incurred when Council abandons its claim against a third party, and the amount is written out of the receivables ledger[10]. Where an allowance has previously been made for the non-receipt, the write-off is made against the allowance until this is exhausted, and thereafter direct to the expense.

Doubtful debts expense actually arises from the assessment of receivables for impairment in accordance with AASB 9. Recoupment of an impairment (i.e. reduction in the allowance for doubtful debts) is shown as a negative amount.

In some industries the difference between bad debts expense and doubtful debts expense is material, but this is not the case in local government and both are usually shown together.

Rates & Associated Revenues Debtors

The legislation contains specific provisions relating to the writing off of rates, service charges, fines etc. and this is reflected by recording bad and doubtful debts expense in relation to these as deductions of revenue in Note 3 - see "Remissions and write-offs - from other rates".

Elections & Elected Members' Expenses

Show separately any costs associated with the election of councillors. Elected members' expenses include allowances, meeting expenses, elected member travel and other expenses directly relating to their carrying out of their duties as elected members, including representing the Council at local government and other bodies.

Lease Payments

A number of lease payments are not included within the lease liability created under AASB 16. These are lease payments for short term leases, low-value asset leases and variable lease payments that are not based on a rate or index (e.g. a per unit of use charge). These payments are expensed on a straight-line basis over the lease in the case of low-value asset and short-term leases. Variable lease payments that are not based on a rate or index are expensed when the amount is known. These lease payments are required to be disclosed.

Other Materials, Contracts and Expenses

The example descriptions may be changed to meet your Council's own requirements. The amount shown as *Sundry* should normally be less than a material amount.

Individually material items

> **Individually material items are amounts that are either unusual in nature, or usual in nature but unusual in amount (or both), and sufficiently material to require separate disclosure** (and hence, also specific explanation).

9 See LGA Information Paper No 4 - Audit, re: engaging audit firm for other services.

10 See AASB 9, Additional Guidance B5.5.35 for a practical method of estimating the amount of the allowance.

Individual major expense items incurred each year (e.g. *waste collection expense*) may be separately disclosed in the list of *Other Materials, Contracts and Expenses,* but do not qualify as *individually material items.*

> *Example:* Council was in dispute with its waste collection contractor for a number of years in relation to the count of bins emptied, on which payments under the contract were based. In due course, Council elected to treat the contractor as being in breach of the contract and engaged another contractor. The matter was litigated, and Council found to be at fault because of inadequate definition in the contract in relation to the counting of bins. Council was required to pay damages equal to 6 months collections plus interest and costs.

The additional expense should be disclosed as an individually material item.

The ordinary (i.e. the usual 12 months costs) expense, although it may be the largest single item in the list of *Other Materials, Contracts and Expenses* did not have a material, unusual effect on Council's operating result for the year and would continue to be shown in that location.

Explanations should be clear but succinct, and a user of the Annual Financial Statements should be able to readily identify the reason why the item was considered material. In drafting the explanation, do not assume that the reader is as familiar with the affairs of the Council as you are - what is clear to you may not be so clear to the user. If there is no amount to be disclosed in either the current or previous reporting period, do not show the classification.

Where an *individually material item* was disclosed in the previous reporting period, the full narrative disclosure must still be made so that users can fully appreciate its effects on the two years shown.

Where different *individually material items* are disclosed in the current and previous reporting periods, full narrative disclosures of **both** items must be made.

<u>Legal expenses</u>

Unless appropriately classified elsewhere - such as fees relating to the acquisition of land - report legal expenses here. If there is no amount to be disclosed in either the current or previous reporting period, do not show the classification.

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Note 3 – EXPENSES (cont)

Source Reference		Notes	2024 $'000	2023 $'000
	DEPRECIATION, AMORTISATION & IMPAIRMENT			
	Depreciation			
AASB 101.104	Land		**-**	-
	Buildings & Other Structures		**440**	6
	Infrastructure		**-**	346
	- Sealed Roads		**945**	22
	- Unsealed Roads		**963**	145
	- Bridges, Footpaths, Kerb & Gutter		**342**	452
	- Stormwater Drainage		**94**	321
	- CWMS		**86**	-
	Right-of-use assets	17	**119**	-
	Plant, Machinery & Equipment		**344**	-
	Office Equipment, Furniture & Fittings		**66**	-
	Reinstatement costs		**67**	418
AASB 140.75(f)	Investment Property		**196**	-
AASB 136.126	**Impairment**			
	(Show asset class)		**465**	-
			4,127	1,710
	Less: Capitalised and distributed costs		**(200)**	(200)
	Less: transfer to non-current assets held for sale	20	**(23)**	(22)
	Less: Impairment expense offset to asset revaluation reserve	9	**(279)**	-
			3,625	1,488
	FINANCE COSTS			
AASB 7.20	Interest on overdraft and short-term drawdown		**65**	21
	Interest on Loans		**179**	351
	Interest on Leases		**25**	71
	Premiums & discounts recognised		**3**	-
	Unwinding of present value discounts		**139**	191
	Less: Capitalised and distributed costs		**(12)**	(36)
			399	598
	Investment Property expenses *included above*			
AASB 140.75(f)	*Property generating rental income*			
	Repairs, maintenance & other operating expenses		***2,104***	*1,975*
	Depreciation, Amortisation & Impairment		***173***	*153*
	Property not generating rental income			
	Repairs, maintenance & other operating expenses		***1,045***	*998*
	Depreciation, Amortisation & Impairment		***23***	*21*
			3,345	*3,147*

Levies paid to government

Separately report the Landscapes levy paid - see "Landscapes levy". This will not necessarily agree exactly with the amount levied by Council on ratepayers and reported in Note 2.

Other levies are compulsory payments (other than taxes) to government agencies, statutory authorities and quasi non government organisations (quangos) They are distinguished from grants, contributions and donations which are voluntary payments. They include payments to:

- Dog and Cat Management Board;
- Emergency Services Levy;
- Environment Protection Authority.

Capitalised and Distributed Costs

Materials and contractors' costs relating to capital works are usually costed direct to the relevant capital works account, and the accounting standards have no requirement for the disclosure of gross costs (unlike employee costs, where this requirement exists).

Expenses included within this classification include plant operating costs including fuel, oil, lubricants, repairs and registration, and these are allocated to construction works by way of an internal hire rate. The "plant hire" credit is apportioned between these costs and depreciation (see "Capitalised and Distributed Costs") and may be shown as capitalised and distributed.

Plant Hire "Profit" or "Loss"

Plant working accounts are a device used to ensure that works are allocated the full cost of operating the relevant plant, especially for grants works. All costs pertaining to an item of plant are allocated to the *plant working account,* and an internal plant allocation or *"plant hire[11]"* rate is credited based on the actual usage of the plant item.

The initial calculation of the *internal plant allocation rate* to be applied is based on estimates, both of the plant costs to be allocated and the plant usage which forms the basis of allocation. At the end of the year the internal plant "profit" or "loss" - which is really an over / under-allocation - should be identified, and if this is likely to result in a material misstatement, should be adjusted to actual.

Depreciation, Amortisation & Impairment

Depreciation relates to infrastructure, property, plant and equipment to which the Council has title and tangible right-of-use assets from leases. *Amortisation relates* to intangible assets (AASB 116). *Impairment charges* are recognised pursuant to AASB 136.

A council should separately disclose the *depreciation (and amortisation),* and *impairment* expense for each class of non-current assets including right-of-use assets by class of underlying asset; these asset classes must be the same as the classes disclosed in *Note 7 - Infrastructure, Property, Plant & Equipment*. Notes to the Annual Financial Statements should also disclose depreciation policies, either in Note 1 or Note 7. Depreciation on right-of-use assets has been disclosed in Note 17 in these Model Financial Statements.

Impairment losses must be disclosed separately from depreciation for each class of infrastructure, property, plant & equipment, and this separate disclosure is made in Note 7 (AASB 136.128) (For further guidance in relation to impairment, see "Impairment".)

Note that although land is not normally depreciated, it can be subject to impairment - as is the case in the example shown. For further details see the reconciliation of carrying values in Note 7.

[11] The internal plant allocation (hire) rate should not be confused with the "dry" or "wet" hire rates charged to third parties, which are actually selling prices for services rendered.

Compared to other types of entities, local government has a much wider range of discrete asset classes. It is suggested that classes should optimally be grouped into a maximum of about 10 groups of, as far as appropriate, approximately equivalent values. Use of more groups tends to obscure with excess detail the overall view that is a principal aim of the Annual Financial Statements. For further guidance in relation to determining asset classes see "Determining “Classes” of Assets".

Disclosure of the gross amount less amounts capitalised and distributed facilitates agreement with the reconciliation of carrying amounts of property, plant & equipment.

Capitalised and Distributed Costs

Plant operating costs included in capitalised works include fuel, oil, lubricants, repairs and registration (which are included in *materials, contracts & other expenses*), as well as depreciation charges. (Total plant operating costs should approximate internal plant hire allocations - if the difference is material, internal plant hire allocations should be adjusted.)

Calculate the percentage of total plant operating costs that is represented by depreciation. The total plant hire costs included in capitalised works is apportioned to *capitalised and distributed costs - depreciation* using this percentage and the balance represents *capitalised and distributed costs - materials, contracts & other services* which does not have to be disclosed.

Impairment Offsets

In respect of not-for-profit entities, an impairment loss on a revalued asset is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for the class of asset. (AASB 136.Aus61.1) Such an impairment loss on a revalued asset reduces the revaluation surplus for the class of asset.”

In these circumstances, the amount of the impairment loss charged as an expense will be less than the total impairment cost shown in *Note 7 - Infrastructure, Property, Plant & Equipment*, and the reconciling amount is disclosed as *impairment expense offset to asset revaluation reserve.*

The amount shown here **MUST** match the disclosures in *Note 9 - Reserves*.

Finance Costs

Australian Accounting Standards variously use the terms *finance costs* and *borrowing costs* inter-changeably, and either is acceptable. Review "Deciding the disclosures to be made" prior to completing this section.

Finance charges are the costs of financing a council's activities through borrowings or other types of financial accommodation (e.g. leases). Gross expenses must be shown, not net of income. They include:

- Interest payments;
- the interest expense on lease liabilities;
- establishment fees paid on a borrowing or overdraft facility

Exclude ongoing bank charges and principal repayments. The interest expense on lease liabilities should be shown separately and has been disclosed in Note 17 in these Model Financial Statements.

Bank Charges

Bank charges are charges made by the bank for their services in the provision of banking facilities for Council and include GST where applicable. They are not related to the cost of the provision of finance to the Council, and are included in the *materials, contracts & other expenses* classification above.

Discounts and Premiums

Where material, discounts and premiums on low- and no-interest loans are to be recognised (see "No- and Low- Interest Loans" for calculation methods).

Unwinding of Present Value Discounts

A number of standards require that liabilities (and assets) be recognised at the present value of the future cash outflow (inflow), and as the time of the future payment (receipt) nears, the present value increases. This is known as the "unwinding of the present value discount". The accounting standards require that the *unwinding of present value discounts* is recognised as a borrowing cost[12] (or as investment income, in the case of an asset). For an example of the method of calculation, see "For all provisions - Unwinding of Present Value Discounts".

Financial Sustainability Program Information Paper 15 - Treasury Management[1] endorses a holistic approach to the management of Council cash, investments and borrowings.

Rather than the traditional procedure of borrowing specific amounts for specific purposes for fixed terms at fixed interest rates, this approach involves Council's overall financing requirement being met by a combination of fixed and variable interest rate borrowings for differing maturities and/or the utilisation of other cash resources, depending on the ebb and flow of Council's cash resources.

AASB 123 *Borrowing Costs* defines the "borrowing costs ... directly attributable to the acquisition, construction or production of a qualifying asset [as] those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made" (AASB 123.10)

Where an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.(AASB 123.14).

To determine the amount of interest to be capitalised as part of the cost of a qualifying asset:

1. **Calculate the weighted average interest rate of all Council's borrowings at the commencement of period under review (or the commencement of construction).**
2. **Apply that interest rate to the average project cost of the qualifying asset (i.e. opening balance + closing balance divided by two). If the project cost includes interest previously capitalised, then that forms part of the project cost on which subsequent interest is calculated.**

The calculation is made at least annually but may be done more frequently if desired.

1. Revised and reissued 2015. https://www.lga.sa.gov.au/member-services/financial-sustainability/financial-sustainability-resources.

Capitalisation of Interest

Australian Accounting Standard AASB 123 generally requires that *borrowing costs* incurred on *qualifying assets* be capitalised**.**

12 e.g. AASB 119.155, AASB 119.Aus83.1 and AASB 137.60 (see "For all provisions - Unwinding of Present Value Discounts" below).

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These costs are permitted to be expensed by not-for-profit public sector entities (AASB 123.Aus8.1) **but is NOT to be applied**.

As a result of the transition to AASB 16 *Leases*, borrowing costs (note 3) now includes interest from lease payments.

Further reference should be made to the standard for definitions of qualifying asset and eligible borrowing costs and the method of application.

Investment Property expenses

This section is not shown unless a Council has property defined as *investment property* (see "Investment Property" for definition), but otherwise disclosure is required. (AASB 140.75(f)(ii) & (iii))

Where Investment Property is carried using the fair value model, depreciation, amortisation & impairment is not shown.

The accounting standard specifically requires separate disclosure of expenses for *investment property generating rental income* and *investment property not generating rental income*. If a property has generated any rental income - even (say) as little as only one week's rental - it is included as *property generating rental income*.

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Note 4 - ASSET DISPOSAL & FAIR VALUE ADJUSTMENTS

The amounts included in this Note all properly belong in profit & loss, but for various reasons have been excluded from the *operating result* used in the calculation of the financial indicators, and for financial sustainability purposes.

While AASB 101 does not specifically require some of the disclosures made in this Note, it is convenient to group all gains and losses on disposal of different classes of assets together. Gains and losses within a classification may generally be reported on a group basis (AASB 101.34(a) and AASB 101.35) - gains and losses within a group may be offset.

Infrastructure, Property, Plant & Equipment

The total carrying value should agree with the reconciliation of carrying values forming part of Note 7.

You **MUST** differentiate between the disposal of assets that have been renewed / replaced, and assets surplus to requirements**.**

For definitions see "Definition - new/upgraded & renewal/replacement of assets".

Infrastructure that has been taken out of use - but is still located on land owned or controlled by Council - should be treated as *impaired*, rather than *disposed of*.

Infrastructure that has been replaced (e.g. a road that is reconstructed) should be treated as *disposed of*. The "disposal proceeds" equal the cost savings in the reconstruction arising from the reuse of the materials *in situ* and may be transferred directly to the cost of the new asset. The difference between carrying value at the time of the reconstruction and the "disposal proceeds" represents a gain or loss on disposal. The value of the materials reused will almost always be classified as capital expenditure on the renewal / replacement of assets rather than new assets.

These transactions are non- cash, and **MUST** be excluded from the Statement of Cash Flows.

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Note 4 - ASSET DISPOSAL & FAIR VALUE ADJUSTMENTS

Source Reference		Notes	2024 $'000	2023 $'000
AASB 101.34/ AASB 116.71/ AASB 140.69	**INFRASTRUCTURE, PROPERTY, PLANT & EQUIPMENT**			
	Assets renewed or directly replaced			
	Proceeds from disposal		**2,000**	310
	Less: Carrying amount of assets sold		**(1,685)**	(254)
	Gain (Loss) on disposal		**315**	56
	Assets surplus to requirements			
	Proceeds from disposal		**1,101**	206
	Less: Carrying amount of assets sold		**(1,096)**	(140)
	Gain (Loss) on disposal		**5**	66
	INVESTMENT PROPERTY			
	Proceeds from disposal		**163**	885
	Less: Carrying amount of assets sold		**(173)**	(163)
	Gain (Loss) on disposal		**(10)**	722
	REAL ESTATE DEVELOPMENT ASSETS			
	Proceeds from disposal		**1,055**	-
	Less: Carrying amount of assets sold		**(1,022)**	-
	Gain (Loss) on disposal		**33**	-
	FAIR VALUE ADJUSTMENTS			
AASB 116.Aus39.1 &40.1	Investment property - fair value increase		**20**	30
AASB 140.75(iv)	Revaluation decrements previously expensed, now recouped		**420**	0
AASB 140.76(d)	Revaluation decrements expensed		**(159)**	-
			281	30
	NET GAIN (LOSS) ON DISPOSAL OR REVALUATION OF ASSETS		**624**	874

It may be that Council has recorded a complex asset as a single unit, rather than identifying material components as required by AASB 116 (see "Determining Asset Components"). These components should be correctly identified at the time of reconstruction, so that it is only the components actually replaced that are treated as disposed of.

Where an item of infrastructure, property, plant & equipment that has previously been revalued is disposed the transfer of the revaluation reserve in respect of the asset to be transferred direct to accumulated surplus, but the transfer must be made as *other comprehensive income* and hence would not be shown here. (AASB 116.41).

For not-for-profit entities, where revaluation decrements and impairment of revalued assets are offset against revaluation surpluses of the asset class, it is effectively impossible to positively identify the revaluation surplus relating to an individual asset within that asset class. Accordingly, this procedure is **NOT RECOMMENDED**.

Investment Property

Disclosed by those Councils who have disposed of Investment Property (see "Investment Property" for definition) during the reporting period. The total carrying value should agree with the reconciliation of carrying values forming part of Note 7.

Real Estate Developments

Refers to the development of land as industrial or residential estates - see "Real Estate Developments" - which are classified as inventory under AASB 102.6 and land and other property held for resale (AASB 102.8).

Fair Value Adjustments

Fair Value Adjustment - Investment Property

Where investment property is recognised at fair value, the fair value adjustment - increment or decrement - also must be disclosed (AASB 140.75(f)(iv)). For information on accounting for the fair value adjustment see "Fair Value Model".

Revaluation decrements previously expensed, now recouped

Where a revaluation decrement has previously been expensed and a subsequent revaluation results in an increment, the amount of the previous decrement is recouped to profit and loss. (Any additional increment is credited to Asset Revaluation Reserve.)

Revaluation decrements expensed

Revaluation decrements (AASB 116.40) required to be recognised as an expense, other than in relation to investment property (see above). For further discussion of the revaluation process - and the consequent accounting entries - see "Fair Value Model".

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Note 5 - CURRENT ASSETS

Cash & Cash Equivalent Assets

This group of assets - which may have only one item - has a direct relationship with the Statement of Cash Flows: the total of the grouping (less any applicable bank overdraft - see "Borrowings") *MUST* agree with the balance of *cash* and *cash equivalents* (AASB 107.6 Definitions) on hand as disclosed on the Statement of Cash Flows

Investments with an initial maturity of less three months from acquisition A normally qualifies as a cash equivalent. (AASB 107.7) Investments that do not meet this criteria are disclosed in *Other Financial Assets - Current or Non-Current* as appropriate. Cash advance debentures are not included in cash and cash equivalents.

For a summary of the different types of deposits available from LGFA, and their appropriate descriptions see "Note 13 - FINANCIAL INSTRUMENTS".

Disclosure required by the *financial instruments* standard AASB 7, are included in these Model Statements in the Financial Instruments note - see "Note 13 - FINANCIAL INSTRUMENTS".

Trade & Other Receivables

Receivables are to be apportioned between *current* and *non-current* on the basis of whether they are expected to be realised within 12 months or are held primarily for the purpose of trading.(AASB 101.66) (Current amounts not expected to be recovered within 12 months are required to be disclosed - see "Disclosure of Amounts Not Realised within 12 Months".

The Model Statements provide some suggested sub-classifications as set out below, but these may be modified to suit individual Council requirements. The impairment of receivables is recognised through use of an allowance account.

Deciding the disclosures to be made

Consideration should be given to the commentary in "Materiality". In particular, attention should be given to disclosure of items that indicate material variations from the previous year.

Subject to the above comments, the following may be used as a guide after consultation with your auditor:

- For the purposes of assessment of materiality of receivables items, the “base amount” is considered to be total receivables net of allowances.
- *Rates - General & other* receivables are required to be disclosed, irrespective of amount.
- Where any individual receivable type exceeds 20% of the base amount, separate disclosure is appropriate.
- Where any individual receivable type is less than 5% of the base amount, separate disclosure is unlikely to be appropriate.

Rates - General & other

These receivables (and the allowance, if any) relate to the general and special rate revenues disclosed in the first section of Note 2 - INCOME.

Rates postponed for State Seniors

Amounts for which payment has been deferred under the postponement scheme must be removed from the *rates and general receivables* classification and shown here, **whether or not material in amount.** An estimate will need to be made - based on the best available information - of the proportion likely to be collected within the next reporting period. It is recognised that this estimation will be difficult during the early years of the scheme.

Disclosure of Rates postponed for State Seniors debtors is **MANDATORY, whether or not material in amount.**

Accrued Revenues

These are amounts earned by Council, but not yet credited to it - such as interest - or not yet invoiced by Council - such as kerb & gutter (moiety) charges or private works where the work was undertaken before the end of June, but not billed or invoiced until after the end of June.

Once these amounts are invoiced, they are classified as *Debtors - general* receivables.

Debtors - general

These receivables were invoiced prior to 30 June and unpaid at that date.

Fines & Expiation Notices

Collection experience for various types of fines and penalties (particularly library fines on overdue books) is often so variable that it may be appropriate not to recognise these revenues until receipt; however, some Councils adopt a contrary policy. Where revenues from this source are material, the revenue recognition policy must be clearly stated in Note 1 - see "Income recognition". Depending on the materiality of the amounts involved, it may be appropriate to separately disclose both the total receivable and the allowance for doubtful debts.

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Local Government Association of South Australia

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Few councils will make disclosures on all rows provided. Unused rows should be hidden, and the Note formatted to print on a single page.

SA MODEL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2024

Note 5 - CURRENT ASSETS

Source Reference		Notes	2024 $'000	2023 $'000
AASB 101.77 & 78				
AASB 107.45	**CASH & CASH EQUIVALENT ASSETS**			
	Cash on Hand and at Bank		**4,476**	2,792
	Deposits at Call		**215**	23
	Short Term Deposits & Bills, etc		**30**	39
	Bills of Exchange		**70**	858
			4,791	3,712
AASB 101.78(b)	**TRADE & OTHER RECEIVABLES**			
	Rates - General & Other		**233**	458
	Accrued Revenues		**49**	192
	Debtors - general		**250**	365
	Other levels of Government		**1,477**	1,172
Int 1031.9	GST Recoupment		**204**	303
	Prepayments		**109**	168
	Loans to community organisations		**16**	19
	Aged Care Facility Deposits		**99**	271
	Sundry		**18**	40
	Total		**2,455**	2,988
	Less: Provision for expected credit losses		**(7)**	(8)
			2,448	2,980
AASB 101.61 & 66	*Amounts included in receivables that are not expected to be received within 12 months of reporting date.*		***74***	*132*
	OTHER FINANCIAL ASSETS			
	Insert appropriate description		**2,248**	2,909
	Insert appropriate description		**220**	453
	Insert appropriate description		**30**	142
	Insert appropriate description		**947**	-
			3,445	3,504
AASB 101.61 & 66	*Amounts included in other financial assets that are not expected to be received within 12 months of reporting date are disclosed in Note 13.*		**403**	221
AASB 101.78(c)	**INVENTORIES**			
	Stores & Materials		**84**	9
	Trading Stock		**322**	13
	Real Estate Developments	6	**596**	306
	Other		**10**	125
			1,012	453
AASB 101.61 & 66	*Amounts included in inventories that are not expected to be received within 12 months of reporting date.*			
AASB 102.36 & Aus36.1	*Aggregate write-downs and other losses recognised as an expense, and reversals of these, were not material in amount in either year. All such reversals occurred principally as a result of clerical inaccuracies during stores operations.*			

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Other levels of government

The receivable shown here relates to all amounts due by State & Federal governments & agencies, statutory authorities and quasi non government organisations (quangos), and includes GST recoupment receivable where this is not separately disclosed (Amounts invoiced through the general debtors system may be excluded where the amounts are not material).

To qualify for recognition as a receivable, Council needs to have received a formal advice of the allocation of the grant/subsidy, and to have expended monies in accordance with the grant/subsidy terms and conditions. Amounts expended by Council in anticipation of the allocation of a grant/ subsidy in a subsequent round of funding would not normally qualify for recognition. Over-expenditure made on the current year's grant/subsidy allocation, intended to be recouped from a subsequent year allocation, would similarly not qualify for recognition unless the authority has positively confirmed that Council will receive an allocation against which prior period expenditure may be claimed.

All grants/subsidies should be reconciled in a form similar to the example in "WP 1 - GRANTS RECEIVED & EXPENDED" at the end of each reporting period. (Note: WP1 does NOT form part of the Annual Financial Statements.)

GST Recoupment

For some Councils the outstanding GST recoupment is a material amount, and separate disclosure is proposed for the purposes of consistency in presentation. Otherwise include the amount with the above item.

Strictly, GST recoupments are usually offset against PAYG tax withheld from employee payments and are only rarely directly refunded by the Australian Taxation Office. It is convention to ignore this, and to treat GST and PAYG entirely independently.

Prepayments

Prepayments - while not a financial instrument - are a receivable, as they represent the money value of services yet to be received. (AASB 101.66(c)) It is not correct to describe these as *other non-current assets.*

Loans to Community Organisations

There are a myriad of different arrangements used by Councils to provide support to independent community organisations - for commentary regarding section 41 committees and section 42 subsidiaries see "The Local Government Reporting Entity".

The appropriate accounting treatment for some examples is shown below.

- the Council may make a loan to the community organisation from its own funds
  - if the loan is interest free or at a concessional interest rate, *and the amount is material*, the present value calculation shown below should be used.
  - if the loan is interest free or at a concessional rate, *and the amount is NOT material*, use the nominal amount payable.
  - if the loan is charged interest at or near commercial rates, use the nominal amount payable.
- the Council may guarantee a loan made direct to the community organisation by the financier
  - if there is no suggestion of default by the community organisation, report the contingent liability in "Note 21 – CONTINGENT ASSETS & CONTINGENT LIABILITIES".
  - if there is significant possibility of default by the community organisation, record the liability as a borrowing in "Note 8 - LIABILITIES" & "Note 13 - FINANCIAL INSTRUMENTS", and recognise a receivable from the community organisation for the equivalent amount. Assess the receivable for impairment, and if appropriate establish an allowance for the non-collection of the receivable. Discuss this situation with your Auditor, and agree the appropriate amounts, early.

- the Council may borrow from the LGFA or a financier and on-lend the funds to the community organisation. The interest rate applied by the Council on the loan to the community organisation may be the same or different from the interest rate payable by Council, and repayment intervals and amounts may be the same or different from loan repayments due by Council.
  - *the* loans *due to Council and due by Council* ***are not to be offset****.* This is because Council itself is the borrower, and its full liability must be shown.
  - the loan due by Council is recognised as a liability in "Note 8 - LIABILITIES". If the loan bears a commercial rate of interest, nominal value is used, or if not - and the amount is *material* - the present value calculation shown below should be used.
  - the loan due to Council is recognised as a receivable; current or non-current as appropriate. If the loan bears a commercial rate of interest, nominal value is used, or if not - *and the amount is material* - the present value calculation shown below should be used.
  - the loan due to Council is assessed for impairment, and if appropriate establish an allowance for the non-collection of the receivable.

There are many other variations that exist, and the above examples can be used as a guide in deter- mining the accounting procedure to be applied. It is courteous to discuss your proposed treatment with your auditor early.

No- and Low- Interest Loans

Councils may either receive (commonly from State or Federal Government) or make (commonly to community groups) low-interest or interest-free loans.

Where these are material - a point that you will need to discuss and agree with your auditor - a premium or discount is recognised at the time of making or receiving the loan, which is then "unwound" during the term of the loan. An example calculation of the fair value at the commencement of a loan, and of the "amortised cost using the effective interest method" is given below[13]. The loans are also required to be considered for impairment under AASB 9.

13 Please note that the example has been simplified and rounded for presentation.

A $1,000,000 loan is made at 1 July 20x1 at 2% p.a. repayable in 5 equal annual instalments. The instalment amount is $212,158 and each instalment is made up as follows:

Date Due	Principal	Interest	Total Investment	Principal Balance
30/06/20x2	$ 192,158	$ 20,000	$ 212,158	$ 807,842
30/06/20x3	$ 196,001	$ 16,157	$ 212,158	$ 611,841
30/06/20x4	$ 199,921	$ 12,237	$ 212,158	$ 411,920
30/06/20x5	$ 203,920	$ 8,238	$ 212,158	$ 208,000
30/06/20x6	$ 208,000	$ 4,160	$ 212,160	-
Total	$ 1,000,000	$ 60,792	$ 1,060,792	

The market interest rate at the time of the loan was 7.5% p.a. Fair value at the commencement of the loan is calculated as follows:

Date of Payment	Face Value	PV factor	Present Value
30/06/20x2	$ 212,158	0.9279	$ 196,861
30/06/20x3	$ 212,158	0.8611	$ 182,689
30/06/20x4	$ 212,158	0.7990	$ 169,514
30/06/20x5	$ 212,158	0.7415	$ 157,315
30/06/20x6	$ 212,160	0.6880	$ 145,966
Net present value of cash flows			$ 852,345
Discount to face value			$ 147,655

The discount is recognised at the time that the loan is made or received. Interest revenues recognised in each reporting period equals the carrying value at the commencement of the reporting period at the market interest rate at the time of the loan. (This interest rate does not change during the life of the loan.)

Date	Opening Carrying Value	Interest Income Recognised	Interest received in cash	Principal received	Closing Carrying Value
30/06/20x2	$ 852,345	$ 66,192	$ 20,000	$ 192,158	$ 706,379
30/06/20x3	$ 706,379	$ 54,843	$ 16,157	$ 196,001	$ 549,064
30/06/20x4	$ 549,064	$ 42,644	$ 12,237	$ 199,921	$ 379,550
30/06/20x5	$ 379,550	$ 29,469	$ 8,238	$ 203,920	$ 196,861
30/06/20x6	$ 196,861	$ 15,299	$ 4,160	$ 208,000	-
Total		$ 208,447	$ 60,792	$ 1,000,000	

Difference between Interest Income Recognised and Interest received in cash equals the amount of discount unwound

30/06/20x2	$ 46,192
30/06/20x3	$ 38,686
30/06/20x4	$ 30,407
30/06/20x5	$ 21,231
30/06/20x6	$ 11,139
Total	$ 147,655

Aged Care Facility Deposits

The amount recognised as a receivable is the amount actually due and payable at the end of the reporting period in respect of persons who were actually resident at that date. The amount required to be paid by a person in order to commence residence after the reporting date would almost certainly be a non-adjusting event for the purposes of AASB 108 *Events after the Statement of Financial Position Date.*

Accounting for Aged Care Facility Deposits

Although details can vary, the following is an outline of the most common procedures involved in aged care facility deposits under Commonwealth legislation. All amounts involved are to be calculated in accordance with the process set down in the legislation.

A person commencing residence in the aged care facility is required to place a deposit with the facility either on commencing residence or within a reasonable period thereafter. No interest is paid on the deposit. On termination of residence, the facility is required to refund the deposit (effectively on demand) less an allowance deducted according to the term of the residence.

The accounting consequences of these transactions are:

- Aged Care Facility Deposits received are recognised as a current[14] liability at face value[15].
- Where a resident has commenced tenancy and there is a binding agreement for the payment of a deposit by the tenant, recognise both a receivable for the payment due and a liability for the deposit.
- Transfer to revenue the amounts Council may retain from deposits and disclose as *user charges* in "Note 2 - INCOME".
- Where a tenancy has terminated before reporting date, but the balance of the deposit has not yet been refunded, the deposit is transferred to *payables - goods and services.*

New arrangements came into force with the introduction of the *Living Longer, Living Better* reform program introduced in the 2013 Federal budget for persons commencing residency after 1 July 2014.

Deposits are no longer be subject to the retention deduction and must be refunded in full on termination of residency (unless the resident chooses for daily payments to be deducted).

For at least some time, both the former and the new arrangements will co-exist.

Sundry

This classification is not intended as a grab-bag for minor debtors amounts that are more correctly disclosed in one of the above headings. It relates to debtors ***the nature of which is significantly different*** to the debtor types listed above. Most commonly, these will relate to the disposal of assets, but would also be appropriate where a legal judgement for damages has been made in Council's favour, or for other amounts due to Council not directly arising from the normal course of business.

If the amount is material, separate disclosure of its nature is required; where there is no amount to disclose in either the current or previous reporting period, don't show the classification.

14 Notwithstanding that the probability of having to repay all deposits in a single reporting period is remote, Council does not have an "unconditional right to defer settlement of the liability for at least 12 months after the reporting date" - see AASB 101.69(d).

15 The liability is repayable on demand, and present value factor for an amount payable on demand is 1.

Disclosure of Amounts Not Realised within 12 Months

Some amounts required to be disclosed as current assets may not be realised within 12 months, and this disclosure is required (AASB 101.61).

Other Financial Assets

Financial assets that do not meet the criteria for cash & cash equivalents refer "STATEMENT OF CASH FLOWS", are disclosed here.

For a summary of the different types of deposits available from LGFA, and their appropriate descriptions see "Local Government Finance Authority of SA Financial Products".

Other financial assets are to be apportioned between *current* and *non-current* (AASB 101.61) and are required to be assessed as to what classification they fall into r (AASB 9, Chapter 4) and assessed for impairment.

Inventories

Inventories are to be subclassified, ***where material***, in accordance with *AASB 102 Inventories*, into classifications such as merchandise, production supplies, materials, work in progress and finished goods (AASB 101.78(c)) Inventories are to be apportioned between *current* and *non-current* (AASB 101.66).

Stores and materials

Stores & materials are consumed in the normal course of operations and would include any *inventories held for* distribution[16] (AASB 102. Aus6.3). It is not anticipated that any *inventories held for distribution* would be sufficiently material to justify separate disclosure.

Trading Stock

Trading stock comprises inventories that are held for resale and implies that the inventory is currently in condition for sale.

Work in Progress

In the rare circumstances where Council has entered into a "fixed"[17] price construction contract, but the works have not been completed at reporting date, it may be necessary to recognise costs incurred in advance of revenue claim as work in progress - see "Construction Contract Revenue".

Real Estate Developments

Real estate developments are classified as inventory, and where the amount is material, additional disclosure is required. The Model Statements make provision for this supplementary disclosure at the foot of the Note to assist in preserving the numerical order, and most Councils would not show these rows.

Note that the details of real estate development costs in the Model Statements have been consolidated in "Note 6 - NON_CURRENT ASSETS". They may be disclosed in "Note 5 - CURRENT ASSETS" if desired.

16 Activities funded by rates, etc. are not provided at no or nominal consideration. Examples of inventories held for distribution would include tourist brochures, etc.

17 A "fixed" price contract referred to here is where the contract stipulates either a total contract amount, or a method for determining the total contract amount (which may include contract variations). Council may or may not make a profit depending on the costs incurred.

Classification as Current and Non-Current Assets

A residential or industrial estate where allotments are available for immediate sale is clearly held for trading (AASB 101.66(b)) and must be classified as a current asset. Where subdivision procedures or infrastructure construction is not yet commenced or is incomplete a portion of the amount may be classified as non-current to the extent that it is not expected to be realised within the next 12 months.[18]

Other Real Estate held for resale

Occasionally Councils have properties, auctioned for non-payment of rates in accordance with the Local Government Act but which failed to meet the reserve set by Council. These properties that are available for sale by private treaty. They should be recognised as *inventory* at the time of acquisition and classified as *current assets* in accordance (AASB 101.66). These do not meet the definition of *Non-Current Assets held for sale* in AASB 5, and are disclosed here. (Any shortfall on the rates due is written off at the time of auction.)

Inventory write-downs

The disclosure of inventory write-downs, and reversals of write-downs, is required (AASB 102.36 (e), (f) & (g)).

18 Some Councils acquire broadacre land some years in advance of sub-division requirement and defer development until supplies of serviced allotments run low.

Note 6 - NON-CURRENT ASSETS

Financial Assets

Few Councils will have more than two or three classifications of non-current receivables, and accordingly all non-current financial assets are grouped together. They may be segregated if desired. See the comments for each receivables sub-classification in "Trade & Other Receivables".

Deciding the disclosures to be made

If there is no amount to be disclosed for a classification in either the current or previous reporting period, do not show the classification.

Consideration should be given to the commentary in "Materiality". In particular, attention should be given to disclosure of items that indicate significant variations from the previous year.

Subject to the above comments, the following may be used as a guide after consultation with your auditor:

- For the purposes of assessment of materiality of receivables items, the "base amount" is considered to be total financial assets net of allowances.
- *Rates & General* receivables are required to be disclosed, irrespective of amount.
- Where *any* individual receivable type exceeds 20% of the base amount, separate disclosure is appropriate.
- Where *any* individual receivable type is less than 5% of the base amount, separate disclosure is unlikely to be appropriate.

Rates & General Receivables

It is possible to interpret AASB 101.66 such that all *Rates & Associated Debtors* are classified as *current*. As there is always a portion of these debtors that are not collected until more than 12 months after the close of the current year, a more *true and fair* presentation is to disclose this proportion as *non-current*[19].

There is no provision for *non-current Fines, Fees & Charges* as all of these amounts should be collected within a normal trading cycle.

Council Rate Postponement Scheme

Amounts for which payment has been deferred under the postponement scheme must be removed from the *rates and general receivables* classification and shown here, **whether or not material in amount.** An estimate will need to be made - based on the best available information - of the proportion likely to be collected within the next reporting period. It is recognised that this estimation will be difficult during the early years of the scheme.

Disclosure of Council Rate Postponement Scheme debtors is **MANDATORY, whether or not material in amount.**

19 We contrast this situation with commerce, where although there is always a proportion of slow-payers, no individual amount is outstanding for more than 12 months.

Prepayments

While *prepayments*[20] more than 12 months in advance are extremely rare in commerce, it is common practice for some local government computer suppliers to require substantial portions of future maintenance contracts this far ahead. As the normal operating cycle is 12 months, provision has been made for a *non-current* component.

If there are no amounts to be disclosed in either the current or previous reporting periods, do not show the classification.

Other Financial Assets

Financial assets that meet the criteria for non-current assets (AASB 101.66) would all be disclosed here, and would be **described in accordance with their nature, not their financial instrument categorisation**.

20 Prepayments *are not* financial assets. While it is technically incorrect to disclose them under the heading of Financial Assets, most Councils will not have any *non-current prepayments,* and they are even less likely to be material in amount.

Local Government Association of South Australia

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Few councils will make disclosures on all rows provided. Unused rows should be hidden, and the Note formatted to

SA MODEL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2024
Note 6 - NON-CURRENT ASSETS

Source Reference		Notes	2024 $'000	2023 $'000
AASB 101.77 & 78	**FINANCIAL ASSETS**			
	Receivables			
	Rates & General		**280**	500
	Council Rates Postponement Scheme		**103**	39
	Prepayments		**29**	40
	Loans to community organisations		**220**	271
	Aged Care Facility Deposits		**99**	34
	Other		**15**	23
			746	907
	Less: Provision for Expected Credit Losses		**5**	3
			741	904
	Other Financial Assets			
	Insert appropriate description		**48**	206
	Insert appropriate description		**220**	74
	Insert appropriate description		**30**	39
	TOTAL FINANCIAL ASSETS		**1,039**	1,223
AASB 12.B14(b)	**EQUITY ACCOUNTED INVESTMENTS IN COUNCIL BUSINESSES**			
	here describe the associated entity.	19	**417**	623
	here describe the associated entity.	19	**142**	142
			559	765
	OTHER NON-CURRENT ASSETS			
AASB 101.78(c)	**Inventories**			
	Stores & Materials		**87**	9
	Trading Stock		**95**	13
	Real Estate Developments		**304**	444
	Other			125
			486	591
AASB 101.78(a)	Capital Works-in-Progress		**1,897**	1,401
	Other		**401**	599
			2,784	2,591
	Real Estate Developments - Current & Non-Current			
	(Valued at the lower of cost and net realisable value)			
	Residential		***303***	*346*
	Industrial & Commercial		***260***	*234*
	Other Properties surplus to requirements		***337***	*170*
	Total Real Estate for Resale		***900***	*750*
	Represented by:			
	Acquisition Costs		***205***	*192*
	Development Costs		***197***	*194*
	Finance Costs		***209***	*196*
	Other Holding Costs		***211***	*198*
	Other Properties - Book Value		***124***	*65*
			946	*845*
AASB 102. 36(e)	*Less: Allowance for Under-Recovery*		***46***	*95*
	Total Real Estate for Resale		***900***	*750*
	Apportionment of Real Estate Developments			
AASB 101.61 & 66	*Current Assets*		***596***	*306*
	Non-Current Assets		***304***	*444*
			900	*750*

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Equity accounted investments in Council businesses

South Australian Councils are involved in an extremely wide range of shared activities that could require "equity accounting" treatment. These Model Statements cannot cover all of the range of arrangements that exist. The relevant accounting standards are AASB 128 *Investments in Associates* and AASB 12 *Disclosure of Interests in Other Entities*. The subject is treated in more detail in "Note 19 - INTERESTS IN OTHER ENTITIES", to which reference should be made.

Regional subsidiaries established under section 43 of the Local Government Act are to be accounted for using the equity accounting method, and Council's equity (if positive) should be included here.

Accounting Standards make no provision for equity accounted associated entities to have negative equity, a situation that is not uncommon in local government. The Model Statements adopt the approach of providing a minimal note here and under liabilities, with comprehensive information given later in relation to all such ventures - see "Note 19 - INTERESTS IN OTHER ENTITIES".

If *equity accounted investments in Council businesses* constitutes the major portion of Council's non-current assets, still disclose these in "Note 19 - INTERESTS IN OTHER ENTITIES", and consider consolidating "Note 5 - CURRENT ASSETS" & "Note 6 - NON-CURRENT ASSETS" as a single note.

Other Non-current Assets

Inventory

While provision has been made for inventory sub-classifications, it is suggested that if any amounts are shown, appropriate management action should be taken. Spares for water/sewer/CWMS systems (commonly shown as *stores and materials),* should more appropriately be classed as *spares* and accounted for in accordance with AASB 116 - *Property, Plant & Equipment* (see *IPWEA Australian Infrastructure Financial Management Manual* (2015 edition), section 9.5.2, page 4).

Real Estate Developments - fully developed allotments that are available for immediate sale should normally be classified as current on the basis that they are *held for trading (*AASB 101.66(b)). Undeveloped allotments may be classified as current (AASB 101.66(c)) if they are expected to be realised within twelve months. However, Councils may have so many fully developed allotments that it is unreasonable to expect that they will all be disposed of within 12 months, and the question of whether they should be classified as current or non-current arises.

Discuss and agree your treatment with your auditor.

Note that the details of real estate development costs have been consolidated in "Note 6 - NON CURRENT ASSETS". They may be disclosed in "Note 5 - CURRENT ASSETS" if desired.

Real Estate held for resale - properties retained by Council after auction for non-payment of rates should **NOT** be classified as non-current.

Capital works-in-progress

These Model Statements recommend the procedure of transferring assets to the Asset Register only when complete (and hence, when depreciation commences (AASB 116.55)), and when the capitalisation of interest ceases (AASB 123.22). They also permit a project to be viewed as whole in apportioning the expenditure between "new" and "replacement" assets (see "Definition - new/ upgraded & renewal/replacement of assets"), rather than requiring an estimate to be made while a project is still underway. Given the requirement to separately disclose "the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction" (AASB 116.74 (b)), this presentation seems the most appropriate. (See also "Depreciation").

Alternatively, a Council may choose to disclose Capital Works-in-progress in the body of Note 7.

The preconditions for adopting this presentation would be:

- that Council has taken action to identify excess costs incurred (e.g. as a result of adverse weather) up to reporting date, and to write these off to expense, and
- that Council can reliably apportion the costs of capital works-in- progress between new/upgraded and renewal/replacement of assets.

Where comparative figures are re-classified to adopt a revised classification, the requirements set out in "Comparative Figures" apply.

Interests in Regional Local Government Associations

In many cases, individual Councils' voting entitlements in these Associations are below the level required for *equity accounting* - see "Significant Influence". Where Council's investment is sufficiently material as to warrant disclosure, it is disclosed here. (In many cases, however, these interests do not meet materiality thresholds.)

These interests **DO NOT** meet the definition of financial instruments and should NOT be described as "investments" and are excluded from the Financial Instruments note.

Other Assets

Other assets that may qualify for inclusion here - and which should be separately disclosed if material - would include intangible assets such as (say) water rights. Note that the *Statement of Material Accounting Policies* (Note 1) must also disclose the basis of recognition, and that it will probably be appropriate to include an additional note providing the required disclosures.

Note 7 - "FIXED" ASSETS

Compared to other types of entities, local government has a much wider range of discrete asset classes. This often means that the required disclosures extend over many pages, and it becomes difficult for a user to identify important information. Unfortunately, the tabular format can equally become a mass of figures that tend to lose their significance.

The Model Statements have used tabular format for the display of opening and closing carrying values, and the reconciliation of carrying values, followed by additional narrative pages for other required disclosures[21]. This format is the most flexible method where different Councils have differing numbers of classes of assets. (The "blank" column may be used for reallocations between asset classes, or for any other purpose, but is not shown unless used.)

The required disclosures will need so many columns that it will be necessary to split the table into multiple sections in order to meet acceptable standards of presentation.

Councils may reformat this Note into more conventional presentations if desired.

The term "fixed" assets is **NOT** to be used as a Note description.

The Model Statements display both *Investment Property* and *Infrastructure, Property, Plant & Equipment* together because the required disclosures are very similar in nature and hence a common Note number is not unwieldy. It also preserves the note numbering sequence for those Councils without *investment property.*

For those Councils without *investment property* (see "Investment Property" for definition), this section is not shown. Councils with *investment property* may renumber the Note if desired.

Infrastructure, Property, Plant & Equipment

Classes should optimally be grouped into a maximum of about 10 groups of, as far as appropriate, approximately equivalent values. In our view, use of more groups tends to obscure with excess detail the overall view that is a principal aim of the Annual Financial Statements.

Asset classes may be modified to suit individual Council preferences, but it is important that they be identical with the asset classes for which depreciation and impairment are reported in Note 4. For further discussion on the classification of assets see "Determining "Classes" of Assets" and IPWEA *Australian Infrastructure Financial Management Manual* (2015 edition), section 12.6, page 6.

Additional columns may be used if required for (say) asset reclassifications and the like. They are not otherwise shown.

Capital v. Maintenance Expenditure

Local government assets include significant infrastructure networks, made up of many components many of which are relatively insignificant in cost. In practice it is often difficult to identify whether particular works are fundamentally capital or maintenance in nature, and indeed many projects combine both elements. For further discussion, see IPWEA *Australian Infrastructure Financial Management Manual* (2015 edition), section 12.6.2, page 24.

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21 Pursuant to AASB 101.116 a Council may elect to transfer detailed accounting policies and assumptions relating to *investment property* and *infrastructure, property, plant & equipment* from Note 1 to the narrative section of this Note if desired.

In these Model Statements, the following meanings are applied to particular terms. (While the examples provided largely relate to motor vehicles & plant, the principles apply to all infrastructure, property, plant & equipment assets.)

Maintenance Expenditure

Maintenance is an operating expense representing day to day expenditure incurred in relation to the use of an asset which acts to retain or restore the utility of an asset in its new condition, other than expenditure counteracting the effluxion of time. (**All other expenditure is classified as capital**.)

Example: In the case of a motor vehicle, fuel and regular services act to retain or restore the utility of the asset in its new condition but does not counteract the effect of the effluxion of time (i.e. it does not upgrade the model year of the vehicle).

Example: The repainting of road markings, or the cleaning and clearing of storm- water drains, are clear examples of maintenance in relation to infrastructure networks.

Capital Expenditure

"An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost" (AASB 116.15).

"Notwithstanding paragraph 15, in respect of not-for-profit entities, where an asset is acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition "AASB 116. Aus15.1)

In respect of not-for-profit entities, for the purposes of this Standard, the initial recognition at fair value of an item of property, plant and equipment, acquired at no or nominal cost, consistent with the requirements of paragraph Aus15.1, does not constitute a revaluation. (AASB 116. Aus15.3)

For further information refer to the following sections of AASB 116

- The cost of an asset – definition (AASB 116.6 to 7)
- Elements of Cost and examples of elements that are costs (AASB 116.16 to 18)
- Elements that are excluded from cost, including "administrative and other overhead costs" (AASB 116.19)

In a local government environment, "administration and other general overhead costs" is interpreted to refer to governance and other general overheads that are unable to be attributed to functions. The distribution of costs that can be reliably attributed to the function undertaking the construction of an asset, are regarded as part of the construction cost (see "The Application of Full Cost Attribution").

For further discussion on the determination of the cost of an asset see IPWEA *Australian Infrastructure Financial Management Manual* (2015 edition), section 12.3, page 8.

Capital expenditure may involve the ***renewal, replacement*** or ***enhancement/upgrading*** of an existing asset, or the acquisition or construction of a ***new*** asset.

Capital expenditures for the renewal and replacement of assets **MUST** be separately distinguished from capital expenditures for new and upgraded assets on Note 7 - Infrastructure, Property, Plant & Equipment and on Note 16 - Uniform Presentation of Finances.

Definition - new/upgraded & renewal/replacement of assets

Definitions are as follows:

- A *new asset* is additional to Council's previous asset complement.
- An *upgraded asset* replaces a previously existing asset with enhanced capability or functionality, where an option existed for replacement without the enhanced capability or functionality.

  The replacement of a 300mm stormwater pipe with a 500mm stormwater pipe results in an *upgraded asset.*

  The replacement of a model 135J grader with a model 135K grader where the model 135J grader is no longer available, would not result in an *upgraded asset,* despite any improvement in operational capability.

  The replacement of a road with a 6 metre width sealed surface with an 8 metre width sealed surface is part *replacement* and part *enhancement*. The enhancement component is not necessarily 25%, and would depend on changes to road shoulders, formation, drainage etc.

  A wooden bridge over a small creek is replaced with large concrete culverts on an improved road alignment. The concrete culverts are the modern engineering equivalent (see *MEERA* below) of the former wooden bridge and are a *replacement.* The improved road alignment is an *enhancement.*

  The sealing of a previously gravel road is probably part renewal and part upgrade. To the extent that the previous gravel base and sub-base (including the salvage from the previous gravel wearing surface) has been reconstituted and reshaped, it is renewal. The sealed wearing surface (which replaced the gravel wearing surface) is an upgrade. The wearing surface and the base / sub-base should be recognised as separate components of the road asset.
- *Renewal* or *replacement* of an asset occurs where a previously existing asset is replaced - giving a new asset with a new useful life - without enhancement of the service capability except where this is incidental and unavoidable. (In the example given above, the grader was *replaced.)*[22]

Capitalisation Thresholds

The practicalities of maintaining assets registers dictate that Council adopt a threshold below which an asset will not be separately recorded. It is normal to adopt different thresholds for different types of assets.

Thresholds should be discussed with your auditor. This topic is covered in some detail in IPWEA *Australian Infrastructure Financial Management Manual* (2015 edition), section 12.6.3, page 25.

MEERA is the acronym for *Modern Engineering Equivalent Replacement Asset* and is commonly used as the basis for assessing whether an asset is a *replacement* or an *enhancement / upgraded asset.*

The MEERA concept recognises that modern engineering techniques and materials means that an existing asset can be replaced using an entirely different engineering technique than the original, notwithstanding that the new technique also conveys advantages of increased functionality or longer life.

Thus, nowadays it is usually cheaper to replace a wooden bridge with either a concrete bridge or concrete culverts, rather than to replicate the wooden structure.

The construction of a *MEERA* asset is regarded as the *renewal/replacement* of the original asset on the basis that the enhanced functionality is incidental and unavoidable.

22 For further explanation on differentiating between capital expenditure - new / expansion / upgrade / renewal see IPWEA Australian Infrastructure Financial Management Manual (2015 edition), Glossary, page xxxi.

If the capitalisation threshold is set too low, the assets register becomes extremely large, and unless great care is taken with descriptions, it is difficult to positively identify an asset after an interval of years. ***But be aware that local government is extremely asset intensive, so by normal standards, your assets register will be extremely large.***

If the capitalisation threshold is set too high, particularly with infrastructure networks, small accretions and enhancements to the infrastructure network will be expensed when constructed, only to be included when the next determination of fair value is made. This results in an understatement of operating result, and an overstatement of the asset revaluation reserve.

The capitalisation threshold should be set having regard to the asset as a whole, being aware that there is a requirement for the separate depreciation of significant components, some of which may be below the capitalisation threshold established:

> AASB 116 requires that "each part of an item of property, plant and equipment with "a cost that is significant in relation to the total cost of the item shall be depreciated separately. (AASB 116.43)" To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of an item that are individually not significant (AASB 116.46)." "An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item". (AASB 116.47).

Determining Asset Components

Reference should also be made to the IPWEA *Australian Infrastructure Financial Management Manual* (2015 edition), section 12.3.7, page 11.

The determination of the separate components for depreciation purposes is controlled both by the significance in relation to the total cost, and by the expected useful life. Thus, in relation to a road, the following components may be identified:

Sealed surface	Life[a] ~ 15 years
Base & sub-base	Life ~ 40 years
Formation	Life - 100 years -> unlimited
Culverts, pipes, etc.	To match formation unless evidence of impairment, when formation life would also need to be adjusted.
Medians & other design features	Life ~ 40 years[b]
K&G, water tabling	Life ~ 80 years
Guideposts, signs, etc.	Replacements (see ""Collection" Assets")

a. Useful lives given are for example purposes only - each Council needs to determine useful lives appropriate to its own circumstances.
b. Life would be estimated on the basis of likely changes in design (probably as a result of increased traffic) rather than actual life of the construction.

In relation to unsealed roads, the following components may be identified:

Wearing surface (gravel sheeting)	See "Gravel Re-sheeting"
Sub-base (may not be present)	Life[a] ~ 25 years
Formation	Life - 100 years -> unlimited - but see "Gravel Re-sheeting"
Culverts, pipes, etc.	To match formation unless evidence of impairment, when formation life would also need to be adjusted.
Guideposts, signs, etc.	Replacements (see ""Collection" Assets")

a. Useful lives given are for example purposes only - each Council needs to determine useful lives appropriate to its own circumstances.

Gravel Re-sheeting

Interpretation 1055 *Accounting for Road Earthworks* considers the implications of accounting for road earthworks and includes the proposition that *"road earthworks may not be subject to material physical deterioration".(AASB Interpretation 1055.18)*It is important to note, however, that the relevant discussion in the Interpretation is predicated on timely replacement of the wearing surface.

"Patrol grading" - used here to mean the reshaping of the wearing surface using the existing wearing surface materials that have been displaced - is generally viewed as a maintenance operation. Irrespective of the total amount of road funding available, patrol grading operations tend to be reasonably consistent from year to year.

Provided the replacement of the wearing surface is timely, Interpretation 1055 *can* be used to support re-sheeting or "rip and reform" operations as maintenance. However, re-sheeting works tend to vary substantially from year to year, depending on the total amount of funding available - *and engineers claim that there is NEVER as much funding available as desired.*

The variation in re-sheeting works undertaken may mean that some roads suffer wear to the sub- base or formation, prior to re-sheeting, and this wear should be recognised by adjusting the useful life of these asset components.

The variation in the amount of re-sheeting works undertaken from year to year introduces distortions to the annual result from year to year which are avoided when re-sheeting is capitalised and depreciated. Further, by capitalising the re-sheeting works, Council will develop reliable records over a period of years as to the actual useful life of the wearing surface, and these can be used to improve projections of future works requirements.

It is suggested that Councils should only treat re-sheeting works as maintenance where there is a high level of confidence that it will be undertaken *before* any significant wear of other components occurs.

"Collection" Assets

Certain assets, or components of assets, are made up of collections of many individual items, each of which is individually below any reasonable capitalisation threshold. Examples of such assets are road guideposts & signs, library books and garbage bins.

Where the total number of items in the collection is basically static - such as road guideposts - it is appropriate to capitalise the initial collection and when individual components are replaced to write the cost of the replacement off as an expense. Under these circumstances, the collective asset is regarded as having an unlimited useful life.

Where the total number of items in the collection changes over time - such as library books or garbage bins - capitalise additional items purchased during the year and depreciate all items in the collection based on the average anticipated useful life. When a particular year's additions have been fully depreciated, delete the item.

Separate detailed registers are usually maintained for most "collections" of this type, such as library lending records and garbage bin registers for charging purposes. These registers continue to be maintained irrespective of the accounting procedures described above.

Land Under Roads

AASB 1051 *Land Under Roads* came into effect for reporting periods commencing on or after 1 July 2008.

The LGA and FMG have formed the opinion that it is not possible to ***reliably measure*** the fair value of land under roads previously acquired. Further, the Group is of the opinion that land newly acquired for road purposes that adjoins land under an existing road then forms an integral part of the combined road reserve, such that the fair value of the combined area must be assessed as a unit, and hence cannot be

reliably measured. This also applies to roads in a subdivision transferred to Council without cost, in that such land forms an integral part of the road network, and the contribution of value of the added land to the road network, and of the road network to the added land, cannot be ***reliably measured***.

Having made due enquiry since the publication of the 2018 Model Statements, the LGA and FMG are of the opinion that no methodology for reliably measuring the value of land under roads has subsequently become generally accepted throughout local government, and affirms the advice given here.

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SA MODEL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2024

Source Reference

AASB 116.73

Note 7 – INFRASTRUCTURE, PROPERTY, PLANT & EQUIPMENT

	Fair Value Level	2023 $'000 AT FAIR VALUE	AT COST	ACCUM DEP'N	CARRYING AMOUNT	2024 $'000 AT FAIR VALUE	AT COST	ACCUM DEP'N	CARRYING AMOUNT
Land	2	49,390	882	-	50,272	**47,490**	**882**	**-**	**48,372**
Land	3	45,518	-	-	45,518	**45,834**	**77**	**(122)**	**45,789**
Buildings & Other Structures	2	11,014	-	(6,608)	4,406	**10,209**	**-**	**(6,604)**	**3,605**
Buildings & Other Structures	3	27,592	5,419	(9,903)	23,108	**27,487**	**6,969**	**(10,575)**	**23,881**
Infrastructure		-	-	-	-	**-**	**-**	**-**	
- Sealed Roads	3	81,674	12,651	(33,014)	61,311	**101,524**	**-**	**(35,674)**	**65,850**
- Unsealed Roads	3	41,305	6,868	(23,388)	24,785	**35,274**	**11,219**	**(21,815)**	**24,678**
- Bridges, Footpaths, Kerb & Gu	3	21,081	1,701	(6,835)	15,947	**20,993**	**2,172**	**(7,089)**	**16,076**
- Stormwater Drainage	3	2,794	4,229	(1,405)	5,618	**2,740**	**4,632**	**(1,445)**	**5,927**
- CWMS	3	6,448	-	(2,837)	3,611	**6,448**	**-**	**(2,923)**	**3,525**
Right-of-use assets	17		-	-		**-**	**(509)**	**(119)**	**(509)**
		-	-	-	-	**-**	**-**	**-**	
		-	-	-	-	**-**	**-**	**-**	
Plant, Machinery & Equipment		-	3,521	(1,408)	2,113	**-**	**4,067**	**(1,614)**	**2,453**
Office Equipment, Furn & Fittings		-	874	(387)	487	**-**	**1,092**	**(414)**	**678**
		-	-	-	-	**-**	**-**	**-**	
		-	-	-	-	**-**	**-**	**-**	
Reinstatement costs		-	1,024	(154)	870	**-**	**1,830**	**(221)**	**1,609**
TOTAL INFRASTRUCTURE, PROPERTY, PLANT & EQUIPMENT		286,816	37,169	(85,939)	238,046	**297,999**	**33,449**	**(88,615)**	**241,934**
Comparatives		***22,201***	***284,065***	***(81,362)***	***224,904***	***286,816***	***37,169***	***(85,939)***	***238,046***

This Note continues on the following pages.

Note 7 – INVESTMENT PROPERTY

AASB 140.76

	Fair Value Level	2023 AT FAIR VALUE	AT COST	ACCUM DEP'N	CARRYING AMOUNT	2024 AT FAIR VALUE	AT COST	ACCUM DEP'N	CARRYING AMOUNT
Land	2	1,084	-	-	1,084	**1,175**	**-**	**-**	**1,175**
Buildings & Other Structures	2	-	552	(48)	504	**-**	**581**	**(218)**	**363**
Plant, Fixtures & Fittings	3	-	-	-	-	**-**	**-**	**-**	**-**
TOTAL INVESTMENT PROPERTY		1,084	552	(48)	1,588	**1,175**	**581**	**(218)**	**1,538**
Comparatives		***774***	***555***	***(116)***	***1,213***	***1,084***	***552***	***(48)***	***1,588***

This Note continues on the following pages.

Reliable measurement is an essential component for the recognition of an asset. In the absence of the ability to reliably measure the value of an asset, it is the opinion of the group that the asset cannot be recognised (AASB 116.7(b)).

Acquisition of Land for Road Purposes

These Model Statements take the view that land acquired for road purposes be initially recognised at cost in accordance with AASB 116.7. Thereafter, **land under roads is to be carried using the fair value model,** effectively requiring the amount to be written off as a revaluation decrement at the end of the reporting period.

Cost Model or Fair Value Model

"An entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment".(AASB 116.29). See also IPWEA *Australian Infrastructure Financial Management Manual* (2015 edition), section 12.7, page 28.

Pursuant to the *Local Government (Financial Management) Regulations 2011* all material non- current assets are to be revalued "in accordance with the requirements of Australian Accounting Standard AASB 116". The implications of this regulation are considered in detail below.

The Fair Value Model

Assets to be measured using the Fair Value Model

The full wording of regulation 12 of the *Local Government (Financial Management) Regulations 2011* is:

> "A council, council subsidiary or regional subsidiary must undertake a revaluation of all material non-current assets in accordance with the requirements of Australian Accounting Standard AASB 116.(Regulation 12)"

Where a *class* of assets is material, it will need to be carried at fair value in order to comply with the regulation. Where a class of assets has been revalued, subsequent acquisitions of assets in that class are recognised *at cost* until the next general revaluation of that asset class.

Revaluation Methods

These Model Statements are not intended to provide exhaustive guidance on the valuation process, and it is recommended you consult your Auditor when Council is determining specifications prior to engaging an external valuer.

With the assistance of the LGA, the FMG and SALGAG have taken expert advice on the application of the principles embodied in AASB Fair Value Measurement, and their application to certain situations in SA Local Government that were not considered by the International Accounting Standards Board in the development of the Standard. Some additional guidance is provided in the LGA's 2014 "Local Government Financial Sustainability Guidance Paper – AASB13: Fair Value Measurement" which can be found in the 'Member Services' section of the LGA website under Financial Sustainability Resources/Additional information and resources.

In December 2022 the AASB issued AASB 2011-10 *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* which adds authoritative implementation guidance and illustrative examples for fair value measurement of non-financial assets of not-for-profit public sector entities not held primarily for their ability to generate cash inflows. This standard will be effective from 1 January 2024.

While it is not expected this guidance will differ to valuation principles currently applied in practice by most council's, Council's should assess these amendments and discuss any potential impacts with their valuers and auditors.

Determining "Classes" of Assets

"A class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations. (AASB 116.37)". See also IPWEA *Australian Infrastructure Financial Management Manual* (2015 edition), section 12.2, page 6.

Each asset row disclosed in Note 7 is a separate class of assets.

Councils may determine the groupings of particular assets which are to be disclosed as asset classes in Note 7, having regard to the principles set out below.

Where an asset class has been revalued after 1 July 2013, and that valuation contains more than one fair value level, each level must be separately disclosed in Note 7, but may be combined for disclosure in Note 3 depreciation expense and in Note 9 Asset Revaluation Reserve.

With this exception, the asset classes disclosed in Note 7 **MUST** match the asset classes disclosed in Note 3 depreciation expense and in Note 9 Asset Revaluation Reserve.

Subject to materiality, classes of assets should be determined according to their nature. Where an asset is comprised of a number of different components of rather different natures, the grouping is still made on the basis of the nature of the asset as used by the Council.

For example, a road (as noted above) includes components that are concrete (culverts, pipes, kerb & gutter), stone & soil (base & sub-base, formation), metal, plastic or wood (guide posts, signs, etc.) and bituminous. All have different useful lives, but all are part of the asset class *roads*.

Asset classes should not be too big or all-encompassing because “if an item of property, plant and equipment is revalued, the ***entire class*** [our emphasis] of property, plant and equipment to which that asset belongs shall be revalued.(AASB 116.36)”

Revaluations of a class of assets are a major exercise, and it is important to be able to commence and complete the revaluation task for that class of assets within a single reporting period.[23]

As a general rule, all assets within any one asset class must be revalued at the same time.

An asset class with multiple revaluation dates *prima facie* indicates a breach of the Australian Accounting Standards.

On the other hand, classes of assets should not be too closely defined, as this will result in a very large number of asset classes, and many pages of disclosures.

Subject to the commentary in "Materiality", the following may be used as a guide after consultation with your auditor:

- For the purposes of assessment of materiality of asset classes, the “base amount” is considered to be total carrying value.
- An asset class that cannot realistically be revalued within a single reporting period should be split into additional asset classes such that each class can be revalued within a single reporting period.
- Where any individual asset class exceeds 50% of the base amount, consideration should be given to disclosure of additional asset classes.
- Where any individual asset class is less than 5% of the base amount, adoption ***of the fair value model is not required***.
- An asset class of *plant, equipment & other,* of up to 20% of the base amount may be disclosed, comprising all minor asset classes for which the adoption of fair value is not required.

23 AASB 116.38 does permit “revaluations on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.” This is effectively no concession at all.

Frequency of Revaluations

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. (AASB 116.31) Annual price escalators must be used with care, and regularly corrected back against actual cost bases. See also IPWEA *Australian Infrastructure Financial Management Manual* (2015 edition), section 12.7, page 6.

Once again, the word *materiality* is used, and once again "Materiality" should be referred to, and the rebuttable presumption of non-materiality where an amount is less than 5% of the base amount, and the rebuttable presumption of materiality where an amount is in excess of 10% of the base amount.

- For a class of assets subject to price escalation similar to the Consumer Price Index in recent years, revaluations should be undertaken every 3-4 years. Such a class that has not been revalued before the expiry of 5 years may well be subject to audit qualification as there is evidence that the fair values disclosed may be materially in error.[24]
- For some classes of assets, particularly land, there is easily accessible evidence from time to time that price escalation is significantly more than CPI. Where such evidence exists, revaluations will be required more frequently - possibly even annually.
- For some classes of assets, particularly land, price escalation does not occur evenly throughout the State. The assessment of whether a revaluation is necessary for a particular class of assets must be based on the factors applying to each Council area.
- The question of whether a revaluation of a particular class of assets is appropriate is one which should be discussed with your auditor early in the new reporting period.

It is anticipated that Auditors will need to qualify their reports where a Council has failed to ensure that they have revalued a class of assets to avoid an apparent material difference between reported amounts and current fair values. In this context it may be advisable to consider more frequent indexation in a high inflationary/deflationary environment.

24 CPI All Groups, Adelaide: June 2018 –112.1; December 2023 – 137.1 increase = 22.37% in 5 years. Consumer Price Index, Australia, December 2023 | Australian Bureau of Statistics (abs.gov.au). Table 5.

Source Reference

SA MODEL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2024

AASB 116.73

Note 7 – INFRASTRUCTURE, PROPERTY, PLANT & EQUIPMENT

	2023 $'000 CARRYING AMOUNT	Additions New/Upgrade	Additions Renewals	Disposals	Depreciation	Impairment	Transfers In	Transfers Out	Net Revaluation	2024 $'000 CARRYING AMOUNT
Land	50,272	-	-	(890)	-	-	104	(742)	(372)	48,372
Land	45,518	77	-	-	-	(122)	-	(104)	420	45,789
Buildings & Other Structures	4,406	-	-	(795)	(110)	-	177	(71)	-	3,605
Buildings & Other Structures	23,108	1,550	-	-	(330)	(343)	73	(177)	-	23,881
Infrastructure	-	-	-	-	-	-	-	-	-	
- Sealed Roads	61,311	785	474	-	(945)	-	704	-	3,521	65,850
- Unsealed Roads	24,785	-	2,351	(791)	(963)	-	-	(704)	-	24,678
- Bridges, Footpaths, Kerb & Gu	15,947	125	346	-	(342)	-	-	-	-	16,076
Stormwater Drainage	5,618	-	403	-	(94)	-	-	-	-	5,927
CWMS	3,611	-	-	-	(86)	-	-	-	-	3,525
Right-of-use assets	280	-	-	-	(79)	-	189	-	-	390
		-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-
Plant, Machinery & Equipment	2,113	75	1,025	(187)	(384)	-	(189)	-	-	2,453
Office Equipment, Furn & Fittings	487	155	220	(118)	(66)	-	-	-	-	678
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Reinstatements costs	870	-	806	-	(67)		-	-	-	1,609
TOTAL INFRASTRUCTURE, PROPERTY, PLANT & EQUIPMENT	**238,326**	**2,767**	**5,625**	**(2,781)**	**(3,466)**	**(465)**	**1,058**	**(1,800)**	**3,569**	**242,833**
Comparatives	***224,904***	***3,904***	***12,020***	***(1,036)***	***(3,985)***	***(77)***	***854***	-	***1,462***	***238,046***

This Note continues on the following pages.

Note 7 – INVESTMENT PROPERTY

AASB 140.76

	2023 $'000 CARRYING AMOUNT	Additions New/Upgrade	Additions Renewals	Disposals	Depreciation	Impairment	Transfers In	Transfers Out	Net Revaluation	2024 $'000 CARRYING AMOUNT
Land	1,804	78	-	(84)	-	-	77	-	20	1,175
Buildings & Other Structures	504	37	42	(89)	(196)	-	65	-	-	363
Plant, Fixtures & Fittings	-	-	-	-	-	-	-	-	-	-
TOTAL INVESTMENT PROPERTY	***1,588***	***115***	***42***	***(173)***	***(196)***		***142***		***20***	***1,538***
Comparatives	***1,213***	***104***	***40***	***(201)***	***(142)***	***(45)***	***(33)***	-	***88***	***1,588***

This Note continues on the following pages.

The opening carrying amounts plus movements in the above table **MUST** add to the closing carrying amount and reconcile to the carrying amounts in the Statement of Financial Position.

Accounting for Revaluations

The gross amount and related accumulated depreciation of the assets comprising the class of revalued assets are to be restated separately on revaluation. (AASB 116.35(a))

This is highly recommended for consistency in Annual Financial Statements of Local Government in SA.

The most common journal entry for revaluations using the recommended treatment will be:

Debit	Asset Account	*$xxx*	
Credit	Asset - Accumulated Depreciation		*$xxx*
Credit	Asset Revaluation Reserve		*$xxx* *a*

a. This example entry ignores the possibility of revaluation decrements, or the recoupment of previous revaluation decrements.

After the entry has been posted to the ledger –

- The *asset account* balance will equal the current replacement cost of the asset.
- The *carrying value* (asset account less accumulated depreciation and impairment) will equal the fair value, or where there is no reliable market, the depreciated current replacement cost of the asset.

When the recommended revaluation treatment is used, accumulated depreciation is adjusted to be the arithmetical difference between the new asset account balance and fair value. (AASB 116.35(b))

Movements in asset revaluation reserve **ARE** classified as *other comprehensive income* and **MUST** be disclosed in the *statement of comprehensive income* and *statement of changes in equity.*

Revaluation increments are allocated in the following order:

1. To recoup impairment expense in relation to the asset previously charged to profit and loss.
2. To recoup a revaluation decrement in relation to the asset previously recognised in profit & loss (AASB 116.39) (This is **not** *other comprehensive income* - see "Revaluation decrements previously expensed, now recouped").
3. Transferred as *other comprehensive income* to asset revaluation reserve.

Revaluation decrements are allocated in the following order:

1. Transferred as *other comprehensive income* from asset revaluation reserve to the extent that the decrement reverses a revaluation increment previously recognised.
2. Recognised in profit and loss (AASB 116.40) as an expense. (This is **not** *other comprehensive income* - see "Revaluation decrements expensed").

Not-for-profit entities, including local governments, are required to offset revaluation increments and decrements occurring within the same **class of assets** (AASB 116.AUS 39.1, AUS 40.1 to 40.2).

Impairment expense for previously revalued assets may also be offset within a **class of assets** - see "Impairment Offsets".

However, your assets register computer software may have difficulty in achieving this.

Disclosures of Valuations

AASB 13 *Fair Value Measurement* ("AASB 13") provides disclosure requirements that apply to all valuations made on or after 1 July 2013.

With the assistance of the LGA, the FMG and SALGAG have taken expert advice on the application of the principles embodied in AASB 13, and their application to certain situations in SA Local Government that were not considered by the International Accounting Standards Board in the development of the Standard.

In substance, *fair value* is based on the exit price likely to be achieved in an active market by a willing but not anxious seller. AASB 13 regards a price derived from the sale of identical items in an active market as the most reliable estimate of *fair value* as at the reporting date and requires disclosure for each valuation as to how nearly the valuation approaches that ideal. In doing so, AASB 13 establishes a 3-step **"fair value hierarchy".**

AASB 13 requires rather extensive disclosure of the valuation principles adopted for all valuations that are based on "level 3 inputs" (see the fair value hierarchy below), and a reconciliation of movements in values for those asset classes. Provided the asset classes disclosed are appropriate (see "Determining "Classes" of Assets"), the editorial group have agreed that the disclosures in Note 7 effectively comply with the Standard, and that no further quantitative disclosure is required.

The Fair Value Hierarchy

The hierarchy is expressed in terms of "inputs" to the valuation. **Your valuer will advise, for each valuation, the level of inputs used.**

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date (AASB 136.76)
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are directly or indirectly observable for the asset or liability. (AASB 136.81)

  A valuer may determine that although most inputs to a particular valuation are level 2, if a level 3 input is used that is significant to other overall valuation, then the whole valuation is classified as level 3.
- Level 3 inputs are unobservable inputs for the asset or liability (AASB 13.86)

  "Unobservable", that is, in terms of being able to be observed in an active or inactive *market* ***external to the entity***. The inputs to the valuation may be "observable" in any one of a number of ways *internal to the entity*, but these qualify only as level 3 inputs.

  A large proportion of Council assets - particularly infrastructure - is valued at current replacement cost of the MEERA asset. These - particularly for construction cost and estimated useful lives - are normally based on information *internal to the entity*, and hence level 3 inputs.

Example Valuation Disclosures

Assets at deemed cost - When the International Financial Reporting Standards (IFRS) were adopted, the nature of the change in standards from the old Australian "generally accepted accounting principles (GAAP) was such that, as a special dispensation on conversion, the previous values shown for IPP&E assets classes were able to be retained, and were *deemed* to be a cost value under the newly applicable IFRS.

If there are inputs of different levels in a valuation, AASB 13 requires the entire valuation to be classified in the same level as the *lowest level input that is significant to the valuation.*

Where a Council discloses a class of assets at cost, and has retained many of the individual assets in that class since 1 July 2004, the following wording may be appropriate:

At 1 July 2004 upon the transition to AIFRS, Council elected pursuant to AASB 1.D5 to retain a previously established cost under GAAP as its deemed cost. With subsequent additions at cost, this remains as the basis of recognition of non-material asset classes.

If desired, the asset class(es) may be named.

General Valuation Principles - It is considered reasonable to provide a statement of general principles applicable to all or most asset classes, and if a particular asset class departs from those principles to make specific reference to the departure under the heading of that asset class: It is not considered necessary to re-state the general principles for each asset class, although some practitioners place that interpretation on the wording of AASB 13.

General Valuation Principles - Accounting - Of the two permissible accounting treatments for valuations, these Model Statements recommend that the "grossing up" method is used and a statement to this effect is appropriate.

The following wording may be suitable:

Upon revaluation, the current new replacement cost and accumulated depreciation are re-stated such that the difference represents the fair value of the asset determined in accordance with AASB 13 *Fair Value Measurement:* accumulated depreciation is taken to be the difference between current new replacement cost and fair value. In the case of *land,* current replacement cost is taken to be the fair value.

General Valuation Principles - Highest and Best Use -, "if the highest and best use of an asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use" (AASB 13.93(i)).

"Highest and best use" in AASB 13 is expressed in absolute terms. Council assets are only "highest and best use" in relation to the role and functions of local government, and the qualification must be expressed.

The following wording may be considered appropriate:

> *Highest and best use* - For *land* which Council has an unfettered right to sell, the “highest and best use” recognises the possibility of the demolition or substantial modification of some or all of the existing buildings and structures affixed to the land. Much of the land under Council’s care and control is Crown land or has been declared as *community land* under the provisions of the *Local Government Act 1999.* Other types of restrictions also exist.
>
> For *land* subject to these restrictions, the highest and best use is taken to be the "highest and best use" available to Council, with a rebuttable presumption that the current use is the "highest and best use". The reason for the current use of a large proportion of Council’s assets being other than the “highest and best use” relates to Council’s principal role as the provider of services to the community, rather than the use of those assets for the generation of revenue.

General Valuation Principles

It is generally expected that:

- Community land will be FVL 3, as the allowance for the restriction on sale (requiring Ministerial consent) would be an *unobservable* input, and is likely to have a significant effect on the valuation.[25] (The Guidance Paper referred to in "Revaluation Methods" argues that a reliable market does not exist as the land cannot be sold in this form.)
- Other land will probably be FVL 2.
- Buildings (other than transportable buildings) on community land will probably be FVL 3.
- Buildings (other than transportable buildings) on other land will be valued as the difference between improved value and unimproved value of the land and will be the lower FVL level of those valuations.[26]
- Transportable buildings will probably be FVL 2.
- Infrastructure assets will probably be FVL 3.
- New asset acquisitions / construction that will be subject to future revaluations should be allocated to the FVL that will apply after revaluations.
- ***Asset classes carried at cost are not allocated to a fair value hierarchy level.***

This should be reviewed and discussed with your Auditor early.

General Valuation Principles - Fair value hierarchy level 2 inputs - There will be **NO** fair value hierarchy level 1 inputs appropriate to Note 7 – see page 106 above. Level 2 inputs are based on prices for similar assets in an active market, with adjustments (allowances) for specific advantages or disadvantages attaching to the particular asset. Effectively all level 2 valuations should be sourced from a qualified valuer, who will determine the level of the inputs in accordance with the fair value hierarchy.

25 Also see the footnote below regarding transfers between fair value hierarchy levels.

26 It may happen that there is insufficient vacant land in the vicinity of the land being valued for your valuer to make a FVL 2 valuation for the unimproved value. Under these circumstances, even if the improved value is FVL 2, the building’s valuation would be rated as FVL3.

The following wording may be considered appropriate:

> *Fair value hierarchy level 2 valuations* - Certain land, and the buildings and structures thereon, are shown above as being based on fair value hierarchy level 2 valuation inputs. They are based on prices for similar assets in an active market, with directly or indirectly observable adjustments for specific advantages or disadvantages attaching to the particular asset.

If desired, the asset class(es) may be named, but this should be evident from the disclosures in the first table of Note 7. Your valuer may provide appropriate information for sensitivity analysis.

General Valuation Principles - Fair value hierarchy level 3 inputs - These valuations fall into 2 basic groups:

- Valuations that would otherwise fall within fair value hierarchy level 2, except that one or more of the inputs are *unobservable*, or where the number and / or effect of the deductible allowances is so great as make the valuation more fairly described as being based on level 3 inputs. These circumstances most commonly apply to land.
- Valuations at depreciated current replacement cost, where the valuation inputs are derived *internally* by the Council, rather than from a market *external* to the Council.

The following wording may be suitable for level 3 valuations of land:

> *Fair value hierarchy level 3 valuations of land* - Valuations of Crown land, community land and land subject to other restrictions on use or disposal, shown above as being based on fair value hierarchy level 3 valuation inputs, are based on prices for similar assets in an active market, but include adjustments for specific advantages or disadvantages attaching to the particular asset that are not directly or indirectly observable in that market, or the number and / or amount of observable adjustments of which are so great that the valuation is more fairly described as being based on level 3 valuation inputs.

If desired, the asset class(es) may be named, but this should be evident from the disclosures in the first table of Note 7. Your valuer may provide appropriate information for sensitivity analysis.

For valuations at depreciated current replacement cost, more extensive disclosures are required, including "of the sensitivity of the fair value measurement to changes in unobservable inputs" (AASB 13.93(g)). This requirement will effectively be met by disclosure of the process by which the valuation is made.

Because valuation at current replacement cost also involves estimates of residual value and useful life, portions of Note 1 - see "*Depreciation of non-current assets* "- will need to be repeated, but this is unavoidable[27].

27 Technically, the fair value is required to be based on "the amount that would be required currently to replace the service capacity of an asset" (AASB 13.B8). This concept is broader than depreciation for accounting or tax and considers physical deterioration, functional (which is generally internal to the asset) or economic obsolescence (which is generally external to the asset). However, because the estimation of useful life - see "Useful Life" on page 105 below - requires that all forms of deterioration and obsolescence be taken into account, and because a new estimate of useful life is made as part of the revaluation process, the result is effectively identical.

The following wording may be suitable for level 3 valuations of other assets:

> *Fair value hierarchy level 3 valuations of buildings, infrastructure and other assets* - There is no known market for these assets and they are valued at depreciated current replacement cost. This method involves:
>
> The determination of the cost to construct the asset (or its modern engineering equivalent) using current prices for materials and labour, the quantities of each being estimated based on recent experience of this or similar Councils, or on industry construction guides where these are more appropriate.
>
> The calculation of the depreciation that would have accumulated since original construction using current estimates of residual value and useful life under the prime cost depreciation method adopted by Council.
>
> This method has significant inherent uncertainties, relying on estimates of quantities of materials and labour, residual values and useful lives, and the possibility of changes in prices for materials and labour, and the potential for development of more efficient construction techniques. Accordingly, formal sensitivity analysis does not provide useful information.

Given the uncertainties inherent in this method of valuation, any attempt at sensitivity analysis will not provide useful information.

Sensitivity analysis - Where a level 3 valuation has been provided by a qualified valuer, they should provide sufficient information to complete the sensitivity analysis (AASB 13.93(h)). For valuations based on depreciated current replacement cost, it is considered that sensitivity analysis will not provide useful additional information.

General Valuation Principles - transfers between valuation input levels - details of the assets transferred into and out of level 3, and the reasons for the transfers, are required to be disclosed, treating transfers in and transfers out separately. Disclosure is also required of the accounting policy governing the timing of recognition of such transfers. (AASB 13.93 9(e)(iv))

Assets are transferred between fair value hierarchy levels on an individual basis.

Transfers between fair value hierarchy levels will most commonly occur when classes of assets are revalued.

The following wording may be suitable:

> *Transfers between fair value hierarchy levels* - In the course of revaluing *(name the asset classes)*, the nature of the inputs applied was reviewed in detail for each asset and where necessary, the asset reassigned to the appropriate fair value hierarchy level. Such transfers take effect as at the date of the revaluation.

Transfers between fair value hierarchy levels could also occur when land, previously held for operational purposes, is designated as community land. This change in designation involves a new, unobservable, input - the restrictive procedures for disposal - which is expected to have a material effect on the valuation, and to require its transfer from level 2 to level 3[28].

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28 It may be that the quantity of the allowance to be made in relation to the restrictive procedures on disposal is unable to be reliably ascertained, and that therefore no amount is deducted. (The question of the appropriate allowance to be deducted is a matter for your valuer to determine.) The transfer from FVL 2 to FVL 3 is made to indicate that the valuation includes factors that are unable to be observed in the market, which would be the case in this instance.

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The recommended procedures are as follows:

- Transfer the land parcel out of FVL 2 at its carrying value.
- Transfer the land parcel into FVL 3 based on a new valuation.

  (This is considered to be analogous to the acquisition of a new asset at no or nominal cost (AASB 116.Aus15.1) and is not a revaluation requiring new valuations to the entire class of assets.)
- The net difference between the two values is to be debited (through other comprehensive income) to asset revaluation reserve.
- Both the old and the new carrying values are to be included in the *fair value* column of the first sheet of Note 7.

The following wording may be suitable disclosure:

Transfers between fair value hierarchy levels - During the course of the year, a parcel of land previously held for operational purposes was designated as community land under the Local Government Act 1993. The change in designation introduced a new, unobservable input, being the restrictive processes involved in the future disposal of the land and necessitated the transfer of its valuation from fair value hierarchy level 2 to level 3, and the adjustment of the valuation. The transfer took effect at the date of designation as community land.

Capitalisation thresholds

For further discussion on this topic see "Capitalisation Thresholds".

The following wording may be suitable: show only a representative range of assets applicable to Council:

Capitalisation thresholds used by Council for a representative range of assets are shown below. No capitalisation threshold is applied to the acquisition of land or interests in land.

Office Furniture & Equipment	$1,000
Other Plant & Equipment	$1,000
Buildings - new construction/extensions	$10,000
Park & Playground Furniture & Equipment	$2,000
Road construction & reconstruction	$10,000
Paving & footpaths, Kerb & Gutter	$2,000
Drains & Culverts	$5,000
Reticulation extensions	$5,000
Sidelines & household connections	$5,000
Artworks	$5,000

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Estimated useful lives

For further discussion on this topic see "Useful Life".

The following wording may be suitable: show only a representative range of assets applicable to Council:

Source reference

AASB 116.73(c)

Useful lives are estimated for each individual asset. In estimating useful lives, regard is had to technical and commercial obsolescence, as well as legal and other limitations on continued use.

The range of useful lives for a representative range of assets is shown below, although individual assets may have an estimated total useful life of greater or lesser amount:

Plant, Furniture & Equipment	
Office Equipment	5 to 10 years
Office Furniture	10 to 20 years
Vehicles and Road making Equip	5 to 8 years
Other Plant & Equipment	5 to 15 years
Buildings & 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	5 to 15 years
Benches, seats, etc	10 to 20 years
Infrastructure	
Sealed Roads - Surface	15 to 25 years
Sealed Roads - Structure	20 to 50 years
Unsealed Roads	10 to 20 years
Bridges - Concrete	80 to 100 years
Paving & Footpaths, Kerb & Gutter	80 to 100 years
Drains & Culverts	80 to 100 years
Flood Control Structures	80 to 100 years
Dams and Reservoirs	80 to 100 years
Bores	20 to 40 years
Reticulation Pipes - PVC Other	70 to 80 years
Assets	
Library Books Artworks	10 to 15 years
Right-of-use assets (refer Note 17)	indefinite
Assets	2 to 3 years

Example Disclosures for Individual Asset Classes

Disclosure is required of specific information for each class of assets:

- the effective date of the revaluation;
- whether an independent valuer was involved. (AASB 116.77)

These Model Statements require disclosure of the name of the valuer involved, and disclosure of the valuer's qualifications add weight to the reliability of the valuation. In particular this also applies to valuations on the depreciated current replacement cost undertaken by Council staff, because some of our officers have experience and qualifications that are unmatched elsewhere.

It is important that the narrative portion agrees with the amounts shown elsewhere in the note - if the narrative portion describes a class of assets as being at cost, then the amounts must be shown in the *cost* column.

The following are a range of possible wordings that may be suitable for different situations: amend names of asset classes, valuation dates and valuers, etc. as appropriate.

Land improvements, including bulk earthworks with an assessed unlimited useful life, are recognised on the cost basis, originally deriving from a valuation at 30 June 20xx at current replacement cost. Additions are recognised at cost.

Estimated future costs of reinstatement of land, capitalised in accordance with AASB 116.16(c), are reviewed annually and depreciated over the estimated remaining life of the relevant asset. The weighted average depreciation period is ***a*** years (20xx - ***b*** years).

Land, buildings and other structures shown as fair value hierarchy level 2 were revalued as at 30 June 20xx by Jane Doe, CPV, of Guess & Hazard.

Transportation assets were valued by Nomen Nescio, BE(Hons) IPWEA, a Council officer, at depreciated current replacement cost during the reporting period ended 30 June 20xx, based on actual costs incurred during the reporting periods ended 30 June 20xx and 20xx. All acquisitions made after the respective dates of valuation are recorded at cost.

Examples of Revaluation Disclosure

Example 1 – For councils performing comprehensive revaluations

Land

- Date of valuation: XX/XX/20XX
- Valuer: XXXXXXX
- Basis of valuation: current market value less adjustments for any restrictions on use or disposal where they apply.

Buildings & Other Structures

- Date of valuation: XX/XX/20XX

- Valuer: XXXXXXX
- Basis of valuation:
  - Market Value - for buildings where a market value can be reliably determined.
  - Current Replacement Cost - for buildings where there is no active market due to specialised nature of the assets and the service they provide.
- (if appliable) Council reviews unit rates annually in between revaluations, based on approaches followed in the local government sector.

Examples of approaches to the review of unit rates performed in the local government sector include:

- Indexation of unit rates using industry indexes such as the Local Government Price Index (more commonly used) or the Australia Bureau of Statistics Times Series Data (Construction Industries)
- Determination of unit rates based on recent Council contracts in place
- Engagement of an external party (include name of external party) to review unit rates
- Comparison of unit rates against industry guides, such as the Rawlinsons Construction Cost Guide.

Infrastructure

Roads

- Date of valuation: XX/XX/20XX
- Valuer: XXXXXXX
- Basis of valuation: Current Replacement Cost - comprised by gross replacement cost (based on estimated unit costs for which a substitute asset with similar service potential, physical characteristics, dimensions, depth and environmental parameters could be constructed) and accumulated depreciation (estimated total and remaining useful lives informed by the condition assessment of the asset, and the planned asset management strategy applicable to the asset).
- (if appliable) Council reviews unit rates annually in between revaluations, based on approaches followed in the local government sector.

Footpaths, Kerb & Gutter

- Date of valuation: XX/XX/20XX
- Valuer: XXXXXXX
- Basis of valuation: Current Replacement Cost - comprised by gross replacement cost (based on estimated unit costs for which a substitute asset with similar service potential, physical characteristics, dimensions, depth and environmental parameters could be constructed) and accumulated depreciation (estimated total and remaining useful lives informed by the condition assessment of the asset, and the planned asset management strategy applicable to the asset).
- (if appliable) Council reviews unit rates annually in between revaluations, based on approaches followed in the local government sector.

Bridges

- Date of valuation: XX/XX/20XX
- Valuer: XXXXXXX
- Basis of valuation: Current Replacement Cost - comprised by gross replacement cost (based on estimated unit costs for which a substitute asset with a modern equivalent design, and with similar technical specifications, environmental parameters and service potential could be constructed) and accumulated depreciation (estimated total and remaining useful lives informed by the condition assessment of the asset, and the planned asset management strategy applicable to the asset).
- (if appliable) Council applies indexation to unit rates in between revaluations, based on approaches followed in the local government sector.

Stormwater Drainage

- Date of valuation: XX/XX/20xx
- Valuer: XXXXXXX
- Basis of valuation: Current Replacement Cost - comprised by gross replacement cost (based on estimated unit costs for which a substitute asset with similar service potential, physical characteristics, dimensions, depth and environmental parameters could be constructed) and accumulated depreciation (estimated total and remaining useful lives informed by the condition assessment of the asset, and the planned asset management strategy applicable to the asset).
- (if appliable) Council reviews unit rates annually in between revaluations, based on approaches followed in the local government sector.

CWMS

- Date of valuation: XX/XX/XX
- Valuer: XXXXXXX
- Basis of valuation: Current Replacement Cost - comprised by gross replacement cost (based on estimated unit costs for which a substitute asset with similar service potential, physical characteristics, dimensions, depth and environmental parameters could be constructed) and accumulated depreciation (estimated total and remaining useful lives informed by the condition assessment of the asset, and the planned asset management strategy applicable to the asset).
- (if appliable) Council reviews unit rates annually in between revaluations, based on approaches followed in the local government sector.

Plant, Machinery & Equipment

These assets are recognised at cost.

Office Equipment, Furniture & Fittings

These assets are recognised at cost.

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Example 2 – For councils performing review of unit rates and condition assessments for infrastructure assets on different dates

Land

- Date of valuation: XX/XX/20XX
- Valuer: XXXXXXX
- Basis of valuation: current market value less adjustments for any restrictions on use or disposal where they apply.

Buildings & Other Structures

- Date of valuation: XX/XX/20XX
- Valuer: XXXXXXX
- Basis of valuation:
  - Market Value - for buildings where a market value can be reliably determined.
  - Current Replacement Cost - for buildings where there is no active market due to specialised nature of the assets and the service they provide.

Infrastructure

Infrastructure assets are valued based on the current replacement cost of these assets. The current replacement cost is comprised by the gross replacement cost (based on estimated unit costs for which a substitute asset with similar service potential, physical characteristics, dimensions, depth and environmental parameters could be constructed) and accumulated depreciation (based on estimated total and remaining useful lives informed by the condition assessment of the asset, and the planned asset management strategy applicable to the asset).

Dates of the last review of unit rates and condition assessment performed are detailed below:

Roads

- Unit rates: Last review performed by XXXXX as at XX/XX/20XX
- Condition assessment: Last performed by XXXXXXXX on XX/XX/20XX

Bridges, Footpaths, Kerb & Gutter

- Unit rates: Last review performed by XXXXX as at XX/XX/XX
- Condition assessment: Last performed by XXXXXXXX on XX/XX/20XX

Stormwater Drainage

- Unit rates: Last review performed by XXXXX as at XX/XX/20XX
- Condition assessment: Drainage assets are often located underground making comprehensive condition assessment impractical. The age and physical characteristics of these assets, together with a rolling sample of physical inspections and consideration of planned asset management strategies, are used to inform determination of estimated useful life, remaining useful life and current replacement cost.

CWMS

- Unit rates: Last review performed by XXXXX as at XX/XX/20XX
- Condition assessment: Last performed by XXXXXXXX on XX/XX/XX

Plant, Machinery & Equipment

These assets are recognised at cost.

Office Equipment, Furniture & Fittings

These assets are recognised at cost.

Depreciation

"Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life" (AASB 116.6 Definitions).

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. (AASB116.6, AASB 116.55).. For discussion on determining residual value see IPWEA *Australian Infrastructure Financial Management Manual* (2015 edition), section 12.8.3, page 38; useful life see IPWEA *Australian Infrastructure Financial Management Manual* (2015 edition), section 12.8.3, page 38.

Depreciation of an asset begins when it is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management (AASB 116.6 definitions) Until the asset is available for use (and depreciation begins) it is appropriate to disclose the capital- works-in-progress as an *other non-current asset* - see "Capital works-in-progress".

"Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount." (AASB 116.52)

This applies even where excess depreciation has previously been charged and the carrying value is adjusted upwards to fair value by revaluation.

Accumulated depreciation and accumulated impairment are shown combined in the "Accum Dep'n" column of Note 7. Indeed, the revaluation process resets accumulated impairment to NIL, as it substitutes the carrying amount with the fair value of the (impaired) asset and resets accumulated depreciation to the difference between gross and carrying amounts.

Depreciation Methods

AASB 116 refers to the straight-line method, the diminishing balance method and the units of production method of calculating depreciation (AASB 116.62). Interpretation 1030 bans condition-based depreciation (Interpretation 1030.8, AASB 116.43). For a more extensive discussion of depreciation methods, see IPWEA *Australian Infrastructure Financial Management Manual* (2015 edition), section 12.10.3, page 54.

Although it has been past practice to refer to depreciation rates as a percentage (and some computer software still uses this basis), it is more correct to make the depreciation calculation based on the years of remaining useful life.

Depreciation of Components

Each part of an item of property, plant and equipment with "a cost that is significant in relation to the

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total cost of the item shall be depreciated separately "AASB 116.46) To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of an item that are individually not significant." (AASB 116.47) "An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item." (AASB 116.6 Definitions)

<u>Useful Life</u>

Useful life is:

(a) the period over which an asset is expected to be available for use by an entity; or

(b) the number of production or similar units expected to be obtained from the asset by an entity (AASB 116.6 Definitions).

Interpretation 1055 recognises that some road earthwork assets can be assessed as not having a limited useful life.[29]

The useful life of each asset must be assessed in accordance with each Council's normal policy and procedures.

Example: Council A's Infrastructure & Asset Management Plan provides for the replacement of seal every 15 years for a particular road category. This is calculated to ensure that the sub-base will not deteriorate. Therefore, the depreciation rates for the seal would be high (1/15 ~ 6.67%) but for the sub-base it may be nil.

*Council B's Infrastructure & Asset Management Plan can only fund the replacement of the seal every 25 years for the same road category. This will mean that over time the sub- base will deteriorate. Therefore, whilst the depreciation rate for the seal would be lower (1/ 25 ~ 4%), **the sub-base would also need to be depreciated.** Overall depreciation expense is higher because Council is not able to fund an adequate resealing program.*

Whenever a road reconstruction or similar project is added to the forward works program, check the remaining useful life in the asset register.

If the existing asset is to be replaced as part of that project, the remaining useful life of that asset may be much shortened and should be adjusted based on the latest available information.

It should **ALWAYS** be done at the time of a revaluation.

The useful life of each asset is required to be reviewed and, if appropriate, adjusted annually based on the best available information. (AASB 116.51).

The new estimate of useful life is applied *prospectively.* **Do NOT** calculate the depreciation that would have accumulated based on the new useful life (as if that had always been used) and make an adjustment.

[29] Interpretation 1055.7. "Road earthwork assets that are assessed as not having a limited useful life shall not be depreciated. Such an assessment shall be based on engineering reviews of the expected physical wear and tear and technical obsolescence of the particular earthworks and on consideration of commercial obsolescence and legal or other limits on the use of earthworks."

When updating your assets records for new valuations, review the remaining useful life as currently recorded and compare this with the remaining useful life implicit in the new valuation.

Where necessary, update your records with the most recent assessment.

Residual Value

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. (AASB 116.6 Definitions)

In the example of the CEO's vehicle given above, the residual value may be almost equal to the acquisition cost.

Where the asset register properly records the separate components of a road or other infrastructure asset (see "Determining Asset Components"), the residual value of each component is likely to be nominal as an actual sale of the asset is not being contemplated (see below). Where the asset register merely records a road as a complex unit, without separation into components, the useful life must necessarily be the period to the next "intervention event", such as resealing. The residual value will represent the cost of constructing all of the components that will not need to be replaced at that time, less the appropriate allowance for the depreciation of those components. (The new components should be separately identified in the Asset Register.)

The residual value of every asset should be reviewed every year and adjusted to reflect the latest available information.

In replacing some assets, it may be possible to identify the cost savings realised in the reconstruction by the use of materials salvaged from the previous asset. For example, when re-sheeting roads, it is common for some 20% - 30% of the required sheeting material to be salvaged from the previous sheeting. Where the actual value of the salvaged materials can be determined, this amount is transferred from the carrying amount of the replaced asset and forms part of the cost of the new asset - see "Capital Expenditure".

Impairment

All infrastructure, property, plant & equipment items other than non-cash-generating assets carried at fair value are required to be reviewed annually for indications of impairment. (AASB 116.9).

An *impairment loss* is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its *recoverable amount*. The *recoverable amount* of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. *Value in use* is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.(AASB 116.6)

The recoverable amount of primarily non-cash generating assets of not-for profit entities, which are typically specialised in nature and held for continuing use of service capacity is expected to be the same as fair value determined under AASB 13. Assets should be revalued with such regularity that the carrying amount does not differ materially from fair value. Thus, AASB 136 does not apply to assets regularly fair valued, but does apply to assets accounted for under the cost model (AASB 136.Aus 5.1)

Example: *A Council has a waste disposal site valued on the basis that it can accept a certain tonnage over a period of time. The EPA states that the site is no longer compliant, and either cannot accept the tonnage, or can only operate for a much shorter period of time. The fair value could decrease significantly. This is an impairment and should be recognised if material. (This scenario would also have significant implications in relation to future reinstatement costs - see "Future reinstatement cost".)*

For further discussion see IPWEA *Australian Infrastructure Financial Management Manual* (2015 edition), section 12.12, page 91.

Impairment losses recognised are shown in the appropriate column in the table (AASB 136.128). If an impairment loss is recouped, show as a negative amount in the same column.

See "Impairment Offsets" for the detailed accounting treatment of impairment losses and recoupments.

Accumulated depreciation and accumulated impairment are shown combined in the "Accum Dep'n" column of Note 7. Indeed, the revaluation process resets accumulated impairment to NIL, as it substitutes the carrying amount with the fair value of the (impaired) asset and resets accumulated depreciation to the difference between gross and carrying amounts.

Future reinstatement cost

The following section applies where Council has a liability to reinstate, restore or rehabilitate - usually land - after a period of use.

The cost of an item of the cost of an item of infrastructure, property, plant & equipment includes "the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period." (AASB 116.6 Definitions)

The process of identifying and estimating reinstatement / restoration / rehabilitation costs is considered in more detail under "Future Reinstatement / Restoration, etc".

Future reinstatements are usually recognised using the cost model (as a result of the definition of *cost*), and changes in these liabilities are accounted for as set out in AASB Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities.*

Future reinstatement costs are depreciated separately from any other associated assets (see "Depreciation") over the period until it is expected that the reinstatement will have to be undertaken. The residual value is usually taken to be NIL. The impairment standard applies (see "Impairment") but in many instances the second definition of value in use will be applicable.

These types of liabilities are becoming more common, especially under different types of environmental legislation.

Note that the asset is described as being carried ***at cost***, as the annual adjustment arising from the re-estimate of the future liability - see "Future Reinstatement / Restoration, etc." - is a re-estimate of the ***future cost*** to undertake the re-instatement.

Disclosures

Council should ensure all required disclosures are made (AASB 116.73-74, AASB 116.77).

Investment Property

Investment property is defined as *"property (land or a building – or part of a building – or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:*

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business."(AASB 140.5)

Property held by Councils to meet service delivery objectives rather than to earn rental or for capital appreciation will not meet the definition of investment property and will be accounted for under AASB 116. (AASB 140. Aus 9.1).

Determining if a Council holds any investment property should be discussed and agreed with your auditor.

Examples relating to Investment Property

- Council owns a parcel of land on which it has constructed a shopping centre. Clearly the property is being held for the purpose of earning rentals or capital appreciation or both, and hence **must be disclosed as investment property**.
- When the Council's Town Hall was constructed many years ago, the Council offices were also located in the front of the building. The Council offices have now been relocated elsewhere, but the old offices at the front of the Town Hall are rented out on commercial tenancies to (say) a firm of lawyers.

  The premises are retained for the purposes of a Town Hall and the earning of rentals is merely a consequence of managing Council's assets most efficiently. The Town Hall and offices are **not investment property**.
- In order to attract staff, it is necessary for Council to provide subsidised accommodation, and hence Council owns 3 houses for rental to specialist and senior staff. Two of these are currently occupied by Council staff and their families, but the third has been rented to a member of the public because the CEO owns his own house in the town.

  None of these properties is investment property:

  (a) the 2 houses rented to staff, because employee accommodation is excluded from the definition of rental property in AASB 140 paragraph 9(c).

  (b) the house rented by the member of the public is still held for the purpose of employee accommodation, and presumably the tenant will have to vacate the property if a new CEO is appointed.
- When Australia Post closed down the local post office, Council acquired the building because there were no other bidders. The site has been suggested as the location for a new library, or alternatively for various other purposes, but no final decision has yet been taken. In the meantime, the building has been rented out as offices for a local business.
- This is one that you will need to discuss with your Auditor, but it is probable that it is best described as being held for strategic purposes, and hence does not meet the definition of investment property.
- In order to ensure that there is land available for the future development of the district, some years ago Council purchased a large area of broadacre land adjoining the town. Subsequently, a portion of the land has been sub-divided for residential purposes, and also some for industrial development. Council expects to realise substantial profits in relation to each sub-division, and also in relation to the overall land purchase.

Neither the broadacre land, nor the sub-divided land - residential or industrial - is investment property.

(a) in relation to the broadacre land, the property is either held for strategic purposes or for the social service of providing land for future development.

(b) in relation to the sub-divisions - both residential and industrial - the land and improvements form part of ***inventory*** - see "Real Estate Developments".

The broadacre land is included in Note 7 as Infrastructure, Property, Plant & Equipment, and transferred to Inventory as each portion is developed.

Your auditor is entitled to ask you for evidence to support your classification - either for or against investment property - and this will best be provided from the reports to and minutes of the Council meetings at the time of purchase (or, where there has been a change in intention, from the meetings where that change was decided). Take copies of the relevant information, and keep them in your end of year file, recopying them each year while the property is retained.

Cost Model or Fair Value Model

Except in very rare circumstances, **ALL** *investment property* must be carried ***EITHER*** using the fair value model, or using the cost model, and accordingly amounts are shown in ***EITHER*** the *fair value* or the *cost / accumulated depreciation* columns, **Not Both.**

The Model Statements show amounts on both bases to demonstrate the types of disclosures required.

The example asset classifications shown for *investment property* are probably appropriate for the cost model, but valuations for the fair value model are generally all-inclusive[30], in which case it may be appropriate to disclose individual properties or groups of properties.

Fair Value Model

Revaluations are required to be made annually as at the reporting date (AASB 140.33), and the net change in fair value is recognised in profit and loss for the period to which it relates (AASB 140.35)

- see "Fair Value Adjustment - Investment Property"). Accordingly, depreciation and impairment (AASB 136.2(f)) do not apply to *investment property* recognised using the fair value model.

Fair values **MUST** be derived and disclosed in accordance with AASB 13 *Fair Value Measurement* - refer to the commentary under the appropriate headings in the *Infrastructure, Property, Plant and Equipment* section above.

Councils should check all applicable disclosures have been made ((AASB 140.75-78).[31]

Cost Model

Where the cost model is used, accounting procedures are the same as for the cost model under AASB 116 *Property, Plant & Equipment,* and accordingly both depreciation and impairment apply.

Councils should check all applicable disclosures have been made (AASB 140.75 and 140.79), including disclosure of the fair value of the investment property.

30 AASB 140.50 specifically addresses the need to avoid double-counting of assets.
31 AASB 140.76 does not require disclosure of comparative amounts for the reconciliation, and it is unclear whether AASB 101.36 over-rides. The comparative disclosures shown in the Model Statements are a compromise.

Note 8 - LIABILITIES

Deciding the disclosures to be made

Classifications and sub-classifications appropriate to Council operations. The description *other* is used only where the amount is not material - otherwise an appropriate description must be shown.

Consideration should be given to the commentary in "Materiality". In particular, attention should be given to disclosure of items that indicate significant variations from the previous year.

Subject to the above comments, the following may be used as a guide after consultation with your auditor:

- For the purposes of assessment of materiality of liabilities items, the "base amount" is considered to be the total liabilities grouping.
- Where any individual payable type exceeds 20% of the base amount, separate disclosure is appropriate.
- Where any individual payable type is less than 5% of the base amount, separate disclosure is unlikely to be appropriate.

Classification of Current and Non-Current Liabilities

AASB 101 provides:

"An entity shall classify a liability as current when:

(a) it expects to settle the liability in its normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting period; or

(d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73). ...

An entity shall classify all other liabilities as non-current." (AASB 101.69)

Paragraph (d) has particular significance in relation to

(a) the renewal of existing loans – see "Borrowings", and

(b) employee entitlements provisions – see "Employee Entitlements".

Where a current liability includes amounts reasonably expected to be settled more than 12 months after the reporting date, the total of these amounts is required to be disclosed (AASB 101.61).

Trade & other payables

Trade Payables

Trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier (AASB 137.11(a))

Payments received in advance

Refers to amounts paid to Council for the supply of goods and/or services to the payer which would be refunded if the works and / or services were not performed and includes credit balances held in the Sundry

Debtors ledger but does not include rates paid in advance. (Amounts paid to Council for the supply of goods and / or services to a person other than the payer should be assessed to determine if they are accounted for under AASB 15 or AASB 1058. For further guidance refer to "Additional Materials" section "Which standard applies – AASB 15 or AASB 1058?")

Accrued expenses - employee benefits

This item includes:

- accrued wages since the end of the last pay period paid before reporting date.
- accrued but untaken RDOs
- sick leave expected to be paid within the reporting period from accumulated balances existing at reporting date.

On-costs relating to accrued employee entitlements are included as *accrued expenses - other.*

Sick leave

In relation to *non-vesting* accumulating sick leave, this means providing for the sick leave anticipated to be taken over and above the sick leave entitlement for each year. For example, if [Council] history indicates that employees do not take more sick leave than they accumulate each year and sick leave is accounted for on a LIFO basis then no provision is required, as they are never using their brought forward accumulated entitlement.

Some Councils have industrial agreements where all or a portion of unused sick leave is paid to the employee on termination. This is described as a *vesting* entitlement.

For commentary in relation to *vesting* sick leave, see "Employee Entitlements".

Maternity leave

While this entitlement usually relates to a period of service completed prior to reporting date (and Award entitlements ***do*** vary) - and therefore warrants recognition as a liability, any basis of calculation is so fraught with potential EEO problems that it is not usually recognised, usually on the assumption that the liability is unlikely to be material. In some Awards it is treated in conjunction with sick leave and may be treated jointly with that liability.

Local Government Association of South Australia

SALGFMG South Australian Local Government Financial Management Group Inc.

SA MODEL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2024

Source Reference

NOTE 8 – LIABILITIES

Source Reference		Notes	**2024 $'000 Current**	**2024 $'000 Non-current**	2023 $'000 Current	2023 $'000 Non-current
AASB 101.77,78						
AASB 101.78(b)	**TRADE & OTHER PAYABLES**		**3,263**		2,485	
	Goods & Services		**55**	**5**	60	7
	Payments received in advance		**277**	**124**	235	136
	Accrued expenses - employee entitlements		**186**	**13**	141	22
	Accrued expenses - other		**364**	**20**	400	40
	Aged Care Facility Deposits		**37**	**76**	71	22
	Deposits, Retentions & Bonds		**13**	**32**	8	24
	Other		**4,195**	**270**	3,400	251
AASB 101.61	*Amounts included in trade & other payables that are not expected to be settled within 12 months of reporting date.*		***207***		*225*	
AASB 7.7	**BORROWINGS**					
AASB 107.50	Bank Overdraft		**54**		71	
AASB 107.50	Short term draw down facility		**100**		400	
AASB 7.7	Loans		**1,288**	**5,768**	457	5,799
AASB 16.47(b)	Lease Liabilities	17	**99**	**182**	54	175
	Other		**65**	**179**	65	179
			1,606	**6,129**	1,047	6,153

All interest bearing liabilities are secured over the future revenues of the Council.

Source Reference		Notes	**2024 Current**	**2024 Non-current**	2023 Current	2023 Non-current
	PROVISIONS					
	Employee entitlements (including on-costs)		**2,333**	**203**	2,565	404
	Insurance Losses		**39**	**55**	21	322
	Future reinstatement / restoration, etc		**567**	**1,248**	33	92
	Other		**21**	**22**	14	25
			2,960	**1,828**	2,633	1,743
AASB 101.61	*Amounts included in provisions that are not expected to be settled within 12 months of reporting date*		***2,007***		*2,225*	

Source Reference	***Movements in Provisions - 2024 year only** (current & non-current)*	*Insurance Losses*	*Future Reinstatement*	*Other Provision*
AASB 137.84	*Opening Balance*	*343*	*1,25*	*39*
	Add Unwinding of present value discounts	*10*	*36*	*1*
	Additional amounts recognised	*102*	*1,700*	*26*
	(Less) Payments	*(45)*	*(52)*	*(21)*
	Unused amounts reversed	*(201)*	*(25)*	*(4)*
	Add (Less) Remeasurement Adjustments	*(5)*	*25*	*2*
	Closing Balance	*94*	*1,815*	*43*

	Notes	**2024**	2023
LIABILITY - EQUITY ACCOUNTED COUNCIL BUSINESSES			
here describe the associated entity	19	**101**	
here describe the associated entity	19		
		101	

Parental leave

On a national basis this entitlement commenced on 1 January 2011, but some Awards commenced entitlements earlier, or provide for additional supplementary pay. If you consider that it is appropriate for your Council to formally recognise some liability for this type of benefit, discuss it with your Auditor, and agree a basis of calculation, early.

Accrued expenses - other

Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier (AASB 137.11(b)). Amounts that traditionally meet this definition include *accrued interest payable* and *accrued rental payable.*

Aged Care Facility Deposits

Many Councils operate aged care facilities where residents are required to contribute a specified sum on taking up residence. Under former arrangements, part of that amount is transferred to the Council for a specified period of years, and the balance is refunded to the resident (or resident's executors) on termination of residency. New arrangements came into force with the introduction of the *Living Longer, Living Better* reform program introduced in the 2013 Federal budget for persons commencing residency after 1 July 2014, and for at least a period, both arrangements may be in force. For further discussion of the accounting procedure see "Accounting for Aged Care Facility Deposits".

Deposits, Retentions & Bonds

This class of liabilities refers to contract and tender deposits, contract retentions and tenants' and other bonds, and includes deposits received from builders for damage to Council assets. Characteristically, these amounts are returned to the depositor (net of any deductions for damage or non- performance).

They are differentiated from *amounts in advance* where it is expected that there will be no refund made on completion of the work.

Council should be able to provide a listing of all such amounts, showing receipts details and expected refund date, for audit purposes.

Other payables

Suspense Accounts

Suspense accounts (such as tax and other payroll deduction suspense) should generally **not** be shown under this classification. If they are amounts deducted from payroll but not yet forwarded in accordance with the payroll deduction authority, they are more accurately shown under *goods and services.*

Developer Contributions

Developer contributions, such as parking, open space or Urban Tree Fund **cannot** give rise to a liability because no amount is owed to any party external to Council arising from the receipt of the contribution. Certainly, Council has an obligation to expend the monies for the purposes for which they were contributed, but a liability can only arise after Council determines on a specific project and lets contracts for its execution. Council may, if they wish, establish a reserve to reflect amounts unexpended - see "Note 9 - RESERVES".

Borrowings

Financial Sustainability Program Information Paper 15 - *Treasury Management*[1] endorses a holistic approach to the management of Council cash, investments and borrowings.

Rather than the traditional procedure of borrowing specific amounts for specific purposes for fixed terms at fixed interest rates, this approach involves Council's overall financing requirement being met by a combination of fixed and variable interest rate borrowings for differing maturities and/or the utilisation of other cash resources, depending on the ebb and flow of Council's cash resources.

Under this approach, Council's borrowings at any time may include all of the following elements:

1. A bank overdraft, where the amounts drawn from Council's working bank account have exceeded deposits.
2. A standby borrowing facility (usually at a lower rate of interest than a bank over- draft) established with Council's banker or (usually) LGFA by transferring funds to Council's working bank account. Most commonly these are repayable at Council's option and are used to cover the cyclical nature of Council's revenue receipts throughout each year.

   A variable (or floating) interest rate borrowing with a maturity date in excess of 90 days normally would not be offset against cash and cash equivalents. The exception may be when such a borrowing is used for short-term cash management purposes, but only to the extent to which it is used for those purposes. A borrowing that is used both for short-term cash management purposes and to fund a long-term financing requirement should be apportioned according to the purpose it is used. It would normally be presumed that such a borrowing with a nominal maturity date beyond the end of the next reporting period would not be for cash management purposes except for such portion realistically expected to be repaid within 90 days of reporting date.
3. Fixed interest rate borrowings typically with longer-term maturity dates. These come in two forms - 'credit foncier' and 'interest only'. Credit foncier borrowings are the least flexible as they involve a fixed schedule of repayments of principal and interest. Interest only borrowings involve regular payments of interest and allow the full amount of principal to be repaid or rolled over at maturity.
4. A variable interest rate borrowing typically with a longer-term maturity date. Such a borrowing facility will have an interest rate that varies from time to time (e.g. when there is a movement in official short-term interest rates) and the amount of principal would not be repayable until maturity. However, Council may repay or redraw funds up to the maximum amount of the borrowing facility at any time. Thus, the outstanding balance of the facility may vary significantly during a year and between years with the timing and extent of cash inflows and outflows. Such a facility effectively enables Council to earn an implicit rate of interest on its sur- plus funds equal to the borrowing rate.

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1. This extract is from the February 2012 revision. The Information Paper was further revised in February 2015 and is structured differently but continues the holistic Treasury management approach. The latest revision of the Information Paper should be referred to for further information.

Borrowings for periods of less than 12 months

The types of borrowings described in (1) in the box are considered to meet the requirements of AASB 107.8 and are a component of *cash and cash equivalents* for the purposes of the Statement of Cash Flows*.* Under certain circumstances borrowings of the type referred to in (2) in the box may also meet those requirements - these are discussed more fully in "The Definition of “Cash”". If the use of a short term drawdown facility - or part of it - does not meet the definition of “cash”, the part that does not meet the definition is included with *Loans.*

Borrowings of the type referred to in (3) and (4) in the box - even if for a period of less than three months - do not form a component of *cash and cash equivalents and* are included under the sub- heading *Loans.*

The Model Statements make provision for overdraft facilities provided by the Council’s banker, or short-term borrowing from the Local Government Finance Authority. (Where a standby borrowing facility from LGFA is in use, the facility should be correctly described - see "Local Government Finance Authority of SA Financial Products"). There is a fundamental difference between Council’s working bank account, and a short term draw down facility that is drawn (or repaid) periodically as required, and hence they should be shown separately.

A Council may have a cash-book balance that shows that the bank account is overdrawn, but because of unpresented cheques outstanding, the account balance shown at the bank is still in funds. In such a case, the cash-book overdrawn balance is to be shown here - but note the comments in relation to disclosures in "Note 11 - CASH FLOW RECONCILIATION". Unpresented cheques may ***only*** be debited to the bank account (and credited to trade creditors) to the extent that they were physically located under Council control at reporting date (and your auditor is entitled to require evidence of this).

Borrowings

Where a Council has negotiated **and received approval from the lender before balance date** for the refinancing of an expiring borrowing it is shown as non-current. (AASB 101.75) In all other instances, the full amount of the expiring borrowing must be disclosed as current.

Disclosure relating to contractual repricing or maturity dates, etc. are given in the Financial Instruments Note - see "Note 13 - FINANCIAL INSTRUMENTS" - in these Model Statements but may be relocated here if desired.

Information supplied to the Grants Commission or Australian Bureau of Statistics may require dissection of loans on the basis of the loan provider - governments, LGFA, banks or other.

Provisions

Provisions are classified as current or non-current liabilities in accordance with "Classification of Current and Non-Current Liabilities".

It is important that each Council examine its operations to identify and recognise all *legal and constructive obligations arising from past events*. Where the timing or amount of future cash outflows is uncertain, these are recognised as provisions. These must be recognised at the *best estimate of the future cash outflows. (AASB 137.36)*[32]

Disclosure of a brief description of the nature of the obligation, expected timing of outflows, uncertainties and expected reimbursements may be disclosed here or in Note 1 (AASB 137.85).

32 The Appendix to AASB 137 provides a number of examples of the application of the Standard.

All provisions are re-estimated annually and are recognised as the present value of the best available estimate of the anticipated cash outflows required to settle the obligation. This is **NOT** a valuation to which AASB 13 applies.

Employee Entitlements

This provision relates to *other long-term employee benefits* (i.e. excludes benefits expected to be discharged within the next 12 months, and post-employment benefits) and the rare occasions where it is appropriate to recognise *termination benefits.* (See also "Sick leave").

Annual Leave

Amounts expected to be paid within the next 12 months are included at nominal value; amounts expected to be paid after 12 months are calculated at the present value of the best estimate of the future cash outflows. On-costs directly attributable to the future payments (e.g. superannuation) are added to the calculated liability to the employee. Some on-costs may not be payable where the leave is taken as a lump sum on termination, in which case an estimate of the average on-costs attributable is required.

Long Service Leave

The liability in relation to long service leave is calculated as ***the present value of the expected future cash outflows required to settle the obligation that exists at reporting date.***

In making this calculation

- the full entitlement for all employees who have exceeded the qualifying period is included (i.e. the *unconditional* entitlement).
- for employees who have not yet completed the qualifying period, a proportion of their entitlement is included, based on Council's past experience that employees with an equivalent period of service will complete the qualifying period, and gain an *unconditional* entitlement.
- employees' rates of pay are "grossed up" to reflect the actual rates expected to be payable at the time that the leave is taken, assuming that employees remain in their current position and duties until the leave is taken[33]. (A global estimate of average pay increases is usually acceptable.)
- the present value of the future year payments is calculated using market yields on commonwealth bonds matched to the expected time of the future payment.[34]
- on-costs directly attributable to the future payments (e.g. superannuation) are added to the calculated liability to the employee. Some on-costs may not be payable where the leave is taken as a lump sum on termination, in which case an estimate of the average on-costs attributable is required.

The liability is apportioned between current and non-current in accordance with "Classification of Current and Non-Current Liabilities".

33 If an employee is subsequently promoted, the period in which the promotion occurs bears the cost of the pay increase attributable to past service at the time of the promotion.

34 AASB 119.Aus83.1. Market yields on government bonds, adjusted to 30 June balance dates, may be downloaded free of charge from Statistical Tables | RBA F16

Funding Long Service Leave

There is no requirement for a Council to hold any portion of its long service leave liability in cash and investments. Any such portion held in cash and investments does not reduce the liability to be recorded in the provision for long service leave - current or non-current.

The question of whether any portion of the long service leave liability is to be held in cash or investments depends entirely on Council's cash management procedures (Financial Information Paper - *Treasury Management* discourages such an approach) and should not exceed an appropriate "safety net" in case employees not expected to be paid long service leave in the next 12 months, actually do receive long service leave payments in that period.

For budgeting purposes, a Council is required to recognise the estimated total employee benefits (including long service leave) and on-costs attributable to the service of its employees during the year. If a Council chooses to transfer an amount of cash to a reserve, it must also recognise the reduction in the reserve attributable to the payment in this year of entitlements that accrued in previous years. ***The expense must not be "double-budgeted".***

Long Service Leave Payments from other Councils

Where a Council receives a payment from another Council for the long service leave attributable to a transferring employee, that amount is credited direct to the provision account, and is not recognised as revenue. For the paying Council, the payment is debited direct to the provision account, and is not recognised as an expense.

Vesting Sick Leave

Vesting sick leave occurs where a Council has entered into an industrial agreement to pay a proportion of untaken sick leave on termination and is regarded as not being "due" until termination occurs. It is therefore treated as *other long-term employee benefits* recognised as a provision (which may be a current or non-current liability). (For commentary relating to *non-vesting* sick leave, see "Sick leave"). It is calculated in the same manner as given for "Long Service Leave".

Attributable on-costs

The amount relating to attributable on-costs is rarely material - but it must be included in the calculated liability - and separate disclosure is not required by the Standard.

Insurance Losses

Among the legal or constructive obligations at balance date may be liabilities relating to matters that have been insured against by Council. These liabilities may be by way of the insurance excess required to be paid by Council, or where Council was under-insured, or where Council will incur costs that are excluded by the insurance policy. All outstanding or potential claims arising from past events should be reviewed to ascertain the amount, if any, of Council's liability.

This provision relates only to the Council's residual liability in relation to insured events - **do not include the amount of loss that is carried by the insurer.** It is the best available estimate (AASB 137.59) of the expected losses resulting from insured *obligating events* (AASB 137 Definitions) that occurred before reporting date, including insurance deductibles (i.e. "excesses"), residual legal expenses, and losses arising from shortfalls in the insured amount or the failure of the insurer.

If there is no amount to be disclosed in either the current or previous reporting period, do not show the classification.

Future Reinstatement / Restoration, etc.

The terms *reinstatement, restoration, remediation* and *rehabilitation* are used interchangeably in these comments. Depending on the circumstances of your Council, use of one or other of these terms, or of a different term, may be more appropriate.

These notes are considerably abbreviated, and the further information, explanation and examples given in both AASB 137 and Interpretation 1 should be studied where a Council has a liability, or potential liability, of this type.

Legal or Constructive Obligation

A liability is recognised only where a *legal* or *constructive* obligation exists (AASB 137.10 Definitions). In local government, it is important to differentiate between a *legal* or *constructive* obligation, and a *political obligation*, where no liability is recognised (AASB 137 paragraphs Aus 26.1 & 26.2)

Legal obligations can arise where the EPA directs that a Council must rehabilitate an unused quarry for road-making materials, or a rubbish tip, or where a planning or development consent has enforceable conditions requiring restoration at the completion of the development. They can arise where land under Council's control has become contaminated, and Council is required to remediate the contamination and rehabilitate the land. They could arise if (say) a building or property is transferred to Council on condition that Council restore the building to a specified condition[35].

Present Obligation arising from a Past Event

The *legal* or *constructive* obligation must exist at the reporting date. (AASB 137.14(a))

If Council has no legal obligation to reinstate until AFTER the EPA notice is received, and the notice is not dated until after 30 June, *there is no present obligation at reporting date*. (Under these circum- stances, disclosure as an event after the statement of financial position date - see "Note 22 - EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE" - may be appropriate.)

Where Council currently operates (say) a landfill in accordance with a licence from the EPA, and the conditions attaching to that licence are changed after 30 June, there is a *present obligation* because the licence existed at balance date. The financial consequences of the change in licence conditions must be recognised.

Remediation procedures for landfill sites are widely known and hence reliable cost estimates can usually be provided.

Best Available Estimate

"The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date*"* (AASB 137.38). The estimates of outcome and financial effect are determined by the judgement of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. (AASB 137.38).

The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision (AASB 137.42). The fact that Council is vigorously

35 In this instance, the cost of the building or property recognised by Council would be
(a) the fair value of the building or property in its condition at the time of transfer - AASB 116.Aus15.1,
(b) the costs involved in transferring title to Council - AASB 116.16(a), and
(c) the initial estimate of the costs of restoration to the condition specified - AASB 116.16(c) and would be subject to assessment for impairment - AASB 136.
If Council subsequently restores the property to a condition better than it is legally obliged to do, the additional costs would be capitalised at that time - (Council may have been under a *political*, rather than *legal*, obligation to do the additional work).

defending a legal action does not prevent the estimation process. Recognition hinges on the *probability* of a cash outflow, not on the vigour with which the defence is being conducted.

In absolute terms, you may consider that the best estimate is not particularly accurate or reliable. However, unless you are convinced - and you can convince your auditor - that the best available estimate is (almost) totally unreliable, you have ***a liability and a measurement problem***, and the relief in AASB 137.14(c) is not available.[36]

Present Value

Where the effect of the time value of money is material, the ***amount of a provision shall be the present value*** of the expenditures expected to be required to settle the obligation. (AASB 137.45) "Provisions are therefore discounted, where the effect is material. (AASB 137.46)

The discount rates most appropriate to local government are market yields on government bonds. (AASB 1347.47)[37] The present value discount is then ***unwound*** as the time for payment nears. The accounting process is set out below.

Changes in Provision

Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate.

This does not constitute a revaluation of the reinstatement asset for the purposes of AASB 116. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed. (AASB 137.59)

Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* sets out the accounting treatment required for changes in these provisions.

For all provisions - Unwinding of Present Value Discounts

Where a provision is recognised at the ***present value of the future cash outflows*** (which basically includes ALL non-current provisions), the carrying amount of a provision increases in each period to reflect the passage of time. This increase, known as the ***"unwinding of the present value discount"***, is recognised as borrowing cost. (AASB 137.60)

It is calculated by multiplying the discount rate at the start of the period by the present value of the provision throughout the period, taking account of material variations in the provision. Generally, variations in the amount of the provision during the period will not have a material effect.

36 It may be, for example, that until the EPA issues a notice Council is not certain of the extent of remediation works that will be required. However, if the issue of a notice is *probable, - and a present legal or constructive obligation exists* - an inspection of the location and information from other Councils with similar situations will allow a reasonable estimate of the probable requirements of the notice.
In turn, this will permit an estimate of the works required to be undertaken, of their cost, and of the probable timing, to be made.
AASB 137.47 provides that "the discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability." However, AASB 119.Aus83.1 requires that market yields for government bonds be used for discounting employee benefits liabilities, and use of the same rates is probably appropriate.

Example:	Provision balance 30/06/x1	$345,204 Cr.
	Provision balance 30/06/x2	$354,402 Cr.
	Interest rate	5.75%
	(Difference between opening & closing balances is not material)	
	Unwinding of present value discount	$19,849

Journal entry:

Debit	Unwinding of present value discount expense	*$19,849*	
Credit	Provision		*$19,849*

Movements in Provisions

Movements in provisions are required to be disclosed (AASB 137.84) (which does not apply to employee entitlements). The disclosure must be made for each class of provision other than for employee entitlements. Comparative information is not required.

Additional amounts recognised relate to new provisions required in relation to separate, additional legal or constructive obligations.

Where payments are made to discharge the liability that is the subject of the provision, they are debited direct against the provision rather than being written off as expenses (which would be double-counting the expense, as it has already been recognised when the provision was established).

Unused amounts reversed relate to circumstances where the legal or constructive obligation has been forgiven, or where an outflow of resources will no longer be required to settle the obligation.

Remeasurement adjustments include the effect of changes in discount rates as well as the consequences of revised estimates for the remediation etc.

Equity accounted entities with negative equity

The Accounting Standards make no provision for equity accounted associated entities to have negative equity, a situation that is not uncommon in local government. Where an equity accounted associate has negative equity, the Council's share should be disclosed here - with the description amended - and cross referenced to "Note 19 - INTERESTS IN OTHER ENTITIES".

Other Liabilities

Although the Model Statements make provision for disclosure of *Other Liabilities,* we find it difficult to envisage a type of liability that would not meet the liability descriptions shown above.

Note 9 - RESERVES

Asset Revaluation Reserve

Infrastructure, Property, Plant & Equipment

Disclosure of asset class components of this reserve is in excess of the minimum requirements in the Standards. However, because revaluation decrements and impairments of revalued items are offset against the revaluation reserve standing to the credit of the **asset class**, disclosure is encouraged. The asset classes disclosed should be the same as for depreciation (Note 3) and the carrying value of the assets (Note 7). No individual asset class is permitted to show a negative balance - to be recognised as a revaluation decrement or impairment loss.

Net Increments (Decrements) amount, and Transfers on Sale amounts **MUST** agree with the Statement of Comprehensive Income and Statement of Changes in Equity.

Again because of the offset of revaluation decrements and impairment losses on revalued assets, it is **NOT RECOMMENDED** that Councils make the transfer of asset revaluation reserve components on disposal of a revalued asset.

Other Reserves

In local government, reserves (other than an asset revaluation reserve) are a device used by some Councils to ensure that they have sufficient cash available when required for a specified purpose.

Reserves held for the purposes of discharging a liability do **NOT** replace the liability. The liability **MUST** be separately shown in accordance with the accounting standards.

Reserves for future capital expenditure - which are not encouraged under the comprehensive Treasury Management policy approach - should be limited to only those projects that have a realistic chance of being undertaken within the near future and should be few in number.

Developer Contributions

A Council may, if it wishes, establish a reserve to reflect the balance of unexpended developer contributions for parking, open space, Urban Tree Fund and the like.

Such amounts must be recognised as revenue upon receipt in accordance with AASB 1058, and the transfer to reserve must not be recognised as an expense.

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Source Reference

SA MODEL COUNCIL
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NOTE 9 – RESERVES

AASB 101.106(A)
Use asset class descriptions as per Note 7

ASSET REVALUATION RESERVE	Notes	1/7/2023	Net Increments (Decrements)	Transfers, Impairments	30/6/2024
		$'000	$'000	$'000	**$'000**
Land		363			**363**
Land		279		(279)	**0**
Buildings & Other Structures		1,035			**1,035**
Infrastructure		30,091	3,308		**33,399**
- Sealed Roads		4,446			**4,446**
Joint Ventures - Other Comprehensive Income		188	(33)		**155**
TOTAL		36,402	3,275	(279)	**39,398**
	Comparatives	*35,275*	*1,650*	*(523)*	***36,402***

AASB 101.106(A)

OTHER RESERVES		1/7/2023	Transfers to Reserve	Transfers from Reserve	**30/6/2024**
list reserves by name		2,663		(824)	**1,839**
		96	100	(67)	**129**
		54	5		**59**
		109	10		**119**
		196	25	(104)	**117**
					0
TOTAL OTHER RESERVES		3,118	140	(995)	**2,263**
	Comparatives	*2,214*	*3,045*	*(2,141)*	***3,118***

AASB 101.79(b)
(Other Reserves)
Insert a short - but clear - description of the nature and purpose of each reserve including, preferably, an estimate of when the reserve will be utilised.

PURPOSES OF RESERVES

Asset Revaluation Reserve

The asset revaluation reserve is used to record increments and decrements arising from changes in fair value of non- current assets (less any subsequent impairment losses, where applicable).

(Other Reserves)

There is no requirement to maintain reserves (except an asset revaluation reserve when required by the accounting standards).

No individual reserve is permitted to disclose a negative balance[38].

Totals of opening and closing balances, and of *transfers to* and *transfers from*, **MUST** agree with the Statement of Changes in Equity.

38 There is one exception - an asset revaluation reserve maintained in relation to financial instruments may show a negative balance. The nature of investments by SA Councils - particularly investments in LGFA - means that this type of reserve in exceedingly rare in SA Local Government.

The *Financial Sustainability Program* *Information Paper 15* - *Treasury Management*[1] endorses a holistic approach to the management of Council cash, investments and borrowings.

Rather than the traditional procedure of borrowing specific amounts for specific purposes for fixed terms at fixed interest rates, this approach involves Council's overall financing requirement being met by a combination of fixed and variable interest rate borrowings for differing maturities and/or the utilisation of other cash resources, depending on the ebb and flow of Council's cash resources.

Under this approach, the "squirrelling" of cash resources into reserves is an unnecessary and undesirable procedure.

1. Revised and reissued February 2015, page 5.

Section 155 Charges

Amendments to section 155 of the *Local Government Act 1999* were made during 2009 which:

- clarify that depreciation costs may be included when determining the recoverable costs of a prescribed service (e.g. a CWMS service charge); and
- remove any legislative requirement in the Act for "reserve" accounts to be established or held by Councils, and, where Councils choose to utilise reserve accounting, clarify that cash equivalent to the amount standing in the general ledger reserve account does not need to be set aside.

For a comprehensive review of the appropriate costing principles and processes see Costing Principles for Local Government - Guidelines for Council staff available in the 'Member Services' section of the LGA website under Financial Sustainability Resources/Costing Principles for Local Government.

Note 10 - RESTRICTIONS ON ASSETS

The various standards relating to different types of assets all require that external restrictions on the use of assets be disclosed.

Restrictions can arise in a number of different ways. A council may receive an amount from a benefactor to be held “upon trust” for a particular purpose. Use of the amount for another purpose - even temporarily, unless this is authorised by the terms of the gift - would amount to a breach of trust. Accordingly, these funds must be held as cash or investments until expended for the purposes of the trust. (A trust may be under the control of Council - see "The Local Government Reporting Entity" - but the trust assets are subject to restriction.)

Some specific purpose grants also require that the funds be held as cash or investments until expended. Usually this requirement is embedded in the fine print towards the back of the individual grants agreement, and this requirement does not apply to Grants Commission grants or to State Government specific purpose grants made under State Government general conditions.

Some Federal Government grants - particularly those that are also made direct to voluntary organisations - require that the grant funds be deposited into a bank account that includes the words *trust account* in the account name. This is a clear indication that the grant monies are restricted.

In each of these situations, the relevant amounts of cash and investments are *restricted* and their disclosure as such is required.

Generally there is no requirement that these amounts be held in separately identified bank accounts or investments, but that the total of the Council’s cash and investments should exceed the total of the amounts restricted.

Restrictions can also exist in relation to other classes of assets. For example, receivables relating to a trust may be restricted, in that when the cash is received for those debts it becomes restricted together with the existing restricted cash.

A Council may choose to restrict an amount of cash and investments equal to the amount of any reserve (other than asset revaluation reserve) - see "Other Reserves"). These amounts are **not** restricted within the meaning of the accounting standards because the restriction does not arise from a source external to Council, and the Council may subsequently choose to de-restrict the funds.

While there is a requirement that CWMS charges are used for the current and future operations of the CWMS scheme, there is **NO** requirement that current cash balances attributable to the scheme be separately isolated from other Council cash balances.

Under the *Financial Sustainability Program Information Paper 15 - Treasury Management* procedures, these resources may be utilised as part of Council’s overall cash management program.

Accordingly, there is no external restriction placed on the use of these funds, and they do not qualify for disclosure in this Note. However, it would probably be appropriate for Council to establish a reserve (Note 9).

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Note 10 - ASSETS SUBJECT TO RESTRICTIONS

The uses of the following assets are restricted, wholly or partially, by legislation or other externally imposed requirements. The assets are required to be utilised for the purposes for which control was transferred to Council, or for which the revenues were originally obtained.

Source Reference		Notes	2024 $'000	2023 $'000
	CASH & FINANCIAL ASSETS			
AASB 107.48	Unexpended amounts received from Federal Government		**55**	59
	here describe nature of restriction; do not disclose if not applicable		**1,024**	316
			349	88
			402	226
			1,830	689
	RECEIVABLES		**188**	197
	here describe type of asset; do not disclose if not applicable		**22**	42
			6	31
			216	270
AASB 102. 36(h), Aus36.1(g)	**INVENTORIES & OTHER ASSETS**		**59**	95
	here describe type of asset; do not disclose if not applicable		**59**	95
			59	95
			177	285
AASB 116.74(a)/ AASB 116.135	**INFRASTRUCTURE, PROPERTY, PLANT & EQUIPMENT**			
	here describe type of asset; do not disclose if not applicable		**0**	0
			0	0
			0	0
			0	0
	TOTAL ASSETS SUBJECT TO EXTERNALLY IMPOSED RESTRICTIONS		**2,223**	1,244

The following liabilities, included in Note 8, may be discharged from restricted assets in the first instance.

	Notes	2024	2023
Bank Overdraft	**8**		
Payables	**8**		
Borrowings	**8**		
Provisions	**8**		
		0	*0*

A narrative description providing a short summary of the nature of each restriction should be shown here. See the explanatory comments for further information.

Limitations on the Use of Assets

Councils frequently own and/or control / are responsible for assets (other than specially constructed, purpose-built assets) which may only be used for a particular purpose, and where that purpose is an ordinary responsibility of the Council. The types of circumstances referred to include:

- Assets constructed under subsidy, such as CFS stations, etc. It is a frequent condition of such subsidies that they must be refunded if the constructed assets are disposed of or used for another purpose.
- A voluntary or community organisation may transfer an asset such as a hall or clubrooms to the Council. The transfer may explicitly state that the asset must be used for a particular purpose, or where this is not explicitly stated, there may be a clear community understanding that this will be the case. (The situation is analogous to *legal and constructive obligations*, and *political obligations* discussed in relation to liabilities - see "Legal or Constructive Obligation".)
- A person or organisation may transfer an asset such as a historic site to the Council. The site may (or may not) have formal limitations on its use under heritage or national estate legislation, or the transfer may have formal limitations on its use.
- The nature of the asset transferred (usually land) may be such that it cannot realistically be used for any other purpose - for example, a cemetery used by a now-defunct religious organisation.

These cases are characterised by the fact that each of the uses are functions normally carried out by the Council.

The limitation on the use of the asset is only of significance if Council proposes to dispose of the asset, or to change its use. In the normal course of Council operations, the limitation of use is of NO significance.

None of the Accounting Standards that require disclosure of “restricted assets” actually define the term. However, it is suggested that disclosure of these limitations on the use of assets is usually only appropriate where Council has a current proposal that would result in a change of use or disposal of the asset.

No *contingent liability* exists in relation to these assets. A contingent liability requires either an existing obligation that cannot be quantified, or a potential obligation dependent on a third party. In these cases, there is no existing obligation unless Council decides to change the use, and the potential obligation is first dependent on the Council and only subsequently on a third party.

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Source Reference
AASB 1054.16

SA MODEL COUNCIL
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Note 11 - RECONCILIATION TO CASH FLOW STATEMENT

AASB 107.7

(a) Reconciliation of Cash

Cash Assets comprise highly liquid investments with short periods to maturity subject to insignificant risk of changes of value. Cash at the end of the reporting period as shown in the Cash Flow Statement is reconciled to the related items in the Statement of Financial Position as follows:

	Notes	2024 $'000	2023 $'000
Total cash & cash equivalent assets	5	**4,791**	3,712
Less: Short-term borrowings	8	**(154)**	(471)
Balances per Cash Flow Statement		**4,637**	3,241

(b) Reconciliation of Change in Net Assets to Cash from Operating Activities

		2024	2023
Net Surplus (Deficit)		**641**	2,514
Non-cash items in Income Statement			
Depreciation, amortisation & impairment		**3,569**	3,972
Fair value adjustments		**(281)**	42
Equity movements in equity accounted investments (increase) decrease		**73**	92
Net increase (decrease) in unpaid employee benefits		**(488)**	(531)
Premiums & discounts recognised & unwound		**131**	873
Change in allowances for under-recovery		**(40)**	(300)
Non-cash asset acquisitions		**(888)**	(958)
Grants for capital acquisitions treated as Investing Activity		**(534)**	(1,521)
Non-cash expense		**75**	-
Net (Gain) Loss on Disposals		**(343)**	(439)
		1,915	3,744
Add (Less): Changes in Net Current Assets			
Net (increase) decrease in receivables		**374**	(1,037)
Net (increase) decrease in inventories		**(304)**	1,473
Net (increase) decrease in other current assets		**198**	(1,076)
Net increase (decrease) in trade & other payables		**922**	(432)
Net increase (decrease) in other provisions		**(8)**	(335)
Net increase (decrease) in other liabilities		**25**	173
Net Cash provided by (or used in) operations		**3,122**	2,510

AASB 107.43

(c) Non-Cash Financing and Investing Activities

		2024	2023
Acquisition of assets by means of:			
Bank Overdrafts		**250**	150
Corporate Credit Cards		**21**	21
LGFA Cash Advance Debenture facility		**846**	629

AASB 107.50(a)

(d) Financing Arrangements

Unrestricted access was available at balance date to the following lines of credit:

AASB 107.43

	Notes	2024	2023
- Physical resources received free of charge	8	**851**	958
- Non-cash grants & contributions		**37**	-
Amounts recognised in Income Statement		**888**	958
- Leases		**86**	-
- Estimated future reinstatement etc. costs		**754**	-
- Land taken over for non-payment of Rates		**27**	-
		1,755	958

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice.

Note 11 - CASH FLOW RECONCILIATION

The Definition of "Cash"

For further information please refer to the Statement of Cash Flows or AASB 107.

The Reconciliation

There are a number of different formats that may be used for the reconciliation required by AASB 1054 *Australian Additional Disclosures* paragraph 8, according to professional preference.

The Model Statements present all additional disclosures associated with AASB 107 in a single Note, but each component may be re-numbered if desired (and provided the additional notes are shown on the *contents page*).

Non-cash Financing & Investing Activities

"Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a cash flow statement. Such transactions shall be disclosed elsewhere in the financial report in a way that provides all the relevant information about these investing and financing activities." (AASB 107.43)

Financing Arrangements

Financing arrangements were disclosed in accordance with the former paragraph AASB 132.Aus94.1[39] which has since been deleted. However, the disclosures have been retained as an example of good reporting practice.

Where the actual bank account is showing an overdrawn balance at balance date (see "Borrowings") show that amount as a *bank overdraft - drawn* facility, and the difference between that balance and Council's overdraft limit as a *bank overdraft - undrawn* facility. In all other cases, show the authorised overdraft limit.

It is conventional to show only the authorised corporate credit card limits, as these are normally "swept" to the bank account monthly.

ALL available but unused financing facilities **MUST** be disclosed.

39 (a) details of the credit stand-by arrangements of the entity, including the nature of each arrangement and the total amount of credit unused; and
(b) a summary of the used and unused loan facilities of the entity and the extent to which these can be continued or extended.

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Note 12 - FUNCTIONS

AASB 1052 *Disaggregated Disclosures* requires that certain disclosures are made for each broad function or activity of a Council. (AASB 1052.11 to 14)[40]

The Model Statements provide an example using the broad functions contained within the Grants Commission return (which are designed only to collect data for them and the Australian Bureau of Statistics[41]), **but the adoption of your own Strategic Management Plan headings, used for the management of Council's delivery of services, is encouraged**.

> The totals of income, expenses, and total assets **MUST** all agree with the totals shown in the Statement of Comprehensive Income and Statement of Financial Position for both the current reporting period and comparative figures. Total grants must agree with the total of grants, subsidies and contributions received from Commonwealth and State governments and other as shown in other income in Note 2 exclusive of amounts received specifically for new or upgraded assets, which are not included in Operating Surplus.

Income and expenses should be allocated on a full cost attribution basis to each function shown.

The Application of Full Cost Attribution

The basic policy is that costs that can be *reliably attributed* to a function are allocated to that function. It is the application of that policy that causes the problems.

Larger councils may have a separate planning department, with specifically allocated offices, telephone lines, vehicles, computers and the like. It is therefore relatively easy to allocate light and power and rental/office maintenance based on area occupied; telephone costs based on bills for the allocated numbers; vehicle costs based on actual costs for those vehicles; stationery based on actual purchases for that department, and so on.

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40 11. In respect of each broad function or activity of the local government, the general purpose financial report shall disclose:
(a) by way of note:
(i) the nature and objectives of that function/activity; and
(ii) the carrying amount of assets which are reliably attributable to that function/activity; and
(b) by way of note or otherwise:
(i) revenues for the reporting period which are reliably attributable to that function/activity, with component revenues from related grants disclosed separately as a component thereof; and
(ii) expenses for the reporting period which are reliably attributable to that function/activity.
12. The information provided by way of note in accordance with paragraph 86 shall be aggregated and reconciled to agree with the related information in the financial statements of the local government.

41 See "GLOSSARY OF PURPOSE CODES" and "INDEX OF ACTIVITIES BY PURPOSE CODE" of Appendix B for further information on definitions of LGGC / ABS functions and activities.

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Note 12 - FUNCTIONS

INCOME, EXPENSES AND ASSETS HAVE BEEN DIRECTLY ATTRIBUTED TO THE FOLLOWING FUNCTIONS & ACTIVITES

	OPERATING INCOME		OPERATING EXPENSES		OPERATING SURPLUS (DEFICIT)		GRANTS INCLUDED IN OPERATING INCOME		TOTAL ASSETS HELD (CURRENT & NON-CURRENT)	
	ACTUAL	ACTUAL	**ACTUAL**	ACTUAL	**ACTUAL**	ACTUAL				
	2024 $'000	2023 $'000	**2024 $'000**	2023 $'000	**2024 $'000**	2023 $'000	**2024 $'000**	2023 $'000	**2024 $'000**	2023 $'000
Business Undertakings	1,488	1,159	337	212	1,151	947	12	-	4,728	4,470
Community Services	601	191	229	225	372	- 34	25	30	747	781
Culture	522	424	523	304	- 1	120	17	17	536	204
Economic Development	1,160	193	284	223	876	- 30	10	47	393	319
Environment	1,186	1,457	1,502	1,152	- 316	305	839	463	799	731
Recreation	1,724	1,659	2,958	2,821	- 1,234	- 1,162	500	21	20,805	19,759
Regulatory Services	2,092	1,972	1,576	954	516	1,018	28	90	527	342
Transport & Communication	2,514	2,820	6,038	5,301	- 3,524	- 2,481	552	487	207,866	204,151
Plant Hire & Depot/Indirect	1,098	1,077	1,792	2,018	- 694	- 941	-	-	23,008	23,514
Unclassified Activities	1,550	1,847	234	54	1,316	1,793	1	158	938	1,043
Council Administration	2,629	2,327	2,297	2,000	332	327	48	21	755	141
Governance	824	1,193	597	566	227	627	-	-	183	230
TOTALS	**17,388**	16,319	**18,367**	15,830	**- 979**	488	**2,032**	1,334	**261,285**	255,684

We encourage the use of your own Management Plan headings

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Amend to match headings on previous page.

Exclude items not undertaken by Council.

SA MODEL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2024

Note 12 (cont) - COMPONENTS OF FUNCTIONS

The activities relating to Council functions are as follows:

Business Undertakings

Abattoirs, Caravan Parks, Electricity Supply, Gravel Pits/Quarries, Development of Land for Resale, Marinas/Boat Havens, Markets/Saleyards, Off-street Car Parks – fee paying, Private Works, Property Portfolio, Sewerage/CWMS, Water Supply – Domestic, Town Bus Service, and Other – please specify.

Community Services

Public Order and Safety, Crime Prevention, Emergency Services, Other Fire Protection, Other Public Order and Safety, Health Services, Pest Control – Health, Immunisation, Nursing Homes, Preventive Health Services, Other Health Services, Community Support, Elderly Citizens Facilities, Home Assistance Scheme, Other Services for the Aged and Disabled, Child Care Centres, Children and Youth Services, community Assistance, Community Transport, Family and Neighbourhood Support, Other Community Support, Community Amenities, Bus Shelters, Cemeteries / Crematoria, Public Conveniences, Car Parking – non-fee-paying, Telecommunications Networks, and Other Community Amenities.

Culture

Library Services, Mobile Libraries and Housebound Services, Static Libraries, Other Library Services, Cultural Services, Cultural Venues, Heritage, Museums and Art Galleries, and Other Cultural Services.

Economic Development

Employment Creation Programs, Regional Development, Support to Local Businesses, Tourism, and Other Economic Development.

Environment

Agricultural Services, Agricultural Water, Animal/Plant Boards, Landcare, Other Agricultural Services, Waste Management, Domestic Waste, Green Waste, Recycling, Transfer Stations, Waste Disposal Facility, Other Waste Management, Other Environment, Coastal Protection, Stormwater and Drainage, Street Cleaning, Street Lighting, Streetscaping, Landscape Levy, and Other Environment.

Recreation

Jetties, Other Marine Facilities, Parks and Gardens, Sports Facilities – Indoor, Sports Facilities – Outdoor, Swimming Centres – Indoor, Swimming Centres – Outdoor, and Other Recreation.

Regulatory Services

Dog and Cat Control, Building Control, Town Planning, Clean Air/Pollution Control, Litter Control, Health Inspection, Parking Control, and Other Regulatory Services.

Transport

Aerodrome, Bridges, Bus Service, Footpaths and Kerbing, Roads – sealed, Roads – formed, Roads – natural formed, Roads – unformed, Traffic Management, LGGC – roads (formula funded), and Other Transport.

Plant Hire & Depot

Unclassified Activities

Council Administration

Administration n.e.c., Elected Members, Organisational, Support Services, Accounting/Finance, Payroll, Housing for Council Employees, Human Resources, Information Technology, Communication, Rates Administration, Records, Occupancy, Contract Management, Customer Service, Other Support Services, Revenues, LGGC – General Purpose, and Separate and Special Rates.

Governance

Audit & Assurance, Planning and Performance, Legal Services and Major Projects.

Equity accounted Council businesses

Net Gain equity accounting Council businesses

Net Loss equity accounting Council businesses

In smaller councils, planning staff (or visiting consultants) simply share in the general office facilities, and allocation on this basis is impracticable.

It is for each Council to make its own analysis of the practicality of allocation of each type of cost, and whether a proposed allocation basis is reliable. Where a practicable method of *reliable attribution* is not available, the cost should be allocated to the principal user.

Costs incurred by a Council by virtue of the fact that it is a level of government - such as elected member and meetings expenses, compliance with the Freedom of Information Act, statutory advertising and the like - should be allocated to *governance* or *council administration* and not further distributed.

(Note that disclosure of function amounts of less than $50,000 is not required in the Supplementary Data Return – see Appendix B.)

See also "EXAMPLE OF FULL COST ATTRIBUTION" in Appendix B in relation to the application of full cost attribution for the purposes of the Supplementary Data Return.

The narrative portion of the note should only show the descriptions of functions and activities in which your Council is actively involved. Other activities should be deleted, and additional activities inserted as appropriate.

For further information see Costing Principles for Local Government - Guidelines for Council staff available in the 'Member Services' section of the LGA website under Financial Sustainability Resources/Costing Principles for Local Government and METHODOLOGIES OF COST RECOVERY for LOCAL GOVERNMENT available under Financial Sustainability Resources/Additional information and resources.

Note 13 - FINANCIAL INSTRUMENTS

Accounting and disclosure of financial instruments is principally governed by the following Accounting Standards:

- AASB 7 *Financial Instruments: Disclosures* ("AASB 7")
- AASB 9 *Financial Instruments* ("AASB 9")
- AASB 132 *Financial Instruments: Presentation* ("AASB 132")

The world of international finance has bred an enormous range of different types of financial instruments, and it only to be expected that the relevant accounting standards are correspondingly complex.

However, local governments are investing public monies, and the traditional types of investment products generally used have straightforward requirements. All the same, because local governments are *reporting entities* to which the full provisions of the accounting standards apply, there is a certain minimum amount of information which must be supplied.

For further information on the operation of these Standards, refer ADDITIONAL MATERIALS.

A summary of the Financial Instruments Accounting Standards

The overall intention of the disclosure accounting standard is expressed in AASB 7 paragraph 1:

1 The objective of this Standard is to require entities to provide disclosures in their financial statements that enable users to evaluate:

(a) the significance of financial instruments for the entity's financial position and performance; and

(b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

The complexity in financial instruments reporting is caused by

- different entities hold financial instruments for different purposes and periods, and
- there is an enormous range of financial instruments, each with its own particular attributes and risks.

We have sought to summarise the contents of the various accounting standards in the table below. Paragraphs that have been greyed are considered to have no application to SA Councils.

Summary of Financial Instruments Accounting Standards

Paragraph	Description	Comments
AASB 7 - FINANCIAL INSTRUMENTS: DISCLOSURES		
1 - 5	Objective, Application, Scope	
6	Classes of Financial Instruments and Level of Disclosure	
7	Significance of Financial Instruments for Financial Position and Performance	1
8 - 19	Statement of Financial Position Categories of financial assets and financial liabilities, financial assets and liabilities at fair value through profit and loss, reclassification, offsetting financial assets and financial liabilities, collateral, allowance account for credit losses, compound financial instruments with multiple embedded derivatives, defaults and breaches	2
20	Statement of Comprehensive Income Items of income, expense, gains or losses	2
21 - 30	Other disclosures Accounting policies, hedge accounting, fair value	3
31 - 42	Nature and Extent of Risks Arising from Financial Instruments Qualitative disclosures, quantitative exposures, credit risk, liquidity risk, market risk	4
42A - 42C	Transfers of Financial Assets	
42D	Transferred financial assets that are not derecognised in their entirety	
42E - 42G	Transferred financial assets that are derecognised in their entirety	
42H	Supplementary information	

Summary of Financial Instruments Accounting Standards

Paragraph	Description		Comments
43 - 45	Effective Date and Transition		
Appendix A	Defined Terms Credit risk, currency risk, interest rate risk, liquidity risk, loans payable, market risk, other price risk, past due		
Appendix B	Application Guidance		
B1 - B5	Classes of Financial Instruments and Level of Disclosure		
B6 – B53	Nature and Extent of Risks Arising from Financial Instruments		
	AASB 9 - FINANCIAL INSTRUMENTS		
Chapter 1	Objective and Application		
Chapter 2	Scope		
Chapter 3	Recognition & Derecognition		
Chapter 4	Classification		
Chapter 5	Measurement		
Chapter 6	Hedge accounting		
Chapter 7	Effective date & transition		
Appendix A	Defined terms		
Appendix B	Application Guidance		
	AASB 132 - FINANCIAL INSTRUMENTS: PRESENTATION		
1 - 10	Objective, Application. Scope		5
11 - 14	Definitions Financial instrument, financial asset, financial liability, equity instrument, fair value, puttable instrument		
15 - 27	Presentation - Liabilities and Equity		5
28 - 34	Compound Financial Instruments		5
35 - 41	Interest, Dividends, Losses & Gains		5
42 - 50	Offsetting a Financial Asset and a Financial Liability		
51 - 95	(replaced by AASB 7 - Financial Instruments: Disclosure)		
96 - 100	Effective Date and Transition		
Appendix	**Application Guidance**		
AG1 - AG24	Definitions		
AG25 - AG29A	Presentation - Liabilities and Equity		
AG30 - AG36	Compound Financial Instruments		
AG37	Interest, Dividends, Losses & Gains		
AG38 - AG39	Offsetting a Financial Asset and a Financial Liability		

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Comments

1. An entity is required to disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. Historically financial instruments have not been material and have had limited impact on Councils' position and performance.
2. Sets out the basic disclosures required in relation to statement of financial position and statement of comprehensive income items, many of which are made in Notes 2 - 6 to the accounts (e.g. allowance account for impairment of sundry debtors required by paragraph 16).
3. AASB 13 defines the *fair value* required to be disclosed for financial instruments measured at fair value. This will have little application to Councils investing with the LGFA or in other traditional "vanilla" investment types, which are recognised at cost.
4. Example disclosures for risks, including credit risk have been provided, however disclosure should be based on relevance to individual Councils.
5. The second sentence of the objective paragraph of AASB 132 indicate that much of this standard has strictly limited applicability to SA Councils. The definitions and conditions for offsetting financial assets and financial liabilities do apply.

It applies to the classification of financial instruments, from the perspective of the issuer, into financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

> The suggested disclosures presented in these Model Statements have been developed as appropriate to the generality of SA Councils, having regard to the proportion of total assets represented by financial instruments, and their type (see AASB 7.7).
>
> It is the responsibility of each individual user to ensure that all disclosures appropriate to their circumstances are made in accordance with the Accounting Standards.
>
> From 2023, additional example disclosures for Expected Credit Losses have been included in Note 13 below. These disclosures should be included, only where relevant to individual Councils.

The draft note contained in the Model Statements seeks to provide examples of the minimum requirements: if your Council has other, more complex, financial instruments then additional disclosures will be required.

Accounting Policies

Accounting policies have been shown here in accordance with AASB 101.7 because many of the amounts are not material, or the policies may be included in Note 1. If included in Note 1, terms and conditions relating to Council's holdings of financial instruments, etc. must be included in the notes relating to current and non-current assets and liabilities.

Accounting policies should, as a minimum, disclose the basis of recognition and measurement of statement of financial position and income statement amounts.

Local Government Association of South Australia

SALGFMG South Australian Local Government Financial Management Group Inc.

Source reference

AASB 7.31-35

Add, delete and modify these policies as required

SA MODEL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2024

Note 13 - FINANCIAL INSTRUMENTS

All financial instruments are categorised as *loans and receivables.*

Accounting Policies - Recognised Financial Instruments

Bank, Deposits at Call, Short Term Deposits	**Accounting Policy:** initially recognised at fair value and subsequently measured at amortised cost, interest is recognised when earned. **Terms & conditions:** Deposits are returning fixed interest rates between a% and b% (2020: c% and d%). Short term deposits have an average maturity of *e* days and an average interest rates of f% (2020: g days, h%). **Carrying amount:** approximates fair value due to the short term to maturity.
Receivables - Rates & Associated	**Accounting Policy:** initially recognised at fair value and subsequently measured at amortised cost. An impairment provision is recognised using the expected credit loss method. **Terms & conditions:** Secured over the subject land, arrears attract interest of j% (2020: k%) Although Council is not materially exposed to any individual debtor, credit risk exposure is concentrated within the Council's boundaries in the State. **Carrying amount:** approximates fair value (after deduction of any allowance).
Receivables - Fees & other charges	**Accounting Policy:** initially recognised at fair value and subsequently measured at amortised cost. An impairment provision is recognised using the expected credit loss method. **Terms & conditions:** Unsecured, and do not bear interest. Although Council is not materially exposed to any individual debtor, credit risk exposure is concentrated within the Council's boundaries. **Carrying amount:** approximates fair value (after deduction of any allowance).
Receivables – other levels of government	**Accounting Policy:** initially recognised at fair value and subsequently measured at amortised cost. An impairment provision is recognised using the expected credit loss method**.** **Terms & conditions:** Amounts due have been calculated in accordance with the terms and conditions of the respective programs following advice of approvals, and do not bear interest. All amounts are due by Departments and Agencies of State and Federal Governments. **Carrying amount:** approximates fair value.
Receivables - Retirement Home	**Accounting Policy:** Contributions initially recognised at fair value and subsequently measured at amortised cost. An impairment provision is recognised using the expected credit loss method. **Terms & conditions:** Amounts due have been calculated in accordance with the terms and conditions of the respective legislation. **Carrying amount:** approximates fair value (after deduction of any allowance).
Liabilities - Creditors and Accruals	**Accounting Policy:** Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Council. **Terms & conditions:** Liabilities are normally settled on 30-day terms. **Carrying amount:** approximates fair value.
Liabilities - Retirement Home Contributions	**Accounting Policy:** To avoid inconvenience when complying with the separate audit requirements imposed by the relevant legislation, amounts are carried at nominal values. **Terms & conditions:** Pursuant to Commonwealth legislation certain intending residents are required to contribute amounts on an interest free basis. The amounts are subject to certain deductions as prescribed by the legislation, the balance being repaid on termination of tenancy. **Carrying amount:** approximates fair value for short tenancies; may be non-materially over stated for longer tenancies.
Liabilities – Interest Bearing Borrowings	**Accounting Policy:** initially recognised at fair value and subsequently at amortised cost Interest is charged as an expense using the effective interest rate. **Terms & conditions:** secured over future revenues, borrowings are repayable (describe basis); interest is charged at fixed (or variable - describe) rates between l% and m% (2020: n% and p%) **Carrying amount:** approximates fair value.
Liabilities - Leases	**Accounting Policy:** accounted for in accordance with AASB 16 as stated in Note 17.

The investments of the majority of SA Councils are dominated by deposits of various types with the Local Government Finance Authority (see "Local Government Finance Authority of SA Financial Products") - which are guaranteed by the SA Government - or with the major Australian banks. It is submitted that a statement to that effect is sufficient information for users of the Annual Financial Statements to make their own assessment of the financial risks involved.

Financial Instrument Risks

AASB 7 identifies and defines three principal types of financial instrument risks - *credit risk, liquidity risk* and *market risk* (which has three sub-components - *currency risk, interest rate risk* and *other price risk).*

credit risk	The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
liquidity risk	The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.
market risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.
currency risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
interest rate risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates[42].
other price risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from *interest rate risk* or *currency risk*), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Because of the characteristics of local government financial instruments, some of these risks can effectively be ignored **unless they apply to your Council in unusual degree.** For example, it can normally be assumed that all financial instruments are denominated in Australian currency (some jurisdictions have regulated to that effect), and *currency risk* can therefore be ignored.[43]

Discuss and agree your proposed disclosures with your auditor, having due regard to the materiality of the amounts involved and the significance of the risks involved - ***the more the risk, the more and better the disclosure required.***

Categorisation of Financial Instruments

AASB 9 provides four (4) categories for the categorisation of financial instruments: amortised cost, fair value through profit and loss and fair value through other comprehensive income (with subsequent recycling to profit and loss) and fair value through other comprehensive income (with no subsequent recycling to profit and loss).

A financial asset shall be measured at ***amortised cost*** if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

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43 However, if your Council has financial instruments denominated in other currencies, the details **MUST** be disclosed.

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (AASB 99.4.1.2)

Within the terms of the Accounting Standard in relation to financial instruments, the business model of a local government Council has the objective of collecting contractual cash flows.

A financial asset shall be measured at **fair value through other comprehensive income** if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (AASB 9.4.1.2A)

Trading in financial assets is not part of the normal business of a Council, and this category should not be used.

A financial asset shall be measured at ***fair value through profit or loss*** unless it is measured at amortised cost in accordance with paragraph 4.1.2 or at fair value through other comprehensive income in accordance with paragraph 4.1.2A. However, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income (AASB 9.4.1.4).

This category is particularly used for equity instruments and should not be used by SA Councils.

Source Reference

SA MODEL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2024

NOTE 13 (cont) – FINANCIAL INSTRUMENTS

Liquidity Analysis (note that contractual cash flows include interest flows that are not in the carrying values)

AASB 7.39(a)

2024	Due < 1 year	Due > 1 year; ≤ 5 years	Due > 5 years	Total Contractual Cash Flows	Carrying Values
Financial Assets	$'000	$'000	$'000	$'000	$'000
Cash & Cash Equivalents	**4,791**			**4,791**	**4,791**
Receivables	**2,541**	**425**	**220**	**3,186**	**3,189**
Other Financial Assets	**1,445**	**1,016**	**-**	**2,461**	**3,743**
Total	**7,777**	**1,441**	**220**	**9,438**	**11,706**
Financial Liabilities					
Payables	**3,850**	**-**	**-**	**3,850**	**3,865**
Current Borrowings	**1,533**	**-**	**-**	**1,533**	**1,507**
Lease liabilities	**84**	**139**		**223**	**281**
Non-Current Borrowings	**-**	**3,012**	**3,445**	**6,457**	**5,947**
Total	**5,383**	**3,012**	**3,445**	**12,063**	**11,420**

2023	Due < 1 year	Due > 1 year; ≤ 5 years	Due > 5 years	Total Contractual Cash Flows	Carrying Values
Financial Assets	$'000	$'000	$'000	$'000	$'000
Cash & Cash Equivalents	3,791			3,791	3,712
Receivables	2,761	885	220	3,866	3,884
Other Financial Assets	2,012	1,545	1,216	4,773	3,823
Total	8,564	2,430	1,436	12,430	11,390
Financial Liabilities					
Payables	3,153	-	-	3,153	3,117
Current Borrowings	1,053	-	-	1,053	1,047
Non-Current Borrowings	-	3,827	2,555	6,382	6,153
Total	4,206	3,827	2,555	10,588	10,317

The following interest rates were applicable to Council's borrowings at balance date:

	30 June 2024		30 June 2023	
	Weighted Average Interest Rate	Carrying Value	Weighted Average Interest Rate	Carrying Value
	%	$'000	%	$'000
Overdraft	**8.40**	**54**	10.5	71
Other Variable Rates	**7.85**	**977**	9.75	1,951
Fixed Interest Rates	**9.42**	**6,541**	9.84	5,178
		7,735		7,200

Net Fair Value

All carrying values approximate fair value for all recognised financial instruments. There is no recognised market for the financial assets of the Council.

Risk Exposures

Credit Risk represents the loss that would be recognised if counterparties fail to perform as contracted. The maximum credit risk on financial assets of the Council is the carrying amount, net of any impairment. All Council investments are made with the SA Local Government Finance Authority and are guaranteed by the SA Government. Except as detailed in Notes 5 & 6 in relation to individual classes of receivables, exposure is concentrated within the Council's boundaries, and there is no material exposure to any individual debtor.

Market Risk is the risk that fair values of financial assets will fluctuate as a result of changes in market prices. All of Council's financial assets are denominated in Australian dollars and are not traded on any market, and hence neither market risk nor currency risk apply.

Liquidity Risk is the risk that Council will encounter difficulty in meeting obligations with financial liabilities. In accordance with the model Treasury Management Policy (LGA Information Paper 15), liabilities have a range of maturity dates. Council also has available a range of bank overdraft and standby borrowing facilities that it can access.

Interest Rate Risk is the risk that future cash flows will fluctuate because of changes in market interest rates. Council has a balance of both fixed and variable interest rate borrowings and investments. Cash flow fluctuations are managed holistically in seeking to minimise interest costs over the longer term in a risk averse manner.

Source Reference

AASB 7. 35F

SA MODEL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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NOTE 13 (cont) – FINANCIAL INSTRUMENTS

Expected Credit Losses (ECLs)

Council uses an allowance matrix to measure expected credit losses for receivables from individual customers, which comprise a large number of small balances. As rates and annual charges are secured over subject land no allowance for such receivables is made. The following table provides information about Council's ECLs from receivables (excluding secured rates and charges, GST and other amounts held in trust). Impairment analysis is performed each reporting date. ECLS are based on credit history adjusted for forward looking estimates and economic conditions.

AASB 7. 35M-N

2024	ECL Rate	Gross Carrying Amount	Expected Loss
	%	$'000	$'000
Current (not past due)	**1.0%**	**288**	**3**
Past due 1-30 Days	**5.0%**	**10**	**1**
Past due 31- 60 Days	**10.2%**	**9**	**1**
Past due 61-90 Days	**31.5%**	**8**	**3**
Past due 91 days +	**75.3%**	**5**	**4**
		320	**12**
2023			
Current (not past due)	1.1%	255	3
Past due 1-30 Days	2.0%	20	
Past due 31- 60 Days	8.2%	10	1
Past due 61-90 Days	25.5%	10	3
Past due 91 days +	70.3%	5	4
		300	11

AASB 7.35H(b)

Set out below is the movement in the allowance for expected credit losses

	2024	2023
As at 1 July	**11**	11
Provisions	**2**	1
Write off	**(1)**	
Less reversals	**-**	(1)
As at 30 June	**12**	11

Recognition of Financial Instruments

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Council becomes party to the contractual provisions of the instrument. (AASB 9.3.1.1). They should initially be recognised at fair value unless a receivable arises from a transaction accounted for under AASB 15 (when it is recorded at the transaction price). In most cases, the financial asset should be subsequently measured at amortised cost as described above.

Financial instruments that require categorisation as fair value through profit and loss or fair value through comprehensive income will require recognition in a different manner, for which AASB 9 should be carefully consulted.

For investments with the Local Government Finance Authority and with banks and other financial institutions, it can usually be assumed that the transaction reflects the current market interest rates, and therefore, the cash exchanged reflects the initial fair value.

AASB 9 introduced a significantly different approach to the impairment of financial assets compared to AASB 139. AASB 139 required a provision for doubtful debts to be raised when an event has occurred that indicates recovery of the balance may be in doubt. However, AASB 9 requires a provision to be raised at a much earlier point in time i.e. you do not need to wait for a specific event to have occurred, such as non-payment. AASB 9 requires that at each balance date an “expected credit loss” (ECL) provision is raised for all financial assets measured at amortised cost. ECL provisions are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. An ECL provision is a forward-looking calculation considering the possible future events that could occur that will impact the collectability of the asset with the events and possible losses being risk weighted. Any calculation of an expected credit loss should take into account expected cash flow from collateral, where the collateral is part of the contract and not a separate contract. For example, rates receivables are secured by a charge over the land which should be factored in when calculating any ECL provision.

Where financial assets are material further guidance on calculating the ECL provision should be sought from AASB 9.

The *fair value* hierarchy

For a more comprehensive explanation see "The Fair Value Hierarchy". The vast majority of financial instruments of SA Councils are recognised at cost

The fair value hierarchy relates **ONLY** to assets recognised at FAIR VALUE.

There is no need to make reference to the fair value hierarchy unless your Council has assets recognised at fair value.

AASB 13 requires disclosure of the *inputs* used in estimating fair value, and whether these were based on:

- quoted prices in an active market (level 1);
- other directly observable inputs such as prices (level 2); or
- inputs other than directly observable data (level 3) (AASB 13.79 to 90)

Where a particular asset class uses a mix of levels, either separate into a class for each level, or describe the fair value of the asset class as being based on the *lowest* level (AASB 13.73).

"Disclosures of fair value are not required:

(a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;

(b) [deleted];

(c) [deleted]

(d) for lease liabilities"
(AASB 7, paragraph 29)

Liquidity Analysis

The purpose of the liquidity analysis disclosure is to enable a user to identify the current contractual commitments for the repayment of principal and interest on borrowings.

Refer to financial instruments part of ADDITIONAL MATERIALS section, which provides a list of all account balances presented in these model financial statements and an assessment of whether they are a financial asset, financial liability or equity instrument that should be disclosed in the liquidity analysis table. Guidance is also included on how to calculate contractual cash flows.

The split between contractual payments due less than 1 year, between 1 and 5 years and more than five years all relate to the **total payments of principal and interest** and add to the amounts in the *Total Contractual Cash Flows* column.

Accordingly, the total of the *Total Contractual Cash Flows* column will **always exceed** the total of the *Carrying Value* column. Carrying values must agree with Note 8 - Liabilities and be reconcilable to Notes 5 & 6 in the case of financial assets. (The reconciliation need not be included in the statements but will be required by your Auditor.)

In allocating gross contractual cash flows between periods, the following points should be noted:

- Payments of principal and/or interest are calculated at the minimum amounts that Council is required to repay in accordance with the contract. If Council is entitled to make voluntary repayments ahead of schedule, this is ignored even if a voluntary repayment has been made between reporting date and the date of the Council certificate.
- A borrowing may be made for a specified period, with an option to extend (or renew). The whole of the remaining principal is treated as being repayable on the option date *unless Council has an indefeasible entitlement to extend,* in which case the remaining principal is treated as being repayable on the date that the indefeasible entitlement expires.
- A borrowing may have certain loan covenants, breach of which will result in the remaining principal falling due at an earlier date. If Council is ***not*** in breach of those covenants at reporting date, principal and interest repayments are calculated on the assumption that it will continue ***not*** to breach those covenants. See "Note 22 - EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE" for disclosures if Council breaches the covenants after reporting date and before the Council certificate is signed.

The importance of accurately calculating, and disclosing, the weighted average interest rate is also evident. ***Please note that weighted average interest rates are calculated in relation to*** BORROWINGS ***only.***

Local Government Finance Authority of SA Financial Products

We acknowledge the cooperation of the LGFA in providing the information on which the following assessments are based. The assessments have been made by the authors based on our interpretations of the available information ***and will need to be reviewed and confirmed with your auditor.*** Your end of year working papers file should include copies of all correspondence and other documentation relating to each product held by Council.

Loans to Council

For the following products the principal may be drawn / repaid / redrawn subject to 24 hours notice up until the maturity date:

- Cash Advance
- Convertible Cash Advance Debenture

The following would normally be regarded as borrowings - short-term if for less than 12 months, otherwise long-term - and categorised as *loans and receivables:*

- Cash Advance
- Convertible Cash Advance Debenture

) if Council does not have a history of
) drawing / repaying / redrawing to meet
) short term cash fluctuations.

- Normal Credit Foncier
- Split-term Credit Foncier
- Interest Only
- Floating (i.e. variable) Rate
- Low Start / Specially Structured

Deposits by Council

The most common deposit types used for surplus funds by Councils are:

- 24-hour call deposits
- 30, 60 & 90 day or any longer-term deposits

In our view, 24 hour call deposits meet the definition of *cash equivalents,* being “highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value” - see "Cash & Cash Equivalent Assets".

While 30, 60 and 90-day term deposits would also meet the definition of *cash equivalents,* but longer terms would normally be treated as investments - short-term if less than 12 months - and be categorised as *loans and receivables.*

Local Government Association of South Australia

SALGFMG South Australian Local Government Financial Management Group Inc.

Note 14 - CAPITAL EXPENDITURE AND INVESTMENT PROPERTY COMMITMENTS

Capital Commitments

Required by The amount of contractual commitments for the acquisition of property, plant and equipment is required to be disclosed (AASB 116.74 (c)). Where *investment property* has been contracted for, this should be disclosed separately from other land and buildings that form part of *infrastructure, property, plant & equipment* (AASB 140.75 (h)).

Other Expenditure Commitments

Where a contractual obligation exists for repairs, maintenance or enhancements of an investment property the disclosure required (AASB 140.75 (h)). Council should include commitments made to equity accounted investments (AASB12.23).

Other expenditure commitments are not required to be disclosed.

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Note 14 – CAPITAL EXPENDITURE AND INVESTMENT PROPERTY COMMITMENTS

Source Reference		Notes	2024 $'000	2023 $'000
AASB 116.74(c)	**Capital Commitments**			
	Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:			
	Land		**124**	21
	Buildings		**25**	541
	Roads & Footpaths		**362**	244
	Plant & Equipment		**26**	166
			537	972
	These expenditures are payable:			
	Not later than one year		**522**	916
	Later than one year and not later than 5 years		**10**	52
	Later than 5 years		**5**	4
			537	972
AASB 140.75(h)	**Other Expenditure Commitments**			
	Other non-capital expenditure commitments in relation to investment properties:			
	Maintenance contracts on investment properties		**xx**	xx

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Commitments for Intangible Assets

The amount of contractual commitments for the acquisition of intangible assets is required be disclosed (AASB138.122 (e)). The example Note does not include a suggested format as it is considered that this disclosure will be required by very few Councils. There are number of additional required disclosures for Intangible Assets (AASB 138.22) not exampled in these Model Statements.)

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Note 15 - FINANCIAL INDICATORS

These financial indicators are to be calculated in accordance with the procedures set out in *Information Paper 9 - Financial Indicators* prepared for the LGA Financial Sustainability Program. Reference should be made to that document for further information and explanations, including the use of the Indicators.

SA MODEL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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Note 15 - FINANCIAL INDICATORS

These Financial Indicators have been calculated in accordance with *Information Paper 9 - Local Government Financial Indicators* prepared as part of the LGA Financial Sustainability Program for the Local Government Association of South Australia. Detailed methods of calculation are set out in the SA Model Statements.

	2024	2023	2022
Operating Surplus Ratio			
Operating Surplus / Total Operating Income	(5.6%)	3.0%	4.7%

This ratio expresses the operating surplus as a percentage of total operating revenue.

	2024	2023	2022
Net Financial Liabilities Ratio			
Net Financial Liabilities / Total Operating Income	30%	24%	34%

Net Financial Liabilities are defined as total liabilities less financial assets. These are expressed as a percentage of total operating revenue.

Adjustments to Ratios

In recent years the Federal Government has made advance payments prior to 30th June from future year allocations of financial assistance grants, as explained in Note 1. These Adjusted Ratios correct for the resulting distortion in key ratios for each year and provide a more accurate basis for comparison.

	2024	2023	2022
Adjusted Operating Surplus Ratio	*(5.7%)*	*0.4%*	*4.6%*
Adjusted Net Financial Liabilities Ratio	*26%*	*20%*	*32%*

	2024	2023	2022
Asset Renewal Funding Ratio			
Asset Renewals / Infrastructure & Asset Management Plan required expenditure	38%	93%	96%

Asset renewals expenditure is defined as capital expenditure on the renewal and replacement of existing assets relative to the optimal level planned, and excludes new capital expenditure on the acquisition of additional assets.

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Indicator 1 - Operating Surplus Ratio

(By what percentage does operating income source vary from operating expenses?)

The operating surplus ratio is the operating surplus (deficit) expressed as a percentage of operating income.

Calculated as:

Operating surplus / (deficit) *(as transferred from the Statement of Comprehensive Income)*

divided by:

Operating Revenue *(as transferred (Total Operating Income) from the Statement of Comprehensive Income)*

Expressed as a percentage (one decimal place).

"A positive ratio indicates the percentage of operating income available to help fund proposed capital expenditure. If the relevant amount is not required for this purpose in a particular year, it can be held for future capital expenditure needs by either increasing financial assets or preferably, where possible, reducing debt in the meantime.

A negative ratio indicates the percentage increase in operating income or the approximate decrease in operating expenses required to achieve a break-even operating result."

"This indicator is by far the most important financial indicator for Councils. If a Council consistently achieves a modest positive operating surplus ratio and has soundly based projections showing that it can continue to do so in future, having regard to asset management and its community's service level needs, then it is financially sustainable. Favourable trend results measured against the other financial indicators described below will assist, but not in themselves ensure, that a Council operates sustainably."[44]

Refer to *Information Paper 9* - *Financial Indicators* prepared for the LGA Financial Sustainability Program for further information and explanations, including discussion on the target ranges of the Indicator

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[44] Information Paper 9 - Financial Indicators, LGA, May 2015, page 5.

Indicator 2 - Net Financial Liabilities Ratio

(How significant is the net amount owed to others, compared with operating income?)

Net financial liabilities equals total liabilities less financial assets (excluding equity accounted investments in Council businesses.

Calculated as:

Total Liabilities *(from Statement of Financial Position)*

(excluding liabilities for equity accounted investments in Council businesses but including Amounts in Advance and Lease Liabilities.)

Less:

Current cash and cash equivalents (from Statement of Financial Position) Current trade & other receivables (from Statement of Financial Position) Current other financial assets (from Statement of Financial Position)

Non-current financial assets (from Statement of Financial Position)

Equals Net Financial Liabilities

divided by:

Total operating income (subtotal on the Statement of Comprehensive Income)

Expressed as a percentage (no decimal places).

Note that interests in equity accounted Council businesses are *not* financial assets or liabilities. Accordingly, if liabilities they are deducted from the Total Liabilities figure, but if assets they are not deducted from the Total Liabilities figure.

"Net financial liabilities is a broader and more appropriate measure of indebtedness than the level of borrowings, because it includes items such as employee long-service leave entitlements and other amounts payable as well as taking account of a Council's cash and investments."[45]

"The **net financial liabilities ratio** is calculated by expressing net financial liabilities at the end of a financial year as a percentage of operating revenue for the year. If the ratio falls, over time, this indicates that the Council's capacity to meet its financial obligations from operating revenue is strengthening."[46]

Refer to *Information Paper 9* - *Local Government Financial Indicators* prepared for the LGA Financial Sustainability Program for further information and explanations, including discussion on target ranges for the Indicator. Note that the implementation of the financial strategies in Council's long-term financial plan is likely to result in target ranges varying from year to year as the LTFP develops.

45 Information Paper 9 - *Financial Indicators*, LGA, May 2015, page 7.
46 Information Paper 9 - *Financial Indicators*, LGA, May 2015, page 7.

Indicator 3 - Asset Renewal Funding Ratio

(formerly Asset Sustainability Ratio)

(Are assets being renewed and replaced in an optimal way?)

This ratio indicates the extent to which existing non-financial assets are being renewed and replaced, compared with the asset renewal and replacement expenditure identified as warranted in a Council's infrastructure and asset management plan (I&AMP). It is calculated by measuring capital expenditure on renewal or replacement of assets, relative to the optimal level of such expenditure proposed in a Council's infrastructure and asset management plan (IAMP).[47] Where IAMPs are indexed this information should be disclosed. It should further be noted that as leased assets are not included in IAMPs, they will not be included in the calculation of the renewal funding ratio.

Calculated as:

Expenditure on renewal/replacement of assets *(Statement of Cash Flows)*

divided by:

optimal level of such expenditure per I&AMP

***Expressed as a percentage (no decimal places). This is to be calculated on a gross basis, that is* if the I&AMP is based on *net* expenditure, add back asset sales.**

Adjustments to Ratios/ Additional Ratios

From time to time it happens that Council's financial results are materially distorted by events, particularly timing differences on the revenue side, that can convey a false impression of Council's underlying operations. A prime example is the payment of Council's FAGs grant entitlements in advance of the financial year to which they relate (see "Income recognition"). Another example could be where an existing grants allocation is materially increased on a temporary basis, such as R2R grants. However, no adjustment can be made for Amounts in Advance or Lease Liabilities recognised as liabilities.

Consequently, ratios that rely on amounts that contribute to the operating result - e.g. operating revenue and / or operating expenses - will be distorted, *and the distortion may be material.*

In presenting a true and fair view of the operations of Council for the financial year, Councils are encouraged to disclose an *adjustment to ratios* which exclude the effects of such distortions. Either or both the *operating surplus ratio* and the *net financial liabilities ratio* may be subject to material distortion from this cause.

Adjustments should only be made in relation to items identified in Note 2 or Note 3 as *individually significant items* (for further information see "Individually significant items" and "Individually significant items") or where the nature of the distortion is clearly explained in Note 1.

In exceptional circumstances additional ratios may be added, with detailed disclosure of assumptions relevant to a users understanding of these ratios. As a guide all Councils in their adjusted ratio calculations should be adjusting their operating surplus for the timing impact of Financial Assistance funding which varies from annual allocation (as per Net timing adjustment in Note 1) and Grants, subsidies and contributions – Capital.. Any adjustments for capital grants should align with "Grants, subsidies and contributions – Capital" as presented on the Statement of Comprehensive Income. **All adjustments to or additional ratios must be clearly referred to in Note 15.**

For definitions of *renewal/replacement* and *new/upgraded* assets see "Definition - new/upgraded & renewal/replacement of assets", and the commentary at "What are amounts received specifically for new or

47 Information Paper 9 - *Financial Indicators*, LGA, May 2015, page 9.

upgraded assets?".

Refer to *Information Paper 9* - *Local Government Financial Indicators* prepared for the LGA Financial Sustainability Program for further information and explanations, including the use of the Indicator.

Example calculations – Adjusted Operating surplus Ratio (OSR) and the adjusted Net Financial Liabilities Ratio (NFLR)

The early payment of an untied grant is required to be treated as income in the year it is received, even though the expenditure associated with the grant might not be incurred until the following financial year. This creates a timing difference that needs to be reversed out when using these ratios for any level of strategic analysis of a Council's financial performance. It is also recommended to report the adjusted ratios as shown in Note 15 of the Model Financial Statements 2024.

An early Federal Budget means that councils know that there will be a bring forward payment of the 2024-25 FA Grants to be made in 2023-24. The bring forward payment of the 2024-25 FA Grants will be approximately three quarters of next year's grant pool (Note: the final grant pool cannot be determined until after 1 July and the Commission's recommendations may see changes in the grant outcomes for individual councils based on the Commission's assessment of relative need).

The following table demonstrates the workings behind the calculations required to adjust the reported ratios to reflect timing differences caused by the early payment of FA Grants and the exclusion of grants that will be used for capital purposes. The intent of these adjustments is to show what the ratios would be had the advance payments not occurred. ***Note this illustrative example is not based on the numbers in the model financial statements.***

Example of Adjusted Ratio Calculations	Ratio Data	Adjusted Ratio Data	Comment
Financial Assistance Grants paid in Advance			
2022-23 FA Grants paid in advance	600		Received in June 2022
2023-24 FA Grants paid in advance	650		Received in June 2023
Net Financial Liabilities Ratio (NFLR)			
Liabilities	5,000		
Financial Assets	3,500		Financial Assets are overstated by $650k (2023-24 Grants paid in advance)
Net Financial Liabilities	1,500	2,150	NFL are understated by $650K (2023-24 FA Grants paid in advance has the effect of reducing the reported level of NFL)
Operating Income	4,500	4,150	Operating income is overstated by $50k ($650-600k) relating to financial assistance grants and $300k relating to capital grants
Ratio Calculation	**33%**	**52%**	

The 2023-24 prepayment has significant impact on the ratio calculation as the 2022-23 prepayment is already reflected in the opening NFL balance.

Operating Surplus Ratio (OSR)			
Operating Result	600	250	Operating result is overstated by $50k relating to financial assistance grants and $300k relating to capital grants
Operating Income	4,500	4,150	Operating income is overstated by $50k relating to financial assistance grants and $300k relating to capital grants
Ratio Calculation	**13%**	**6%**	

Minimal impact on ratio calculation as the two adjustments need to be made as the SCI reports for a defined 12 months. As the two prepayments are similar in size and have the opposite impact on the operating result and operating income there is only a small adjustment to the OSR

Note 16 - UNIFORM PRESENTATION OF FINANCES

The Local Government (Financial Management) Regulations require Councils to present financial information on a uniform and consistent basis in their Annual Financial Statements. They further require Long-Term Financial Plans (LTFPs) are presented in a manner consistent with Uniform Presentation of Finance Note (Note 16) in the financial statements (Local Government (*Financial Management) Regulations 2011,* Regulation 5). The primary objective of this arrangement is to ensure that Councils provide a common 'core' of financial information in their LTFP and Annual Financial Statements, enabling more meaningful comparisons of each Council's finances.

The uniform presentation adopted is based on a modified version of *Whole of Government and General Government Sector Financial Reporting* (AASB 1049) and *Uniform Presentation Framework - April 2008 For the Presentation of Uniform Financial Information by Commonwealth, State and Territory Governments* published by the Commonwealth Treasury.

All Councils in South Australia voluntarily have agreed to present annual budgets and long-term financial plans on the same basis. The uniform presentation thus ensures a summary of a Council's finances in Annual Financial Statements which is directly comparable with relevant summaries of budget reports and long-term financial plans.

The *Uniform Presentation of Finances* table highlights the operating surplus / (deficit) measure which is considered the most critical indicator of a Council's financial performance. The table also includes a measure known as "Adjusted Annual Net Impact to Financing Activities (surplus / (deficit))" as the bottom line. The Adjusted Annual Net Impact to Financing Activities is a 'flow' measure that takes account of both operating and capital activities for the financial year. Achieving a zero result on the Adjusted Annual Net Impact to Financing Activities measure in any one year essentially means that the Council has met all of its expenditure (both operating and capital) from the current year's income (with income including amounts received specifically for new / upgraded assets).

A net deficit result in a particular year increases a Council's level of net financial liabilities in that year whereas a net surplus result reduces the level of net financial liabilities. Due to a number of factors which affect a small proportion of Councils, as well as the introduced timing adjustment for grant revenue, the net surplus / (deficit) amount for a financial year will not necessarily equal the change in the level of net financial liabilities over the relevant year.

Given Council’s ongoing concern regarding the impact of untied grants on income and operating results a timing adjustment has been incorporated in the agreed presentation for Note 16 and the LTFP.

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Source Reference

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Note 16 - UNIFORM PRESENTATION OF FINANCES

The following is a high-level summary of both operating and capital investment activities of the Council prepared on a modified Uniform Presentation Framework basis, adjusted for timing differences associated with prepaid Federal assistance Grants required to be recognised as revenue on receipt in accordance with Australian Accounting Standards.
All Councils in South Australia have agreed to summarise annual budgets and long-term financial plans on the same basis.

The arrangements ensure that all Councils provide a common 'core' of financial information, which enables meaningful comparisons of each Council's finances.

	2024	2023
	$'000	$'000
Income		
Rates	**5,734**	5,431
Statutory charges	**4.400**	4,608
User charges	**1,172**	1,281
Grants, subsidies and contributions – Capital	**508**	484
Grants, subsidies and contributions – Operating	**1,524**	850
Investment income	**948**	983
Reimbursements	**2,273**	1,595
Other income	**728**	691
Net gain equity accounted Council	**101**	395
	17,388	16,318
Expenses		
Employee costs	**5,824**	5,710
Materials, contracts and other expenses	**8,345**	7,986
Depreciation, amortisation and impairment	**3,625**	1,488
Finance costs	**399**	598
Net loss-equity accounted Council business	**174**	48
	(18,367)	(15,830)

Local Government Association of South Australia

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SA MODEL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2024

Note 16 (cont) - UNIFORM PRESENTATION OF FINANCES

Operating Surplus/(Deficit)	**(979)**	488
Net Timing adjustment for General Purpose Grant Funding	**(21)**	17
Less Grants, subsidies and contributions – Capital	**(508)**	(484)
Adjusted Operating Surplus (Deficit)	**(1,508)**	21
Net Outlays on Existing Assets		
Capital Expenditure on renewal and replacement of Existing Assets	**(4,130)**	(4,575)
Finance Lease payments for Right of Use Assets	**(100)**	(50)
Add back Depreciation, Amortisation and Impairment	**3,546**	1,488
Grants, subsidies and contributions – Capital Renewal	**300**	200
Proceeds from Sale of Replaced Assets	**2,000**	636
	1,616	(2,301)
Net Outlays on New and Upgraded Assets		
Capital Expenditure on New and Upgraded Assets (including investment property and real estate developments)	**(3,525)**	(454)
Finance lease payments for Right of Use Assets	**XX**	XX
Grants, subsidies and contributions – Capital New/Upgraded	**208**	484
Amounts received specifically for New and Upgraded Assets	**48**	202
Proceeds from Sale of Surplus Assets (including investment property, real estate developments & non- current assets held for resale)	**2,319**	2,121
	(950)	2,353
Adjusted Annual Net Impact to Financing Activities (surplus/(deficit))	**(1,150)**	(711)

Compilation

Income items — as per Statement of Comprehensive Income

less: Expense items — *as per Statement of Comprehensive Income*

add: Net Timing adjustment for Financial Assistance Grants/ Local Roads/ Supplementary Grants

as per difference between Grant Revenue in the Statement of Comprehensive Income vs Grants Commission annual allocation (Note 1)

less: Less Grants, subsidies and contributions – Capital

as per Statement of Comprehensive Income

Capital expenditure on renewal and replacement of existing assets

as per Statement of Cash Flows

add: Finance lease payments (Principal and Interest) for Right of Use Assets

as per statement of cashflows

less: Depreciation, amortisation and impairment — *as per Statement of Comp. Income*

less: Grants, subsidies and contributions – Capital Renewal

as per Statement of Comprehensive Income
Appropriate split of Grants, subsidies and

	contributions – Capital
less: Proceeds from sale of replaced assets	*as per Statement of Cash Flows*
Capital expenditure on new/upgraded assets	
Expenditure on new/upgraded assets	*as per Statement of Cash Flows*
add: purchase of investment property	*as per Statement of Cash Flows*
add: development of real estate for resale	*as per Statement of Cash Flows*
add: Finance lease payments (Principal and Interest)	for new/upgraded Right of Use Assets *as per Statement of Cash Flows*
less: Grants, subsidies and contributions – Capital New/Upgraded	*as per Statement of Comprehensive Income Appropriate split of Grants, subsidies and contributions – Capital*
less: Amounts received specifically for new and upgraded assets	*as per Statement of Cash Flows*
less: Proceeds from sale of surplus assets	
Sale of surplus assets	*as per Statement of Cash Flows*
add: sale of investment property	*as per Statement of Cash Flows*
add: sale of real estate developments	*as per Statement of Cash Flows*

It is also recommended that capital-works-in-progress be treated as *other non-current asset* until construction of the asset is completed, and the entire asset is transferred to the Assets Register (see "Other Non-current Assets"). This will simplify the identification of the asset as new/upgraded or renewal/replacement, particularly where there is an apportionment to be made.

If any Council attempts to perform a reconciliation between the current and previous "Annual Net Impact to Financing Activities (Surplus/Deficit)", this will only be possible by accounting for the "Timing adjustment for grant revenue" in both years.

Note 17 - LEASES

Accounting Standard AASB 16 *Leases* applied for reporting periods commencing on or after 1 January 2019 - i.e. 1 July 2019**.** This section relates to ongoing disclosure requirements of AASB 16.

The following are example disclosures; however, they should be tailored to the Councils specific transactions.

SA MODEL COUNCIL
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Source Reference

Note 17 - LEASES

NOTE COMPARATIVES ARE REQUIRED FOR THIS NOTE DISCLOSURE.

Council as a lessee
Right-of-use assets

AASB 16.51,59, Aus59.1

[Include description of assets which are leased].
Set out below are the carrying amounts of right-of-use assets recognised within Infrastructure, Property, Plant and Equipment and the movements during the period:
Right-of-use assets

Source Reference		Buildings & Other Structures	Plant, Machinery and Equipment	Office Equipment	Total
		$'000	**$'000**	**$'000**	**$'000**
	At 1 July 2023	**376**	**79**	**54**	**509**
AASB 16.53(h)	Additions of right-of-use assets	**-**	**-**	**-**	**-**
AASB 16.53(a)	Depreciation charge	**(64)**	**(26)**	**(28)**	**(119)**
AASB 16.53(j)	**At 30 July 2024**	**311**	**53**	**36**	**390**

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

Source Reference		2024
AASB 16.54		**$'000**
	At 1 July 2023	**509**
	Additions	**86**
AASB 16.53(b)	Accretion of interest	**25**
	Payments	**(339)**
	At 30 July 2024	**281**
	Current	**99**
	Non-Current	**182**

AASB 16.58 — The maturity analysis of lease liabilities is included in Note 13.

AASB 16.53(g) — The Group had total cash outflows for leases of $361k.

The following are the amounts recognised in profit or loss:

Source Reference		2024
		$'000
AASB 16.53(a)	Depreciation expense of right-of-use-assets	**119**
AASB 16.53(b)	Interest expense on lease liabilities	**25**
AASB 16.53(C)	Expense relating to short term leases	**13**
AASB 16.53(d)	Expense relating to leases of low-value assets	**9**
AASB 16.53(e)	Variable lease payments	**16**
	Total amount recognised in profit or loss	**182**

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Source Reference

Council as a lessor

[Include description of assets which are leased].

Example wording

AASB 16.90-92

Leases providing revenue to the Council

Council owns various buildings, plant and other facilities that are available for hire or lease (on a non-cancellable basis wherever practicable) in accordance with the published revenue policy. Rentals received from such leases are disclosed as rent and hire of non-investment property in Note 2.

Investment Property

Rentals received, and outgoings reimbursed, in relation to Investment Property are also disclosed in Note 2. These lease agreements, all of which are classified as operating leases, are made on a non-cancellable basis wherever practicable.

These leases have terms of between five and 20 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The lessee is also required to provide a residual value guarantee on the properties. Rental income recognised by the Group during the year is XXX (2023: XXXX).

Future minimum rentals receivable under non-cancellable operating leases as at 30 June 2024 are as follows:

AASB 16.97

	2024	2023
	$'000	$'000
Within one year	**xx**	xx
After one year but not more than five years	**xx**	xx
More than five years	**xx**	xx
	xx	xx

Overview of AASB 16

This section provides an overview of the requirements of AASB 16. It is not a complete reflection of AASB 16, so the standard should be referred to for further clarification when necessary.

AASB 16 contains a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

AASB 16 contains disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of Annual Financial Statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee.

The following section provides an overview of the key concepts of AASB 16.

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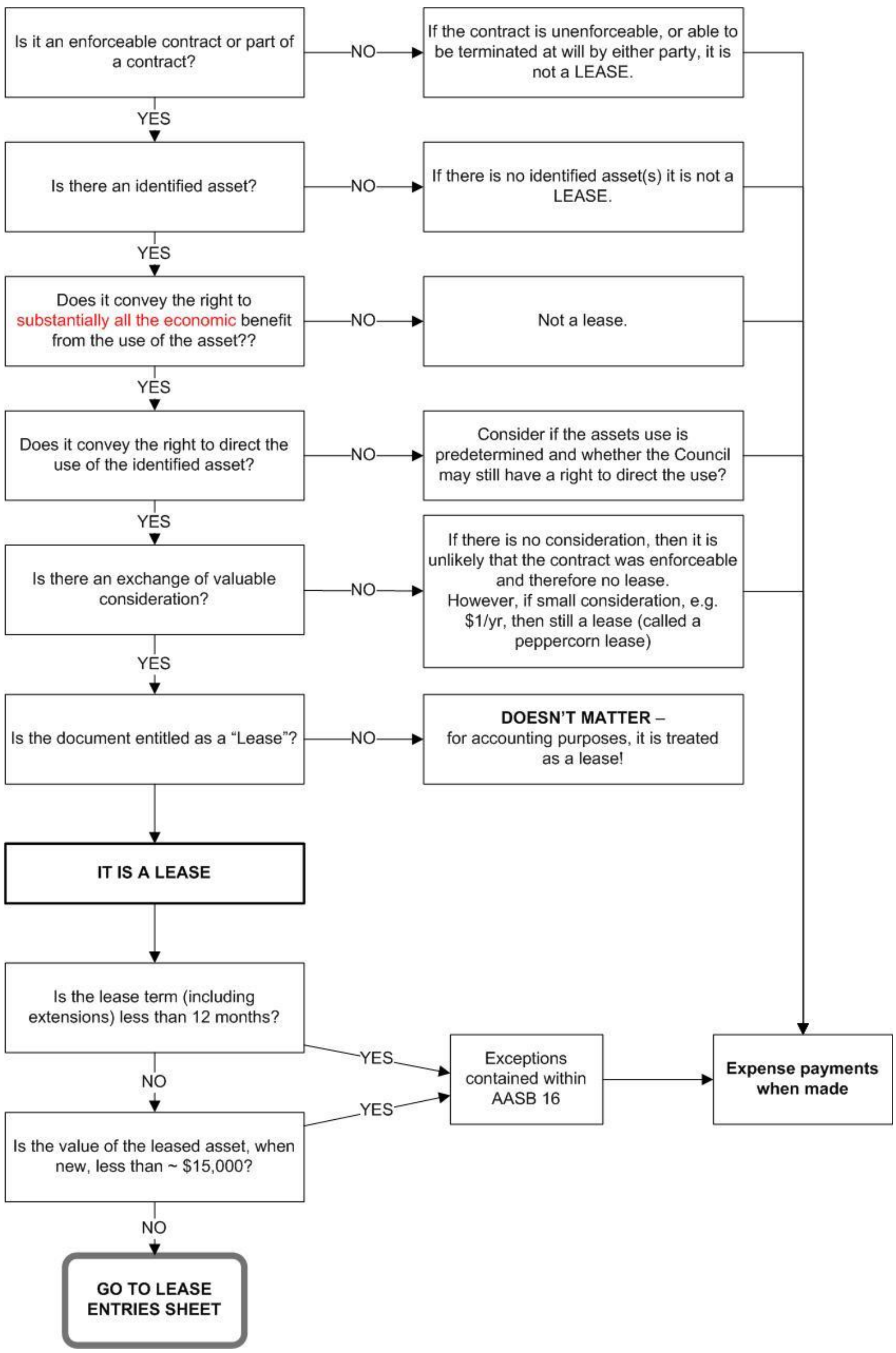
Is it a lease?

... or more accurately, a lease to which AASB 16 *Leases* applies?

LEASES - AASB16 - DEFINITION



Leases Standard - AASB 16

Definition of a lease

A lease is a contract, or part of a contract, that conveys the right to control the use an identified asset for a period of time in exchange for consideration. (AASB 16. Appendix A Defined Terms)

A contract ***conveys the right to control the use*** of an ***identified asset*** where the customer has both of the following:

(a) the right to obtain substantially all of the economic benefits from use of the identified asset: and

(b) the right to direct the use of the identified asset. (AASB 16.9 and B9 – B31)

Leases are often very complex documents comprising many parts and often have different names. If any part of a document meets all of the requirements as set out in the decision chart, in accounting terms i**t is a lease to which AASB 16 *Leases* applies.** It can be seen that the definition is expressed in the broadest possible terms and can include a number of arrangements that would not intuitively be considered to be leases.

Is it an enforceable contract or part of a contract?	A contract is defined as an agreement between two parties that creates enforceable rights and obligations.

Sometimes an agreement - particularly with State or Federal Governments - will give the Minister an unfettered discretion to terminate the agreement. However, cancellation provisions are considered when determining the lease term and not as to whether there is a contract or not. Refer below.

Is there an identified asset?	The asset(s) subject to the contract must be specifically identified - it must be possible to positively identify the asset(s) to which the contract applies from the contract documentation.

Some lease agreements contain impressively detailed lists of assets (particularly of computer equipment) that are impossible to physically identify as individual items. However, you must consider at what level the underlying asset is that you are accounting for. The underlying asset for the lease is when the lessee can benefit from the asset either on its own or together with readily available resources. Therefore, a component of an asset that cannot be used without all the other components listed in a lease contract, is not the identified asset. It is the level of asset that can actually be used. The asset is not considered an identified asset, if the supplier has the substantive right to substitute the asset throughout the period of use. Refer to guidance in AASB 16.B16 to B19 if the supplier of the asset can substitute it for another asset.

In some cases, a capacity portion of a larger asset can also be an identified asset if it is physically distinct. For example, a single floor in a building is physically distinct and can be an identified asset. Space in a warehouse that is not specifically earmarked to the lessee would not be an identified asset.

Does it convey the right to **substantially all the economic benefit** from the use of the asset?	The contract must give the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use. If not, then control is not considered to have passed and the contract is not a lease.

For example, if you lease a photocopier and can use it 100% of the time then you have the right to substantially all the economic benefit of the asset.

Does it convey the right to **direct the use** of the identified asset?

The contract must also give the right to direct the use of the asset throughout the period of use. This requires that the lessee can change how and for what purpose the asset is used throughout the period. To make this determination you need to consider the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

If the relevant decisions are predetermined, in that the asset operates automatically without any decisions required, AASB 16.B31 should be consulted to determine if the Council may still have the right to direct the use.

Is there an exchange of valuable consideration?	There are two aspects to this: • Is the asset being leased of value? • Is the lease payment of (approximately) equal value?

There are accounting consequences where the fair values of the two components are not approximately equal - the so-called "peppercorn" leases. Initially the AASB required a lessee to fair value the right-of-use asset on the commencement of a lease and recognise a profit for the difference between this value and the calculated lease liability value. However, given the complexity of fair valuing a right-of-use asset, the AASB decided to give NFP entities temporary relief from this requirement (refer AASB 2018-8 for further details). The NFP currently has a choice of measuring the right-of-use asset at fair value or at cost, based on the calculation described below. The AASB expects further guidance to be developed to assist NFP entities in measuring right-of-use assets at fair value at which time the temporary relief is likely to be removed.

Is the contract entitled as a lease?	Irrespective of whether the document is entitled as a *lease, licence, permissive occupancy* or any other description, and irrespective of whether it meets the legal definition of a *lease or licence* or anything else, ***FOR ACCOUNTING PURPOSES IT MAY STILL BE A LEASE, if it meets the requirements under the standard.***
Is the lease term (including extensions) less than 12 months?	This is an exemption provided within AASB 16, where the full accounting procedures do not need to be applied. They are still a lease within the terms of the accounting definition and have disclosure requirements in AASB 16.

The term of the lease is

The non-cancellable period plus:

- optional renewal period(s) that the lessee is reasonably certain to be taken up
- periods after an optional termination date if it is reasonably certain that the lessee will not terminate it earlier.

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Where a lease agreement includes options for extension(s) of time beyond the initial lease term, an assessment is made as to whether it is reasonably certain that the term will be, or will not be, extended. This assessment looks at existing economic incentives to extend the lease and can involve significant judgements. For example, if the lease extension period is at a below market rate then this is an economic incentive to extend. If it is a lease of a building and the Council has made a significant investment in leasehold improvements that would have benefit beyond the current lease term, then this may also be an indication that the lease will be extended. The Councils past practice regarding such leases may also be relevant information in this assessment.

After commencement date of the lease, the Council should reassess the lease term upon the occurrence of a *significant event or significant change in circumstances* that is within the control of the Council and affects the likelihood of the option being exercised. An example event would be significant leasehold improvements not anticipated at commencement date that are expected to have benefit beyond the current lease term.

It is suggested that Council will need to maintain a register of all (accounting) leases, and to annually review whether a *significant event or significant change in circumstances* has occurred. An example of such review could be an extract of the register listing all leases with options to extend and showing whether the option will / will not be exercised and signed in respect of each lease by the relevant officer (i.e. DCS, Engineer, etc.) should provide ample evidence for audit purposes.

If an asset, previously assessed as having a lease term of less than 12 months, subsequently has its term extended, then the full accounting procedures are **mandatory** - this exemption is no longer available.

If a lease contains a purchase option - whether or not it is reasonably certain that the option will not be exercised **-** it is **NOT** short-term, and the exemption is not available.

Is the value of the leased assets, when new, less than ~ $15,000?	This is an exemption provided within AASB 16, where the full accounting procedures do not need to be applied. They are still leases within the terms of the accounting definition.

Where a single lease document relates to many small items, the assessment of the fair value is based on the “identified asset” as described earlier. Do not try to split the assets subject to a single lease document (unless there is more than one identified asset) in order to create multiple components each less than $15,000.

The accounting procedures vary depending upon whether Council is the **LESSOR**, or Council is the **LESSEE**. These are detailed in the sections below.

Accounting for leases by the LESSOR

A lease is identified as either an ***operating*** or a ***finance*** lease.

For an operating lease, payments are recognised as income, generally on a straight-line basis over the lease term. For a finance lease, the future lease payments are recognised as a receivable and interest income recognised on the amortised cost basis. “A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset.” (AASB 16 Appendix A Definitions)

“Indicators that a lease is a finance lease include:

(a) the lease transfers ownership of the underlying asset to the lessee by the end of the lease term;

(b) the lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;

(c) the lease term is for the major part of the economic life of the underlying asset even if title is not transferred;

(d) at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and

(e) the underlying asset is of such a specialised nature that only the lessee can use it without major modifications.

(f) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

(g) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease);

and

(h) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.” (AASB 16.\ 63-64)

Councils are not in business as financiers and (except in the extremely rare circumstances of support for community organisations) should not enter into lease contracts that would require classification as finance leases.

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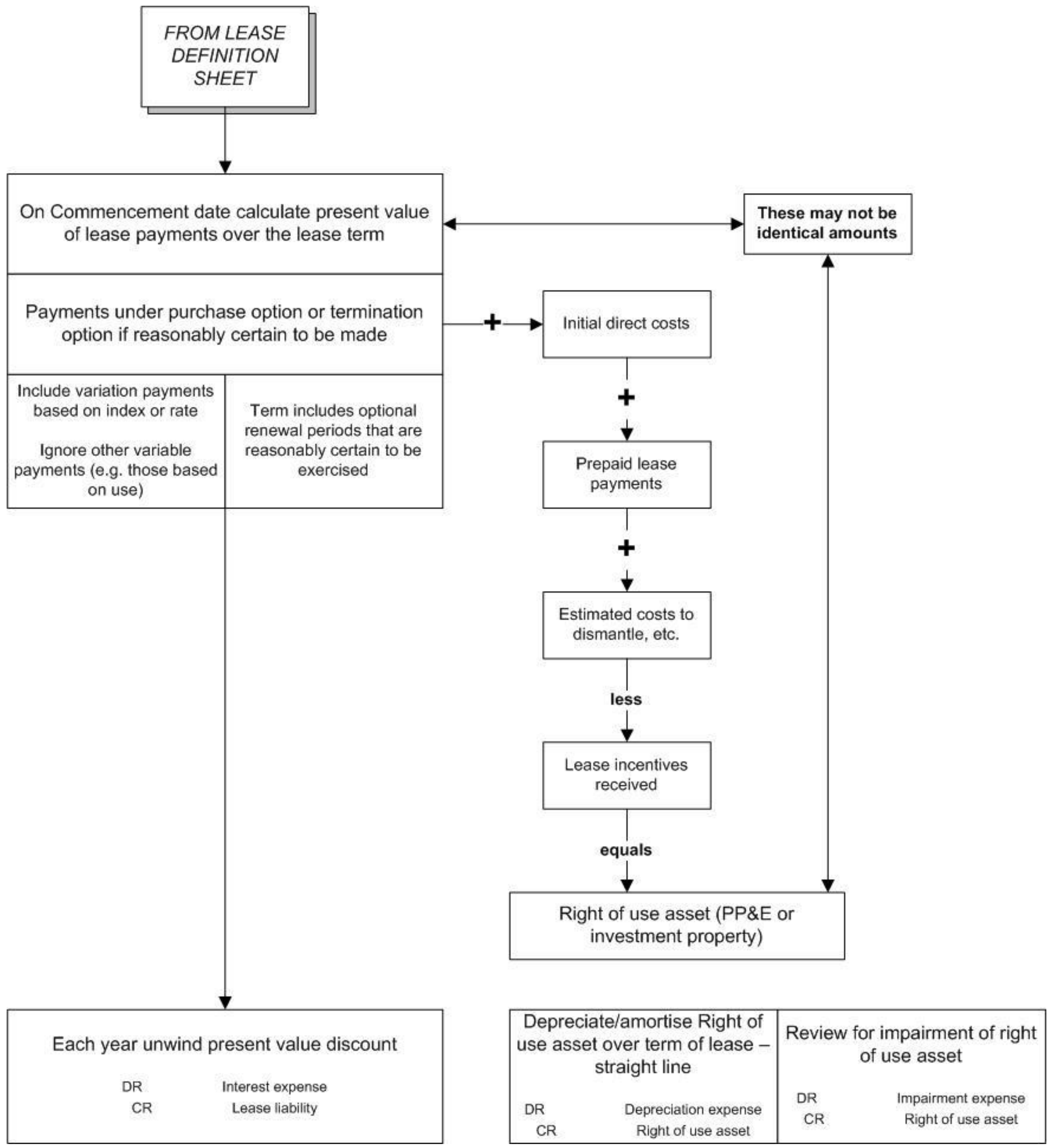
Accounting for leases by the LESSEE

With the implementation of AASB 16 - ***for lessees, the old distinction between*** **finance** ***and*** **operating** ***leases was removed.***

LESSEES - AASB 16 - ACCOUNTING ENTRIES



Commencement Date of the Lease

The accounting for a lease occurs on the commencement date of the lease. This is defined in AASB 16 as “The date on which a lessor makes an underlying asset available for use by a lessee’. For leases that are entered into prior to the commencement date there are disclosure requirements when the lease has not yet commenced at the date of reporting.(AASB 116. Appendix A Defined Terms).

Present Value of Future Lease Payments

Lease Payments

- Calculate the lease payments for the term of the lease, including optional renewal periods that are reasonably certain to be exercised. For further discussion on the term of a lease, see above. Include variable payments that depend on a rate or an index e.g. linked to CPI, benchmark interest rates or payments varying with market rental rates.
- Exclude variable payments not based on a rate or index e.g. usage-based payments (e.g. ¢ per copy for photocopier use).
- Where the lease agreement provides for a higher rental based on a contingency, consider if the contingency is based on a rate or index (in which case include) or not and account for as above.
- If the lease agreement provides for periodic rental increases based on an index (e.g. CPI), assume current index/rate would remain the same throughout the lease term. You do not estimate expected future changes in CPI or other rates at any stage in the accounting for the lease. If and when, cash flows change in line with changes in an index or a rate, the lease liability and right-of-use asset are remeasured using the new rate/index.
- Where the lease agreement includes a purchase option, include the amount of the purchase option, if the lessee is reasonably certain to exercise this option.

***Note: In some cases, a lease may include payments for other goods or services on top of payments for the right to use the asset. For example, some building leases also include payments that relate to cleaning services or security. These are called non-lease components and AASB 16 requires them to be split from lease payments for the right to use the asset and accounted for separately*.**

AASB 16 provides guidance on how this split occurs. However, AASB 16 also allows an accounting policy election that can be made *by class of underlying asset* to either:

- Separate the lease payment and non-lease components in accordance with AASB 16, and treat the non-lease components as an expense (if a service, or under the relevant accounting standard), or
- Not separate out non-lease components and treat as part of the lease payments in accordance with AASB 16.

NOTE that there is NO option to treat both components as service agreement components.

Discount Rate

- Where inputs into estimating the interest rate implicit in the lease (inputs being fair value of the leased assets, lessor's initial direct costs and residual value of the leased asset at the end of lease term) are known, or a reasonable estimate can be made from e.g. price lists, use the interest rate inherent in the lease.
- Otherwise use Council's incremental borrowing rate, which is the rate of interest that the Council (lessee) would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset.
- Government bonds rates as well as current yields on Council bonds or other observable borrowing rates could be a good starting point, with some adjustments likely required to incorporate lease term, Council's credit rating, factors specific to right-of-use asset and other factors.
- As a practical expedient the LGFA Cash Advance Debenture Rate may be used if no rate is noted in the leasing documentation.

The Right-of-use Asset

Initial measurement of lease liability as calculated above	
ADD: Initial Direct Costs	These may include costs relating to the negotiation of the lease agreement, legal fees, stamp duty, registration, etc. It also includes Council's costs in readying the leased asset for the intended use (see example below).
ADD: Prepaid lease payments	Required by some lease agreements. A bond, paid in cash, and which will be refunded in cash at the end of the lease, is not included in the right-of-use asset. Instead it should be accounted for as a deposit debtor.
ADD: Estimated costs to dismantle, etc.	Many lease agreements require the dismantling of leasehold improvements and the making good of the premises at the end of the lease.

The present value of the best available estimate of the costs to dismantle and make good is calculated in exactly the same way, and a provision created in exactly the same way, as for provisions for reinstatement - see "Future Reinstatement / Restoration, etc.". Note that the provision is only raised as the damage is done that needs to be rectified unless the lease agreement states specific tasks that need to be carried out at the end of the lease e.g. Repaint all the walls regardless of the damage done. Each year the provision is increased to reflect unwinding of discount with corresponding interest cost recognised in PL. Subsequent to that, the provision is reassessed, and the adjustment - DR or CR - is made to the right of use asset.

Accordingly, each year the provision will see the unwinding of the present value discount and may have an adjustment against the right-of-use asset to bring the provision balance to the present value of the new best estimate of the future reinstatement cost. At the end of the lease, the actual reinstatement costs are charged against the provision and any balance written off to profit and loss.

LESS: Lease incentives received	Occasionally a lessor may offer cash or other incentives to encourage the lease arrangement to proceed. Where the incentives are made in kind, rather than in cash, they are recognised at fair value.
RIGHT-OF-USE ASSET	The above is the calculation of the amount to be recognised as the right-of-use asset, and it can be seen that it will not always be equal to the present value of the future lease payments. Note also that this calculation assumes the right-of-use asset is measured at cost and not fair value at inception based on the temporary relief provided by the AASB mentioned above.

The required entry may involve all of the following:

		DR	CR
Right-of-use asset		xxxx	
Cash	Lease incentives received	xxxx	
Lease liability	Present value of future payments		xxxx
Cash	Initial direct costs		xxxx
	Prepaid lease payments		
Provision for reinstatement	Estimated costs to dismantle		xxxx

The editorial committee believes that the amounts of right-of-use assets for SA Councils will not be material, and it is appropriate to show it as a single row in the IPP&E Note in the Model Financial Statements. Where the amounts are material, the right-of-use asset is divided into the same asset classes that are used for IPP&E.

Example

Council has leased a hall for use as a temporary library for a period of 5 years, with 2 extension options, each of 5 years. Rental is $5,000 per month in advance, increasing annually by the change in CPI. The lease requires that the premises be returned to original condition at the end of the lease, with walls freshly painted and floors sanded and polished. Legal costs of drafting the lease were $2,000 and are treated as initial direct costs. The lessor pays the Council $50,000 upfront as an incentive to enter into the lease.

Fit-out costs amounted to $450,000 (including carpeting, upgrading of electricals and installation of computer cabling), and it is estimated that reinstatement costs will amount to $75,000 (expressed in current dollars).

Council's Asset Management Plan and Long-Term Financial Plan provide for the construction of a new library and community computer resource centre in 6 years' time. Accordingly, staff have assessed that one renewal period is reasonably certain and are very much hoping that the second renewal option will not be required.

The right-of-use asset is calculated as follows:

Present value of future lease payments (10 years)	$696,983
Initial direct cost	$2,000
Prepaid lease payments	0
Estimated costs to dismantle & reinstate	
(PV of amount equivalent to $75,000 current in 10 years' time)	
Less: Lease incentives received	$50,000
TOTAL – ROU asset	$707,208
TOTAL – Leasehold improvements	**$ 450,000**

The required entry is:

	DR	CR
Right-of-use asset	$707,208	
PPE	$450,000	
Cash (received for incentive)	$50,000	
Lease liability		696,983
Cash (as expended during fit-out)		452,000
Provision for reinstatement		58,225

The annual entries would include depreciation on a straight-line basis of the right-of-use asset and unwinding of the present value discounts for both lease liability and provision for reinstatement.

Example wordings of paragraphs suitable for inclusion in Note 1 are given in "New Accounting Standards".

Note 18 - SUPERANNUATION

The purpose of this Note is to report the information required by AASB 119 in relation to **defined benefit** funds, although for the sake of completeness reference is also made to defined contribution funds.

If Council no longer has any employees who are members of a defined benefit fund, this Note is omitted (and subsequent Notes re-numbered), and that fact reported in Note 1. (It would also be advisable to confirm with Hostplus that Council has no remaining liability or contingent liability.)

An example of a possibly suitable wording is:

> Council does not have any employees who are members of defined benefit funds and has confirmed that it has no outstanding actual or potential liability to the pooled defined benefit funds of which former employees were members.
>
> All superannuation schemes to which Council makes contributions on behalf of employees are of the accumulation type, where the superannuation benefits accruing to the employee are represented by their share of the net assets of the scheme, and no further liability attaches to the Council.

Note 2 would also be amended to remove the expense row relating to defined benefit fund contributions.

This Note contains a basically narrative description of the superannuation arrangements of the Council for both defined benefit and defined contribution funds. The wording should suit most Councils, but Councils with individual funds will need to modify the wording. We thank the former Statewide Super for their assistance with the drafting of this Note.
It is assumed that the defined benefit fund is a ***pooled*** *fund, and that the guidance contained in AASB 119.34, to be accounted for as a defined contribution fund, will be adopted.* This accords with the advice from the former Statewide Super.

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Local Government Association of South Australia

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Guidance

SA MODEL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2024

Note 18 – SUPERANNUATION

The Council makes employer superannuation contributions in respect of its employees to Hostplus (formerly Local Government Superannuation Scheme and Statewide Super). There are two types of membership, each of which is funded differently. Permanent and contract employees of the South Australian Local Government sector with Salarylink benefits prior to 24 November 2009 have the option to contribute to the Accumulation section and/or Salarylink. All other employees (including casuals) have all contributions allocated to the Accumulation section.

Accumulation only Members

Accumulation only members receive both employer and employee contributions on a progressive basis. Employer contributions are based on a fixed percentage of ordinary time earnings in accordance with superannuation guarantee legislation (9.50% in 2023/24; 9.50% in 2022/23). No further liability accrues to the Council as the superannuation benefits accruing to employees are represented by their share of the net assets of the Fund.

Salarylink (Defined Benefit Fund) Members

Salarylink is a defined benefit scheme where the benefit payable is based on a formula determined by the member's contribution rate, number of years and level of contribution and final average salary. Council makes employer contributions to Salarylink as determined by the Fund's Trustee based on advice from the appointed Actuary. The rate is currently 6.3% (6.3% in 2022/23) of "superannuation" salary.

In addition, Council makes a separate contribution of 3% of ordinary time earnings for Salarylink members to their Accumulation account. Employees also make member contributions to the Salarylink section of the Fund. As such, assets accumulate in the Salarylink section of the Fund to meet the member's benefits, as defined in the Trust Deed, as they accrue.

Make a note of any expected change in the contribution rates for the following year.

The Salarylink section is a multi-employer sponsored plan. As the Salarylink section's assets and liabilities are pooled and are not allocated by each employer, and employees may transfer to another employer within the local government sector and retain membership of the Fund, the Actuary is unable to allocate benefit liabilities, assets and costs between employers. As provided by AASB 119.34(a), Council does not use defined benefit accounting for these contributions.

The most recent actuarial investigation was conducted by the Fund's actuary, Louise Campbell, FIAA, of Willie Towers Watson as at 30 June 202x. The Trustee has determined that the current funding arrangements are adequate for the expected Salarylink liabilities. However, future financial and economic circumstances may require changes to Council's contribution rates at some future time.

Delete section if not applicable

Contributions to Other Superannuation Schemes

Council also makes contributions to other superannuation schemes selected by employees under the "choice of fund" legislation. All such schemes are of the accumulation type, where the superannuation benefits accruing to the employee are represented by their share of the net assets of the scheme, and no further liability attaches to the Council.

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Note 19 - INTERESTS IN OTHER ENTITIES

This section of the Model Statements deals with all forms of interests in other entities that are subject to Australian Accounting Standards

- **AASB 10 *Consolidated Financial Statements***
- **AASB 11 Joint Arrangements**
- **AASB 12 Disclosure of Interests in Other Entities**
- **AASB 127 Separate Financial Statements**
- **AASB 128 Investments in Associates**

(For convenience, these Standards are referred to as the *consolidation suite of standards*.)

They apply to all entities in which Councils have an interest - other than a trivial interest **- including**

- **Consolidated structured entities**
- **Section 41 committees**
- **Section 42 subsidiaries**
- **Section 43 regional subsidiaries**
- **Any other mutual arrangement with any other body**

Council interests in other entities range from 100% ownership and total control to minor interests without influence. While equity is not unimportant, the key to the application of the above standards is ***influence***, and the extent to which that influence permits the Council to exert ***control*** over the other entity in furtherance of the Council's own objectives.

Trivial Interests

For the purposes of these Model Statements, a ***trivial interest*** is defined as an interest which

- is substantially less than the relevant materiality threshold,
- has an inconsequential likelihood of providing any investment returns to Council,
- has an inconsequential likelihood of requiring significant emergency funding from Council, and
- has been agreed by Council's auditor to be a trivial interest.

Trivial interests are

- **NOT** consolidated
- **NOT** equity accounted
- **NOT** otherwise disclosed.

Council equity in *trivial interests* may range from 100% to insignificant.

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The Importance of Variable Returns

The *consolidation suite of standards* relates to interests in other entities that result in ***variable returns*** **-** both *positive* and/or *negative*. If the returns are pre-determined or fixed, then you most probably have a *financial instrument* to which other accounting standards apply.

The Structure of Note 19

Although Councils have a very wide range of differing arrangements with other entities, no one Council has an example of every differing type. Note 19 has therefore been structured so as to make provision for every type of arrangement, but NO Council will need to use every type of disclosure exampled in these Model Statements.

<table>
<tr><th>Disclosure Type</th><th>Principal Policies</th><th>Detail Disclosures</th><th>Quantitative Disclosures</th></tr>
<tr><td>Consolidations</td><td>Note 1 - "Principles of consolidation"</td><td>Note 19 - "Example Disclosures - Consolidations"</td><td>Consolidate in accounts - internal transactions eliminated</td></tr>
<tr><td rowspan="2">Joint operations</td><td colspan="3">Extremely rare - Note 19 - "Joint Operations and Joint Ventures"</td></tr>
<tr><td></td><td>Note 19 - "Example disclosure - joint operations"</td><td>Consolidate in accounts - internal transactions eliminated</td></tr>
<tr><td>Associated entities - individually material</td><td rowspan="2">Note 1 - "Joint Ventures and Associated Entities"</td><td>Note 19 - "General Disclosures"</td><td>Note 19 - "Disclosures for Material Interests"</td></tr>
<tr><td>Associated entities - individually immaterial</td><td>Note 19 - "General Disclosures"</td><td>Note 19 - "Disclosures for Non-material Interests"</td></tr>
<tr><td>Unconsolidated structured entities</td><td>N/A</td><td>Note 19 - "Unconsolidated Structured Entities"</td><td>N/A</td></tr>
</table>

References to “regional subsidiary” within these Model Financial Statements refers to an entity under the Local Government Act 1999 section 43, being where two or more councils establish a regional subsidiary to (a) provide a specific service or carry out a specific activity or (b) perform a function of the councils under the Act. In AASB 10 *Consolidated Financial Statements* a “subsidiary” is defined as an entity that is controlled by another entity and as such would be required to be consolidated by the Council. However, it cannot be assumed that a “regional subsidiary” automatically meets the definition of a subsidiary in AASB 10. An analysis would be required to determine if the Council has control over the regional subsidiary before it consolidates it. However, a “subsidiary” created under the Local Government Act 1999 section 42 is likely to be controlled by the Council as they are established solely by one Council. The analysis is discussed in the following section.

Consolidation - Council has control

In circumstances where the extent of Council ***influence*** is such that it is in a position to ***control*** the other entity, the other entity is to be consolidated into Council's Annual Financial Statements.

Control is defined in AASB 10 Consolidated Financial Statements (AASB 10). Additional guidance as to how to assess control in a not-for-profit environment is found in AASB 10 Appendix E.

- The ***influence*** may be overt or latent - Council may be actively exercising its direct influence over the other entity, or it may simply have the power to use its influence when it considers that it is needed.
- Equity share in excess of 50% is an important indicator - but only an indicator. Commerce is littered with examples where a dominant shareholder has less than 50% equity, but the other shareholdings are such that the dominant shareholder effectively exerts control.

- Where Council has 50% equity or less, but determines that it has control, disclosure of the reasons for this conclusion must be given.
- Where Council has 50% equity or more, but determines that it does not have control, disclosure of the reasons for this conclusion must be given.

Example disclosures are given below.

- The ability to remove the board of management of the other entity and appoint Council's own nominees in their place - whether this is actually used or not - is another important indicator.

All assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities in the consolidated entity are to be eliminated in full from the Annual Financial Statements.

Outside Equity Interests

A *non-controlling interest* exists where a Council controls another entity (using the AASB 10 criteria) but does not own 100% of the entity. The part that is not owned by the council is known as the non-controlling interest.

Where *non-controlling interests* exist, they must be disclosed in the

- Statement of Comprehensive Income
- Statement of Financial Position
- Statement of Changes in Equity (see "Non-controlling Interests")
- where the *non-controlling interest* in a subsidiary is material in relation to the Annual Financial Statements (see "Materiality") of the Council, additional disclosures must be made for each such subsidiary - refer to AASB 12.12 (not exampled in these Model Statements).
- where there are significant restrictions (e.g. statutory, contractual and regulatory restrictions) on Council's ability to access or use the assets and settle the liabilities of the group, additional disclosures must be made in relation to each class of assets subject to such restrictions - see AASB 12.13. An example disclosure is given on below in relation to a section 43 regional subsidiary, and on below in relation to trusts.

Examples relating to control

- Two Councils each have a 50% share in a section 43 regional subsidiary, and each Council appoints 3 members of the Committee of Management. The Chairman, who does not have a casting vote, rotates annually between members appointed by each Council alternately. All Committee decisions require a majority vote.

  Neither Council has ***control*** of the regional subsidiary - should the objectives of one Council differ from the objectives of the other Council, it has no means of *enforcing* its objectives on the regional subsidiary. An example of a possibly suitable disclosure is given on the first example page below.

- Three Councils have established a section 43 regional subsidiary to operate an aged persons facility, and the constitution provides that equity shares are adjusted after the release of the 5-yearly Census population figures to reflect the relative populations. Council 1 currently has 64% equity, with Councils 2 & 3 having 22% and 14% respectively.

  Council 1 appoints 3 members of the Committee of Management, one of whom shall be the Chairman (who has a casting vote), while Council 2 & 3 each appoint 2 members. The constitution provides that the CEO of Council 1 shall be responsible to the Committee of Management for the day to day operations, and functions such as accounting and HR are integrated with Council 1 functions.

  Even though Councils 2 & 3 could combine at Committee level to outvote Council 1, Council 1 has effective ***control*** of the operations of the section 43 regional subsidiary. The section 43 subsidiary should be consolidated in Council 1 Annual Financial Statements.

  The constitution provides that any surpluses generated by the regional subsidiary must be retained for the continuation and expansion of the facility, and that all payments to any member Council are to be for the purpose of reimbursement of amounts paid on the facility's behalf.

  This is an example of a restriction on Council 1 ability to access or use the assets of the regional subsidiary, and an example disclosure is given on page 189 below.

- Where a section 41 committee, a section 42 subsidiary or a section 43 regional subsidiary does not have any financial transactions independent of the Council, no disclosure is required.

Trusts - The assets and liabilities of trusts that are *controlled* by Council must be incorporated in the Annual Financial Statements. (Separately, as part of Council's duties as a trustee, financial statements - at least a statement of receipts and payments - will have to be prepared. Unless required by the terms of the trust, these do not have to be audited.) The following examples are provided to assist in interpreting the Standards.

<u>Examples of trusts</u>

- A Council is trustee of a memorial art prize, and holds the funds bequeathed for the prize in separately identified bank accounts and investments in the Council name. The award of the prize is made by an expert art panel not selected by Council. When the panel selects the annual awardee, Council draws the appropriate cheques for payment to the awardee.

  The Council is unable to deploy the resources to meet its *own objectives and is mere custodian. It therefore does not <u>control</u> the resources, and the resources and all associated revenue and expenditure are **EXCLUDED** from Council's Annual Financial Statements.*

- Council has received a bequest for the purposes of constructing improvements to the town oval. Although the bequest contains stipulations as to the type and style of the improvements, Council has a choice of different projects that meet these requirements, and provided they obtain the approval of a panel established by the donor's will, may utilise the bequest for an approved project.

  *Council is able to deploy the resources to meet its own objectives - viz. improved sporting facilities, even though the particular project for which the resources are used requires outside approval, Council has <u>control</u> of those resources. The resources and associated revenues and expenditures are **INCLUDED** in Council's Annual Financial Statements.*

If the conditions of the bequest require that the trust funds be held in a separate bank account, they would be restricted and the restriction reported in Note 10. If not, Council would be entitled to incorporate the funds in its Treasury Management program.

- A sporting club has been in recess for many years, and eventually the former treasurer of the club passes the club's remaining assets (including bank accounts) to Council. The former treasurer is unable or unwilling to give Council any guidance on the future use of the assets nor, because the club is defunct, is it possible to obtain instructions from any other source.

  *Council has control of the resources (in default of any other person) and hence is able to deploy those resources to meet its own objectives (although it is strongly recommended that it concurrently meets, as far as practicable, the objectives of the defunct club)[48]. The receipt of the resources and associated assets, revenues and expenditures are **INCLUDED** in Council's Annual Financial Statements.*

- "Auspicing" of grants for community organisations

  A Council may be asked to "auspice" a grant made by State or Federal Government for the benefit of a community organisation. Usually this involves Council becoming a signatory to the grant agreement, and the grant being paid to Council, after which the process may proceed in a number of different ways.

  You will need to check the wording of the grant agreement. Most commonly, Council has to accept some responsibility for the proper use of the monies, *in which case the* monies *are **NOT** held in trust* but comprise revenue and outgoings of the Council. This is often the situation even if the grant conditions require Council to operate a separate bank account entitled: *Grant Trust Account*".

Example Disclosures - Consolidations

A general statement of the principles of the consolidation (at least) is required.

An example of a possibly suitable wording for inclusion in Note 1 is:

> These consolidated financial statements 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.

Sufficient information must be disclosed to enable users to understand the composition of the group (AASB 12.10(a)(i)). As all section 41 committees or section 42 subsidiaries are directly held by Council, the following wording may be suitable. This type of detailed disclosure is appropriate for Note 19.

An example of a possibly suitable wording for inclusion in Note 19 is:

> The principal activities and entities conducted other than in the Council's own name that have been included in these consolidated financial statements are:
>
> Lorem Ipsum After School Care Services
> (Ownership interest 100%)
> Lorem Ipsum Retirement Village
> (Ownership interest 75%; voting power 66%)

48 This type of situation is common, and there are a large number of steps that should be taken before the resources are utilised. The discussion here is limited ONLY to the accounting question of CONTROL of the resources

General disclosure in relation to trusts:

An example of a possibly suitable wording is:

> Trust monies and property held by Council but subject to the control of other persons have been excluded from these reports. A separate statement of moneys held in the Trust Fund is available for inspection at the Council Office by any person free of charge.

Do not include this disclosure unless it is required.

An example where Council has less than 50% voting power but considers that it has effective *control*.

An example of a possibly suitable wording for inclusion in Note 19 is:

> Although Council has only 40% voting power in the Lorem Ipsum Regional Aged Persons Homes, it is responsible for day-to-day operations which are integrated so far as possible with Council's other activities. Accordingly, Council considers that it has the ability to determine the operational practices of the facility, amounting to effective control.

If there are restrictions on the use of funds within the consolidated entity, the following wording may be suitable:

> All surpluses generated by the Lorem Ipsum Regional Aged Persons Homes are required to be retained within the regional subsidiary for the continuation and expansion of the facility, and are not available for use by Council. The amounts of cash and other assets subject to this restriction are disclosed in Note 10.

Ensure that the appropriate amounts are disclosed in Note 10.

Related Party Disclosures

AASB 124 *Related Party Disclosures* requires the disclosure of transactions with subsidiaries - see "Other Related Parties". It also requires disclosure of the nature of those transactions which in our view should be adequately covered by the example wordings above. Information relating to guarantees and commitments by the subsidiary would be disclosed in the relevant portions elsewhere in the Notes.

*Any allowance for doubtful debts, or amounts written off by Council in favour of the subsidiary **MUST** also be disclosed.* Example disclosure has not been included in these Model Statements but has not been included in the example note as this is expected to be an extremely rare occurrence.

Joint Operations and Joint Ventures

AASB 11 *Joint Arrangements* ("AASB 11") provides information regarding the types of joint arrangements in the following black-letter paragraphs:

- An entity shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. (AASB 11.14)
- A joint operation is a joint arrangement whereby the parties that have ***joint control*** of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.(AASB 11.15)

- A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.(AASB 11.16)

To be a joint arrangement accounted for under AASB 11, the parties ***must have joint control*** over the arrangement. Joint control is discussed in AASB 11 (AASB 11. B5 to B11). If joint control exists, then the arrangement needs to be further assessed as to whether it is a joint operation or a joint venture (refer AASB 11.14-19). In a joint operation, each joint operator is entitled to certain specified assets and is directly responsible for certain specified liabilities. The Standard further requires that in accounting for a joint operation, each joint operator recognises the assets, liabilities, revenue and expenditure to which they are entitled. (AASB 11. 20 – 22)

The assets would be included in Note 5, 6 or 7 as appropriate and liabilities in Note 8. Council's share of revenues and expenses would be included in Notes 2, 3 and 4 as appropriate. Transactions between Council and its specified assets and liabilities, or its own share of revenues and expenses are eliminated in the same manner as for consolidations.

A joint venturer "shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with AASB 128 *Investments in Associates*". (AASB 11. 24)

Proportional consolidation is **NOT** an acceptable accounting procedure for the recognition of interests in other entities.

Example of joint operations

- Council is party to an agreement with the Minister of Education for a joint use community/school library. It has been assessed under AASB 11 that the parties jointly control the library. Each party is responsible for its own costs, and costs for shared facilities are split between the parties on an agreed basis. Council's share of the cost of books and other lending materials are capitalised and form part of infrastructure, property, plant and equipment.

  The arrangement is one merely for the sharing of costs on an agreed basis such that the cost to each party is less than that for the provision of separate facilities, and effectively each party is responsible for its own portion of the facility.

Example disclosure - joint operations

An example of a possibly suitable wording is:

Council is party to an agreement with the Minister of Education for the provision of a school/ community library in Lorem Ipsum which they jointly control. Certain classes of library materials are acquired at Councils cost and are recognised in these statements. Each party is responsible for its own direct costs, and joint expenses are shared on the basis set out in the agreement. Council's share of joint expenses are included in Note 3 to the statements.

Related Party Disclosures

AASB 124 *Related Party Disclosures* requires the disclosure of transactions with joint operations - see "Other Related Parties". It also requires disclosure of the nature of those transactions which in our view should be adequately covered by the example wording above. Information relating to guarantees and commitments by the subsidiary would be disclosed in the relevant portions elsewhere in the Notes.

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Example disclosures have not been included in these Model Statements as joint operations are expected to be extremely rare.

All joint arrangements that meet the definition of a joint venture **MUST** be accounted for using EQUITY ACCOUNTING procedures.

Joint Ventures / Associated Entities / Regional Subsidiaries

Significant Influence

If an investor holds, directly or indirectly (e.g. through subsidiaries), 20% or more of the voting power of the investee, ***it is presumed that the investor has significant influence*****,** unless it can be clearly demonstrated that this is not the case. *Conversely, if the investor holds, directly or indirectly (e.g. through subsidiaries), less than 20 per cent of the voting power of the investee,* ***it is presumed that the investor does not have significant influence***, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence. [our emphasis] (AASB 128.5)

There is a **rebuttable presumption** of significant influence at the 20% mark, unless it can be clearly demonstrated that the opposite is the case. Thus, associated entities / joint ventures / regional subsidiaries (however described) in which Council does not have at least 20% of the voting power should not be equity accounted. Instead - if the amount of the investment is material - they would be recognised as other non-current assets.

All entities in which Council has significant influence **MUST** be brought to account using equity accounting.

Different levels of disclosure apply to material and non-material interests.

All interests in other entities - other than trivial interests - where Council has *significant influence* **MUST** be recognised and included in the Annual Financial Statements

Section 43 Regional Subsidiaries

Examples of different types of *regional subsidiary* arrangements include:

1. Three Councils have established a *regional subsidiary* for a particular purpose. Each Council appoints 2 delegates to the Board, and although the chairman has a casting vote, chairmanship rotates between Councils every 2 years. The Council contributions are calculated on a population basis (the largest Council has 40% of the total population) and the annual surplus/deficit is apportioned equally to all Councils.

   The regional subsidiary is an ***associate*** within the meaning of AASB 128 and ***equity accounting procedures are used.***

2. Three Councils have established a *regional subsidiary* for a particular purpose. Each Council appoints 1 delegate to the Board, and although chairmanship rotates between Councils every 2 years, unanimous agreement is required in order to pass a resolution. The Council contributions are calculated on a population basis (the largest Council has 40% of the total population) and the annual surplus/deficit is apportioned equally to all Councils. Assets and liabilities are not identified with individual Councils, and in the event of a winding up, all Councils have an interest in the net assets of the regional subsidiary.

The regional subsidiary is an ***associate*** within the meaning of AASB 128 and ***equity accounting procedures are used.***

3. Fifteen Councils have established a *regional subsidiary* as a regional tourism authority. Each Council has 2 voting delegates, and the chairmanship is elected each year at the annual general meeting. Council contributions are based on population, but the largest Council has only 20% of the total regional population.

   The regional subsidiary is ***not an associate*** because no one Council has **significant influence.** Equity accounting procedures are therefore **NOT** used, and because it is likely that the Council's interest is non-material, it is probably appropriate to write-off the annual contributions as an expense. No disclosures at all are required if the amount is not material.

   (Regional associations of the LGA are generally not material and do not require disclosure - see also "Interests in Regional Local Government Associations".)

4. Two Councils have established a *regional subsidiary* for a particular purpose. Council contributions are based on actual use of the service, and each year's surplus / deficit is apportioned in accordance made by each Council during the year. Because one Council has a considerably larger population than the other, its use of the service is always nearly 65% of the total. For this reason, although each Council appoints 2 delegates to the Board, the chairman - who has a deliberative and casting vote - is always one of the larger Council's delegates.

   The regional subsidiary is a ***subsidiary of the larger Council*** because it meets the definition of control in AASB 10 *Consolidated Financial Statements*, and its accounts must be **consolidated** as part of the larger Council's Annual Financial Statements.[49]

   The regional subsidiary is an ***associate of the smaller Council*** within the meaning of AASB 128 and ***equity accounting procedures are used.***

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49 The presentation of separate "holding Council" and consolidated statements is not required.

Source Reference

SA MODEL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2024

Note 19 - INTERESTS IN OTHER ENTITIES

AASB 127.10, AASB 7.30

Entities consolidated within these Statements

The principal activities and entities conducted other than in the Council's own name that have been included in these consolidated financial statements are:

Lorem Ipsum After School Care Services	**(Ownership interest 100%)**
Lorem Ipsum Retirement Village	(Ownership interest 75%; voting power 66%)

All transactions and balances between Council and controlled entities have been eliminated

AASB 124.18

Lorem Ipsum After School Care Services

Transactions with Council

Payments to Council

Receipts from Council

Lorem Ipsum Retirement Village
Transactions with Council

Payments to Council Receipts from Council

AASB 12. B12-B13

Joint Operations

Council is party to an agreement with the Minister of Education for the provision of a school/community library in Lorem Ipsum which they jointly control. Certain classes of library materials are acquired at Councils cost and are recognised in these statements. Each party is responsible for its own direct costs, and joint expenses are shared on the basis set out in the agreement.

Council's share of joint expenses are included in Note 3 to the statements.

Equity accounted Council Businesses

All equity accounted Council businesses are required to prepare Annual Financial Statements that comply with the SA Local Government Model Financial Statements.

Council has interests in the following equity accounted Council businesses that are assessed as being material in relation to Council's overall operations:

Lorem Ipsum Garbage Disposal

Established by Lorem and Ipsum Councils, this organisation is responsible for the creation and disposal of unnecessary paperwork within the combined area.

Lorem Ipsum Medical Service

Established by Lorem Ipsum Councils, this organisation provides substandard consulting room accommodation to visiting medical practitioners at exorbitant prices. The agreement establishing this organisation does not contain any provision for the division of assets in the event of winding up.

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Requirements of the *Local Government (Financial Management) Regulations 2011*

Regulation 21(3) of the *Local Government (Financial Management) Regulations 2011* is worded as follows:

(3) Unless otherwise required by an Australian Accounting Standard, a council must, in respect of each subsidiary established by the council or for which the council is a constituent council (as the case may be) include, by way of a note to its financial statements—

(a) information that identifies the subsidiary, and describes its nature and purpose; and

(b) information on the financial contributions that have been made by the council to the subsidiary, or by the subsidiary to the council, during the financial year; and

(c) other financial information relevant to the relationship between the council and the subsidiary (from a financial perspective), including information relating to financial guarantees provided by the cCouncil, and to any contingent liabilities that may exist.

As noted above, AASB 128 only permits an associated entity / joint venture / regional subsidiary to be equity accounted if the Council has ***significant influence*** - i.e. more than 20% of the voting power (unless the contrary can be clearly demonstrated).

Thus clause 21(3) only applies to those associated entities / joint ventures / regional subsidiaries where this is the case. And the disclosures required by the regulation are included in the disclosures required by the Standard - see "Material and Non-Material Interests in Associated Entities" below.

"BOO" & "BOOT" Schemes

Whether *Build Own Operate* ("BOO") and *Build Own Operate Transfer* ("BOOT") schemes constitute joint ventures is dependent on the terms of each particular agreement. If Council can be required to supplement the scheme's own source revenue (e.g. if the scheme's own source revenue falls below specified amounts), then it is unlikely to be a joint venture, but Council may have to either:

- recognise a liability for the present value of the future cash outflows deriving from the present obligation (see "Present Obligation arising from a Past Event"), or
- report a contingent liability.

Accounting Procedures for Equity Accounted Associated Entities (Regional Subsidiaries)

Many regional subsidiaries carry out functions (such as waste disposal or tourism promotion) that are also carried out independently by Councils. However, regional subsidiaries may also be set up to carry out major capital works, and may receive substantial capital grant funding. In the latter case, inclusion of the equity accounted component of these grants will distort - possibly materially - the Operating Surplus (Deficit), with the consequential distortion of the Financial Indicators shown in Note 15.

The following procedures are designed to ensure that the amount shown as Operating Surplus (Deficit) on the Statement of Comprehensive Income would be identical where a function is under- taken by a regional subsidiary on a Council's behalf as it would be if that function were carried out independently by the Council.

Regional subsidiaries are required to prepare Annual Financial Statements - being the four principal statements and such notes as are appropriate - in the format set out in these Model Statements (see "INTRODUCTION").

A Council is required to account for its equity interest in the result of a regional subsidiary in (possibly) **three separate components:**

- The Council's equity share of the subsidiary's Operating Surplus (Deficit) is shown as either *net gain - joint ventures and associates* in the Income section of the Statement of Comprehensive Income, or *net loss - joint ventures and associates* in the Expenses section, as appropriate.
- The Council's equity share of capital items (i.e. "below the line") and *other comprehensive income* in the subsidiary's accounts is shown as follows:
  - Asset disposal & fair value adjustments
  - Amounts received specifically for new and upgraded assets
  - Physical resources received free of charge
  - Operating result from discontinued operations

    (All of the above show in the *Accumulated Surplus* column in the *Statement of Changes in Equity.)*
  - Changes in revaluation surplus - infrastructure, property, plant & equipment

    (Shown in *Asset Revaluation Reserve* column.)
  - Fair Value through OCI Financial Instruments - change in fair value (Shown in *Fair Value through OCI Financial Instruments* column.)
  - Impairment (expense) / recoupments offset to asset revaluation reserve (Shown in *Asset Revaluation Reserve* column.)
  - Transfer to accumulated surplus on sale of revalued infrastructure, property, plant & equipment

    (Shown DR in *Asset Revaluation Reserve; CR* in *Accumulated Surplus;* Net *NIL.*)
  - Transfer to accumulated surplus on sale of Fair Value through OCI Financial Instruments

    (Shown in *Fair Value through OCI Financial Instruments* column.)

    Thus, the line in the *Statement of Changes in Equity* for *Other Comprehensive Income - Joint Ventures and Associates* may have amounts in up to 3 different columns.
- In some regional subsidiaries the equity share of participating Councils is periodically adjusted to match an external criterion such as population share or patient numbers. These *adjustments to equity share* are disclosed in the Equity Statement as *other comprehensive income*, but do not appear in the Statement of Comprehensive Income.
- These components are separately disclosed in Note 19. Where a component is NIL, the line item may be hidden in Note 19.

Where a Council is a member of several regional subsidiaries, some with a net gain on operations, and others with a net loss, **they are NOT offset**[50]. Similarly, the equity accounted investment in regional subsidiaries with positive equity is not offset against the equity accounted liability in regional subsidiaries with negative equity. They are separately shown as assets (Note 6) and liabilities (Note 8).

Positive and negative components of *non-operating items - joint ventures and associates* **ARE offset,** principally because they are expected to occur far less frequently than the operating components.

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50 Offset is only permitted where a legal entitlement to offset exists. As regional subsidiaries are usually separately set up for different purposes, this legal entitlement almost NEVER exists.

Material and Non-Material Interests in Associated Entities

There are different disclosure requirements for equity accounted interests in other entities depending on whether the interests are material or non-material. Disclosure requirements for non- material interests are less onerous than those that are material.

A Council may elect to make the "material" disclosures for a non-material interest, but if so, **ALL** of the disclosures required for material interests **MUST** be made**.**

Materiality is assessed in relation to Council's overall Annual Financial Statements (possibly excluding IPP&E). If the interest in the other entity is material in relation to Council's other current and non- current assets, then the full "material" disclosures must be made - see "Materiality" for further discussion.

Each interest is assessed for materiality individually

If Council has a number of interests in other entities

- each of which individually is not material, but
- the total of all such interests is material, then only the "non-material" interest disclosures are made.

Disclosures for Equity Accounted Entities

General Disclosures

A general statement of principle would be appropriate for Note 1.

The following wording may be suitable for Note 1 disclosure:

Council participates in cooperative arrangements with other Councils for the provision of services and facilities. Council's interests in cooperative arrangements are accounted for in accordance with AASB 128 *Investments in Associates* and are set out in detail in Note 19.

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Local Government Association of South Australia

SALGFMG South Australian Local Government Financial Management Group Inc.

Source Reference

AASB 12.B12-B13

SA MODEL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2024

Note 19 (cont) - INTERESTS IN OTHER ENTITIES

The following interests in equity accounted Council businesses are assessed as being non-material:

Lorem Ipsum Tourism Board
Established by Lorem Ipsum Councils, the Board devises unlikely and expensive campaigns advertising the advantages of the area during extended and expensive lunches.

Lorem Ipsum Planning Services
Established by Lorem Ipsum Councils, this organisation provides prompt planning and building certification services for developer clients upon payment of a moderate fee (in used, small denomination notes tendered in a brown paper bag).

The principal place of business of each entity is within the boundaries of the constituent Councils. There are no restrictions on the ability of these entities to pay cash dividends to or make repayment of advances to Council.

Council has an ongoing commitment to make contributions to support the ongoing activities of each business in accordance with the terms of each agreement.

	2024	2023
	$'000	$'000
Lorem Ipsum Garbage Disposal		
Council's respective interests are:		
- interest in the operating result	**22%**	21%
- ownership share of equity	**22%**	21%
- the proportion of voting power	**25%**	25%
Movements in Investment in Joint Operation	**$'000**	$'000
Opening Balance	**408**	222
New Capital Contributions	**136**	45
Share in Operating Result	**(73)**	249
Share in other comprehensive income	**25**	154
Adjustment to Equity Share	**25**	5
Distributions Received	**(406)**	(267)
Share in Equity of Joint Operation	**115**	408
Summarised financial information of the equity accounted business		
Statement of Financial Position	**$'000**	$'000
Cash and cash equivalents	***245***	*524*
Other current assets	***202***	*124*
Non-current assets	***2,875***	*2,651*
Total assets	***3,322***	*3,299*
Current trade and other payables	***1,313***	*325*
Current financial liabilities	***168***	*56*
Current provisions	***668***	*445*
Non-current trade and other payables	***15***	*20*
Non-current financial liabilities	***554***	*310*
Non-current provisions	***142***	*104*
Total liabilities	***2,860***	*1,260*
Net Assets	***462***	*2,039*
Statement of Comprehensive Income	**$'000**	$'000
Other income	***4,550***	*5,350*
Contributions from constituent Councils	***545***	*180*
Interest income	***22***	*15*
Total Income	***5,117***	*5,545*
Employee costs	***1,161***	*1,055*
Materials, contracts & other expenses	***3,865***	*3,514*
Depreciation, amortisation & impairment	***443***	*424*
Finance costs	***44***	*77*
Total expenses	***5,513***	*5,070*
Other revenue / expense items	***-***	*521*
Operating Result	***(396)***	*996*
Other comprehensive income	***100***	*616*
Total Comprehensive Income	***(296)***	*1,612*

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Disclosures for Material Interests

Disclosure requirements for material interests in equity accounted entities are contained AASB 12 *Disclosure of Interests in Other Entities*, in paragraphs 21(a) and (b) and 22, and paragraphs B12 and B13*.*

It is each Council's own responsibility to review the requirements of the Standard and ensure that they have made all disclosures appropriate to the equity accounted Council businesses in which they are involved.

Related Party Disclosures

AASB 124 *Related Party Disclosures* requires the disclosure of transactions with associated entities

see Note 23 - "Other Related Parties" below. It also requires disclosure of the nature of those transactions which in our view should be adequately covered by the example wordings above.

Information relating to guarantees and commitments by the associated entity, and any allowance for doubtful debts, or amounts written off by Council in favour of the associated entity must also be disclosed but has not been included in the example note as this is expected to be an extremely rare occurrence.

Source Reference

AASB12.B18-B19

SA MODEL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2024

Note 19 (cont) - INTERESTS IN OTHER ENTITIES

	2024	2023
	$'000	$'000
Lorem Ipsum Medical Service (cont)		
Expenditure Commitments		
Expenditure committed for (excluding inventories) by the entity at the reporting date but not recognised in the financial statements as liabilities:		
Capital Expenditures payable		
Not later than one year	**101**	74
Later than one year and not later than 5 years	**43**	36
Later than 5 years	**22**	22
	166	132
Operating Expenditures payable		
Not later than one year	**25**	15
Later than one year and not later than 5 years	**22**	25
Later than 5 years	**2**	4
	49	44
Contingent Liabilities		
Each member of the operation is jointly and severally liable for the debts of the operation		
- arising from Council's share of the joint operation	**204**	145
- arising from joint and several liability of all members	**816**	580
Transactions with Council		
Payments to Council		
Receipts from Council		

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Disclosures for Non-material Interests

Disclosure requirements for material interests in equity accounted entities are contained in AASB 12 *Disclosure of Interests in Other Entities.* (AASB 12.21(a) and (c) and 22, and paragraph B16)

Paragraph B16 requires only that the *aggregate* amount of the non-material interests be disclosed, but for display reasons and to simplify reconciliation of totals to the Statement of Financial Position the example note displays these individually. Paragraph B16 also requires the display of the aggregate amount ***of Council's share of***

- profit or loss from continuing operations.
- post-tax profit or loss from discontinued operations.
- other comprehensive income.
- total comprehensive income.

Do not provide a mix of material and non-material disclosures for any single equity accounted Council business.

If you wish to provide additional information to Council or Audit Committee, do so in a report separate from the annual financial statements.

Related Party Disclosures

AASB 124 *Related Party Disclosures* requires the disclosure of transactions with associated entities

see Note 23 - "Other Related Parties" below. It also requires disclosure of the nature of those transactions which in our view should be adequately covered by the example wordings above.

Information relating to guarantees and commitments by the associated entity, and any allowance for doubtful debts, or amounts written off by Council in favour of the associated entity **MUST** also be disclosed.

These Model Statements do not include an example note, as this is expected to be an extremely rare occurrence.

The materiality principle applies to these disclosures**.** As Council's interest in these entities is *not material,* it may well be that the transactions with the entity are also *not material.*

Local Government Association of South Australia

SALGFMG South Australian Local Government Financial Management Group Inc.

Source Reference

SA MODEL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2024

Note 19 (cont) - INTERESTS IN OTHER ENTITIES

AASB12.B18-19

Individually immaterial Council businesses	2024 $'000	2023 $'000
Lorem Ipsum Tourism Board		
Council's respective interests are:		
- interest in the operating result	**45%**	45%
- ownership share of equity	**45%**	45%
- the proportion of voting power	**45%**	45%
Carrying amount of Council's interest in the entity	**(101)**	13
Transactions with Council		
Payments to Council		
Receipts from Council		
Lorem Ipsum Planning Services		
Council's respective interests are:		
- interest in the operating result	**42%**	41%
- ownership share of equity	**52%**	51%
- the proportion of voting power	**50%**	50%
Carrying amount of Council's interest in the entity	**184**	114
Aggregate financial information of all non-material entities		
Operating Result	***(21)***	*62*
Other comprehensive income	***(79)***	*1*
Total Comprehensive Income	***(100)***	*63*
Transactions with Council		
Payments to Council		
Receipts from Council		

Split Operating Result between continuing and discontinued operations if appropriate

Unconsolidated Structured Entities

AASB 12 *Disclosure of Interests in Other Entities* specifically makes provision for disclosures of interests in ***unconsolidated structured entities.*** It is considered that these requirements will not apply to any Council. The Application Guidance provides descriptions of structured entities (AASB 12: Basis for Conclusions 21-24).

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Note 20 - NON-CURRENT ASSETS HELD FOR SALE

It has been noted that most Councils disclosing amounts under this classification on the Statement of Financial Position (see "Non-current assets held for sale" above) have failed to make the additional disclosures required by AASB 5. **Most Councils will not need to use this Note,** and subsequent Notes should be re-numbered.

Source Reference

AASB 5.30-42

SA MODEL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2024

Note 20 - NON-CURRENT ASSETS HELD FOR SALE & DISCONTINUED OPERATIONS

Sale of After-School Day Care Operation

Council has resolved to sell its after-school day care operation at Lorem Ipsum.

At reporting date, the contract for the sale had been executed, and settlement is expected to occur on 30 September 2024.

The sale includes all goodwill, plant, equipment and furnishings at 27 Straight Street, Lorem Ipsum, together with the goodwill of the operation. The purchaser is currently negotiating with individual staff members for the transfer of their employment and entitlements.

Council will retain ownership of the premises and enter into a 25-year lease of the premises to the new owners.

The goodwill component of the sale price is dependent on custom until the date of settlement and cannot be finally determined until that time.

Financial information relating to the discontinued operation is shown below:

Financial Performance & Cash Flow Information

	2024 $'000	2023 $'000
Revenue	**160**	145
Expenses (excluding depreciation)	**(77)**	(70)
Depreciation expense	**(23)**	(22)
Operating result of discontinued operation	**60**	53
Net cash inflow from operating activities	**80**	75
Net cash inflow (outflow) from investing activities	**(33)**	(66)
Net cash inflow (outflow) from financing activities	**-**	-
	47	9

Carrying Amount of Assets and Liabilities

	2024	2023
Infrastructure, property, plant and equipment	**781**	774
Receivables	**52**	45
Inventories - stores and materials	**3**	3
Total Assets	**836**	822
Payables	**(10)**	(14)
Loans	**(34)**	(22)
Total Liabilities	**(44)**	(36)
Net Assets	**792**	786

The definition of a non-current asset (or disposal group) as ***held for sale*** is highly restrictive. The asset **MUST:**

- be available for immediate sale in its present condition (subject only to terms that are usual and customary for sales of such assets), and
- its sale must be *highly probable* [emphasis in the Standard] (AASB 5.7).

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For the sale to be *highly probable,* **ALL** of the following **must also apply**

- the appropriate level of management must be committed to the sale,
- an active program to locate a buyer and complete the plan must have been initiated,
- the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value,
- the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification (there is a limited exception to this permitted by Appendix B to the Standard), and
- actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. (AASB 5.8)

Non-current assets to be abandoned shall not be classified as held for sale. (AASB 5.13).

If these criteria are met after the end of the reporting period, an entity shall not classify a non-current asset as held for sale in those Annual Financial Statements when issued. However, when those criteria are met after the end of the reporting period but before the authorisation of the Annual Financial Statements for issue, the entity shall disclose the information specified in paragraph 41(a), (b) and (d) in the notes (AASB 5.12) - see "Note 22 - EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE" below.

A Council resolution to the effect that it intends to sell a non-current asset (or disposal group) is ***NOT*** sufficient to support classification as "*held for sale*" unless all of the other requirements are also met**.**

The Purpose of AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations*

AASB 118 *Revenue* is very restrictive on when revenue can be recognised - and this also covers the sales proceeds of an item which is sold for well below cost:

Revenue for the sale of goods can only be recognised if **ALL** of the following criteria are satisfied:

- the entity has transferred … ownership … ***AND***
- the entity retains neither … managerial involvement … nor effective control … ***AND***
- the amount of revenue can be measured reliably … ***AND***
- it is probable the [amount will be received] … ***AND***
- the costs … can be measured reliably (AASB 118.14)

Other Accounting Standards require the prompt recognition of [likely] losses on sale for most items other than non-current assets and discontinued operations.

AASB 5 therefore fills this gap, requiring losses to be recognised *as soon as the sale is highly probable.*

Note that AASB 5 requires early recognition of losses but does not permit early recognition of profits.

A non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell (AASB 5.15).

Depreciation

Because the assets held for sale are carried at the lower of carrying amount or fair value less costs to sell, and because completion of the sale is imminent; **no depreciation is charged.** The assets should be removed from your assets register and transferred to a holding account until the sale is completed. At completion should be transferred to the *carrying value of assets sold* account.

In effect, AASB 5 provides whereby any loss on the sale is recognised prior to, and profits recognised after, the actual completion of the sale where the sale process crosses the balance date.

Disclosures

An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups) (AASB 5.30).

An entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:

(a) a description of the non-current asset (or disposal group);

(b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;

(c) the gain or loss recognised in accordance with paragraphs 20-22 and, if not separately presented in the statement of comprehensive income, the caption in the statement of comprehensive income that includes that gain or loss; and

(d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with AASB 8 *Operating Segments*. (AASB 5.41)

The example Note gives a reasonable representation of the type of information that is appropriate. As all such disposals are different it will be necessary to read the Accounting Standard carefully. In particular, it is considered appropriate to disclose either that an enforceable contract has been signed, or the basis on which the classification of *held for sale* has been made.

Local Government Association of South Australia

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Note 21 - CONTINGENT ASSETS & CONTINGENT LIABILITIES

This Note, which includes contingencies - both assets and liabilities, is narrative in format and will vary substantially for each Council.

In relation to contingent liabilities, it is stressed that if it is **probable** that Council will suffer a loss, it is **NOT** a contingent liability - ***it is a LIABILITY with a measurement problem (AASB 137.30).*** AASB 137.36 requires that the *best estimate* of the liability be used - it recognises the best estimate may not actually be very accurate.

The example note provides examples of wordings appropriate to some situations but must be amended to meet the specific circumstances of your Council. Note that although the *Framework for the Preparation and Presentation of Financial Statements* assumes that “users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence” (Framework for the Preparation and Presentation of Financial Statements, paragraph 25), those users may not be familiar with the financial characteristics of local government.

Accordingly, a contingency that you are aware applies to all local governments may still need to be identified in this Note.

Source Reference
AASB 137.86-92

SA MODEL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2024

Note 21 – CONTINGENT ASSETS & CONTINGENT LIABILITIES

The following assets and liabilities do not qualify for recognition in the Statement of Financial Position but knowledge of those items is considered relevant to user of the financial report in making and evaluating decisions about the allocation of scarce resources.

1. **LAND UNDER ROADS**
   As reported elsewhere in these Statements, Council is of the opinion that it is not possible to attribute a value sufficiently reliably for these assets to qualify for recognition, and accordingly land under roads has not been recognised in these reports. Land acquired for road purposes during the year is initially recognised at cost, but transferred to fair value at reporting date, effectively writing off the expenditure.
   At reporting date, Council controlled 2,485 km of road reserves of average width 20 metres.

2. **POTENTIAL INSURANCE LOSSES**
   Council is a multi-purpose organisation providing a large range of building, parks infrastructure, playgrounds and other facilities accessible to the public. At any time, it is likely that claims will have been made against Council that remain unsettled.
   Council insures against all known insurable risks using a range of insurance policies, each of which is subject to a deductible "insurance excess", the amount of which varies according to the class of insurance.
   Council has recognised the potential losses arising from claims known at reporting date based on average historical net cost (including insurance excess) of similar types of claims. Other potential claims not reported to Council may have existed at reporting date.

3. **BANK GUARANTEES**
   Council has guaranteed certain loans and other banking facilities advanced to community organisations and sporting bodies, amounting to $XXX,xxx,000 (2023: $XXX,xxx,000) at reporting date.
   Council does not expect to incur any loss arising from these guarantees.

4. **LEGAL EXPENSES**
   Council is the planning consent authority for its area under the Development Act 1993 (as amended). Pursuant to that Act, certain persons aggrieved by a planning decision of the Council may appeal. It is normal practice that parties bear their own legal costs. At the date of these reports, Council had notice of xx appeals against planning decisions made prior to reporting date. All known costs have been recognised, but the amount of further costs cannot be known until the appeals are determined.

Note 22 - EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The circumstances in which this Note is required would be very limited but include those set out in relation to non-current assets held for sale see Note 20 - "Disclosures" above. It has been included more as a reminder that, if appropriate, disclosure MUST be made. The date of authorisation for issue (AASB 110.19) is the date that Council's certificate was executed - see "COUNCIL CERTIFICATE" above. See AASB 110 for further information.

Note 23 - RELATED PARTY DISCLOSURES

The purpose of AASB 124 is to require "disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent or investors with joint control of, or significant influence over, an investee presented in accordance with AASB 10 *Consolidated Financial Statements* or AASB 127 *Separate Financial Statements*. This Standard also applies to individual financial statements." (AASB 124.3)

The Standard relates to "upstream" relationships.

"Downstream" relationships of Council - such as subsidiaries, joint operations, equity accounted Council businesses, etc. - are covered in other Accounting Standards, and the appropriate accounting procedures and disclosures are detailed elsewhere in these Model Statements.

> *Note "downstream" relationships involving key management personnel* ***DO*** *fall within the scope of the Standard.*

The "upstream" relationships referred to in the Standard relate to ***parties*** (particularly companies) who exert significant influence on the management and policy decisions of the entity (which in a Council context do not, or should not, exist) and the ***key management personnel*** who influence, guide or make the management and policy decisions.

Related Parties

"A related party"

is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the "reporting entity").

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control of the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) (not applicable to Councils) (AASB 124.9 Definitions)

A "related party" includes ***"a person or a close member of that person's family".***

"Close members of the family of a person" are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.[51]

The terms "**control**", "**joint control**" and "**significant influence**" are defined in AASB 10, AASB 11 and AASB 128 respectively and are used in this Standard with the meanings specified in those Australian Accounting Standards.

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51 AASB 124.9 Definitions Note that the definition is not exclusive and can extend further. For example, a parent would reasonably be expected to exert influence (except upon teenagers).

Key Management Personnel

"Key management personnel" are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity" (AASB 124.9).

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.(AASB 124.10).

So, who are the ***key management personnel*** of a Council?

- **All Councillors -**The elected members are the equivalent of the directors of a for-profit entity and are specifically included by the phrase "including any director (whether executive or otherwise)".
- **Chief Executive Officer** - The Chief Executive Officer is entrusted by the Local Government Act 1999 (especially section 99) with the responsibility for "for planning, directing and controlling the activities of the" Council, and is clearly a member of the key management personnel.
- **Other Senior Officers** - Generally, senior officers with management responsibilities who report direct to the CEO are regarded as being members of the key management personnel. Certainly, a *prescribed officer* as defined in section 112 of the *Local Government Act 1999* would *prima facie* be included[52].

  Councils should discuss with their Auditor whether any additional officers should be included in this group.

52 Presumably Council had good valid reasons for defining a person as a *prescribed officer.* An equally valid reason for excluding a *prescribed officer* from *key management personnel* would be that they have minimal responsibility for *planning, directing or controlling* Council activities.

Disclosures of Related Party Transactions

"**A related party transaction**" is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. (AASB 124.9 Definitions)

The following paragraphs are extracted from AASB 124.

17 An entity shall disclose key management personnel compensation in total and for each of the following categories:
- (a) short-term employee benefits;
- (b) post-employment benefits;
- (c) other long-term benefits;
- (d) termination benefits; and
- (e) share-based payment. (AASB 124.17)

18 If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:
- (a) the amount of the transactions;
- (b) the amount of outstanding balances, including commitments, and:
  - (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
  - (ii) details of any guarantees given or received;
- (c) provisions for doubtful debts related to the amount of outstanding balances; and
- (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties. (AASB 124.18)

19 The disclosures required by paragraph 18 shall be made separately for each of the following categories:
- (a) the parent;
- (b) entities with joint control of, or significant influence over, the entity;
- (c) subsidiaries;
- (d) associates;
- (e) joint ventures in which the entity is a joint venturer;
- (f) key management personnel of the entity or its parent; and
- (g) other related parties. (AASB 124.19)

Paragraphs 19(a) & (b) should have NO application in a local government environment.

AASB 124 contains a considerable amount of application guidance relevant to not-for-profit entities which should be accessed for further information. Details of the required disclosures should be discussed with your Auditor at your earliest opportunity.

Example Disclosures

In April 2017 the AASB issued its reasons for not providing additional guidance - additional to the guidance already provided in AASB 124 - on the reporting of transactions with KMPs.

The full report is located at http://www.aasb.gov.au/admin/file/ content105/c9/ Agenda_Decision_AASB124_KMP_Related_Transactions_Public_Sector.pdf.

Key paragraphs include:

The key assessment is whether knowledge of the relationship and terms and conditions could influence a user's understanding of the impact on the financial statements. Where the impact on the financial statements is not material the transaction is not required to be disclosed.

For example, the materiality assessment applied to a transaction with a KMP related party that has been through the entity's procurement processes which require several independent quotes to be obtained is unlikely to differ to that which would apply to the same transaction undertaken with an unrelated party, where the KMP has no influence over the transaction. Similarly, an entity may determine that disclosure of the employment of KMP close family members where recruited in the same manner, and subject to the same terms and conditions as those offered to other public service employees performing similar roles, to be material only where disclosure of the employment of employees who are unrelated to the entity, made under the same conditions, is material.

From the pure accounting point of view this is undoubtedly correct and authoritative.

However, in determining the disclosures to be made, it is possible that a Council may find it appropriate to consider political implications.

It is suggested that few Councils would wish to invite allegations of a "cover-up" of transactions with a KMP where the issue is locally contentious merely on the grounds that the transactions are not material from a pure accounting point of view.

Key Management Personnel

The Standard does not require the disclosure of the **names** of key management personnel although this is required in some other jurisdictions. However, it is necessary to disclose the total amount of *compensation* paid during the period. (Compensation includes salaries, wages, allowances, paid leave and also includes taxable fringe benefits.) The KMP compensation disclosed should be consistent with the definition of Employee Benefits as defined in Note 3.

The following wording may be suitable:

The Key Management Personnel of the Council include the Mayor, Councillors, CEO and certain prescribed officers under section 112 of the Local Government Act 1999. In all, 15 persons were paid the following total compensation:

	$
Salaries, allowances & other short term benefits	$
Post-employment benefits	
Long term benefits	
Termination benefits	
TOTAL	$

Allowances / benefits incurred in the ordinary course of performing the KMPs role, and amounts paid as direct reimbursement of expenses incurred on behalf of Council have not been included above.

Include the following:

Short term benefits

Salary, wages, councillor allowances

Allowances paid on a time basis – e.g. travel allowances, civic allowances Salary sacrifice payments

Sick leave, annual leave, bereavement leave, parental leave Club memberships

Provision of facilities at concessional rates – e.g. concessional rent on a Council residence

Other benefits provided for the employee's personal use – e.g. motor vehicles or accommodation for personal use

Long term benefits

Long service leave

Post-employment benefits

Employee superannuation contributions

Employer superannuation benefits

Exclude the following:

Reimbursements for work-related expenses – e.g. travel, accommodation, meals Allowances/benefits in the ordinary course of performing the KMPs role – e.g. mobile phone for business use, iPad, training, workshops & conferences, catering at meetings.

These disclosures may attract public attention, many of whom are unfamiliar with the realities of local government operations and may under-estimate the number of people to whom the total benefits relate. To assist in their interpretation, we suggest that it may be appropriate to include the number of persons involved.

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The Standard also requires disclosure of amounts received from key management personnel:

The following wording may be suitable:

Other than amounts paid as ratepayers or residents (e.g. rates, swimming pool entry fees, etc.), Council received the following amounts in total:

	$
Contributions for fringe benefits tax purposes	$
Planning & building application fees	
Rentals for Council property	
TOTAL	$

Other Related Parties

Paragraph 18 of the Standard - see "Disclosures of Related Party Transactions" above - requires disclosures of transactions between Council and its related parties *i.e. subsidiaries and associated entities.* As much of the information required by that paragraph is already located in Note 19, we suggest that that is an appropriate location. (The Standard only requires that the disclosures be *made*; it does not insist that they all be made *together*.)

Note that the materiality principle applies to these disclosures - disclose only if *material.*

Parties related to Key Management Personnel

This the area likely to cause the greatest amount of concern because although **the materiality principle applies to these disclosures,** what is regarded as material by the press and public may well be different from materiality in a pure accounting sense.

We have provided some example wordings for different scenarios that may be considered sufficiently material to warrant disclosure[53].

The following are the key points requiring disclosure:

- The nature of the transactions
- The total transactions during the year (both receipts and payments) but amounts paid as rates payers or residents (e.g. rates, swimming pool entry fees, etc.) are excluded.
- Amounts due at the end of the year (but exclude accruals of leave entitlements).
- Allowances for doubtful debts and amounts written off (but only disclose if this occurred).

53 *Use of names or positions* Some example notes for other organisations refer to "a member of the KMP" without any further indication of the name of position held by the KMP. In view of the restrictions on secondary employment of employees, we have adopted the practice of clearly indicating whether the person is an employee to whom those restrictions apply, or an elected member.

Scenario: The Mayor or a Councillor owns a business with regular dealings with Council.

Possibly suitable wordings may be:

> The Mayor owns a retail business from which office supplies were purchased as required on 30-day account. Total purchases amounted to $x,xxx with $xxx unpaid at the end of the year.

Possibly suitable wordings may be:

> KMP and relatives of KMPs own retail businesses from which various supplies were purchased as required either for cash or on 30-day account. Purchases from none of these individual businesses exceeded $x,xxx during the year.

Or:

> Two Councillors are directors of separate businesses from which fuel and steel supplies were purchased during the year. The fuel supply is based on a unit rates contract awarded through a competitive tender process in 20xx. Steel supplies are based on retail price less discount and at least 3 quotations are obtained prior to any purchase exceeding $1,000. Total purchases amounted to $xx,xxx with $x,xxx unpaid at the end of the year.

Or:

> Four elected members have a financial interest in properties from which Council raised rubble for road-making purposes, paying compensation for disruption and royalties at the rate applicable to third parties. The properties from which the rubble was raised were selected based on the distance to the work-site and the quality of the rubble for the required purpose. The total amount paid amounted to $x,xxx with $xxx unpaid at the end of the year.

Scenario: Close family members of key management personnel are employed by Council.

A possibly suitable wording may be:

> Three close family members of key management personnel are employed by Council in accordance with the terms of the Award, and as recorded in the public Register of Salaries maintained in accordance with section 105 of the *Local Government Act* 1999.

Scenario: Close family members of, and key management personnel lodged planning and or building applications during the year.

A possibly suitable wording may be:

> Key management personnel or close family members (including related parties) lodged a total of seven planning and building applications during the year. In accordance with the *Local Government Act* 1999, these persons declared conflicts of interest and took no part in the assessment or approval processes for these applications.
>
> Nine planning and building approvals, with and without conditions, were granted during the year (including 4 lodged the previous year); 2 remain to be finalised at the end of the year. Total fees for these applications (all of which are payable on lodgement) amounted to $x,xxx.

Scenario: Key management personnel are on the management committees of sporting and other not-for-profit organisations.

A possibly suitable wording may be:

Two elected members and an employee are members of the management committees of the Butterfly Collectors, Croquet Club and Ball Club. In accordance with the *Local Government Act* 1999, these persons declare a conflict of interest and leave the meeting environs when any matter affecting their Club is discussed or voted upon.

All Clubs use facilities maintained by Council for which there is no available arms- length market pricing: these facilities are also used by other not-for-profit organisations and the general public. The total amount received from these Clubs for the use of these facilities was $xx,xxx with $xxx due at the end of the year.

Council did not make any payments to any of these Clubs but it is not practicable to estimate the cost to Council of facility maintenance relating to each Club.

Or:

An employee is a member of the Board of Directors of the Lorem Ipsum Rotary Club. In accordance with the *Local Government Act* 1999, this person declares a conflict of interest and takes no part in discussions relating to matters involving the Rotary Club. During the year the Club constructed an adventure playground and skateboard park on Council land at a cost to the Club of $130,000. Council contributed the costs of site preparation estimated at $5,800.

It can be as important to make a positive statement that there are no related party transactions to be disclosed, as it is to disclose the transactions that did occur.

No key management personnel or parties related to them had any transactions during the year on terms more favourable than those available to the general public.

Local Government Association of South Australia

SALGFMG South Australian Local Government Financial Management Group Inc.

COUNCIL CERTIFICATES OF AUDIT INDEPENDENCE

Source Reference

LG FMR 22(3)

SA MODEL COUNCIL

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 June 2024

CERTIFICATION OF AUDITOR INDEPENDENCE

To the best of our knowledge and belief, we confirm that, for the purpose of the audit of SA Model Council for the year ended 30 June 2024, the Council's Auditor, …………………., has maintained its independence in accordance with the requirements of the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011* made under that Act.

This statement is prepared in accordance with the requirements of Regulation 22(3) *Local Government (Financial Management) Regulations 2011*.

…………………………	…………………………
(Insert name)	(Insert name)
CHIEF EXECUTIVE OFFICER	**PRESIDING MEMBER**
	AUDIT COMMITTEE

Date:

Regulation 22(3) of the *Local Government (Financial Management) Regulations 2011* requires that the Council CEO and presiding member of Audit Committee execute certificates confirming that the Auditor has complied with the independence requirements, and regulation 22(4) requires that a copy of these certificates accompany the Annual Financial Statements. There is nothing to prevent them being presented on a single page.

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Local Government Association of South Australia

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AUDIT CERTIFICATE OF AUDIT INDEPENDENCE

The following wording is required by Regulation 22(5) of the *Local Government (Financial Management) Regulations 2011*.

Source Reference

LG FMR 22(5)

SA MODEL COUNCIL

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 June 2024

STATEMENT BY AUDITOR

I confirm that, for the audit of the financial statements of SA Model Council for the year ended 30 June 2024, I have maintained my independence in accordance with the requirements of APES 110 – Code of Ethics for Professional Accountants, Section 290, published by the Accounting Professional and Ethical Standards Board, in accordance with the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011* made under that Act.

This statement is prepared in accordance with the requirements of Regulation 22(5) *Local Government (Financial Management) Regulations 2011.*

(Name of Council's Auditor)

(Name of Audit Firm)

Dated this day of 2024

(This certificate may be prepared on the audit firm letterhead if desired.)

Local Government Association of South Australia

SALGFMG South Australian Local Government Financial Management Group Inc.

ADDITIONAL MATERIALS

WP 1 - GRANTS RECEIVED & EXPENDED

This working paper is supplied to assist Councils in the reconciliation of grants and subsidies received and expended. **It does not form part of the Annual Financial Statements and should not be included with or attached to the Annual Financial Statements.**

SA MODEL COUNCIL

Working Paper - RECONCILIATION OF GRANTS RECEIVED
for the year ended 30 June 2024

This schedule records all grants received, including from other levels of Government, whether described as grants, subsidies or otherwise. (Amounts shown as negative are awaiting reimbursement to Council.)

Guidance	GRANTS	Notes	Opening Balance 1 July 2023	Movements		Closing Balance 30 June 2024
				Received/ Receivable	Expended	
		Notes	$'000	$'000	$'000	$'000
	GENERAL PURPOSE					
Grants Commission	Grants Commission Grant		N/A	85	85	N/A
Grant is regarded as			N/A	0	0	N/A
automatically expended			N/A			N/A
	Subtotal		0	85	85	0
	SPECIFIC PURPOSE					
Insert descriptions as	Roads to Recovery		2,224	90	2,298	16
appropriate	HACC Grants		210	112	298	24
	Sport		5	134	107	32
	Libraries		1	156	117	40
	Other		4	117	55	66
			0	55	59	(4)
			13	179	142	50
			17	33	3	47
			20	77	45	52
			0	13	4	9
	Subtotal		2,494	966	3,128	332
	TOTAL OTHER GRANTS ***Comparatives***		2,494	1,051	3,213	332
						2,494
	GRANTS SPECIFICALLY FOR NEW/UPGRADED ASSETS					
	SPECIFIC PURPOSE					
Insert descriptions as			224	454	298	380
appropriate			10	112	98	24
			0	98	59	39
			13	169	142	40
			20	77	45	52
				56		56
	TOTAL GRANTS SPECIFICALLY FOR NEW/UPGRADED ASSETS		267	966	642	591
	Comparatives					*267*
	Recognised as revenue in advance of expenditure		1,589			(554)
	Current receivable - Other levels of Government	5	1,172			1,477
			2,761			923

REVENUE RECOGNITION

Introduction

The Australian Accounting Standards treat the recognition and disclosures of revenues from different sources through a number of different Accounting Standards:

Interest & investment revenues	AASB 9 *Financial Instruments;* AASB 7 *Financial Instruments - Disclosures*; AASB 132 *Financial Instruments - Presentation;*
Gain / loss from the disposal of assets	AASB 116 *Property, Plant and Equipment;* AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*
Investment properties	AASB 140 *Investment Property*
Interests in other entities (where Council has significant influence or control)	AASB 10 *Consolidated Financial Statements;* AASB 11 *Joint Arrangements;* AASB 12 *Disclosure of Interests in Other Entities;* AASB 128 *Investments in Associates and Joint Ventures*;
All other revenues including rates, fees & charges, grants and contributions	AASB 15 *Revenue from Contracts with Customers* (including the attachment *Australian Implementation Guidance for Not-for-Profit Entities* as set out in AASB 2016-8); AASB 1058 *Income of Not-for-Profit Entities*
Display and presentation matters generally	AASB 101 *Presentation of Financial Statements*

Because AASB 15 and AASB 1058 together apply to such a wide range of Council revenues, and because the timing of the recognition of revenues differs between the two Standards, it is critically important that Council accountants are thoroughly familiar with the revenue recognition criteria in both Standards.

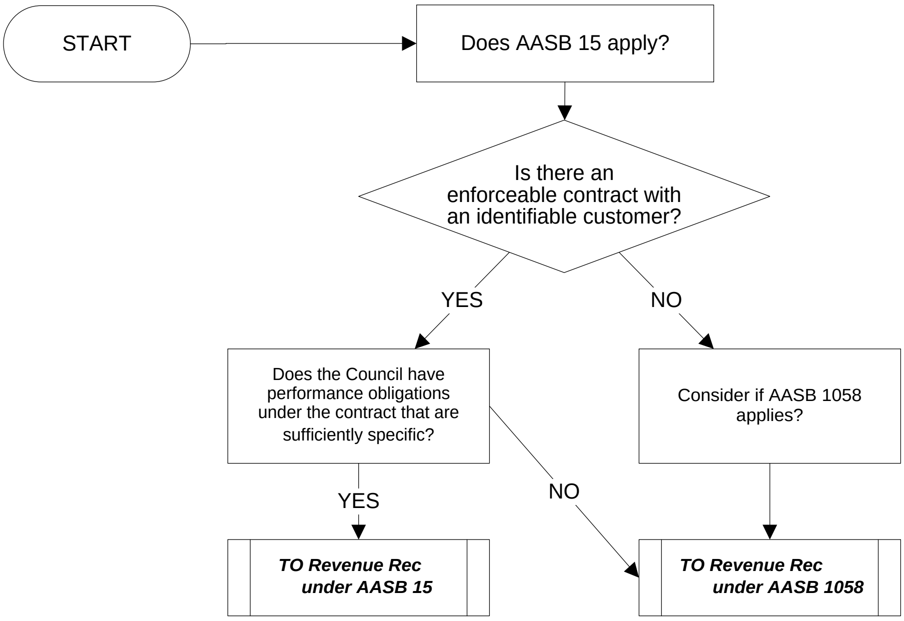
The total amount of revenue that is recognised under both Standards is identical - merely the timing of recognition differs.

For contracts that are wholly completed within a reporting period, the revenue to be recognised under both Standards is identical. For Councils, the most common revenue generating transactions that are completed over more than one period involve grants and contributions of various types, and it is in relation to those that the greatest difficulties will be encountered.

For not-for-profit entities, the default position is still the same as it was under the former AASB 1004 *Contributions* - revenue is recognised upon receipt or entitlement, whichever is earlier - and this is embodied in AASB 1058

For revenue to be recognised in accordance with AASB 15 it **MUST** meet a number of criteria which are detailed in the following pages.

Which Standard applies - AASB 15 or AASB 1058?



Detailed guidance for determining if AASB 15 applies is contained within AASB 15, Appendix F *Australian implementation guidance for not-for-profits.*

<u>Identifiable Customer</u>

There must be an identifiable customer(s) - but the customer does not have to be the person making the payment.

Certainly, in commerce, most often the person making the payment is also the customer, but this is not always so.

In the case of a grant for (say) immunisations, the persons receiving the immunisations are the customers - not the State Government. If there is no identifiable customer, AASB 15 cannot apply - but the customer does not have to be a named person and can be an identifiable class of persons. So, the customers for an immunisations grant would be those persons in the community that have not yet been immunised.

If there is no identifiable customer, then consider if AASB 1058 applies.

<u>Enforceable Contract</u>

To qualify for recognition under AASB 15 there must be a contract - written, verbal or implied - that is enforceable by legal means.

Indicators of enforceability include:

- Claim for refund of unexpended amounts is required
- The customer has a right to claim for damages
- Right to claim or take over any assets created by the contract
- Enforcement by expiation notice or court summons
- Court order for specific performance

If there is not an enforceable contract, AASB 1058 should be considered. Rates and other statutory charges are considered to not have an enforceable contract and are outside the scope of AASB 15.

<u>Performance Obligations</u>

A performance obligation is a promise to provide goods or services to a customer. The promises within a contract are considered as to whether they form one or more performance obligations. To be a performance obligation a promise or promises must have the following characteristics:

- The customer must be able to benefit from the good / service either on its own or with other readily available resources. For example, if a component is identified as a promise but you can't use the component on its own then that is not a performance obligation but instead needs to be combined with other promises to determine the good that can actually be used by the customer; and
- The good / service is either the entire contract or is separately identifiable from other goods / services in the contract.
- The performance obligations must be sufficiently specific and must be real. This in fact partly refers back to the enforceability issue - if the contract is so vague that a court would be unable to order specific performance, the test will not be met. The performance obligation needs to be specific enough that it can be determined, at any point in time, whether the performance obligation has been fulfilled or not.

Whether or not the performance obligations are sufficiently specific will require a component of subjective assessment, but conditions specified in the agreement would typically include:

- The nature or type of the goods or services to be delivered
- The cost or value of the goods or services to be delivered
- The quantity of goods or services to be delivered, and
- The period of time over which the goods or services must be delivered.

The mere passage of time however, does **NOT** provide a sufficiently specific performance obligation. In the case of an immunisation grant, a requirement to deliver immunisation services for the 202x calendar year would not include a sufficiently specific performance obligation, but a requirement to provide 2,000 immunisations would. Subjective judgment would be involved in the case of a requirement to provide at least 2,000 immunisations in the 202x year, where it would be necessary to determine whether the time or the performance components predominate (aided, of course, by the enforceability of the contract).The requirement to report (say, the number of immunisations provided) on a regular basis would also be a factor in making this determination, especially if the contract provides for the withholding of progress payments if certain targets are not met.

If the performance specifications are not sufficiently specific, Councils should consider if AASB 1058 applies.

Revenue Recognition under AASB 15

The standard describes the principles an entity must apply to measure and recognise revenue and the related cash flows. The core principle is that an entity recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation

Each of these steps is described below in brief. AASB 15 is a very comprehensive standard and the description below is meant only as a very high-level description of the steps involved.

1. **Identify the contract(s) with a customer**

The first step in applying AASB 15 is to identify the contract with the customer that you are applying the standard to. The customer would need to be identified as discussed earlier. A contract must create enforceable rights and obligations and may be written, oral or implied by an entity's customary business practices. A contract with a customer is required to have the following attributes:

- The parties have approved the contract and are committed to perform their respective obligations.
- Each party's rights regarding the goods or services to be transferred can be identified.
- Payment terms can be identified.
- The contract has commercial substance.
- It is expected that the customer will pay for the goods or services.

2. **Identify the performance obligations in the contract**

Once the contract has been determined, the next step is to understand all the things that the Council has promised to provide to the customer i.e. what goods or services have they committed to providing. Then work out how the promises are bundled into performance obligations as noted earlier.

In some cases, the Council may be providing goods or services as an agent on behalf of another party. A Council is an agent when they do not control the good or service prior to it being transferred to the customer. For example, if Council is merely arranging for another party to provide the goods / services in the other party's name but they do not first take control of those goods/services before they are transferred then effectively the performance obligation is arranging for the goods/services to be provided rather than the actual provision of the goods/services.

If the Council is determined to be an agent, then the revenue received it netted with the costs incurred and only the net amount is shown in the revenue line of the accounts. If the Council is the principal, then gross revenue is shown in the revenue line and the costs incurred are shown as an expense.

Where Council is merely acting as a conduit for the funding where no revenue is received by the Council then AASB 15 does not apply. Amounts received are recorded as a liability, and as Council makes payments to the other party, these are debited against the liability.

In some arrangements Council incurs a responsibility for ensuring that the other party complies with the terms of the contract, which may need to be reported as a contingent liability.

3. **Determine the transaction price**

The third step in AASB 15 is to determine the "transaction price". This is the amount that Council expects to be entitled under the contract. Determining the transaction price is an important step as this amount is allocated to the performance obligations in the contract and then recognised in revenue when (or as) the performance obligations are satisfied. If the amount to be received under the contract is fixed, then this is the transaction price. If, however, the amount to be received has some variability to it then this is more challenging. For example, a contract may have a bonus payment that the Council will receive if they complete the contract within a certain time frame.

Variable consideration needs to be estimated and included in the transaction price to be allocated to the performance obligations. It then needs to be considered as to the reliability of the estimate.

Variable consideration is only included in the transaction price up to an amount for which a "significant revenue reversal is not highly probable". For material variable consideration in a contract, further guidance should be sought from AASB 15.

4. **Allocate the transaction price to the performance obligations in the contract**

Step 4 is to take the transaction price from step 3 and allocate this across the performance obligations determined in step 2. If the contract only has one performance obligation, then the whole transaction price is allocated to that performance obligation. If there are more than one performance obligation, then the transaction price needs to be allocated to each of them. AASB 15 generally requires an entity to allocate the transaction price to the performance obligations in proportion to their stand-alone selling prices. As a simple example of this concept, if you buy a mobile phone and the contract also includes a connection to a network service, you would consider this to be two performance obligations. If you pay $50/month for your phone in total, the transaction price to be allocated to the two performance obligations is $600. Under step 4 you would then work out what it would have cost you for each item if you had bought them separately, e.g. the phone on its own may cost $500 and the service on its own may be $35/month ($420 in total). These are the stand-alone selling prices for each performance obligation. The transaction price in the contract of $600 is then allocated to the performance obligations on a relative basis as follows: the phone would be allocated $600 * 500/920 = $326 and the service would be allocated $600 * 420/920 = $274.

5. **Recognise revenue when (or as) the entity satisfies a performance obligation**

The last step in AASB 15 is to work out when to recognise the transaction price in revenue for each performance obligation. Revenue is recognised when the control over the good or service being provided in transferred to the customer. It can either be recognised at a point in time or over time. If the transaction does not meet the criteria for recognition over time, revenue will be recognised at a point int time when the performance obligation is fulfilled i.e. control has passed. Therefore, we start with the criteria for over time recognition. Revenue is recognised over time where any one of the following criteria are met:

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;

(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. (AASB 15.35)

Examples of each are as follows:

(a) A cleaning service where the customer gets value as the service is provided;

(b) Where you are constructing an asset for a customer and it is being built on their premises, and therefore, they control the asset as it is built.

(c) Where something unique is being built that can't reasonable be sold to another customer and you have an enforceable right to payment at all times as you perform the construction. For example, a bridge that is constructed is usually very specific to the location and unlikely to be able to be sold to another customer. If you have a right to payment as the construction occurs, revenue would be recognised over time.

If none of these criteria are met, the revenue is recognised at a point in time.

In our example in step 4, revenue for the service would be recognised over time as it meets criteria (a) above. AASB 15 has two methods of recognizing revenue over time, the input and the output method. These methods are meant to give a measure of how much of the performance obligation has been fulfilled as you progress the project.

For example, the ***output method*** may be by reference to particular milestones in a contract. In our example, the service is provided equally across the 12 months and therefore, revenue could be recognised based on time passed. So, after 6 months 6/12 * $274 (i.e. $137) of revenue would be recognised.

The ***input method*** recognises revenue based on the entities efforts towards completing the performance obligation. A commonly used measure is costs incurred to date compared to total expected costs to complete the project. For example, if your transaction price is $1,000 and your expected total costs are $800. If you are at a point in time when you have incurred $400 of costs so far, then using the input method you would recognise 400/800 * $1000 (i.e. $500) as revenue. This method is similar to the percentage of completion method under AASB 111 *Construction Contracts,* a standard which was replaced by AASB 15. However, one fundamental difference is that AASB 15 has strict requirements of which costs can be capitalised which differs substantially from AASB 111 which allowed certain costs to be capitalised as a work in progress asset. The treatment of contracts costs in relation to AASB 15 is discussed below.

Revenue for the sale of the phone would be at a ***point in time***. So once the control of the phone is transferred to the customer the $326 in revenue is recognised.

Contract Assets and Contract Liabilities

AASB 15 introduces the concept of a contract asset and a contract liability. Revenue is recognised in accordance with the process described above. A contract asset or liability is created when there is a difference between the amount of revenue recognised and the payments/receivables from the customer. For example, if the customer pays upfront before revenue is due to be recognised, this amount is recorded as a contract liability. Similarly, if revenue is recognised, for example over time, before the customer pays or is due to pay, a contract asset is recorded. A contract asset becomes a receivable when the amount to be received is unconditional, i.e. the cash is due without the Council having to perform any further actions for that particular balance. It should also be noted that a contract asset is subject the impairment requirements of AASB 9 in the same way that a receivable would be. (AASB 15 Appendix A Defined terms, AASB 15.105 to 109 and AASB 15.116 to 118)

Contract Costs

AASB 15 specifies the accounting treatment for costs an entity incurs to obtain and fulfil a contract within the scope of AASB 15 to provide goods or services to a customer.

Costs to Obtain a contract

The incremental costs of obtaining a contract with a customer are recognised as an asset if the entity expects to recover them. Incremental costs are those that an entity would not have incurred if the contract had not been obtained. For example, if the entity has to pay a sales commission to staff if the contract is obtained, that is an incremental cost. However, sales staff costs which would be incurred even if the contract was not obtained would not be incremental. Costs incurred to obtain a contract that are not incremental costs are required to be expensed as incurred, unless they are explicitly chargeable to the customer. (AASB 15.91 to 94)

Costs to fulfill a contract

With regards to costs incurred as a contract is fulfilled, you first need to consider if the costs incurred are accounted for under another standard. For example, if you bought equipment to be used to fulfill a contract the cost would be accounted for under AASB 116 as PP&E. If the cost is not accounted for under another standard, then the criteria for capitalizing a cost to fulfill a contract under AASB 15 are as follows:

(a) The costs directly relate to a contract or to a specifically identifiable anticipated contract;

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) The costs are expected to be recovered.

Criteria b) is challenging to meet as it requires that only costs that meet the definition of an asset can be capitalised. As such costs cannot be capitalised on the Statement of Financial Position to align the cost recognition with the revenue.

Amortisation of capitalised costs

Costs of a contract that have been capitalised are amortised to profit and loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. For example, if the transfer of the goods to a customer is at a point in time then the costs are also released at this point in time. Similarly, if the revenue is recognised over time using a particular methodology, then the amortisation of the costs to profit and loss follows the same methodology.

It should be noted that AASB 15 allows you to expense contract costs as incurred that if capitalised would have been amortised within a year. It should also be noted that as an asset, the capitalised contract costs are subject to the impairment provisions of AASB 137 (AASB 15.94).

Recognition of Revenue - AASB 1058

AASB 1058 deals with the recognition of revenue in instances where assets are acquired at substantially less than fair value and principally to enable the Council to further its objectives.

If the above criteria are met, the asset must be recognised in accordance with the relevant standard.

Examples include:

- AASB 9 for cash and other financial instruments
- AASB 116 for infrastructure, property, plant and equipment
- AASB 138 for intangible assets
- AASB 140 for investment property
- AASB 16 for leased assets (but note the current AASB proposals for relief in relation to "peppercorn" leases - see “LEASES STANDARD - AASB 16” above).

The recognition requirements of these standards must be followed. For example, a receivable is only recorded under AASB 9 when it is unconditional and is subject to an enforceable contract. Cash is recorded when the Council has control over the cash.

There may be other amounts to be recognised in relation to the assets acquired. These too, are recognised in accordance with other accounting standards:

- AASB 9 for borrowings and other financial instruments AASB 137 for provisions
- AASB 16 for lease liabilities
- AASB 15 for any component of the contact with the scope of this standard
- AASB 1004 Contributions by owners

The end result will be an excess of fair value over the net cost of the assets acquired.

This excess shall be immediately recognised in profit and loss unless the asset received was a financial asset (e.g. cash) that was to enable the Council to acquire or construct a non-financial asset as discussed below.

Transfers to enable an entity to acquire or construct a recognisable non-financial asset controlled by the entity

A transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset that is to be controlled by the entity is one that:

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(a) requires the entity to use that financial asset to acquire or construct a recognisable nonfinancial asset to identified specifications;

(b) does not require the entity to transfer the non-financial asset to the transferor or other parties; and

(c) occurs under an enforceable agreement. (AASB 1058.15)

Where this is the case, the Council shall recognise a liability for the excess of the initial carrying amount of a financial asset. The Council shall then recognise income in profit or loss when (or as) the entity satisfies its obligations under the transfer i.e. as the asset is constructed or acquired. (AAB 1058.16) Note that the methods of recognising revenue where the asset is constructed over time are consistent with the "over time" measures for AASB 15 noted above.

There have been differing interpretations of the phrase "when (or as)" by councils regarding the recognition timing of capital grant revenue according to AASB 1058.16. For clarification the following interpretation is to be applied by Council's to achieve consistency:

- In case of capital assets under **construction**, revenue is recognised **as** expenditure is incurred, that is a pro-rata recognition over the time of construction (e.g. Prorata = % of Budget Spent x grant $)
- In the case of **purchased** capital assets, revenue is recognised in full at the point in time **when** the asset is delivered or installed.

Volunteer Services

AASB 1058 also deals with volunteer services. These are required to be recognised if:

(a) the fair value of those services can be measured reliably; and

(b) the services would have been purchased if they had not been donated. (AASB 1058.18)

These Model Statements take the default position that, in the absence of the volunteers' contributions, Council would find it necessary to curtail either that service, or another service, and accordingly the requirement (b) above is not satisfied.

AASB 1058 permits a voluntary election to account for volunteer services even if paragraph (b) is not satisfied (AASB 1058.19). ***In the interest of comparability across Councils, these Model Statements mandate that this election is NOT to be made***.

FINANCIAL INSTRUMENTS

AASB 7 requires entities to provide disclosures in their financial statement that enable users to evaluate the significance of financial instruments for the entity's financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period.

The carrying amounts of financial assets and liabilities measured at fair value through profit and loss or through other comprehensive income and financial assets and liabilities measured at amortised cost, as specified in AASB 9, shall be disclosed in the statement of financial position or in the notes (AASB 7.8).

AASB 7 also requires in its paragraph 39(a) that an entity shall also disclose a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.

A financial instrument is defined in AASB 132 paragraph 11 as 'any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity'.

As per the definition, a financial instrument is made up of a number of components, as follows:

- a contract

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- a financial asset
- a financial liability or equity instrument

A financial asset is any asset that is:

(a) cash;
(b) an equity instrument of another entity
(c) a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity
(d) a contract that will or may be settled in the entity's own equity instruments and is:
   i. a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
   ii. a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 16A and 16B, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C and 16D, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments

A financial liability is any liability that is:

(a) a contractual obligation
   i. to deliver cash or another financial asset to another entity; or
   ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity
(b) a contract that will or may be settled in the entity's own equity instruments and is:
   i. a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
   ii. a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own nonderivative equity instruments. Also, for these purposes the entity's own equity instruments do not include puttable financial instruments that are classified as equity instruments in accordance with paragraphs 16A and 16B, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C and 16D, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

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The table below lists all account balances presented in the Model Financial Statements and an assessment of whether they are a financial asset, financial liability or equity instrument that should be disclosed in the liquidity analysis table. This table provides general guidance on the most common treatments; however Council's will need to make their own assessments considering their individual circumstances:

SFP Level	Note Level	Include in the table	Rationale
Cash and cash equivalents	Cash on hand and at bank	Y	(a)
Cash and cash equivalents	Deposit at call	Y	(a)
Cash and cash equivalents	Short term deposits and bills	Y	(a)
Cash and cash equivalents	Bills of exchange	Y	(a)
Trade and other receivables	Rates – General and other	Y	(b)
Trade and other receivables	Accrued revenues	Y/N	(c)
Trade and other receivables	Debtors – general	Y	(a)
Trade and other receivables	Other levels of government	Y	(a)
Trade and other receivables	GST recoupment	Y	(b)
Trade and other receivables	Prepayments	N	(d)
Trade and other receivables	Loans to community organisations	Y	(a)
Trade and other receivables	Aged care facility deposits	Y	(a)
Trade and other receivables	Sundry	Y/N	(c)
Other financial assets	Other financial assets	Y	(a)
Inventories	Stores and Materials	N	(e)
Inventories	Trading stock	N	(e)
Inventories	Real Estate Developments	N	(e)
Inventories	Other	Y/N	(e)
Non-current assets held for sale	Non-current assets held for sale	N	(e)
Financial Assets (non-current assets)	Rates and general	Y	(b)
Financial Assets (non-current assets)	Council Rates Postponement scheme	Y	(b)
Financial Assets (non-current assets)	Prepayments	N	(d)
Financial Assets (non-current assets)	Loan to community organisations	Y	(a)
Financial Assets (non-current assets)	Aged care facility deposits	Y	(a)
Financial Assets (non-current assets)	Other	Y/N	(c)
Equity accounted investments in Council	Equity accounted investments in Council	N	(f)
Investment property	Investment property	N	(e)
Infrastructure, property, plant & equipment	Infrastructure, property, plant & equipment	N	(e)
Other non-current assets	Stores and materials	N	(e)
Other non-current assets	Trading stock	N	(e)

SFP Level	Note Level	Include in the table	Rationale
Other non-current assets	Real Estate Developments	N	(e)
Other non-current assets	Other	Y/N	(c)
Other non-current assets	Capital works in progress	N	(e)
Trade and other payables (current and non-current)	Goods and services	Y	(g)
Trade and other payables (current and non-current)	Payments received in advance	N	(h)
Trade and other payables (current and non-current)	Accrued expenses – employee entitlements	Y	(g)
Trade and other payables (current and non-current)	Accrued expenses – other	Y/N	(i)
Trade and other payables (current and non-current)	Aged care facility deposits	Y	(g)
Trade and other payables (current and non-current)	Deposits, retentions and bonds	Y	(g)
Trade and other payables (current and non-current)	Other	Y/N	(i)
Borrowings (current and non current)	Bank overdraft	Y	(g)
Borrowings (current and non current)	Short term draw down facility	Y	(g)
Borrowings (current and non current)	Loans	Y	(g)
Borrowings (current and non current)	Lease Liabilities	Y	(g)
Borrowings (current and non current)	Other	Y/N	(i)
Provisions (current and non-current)	Employee entitlements	N	(j)
Provisions (current and non-current)	Insurance losses	N	(j)
Provisions (current and non-current)	Future reinstatement/restoration	N	(j)
Provisions (current and non-current)	Other	N	(j)
Liabilities relating to Non-current assets held for sale	Liabilities relating to Non-current assets held for sale	Y/N	(i)
Other current liabilities and non-current liabilities	Other current liabilities and non-current liabilities	Y/N	(i)
Liability – Equity accounted Council businesses	Liability – Equity accounted Council businesses	N	(f)

(a) It is a financial asset as it is a contractual right to obtain cash and gives rise to a financial liability of another entity.
(b) The nature of such receivable arising from statutory requirements is, in substance, similar to a contractual receivable, as the statutory requirement also represents a right to receive cash and gives rise to a financial liability of another entity.
(c) It is only a financial asset if the amounts recorded in this account arise from a contractual right to receive cash (which is mostly the case) and gives rise to a financial liability of another entity.
(d) It is not a financial asset as the economic benefit is realised through the receipt of services or goods, rather than the receipt of cash or another financial asset.
(e) It is not a financial asset as there is no contract in place. Future economic benefit is obtained through the use of consumables or the use of the assets rather than the receipt of cash or another financial asset from another entity. A

financial asset may be created if Council enters into a contractual right to receive cash or another financial asset for the sale of the asset or for the rental of an investment property. The financial asset created by the contractual right (e.g. cash, accounts receivable, etc) is included in the table and not the value of the asset recorded in the statement of financial position under other applicable Australian accounting standards.

(f) AASB 7 does not apply to investment in subsidiaries, associates or joint ventures that are accounted for in accordance with AASB 10, AASB 127 and AASB 128.

(g) It is a financial liability as it involves a contractual obligation to delivery cash to another entity and gives rise to a financial asset of another entity.

(h) It is not a financial liability as it is settled through the delivery of services, not cash.

(i) It is only a financial liability if the amounts recorded in this account arise from a contractual obligation to deliver cash to another entity (which is mostly the case) and gives rise to a financial asset of another entity.

(j) Provisions are usually a constructive obligation (i.e. one that arises out of an entity's action) rather than a contractual obligation and may be settled through the delivery of services rather than a financial asset (e.g. permitting staff not to work for a period of time whilst still paying them). Accordingly, these are typically not financial liabilities.

LIST OF CURRENT ACCOUNTING STANDARDS

Appendix A contains a list of current Accounting Standards and Interpretations (including those that have not yet come into effect) and a short commentary on their application to these Model Statements.

ABS / LGGC CLASSIFICATIONS

Appendix B provides guidelines for the cross-classification of financial data by purpose / function used in the completion of the Local Government Grants Commission supplementary data return and for the purposes of the Australian Bureau of Statistics.

As such, they do not form part of these Model Statements, but are provided for the benefit of Councils in completing these returns. The authors gratefully acknowledge the assistance of staff of the Australian Bureau of Statistics in the provision of this material.

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APPENDIX A - APPLICABLE AUSTRALIAN STANDARDS & INTERPRETATIONS

HOW TO USE THIS APPENDIX

Some practitioners have expressed uncertainty about which accounting standards actually apply to the Annual Financial Statements prepared in accordance with the Model Statements. A full list is set out in the "TABLE OF ACCOUNTING STANDARDS & INTERPRETATIONS" below. Standards and Interpretations that have no effect on SA Local Governments for this reporting period are greyed. References throughout the Model Statements to Accounting Standards and Interpretations refer to the items in this list).

Full copies of all Standards and Interpretations are available on the AASB website www.aasb.gov.au Table of Standards and Table of Interpretations.

The requirements in AASB 108 for disclosures of new and amending standards are briefly discussed in Note 1 - "New Accounting Standards" of the Model Statements. The following tables list new and amended Standards and Interpretations with significant changes that have been issued between 1 January 2023 and 30 April 2024, and new and amended Standards and Interpretations issued previously that commenced application from 1 July 2023:

"TABLE OF NEW & AMENDED STANDARDS"

"TABLE OF NEW & AMENDED INTERPRETATIONS"

Councils should review the items in these lists and identify those that have had, or have the potential to have, **a material effect** on the values and disclosures in their Annual Financial Statements. These should be referred to in the "New Accounting Standards" section of Note 1.

Amendments to Standards & Interpretations that have no effect on Council do not need to be included, and amendments to Standards & Interpretations that have no effect on SA Local Governments for this reporting period are greyed.

TABLE OF STANDARDS & INTERPRETATIONS

Accounting Standards and Interpretations that do not apply are greyed.

Applicable Accounting Standards and Interpretations

AASB # / Interpretation	Title
ACCOUNTING STANDARDS	
1	First-time Adoption of Australian Accounting Standards Not applicable - SA Councils adopted in 2006
2	Share-based Payment Not applicable - Councils do not have issued share capital.
3	Business Combinations Applies only to Council amalgamations
4	Insurance Contracts Applies only to entities that issue *insurance contracts*.

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Applicable Standards and Interpretations cont.

AASB # / Interpretation	Title
5	Non-current Assets Held for Sale and Discontinued Operations
6	Exploration for and Evaluation of Mineral Resources Applies only to exploration and evaluation expenditures
7	Financial Instruments: Disclosures
8	Operating Segments Applies to for-profit entities only; not-for-profits see AASB 1052.
9	Financial Instruments
10	Consolidated Financial Statements
11	Joint Arrangements
12	Disclosure of Interests in Other Entities
13	Fair Value Measurement
14	Regulatory Deferral Accounts No effect for SA Councils as they have no rate-regulated balances.
15	Revenue from Contracts with Customers
16	Leases
17	Insurance Contracts
101	Presentation of Financial Statements
102	Inventories
107	Statement of Cash Flows
108	Accounting Policies, Changes in Accounting Estimates and Errors
110	Events after the Reporting Period
112	Income Taxes Not applicable - general purpose local governments are not subject to income taxation.
116	Property, Plant and Equipment
119	Employee Benefits
120	Accounting for Government Grants and Disclosure of Government Assistance Applies to for-profit entities only.

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Applicable Standards and Interpretations cont.

AASB # / Interpretation	Title
121	The Effects of Changes in Foreign Exchange Rates Not applicable - SA Councils not permitted to invest in foreign currency / operations.
123	Borrowing Costs
124	Related Party Disclosures
127	Separate Financial Statements
128	Investments in Associates and Joint Ventures
129	Financial Reporting in Hyperinflationary Economies Australia is not a hyperinflationary economy.
132	Financial Instruments: Presentation
133	Earnings per Share Not applicable - Councils do not have issued share capital.
134	Interim Financial Reporting Local Government Act & Regulations prescribe requirements for SA Councils.
136	Impairment of Assets
137	Provisions, Contingent Liabilities and Contingent Assets
138	Intangible Assets
139	Financial Instruments: Recognition and Measurement
140	Investment Property
141	Agriculture Production of agricultural produce for sale
1004	Contributions
1023	General Insurance Contracts Applies only to entities that issue insurance contracts.
1038	Life Insurance Contracts Applies only to entities that issue insurance contracts.
1039	Concise Financial Reports Applies only to entities under the *Corporations Act.*
1048	Interpretation of Standards
1049	Whole of Government and General Government Sector Financial Reporting Applies only to State and Federal Governments
1050	Administered Items Applies only to State and Federal Governments
1051	Land Under Roads
1052	Disaggregated Disclosures

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Applicable Standards and Interpretations cont.

AASB # / Interpretation	Title
1053	Application of Tiers of Australian Accounting Standards "Reduced Disclosure Requirements" - not applicable to local governments.
1054	Australian Additional Disclosures
1055	Budgetary Reporting Applies only to State and Federal Governments
1056	Superannuation Entities Applies to superannuation entities only.
1057	Application of Australian Accounting Standards
1058	Income of Not-for-Profit Entities
1059	Service Concession Arrangements: Grantors
1060	General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities – Commences 1 July 2021 – not applicable to local governments
INTERPRETATIONS	
1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
2	Members' Shares in Co-operative Entities and Similar Instruments
5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (Relates to such funds that have independent trustees.)
6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
7	Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies
9	Reassessment of Embedded Derivatives
10	Interim Financial Reporting and Impairment
11	Group and Treasury Share Transactions
12	Service Concession Arrangements
14	AASB 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
16	Hedges of a Net Investment in a Foreign Operation
17	Distributions of Non-cash Assets to Owners

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Applicable Standards and Interpretations cont.

AASB # / Interpretation	Title
19	Extinguishing Financial Liabilities with Equity Instruments
20	Stripping Costs in the Production Phase of a Surface Mine
21	Levies
22	Foreign Currency Transactions and Advance Consideration
23	Uncertainty over Income Tax Treatments
107	Introduction of the Euro
110	Government Assistance - No Specific Relation to Operating Activities (where AASB 120 applies only)
125	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders
127	Evaluating the Substance of Transactions Involving the Legal Form of a Lease Superseded on commencement of AASB 16 Leases from 1 January 2019.
129	Service Concession Arrangements: Disclosures
131	Revenue - Barter Transactions Involving Advertising Services To be superseded on commencement of AASB 15 Revenue from Contracts with Customers.
132	Intangible Assets - Web Site Costs
1003	Australian Petroleum Resource Rent Tax
1019	The Superannuation Contributions Surcharge
1030	Depreciation of Long-Lived Physical Assets: Condition-Based Depreciation and Related Methods
1031	Accounting for the Goods and Services Tax (GST)
1038	Contributions by Owners Made to Wholly-Owned Public Sector Entities Does not apply to local governments.
1047	Professional Indemnity Claims Liabilities in Medical Defence Organisations
1052	Tax Consolidation Accounting
1055	Accounting for Road Earthworks

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TABLE OF NEW & AMENDED STANDARDS

The following table lists new standards and amendments to existing standards that have been issued between 1 January 2022 and 1 January 2023, and new and amended standards issued previously that commenced application from, or are scheduled to commence after, 1 July 2023.

Except for Standards not applicable to local government, the listing is intended to be comprehensive. It is not necessary to refer to standards that do not apply to local government, and those with minimal effect should have commensurate disclosure. (Note that the operative date is for accounting periods *commencing* on or after the date given.)

Minor amendments to existing Standards have generally been ignored in this table. For the currently applicable versions of Standards see www.aasb.gov.au.

List of new and amended standards

Accounting Standards and Interpretations that do not apply or have limited application are greyed.

AASB	Title	Issued / Compiled	Operative
17	Insurance Contracts (Appendix D) Not applicable to SA Local government	Jul 2017	1 Jan 2023
2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Dec 2014	1 Jan 2025
2020-1	Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current (Limited application to SA Local government)	Mar 2020	1 Jan 2024
2020-3	Amendments to Australian Accounting Standards – Annual Improvement 2018 – 2020 and Other Amendments (Limited application to SA Local government)	Jun 2020	1 Jan 2022
2021-2	Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates (Clarifies the definition of accounting estimate to assist in distinguishing from accounting policy. Unlikely to have an impact on SA Local government)	Mar 2021	1 Jan 2023
2021-5	Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Nota applicable to SA local government)	Jun 2021	1 Jan 2023
2021-6	Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards	Dec 2021	1 Jan 2023
2021-7b	Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections (Not applicable to SA Local government)	Dec 2021	1 Jan 2023
2021 -7c	Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections (Not applicable to SA local Government)	Dec 2021	1 Jan 2025
2022-1	Amendments to AASs – Initial Application of AASB 17 and AASB 9 – Comparative Information (Not applicable to SA Local government)	Mar 2022	1 Jan 2023
2022-3	AASB 2022-3 Amendments to AASs – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15	May 2022	1 Jul 2022

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AASB	Title	Issued / Compiled	Operative
2022-5	Amendments to Australian Accounting Standards – Lease Liability in a Sale and Leaseback (Applicable to Council's with sale and leaseback arrangements)	Nov 2022	1 Jan 2024
2022-6	Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants (Disclosure for loan liabilities for which the right to defer settlement for at least twelve months from reporting date is subject to conditions in the arrangement. Applicable to Councils with such loan arrangements)	Dec 2022	1 Jan 2023
2022-7	Editorial Corrections to Australian Accounting Standards and Repeal of Superseded and Redundant Standards (Editorial corrections to various standards. Due to editorial nature unlikely to have any material impact on SA local government)	Dec 2022	1 Jan 2023
2022-8	Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments (Not applicable to SA Local government)	Dec 2022	1 Jan 2023
2022-9	Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector (Not applicable to SA Local government)	Dec 2022	1 Jul 2026
2022-10	Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities (Authoritative guidance and illustrative examples. Unlikely to have a material impact on SA Local government as guidance is consistent with that currently applied)	Dec 2022	1 Jan 2024
2023-1	AASB 2023-1 Amendments to AASs – Amendments to AASB 107 and AASB 7 – Disclosures of Supplier Finance Arrangements (Not applicable to SA Local government)	Jun 2023	1 Jan 2024
2023-2	AASB 2023-2 Amendments to AASB 112 – International Tax Reform Pillar Two Model Rules The exception added to AASB 112 applies retrospectively and immediately. Disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023 (Not applicable to SA Local government)	Jun 2023	1 Jan 2023
2023-3	AASB 2023-3 Amendments to Australian Accounting Standards – Disclosure of Non-current Liabilities with Covenants: Tier 2 (Not applicable to SA Local government)	Jun 2023	1 Jan 2024
2023-4	Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules: Tier 2 Disclosures (Not applicable to SA Local government)	Sep 2023	1 Jan 2023
2023-5	Amendments to Australian Accounting Standards – Lack of Exchangeability (Limited applicability to SA Local government)	Oct 2023	1 Jan 2025
ASRS - 1	Exposure Draft - ASRS 1 General Requirements for Disclosure of Climate-related Financial Information – based on IFRS S1 but limited to climate-related financial disclosure	Jun 2023	1 July 2024
ASRS - 2	Exposure Draft - ASRS 2 Climate-related Financial Disclosures – based on IFRS S2 with Australian-specific requirements	Jun 2023	1 July 2024

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AASB	Title	Issued / Compiled	Operative
ASRS - 101	Exposure Draft - ASRS 101 References in Australian Sustainability Reporting Standards, a draft service Standard to list the relevant versions of any non-legislative documents published in Australia and foreign documents that are referenced in ASRS Standards.	Jun 2023	1 July 2024

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TABLE OF NEW & AMENDED INTERPRETATIONS

The following table lists new interpretations and amendments to existing interpretations that have been issued since 1 January 2022, and new and amended interpretations issued previously that commenced application from 1 July 2022.

The listing is intended to be comprehensive in relation to ***substantive*** amendments. It is not necessary to refer to interpretations that do not apply to local government, and those with minimal effect should have commensurate disclosure. (Note that the operative date is for accounting periods *commencing* on or after the date given.)

List of new and amended accounting interpretations

Accounting Standards and Interpretations that do not apply or have limited application are greyed.

Int'n	Title	Issued	Operative
N/a	None	N/a	N/a

APPENDIX B - LGGC SUPPLEMENTARY RETURN

- **Guidelines for the cross-classification of financial data by purpose / function;**
- **Instructions / tips on completion of the return.**

INTRODUCTION

The South Australian Local Government Grants Commission (LGGC) collects its local government finance (LGF) data requirements through the medium of a spreadsheet workbook, "Supplementary Data to the Financial Statements" (the Supp).

The content of the Supp's main Annual Financial Statements is governed by accounting standards as shown in the prescribed Model Financial Statements (MFS). Extra detail in the format of MFS Notes is embedded in the Supp's statements. This data meets the main information requirements of the LGGC for the development of recommendations on the distribution of Commonwealth Financial Assistance Grants and is also provided to the ABS for the compilation of Government Finance Statistics (GFS).

Further to the analyses of the main financial statements by type, the LGGC requires incomes and expenses to be cross-classified by purpose (or function) as an essential component for the grants allocation methodologies. The ABS also uses some of this data for GFS. The detail and types of functions required for the cross-classification of data by purpose are determined by the major users of LGF (the LGGC and ABS and the Local Government Association of SA) in consultation with the local government sector.

The collection of functionalised data using a common, standardised reporting format enables meaningful comparisons to be made between councils and for the local government sector as a whole across time and offers the opportunity for other interested parties to suggest useful and relevant information outputs. As an example, the local government sector may wish to make a submission to the state government for recurrent funding in support of a particular function for which the costs have been spiralling across time. Reports can be generated from a standardised, time- series database to support such a submission. If necessary, this function could be added to the suite of functions for which data are collected

Given that information requirements of the major users of these data may change, this collection should be viewed as a dynamic and evolving entity, hence the activities included in this scheme may change over time. The purpose categories are continually under review and feedback is welcomed. For example, the local government sector may wish to measure a particular function that has become a more costly public service, hence a request is made to include this function in the Supplementary Data Return.

An important consideration is to keep the number of functions at a minimum. Fundamental guidelines are:

if it's not going to be used, don't collect it.

if it's not material at the level of the state aggregates, don't collect it.

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EXECUTIVE SUMMARY

The following executive summary provides important guidance to users to assist with the completion of the Supp. This information is designed to prevent inaccurate data being provided, which in turn has the potential to lead to the many users of this information making incorrect decisions.

Appendix A deals with the completion of the following 5 sheets contained within the supplementary return:

- Operating Expenses
- Operating Income
- Capital Revenue
- Capital Expenditure
- Capital Sales

The tables which follow later aim to assist Council officers in applying the standardised functional classifications to their data.

A glossary of purpose codes

Provides *explanatory notes and examples for each of the purpose codes* where financial information is to be cross-classified by purpose as required to complete the 5 sheets listed above. The layout reflects the order in which the functions are presented in those data collection forms.

Index of activities by purpose code

Provide a comprehensive list (in alphabetical order) of the activities undertaken by SA local government, and *maps activities to the appropriate purpose code for that activity*.

Assignment of Activities to Purposes (Summary - refer later for detail)

The Supp summarises services provided by local government into major functional groups (functions), as follows:

- Business undertakings;
- Community services;
- Culture;
- Economic development;
- Environment;
- Recreation;
- Regulatory services; and
- Transport

Each function contains a number of purpose codes and these codes are used to identify activities. A number of purpose codes (activities) are aggregated to obtain a total amount for a function.

Council's policy, or intent, for the provision of a service, or the establishment of a facility should be of prime consideration in assigning an activity to a purpose, or function category.

Use the "glossary of purpose codes" table to get a broad understanding of activities to be recorded under a specific purpose code. If, after using the glossary of purpose codes, you are still unclear on how to classify an activity refer to the more detailed "Index of activities by purpose code".

If an activity relates to more than one purpose code then you should distribute the expenses/ revenues across the appropriate purpose codes, either using actual data or reliable/realistic estimates. If this method is unfeasible then refer further below to the section titled "Multi-purpose activities".

There should be minimal amounts entered into the various "other…." purpose code options that are available to use. By referring to the index of activities by purpose code, you should be able to identify an appropriate activity. Typically amounts classified as "other…." would not be material.

Materiality - Operating expenses by purpose code may be considered immaterial if the total expenses (or revenue) for a function amount to less than 1% of total expenses (or revenues), or $50,000, whichever is the lesser.

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INSTRUCTIONS / TIPS ON COMPLETION OF THE RETURN

If you need further assistance, contact the Help Desk on 08 7133 1313

or

email grants.commission@sa.gov.au

Full Cost Attribution (FCA) - Operating Expenses Sheet (i.e. by purpose code)

The *Local Government (Financial Management) Regulations 2011* state:

Regulation 11 - Accounting standards

(2) Unless otherwise required or permitted by another law, a Council, Council subsidiary or regional subsidiary must ensure that reporting on a function, activity, good or service of the Council, Council subsidiary or regional subsidiary contained in its financial statements, or in any other external financial report prepared by the Council, Council subsidiary or regional subsidiary, is made according to a full cost attribution basis.

(3) For the purposes of sub regulation (2), an external financial report is a report of a financial nature prepared for the information and use of a person or body external to the Council, the Council subsidiary and the Council which established the subsidiary, or the regional subsidiary and any constituent Council (as the case may be).

Where "full cost attribution basis" is defined in the Regulations as:

> ***full cost attribution basis*** means a system under which all costs, **including indirect and overhead costs**, are allocated to a function, activity, good or service on a reliable and consistent basis (which may be unique to a particular Council, Council subsidiary or regional subsidiary).

Administration costs relating to a function should under FCA be allocated to that function. Costs incurred by a Council by virtue of the fact that it is a level of government - such as elected member and meetings expenses, compliance with the Freedom of Information Act, statutory advertising and the like - should be allocated to governance and not further distributed. The following is a list of typical activities that fall under the category of governance. Please refer to the Index of activities by purpose code later in this Appendix for a comprehensive list of administration activities that need to be allocated to functions via an FCA allocation model.

Governance

Elected Members:

Mayor's community fund expenditure Mayor allowance

Elected member allowance Independent member sitting fees Elected members training Elected members travel exp Election expenses

Civic receptions

Elected member conferences exp Elected member insurance Elected member other expenses FCA allocation

Organisational:

Proportion of senior management salaries & on costs (but not all) Statutory advertising

Public Consultation Insurance Public Liability

Freedom of information expenses

Subscriptions LGA

Other - incurred as a result of being a level of government FCA allocation.

Finance Charges

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As with governance, finance charges should not be reallocated as part of administration expenditure. Financing costs relate to debt which has often been accumulated over a number of periods. Accordingly, they do not necessarily have the same relationship to operating activities as would typical administration expenses. Further to this, as a pool of funds (of which debt is but one component) that finance the entire Council operations (both Capital & Operating), it would be inconsistent to allocate these expenses purely to operating activities. A formula links finance costs directly to the Statement of Comprehensive Income and therefore Councils are not required to enter anything directly into the Supp this year in relation to finance costs.

The administration function includes 4 purpose codes being Governance (189), Finance Charges (187), Administration (190) and FCA Reallocation (191) to functions. An associated balancing check ensures that the totals in the reallocation line (191) are equal to at least 95% of the administration costs entered in line (190). Although 100% should be reallocated to functions it was felt that 95% was a more practical alternative and would not materially distort the costing of functions being supported by the administration activities.

A comprehensive information paper is available from the LGA on Full Cost Attribution. For further information, follow this link www.lga.sa.gov.au>Home > Policy and Projects > (click on) Economic & Finance, then arrow down to Full Cost Attribution.

A worked example of how to allocate administration across the functions is included at the end of this Appendix. This is an example of how to use excel to distribute an unallocated portion of administration expenditure based on the non-administration data that has already been recorded against functions.

Plant Hire & Depot / Indirect Expenses - Operating Expenses Sheet (i.e. by purpose code)

Part of this type of expenditure is capitalised into infrastructure construction whilst part is charged to the operating statement.

The Supp's operating expenses sheet requires Councils to report operating Plant & Depot Overheads separately in purpose code 36 (i.e. net of amounts that have been allocated capitalised). Accordingly, for the same reasons outlined in the full cost attribution section, these amounts should be allocated out to functions to ensure that the functions are fully costed. Currently, as with administration expenditure, this is not always occurring, and some Councils are reporting large amounts against purpose code 36.

Purpose 136 requires Councils to enter the amount of this type of expense that has been reallocated to other functions. It is acknowledged that in practice a portion of this type of expense often remains under allocated or over allocated. Although 100% should be reallocated to functions it was felt that 80% was a more practical alternative and would not materially distort the costing of functions being supported by these activities. Accordingly, balancing check (5.2), which measures compliance in this area, has a plus or minus tolerance of 20%.

Purpose Code 89 - Unclassified Activities

By using the rules in Appendix B of the MFS for allocating data to a function, it should be possible to assign the expenses/revenue to a purpose other than "Unclassified" (89).

Accordingly, the unclassified activities row in the analysis of *operating expenses by purpose* has been locked such that only deficits from Equity Accounted Council Businesses are included in this purpose code. This amount is linked directly to the statement of comprehensive income.

There are several other obscure activities that were previously included under unclassified activities; these immaterial amounts should be placed against other codes as appropriate. For consistency *operating income by purpose* has also been locked down such that only surpluses from Equity Accounted Council Businesses are reported in this row. Users are requested to contact the Grants Commission for assistance should they feel they have a good reason to allocate amounts to these purpose codes.

Balancing checks ensure that no more than 5% of total capital revenue or total capital expenditure is

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recorded against unclassified activities in the relevant sheets of the supplementary return.

Work In Progress

For the 2015-16 Supp, WIP is excluded from note 7 and identified separately under a separate note 7A. Further to this, an additional row has been included such that WIP is split into WIP - Buildings as well as WIP- Infrastructure. It should be noted that Infrastructure includes Community Waste- water Management Systems (CWMS).

Grant Subsidies - Operating Income Sheet

Classification of grants between state & commonwealth: Please refer to 'Conditions over grants and contributions' of the Model Financial Statements commentary. Grants paid to Council by a State Government department/agency are shown as sourced from State Government, even where - as with the Financial Assistance Grants from the Local Government Grants Commission - the original source of the funds was the Commonwealth Government.

Comment Boxes placed Throughout the Supplementary Template

To assist users there have been a number of comment boxes inserted throughout the template to provide guidance or assistance.

ASSIGNMENT OF ACTIVITIES TO PURPOSES

These guidelines aim to assist in the allocation of transactions to purposes.

Council policy

Council's policy, or intent, for the provision of a service, or the establishment of a facility should be of prime consideration in assigning an activity to a purpose, or function category.

Examples include:

> "A community bus services for aged and disabled persons, where the literal interpretation of the service is transport (bus service) but the Council's policy was aimed at providing support for aged and disabled persons - assign this activity to "Services for the Aged and Disabled";
>
> "Heritage sites or cultural festivals, which have been developed, or organized, principally for economic intentions (i.e. to attract tourists) would be classified to "Tourism and Regional Promotion" rather than the literal classifications, "Heritage" or "Other Culture".

Some activities in the "Index of functions" are seen to be associated with more than one type of function, and the most appropriate functional classification will be determined by the Council's intention for providing the activity.

Index of activity by purpose code table - use of "Function", or "Facility Code" instead of a purpose code:

For some activities it has not been possible to offer clear cut alternatives in the Purpose Code column of the Glossary of Purpose Codes. In these cases, the following guidelines apply:

"Function"--------------------------> the activity should be classified with the most appropriate function:

e.g. a car which is not part of the general motor pool would be assigned to whatever function uses it; or

"Facility code"----------------------> the activity should be classified with the most appropriate facility

e.g. car parking which is part of a particular facility, such as a sports ground, should be assigned to the sporting facility.

Multi-purpose activities

If an activity relates to more than one of the purposes /activities listed in the sheets where transactions are cross-classified by purpose, distribute the expenses/revenues across the appropriate functions, either using actual data or *reliable/realistic estimates*.

> e.g. if a community centre is used by Scouts and Guides ("Other culture"), and by sporting clubs ("Indoor sport etc."), assign all the revenue / expenditure in proportion to its usage (either by actual or estimated revenue / expenditure)

> e.g. a community services officer provides support to aged persons ("Services for the Aged & disabled") and to families in need ("Families & Neighbourhood support"), but most of her time is utilised in working with the aged - it would be reasonable to assign the costs etc. of this service to "Services to the Aged and Disabled".

Under the requirements of Full Cost Attribution (FCA) it is expected that all Councils have devised appropriate methodologies for the allocation of the revenues / expenses to the main Council functions.

The distribution of actual revenues / expenditure across functions are preferred, but if this is not practical, the use of reliable or realistic estimates will suffice.

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GLOSSARY OF PURPOSE CODES

The following glossary provides guidelines for the purpose categories for which cross-classification of transactions are required.

Some purpose descriptors are considered to be self-evident, hence no notes are provided.

The principles outlined in the section on "Assignment of Activities to Purposes" should be observed.

"Support" - implies involvement in partnerships, joint ventures, and / or the provision (donation) of financial, or material support to outside bodies, as well as the direct provision of a service.

"Other" purposes refer to those instances where no discrete classification can be made within a category.

PURPOSE CODE	PURPOSE	NOTES
BUSINESS UNDERTAKINGS (function)		The activities included under this heading are assumed to be operating on a "full cost recovery", or commercial basis.
40	Caravan Parks / Tourist Accommodation	Includes camping sites.
11	Real estate development	Any other land development would be classified to the appropriate activity (e.g. Parks and Gardens). Land development at or below cost as economic incentive is classified to use **42**.
31	Carparking - On Street Parking control, Fee-paying off-street car parks	Free off-street car-parking should be classified as use **16**
13	Community Wastewater Management	Septic tank, effluent drainage schemes (STEDS)
93	Water Supply - Domestic	Water supply for other purposes should be classified to the activity using the water (e.g. Parks & Gardens).
20	Electricity Supply Undertakings	
48	Town Bus Service	Fare-paying bus services. Non-fare-paying (or with voluntary contributions) services for the general public would be "Community Transport" use **51**.
23	Gravel Pits/Quarries	Use only where principally a commercial operation dealing with the public. Where principally for Council supply, use **36.**
45	Markets / Sale yards	
46	Private Works	
47	Investment property	As defined in the Model Statements see 'Investment Property' in the main section.

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PURPOSE CODE	PURPOSE	NOTES
COMMUNITY SERVICES (function)		
Public Order & Safety		
92	Emergency Services and fire prevention	Support for CFS and SES , and fire prevention measures (e.g. property and roadside clearing), fire tracks. Grass cutting of roadside verges serves as both a fire prevention and a road safety measure - classify according to Council's principal intention.
3	Other Public Order & Safety	Any "Public Order & Safety" activity which cannot be assigned to one of the above categories. e.g. crime prevention, beach inspectors/patrols, surf lifesaving, road safety /driving schools, general inspectors.
Health Services		
83	Immunisation and other preventive health	Includes public health campaigns, drug and alcohol awareness programmes. Control of vermin (rats, mice) and noxious insects (e.g. European wasp) which pose a public health hazard. (Australian plague locusts are an agricultural pest, use **87** rather than a public health hazard).
84	Nursing Homes	Facilities for ***dependent*** aged and disabled persons requiring medical care and support. *excludes* Independent living facilities (hostels, home units, retirement villages) and day care services - these are classified as "Elderly Citizens" Facilities" (use **49**).
5	Other Health Services	Any "Health Service" activity which cannot be assigned to one of the above categories. Support for domiciliary care and home nursing, community health and dental clinics, family planning, CAFHS/CAMHS, housing for health workers.
Community Support		
90	Community Centres & Halls	
50	Services for the Aged and Disabled	Home assistance (Home and community care), transport schemes specifically for the elderly (transport schemes for the general public including elderly, use **51**, recreational programmes, personal assistance schemes (e.g. Meals on Wheels), amenities (e.g. ramps and other aids), respite care.
52	Child Care Centres	Council owned long day care centres, after school care, holiday day care, creches, etc.
7	Children & Youth Services	Welfare services for the protection and development of children and adolescents. Includes drop-in centres, youth refuges, supported accommodation for youth, and information / advice / referral services for children and youths.

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PURPOSE CODE	PURPOSE	NOTES
51	Community Transport	Non-fare paying and subsidised community bus services for the general public. Where the service is specifically for aged and disabled persons, it should be included with "Services for the Aged and Disabled" (use **50**).
53	Family & Neighbourhood Support	includes programmes for the support of victims of domestic violence. Protective accommodation, emergency accommodation, and other support and services for families in distress.
8	Other Community Support	includes assistance for homeless people, aboriginal welfare programmes, immigrants / refugees, disaster relief, suicide prevention programs, and community halls/centres where they are used mainly by welfare groups. Grants, donations, or "in-kind" assistance to persons and community welfare groups. Excludes support for sport/culture.
Community Amenities		
56	Cemeteries / Crematoria	
57	Public Conveniences	excluding those that are part of a public facility such as a sports ground, library etc.
59	Telecommunications Networks	For multi-purpose towers, select main function - see 'Multi-purpose activities' above.
16	Other Community Amenities	includes pedestrian malls, drinking fountains, public clocks, street furniture, bicycle racks, bus shelters, municipal directories, bike racks. Free off-street parking, excluding where it is part of a public facility such as a sports ground, library etc.
CULTURE (function)		
Library Services		
60	Libraries	Includes Static Libraries, Mobile Libraries & Housebound Services
Cultural Services		
63	Performing Arts	theatres and other venues for the performing arts; support for performing arts groups, events and venues.
62	Heritage	Includes memorials, monuments, statues, historic sites, objects, machinery, and houses (National Estate / National Trust listed buildings and sites). Local histories. Aboriginal land claims.
61	Museums & Art Galleries	includes museums and interpretive centres where the principal focus is on the preservation and display of items of historical and cultural significance (see also, "Tourism", use **44**).

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PURPOSE CODE	PURPOSE	NOTES
18	Other Cultural Services	includes support for cultural festivals, concerts, artists, orchestras, writers, broadcasting and film production, flora and fauna parks (zoos, and botanical gardens). (see also "Tourism", use **44**).
ECONOMIC DEVELOPMENT (function)		
41	Employment Creation Programs	includes vocational training schemes designed to facilitate entry of unemployed people into the workforce, and schemes to promote employment opportunities. The Cwlth Govt has a particular interest in identifying these schemes, and where these may also be classified under a different use, ***this use takes precedence,*** and they are **excluded** from the other use.
42	Regional Development	NOT town planning (use **10**). includes regional promotion programmes, support for regional development boards.
43	Support to Local Businesses	includes incentive schemes to attract businesses to the region, development of main business area (CBD/Town Centre), business centres, industrial parks, and main street programmes.
44	Tourism and regional promotion	includes tourist information services, tourist attractions and facilities, tourism promotion, tourism boards and committees. Heritage sites, or cultural events/festivals that have been developed, or organised, principally for economic reasons (i.e. to attract tourists) are also included.
ENVIRONMENT (function)		
Agricultural Services		
86	Agricultural water	support for the management of agricultural water resources (irrigation, rural drainage, flood prevention and levee bank construction).
88	Agricultural land	support for agricultural land management, land reclamation and conservation, control of soil erosion, Landcare programs.
87	Agricultural pest control	support for the management of agricultural pest plants and animals (rabbits, mice, insects).
21	Other Agricultural Services	Any "Agricultural " activity which cannot be assigned to one of the above categories.
Waste Management		
77	Ordinary solid waste collection and disposal	general waste collection and transport to disposal facility
78	Green waste collection and disposal	collection and transport to disposal facility

PURPOSE CODE	PURPOSE	NOTES
79	Recycling collection and disposal	collection and transport to disposal facility and composting
81	Waste Disposal Facilities	Includes transfer stations
12	Other Waste Management	Includes street and other public area bins, hard rubbish collection, drum muster, chemicals and paint, purchase / sale of wheelie bins
Other Environment		
94	Coastal Protection	management and control of beach erosion, and sand replenishment. conservation of coastal sand dunes, cliffs, estuaries. includes foreshore parks /lawns where these works are principally designed to protect the foreshore environment (otherwise they are "Parks and gardens", use **66**).
14	Stormwater & Drainage	
95	Street Cleaning	
96	Street Lighting	
97	Streetscaping	May also be road safety measure (use **28**) see 'Assignment of Activities To Purposes (Summary - refer later for detail)'
15	Other Environment	includes flood mitigation works, river bank environment protection works, non-agricultural land and water conservation programmes.
RECREATION (function)		
71	Jetties	recreational / fishing jetties. Shipping transport jetties would be included with "Water transport" (use **33**) - for dual purpose allocate to principal use.
72	Marine Facilities	recreational boat havens, marinas, boat ramps. Shipping transport facilities would be included with "Other transport" (use **33**)
66	Parks & Gardens	Parks and reserves for passive recreation - not sporting parks or reserves (e.g. ovals) - use **68**. Walking and bicycling trails, linear parks. Decorative gardens - not botanical gardens ("Other culture, use **18**).
67	Sports Facilities - Indoor	includes community recreation centres, indoor sports stadia, halls used mainly for recreational purposes, gymnasia. Indoor swimming pools, centres use **69.**
68	Sports Facilities - Outdoor	Parks, reserves, ovals for active sporting events. e.g. football grounds, athletics tracks, horse racing / riding facilities.
69	Swimming Centres	Includes Indoor / outdoor swimming centres, swimming beaches and river swimming.

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PURPOSE CODE	PURPOSE	NOTES
19	Other recreation	Any "Recreation " activity which cannot be assigned to one of the above categories.
REGULATORY SERVICES (function)		
74	Dog & Cat Control	
22	Building Control	
10	Town Planning	
4	Health Inspection	
75	Environmental Protection Control	
117	Other Regulatory Services	
TRANSPORT (function)		
30	Aerodrome	
98	Bridges & culverts	Includes any structure that carries vehicular traffic <u>over</u> a watercourse, a depression, a railway / tramline or another road.
29	Footpaths & kerbing	Pedestrian walk ways and bridges, and bicycle tracks / lanes associated with roadways - but not walking paths and bike tracks associated with parks (use **66**). Pedestrian crossings and underpasses. Roadside kerbing, driveway access, fords.
24	Roads - sealed	Where used for capital expenditure, the classification relates to the completed construction. e.g. where a formed road becomes a sealed road, classify capital expenditure to sealed road.
25	Roads - formed	
26	Roads - natural formed	
27	Roads - unformed	
28	Traffic Management	Traffic lights, median strips, humps, roundabouts, street-scaping (where it is intended to protect traffic - see **97**), etc.
33	Water transport services	Ferries, wharves and jetties for shipping
PLANT HIRE & DEPOT / INDIRECT EXPENSES (function)		
36	PLANT HIRE & DEPOT / INDIRECT EXP	Includes the expenditure net of amounts capitalized for the operation of gravel pits, quarries, hot mix plants that are providing materials primarily for Council's own use. These costs should be allocated to the functions using the staff / materials, and the net under / over allocation included in this use. Note however only plus or minus 20% of these expenses can remain un allocated.
136	Less Amounts Allocated to Other Functions	

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PURPOSE CODE	PURPOSE	NOTES
UNCLASSIFIED ACTIVITIES (function)		
89	UNCLASSIFIED ACTIVITIES	
COUNCIL ADMINSTRATION & GOVERNANCE (function)		
189	Governance	
187	Finance Costs	
190	Council administration - Gross Expenses	
191	Less Council Administration Expenses Allocated To Functions	
1	COUNCIL ADMINIS-TRATION	Use **1** is assigned to income items and capital transactions (expenditure and sales).
SPECIAL INCOME ITEMS		
39	General rates	) These revenues are considered to be general purpose - they do not relate to any particular activity.) ***Note: Special roads grants are specific purpose grants and need to be classified to a* TRANSPORT *category***))
14	Catchment Water Board levy	
37	LGGC - general purpose	
38	LGGC - roads (formula funded)	
116	Other general purpose revenue	
00	TOTAL	calculated as a negative amount to avoid the double counting of the corresponding amount elsewhere reported (e.g. on the Operating Statement)

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INDEX OF ACTIVITIES BY PURPOSE CODE

Column 1 provides the principal activity, or key word. Column 2 provides further description of the principal activity.

Column 3 has the USE code which defines the classification of the activity.

Principal activity / key word	Further description	PURPOSE CODE
Abandoned vehicles		3
Abattoirs		45
Aboriginal affairs	Community centres	90
	Culture	18
	Drop-in centres	8
	Health programmes:	
	immunisation	83
	drug and alcohol awareness	83
	preventive health	83
	Sacred sites	62
	Welfare programmes:	
	employment	41
	information	8
	refuges	8
	referral programmes	8
	supported accommodation	8
Access	Aged and disabled persons	50
	Driveways - property	29
Accounting services		190 (exp.)/ 1 otherwise
Administration	Accounting services	190 (exp.)/ 1 otherwise
	Advertising	190 (exp.)/ 1 otherwise
	Air-conditioning maintenance	190 (exp.)/ 1 otherwise
	Allocation of expenses to functions	191
	Annual reports	190 (exp.)/ 1 otherwise
	Archives	190 (exp.)/ 1 otherwise
	Assessments	190 (exp.)/ 1 otherwise
	Auditing	190 (exp.)/ 1 otherwise

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Principal activity / key word	Further description	PURPOSE CODE
Administration (cont.)	Awards and conditions	190 (exp.)/ 1 otherwise
	Bank charges	190 (exp.)/ 1 otherwise
	Building and building improvements	190 (exp.)/ 1 otherwise
	Building maintenance	190 (exp.)/ 1 otherwise
	Chairperson's expenses	190 (exp.)/ 1 otherwise
	Chief Executive Officer	190 (exp.)/ 1 otherwise
	Civic receptions	190 (exp.)/ 1 otherwise
	Citizenship ceremonies	18
	Cleaning	190 (exp.)/ 1 otherwise
	Community information	190 (exp.)/ 1 otherwise
	Computer - hardware and software	190 (exp.)/ 1 otherwise
	Computer programmers	190 (exp.)/ 1 otherwise
	Consultancies	190 (exp.)/ 1 otherwise
	Contract management	190 (exp.)/ 1otherwise
	Contribution to region	190 (exp.)/ 1otherwise
	Corporate planning	190 (exp.)/ 1otherwise
	Council chamber equipment	190 (exp.)/ 1otherwise
	Council chamber expenses	190 (exp.)/ 1otherwise
	Council meetings	190 (exp.)/ 1otherwise
	Council newsletter	190 (exp.)/ 1otherwise
	Customer service	190 (exp.)/ 1otherwise
	Data processing	190 (exp.)/ 1otherwise
	Elected members	190 (exp.)/ 1otherwise
	Election expenses	190 (exp.)/ 1otherwise
	Electricity, gas, and water	190 (exp.)/ 1otherwise
	Employee entitlements	190 (exp.)/ 1otherwise
	Financial management	190 (exp.)/ 1otherwise
	Financial reporting	190 (exp.)/ 1otherwise
	Housing for council employees	190 (exp.)/ 1otherwise
	Information technology (IT)	190 (exp.)/ 1otherwise
	Insurance	190 (exp.)/ 1otherwise
	Legal expenses	190 (exp.)/ 1otherwise

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Principal activity / key word	Further description	PURPOSE CODE
Administration (cont.)	Long service leave	190 (exp.)/ 1otherwise
	Mayoral expenses	190 (exp.)/ 1otherwise
	Mayor's parlour	190 (exp.)/ 1otherwise
	Newsletters	190 (exp.)/ 1otherwise
	OHAS	190 (exp.)/ 1otherwise
	Office equipment (other than IT)	190 (exp.)/ 1otherwise
	Office equipment maintenance	190 (exp.)/ 1otherwise
	Payroll	190 (exp.)/ 1otherwise
	Personnel records and affairs	190 (exp.)/ 1otherwise
	Policy planning	190 (exp.)/ 1otherwise
	Public meetings	190 (exp.)/ 1otherwise
	Public relations	190 (exp.)/ 1otherwise
	Public hall / meeting rooms	190 (exp.)/ 1otherwise
	Rates administration	190 (exp.)/ 1otherwise
	Records management	190 (exp.)/ 1otherwise
	Recruitment	190 (exp.)/ 1otherwise
	Rent	190 (exp.)/ 1otherwise
	Security	190 (exp.)/ 1otherwise
	Staff development	190 (exp.)/ 1otherwise
	Subscriptions	190 (exp.)/ 1otherwise
	Telecommunications equipment	190 (exp.)/ 1otherwise
	Telecommunications equipment (maint.)	190 (exp.)/ 1otherwise
	Travelling expenses - staff	190 (exp.)/ 1otherwise
	Travelling expenses - elected members	190 (exp.)/ 1otherwise
	Unclassifiable administrative activities	190 (exp.)/ 1otherwise
	Vehicle expenses	190 (exp.)/ 1otherwise
	Vehicle purchases	1
Adolescents	Community centres	90
	Drop-in centres	7
	Health programmes:	
	immunisation	83
	drug and alcohol awareness	83

Principal activity / key word	Further description	PURPOSE CODE
Adolescents (cont.)	preventive health	83
	Welfare programmes:	
	employment	41
	information	7
	refuges	7
	referral programmes	7
	supported accommodation	7
Advisory services	see "Information services" (below)	
Aerodromes		30
Aged persons	Aids / assistance	50
	Buses	50
	Community centres	50
	Domiciliary care	5
	Drop-in centres	50
	Facilities	50
	HACC	50
	Home units	50
	Home nursing	5
	Hostels	50
	Nursing homes	84
	Personal assistance	50
	Ramps	50
	Recreation	50
	Recreation centres	50
	Respite care	50
	Retirement villages	50
	Transport	50
Agriculture	Animal pests	87
	Conservation - land	88
	Conservation - water	86
	Insect control	87
	Landcare	88

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Principal activity / key word	Further description	PURPOSE CODE
Agriculture (cont.)	Land management	88
	Mouse control	87
	Plant pests	87
	Rabbit control	87
	Revegetation programmes	88
	Salinity control	88
	Soil erosion control	88
	Tree planting	88
	Water management	86
Aids for the aged and disabled		50
AIDS awareness programmes		83
Air-fields		30
Air pollution	regulatory services	75
	abatement programs	15
Alcohol awareness programmes		83
Amusement parks		44
Animals	Abandoned	74
	Agricultural pests	87
	Cat control	74
	Dead	3
	Dog control	74
	Fauna parks	18
	Health hazards	5
	Livestock	21
	Livestock - abandoned/stray	3
	Markets / saleyards	45
	Stray	74
	Zoos	18
Arboreta		18
Art exhibitions		18

Principal activity / key word	Further description	PURPOSE CODE
Art galleries		61
Artworks	Art galleries	61
	Public artworks	18
	Offices etc. as decorations	function
Auditors		190 (exp.)/ 1otherwise
Bands		18
Bandstands		18
Beach	Erosion control	94
	Inspectors	3
	Parks	66
	Patrols	3
	Replenishment	94
	Surf life saving	3
	Swimming	69
Bicycle	BMX bikes	68
	Racks	16
	Tracks - recreational	66
	Tracks - transport	29
BMX bike tracks		68
Boat	Havens	72
	Ramps	72
Books	History (local history)	62
	Library	60
Botanical gardens		18
Breakwaters		94
Bridges	Pedestrian	29
	Vehicular	98
Building applications / approval		22
Building inspections		22
Burning -off		92
Bus bays		48

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Principal activity / key word	Further description	PURPOSE CODE
Bus-stop seats / shelters		16
Buses	Aged and disabled persons transport	6
	Community bus	51
	Fare-paying bus	48
	School bus	7
	Town bus	48
Bushfire prevention		92
Busking permits		117
By-laws	Formulation	189 (exp.)/ 1otherwise
	Policing (see "Fines" below)	
CAFHS / CAMHS		5
Camping grounds	Business / non-business	40 / 44
Caravan parks	Business / non-business	40 / 44
Cars	Abandoned / Derelict	3
	General use / motor pool	36
	Specific use	function
Car parking	*Fee paying:*	
	Fines	31
	General	31
	Special - i.e. associated with a particular facility (e.g. sports ground)	Facility code
	Non-fee paying:	
	Fines	31
	General	16
	Special - i.e. associated with a particular facility (e.g. sports ground)	Facility code
	Support for local businesses	43
	Inspectors / Regulation	31
Cemeteries	Conservation, historic	62
	Burials	56
CFS		92
Children	Child care centres	52

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Principal activity / key word	Further description	PURPOSE CODE
Children (cont.)	Creches	52
	Playgrounds	68
	Protection	7
	School holiday programs (libraries)	60
	see also "Adolescents" (above)	
Citizenship ceremonies		18
Civic Centre	Administration offices - capital	1
	Administration offices - operating	190 (exp.)/ 1otherwise
	Council chambers	189 (exp.)/ 1otherwise
	Elected members facilities	189 (exp.)/ 1otherwise
	Library	60
	Public hall / meeting room	189 (exp.)/ 1otherwise
	Public hall / meeting room	1
	Theatre	63
Civic receptions		189 (exp.)/ 1otherwise
Cleaning	Administration offices	190
	Other	function
Clinics	medical / dental / family planning	5
Coastline	Parks	66 or 94
	Protection	94
Commercial properties	Council investments	47
	Rubbish collection	12
Common effluent drain-age (CED)		13
Community assistance	Culture	18
	Recreation	19
	Welfare	8
Community bus	Aged and disabled persons	50
	General public	51
Community centres	Aboriginal persons	8
	Aged and disabled persons	50
	Children and youth	7
	Family assistance	53

Principal activity / key word	Further description	PURPOSE CODE
Community centres (cont.)	Multi-purpose	see "Activities - rules"
	Recreational - aged persons	50
	Recreational - general public	67
	Welfare groups	8
Community events	Cultural	18
	Other	190 (exp.)/ 1otherwise
Community forums		190 (exp.)/ 1otherwise
Community information	see "Information services" (below)	
Community library		60
Community newspaper / newsletters		190 (exp.)/ 1otherwise
Community transport	Aged and disabled persons	50
	General public	51
Concerts		18
Conservation	Environment - coastal areas	94
	Environment - other	15
	Historical sites, etc.	62
	Land - agricultural	88
	Land - other	15
	Sand dunes - coastal	94
	Soil - agricultural	88
	Water - agricultural	86
	Water - other	15
Contaminated sites	clean up	15
Contracts management		190 (exp.)/ 1otherwise
Council chambers		189 (exp.)/ 1otherwise
Council band/orchestra		18
Creches		52
Crematoria		56
Crime prevention		3
Culture	Aboriginal culture	18
	Arboreta	18

Principal activity / key word	Further description	PURPOSE CODE
Culture (cont.)	Art exhibitions	18
	Art galleries	61
	Art works - public places	18
	Artists	18
	Bands	18
	Bandstands	18
	Botanical gardens	18
	Broadcasting	18
	Citizenship ceremonies	18
	Concerts	18
	Ethnic festivals etc.	18 / 44
	Fauna parks	18
	Festivals	18 / 44
	Film production	18
	Flora parks	18
	Halls - performing arts	61
	Heritage	62 / 44
	Historic buildings, sites, artefacts	62 / 44
	Interpretive centres	62 / 44
	Literature	18
	Local history	62
	Monuments	62
	Museums	61
	National estate	62
	National Trust	62
	Orchestras	18
	Performing arts venues	63
	Statues	62
	Theatres - film	63
	Theatres - performing arts	61
	Writers	18
	Zoological gardens	18

Principal activity / key word	Further description	PURPOSE CODE
Customer service		190 (exp.)/ 1otherwise
Cycle tracks	Parks and gardens	66
	Recreational	66
	Roadside	29
Dams	Agricultural	86
	Parks and gardens	66
Day care centres	Aged / disabled	50
Day care centres (cont.)	Children	52
Dead animals, removal		3
Depot		36
Derelict cars		3
Directories	municipal	16
Disabled persons	aids / assistance	6
	buses	6
	community centres	50
	domiciliary care	5
	drop-in centres	50
	facilities	50
	HACC	50
	home nursing	5
	home units	50
	hostels	50
	nursing homes	84
	personal assistance	6
	ramps	6
	recreation	6
	recreation centres	50
	respite care	6
	transport	6
Disaster relief		8
Doctors	Housing	5
	Clinics	5

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Principal activity / key word	Further description	PURPOSE CODE
Domestic violence		53
Domestic waste disposal		77
Domestic water supply		93
Domiciliary care		5
Drains	Effluent	13
	Rural	86
	Stormwater	14
Drinking fountains		16
Driver education		3
Driveways	Access	29
	Inverts - approval	22
	Private works	46
Drop-in centres	Aboriginal persons	8
	Aged and disabled persons	50
	Children and youth	7
	Families	53
Drop-in centres (cont.)	Homeless persons	8
Drug and alcohol aware-ness		83
Dune protection		94
Easements	CED	13
	Stormwater drainage	14
Effluent drainage		13
Elderly	see "Aged persons" (above)	
Elected members		189 (exp.)/ 1 otherwise
Electricity	Consumption	190 (exp.)/ 1 otherwise or function
	Generation/Supply	20
Emergency relief	Families	53
	Homeless persons	8
Emergency relief (cont.)	Natural disasters	8
	Youth	7
Employment	Awards and conditions	190 (exp.)/ 1 otherwise

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Principal activity / key word	Further description	PURPOSE CODE
	Creation	41
	Initiatives	41
Energy	Consumption	function
	Conservation	15
	Generation	20
Environmental health		5
Environment Protection Act		15
Erosion control	Agricultural land	88
	Beaches / coastline	94
	Other	15
Ethnic affairs	Citizenship ceremonies	18
	Festivals	18
	Translating services	8
European wasp control		5
Executive	Elected members	189
	Management	189 / 190 (exp.)/ 1 other-wise
ex gratia rates	Other revenue	190
Fair grounds		18
Families	*Health programmes:*	
	preventive health	83
	Welfare programmes:	
	domestic violence	53
	information	53
	refuges	53
	referral programmes	53
	supported accommodation	53
Family planning		5
Fauna parks		18
Ferries		33
Festivals	Cultural significance (mainly)	18
	Tourist attraction	44

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Principal activity / key word	Further description	PURPOSE CODE
Fines	*By-Laws:*	
	Building	22
	Clean air	75
	Dogs and cats	74
	Environment	75
	General	117
	Health inspection	4
	Litter	75
	Noise	75
	Parking	31
	Pollution	75
	Unclassified	160
	Rates penalties	39
Fire fighting		92
Fire protection / prevention		2
Fire tracks		2
Flammable growth removal		2
Flora and fauna parks		18
Flood prevention	Agricultural	88
	Other	15
Food inspection		4
Footpaths		29
Fords		29
Foreshore	Coastal - parks	66 or 94
	Coastal - protection	94
	Riverbanks - parks	66 or 15
	Riverbanks - protection	15
Fountains	Drinking	16
	Ornamental	18
Garbage	Disposal	81
	Domestic	77
	Green waste	78

Principal activity / key word	Further description	PURPOSE CODE
	Industrial	12
	Litter control	75
	Recycling	79
	Street cleaning	95
	Transfer stations	80
Garbage (cont.)	Waste control systems	81
Golf courses		68
Graffiti	Council property	91
	Private property	450
Grants	*Local Government Grants Commission;*	
	General Purpose Grant	37
	Identified Road Grant	38
	Other	function
Gravel pits	Business / non-business	23
Green waste		78
Halls	Culture	63
	Multi-purpose	see "Activities - rules"
	Performing arts	63
	Public meetings	102
	Recreation	69
	Welfare groups	8
Health	Aboriginal health	5
	Adolescent health	83
	Aged care	5
	AIDS awareness programmes	83
	Animals - health hazards	5
	CAFHS / CAMHS	5
	Child health	83
	Community health clinics	5

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Principal activity / key word	Further description	PURPOSE CODE
Health (cont.)	Dental clinics	5
	Domiciliary care	5
	Drug and alcohol awareness programmes	83
	European wasps	5
	Family planning clinics	5
	Health awareness programmes	83
	Home nursing	5
	Housing for medical / health workers	5
	Immunisation	83
	Insects - health hazards	5
	Inspection	4
	Medical clinics	5
	Nursing homes	84
	OHAS	83
	Preventive health	83
	Public health	83
	RDNS	5
	Workplace	83
Heritage	Conservation	62
	Historic buildings, sites, artefacts:	
	Conservation	62
	Tourist attractions	44
Historic buildings, sites, artefacts	see "Heritage" (above)	
History, local		62
Home and community care (HACC)		50
Home assistance		50
Home nursing		5
Home units	see "Housing" below	
Homeless persons		8
Horse riding trails		66
Hostels	Aged / disabled persons	49

Principal activity / key word	Further description	PURPOSE CODE
Hostels (cont.)	Families	53
	Homeless (other than children and youths)	8
	Youth	7
Hot-mix manufacture		89
Housing	Aged and disabled persons	49
	Council employees	9
	Emergency accommodation:	
	Aboriginal persons	8
	Children and youth	7
	Families	53
	Homeless persons	8
	Health workers	5
	Investment properties;	
	Built by Council / Council joint venture	11
	Resale of existing properties	47
	Retirement villages	50
	Welfare workers	8
Immunisation		83
Indoor recreation	Aged and disabled persons	50
	Recreation centres	67
Infectious diseases	Information and control	83
Information services	Council services	190 (exp.)/ 1otherwise
	Health	5
	Welfare:	
	Aged and disabled persons	6
	Children	7
	Families	53
	Youth	7
	Tourism	44
	see also "Activities - rules"	
Information technology	Computers - hardware & software	190 (exp.)/ 1otherwise
	Internet services:	

Principal activity / key word	Further description	PURPOSE CODE
Information technology (cont.)	Community networks	59
	Council - administration	190 (exp.)/ 1otherwise
	Elected members	189 (exp.)/ 1otherwise
	Library services	60
Insect control	Agricultural pests	87
	European wasp	5
	Health hazards	5
	Other	function
Inspectors	Beach	3
	Building	22
	Clean Air Act	75
	Environment	75
	General	see "Activities - rules"
	Health	4
	Litter	75
	Parking	31
	Pollution	75
Internet services	see "Information technology" (above)	
Interpretive centres	Conservation	61
	Tourist attractions	44
Jetties	Recreational	71
	Transport	33
Job creation schemes		41
Kerbing and water table		29
Land conservation	Agricultural	88
	Other	15
Land development	For resale	11
	Other	function
Legal	Costs recovered	102
	Expenses	102
Levees		15
Levies	Training	41

Principal activity / key word	Further description	PURPOSE CODE
Levies (cont.)	Water Catchment Boards	14
Libraries	Community	60
	Mobile	60
	Static	60
	Toy	60
Licences	Building	22
	Busking	117
	Dog (and cat)	74
	Outdoor café etc.	10
	Septic tanks	13
	Street advertising	10
Licences (cont.)	Supported residential facilities	117
Local businesses		43
Local Government Grants Commission	General Purpose Grant	37
	Road Grant	38
Local history		62
Malls	Pedestrian	16
	Shopping	42
Marinas	Business / non-business	72 / 72
Markets	Business / non-business	45 / 42
Medical centres		5
Millipede control		5
Monuments		62
Mothercraft services		5
Municipal directories		16
Museums	Conservation	61
	Tourist attractions	44
National estate / National Trust		62
Natural disasters	Emergency relief	8
	Repair work	function
Neighbourhood centres	Aged / disabled	50
	Families	53

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Principal activity / key word	Further description	PURPOSE CODE
Neighbourhood centres (cont.)	Youth	7
Neighbourhood support		53
Neighbourhood watch		3
Netball courts		68
New Residents programmes		190
Nurseries, plants	Commercial	21
	Community	16
Nursing homes		84
Occasional care	Aged and disabled	50
	Children	7
Off-street parking	see "Car parking" (above)	
Orchestras		18
Ovals		68
Parking	see "Car parking" (above)	
Parks and gardens, public access		66
Pedestrian	Crossings	28
	Lights - traffic control	28
	Malls	16
	Safety	28
	Tracks - recreational	66
	Tracks - transport	29
	Walkways	29
Performing arts	Support for performing arts	18
	Venues	63
Pest control	Agricultural	87
	Health hazards	5
Planning applications / control		10
Plantation	Roadside	97
	Trees - commercial	21
	Trees - community	16
Playgrounds		66
Preventive health	activities	83

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Principal activity / key word	Further description	PURPOSE CODE
Preventive health (cont.)	programs	83
Private works	Business / non-business	46
Property	Investment portfolio	47
Protection of the environment	Air	75
	Clean air	75
	Coastline	94
	Domestic waste	77
	Drains - effluent	13
	Drains - stormwater	14
	Dumps	81
	Flood prevention	15
	Green waste	78
	Land - agricultural	88
	Litter control	75
	Recycling	79
	Rivers and waterways	15
	Rubbish dumps	81
	Soil	88
	Stormwater	14
	Street cleaning	95
	Waste disposal	81
	Water - agricultural	86
	Water quality	15
Public clocks		16
Public conveniences	see also "Toilets" below	57
Public halls	see "Halls" (above)	
Public health	exclude "immunisation" (see above)	83
Public relations		190 (exp.)/ 1 otherwise
Public safety		3
Quarries	Business / non-business	23 / 89
Ramps	Aged / disabled	50
	Boats	72

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Principal activity / key word	Further description	PURPOSE CODE
Rates	Administration	39
	ex gratia	39
Records administration		190 (exp.)/ 1 otherwise
Recreation centres	see "Activities - rules"	67 or 19
Recycling	Green waste	78
	Other	79
Referral services	Health	5
	Welfare:	
	Aged and disabled persons	50
	Children	7
	Families	53
	Youth	7
Refuges	Children	7
	Families	53
	Youth	7
Regional development		42
Regional promotion		42
Regulatory fees	see "Licences"	
Reserves	Recreational - active	68
	Recreational - passive	66
	Roadside	28
Residential accommodation	Aged / disabled persons	50
	Council employees	9
	Doctors	5
	Families	53
	Homeless (other than children and youths)	8
	Youth	7
Respite care		50
Retirement villages		50
Rivers and waterways	Parks	66
	Protection	15
Road safety	Road works	28

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Principal activity / key word	Further description	PURPOSE CODE
Road safety (cont.)	Education	3
Roads	*Maintenance and construction:*	
	Sealed	24
	Formed	25
	Natural formed	26
	Unformed	27
	Non-Council / Private	46
Roadside clearing	Fire protection	92
	Litter control	12
Road reserves	Animal grazing	28
	Maintenance	28
Rural counsellor		8
Rural transaction centres	Telecommunications	59
Rural watch		3
Saleyards	Business / non-business	45 / 42
Sand	Beach - replenishment	94
	Dune (coastal) protection	94
	Mining - business / non-business	23
Septic tanks		13
STEDS		13
SES		92
Sewerage		13
Signage	see under "Street" - signs (below)	
Sign approval		117
Statues	Heritage, or historical	62
	Ornamental	18
Statutory charges	see "Licences" (above)	
Storm damage	General	see "Activities - rules"
	Specific	function
Stormwater drainage		14
Strategy and policy management		190 (exp.)/ 1otherwise

Principal activity / key word	Further description	PURPOSE CODE
Strata title approvals		22
Street	Advertising licences	10
	Cleaning	95
	Festivals	18
	Furniture	16
	Lighting	96
	Names	190 (exp.)/ 1otherwise
	Numbering	16
	Signs:	
	Advertising hoardings	89
	Council directories etc.	190 (exp.)/ 1otherwise
	Street names	16
	Tourist directories	44
	Traffic management	28
	Sweeping	95
	Trees	97
Streetscaping		97
	Provision of service	50
Surf life saving		3
	Indoor	69
	Recreation Centre	69 or 67
	Rivers	69
	Safety	3
Syringe disposal		5
Technical services	Computers and software	190 (exp.)/ 1otherwise
Telecommunications	Council usage	190 (exp.)/ 1otherwise
	Council purchases - capital	1
	Internet services - see "Information technology" (above)	
	Regional networks	59
	Underground cabling	59
Tennis courts		68
Theatres / theatrettes	Community meetings etc.	1

Principal activity / key word	Further description	PURPOSE CODE
Theatres / theatrettes (con.t)	Films - cinemas	63
	Performing arts venues	63
Toilets	see "Public conveniences"	
Tourism	Accommodation	40 or 44
	Attractions	44
	Information	44
	Promotion	44
Town bus	Business / non-business	48 / 51
Town Centre	Amenities	16
	Development	10
	Pedestrian mall	16
	Promotion	43
	Support for local businesses	43
Town clock		16
Town hall	Administrative offices	190 (exp.)/ 1 otherwise
	Community meeting venue	190 (exp.)/ 1 otherwise
	Concert venue	63
	Council chambers	189 (exp.)/ 1 otherwise
	Elected members accommodation	189 (exp.)/ 1 otherwise
	Performing arts venue	63
Town planning		10
Traffic	Control / management	28
	Lights	28
	Schools / Safety training	3
	Studies	28
Trees	Nurseries - commercial	21
	Nurseries - community	16
	Parks and gardens	66
	Protection of the environment:	
	agricultural land	88
	other	15
	Removal - storm damage	3

Principal activity / key word	Further description	PURPOSE CODE
Trees (cont.)	Roadside	97
	Streetscaping	97
Unclassifiable administrative activities	see "Activities - rules"	190 (exp.)/ 1 otherwise
Unclassifiable activities	see "Activities - rules"	190 (exp.)/ 1 otherwise
Underground cabling		59
Vandalism	Council property	3 or function
	Private property	46
Vermin	Health hazard	5
	Agricultural hazard	87
Walking trails		66
Walkways		29
Washdown bays		42
Waste management	see "Garbage" (above)	
Water supply	Agriculture	86
	Domestic	93
	Parks and gardens	66
	Quality control	75
	Sporting grounds	68
Water usage		190 (exp.)/ 1 otherwise function
Weighbridges		42
X-ray screening programmes		83
Yachting facilities		72
Zebra	Crossings	28
	Parks	18
Zoning control		10
Zoological gardens		18

EXAMPLE OF FULL COST ATTRIBUTION

The following table is a cut down extract from the "operating expenses" sheet from a draft Supp Return and contains an unallocated amount of administration expenses to be reallocated to the functions/purpose codes they support.

Purpose	Employee Costs	Grants to Outside Bodies	Materials Contracts & Other	Finance Costs	Dep'n	Levies / bad debts	Total Expenses
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
BUSINESS UNDERTAKINGS							
Caravan Parks / Tourist Accommodation			13				13
Real estate development			2				2
Car parking - off-street	2		5				7
Community Wastewater Management	50		182		172		404
Gravel Pits / Quarries	7		22				29
Markets / Saleyards	250		135		216		601
the rest of the functions & purpose codes have been hidden to facilitate a simplified example							
COUNCIL ADMINISTRATION (gross)							0
Governance	105		55		15		175
Council Administration	2558		780		789		175
***Less* amounts allocated to other functions (enter as negative no.'s)**	-350		-603		-264		-1217
TOTAL OPERATING EXPENSES	**4317**	**0**	**4652**	**1010**	**3776**	**163**	**13918**
Amount to be re-allocated (Code 190 + Code 191)	**2208**		**177**		**525**		

The table that follows demonstrates how the unallocated amounts of Employee costs, Materials & Depreciation could be reallocated to functions on a pro rata basis using the amounts of expenditure that have already been allocated as a base.

For example, refer to Markets / Sale Yards - Employee expense. There is an amount of $250k already allocated to this activity out of a total adjusted expenditure of $2,109k (Adjusted expenditure

$2,109 = total employee cost exp of $4,317k less $2,558k less -$350k). This represents 11.8% of the total amount already allocated to employee costs which is equal to $262k, (11.8% of $2,109k).

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The last 3 columns in the tables that follow simply add the existing amounts with the amount still to be allocated together to get a revised total to be copied back into the supplementary return.

PURPOSE	Reallocation Column - Administration Expenses			Adjusted Total amounts to be copied back into the operating expenses sheet.		
	Employee costs	Materials	Dep'n	Employee costs	Materials	Dep'n
	$'000	$'000	$'000	$'000	$'000	$'000
BUSINESS UNDERTAKINGS						
Caravan Parks / Tourist Accommodation	0	1	0	0	14	0
Real estate development	0	0	0	0	2	0
Car parking - off-street	2	0	2	4	5	0
Community Wastewater Management	52	7	28	102	189	200
Gravel Pits / Quarries	7	1	0	14	23	0
Markets / Saleyards	262	5	35	512	140	251
the rest of the functions & purpose codes have been hidden to facilitate a simplified example						
COUNCIL ADMINISTRATION (gross)				0	0	0
Governance	110	2	2	215	57	17
Council Administration				2558	780	789
***Less* amounts allocated to other functions (enter as negative no.'s)**	-2208	-177	525	-2558	-780	-789
TOTAL	**0**	**0**	**0**	**4317**	**4652**	**3776**