ACCOUNTING FOR ASSETS

POLICY

1. Introduction

The Australian Accounting Standards require that Council report its assets at fair value.

2. Objectives

The Accounting for Assets Policy seeks to ensure that:

- all accounting records, accounts and financial statements are prepared and maintained with respect to all relevant Australian Accounting Standards;
- revaluation of all material non-current assets are in accordance with the requirements of Australian Accounting Standard AASB 116 and AASB 13; and
- any significant change in the expected pattern of consumption of the future economic benefits embodied in an asset shall be accounted for as a change in an accounting estimate in accordance with AASB 108.

3. Recognition of Assets

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- it is probable that future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

In accordance with AASB 116 and AASB 13, reliable measurement is an essential component for the recognition of an asset and in the absence of the ability to reliably measure the value of an asset, that asset cannot be recognised. Council has the opinion that it is not possible to reliably measure the fair value of land under roads and therefore, in accordance with the provisions of AASB 1051 of the Australian Accounting Standards, elects not to recognise land under roads acquired before 30 June 2008.

Land subsequently acquired for road purposes should initially be recognised at cost in accordance with AASB 116 but thereafter 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.

Assets with an economic life in excess of one year are only recognised where the cost of acquisition exceeds materiality thresholds established by Council for each type of asset. In determining such thresholds, regard is given to the nature of the asset and its estimated service life. Capitalisation thresholds are as follows:

- road construction, reconstruction and reseal $10,000
- paving and footpaths, kerbing and gutters $5,000
- stormwater drains and culverts $5,000
- reticulation extensions $5,000
- Community Wastewater Management Scheme (CWMS) components $5,000
- buildings - new construction / extensions $10,000
- parks and playground furniture and equipment $5,000
- office furniture and equipment $5,000
- plant and equipment $5,000
- software (except where software is purchased and an annual maintenance agreement is entered into, in which case the original software cost and the annual maintenance fee will be treated as an operating expense)

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

An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost. Where an asset is acquired at no cost or for a nominated cost, the cost is its fair value as at the date of acquisition.

Where the future economic benefits of an asset for Council are not primarily dependent on the asset's ability to generate net cash inflows and where the Council would, if deprived of the asset, replace its remaining future economic benefits, fair value shall be determined as the depreciated replacement cost of the asset.

Depreciated replacement cost is defined as the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such to reflect the already consumed or expired future economic benefits of the asset.

The current replacement cost of an asset is its cost measured by reference to the lowest cost at which the gross future economic benefits of that asset could currently be obtained in the normal course of business.

If the Council does not intend to replace the asset the fair value is an estimate of the likely inflow from disposal.

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a re-valued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

If the carrying amount of the class of asset is increased as a result of a revaluation, the net revaluation increase shall be credited directly to equity under the heading of revaluation reserve. Revaluation increases and decreases relating to individual assets within a class of assets shall be offset against one another within that class but shall not be offset in respect of assets in different classes.

5. Revaluation Frequency

- Land – at least every four years;
- Buildings and structures - at least every four years;
- Community Waste Management Systems – at least every four years; and
- Roads, Footpaths and Stormwater – unit rates and lives shall be considered in-house annually and shall be reviewed independently at least every four years. A full condition assessment in the field will be undertaken at least once in every four years.

6. Depreciation

Other than land, all infrastructure, property, plant and equipment assets recognised are systematically depreciated over their useful lives in a manner which reflects the consumption of the service potential embodied in those assets. Each item within a class of assets that is significant shall be depreciated separately.

The useful life and depreciation method applied to an asset shall be reviewed at least at the end of each annual reporting period and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the life of method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with AASB 108.

Depreciation is recognised on a straight-line basis and the useful lives for each class of asset are shown below. On revaluation the Valuer will review the useful life of each asset.
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Furniture and Equipment
- Office Equipment: 3 to 15 years
- Office Furniture: 4 to 15 years
- Software: 3 to 5 years

Plant and Equipment
- Major Plant and Equipment: 2 to 15 years
- Other Plant and Equipment: 3 to 25 years

Building and Other Structures
- Buildings – masonry: 50 to 100 years
- Buildings – Heritage Listed Superstructure (component): up to 180 years
- Buildings – other construction: 20 to 60 years
- Park Structures – masonry: 50 to 100 years
- Park Structures – other construction: 7 to 25 years
- Playground equipment: 25 years

Infrastructure
- Sealed Roads – Surface: 20 to 22 years
- Sealed Roads – Pavement: 50 to 60 years
- Sealed Roads – Formation (component): up to 120 years
- Unsealed Roads: 10 to 29 years
- Bridges: 100 years
- Footpaths: 30 to 80 years
- Kerbing and Watertable: up to 80 years
- Culverts, Stormwater Drainage: 50 to 100 years

Community Wastewater Management Schemes (CWMS)
- CWMS – PVC piping: 70 years
- CWMS – Pumps and Telemetry: 15 to 50 years
- CWMS – Lagoons: 80 years
- Other CWMS: 10 to 70 years

Refuse Sites
- Landfill and Post Closure Costs: Amortised over remaining useful life

Asset impairment will be considered on an annual basis (i.e. assets that have a reduced economic value to Council thereby reducing their fair value) and in accordance with AASB 136: Impairment of Assets.

7. Reporting

Reporting of assets within the Annual Financial Statements shall be in accordance with all relevant Australian Accounting Standards and South Australian Legislation.

RESPONSIBILITIES

The Finance and Administration Manager is accountable for ensuring the proper operation of this Policy.

LEGISLATION

Local Government Act 1999
Local Government (Financial Management) Regulations 1999
Australian Accounting Standards

REFERENCES

Council’s Long Term Financial Plan, Budget & Annual Business Plan
Council’s Infrastructure and Asset Management Plans
FRC Policy G1.19 Asset Management
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REVIEW

To be reviewed within 12 months after a General Election, in line with legislation and any legislative changes or by resolution of Council.

Adopted by Council 14 August 2012
Resolution 164/2012

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<td>Nil</td>
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<tr>
<td>15 March 2016</td>
<td>2</td>
<td>Update Review Clause, Update ASB standards</td>
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<td>20 June 2017</td>
<td>3</td>
<td>Review of Thresholds &amp; Useful Lives by Auditors &amp; Valuer, inclusion of AASB 13, change of responsibility to FAM</td>
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