



Accounting Policy

Policy Classification	Council Policy
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Applicable Legislation:	<i>Local Government Act 1999</i> <i>Local Government (Financial Management) Regulations 2011</i>
Related Policies or Documents:	Asset Accounting Policy Australian Accounting Standards Board (2010) Australian Infrastructure Financial Management Guidelines Australian Equivalents to International Financial Reporting Standards
Associated Forms:	NA
Responsible Manager:	Director Corporate Services Finance Department
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Accounting Policy

1. Preamble

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

2. Purpose

- 2.1. This policy provides Council the framework to ensure that all accounting treatments are up to date and consistent with the Australian Accounting Standards.

3. Scope

- 3.1. The objective of this policy is to provide clear direction and a framework that enables the Council to achieve best-practice in relation to its accounting functions.

4. Definitions

- 4.1. **CEO** means the Chief Executive Officer of the Kangaroo Island Council.
- 4.2. **Council** means the Elected Body.
- 4.3. **Kangaroo Island Council (KIC)** means the administration.
- 4.4. **Amortisation (or amortization)** is the process of decreasing or accounting for an amount over a period of time.
- 4.5. **Asset** refers to a resource controlled by the Council as a result of past events from which future economic benefits are expected to flow. It includes resources such as land, land improvements, buildings, structures, infrastructure, library, plant and equipment, and furniture and fittings.

Where Council is the Lessor, unless there is any clearly expressed agreement to the contrary in place, the Lessor (i.e. the Council) has a responsibility to record these assets and the depreciation of the asset in their financial statements.

- 4.6. **Asset Class** refers to the categories of assets used by the Council for asset management and accounting purposes, such as land, land improvements, buildings, structures, infrastructure, library, plant and equipment, and furniture and fittings.
- 4.7. **Carrying Amount** refers to the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
- 4.8. **Cost Model** after recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.
- 4.9. **Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life.

- 4.10. **Fair Value** refers to the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. For infrastructure assets, replacement cost represents fair value.

The Fair Value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The Fair Value of items of plant and equipment is usually their market value determined by appraisal.

If there is no market-based evidence of Fair Value because of the specialised nature of the item of property, plant and equipment, and the item is rarely sold, except as part of a continuing business, an entity may need to estimate Fair Value using an income or a depreciated replacement cost approach.

Where the future economic benefits embodied in the asset would not be replaced if the entity was deprived of the asset, then the asset should be measured at the net present value of future cash flows from its highest and best use, if this information is able to be derived. Where there is no regular cash flow generated from the asset, the net present value of future cash flows for that asset is estimated at disposal value (Australian Infrastructure Financial Management Guidelines Section 12.12.3).

- 4.11. **Future Value (FV)** the value of an asset or cash at a specified date in the future that is equivalent in value to a specified sum today.
- 4.12. **Materiality** information is material if its omission, misstatement or non-disclosure has the potential, individually or collectively, to (a) influence the economic decisions of users taken on the basis of the financial report or (b) affect the discharge of accountability by the management or elected representatives of the Council.
- 4.13. **Present Value (PV)** the current worth of a future sum of money or stream of cash flows given a specified rate of return. Future cash flows are discounted at the discount rate, and the higher the discount rate, the lower the present value of the future cash flows.
- 4.14. **Replacement Cost** is the current cost to replace an item of property, plant and equipment on a like for like basis.
- 4.15. **Residual Value** 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.
- 4.16. **Revaluation Model** after initial recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued 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 that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

5. Policy Statement

5.1. Basis of Preparation of Financial Reports

5.1.1. Compliance with Australian equivalents to International Financial Reporting Standards

The general purpose financial reports of Council will be prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS) as they apply to not-for-profit entities, other authoritative pronouncements of the Australian Accounting Standards Board, interpretations and relevant South Australian Legislation.

5.1.2. Accrual Basis & Historical Cost Convention

The general purpose financial reports of Council will be prepared in accordance with the historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied, unless specified otherwise.

5.1.3. Critical Accounting Estimates

The preparation of the general purpose financial reports in conformity with AIFRS 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 high degree of judgement or complexity, or areas where assumptions and estimates are significant to the general purpose reports are to be specifically referred to in the notes to the accounts.

5.1.4. Rounding

All amounts in the general purpose financial reports will be rounded to the nearest thousand (\$1000).

5.2. The Local Government Reporting Entity

5.2.1. Kangaroo Island Council ("Council") is incorporated under the SA Local Government Act 1999 and has its principal place of business at 43 Dauncey Street, Kingscote, SA.

5.2.2. All funds through which the Council controls resources to carry out its functions are to be included in the Financial Statements of Council.

5.2.3. Trust monies and property held by Council but subject to the control of other persons will be excluded from the reports. A separate statement of moneys held in a Trust Fund will be available for inspection at the Council Office by any person free of charge.

5.3. Revenue Recognition

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

5.3.2. Where grants, contributions and donations recognised as revenues during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the amounts subject to those undischarged conditions are to be disclosed in the notes to the accounts.

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

5.3.4. Construction Contracts

Construction works undertaken by Council for third parties (including external private works and external contractual works) are generally on an agency basis where the third party reimburses Council for actual costs incurred, or actual costs plus a percentage or fixed fee. These contracts usually do not extend beyond the reporting period. Contracts are accounted for separately where they are entered into with different parties and, or a different times with unrelated consideration. When there is no cost plus or additional fixed fee component, such works are treated as 100% completed. When there is a cost plus or cost plus fixed fee contract revenue is recognised as contract criteria are met or when transfer of control of the good occurs, this may not be until practical completion. Reimbursements not received are recognised as receivables and reimbursements received in advance are recognised as "payments received in advance".

5.4. Cash, Cash Equivalents and other Financial Instruments

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

- 5.4.2. 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.

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

- 5.4.4. All financial instruments are recognised at fair value at the date of recognition. A detailed statement of accounting policies applied to financial instruments is to form part of notes to the accounts.

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

- 5.4.6. **Real Estate Assets Developments** - 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.

- 5.4.7. **Other Real Estate held for resale** - Properties not acquired for development, but which Council has decided to sell as surplus to requirements, are recognised at the carrying value at the time of that decision.

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

5.5. Infrastructure, Property, Plant & Equipment

5.5.1. Please refer to Council's Asset Accounting Policy for Infrastructure, Property, Plant and Equipment.

5.6. Payables

5.6.1. **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 to be paid 30 days after the month of invoice. No interest is payable on these amounts.

5.6.2. **Payments Received in Advance & Deposits** Amounts 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.

5.7. Borrowings

5.7.1. Loans 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".

5.8. Employee Benefits

5.8.1. **Salaries, Wages & Employee Entitlements** - Liabilities for employees' entitlements to salaries, wages and employee entitlements 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.

A liability for untaken personal leave is provided for. The amount relates to an obligation to payout 25% of personal leave outstanding after 7 years of service upon termination of employment. The amounts not expected to be paid or settled within 12 months are measured as the present value of the estimated future cash outflows.

5.8.2. Superannuation

Contributions to Statewide Super Scheme

Employees have the choice of employer contributions made to their preferred nominated superannuation scheme, otherwise Employer contributions will be made to the default superannuation scheme, "Statewide Super" On 29 April 2022 a merger is scheduled to take place between Statewide Super and Hostplus. At

this time all existing Statewide Super members will be transferred to Hostplus with fund arrangements, including defined benefits, replicated in Hostplus.

Statewide Super has two types of membership, each of which is funded differently. Permanent and Contract employees of the SA LG sector with salary link benefits prior to 24 November 2009 have the option to contribute to the Accumulation section and / or salary link. All other employees (including casuals) have all contributions allocated to the Accumulation section.

Accumulation only members receive both employer and employee contributions on a progressive basis. Employer contributions are based on a fixed percentage of employee earnings in accordance with superannuation guarantee legislation (9.50% from 1 July 2014). No further liability accrues to the employer 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 of contribution and level of contribution and final average salary. Council makes employer contributions to Salarylink as determined by the Fund Trustee based on advice from the appointed Actuary. The rate is currently 6.3% of "superannuation" salary.

In addition, Council makes a separate contribution of 3% of salary for Salarylink members to their Accumulation account. Employees also make contributions to the Fund. As such, assets accumulate in the Fund to meet the member's benefits, as defined in the Trust Deed, as they accrue.

The Salarylink section is a multi-employer sponsored plan. As the Fund's assets and liabilities are pooled and are not allocated by each employer, the Actuary is unable to allocate benefit liabilities, assets and costs between employers. As provided by AASB 119.32(b), Council does not use defined benefit accounting for these contributions.

New members are no longer able to access superannuation through the defined benefit scheme.

- 5.8.3. 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 asset of the scheme, and no further liability attaches to the Council.

5.9. Joint Ventures and Associated Entities

- 5.9.1.** Council participates in cooperative arrangements with other Councils for the provision of services and facilities. Council's interest in cooperative arrangements, which are only recognised if material, are accounted for in accordance with AASB 128 and are set out in the notes to accounts.

5.10. Lease

- 5.10.1.** Lease arrangements are to be accounted for in accordance with AASB 16.

- 5.10.2. AASB 16 introduces 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.
- 5.10.3. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying AASB 107 Statement of Cash Flows.
- 5.10.4. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

5.11. GST Implications

- 5.11.1. In accordance with interpretations "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.

5.12. Accounting Standards

- 5.12.1. Financial accounts are prepared in accordance with Australian Accounting Standards as they apply to not-for profit entities. Consideration to any new accounting standards and interpretations are identified in the notes to the accounts.

6. Review and responsibilities

This Accounting Policy shall be reviewed by Council and the Audit & Risk Committee every two years.

The Finance Department is responsible for the updating and maintenance of the Accounting Policy to ensure that all accounting treatments are up to date and consistent with the Australian Accounting Standards.

The External Auditor is responsible for the review of the financials to ensure consistency with Accounting Standards and with this Accounting Policy.

7. Availability and Grievances

This Policy will be available for inspection at the Council's Offices 43 Dauncey Street, Kingscote during ordinary business hours and via the Council's website: www.kangarooisland.sa.gov.au Copies will also be provided to the public upon request, and upon payment of a fee in accordance with the Council's Schedule of Fees and Charges.

Any grievances in relation to this policy or its application should be forwarded in writing addressed to the Chief Executive Officer, Kangaroo Island Council, PO Box 121, Kingscote SA 5223

SIGNED:



Chief Executive Officer

Date: 10 May 2022

History:

Date Reviewed:	Version:	Reason for Amendment:
17 Aug 2011	Version 1	Date Adopted by Council.
13 June 2012	Version 2	Asset section moved out to new Policy.
12 June 2013	Version 3	Annual Policy Review by Council
11 June 2014	Version 4	Annual Policy Review by Council
09 June 2015	Version 5	Annual Policy Review by Council
21 June 2016	Version 6	Annual Policy Review by Council
13 June 2017	Version 7	Annual Policy Review by Council Ref#C189:2017
12 June 2018	Version 8	Annual Policy Review 2018-19 Ref# C176:2018
11 June 2019	Version 9	Annual Policy Review 2019-20
12 May 2020	Version 10	Policy Review by Council

10 May 2022	Version 11	Changes to clauses 5.3.4 & 5.8.2
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