

Asset Accounting Policy	
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Responsible Manager/s or Department:	Director of Council Services Finance Department Asset Services Department
Related Policies / Codes:	Accounting Policy Procurement Policy
Related Procedure(s):	
Related Document(s):	Infrastructure and Asset Management Plans Local Government Act, 1999 Local Government (Financial Management) Regulations, 2011 Australian Infrastructure Financial Management Guidelines

1. Introduction

Council has an obligation to ensure that all assets are managed efficiently in accordance with the Council's Infrastructure and Asset Management Plan. This policy outlines Council's essential accounting requirements for asset management, which provide compliance with the Local Government Act (1999), Local Government (Financial Management) Regulations, 2011, Australian Accounting Standards, interpretations, guidelines and relevant South Australian Legislation.

2. Scope

This policy will apply to all assets owned by, or under the asset register of Kangaroo Island Council. The Accounting Policy covers the requirements for dealing with current assets. This policy will concentrate on the rules for non-current assets. It should be applied and read in conjunction with the Accounting Policy when required.

3. Definitions

Asset refers to a resource controlled by the Council as a result of past events from which future economic benefits are expected to flow. As such, structures fixed to land controlled by the Council are considered an asset of Council. This includes, for example, improvements to land provided by a Lessee, 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.

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.

Carrying Amount refers to the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Cost Model means 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.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.



Disposal Value (in this Policy) is the net present value of the future cash flow where it is expected that there will be no regular future economic benefit occurring to Council, for those assets that Council deems not to be replaced. The disposal value is reduced to nil when there is no expected future economic benefit flowing to Council.

Earthworks is the pavement or sub-base of road infrastructure and the sub-base material between CWMS Lagoon.

Earthworks (engineering) are engineering works created through the processing parts of the earth's surface involving quantities of soil or unformed rock.

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).

Impairment Loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

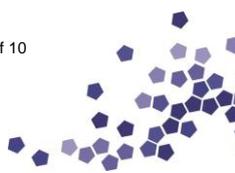
Materiality - Information is material if its omission, misstatement or non-disclosure has the potential, individually or collectively, to (a) influence the economic decisions of users taken on the basis of the financial report or (b) affect the discharge of accountability by the management or elected representatives of the Council.

Pavement or Sub-base is typically clearing the land and reshaping and aligning the land surface through cutting, filling, grading and compacting soil and rock to suit the type of road to be constructed (interpretation 1055 *Accounting for Road Earthworks*).

Recoverable Amount is the higher of an asset's fair value less costs to sell and its value in use.

Replacement Cost is the current cost to replace an item of property, plant and equipment on a like for like basis.

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.



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.

Specification – For the purpose of this policy specification refers to a statement or drawing prescribing materials, dimensions and quality of work for something to be built, installed or manufactured.

Wearing Surface is the top layer of a road that carries traffic, road surface.

4. Policy Statement

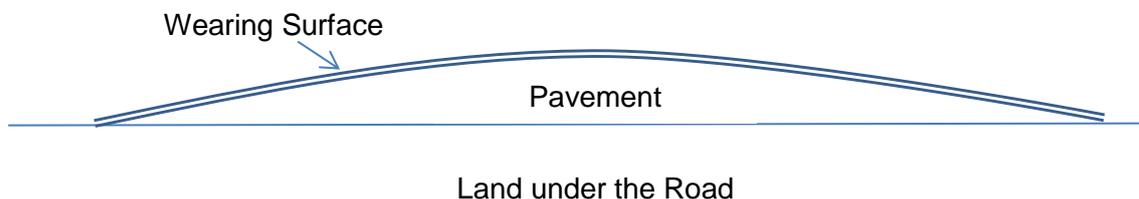
4.1. Recognition of an Asset

4.1.1. Land under roads

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

4.1.2. Roads

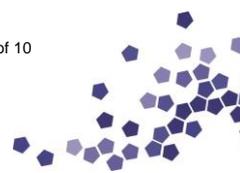
Sealed roads are recorded at component level as per Australian Infrastructure Financial Management Guidelines (AIFMG) Sec 12.4.1.



Unsealed Roads are only recorded for the wearing surface except where unsealed roads are upgraded to include additional pavement depth and/or width that is imported from a separate location, beyond the depth of the wearing surface for that class of road.

Interpretation 1055 – Accounting for Road Earthworks Paragraph 7 & 8 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 the earthworks. Further the depreciation of non-depreciation of road earthwork assets shall be reviewed at least at the end of each reporting period, to ensure that the accounting policy applied to particular earthwork asset, having regard to factors such as asset usage, physical deterioration and technical and commercial obsolescence.

Council has elected to apply the above interpretation and not to depreciate the pavement component of a road. This election will be reviewed annually as part of the review of the Asset Accounting policy, along with an engineering review to determine there is no major degradation of the sub-base. The engineering review will be undertaken in line with the revaluation frequency set out in Table 2.



4.1.3. Initial Recognition

All assets are initially recognised at cost.

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. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed by Council includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overhead.

Capital works still in progress at balance date are recognised as other non-current assets and transferred to infrastructure, property, plant & equipment when completed ready for use.

4.1.4. Large Externally-Funded Capital Projects

For large externally funded capital projects with multi-year grant agreements from a Government or a government department Council *"does not control the contributed assets and therefore should not recognise revenues until the transferor Government has a present obligation that is binding"*, AASB 1004 Paragraph 29.

The asset recognition requirement for externally-funded large capital projects, if meeting the following specific criteria, will be at cost, where both the capital income and the asset cost of the new asset will be recognized proportionally over the economic life of the asset.

The criteria for recognizing such assets will be as follows, namely:

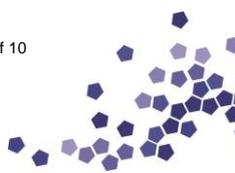
1. The cost of the new asset will be greater than \$1 million, and;
2. There is a formal funding agreement with the external funds provider such that if Council fails to maintain the new asset at an agreed level of service, to be self-reviewed at agreed periods, Council will be obliged to refund any remaining portion of capital funding to the external funds provider.

4.1.5. Materiality

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. The capitalisation thresholds for each major asset class are effective as follows. No capitalisation threshold is applied to the acquisition of land or interests in land.

Table 1

Asset Category	Asset Class	Asset Recognition Threshold	Useful life for depreciation	Measurement Model	Measurement Unit
Land	Land	N/A	N/A	Revaluation	Fair Value
Land Improvement	Land Improvement	\$10,000	7 to 100 years	Revaluation	Replacement Cost
Land Improvement	Land Improvement (non-replaced)	N/A	7 to 100 years	N/A	Disposal Value
Buildings	Buildings	\$10,000	7 to 100 years	Revaluation	Replacement Cost
	Other Structures	\$10,000	7 to 100 years	Revaluation	Replacement Cost



	Building /Structure (non-replaced)	\$10,000	7 to 100 years	N/A	Disposal Value
Infrastructure	Roads – pavement for sealed & unsealed roads built to a specification	\$10,000	N/A	Revaluation	Replacement Cost
	Roads–wearing surface for sealed & unsealed roads	\$10,000	5 to 100 years	Revaluation	Replacement Cost
	Bridges	\$10,000	5 to 100 years	Revaluation	Replacement Cost
	Footpaths	\$10,000	5 to 100 years	Revaluation	Replacement Cost
	Stormwater	\$10,000	50 to 70 years	Revaluation	Replacement Cost
	CWMS	\$5,000	10 to 70 years	Revaluation	Replacement Cost
Furniture & Fittings	Furniture & Fittings	\$5,000	3 to 100 years	Revaluation	Replacement Cost
Plant & Equipment	Plant & Equipment	\$5,000	4 to 20 years	Cost	Fair Value
Library Books	Library Resources	N/A	1 to 7 years	Cost	Fair Value

4.1.6. Subsequent Recognition

All material asset classes are revalued on a regular basis such that the carrying values are not materially different from fair value. For infrastructure and other asset classes where no active market exists, fair value is determined to be the current replacement cost of an asset less where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset. Further detail of existing valuations, methods and valuers are to be provided in the notes to the accounts.

The Depreciated Replacement Cost method will be used as a default method unless Council determines otherwise, such as determining not to replace certain assets at the end of their economic useful life, which will require a disposal valuation method.

All non-current assets other than receivables and investments are revalued in accordance with the Local Government (Financial Management) Regulations 2011. However, if at any time management considers that the carrying amount of an asset materially differs from its fair value then the asset will be revalued regardless of when the last valuation took place. Non-Current physical assets that are acquired between revaluations are held at cost until the next valuation, where they are revalued to depreciated replacement cost.

Revaluation increments arising upon revaluing the above mentioned non-current asset classes to their depreciated replacement cost are credited directly to the asset revaluation reserve.

4.1.7. Borrowing Costs Capitalization

Borrowing costs in relation to qualifying assets (net of offsetting investment revenue) will be capitalised in accordance with the allowed alternative treatment in Australian Accounting Standard 123 “Borrowing Costs”. The amounts of borrowing costs recognised as an expense or as part of the carrying amount of qualifying assets are to be disclosed in notes to the



accounts, likewise a similar disclosure is required for amounts (if any) of interest revenue offset against borrowing costs.

4.1.8. Changes to the Recognition of Assets

An asset of property, plant or equipment is to be de-recognised or valuation-basis modified:

- On disposal; or
- When no future economic benefits are expected from its use, replacement or disposal.

Assets can be disposed by Council in a few ways:

- By sale or trade-in;
- By donation; or
- De-recognition due to such circumstances as being scrapped, stolen, considered obsolete, or through an initial recording error, etc.

Any gain or loss from the disposal of an asset must be recognized in the Statement of Comprehensive Income.

An asset can be re-valued at 'disposal value' if it is determined that the asset would not be replaced, and that there are no regular cash flows to Council being generated by the asset, and that there is no market-based evidence of fair-value for that asset. Any adjustment due to this change must be recognized through an adjustment to Council's Asset Revaluation Reserve.

4.2. Measurement

4.2.1. Measurement method

After recognition as an asset, Council can choose either Cost Model or Revaluation Model for processing the measurement. Under the Local Government Act 1999, Council is required to use the Revaluation Model to access all the material non-current assets.

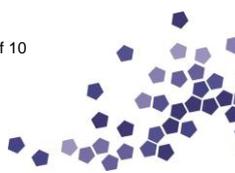
Major asset classes are determined by the Council and are required to be revalued on a regular basis to ensure such that the carrying values are not materially different from the fair values.

Local Government Act 1999 states, "A council, council subsidiary or regional subsidiary must undertake a revaluation of all material non-current assets in accordance with the requirement of Australian Accounting Standard AASB116." According to AASB 116, "The frequency of revaluation depends upon the changes in fair values of the items of property, plant and equipment being valued... If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which the asset belongs shall be revalued."

Table 2 below identifies a revaluation frequency for each class of assets to process regular revaluations.

Table 2

Asset Category	Asset Class	Measurement Model	Measurement Unit	Materiality	Regularity of revaluations
Land	Land	Revaluation	Fair Value	Major	At least 5 yearly
Land Improvement	Land Improvement	Revaluation	Replacement	Minor	At least 5 yearly
	Land Improvement (non-replaced)	N/A	Disposal	N/A	N/A



Buildings	Buildings	Revaluation	Replacement Cost	Major	At least 5 yearly
	Other Structures	Revaluation	Replacement Cost	Major	At least 5 yearly
	Building /Structure (non-replaced)	N/A	Disposal	N/A	N/A
Infrastructure	Roads – pavement for sealed & unsealed roads built to a specification	Revaluation	Replacement Cost	Minor	At least 5 yearly
	Roads–wearing surface for sealed & unsealed roads	Revaluation	Replacement Cost	Minor	At least 5 yearly
	Bridges	Revaluation	Replacement Cost	Minor	At least 5 yearly
	Footpaths	Revaluation	Replacement Cost	Major	At least 5 yearly
	Stormwater	Revaluation	Replacement Cost	Major	At least 5 yearly
	CWMS	Revaluation	Replacement Cost	Minor	At least 5 yearly
Furniture & Fittings	Furniture & Fittings	Cost	Fair Value	Major	N/A
Plant & Equipment	Plant & Equipment	Cost	Fair Value	Minor	N/A
Library Books	Library Resources	Cost	Fair Value	Minor	N/A

Council has decided to utilise the Revaluation Model for determining the Fair Value of assets.

For assets for which there is no market-based evidence existing to determine *fair value*, a replacement cost approach is used to estimate *fair value*. 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 the disposal value. (AIFMG Section 12.12.3). Where assets are not rationally replaced, and Council has decided that there is no expected future economic benefit continuing to flow to Council, the disposal value will be reduced to nil.

A separate asset sub-class for these assets exists under the land improvement and building structures main class. Assets which are not replaced and have no regular expected future economic benefits from their use are derecognized from the main asset classes and re-categorized in these special sub-asset classes. There is no revaluation or depreciation processes assigned to these assets.

All other assets should be revalued at least in a five-year period. For assets that experience significant change in fair value, more regular revaluation is required.



As a result of revaluation, the increment or decrement in the asset's carrying amount should be recognized in other comprehensive income and accumulated in the Asset Revaluation Reserve Account.

Revaluations generally are conducted by a qualified revaluation entity. Revaluations undertaken by Council's staff may be reviewed by an appropriately qualified external party.

To minimise the impact of revaluations on the depreciation expense and therefore on Council's operating surplus/deficit position, Council aims to achieve a progressive revaluing of asset classes so that increases in depreciation expense are recognised in small increments each year rather than as large increases every 3 to 5 years. This can be achieved by undertaking a comprehensive asset revaluation within an established 5 year cycle, and a desktop revaluation whenever required.

Table 3

Asset Category	Measurement Unit	Timing within 5 Year Cycle
Land	Fair Value	Year One
Land Improvement	Replacement Cost	Year One
Buildings	Replacement Cost	Year Two
Structures	Replacement Cost	Year Two
Infrastructure – Roads	Replacement Cost	Year Three
Infrastructure – Bridges	Replacement Cost	Year Three
Infrastructure – Footpaths	Replacement Cost	Year Three
Infrastructure – Stormwater	Replacement Cost	Year Four
Infrastructure – CWMS	Replacement Cost	Year Four
Furniture & Fittings	Fair Value	Not Required
Plant & Equipment	Fair Value	Not Required
Library Books	Fair Value	Not Required

4.2.2. Depreciation of Non-Current Assets

Other than land, the pavement for unsealed and sealed roads built to a specification, 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.

Depreciation is recognised on a straight-line basis which, in the opinion of Council, best reflects the consumption of the service potential embodied in those assets. Major depreciation periods for each class of asset are shown as the Table 1 above. Depreciation periods for infrastructure assets have been estimated based on the best information available to Council.

4.2.3. Impairment

Assets that have an indefinite useful life are not subject to depreciation and are reviewed annually for impairment. Assets that are subject to depreciation are reviewed for impairment



whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (which is the higher of the present value of future cash outflows or value in use).

For assets assessed under Revaluation Model, the loss should be treated as revaluation decrease, and recognized in other comprehensive income and the Asset Revaluation Reserve Account (AASB136 – Impairment of Assets).

4.3. Evaluation - Asset Ratios

There are two key ratios related to the Asset management as recommended by the Local Government Association. These are Asset Sustainability Ratio and Asset Consumption Ratio. They are effectively tools in the evaluation of the Council's non-current asset financial performance and also provide indicators on how the future asset management plans could impact on Council's sustainability and financial position. The ratios are required to be included as part of the Council's Financial Reports.

5. Responsibilities

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

It is the responsibility of the Audit Committee to review on an annual basis the Accounting Policy of Council.

Council's External Auditor is responsible for the review of the Council's financial statements to ensure consistency with Accounting Standards and with the above Accounting Policy.

6. 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

Being a Policy adopted by the
Mayor and Elected Council

Date: 12 June 2018



History:		
Date Reviewed:	Version:	Reason for Amendment:
13 June 2012	Rev 01	Date Adopted by Council.
11 November 2012	Rev 02	Change to asset recognition for large capital projects. Introduction of a materiality threshold for Land Improvement assets.
12 June 2013	Rev 03	Annual Policy Review by Council 2013-14
11 June 2014	Rev 04	Annual Policy Review by Council 2014-15
14 July 2015	Rev 05	Annual Policy Review by Council 2015-16
21 June 2016	Rev 06	Annual Policy Review by Council 2016-17
13 June 2017	Rev 07	Annual Policy Review by Council Ref# C189:2017
12 June 2018	Rev 08	Annual Policy Review by Council 2018-19 Ref# C176:2018

