2.5 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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Document History

Version	Date Amended	Details Comments e.g. Resolution Number

OBJECTIVE
To provide a true and fair view of Coomalie Shires financial position and the basis upon which that assessment has been made for the guidance of ratepayers, electors, creditors, regulators, government in general and other stakeholders.

POLICY SUMMARY
The Policy sets forth the principal accounting policies adopted in the preparation of the annual financial statements. These statements are 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, Urgent Issues Group Interpretations (UIGs) and relevant Northern Territory legislation.

Background
Coomalie Shire is incorporated under the Northern Territory *Local Government Act* and has its principal place of business at 141 Cameron Rd Batchelor, Northern Territory, Australia. Annual financial statements are prepared pursuant to the requirements of the *Local Government Act* and the relevant accounting standards.

POLICY STATEMENT

The principal accounting policies adopted in the preparation of the annual financial statements for the year ended 30 June 2012 are set out in Appendix A.

Legislation, terminology and references

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, Urgent Issues Group Interpretations (UIGs) and relevant Northern Territory legislation, specifically Part 7 of the *Local Government (Accounting) Regulations*.

Implementation and delegation

Implementation of this policy is by way of preparation and subsequent audit of the annual financial statements.

Evaluation and review

This policy will be reviewed annually in conjunction with preparation of the Coomalie Community Government Council annual financial statements.
Evaluation is by way of an unqualified audit report in respect to the annual statements, which has been achieved for the financial year ended 30 June 2012.

Appendix A

Extract from the Annual Financial Statements for the financial year ended 30 June 2012 is on the following page.

Appendix A

Extract from the Annual Financial Statements for the financial year ended 30 June 2012

1 Summary of Accounting Policies

a ***The Local Government Reporting Entity***

The consolidated fund through which the Council controls resources to carry on its functions has been included in the financial statements forming part of this report.

A summary of the activities along with their contribution to the operating result and their net assets is provided in Note 2 a.

b ***Basis of Accounting***

This general purpose financial report has been prepared in accordance with the NT Local Government Act 2008, NT Local Government (Accounting) Regulations 2008, and applicable Australian Accounting Standards. Financial statements have been prepared on an accrual basis.

c ***Statement of Compliance***

Australian Accounting Standards (AAS) include Australian Equivalents to International Financial Reporting Standards (AEIFRS). Because the Council is a not-for-profit entity and the AAS include requirements for not-for-profit entities which are inconsistent with International Financial Reporting Standards (IFRS), to the extent these inconsistencies are applied, this report does not comply with IFRS. The main impact is in the offsetting of revaluation and impairment gains and losses within a class of assets.

This financial report has been prepared on the basis of historical cost except for the revaluation of certain non-current assets.

d ***Adoption of new and revised Accounting Standards***

In the current year, the Council has adopted all of the new and revised standards and interpretations issued by the Australian Accouting Standards Board (AASB) that are relevant to their operations and effective for the current annual reporting period.

Council has elected not to value land under roads this financial year 2011-12 as per AASB 1051.

The following Australian Accounting Standards have not been applied for the 2011-12 financial year as they are not mandatory/applicable to Coomalie Community Government Council.

AASB	2	Share-based Payment
AASB	3	Business Combinations
AASB	4	Insurance Contracts
AASB	5	Non-current Assets Held for Sale and Discontinued Operations
AASB	6	Exploration for and Evaluation of Mineral Resources
AASB	8	Operating Segments
AASB	102	Inventories
AASB	111	Construction Contracts
AASB	112	Income Taxes
AASB	114	Segment Reporting
AASB	117	Leases

AASB	121	The Effects of Changes in Foreign Exchange Rates
AASB	123	Borrowing Costs
AASB	124	Related Party Disclosures
AASB	127	Separate Financial Statements
AASB	128	Investments in Associates and Joint Ventures
AASB	129	Financial Reporting in Hyperinflationary Economies
AASB	131	Interest in Joint Ventures
AASB	133	Earnings per Share
AASB	134	Interim Financial Reporting
AASB	140	Investment Property
AASB	141	Agriculture
AASB	1004	Contributions
AASB	1023	General Insurance Contracts
AASB	1038	Life Insurance Contracts
AASB	1050	Administered Items
AASB	1052	Disaggregated Disclosures

e ***Currency***

The Council uses the Australian dollar as its functional currency and its presentation currency.

f ***Constitution***

The Coomalie Community Government Council is constituted under the Northern Territory Local Government Act and is domiciled in Australia.

g ***Changes to Accounting Policies***

Unless otherwise stated, accounting policies are the same as for the previous year.

h ***Rates, Grants and Other Income***

Rates, grants and other income are recognised as income on receipt of funds or earlier unconditional entitlement to the funds.

(i) Rates

Where rate monies are received prior to the commencement of the rating period, the amount is recognised as income in the period in which they were received

(ii) Grants and Subsidies

Where the Council has an obligation to use a grant or subsidy in a particular manner the amount is recognised as income on receipt. Unspent funds are recognised as a liability - grants received in advance until the obligation is satisfied.

(iii) Non-Cash Contributions

Non-cash contributions in excess of the recognition thresholds set out in Note 1.n. in value, are recognised as income and as non-current assets. Non-cash contributions below the thresholds are recorded as income only.

(iv) Other Income including Contributions

Other income is recognised as a receivable when it is probable that it will be received and the amount is known, otherwise the amount is recognised on receipt.

j *Cash and Cash Equivalents*

Cash and cash equivalents includes cash on hand, all cash and cheques receipted but not banked at the period end, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of twelve months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

k *Financial Instruments*

A financial instrument is recognised if the Council becomes a party to the contractual provisions of the instrument. Financial assets are recognised at trade date (less impairment). Financial assets are derecognised if the Council transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Council's obligations specified in the contract expire or are discharged or cancelled.

Financial Assets

The Council classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial instrument was acquired. The Council determines the classification of its financial instruments at initial recognition and re evaluates this designation at each reporting date.

Loans and Receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest rate method less impairment.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Impairment of Financial Assets

Financial assets are assessed for indicators for impairment at each Statement of Financial Position date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial assets the estimated future cash flows of the investment that that have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against an allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of comprehensive income.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of Financial Assets

The Council derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Council neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Council recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Council retains substantially all the risks and rewards of ownership of a transferred financial asset, the Council continues to recognise the financial asset and also recognises a collaterised borrowing for the proceeds received.

Financial Liabilities

The Council classifies its financial liabilities as other financial liabilities. This classification pertains to financial liabilities that are not held for trading or not designated as at FVPL (Fair Value through Profit & Loss) upon inception of the liability. The classification depends on the purpose for which the financial liability was incurred. The Council determines the classification of its financial liability at initial recognition and re-evaluates this designation at each reporting date.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Council prior to the end of the financial year which remain unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

l ***Trade and Other Receivables***

Trade receivables are recognised initially at fair value due at the time of sale or service delivery and settlement of these amounts is required within 30 days from invoice date.

The collectability of receivables is assessed periodically and, if there is objective evidence that Council will not be able to collect all amounts due, the carrying amount is reduced with provision being made for doubtful debts. The loss is recognised in other expenses.

All known bad debts were written off against the allowance for doubtful debts at 30 June 2012. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

m ***Other Financial Assets***

Other financial assets are recognised at cost.

n ***Categorisation of Financial Assets and Financial Liabilities***

The Coomalie Community Government Council has categorised the financial assets and financial liabilities held at balance date as follows:

Financial Assets	**Categorisation**
Cash	Cash
Receivables	Loans and Receivables (at amortised cost)
Other Financial Assets	As applicable
Financial Liabilities	
Payables	Financial liability (at cost)

Financial assets and financial liabilities are presented separately from each other, offsetting has not been applied.

o ***Investments***

Financial institution deposits at call and term deposits are treated as cash. Interest revenue is recognised on an accrual basis.

p ***Property, Plant and Equipment***

Each class of infrastructure, property, plant and equipment is stated at cost or fair value less, where applicable, any accumulated depreciation and accumulated impairment loss.

The classes of infrastructure, property, plant and equipment and the minimum threshold value recognised as an asset by Council are:

Class	Minimum Threshold
Land	$1
Office Furniture and Equipment	$5,000
Other structures	$5,000
Motor Vehicles and Plant	$5,000
Buildings	$10,000
Road Infrastructure	$10,000

Items of infrastructure, property, plant and equipment acquired for a total value of less than the threshold are treated as an expense in the year of acquisition.

(i) Acquisition of Assets

Acquisitions of assets are initially recorded at cost. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including freight in, architect's fees and engineering design fees, and all other establishment costs.

Non-monetary assets received in the form of contributions are recognised as assets and income at fair value at the date of receipt. Fair value means the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

(ii) Capital and Operating Expenditure

Wage and materials expenditure incurred for the acquisition or construction of assets are treated as capital expenditure. Routine operating maintenance, repair costs and minor renewals to maintain the operational capacity of the non-current asset is expensed as incurred, while expenditure that relates to replacement of a major component of an asset to maintain its service potential is capitalised.

(iii) Valuation

Land, buildings, other structures and road infrastructure assets are measured on the revaluation basis, at fair value, in accordance with AASB116 *Property, Plant and Equipment.* Motor Vehicles and Plant, Office Furniture and Equipment are measured at cost.

Non-current physical assets measured at fair value are revalued where required so that the carrying amount of each class of asset does not materially differ from its fair value at the reporting date. This valuation may involve the application of a suitable index to the cost elements of each asset, or may involve an independent assessment of the value.
Details of valuers and methods of valuations are disclosed in Note 8.

(iv) Depreciation

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

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and commissioned ready for use.

(v) Depreciation (continued)

Where assets have separately identifiable components that are subject to regular replacement, these components are assigned useful lives distinct from the asset to which they relate. Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the new depreciable amount is depreciated over the remaining useful life of the asset to the Council.

The depreciation rates and estimated useful lives of infrastructure, property, plant and equipment are reviewed annually. Details of the depreciation rates for each class of asset are generally as follows:

Buildings	1.5% to 20%	Prime cost
Other Structures	3.75% and 40%	Diminishing Value
Motor Vehicles and Plant	9% to 37.5%	Diminishing Value
Office Furniture and Equipment	11.25% to 40%	Diminishing Value
Roads - Sealed	2% to 2.5%	Prime cost
Roads - Unsealed	5%	Prime cost

(vi) Unfunded depreciation

Coomalie Community Government Council has elected not to fund depreciation expenses for assets that will not be replaced or where external funding sources other than loans will be obtained to fund their replacement.

q *Intangible Assets*

Only intangible assets which have a cost exceeding $10,000 are recognised as intangible assets.

Council has no intangible assets.

r *Capital Works in Progress*

The cost of infrastructure, property, plant and equipment constructed by the Council includes the cost of purchased services, materials, direct labour and an appropriate proportion of labour overheads.

s *Impairment of Non Current Assets*

Each non-current physical and intangible asset and group of assets is assessed for indication of impairment annually. If an indicator of possible impairment exists, the Council determines the asset's recoverable amount. Any amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

The asset's recoverable amount is determined as the higher of the asset's fair value less costs to sell and depreciated replacement cost.

An impairment loss is recognised immediately in the Statement of Comprehensive Income, unless the asset is carried at a revalued amount, in which case the impairment loss is offset against the asset revaluation reserve of the relevant class to the extent available.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years, a reversal of an impairment loss is recognised as income, unless the asset is carried at a revalued amount, in which case the reversal of an impairment loss is treated as a revaluation increase.

t ***Leases***

Leases of plant and equipment under which the Council as lessee assumes substantially all the risks and benefits incidental to the ownership of the asset, but is not the legal owner, are classified as finance leases. Other leases, where substantially all the risks and benefits remain with the lessor, are classified as operating leases.

The Council had no operating or finance leases during this reporting period.

u ***Trade and Other Payables***

Trade creditors are recognised upon the receipt of the goods or services ordered and are measured at the agreed purchase/contract price net of applicable discounts other than contingent discounts. Amounts owing are unsecured and are generally settled on 30 day terms.

v ***Liabilities - Employee Benefits***

Employee entitlements are accrued for wages and salaries, annual leave and long service leave in respect of services provided by employees up to the reporting date. Liabilities for employee entitlements are assessed at each reporting date. Where it is expected that the leave will be taken in the next twelve months the liability is treated as a current liability. Otherwise the liability is treated as non-current.

(i) Salaries and Wages

A liability for salaries and wages is recognised and measured as the amount unpaid as at the reporting date at current pay rates in respect of employee's services up to that date. This liability is treated as a payable and not as a provision.

(ii) Annual Leave

A liability for annual leave is recognised. The current proportion (based on the expected payment date) is calculated on current wage and salary levels.

(iii) Sick Leave

Sick leave taken in the future will be met by future entitlements and hence no recognition of sick leave has been made in these financial statements.

(iv) Superannuation

The superannuation expense for the year is the amount of the statutory contribution the Council makes to the superannuation plan which provides benefits to employees. The plan is an accumulation fund that is not seen to require additional contributions by the Council at any one time.

(v) Long Service Leave

A liability for long service leave is measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. The value of the liability was calculated using the current pay rates. The current portion of this liability is relatively certain as to the date and amount of payment and is treated as a payable. The non-current portion is treated as a provision.

w *Borrowings*

Council had no borrowings during the reporting period.

x *Restoration Provision*

A provision is made for the cost of restoration of assets and other future restoration costs where it is probable the Council will be liable, or required, to incur such a cost on the cessation of use of the facility. This liability is provided in respect of gravel pits and refuse dumps.

Coomalie Council is of the opinion that major restoration works will not be required at the Batchelor landfill for the following reasons:

(i) Restoration of the landfill is carried out as part of weekly maintenance

(ii) As the landfill is sited over the aquifer which supplies Batchelor's water, the site will not be used for any other purpose once the landfill is closed.

Therefore, no provision has been made for restoration works to the Batchelor landfill.

y *Asset Revaluation Reserve*

The asset revaluation reserve comprises adjustments relating to changes in value of infrastructure, property, plant and equipment that do not result from the use of those assets. Net incremental changes in the carrying value of classes of non-current assets since their initial recognition are accumulated in this reserve.

Increases and decreases on revaluation are offset within a class of assets. Where a class of assets is decreased on revaluation, that decrease is offset first against the amount remaining in the asset revaluation reserve in respect of that class. Any excess is treated as an expense. When an asset is disposed of, the amount in the reserve in respect of that asset is retained in the reserve.

z ***Reserves***

The following reserves are cash backed reserves and represent funds that are accumulated within the Council to meet anticipated futures needs. In each case the amount relates to a perceived future requirement which is not currently a liability.

(i) Constrained Works Reserve

This reserve represents grants and subsidies received for capital works or projects which have not yet been carried out.

(ii) Operational Grants Reserve

This reserve represents grants and subsidies received for specific operational projects which have not been fully spent within the reporting period.

aa ***Goods and Services Tax***

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i). where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
(ii). for receivables and payables which are recognised inclusive of GST, the net amount recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cashflows arising from investing and financing activities, which is recoverable from or payable to the taxation authority, is classified as operating cash flows.

bb ***Accumulated Surplus***

This represents the amount of Council's net funds not set aside in reserves to meet specific future needs. The main part of this amount is not available for Council to spend as it has already been invested in assets used to provide services.

cc ***Rounding and comparatives***

Amounts included in the financial statements have been rounded to the nearest $1.

Comparative information has been restated where necessary to be consistent with disclosures in the current reporting period.

dd ***Financial Risk Management***

The Council minimises its exposure to financial risk by not investing in derivatives or other risky investments. Investments in financial assets are only made when those assets are with a bank or other financial institution in Australia, and are for a period of less than one year.

Details of financial instruments and the associated risks are shown at Note 17.

ee ***Taxation***

Income of the Council is exempt from Commonwealth taxation except for Fringe Benefits Tax and Goods and Services Tax (GST). The net amount of GST recoverable from the ATO or payable to the ATO is shown as an asset or liability respectively.

ff ***Economic Dependence***

During the year the Coomalie Community Government Council received grants from government departments, and the future operation of the council is dependent upon continued funding from government departments.