GOVERNMENT OF WESTERN AUSTRALIA

Department of
**Local Government, Sport and Cultural Industries**

# Guidance Material Annual Financial Report Models

For the year ended 30 June 2023

# Annual Financial Report

## Introduction

## Scope

This annual financial report model (the model) and guidance attempts to cover most common situations applicable to a local government operating in Western Australia. Due to the varied nature of local government in Western Australia there will invariably be some situations/disclosures which have not been specifically addressed.

It is important all users of this model consider the specific circumstances and context of their own situation and adjust as/if required.

## Limitations and restrictions

Some of the disclosures in the model would likely be immaterial if the example local government was a real local government.

The purpose of the model is to provide a broad selection of illustrative disclosures to cover most common scenarios encountered in practice.

The example local government as presented in the model only provides the framework for these disclosures and the amounts disclosed are for illustration purposes only.

Disclosures should not be included where they are not relevant or not material in specific circumstances.

Guidance on assessing materiality is provided in AASB 101 *Presentation of Financial Statements* and the non-mandatory Practice Statement 2 *Making Materiality Judgements* as well as being discussed further in this introduction.

## Structure

Amendments to AASB 101 *Presentation of Financial Statements* were made via AASB 2015-2 in an effort to assist users better understand the financial reports presented to them. The changes permitted the preparers to apply judgement as to the relevance of disclosures. This is known more generally as de-cluttering.

Prior to the amendments, preparers of financial reports were restricted to a greater degree in relation to the order of notes supporting the statements and various mandatory disclosures. AASB 101 now permit preparers of financial statements flexibility when determining what information to disclose, as well as the order information is presented.

AASB 101 also confirms the concept of materiality applies to the whole of the annual financial report. A user's understanding of the financial report should not be obscured by immaterial information or by aggregating material items that have a different nature or function.

This is to assist the preparation of financial reports by allowing greater judgement as to which disclosures are relevant and which are not.

Although it may not be apparent, the annual financial report model is generally ordered in a way so accounting standard disclosures appear first, with disclosures associated with the Local Government (Financial Management) Regulations appearing after.

This order also reflects the notes being disclosed in the order they appear on the face of the Statement of Financial Position. That is, Assets, Liabilities and then Equity. Other accounting standard and Local Government (Financial Management) Regulation disclosures then follow (in that order).

It is also important to remember the concept of materiality does not override a preparer's responsibility to comply with legislative requirements in relation to disclosure.

If the Act or Regulations require specific disclosures, then the concept of materiality is not a sufficient reason to ignore a disclosure requirement.

Refer to the separate section discussing materiality in this introduction.

## Disclosure Requirements

### Annual Financial Report

The Local Government (Financial Management) Regulations 1996 require all local governments to comply with the requirements of Australian Accounting Standards (Financial Management Regulation 5A) when preparing their annual financial report.

The annual financial report model is drafted to comply with:

- *The Local Government Act 1995* (as amended);
- The Local Government (Financial Management) Regulations 1996 (as amended);
- All applicable Australian Accounting Standards, except as noted at Note 1; and
- Follows some of the guidance established by the Introduction to Local Government Accounting Manual (the Guide) even if no longer maintained.

Financial Management Regulation 4(1) states regulations are in addition to, and not in derogation, of the requirements of Australian Accounting Standards.

Financial Management Regulation 4(2) also provides, where there is an inconsistency between a provision of an Australian Accounting Standard and the Financial Management Regulations, the regulations prevail to the extent of the inconsistency.

### Judgements, Estimates and Assumptions

In preparing financial statements, AASB 101.122 requires the nature of significant judgements, estimates and assumptions made by management to be disclosed.

The annual financial report model provides a general comment in Note 1 Basis of Preparation and, where judgements have been made, they have also been included in the relevant note along with the policy description.

AASB 101.125 also requires disclosure of information about the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, where they have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Local governments should consider carefully where there are material judgements and estimates they are making in the recognition and measurement of financial statement items.

Local governments may also have more judgements and estimates than are provided in the model.

Specific individual circumstances should always be considered.

## Materiality

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the economic decision of the user.

Prior to the amendments in AASB 2018-7 becoming applicable (from 1 July 2020), materiality in relation to disclosure only considered omissions or misstatements. The addition of the concept of obscuring (effective from the year ended 30 June 2021) added a new aspect to the concept of materiality.

Understanding this change is important to ensure all material disclosures are made.

Judging whether something is material means assessing whether an omission or misstatement or way information is presented could influence the economic decisions of users. It requires consideration of the characteristics and priorities of those users.

Depending on the circumstances, either the nature or the amount of an item or an aggregate of items could be the determining factor.

Users are assumed to have a reasonable knowledge of business and economic activities, accounting approaches and a willingness to study the information with reasonable diligence.

Consequently, the assessment of materiality needs to consider how users with those attributes could reasonably be expected to be influenced in making economic decisions.

Preparers of financial statements tend to err on the side of caution and disclose too much rather than too little. It is worth noting the IASB has emphasised too much immaterial information has the potential to obscure usefulness and should be avoided. This is now given added weight by the specific wording amendments that were contained in AASB 2018-7.

Notwithstanding, if the preparer is intending to exclude disclosure required by the Standards, they must be able to defend the decision by being able to quantify the nature and amount involved and have a defensible position as to why its omission will not impact on user decision making.

The following are some of the points to remember when judging materiality:

- If required by legislation, then the item is material and must be disclosed;
- If the item is large in value or is important to the end user, it must be included;
- If omitting the item would significantly change the financial report due to its nature or amount, then it must be included; and

If none of the above 3 requirements are met, then the item is likely immaterial and a candidate for omission.

## Annual Report

LGA S5.53(1) requires each local government to prepare an annual report for each financial year.

LGA S5.53(2) requires the annual report to contain:

- a report from the mayor or president;
- a report from the CEO;
- the financial report for the financial year;
- the auditor's report for the financial year;
- an overview of the plan for the future of the district made in accordance with LGA S5.56, including major initiatives that are proposed to commence or to continue in the next financial year;
- prescribed information in relation to employees with an annual salary of $130,000 or above (as prescribed by Admin Reg 19B);
- a matter on which a report must be made under section 29(2) of the Disability Services Act; and
- details of entries made under section 5.121 during the financial year in the register of complaints, including the number of complaints recorded in the register and how the complaints were dealt with.

## Other requirements (not specifically required by the LGA)

Includes:

- information required by National Competition Policy; and
- information required by the State Records Act.

## Information in relation to employees with an annual salary of $130,000 or above

Whilst no names need to be provided, Admin Reg 19B requires the annual report to contain details of the number of employees of the local government entitled to an annual salary of $130,000 or more in bands of $10,000 for each such band over $130,000. This was amended during 2020 and is a long-awaited update to the $100,000 threshold which had been unchanged since the original regulation in 2011.

It has also provided a clarification as to the definition of **remuneration** by stating it has the meaning given in the Salaries and Allowances Act 1975 section 4(1) which includes salary, allowances, fees, emoluments and benefits (whether in money or not).

The following disclosures are also required:

- any remuneration and allowances paid by the local government under Schedule 5.1 clause 9 during the financial year;
- any amount ordered under section 5.110(6)(b)(iv) to be paid by a person against whom a complaint was made under section 5.107(1), 5.109(1) or 5.114(1) to the local government during the financial year;
- the remuneration paid or provided to the CEO during the financial year;
- the number of council and committee meetings attended by each council member during the financial year;
- if available, the gender, linguistic background and country of birth of council members;
- if available, the number of council members who are aged:
    - i. between 18 years and 24 years; and
    - ii. between 25 years and 34 years; and
    - iii. between 35 years and 44 years; and
    - iv. between 45 years and 54 years; and
    - v. between 55 years and 64 years; and
    - vi. over the age of 64 years.
- if available, the number of council members who identify as Aboriginal or Torres Strait Islander;
- details of any modification made to a local government's strategic community plan during the financial year; and
- details of any significant modification made to a local government's corporate business plan during the financial year.

Please note, this disclosure is required in the annual report and not the annual financial report.

Consequently, no example disclosures are provided in the body of the annual financial report model.

## Other legislative requirements

### Annual Financial Report

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| LGA S 6.4(3). | The annual financial report is to be submitted to the auditor by **30 September of each given year**. The annual financial report will need to be sent to the auditor by this date (unless he/she has already been provided with it). **The Minister can grant an extension of time under the LGA.** |
| LGA S 7.9. | Audit report to be completed (signed and sent out) by **31 December of each given year**. Copies to be sent to the President/Mayor, CEO and Minister |
| LGA S 5.54. | Annual report to be **accepted** by Council no later than **31 December of each given year** unless audit report not available. If unable to be accepted by 31 December, then they must do so within 2 months of audit report becoming available.<br>**This acceptance must be by absolute majority.** |
| LGA S 5.27(1). | A general meeting of electors is to be held once every financial year. |
| LGA S 5.27(2). | General meeting to be held **within 56 days** of Council accepting the **annual** report |
| Admin Reg 15. | Matters to be **discussed** at general electors meeting are:<br>the contents of the annual report; and<br>any other general business. |

## Rounding off amounts

The annual financial report model rounds amounts to the nearest dollar as required by FM Reg 15(1)(a).

# Annual Financial Report

## Glossary

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| AAS | Australian Accounting Standard issued by the Australian Accounting Standards Board (AASB), e.g. AAS27.12 refers to paragraph 12 of AAS27 *Financial Reporting by Local Government*. **Note: All AAS standards with the exception of AAS 25 Financial Reporting by Superannuation Funds have been withdrawn. We have left the abbreviations here as there still may be occasion to refer to them.** |
| AASB | Accounting Standard issued by Australian Accounting Standards Board, e.g. AASB 101.8 refers to paragraph 8 of AASB 101 *Presentation of Financial Statements*. |
| Admin Reg | A specific regulation contained within the Local Government (Administration) Regulations 1996. |
| Admin Regs | Local Government (Administration) Regulations 1996. |
| AIFRSs | Australian Equivalents to International Financial Reporting Standards. |
| DLGSC | Department of Local Government, Sport and Cultural Industries. |
| F & G Reg | Local Government (Functions & General) Regulations 1996. |
| FM Reg | A specific regulation contained within the Local Government (Financial Management) Regulations 1996. |
| FM Regs | Local Government (Financial Management) Regulations 1996. |
| Financial Management Regulation(s) | Local Government (Financial Management) Regulations 1996. |
| Guide | Introduction to Local Government Accounting. |
| IFRSs | International Financial Reporting Standards. |
| IASB | International Accounting Standards Board. |
| Interpretation | Interpretations issued from time to time to add clarity to accounting treatments. |
| LGA | *Local Government Act 1995* e.g. LGA S5.19 refers to section 5.19 of the Act. |
| OAG | The Office of the Auditor General of Western Australia. |
| The model or the model | Annual financial report model. |

# Annual Financial Report

# Model Guidance

## Annual financial report

A complete annual financial report of a local government comprises the following:

*AASB 101.10* Required by the accounting standards (via FM Reg 5A):

- A statement of financial position;
- A statement of comprehensive income;
- A statement of changes in equity;
- A statement of cash flows;
- Notes, comprising a summary of significant accounting policies and other explanatory information; and
- Comparative information in respect of the preceding period.

Required by Financial Management Regulations:

- *FM Reg 51(1)* A statement by chief executive officer; and
- *FM Reg 36(2)(a)* A statement of financial activity.

**Contents of the notes to the annual financial report**

*AASB 101, 112, 113, 117* The notes to the annual financial report of a local government shall:

- Present information about the basis of preparation;
- Disclose information required by accounting standards not presented on the face of the individual financial statements;
- Disclose information required by the LGA and Financial Management Regulations;
- Provide additional information relevant to an understanding of the individual financial statements not disclosed elsewhere;
- *AASB 101.113* Be presented in a systematic manner with cross references to the individual financial statements or any related information in the notes; and
- *AASB 101.117* Include a summary of significant accounting policies relevant to understanding the information presented in the individual financial statements, including the measurement bases used in preparing each of the financial statements.

If a local government:

- Applies an accounting policy retrospectively;
- Retrospectively restates items in its financial statements; or
- *AASB 101.10(f)* Reclassified items in its financial statements it is also required to include a statement of financial position at the beginning of the preceding period.

*AASB 101.40A to 40D* This third statement of financial position is required to comply with the disclosure requirements outlined in AASB 101 at paragraphs 40A to 40D (inclusive).

## Statement by chief executive officer

*FM Reg 51(1)* FM Reg 51(1) requires the CEO to sign this statement.

*FM Reg Schedule 2 Form 1* Wording is in accordance with the requirements set out in the FM Regs Schedule 2 Form 1.

*AASB 110.17* Sign-off wording makes it clear the date the financials were authorised for release as required by AASB 110.17. In practice, this should be the same date as the audit report.

AASB 101

## Statement of comprehensive income

FM Reg 3

The definition of Income Statement at Financial Management Regulation 3 is:

income statement (or equivalent) that meets the requirements of Australian Accounting Standards for income statements.

By virtue of terminology in AASB 101, the income statement is now referred to as the statement of comprehensive income as that is the equivalent in the context of the Australian Accounting Standards.

AASB 101.10(b)

AASB 101.10(b) requires a financial report to include a Statement of Profit or Loss and Other Comprehensive Income for the period. However, AASB 101.10 does clarify an entity may use alternate titles for these statements and Statement of Comprehensive Income is acceptable.

AASB 101.8

AASB 101.8 also provides further guidance in this respect.

AASB 101.81A, 82 and 82A

AASB 101 paragraphs 81A, 82 and 82A specify the format of the Statement of Comprehensive Income.

FM Reg 14

The disclosure in the model presents revenue and expenses by nature in accordance with Financial Management Regulation 14.

FM Reg Schedule 2 Part 2

The classifications by nature used are those contained in the Financial Management Regulations Schedule 1 Part 2 and ensures compliance with statutory requirements.

AASB 101.85

The accounting standard rationale behind using these nature classifications is on the basis AASB 101 only prescribes a minimum disclosure and AASB 101.85 allows additional line items, headings and subtotals when presentation is relevant to the understanding of a local government's financial performance.

It is also on this basis (relevance to the understanding of a local government's financial performance) a sub-total line has been included below revenues and expenses from ordinary activities to represent the net result from Operations.

This line does not include a title, nor should one be added. To call it Net Result from Operations would be misleading as, technically, the items disclosed below this sub-total line are still part of the operating result.

### Revenue and expense items

Revenue and expense items are classified within the statement of comprehensive income depending on whether they arise from transactions or other comprehensive income.

In addition, the statement of comprehensive income also presents movements due to changes in non-owner equity under other comprehensive income.

All owner changes in equity in their capacity as owners can be found in the statement of changes in equity.

### Material items of income and expense

ASSB 101.97

When items of income and expense are material, their nature and amount shall be disclosed separately either in the statement of comprehensive income or in the notes to the financial statements (see also further guidance in the revenue and expenses section).

## Statement of comprehensive income (continued)

### Classification by nature

*Guide*

The Guide provides useful guidance on the classification of financial transactions into the appropriate nature.

The model uses the Guide as its point of reference with respect to nature classifications.

The following are useful classifications from the Guide:

- rate administration fees, rate penalties, sewerage rates and rubbish collection fees are to be included in fees and charges;
- interest on rate instalments, interest on rate arrears and interest on debtors are to be included in interest earnings;
- rate income includes general, differential, specific area rates, minimum rates, interim rates, back rates, ex-gratia rates, less discounts offered; and
- other expenditure includes statutory fees, taxes, provision for bad debts and rate write offs.

The nature classifications contained in FM Reg Schedule 1 Part 2 are the minimum disclosures and greater detail can be provided.

For example, revenue raised from rubbish collection fees may be substantial and worthy of separate disclosure; or if other revenue or other expenditure becomes the most substantial classification there is likely to be a benefit to the user of further separate disclosure.

### Other comprehensive income

This section presents line items for amounts classified by nature. These items are then grouped into those that:

- will not be reclassified subsequently to profit or loss; or
- will be reclassified subsequently to profit or loss when specific conditions are met.

***Items not reclassified subsequently***

Includes:

- changes in physical asset revaluation surpluses;
- share of movements of other comprehensive income of equity accounted investments; and
- changes in fair value of financial instruments through OCI.

***Items reclassified subsequently***

The model illustrates only items that will not be subsequently reclassified to the profit and loss. Some items do get reclassified to profit or loss and appropriate disclosures would need to be made if a local government holds such items.

*AASB 1052*

### By program disclosure

There is no specific requirement to provide a separate Statement of Comprehensive Income – By Program in either the accounting standards or the Financial Management Regulations. To satisfy the disclosure requirements of AASB 1052, revenue and expenditure by program is now provided by way of note.

Please refer to Note 29 for detail of this disclosure.

## Statement of financial position

AASB 101.54

AASB 101.54 sets out the minimum disclosure requirements regarding line item classifications on the face of the Statement of Financial Position.

The following disclosures are worthy of note:

- Tax assets and tax liabilities are required to be separately disclosed.

Interpretation 1031

- Following the guidance provided in UIG Interpretation 1031 the net amount of GST recoverable from or payable to the Australian Tax Office is regarded as a receivable or payable in the Statement of Financial Position.
- Trade and other payables, and provisions are disclosed separately.
- The model caters for both current and non-current other liabilities to allow for contract and grant liabilities as well as service concession liabilities (if applicable).

AASB 101.55

AASB 101.55 also allows additional line items, headings and subtotals when such presentation is relevant to an understanding of the entity's financial position.

There is no specific paragraph in AASB 101 requiring Total Assets, Total Liabilities and Net Assets to be disclosed separately on the face of the Statement of Financial Position.

This approach has been adopted as it provides further clarity in line with AASB 101.55 (and follows on from the guidance of the original AASB 101, prior to its amendment).

AASB 101.60

**Current/non-current distinction**

Assets and liabilities shall be classified as either current or non-current.

AASB 101.77, 78

**Sub-classification of line items**

Depending on the size, nature and function of the amounts involved and requirements of AASs, the statement of financial position line items must be sub-classified in a manner appropriate to the local government's operations (either in the statement of financial position or in the related notes).

Whilst infrastructure is not specified as a minimum disclosure requirement by AASB 101.54, due to the significance of these assets in the local government sector, inclusion as a separate line item classification improves the understanding of a local government's financial position in line with AASB 101.55.

AASB 101.72

**Refinancing liabilities – classification**

Financial liabilities shall be categorised as current when they are due to be settled within 12 months of the reporting period, even if:

- The original term was for a period longer than 12 months; and
- An agreement to refinance, or to reschedule payments, beyond 12 months, is completed after the reporting period and before the financial statements are authorised for issue.

It must be noted line items need only be presented where the local government recognises such an asset or liability.

If a local government holds additional assets/liabilities and the presentation of these is important for the understanding of the financial results, they must be disclosed on the face of the statement of financial position.

## Statement of changes in equity

This statement is included to present a reconciliation between the various classes of equity at the beginning of the period to the end of the period.

*AASB 101.106* Where material, the following information must be disclosed:

a) Total comprehensive income for the period, showing separately the total amounts attributable to owners and non-owners;

b) For each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with AASB 108; and

c) For each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

   i. Profit or loss;

   ii. Other comprehensive income; and/or

   iii. Transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

*AASB 108.24, 42(b)* **Changes in accounting policy or correction of prior period errors**

*AASB 101.106(b)* AASB 101.106 (b) requires adjustments for changes in accounting policy and correction of errors to be disclosed directly in the Statement of Changes in Equity.

If a local government has a correction of a prior period error, the disclosure requirements of AASB 108 and the requirements for a third Statement of Financial Position detailed in AASB 101 should be considered.

Changes in accounting policy emanating from AASB 116 and AASB 138 in respect of the revaluation of assets are not accounted for in accordance with AASB 108. Changes to the revaluation model under these Standards are not applied retrospectively.

Further guidance in respect to both:

- changes in accounting policy; and
- correction of prior period errors,

may be found in the Supplementary Guidance (Detailed) section accompanying the model.

## Changes in accounting policies

AASB 108.22, 29 Where a local government elects to make policy changes voluntarily, the change should be applied retrospectively. Where the policy change is applied retrospectively, it needs to demonstrate the effect on the earliest period possible, i.e. the opening balance of the comparative period. An example of a voluntary change in accounting policy is an increase in the asset capitalisation threshold.

Under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, voluntary changes in accounting policy are adjusted against the opening balances of each affected component of equity in the comparative information provided.

AASB 108.24 Under limited circumstances, where it is impracticable to determine the period-specific effects of changing an accounting policy, the current period may be the beginning of the earliest period for which retrospective application is practicable for a change in accounting policy.

**AASB 116 and AASB 138**

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 AASB 108.

## Correction of prior period errors

*AASB 108.42, 49* Where a local government has identified material prior period errors, they should be retrospectively corrected in the first complete set of financial statements authorised for issue after their discovery by:

- restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

*AASB 108.44, 45* Exemptions to this arise when it is demonstrably impracticable to measure the effect of the prior period error. In such circumstances appropriate disclosures need to be made to describe the event.

Whether or not the impact is measured, local governments need to provide adequate narration in the annual financial report to allow for users to understand the impact of the error on the financial results.

## Statement of cash flows

*AASB 107*

AASB 107 is the standard governing the disclosure requirements of the Statement of Cash Flows.

The Statement of Cash Flows is not required to include the original budget estimates (the FM Regs are silent on this matter).

*Interpretation 1031*

Interpretation 1031 *Accounting for Goods and Services Tax (GST),* provides guidance on the appropriate treatment for the GST in general purpose financial statements.

The consensus views expressed, included the following:

- Revenues, expenses and assets must be recognised net of GST except where the amount of GST incurred by a purchaser is not recoverable from the ATO. If not recoverable, the GST is to be included in the cost of the asset or as part of expenses.
- Receivables and payables must be stated with the GST included.
- The net amount of GST recoverable from, or payable to the ATO must be included as part of receivables or payables in the Statement of Financial Position.
- Cash flows must be included in the Statement of Cash Flows on a gross basis as per AASB 107.
- The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to the ATO, must be classified as operating cash flows.

There is currently no guidance as to whether the disclosure of cash flows for GST on a gross basis in the Statement of Cash Flows means each receipt and payment type (e.g. nature) within Operating Activities should:

- include the applicable GST received or paid; or
- have a separate line item for GST received and GST paid within Operating Activities.

The suggestion of allocating GST across the various operating nature classifications creates an inconsistency as there is no description to allocate the GST arising on investing and financing activities (required by the Interpretation to be shown as an operating cash flow) unless it is allocated to a separate GST line or to Other. This could then lead to a reader of the Statement being misled or confused as to the extent and treatment of GST.

The model has disclosed GST receipts and payments as a separate line item (as a nature classification) within Operating Activities.

## Statement of cash flows (continued)

### Statement Of Cash Flows – Classifications

*AASB 107.10* AASB 107.10 specifies the Statement of Cash Flows shall report cash flows as either operating, financing or investing activities. This means cash flows from Government is not an allowable classification.

Government grants may be categorised into those of operating nature (untied or used for general operations) and those of a non-operating nature (tied, required to be used for capital purposes).

For the purpose of disclosure in the Statement of Cash Flows we consider grants of an operating nature should be included in the cash flows from Operating Activities as these grants fund the operating activities of Council and may be spent on whatever programs are considered appropriate.

Other government grants (ie: of a non-operating nature) should be disclosed separately as cash flows from Investing Activities.

Whilst AASB 107 permits the use of either the direct or the indirect method for reporting cash flows from operating activities, it encourages entities to use the direct method, as it provides information which may be useful in estimating future cash flows and which is not available under the indirect method.

The model uses the direct method.

### Non-cash transactions

*AASB 107.43* An entity shall exclude from the Statement of cash flows investing and financing transactions that do not require the use of cash or cash equivalents. An entity shall disclose such transactions elsewhere in the annual financial report in a way that provides all the relevant information about those investing and financing activities.

*FM Reg 22(1)(d)*

## Statement of financial activity

*FM Reg 36(2)(a)*

FM Reg 36 (2)(a) requires the annual financial report to include the Statement of Financial Activity from the original budget for the year under review.

*FM Reg 36(2)(b)*

FM Reg 36 (2)(b) also requires a year end actual comparative for each line item in this Statement of Financial Activity.

The statement shown in the model includes an additional column to allow for ease of comparison to the prior year.

## Index to notes

An index to the notes has been provided in order to:

- assist with referencing to notes; and
- align with generally accepted practice.

## Basis of preparation and reporting entity

The financial report comprises general purpose financial statements which have been prepared in accordance with the *Local Government Act 1995* and accompanying regulations.

*AASB 101.17(b)* AASB 101.17(b) requires the presentation of information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

The model provides a suggested approach for those relevant to the local government sector within the Western Australian context.

Users of this guidance need to be mindful of reviewing those suggested to ensure they are relevant to their own circumstances.

*AASB 101.122* **Judgements, estimates and assumptions:**

In preparing the annual financial report, the nature of significant judgements, estimates and assumptions made by management need to be disclosed. The following disclosures are required:

- The fact significant assumptions, judgements and estimates were made.
- The nature of the significant assumptions, judgements and estimates.
- How these were made (the method used).

In the model, where judgements have been made they have been included in the relevant note along with the policy description.

Local governments should consider carefully where there are material judgements and estimates they are making in the recognition and measurement of annual financial report items.

Local governments may have more judgements and estimates than are disclosed in the model.

*AASB 101.125* **Key sources of estimation uncertainty**

Local governments shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- their nature; and
- their carrying amount at the end of the reporting period.

*AASB 101.126* Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period.

*AASB 101.128* These disclosures are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on recently observed market prices.

## Basis of preparation and reporting entity (continued)

### Other significant judgements

In addition, significant judgements and assumptions made (and changes to those judgements and assumptions) need to be disclosed in determining:

*AASB 12.7(a)*
- that it controls another entity;

*AASB 12.7(b)*
- that it has joint control of an arrangement or significant influence over another entity;

*AASB 12.7(c)*
- the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle;

*AASB 9.4.1.1*
- whether financial assets are held at amortised cost or fair value;

*AASB 101.123(b)*
- when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities;

*AASB 101.123(c)*
- whether, in substance, particular sale of goods are financing arrangements and therefore do not give rise to income; and

*AASB 101.123(d)*
- whether the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

### Initial application of accounting standards

*AASB 108.28*

When initial application of an Australian Accounting Standard has an effect on the current period or any prior period, AASB 108.28 requires certain disclosures to be made.

### New accounting standards and interpretations for application in future periods

*AASB 108.30*

Disclosure is required where the local government has not applied a new Australian Accounting Standard that has been issued but is not yet effective.

Known or reasonably estimable information relevant to assessing the impact that application of the new Australian Accounting Standard will have on the financial report in the period of initial application is also required.

The disclosure format adopted in the model only includes those standards which will have application to local government.

The example disclosed states the impact of these new Accounting Standards is not expected to be material.

Notwithstanding, it is a local government's responsibility to confirm whether standards not listed apply to their own individual circumstances and should ensure they:

- review the list of pending standards at Accounting Standards (aasb.gov.au);
- identify standards with a potential material impact on reported results;
- put in place appropriate procedures to consider and measure the potential impact of the standard; and
- provide appropriate disclosures around the expected impact of the standard.

## Revenue and expenses

This note is presented in such a way to only illustrate specific disclosures relating to:

- contracts with customers (AASB 15)
- revenue from statutory requirements (AASB 1058)
- other accounting standards
- other statutory requirements (Financial Management Regulations)

Consequently, the disclosures in this note may not necessarily agree to other disclosures in the financial report (e.g. revenue and expenses by nature line items in the statement of comprehensive income) as they relate only to the specific disclosure requirements they are satisfying.

### Disaggregation and timing of revenue

Both AASB 15 and AASB 1058 require an entity to disclose income recognised in a period, disaggregated into categories that reflect how the nature and amount of income (and the resultant cash flows) are affected by economic factors.

In addition to reflecting the various types of revenue received, it is required to identify whether revenue is recognised at a point in time or over time.

### Revenue recognition

The revenue recognition policy table in the model has been developed based on the most common types of revenue received by local governments in Western Australia. It is important a local government considers each line item to ensure they are relevant to their own circumstances.

For each item of revenue, you will need to determine which revenue standard applies to it.

There are a number of decision trees which may help with the determination of which standard applies. Please refer to the Supplementary Guidance (Detailed) section accompanying the model.

In the interests of de-cluttering/simplifying financial reports, only material categories should be disclosed.

### Revenue from contracts with customers

*AASB 15.113(a)* A local government is required to disclose the amount of revenue recognised from contracts with customers separately from its other sources of revenue.

*AASB 15.114* The revenue recognised from contracts with customers should be disaggregated into categories that reflect how revenue and cash flows are affected by economic factors.

Revenue by nature would be the most common disaggregation method for Local Governments and is consistent with the disclosure approach of the statement of comprehensive income.

## Revenue and expenses (continued)

### Revenue from statutory requirements

*AASB 1058.28* A local government is required to disclose revenue from statutory requirements separately from its other sources of revenue disaggregated into categories that reflect how the nature and amount of revenue items are affected by economic factors.

### Assets and services acquired below fair value

AASB 1058 specifies requirements for meeting the objective of disclosing sufficient information to understand the effects and dependence an entity has for volunteer services and other transactions where assets are acquired for significantly less than fair value in order to further its objectives.

To assist users make informed judgements, disclosure of qualitative information is encouraged.

### Interest revenue

Interest on rate instalments, interest on rate arrears and interest on debtors should be included in other interest revenue.

These should not include instalments and administration charges which should be classified as fees and charges.

### Auditors remuneration

Local governments must disclose fees to their auditor separately for:

- *AASB 1054.10* the audit of the financial statements, and
- *AASB 1054.11* all other services performed during the period.

It is sufficient to provide an aggregate amount for non-audit fees, together with a narrative explanation about the nature of the non-audit services provided.

Whilst a local government may consider enhanced disclosure by breaking down non-audit services further, the model does not and is based on feedback received from the OAG in relation to this disclosure.

### Employment on-costs

Employee on-costs are not employee benefits and are recognised as other employee costs.

Where a workers compensation claim has been accepted, the amount of workers' compensation a local government pays its employee is considered to be made for and on behalf of the insurer (e.g. WorkCover). As such, the local government should account for the payment as a receivable and apply the subsequent recoups against that receivable.

## Revenue and expenses (continued)

### Finance costs

All borrowing costs including:

AASB 123.5
- costs incurred in the borrowing of funds;

AASB 5.17, 137.45
- the effect of unwinding of discounting of items measured at present value; and

AASB 16.49
- the interest component of the lease liability repayments.

The discounting of employee benefits should be recognised under employee costs expense rather than separately as a finance cost.

### Impairment losses

AASB 1058.29
AASB 15.113
AASB 15.118

Impairment losses on rates and statutory receivables are to be disclosed separately from receivables or contract assets arising from contracts with customers which, in turn, should be disclosed separately from impairment losses from other contracts.

### Other revenue and expenses

AASB 101.97

When a revenue or expense from ordinary activities is of such a size, nature or incidence that its disclosure is relevant in explaining the financial performance of the local government, its nature and amount must be disclosed separately either in the notes (preferred option) or on the face of the statement of comprehensive income.

When applicable, we suggest using the wording significant revenue or significant expense.

AASB 101.87

Extraordinary items are not to be presented either on the face of the Statement of Comprehensive Income or in the notes.

## Cash and cash equivalents

Most local governments will, at some time, have cash invested in the form of term deposits with a bank or recognised financial institution.

*AASB 107.7* The model has taken the view in accordance with AASB 107.7, term deposits due to mature within 3 months of their acquisition date are considered to be cash.

*AASB 107.6* **Definitions**

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Further guidance in AASB 107.7 suggests cash equivalents are held to meet short term cash commitments rather than for investment or other purposes and generally will only qualify as a cash equivalent when it has a short maturity of three months or less from the date of acquisition.

Term deposits with maturity of more than three months at date of acquisition will need to be classified as other financial assets at amortised cost and disclosed as detailed at Note 4.

**Restrictions**

Given the classification of term deposits may well result in restrictions falling across the two asset categories of cash and cash equivalents and other financial assets, a reconciliation of total restricted assets is found at Note 20.

Note 20 also reconciles to the detail of Reserve Accounts as disclosed at Note 32.

## Other financial assets

A number of additional asset classifications (and thus notes) are required to help ensure clarity of disclosure in the local government context.

The model details four common local government assets being:

- term deposits;
- treasury bonds;
- self-supporting loans; and
- units in Local Government House Trust.

**Term Deposits**

This disclosure is detailed to cater for the circumstances where a term deposit has an initial term of greater than three months and is not classified as cash or cash equivalents (in accordance with AASB 107.7).

In this instance, unless the term deposit has a maturity date greater than 12 months from balance date it would still be classified as current.

**Self-Supporting Loans**

Whilst no real change to treatment, the introduction of AASB 9 *Financial Instruments* and resultant changes in AASB 7 *Financial Instruments: Disclosures* impacts disclosure and impairment assessments.

Consideration should be given to impairment assessment in accordance with the expected credit loss (ECL) approach.

**Units in Local Government House**

This asset should be reflected at fair value.

## Trade and other receivables

*AASB 7.25* A local government shall disclose the fair value of each class of financial assets and financial liabilities in a way that permits it to be compared with its carrying amount.

**Expected credit losses**

*AASB 9.5.5.17* A local government shall measure expected credit losses of a financial instrument in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

*AASB 9.B5.5.35* A local government would use its historical credit loss experience (adjusted as appropriate) for trade receivables to estimate the lifetime expected credit losses.

In doing so, a local government may utilise an expected credit loss matrix which adjusts rates based on historical experience of the time a receivable is past due.

Depending on the diversity of its receivables base, a local government would use appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different receivables segments.

Examples of criteria that might be used to group assets include collateral, receivable type, customer rating and customer type.

## Inventories

AASB 102.36 The annual financial report of a local government shall disclose:

- the accounting policies adopted in measuring inventories, including the cost formula used;
- the total carrying amount of inventories and the carrying amount in classifications appropriate to the local government;
- the carrying amount of inventories carried at fair value less costs to sell; the amount of inventories recognised as an expense during the period;
- impairment losses recognised or reversed in profit or loss in accordance with AASB 102 Inventories;
- the circumstances or events that led to the reversal of a write down of inventories; and
- the total carrying amount of inventories pledged as security for liabilities.

**Land held for resale**

Land held for resale is included under the heading Inventories as local government often holds land for resale in the ordinary course of its business. If this were not the case, then disclosure under Property, Plant and Equipment or Assets Classified as Held for Sale would be more appropriate.

## Other assets

### Contract assets

Where goods or services have been transferred to a customer before the customer has paid or been invoiced for them, a contract asset should be presented, excluding any amounts presented as a receivable.

Once the relevant conditions have been met, the customer can be invoiced and the contract asset should be reduced by recognising the relevant receivable.

### Assets classified as held for sale

Whilst uncommon in the local government sector, the model caters for the circumstance where non-current assets are held for sale.

This would likely apply where the local government holds a non-current asset for service provision purposes and decides to dispose of it as surplus to requirements.

This contrasts with assets which are held for resale in the ordinary course of business as is the Land held for Resale classified and disclosed as Inventories at Note 6.

### Classification

*AASB 5.38* A non-current asset classified as held for sale is required to be presented separately from other assets in the statement of financial position.

*AASB 5.3* Regardless of the fact it is considered a non-current asset, it is required to be classified as current by virtue of the very nature of the circumstances applicable to the situation.

The asset could not be re-classified as held for sale unless it meets the re-classification requirements of AASB 5 paragraphs 6 and 7 being:

- its carrying amount will be recorded principally through a sale transaction rather than through continuing use;
- it is available for immediate sale in its present condition; and
- the sale is highly probable.

*AASB 5.8* AASB 5.8 also requires the local government to have a specific intention to sell the asset if it wishes to re-classify it as held for sale.

### Disclosure

*AASB 5.41* Describe the non-current asset, the facts and circumstances of the disposal, and the expected manner and timing of that disposal.

Where a local government decides to change its plan to sell an asset held for sale or the criteria for the classification of an asset held for sale is no longer met, the local government must reclassify it and adjust in accordance with AASB 5. It must also disclose a description of the facts and circumstances leading to the decision and its effect on the results of the operations for the period and any prior periods presented.

### Discontinued operations

Discontinued operations are extremely rare in the local government sector and therefore are not addressed in the model.

## Property, plant and equipment and infrastructure

### Initial recognition

The following guidance is relevant in relation to the initial recognition and measurement of assets:

*AASB 116.Aus15.1*
- Assets acquired for significantly less than fair value should be initially recognised at their fair value.

*AASB 116.16*
- All other assets are initially measured at cost. AASB 116 Property, Plant and Equipment provides guidance around the elements of cost. Local governments should make reference to this guidance when acquiring and/or developing new assets.

*FM Reg 17A(5)* Local governments should also consider the capitalisation thresholds mandated by FM Reg 17A(5) when recognising new assets and/or elements of cost that make up new assets (currently less than $5,000).

### Subsequent measurement

*FM Reg 17A(2)* Land and buildings and infrastructure assets are mandated by FM Reg 17A(2) to be subsequently measured at fair value.

In addition, investment properties and vested improvements (as defined) which are controlled by the local government must also subsequently be measured at fair value.

All assets within the same class must have the same measurement principles applied to them.

The model illustrates varying timing in relation to revaluations.

*AASB 116.31* AASB 116 only requires revaluations to 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 end of the reporting period.

*FM Reg 17A(4)* Notwithstanding this requirement, Reg 17A(4) establishes a local government specific framework as follows:

FM Reg 17A(4)(a) – whenever the local government is of the opinion the fair value of the asset is likely to be different from its carrying amount (as required by AASB 116); and

FM Reg 17A(4)(b) – in any event, within a period of no more than 5 years after the day on which the asset was last valued or revalued.

*AASB 116.35*
### Upon revaluation

Local governments may elect to either:

- Restate the gross carrying amount by reference to observable market data (gross method); or
- Eliminate accumulated depreciation against the gross carrying amount of the asset and restate the net carrying amount to the revalued amount (net method).

The model is prepared on the gross basis and the disclosure reflects this election. By retaining useful information the basis provides a better disclosure outcome, although it is acknowledged, this may not always be practicable.

## Property, plant and equipment and infrastructure (continued)

AASB 13

### Disclosure

As illustrated in the model, the disclosure requirements surrounding fair value measurement as detailed in AASB 13 are significant.

The model attempts to give a cross section of examples to provide guidance in various circumstances.

The example disclosures provided are interchangeable depending on the particular circumstances surrounding each asset classification.

In the case of an asset classification, where there is more than one level of input per the fair value hierarchy, the model provides the disclosure information by way of narration and by expanding the Movements in Carrying Amounts disclosure to include disaggregation at input level.

**Movements in carrying amounts**

The notes as presented, cater for the of AASB 13 requirement to report asset classifications on a disaggregated basis according to input level.

AASB 13.94 It also permits reconciliation to the aggregated classification on a line item basis in the Statement of Financial Position as detailed by AASB 13.94.

**Revaluation movements**

To allow for the different combinations which may occur upon revaluation of various asset classes, the model caters for adjustments via the Revaluation Surplus, as well as directly to profit or loss.

**Asset additions at substantially less than fair value**

This disclosure is included due to the increasing prevalence of non-cash asset additions, particularly those associated with developer contributions.

Whilst not a specific disclosure requirement, it is necessary to fully understand and reconcile the statement of cash flows for non-cash asset additions.

Should it not be required, it may simply be ignored.

**Landfill Assets**

The model caters for a separate landfill asset classification.

This assists where a provision for remediation / make good arises as circumstances may dictate the need for an annual revaluation of the liability component which impacts on the asset.

This asset classification will not necessarily correspond exactly to the liability as there is likely to be other components making up the asset(s).

## Property, plant and equipment and infrastructure (continued)

AASB 1059

### Service concession arrangements

Given service concession arrangements are not common for many local governments, the model does not provide an illustration of disclosure in relation to service concession arrangements.

Consequently, disclosures in relation to both service concession assets and service concession liabilities are not illustrated within the model.

Where service concession arrangement exists, disclosure would be dictated by the nature of the specific circumstances.

Further detailed guidance on AASB 1059 *Service Concession Arrangement* and factors to consider when determining if an arrangement falls within the scope of the standard, may be found in the Supplementary Guidance (Detailed) section of the model.

### Transfers in fair value hierarchy

*AASB 13.93(e)(iv)*
*AASB 13.95*

Additional consequential narrative disclosures are required when assets transfer levels in the fair value hierarchy. An asset deemed surplus and in the process of preparation for disposal may change levels in the fair value hierarchy.

The narrative disclosure for changes in this circumstance will include a reference to the relevant assets being prepared for sale subsequent to being deemed surplus to requirement and the local government's policy for determining when transfers between levels are deemed to have occurred.

## Fixed assets

### Depreciation

Whilst depreciation of Right of Use assets are reflected in Note 11 and amortisation of intangible assets at Note 12, all depreciation and amortisation information is disclosed at Note 10(a) in order to assist readers to determine how the total depreciation expense in the Statement of Comprehensive Income has been arrived at.

*AASB 116.50-51, 60-61*

AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets* require the consumption of physical or intangible assets over time is classified as either depreciation or amortisation expense.

Local governments should be electing to adopt depreciation policies and useful lives that best reflect the pattern of use and these should be reviewed at least annually.

Factors to consider:

- depreciation methods;
- useful lives; and
- residual values.

Where adjustments are required, these should be treated as a change to an estimate. The change in depreciation only affects prospective statements of comprehensive income. Changes to previously recognised depreciation expenses are, in this respect, expressly prohibited.

*AASB 108.36*
*AASB 116.76*

### Revision to useful life

Where these adjustments have occurred, the nature and effect of the change must be disclosed.

*AASB 116.79*

### Fully depreciated assets in use and temporarily idle assets

If considered relevant to the needs of users, a local government is encouraged to disclose:

- the carrying amount of temporarily idle assets or those retired from active use and not classified as held for sale; and
- the gross carrying amount of fully depreciated assets still in use.

The illustration in the model, provides for this circumstance.

### Significant Accounting Policies

These should be reviewed and updated (as required) at least annually and as necessary to provide the necessary explanation of key policies as they now apply to fixed assets including:

- recognition;
- revaluation;
- depreciation; and
- amortisation.

## Right-of-use assets

### Right-of-use assts

Right-of-use assets and lease liabilities are required to be shown separately from other assets and liabilities.

AASB 16.9

### Recognition of lease contract

At inception, a local government assesses 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.

When a lease contract contains both a lease component and non-lease component, and if the non-lease component is material, a local government accounts for the amount of the non-lease component separately (where practicable) from the lease amount by applying other applicable Standards. Immaterial non-lease component(s) may be included in the lease amount and accounted for as a single lease.

AASB 16.40-43

### Reassessment of lease liability

Lease liabilities are required to be remeasured where there has been a change in lease payments, a change in the lease term or a change in the assessment of an option to purchase the underlying asset. These remeasurements are referred to as lease reassessments and the revised lease payments are discounted using a revised discount rate. In some situations, a change in lease payments will require the use of an unchanged discount rate.

AASB 16.44-46

### Lease modifications

A lease may also be modified. Lease modifications will either be accounted for as a separate lease or as part of the existing lease. A separate lease is distinguished where the scope of the lease is increased by adding the right to use one or more underlying assets, and the consideration for a lease increases by an amount commensurate with the stand-alone price of the increase in scope.

### Zero cost concessionary leases

As disclosed in the significant accounting policies, all right-of-use assets which are considered zero cost concessionary leases (other than vested improvements as defined in FM Reg 17A(1)) are measured at zero cost (i.e. not recognised in the Statement of Financial Position balances).

The exception is vested improvements on concessionary land leases such as roads, buildings or other infrastructure which are reported at fair value in accordance with FM Reg 17A(2).

AASB 16.51

### Disclosure

The objective of the disclosure is for lessees to give a basis for users of financial statements to assess the effect leases have on the financial position, financial performance and cash flows of the lessee.

AASB 16.52 A lessee is required to disclose all lease related information in a single note unless it duplicates information disclosed elsewhere, in which case the information can be incorporated by cross reference.

AASB 16.53,54 Based on the specific requirements of AASB 16.54, the following information (required by AASB 16.53) should be disclosed in tabular format, unless another format is more appropriate:

## Right-of-use assets (continued)

**Right-of-use assets**

- depreciation;
- additions to right-of-use assets; and
- the carrying amount at the end of the reporting period.

**Lease related expenses**

- depreciation;
- finance costs;
- expenses relating to short-term leases;
- expenses relating to leases of low-value assets; and
- expenses relating to variable lease payments.

**Cashflow Information**

To be provided in relation to both capitalised and non-capitalised operating leases.

**Qualitative disclosures**

*AASB 16.59* A lessee is required to disclose additional qualitative and quantitative information about its leasing activities to meet the overall disclosure objective.

The additional information may include, but is not limited to:

- The nature of the lessee's leasing activities;
- Future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from:
    i. variable lease payments;
    ii. residual value guarantees; and
    iii. leases not yet commenced to which the lessee is committed.
- Restrictions or covenants imposed by leases; and
- Sale and leaseback transactions.

**Lease liabilities**

Lease liabilities are a form of financial liability (as are borrowings).

Consequently, all information required to be disclosed for borrowings by the Financial Management Regulations, has also been disclosed for lease liabilities at Note 32(d).

Items required to be disclosed include:

- the allocation between current and non-current liabilities;
- the term and interest rate of each lease; and
- details of the types of assets leased.

Lease liabilities should be shown separately from other liabilities whilst reflecting:

- opening and closing balances;
- capital and interest repayments; and
- details of any new leases taken out during the year.

## Right-of-use assets (continued)

### Lessor - property, plant and equipment subject to lease

AASB 16 establishes requirements for Lessors in respect of:

- classification;
- recognition;
- measurement; and
- disclosure

for both finance and operating leases.

The guidance provided relates to a lease classified as an operating lease in accordance with AASB 16.61.

Whilst this is thought to be the most likely scenario, other circumstances may require separate consideration.

AASB 138

## Intangibles

### Recognition and measurement

To be recognised, an intangible asset, the item needs to meet:

- the definition of an intangible asset; and
- the recognition criteria.

Further guidance in respect to the recognition, measurement, amortisation and impairment of intangible assets, may be found in the Supplementary Guidance (Detailed) section accompanying the model.

## Investment property

AASB 140.5 Investment property is 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
- for capital appreciation; or
- both

Rather than for:

- use in the production or supply of goods or services;
- administrative purposes; or
- sale in the ordering course of business.

The model includes disclosure for investment property as a separate disclosure as a number of local governments do have investment property as an asset classification.

AASB 101.54(b) As a minimum, investment property is to be presented as a separate line item on the face of the statement of financial position.

**Leasing arrangements**

In some instances, where a local government has investment property, it may also lease the properties to a third party (as the lessor).

In such circumstances, specific disclosures are required by AASB 16 and this note details these as required.

Further details with respect to disclosure requirements of assets subject to lease may be found in the guidance relating to Note 12.

## Assets pledged as security

When applicable the annual financial report shall disclose the following for assets pledged as security:

- AASB 102.36(h) the carrying amount of inventories pledged as security for liabilities;
- AASB 138.122(d) the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities;
- AASB 116.74(a) the carrying amount of the property, plant and equipment, and infrastructure pledged and the related existence and amounts of restrictions on title;
- AASB 140.75(g) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal; and
- AASB 7.14 the carrying amount of financial assets pledged as collateral for liabilities or contingent liabilities and any material terms and conditions relating to assets pledged as collateral.

## Trade and other payables

**Prepaid rates**

In accordance with AASB 1058.28 rates are recognised as income in the financial period to which they relate.

Consequently, prepaid rates are required to be included as a liability until the start of the year to which they relate.

At that time, the liability will be reduced and they are recorded as income.

**Bank overdraft**

Bank overdraft (where applicable) would be disclosed separately as a short-term borrowing as opposed to a current portion of a long-term borrowing.

This would necessitate an additional classification on the face of the Statement of Financial Position entitled Short-Term Borrowings to be inserted after Trade and Other Payables in the current liability category. It will also require an additional note entitled Short-Term Borrowings to be included.

This disclosure is not showing in the model as no overdraft exists.

Consideration should be given to these disclosure requirements should the circumstances of a bank overdraft exist.

## Other liabilities

### Contract liabilities

AASB 15 requires some amounts which may have previously been recognised as revenue to be recognised as contract liabilities.

The liability represents a local government's obligation to transfer goods or services to a customer for which the local government has received consideration (or an amount of consideration is due) from the customer.

These contract liabilities remain until such time as a local government's obligation to transfer goods or services to the customer has been met.

Once a local government has met its obligation to transfer goods or services to the customer, the contract liability should be reduced by recognising the relevant amount as revenue.

### Disclosure

In addition to disclosing the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, there should also be disclosure of revenue recognised in the reporting period:

- included in the contract liability balance at the beginning of the period;
- from performance obligations satisfied in previous periods;
- opening and closing balances of financial assets arising from capital grants, subsidies and contributions; and
- revenue recognised from the reduction of the associated liability.

### Capital grants and contributions liabilities

AASB 1058 requires some amounts to be recognised as a performance obligation liability.

This performance obligation remains until such time as the performance obligations are satisfied.

The liability is then recognised as revenue as the performance obligations in the contract/agreement are met. This may occur over a period of time as milestones are reached.

## Borrowings

Disclosures in relation to Note 16 cater only for the accounting standard requirements.

Specific local government disclosures required by the Financial Management Regulations may be found at Notes 32(a) to 32(c).

*AASB 132.AG12*

### Statutory borrowings

Liabilities that are not contractual (such as liabilities that arise as a result of statutory requirements) are not financial instruments.

Whilst these liabilities are similar to financial instruments, they are in fact not in the scope of AASB 7 *Financial Instruments: Disclosures*.

A local government wishing to apply disclosure requirements similar to those from AASB 7 to such liabilities may do so at their own discretion.

## Liabilities – additional disclosures

*AASB 13.92, 94, 98* A local government may need to disclose additional information for liabilities where liabilities are measured at fair value. Liabilities are normally measured at amortised cost.

*AASB 13.97* Where assets or liabilities are not measured at fair value, but fair value information is provided in the notes to the financial statements, disclosures in accordance with AASB 13 are required.

## Employee related provisions

AASB 119.8 Employee benefits are all forms of consideration provided in exchange for service rendered by employees or for termination of employment.

### Short-term employee benefits

AASB 119.9, 153 Employee benefits are classified as short-term when they are expected to be settled wholly within 12 months after the employees render the related services.

### Other long-term employee benefits

AASB 119.8, 153 Other long-term employee benefits are all employee benefits other than short-term employee benefits.

### Measurement

AASB 119.155 Short-term employee benefits are accounted for on an undiscounted basis in the period in which the related service is rendered. For employee benefits that are classified as long-term, the obligations are measured at present value (discounted basis). It is generally expected that accrued annual leave will not be wholly settled before the end of the next annual reporting period, so that the provisions will need to be measured at present value (on a discounted basis).

The definition of short-term employee benefits introduces the notion of wholly. The expectation of the timing of settlement is based at the local government entity level, not at the individual employee level.

It is unnecessary for a local government to obtain detailed information of each employee’s anticipated timing for their leave settlement. However, they should form their own reasonable expectations and document the timing of expected annual leave settlement. Expectations of characterisation of annual leave benefits being construed as short-term employee benefits requires a greater onus of evidence to justify the calculation of the benefit at nominal values without discounting.

The model assumes the annual leave accrued by the local government as at 30 June 2023 is not expected to be settled wholly within 12 months thereafter. Accordingly, the provision for annual leave is classified as other long-term benefits for measurement purposes only, and is discounted to its present value.

The model assumes the discounting method is done on an annual basis, and local governments are encouraged to adopt similar assumptions to ensure the consistency.

In measuring employee benefits, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated timing of benefit payments.

### Provision for on-costs

On-costs, such as payroll tax and workers’ compensation insurance, are recognised as liabilities when the employment to which they relate has occurred. They are not employee benefits and are to be disclosed separately from provisions for employee benefits.

## Employee related provisions (continued)

### Classification

AASB 101.69(d) ***Annual leave***

Where a local government does not have the unconditional right to defer settlement beyond 12 months, the liability is classified as current even if not expected to be settled within the next 12 months.

In the case of annual leave, a local government has no such right. If an employee ceases employment, then the leave must be paid and cannot be deferred.

Notwithstanding, the measurement approach vested all annual leave is to be disclosed as a current liability.

***Long service leave***

AASB 101.69(d) As is the case with annual leave, a local government that does not have an unconditional right to defer settlement for at least 12 months, is to disclose the liability as current.

This circumstance will apply to all employees with a pro-rata entitlement (i.e. had continued unbroken service in the local government sector for more than seven years in accordance with the conditions of the award) – that is, is considered to be unconditional.

Those with less than seven years (i.e. no pro-rata entitlement should they leave) will be considered non-current and disclosed as such – that is, considered to be conditional.

### Expected reimbursements from other WA local governments

AASB 137.53 These assets are included in trade and other receivables disclosed at Note 5.

AASB 137.85(c) The disclosure in this note is to satisfy the requirements of AASB 137.85(c)

## Employee related provisions (continued)

### Information of AASB 137

The requirements of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* do not generally apply to provisions for employee benefits as these are dealt with by AASB 119 *Employee Benefits.*

AASB 119 does not, however, specify disclosure requirements in relation to provisions for annual leave and long service leave. Therefore, when the amounts recognised for provision for employee benefits are material to the financial statements, preparers should consider disclosing the information required by AASB 137.

In any case, as indicated by AASB 101 *Presentation of Financial Statements*, where the amounts accrued for annual leave and long service leave are classified as provisions in the statement of financial position, such provisions should be disaggregated in the notes. This is the approach adopted in the model.

*AASB 101.61*

Local governments may also wish to consider AASB101.61, which deals with the expectation as to when the current liability will be settled. Whilst this is unlikely to be a material disclosure, accounting standards do allow for it to be detailed separately.

The model separates the disclosure around provisions into Employee Related Provisions and Other Provisions into separate notes.

This assists with the clarity of the disclosure required for employee related provisions as established by the specific methodology within AASB 119.

### Casual employees and long services leave

In accordance with Local Government (Long Service Leave) Regulations, long service leave entitlements for casual employees need to be quantified and included as part of a local government's employee benefits provision.

## Other provisions

AASB 137.14, 15, 23 A provision shall be recognised when:

- a local government has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

In rare cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the end of the reporting period.

For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation.

For the purpose of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, that is, the probability that the event will occur is greater than the probability that it will not.

Where it is not probable that a present obligation exists, a local government should disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

AASB 137.84, 85 For each class of provision, a local government shall disclose:

- the carrying amount at the beginning and end of the period;
- additional provisions made in the period, including increases to existing provisions;
- amounts used (that is, incurred and charged against the provision) during the period;
- unused amounts reversed during the period; and
- the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

Comparative information is not required.

A local government shall disclose the following for each class of provision:

- a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits; and
- an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, a local government shall disclose the major assumptions made concerning future events.

## Other provisions (continued)

### Exemptions

AASB 137.92 In extremely rare cases, disclosure of some or all of the information required by AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* can be expected to prejudice seriously the position of the local government in a dispute with other parties on the subject matter of the provision.

In such cases, the local government need not disclose the information, but shall disclose the general nature of the dispute, together with the fact, and reason why, the information has not been disclosed.

Regardless of how sensitive certain information about provisions may be, this exemption from disclosure does not affect the requirement to recognise provisions that satisfy the criteria for recognition set out in AASB 137.

### Contingent liabilities

AASB 137.88 Where a provision and a contingent liability arise from the same set of circumstances, the disclosures in the annual financial report should be made in a way that shows the link between the provision and the contingent liability.

### Make good provisions

As discussed earlier in this guidance, given the increased scrutiny in relation to contaminated sites and the potential costs of rehabilitating them, provisions for such costs are more likely to be applicable.

The model caters for this possibility.

It corresponds to the asset held by the local government at Note 9.

## Revaluation surplus

### Revaluation of assets

*AASB 116.36* Where an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

Revaluations of assets must be accounted for in accordance with AASB 116.Aus39.1 and AASB 116.Aus40.1.

- Revaluation increments are recorded to the revaluation surplus (except to the extent it reverses a previous decrement)
- Revaluation decrements are recorded against any existing revaluation surplus for that class of asset (e.g. land and buildings) or if no such reserve exists must be recorded in the Statement of Comprehensive Income (as an expense)

In the case of a local government, revaluation increments and decrements are treated on a class basis and asset revaluation reserves are maintained on a class of asset basis.

This differs to for-profit entities which must do so on an individual asset basis.

## Notes to the statement of cash flows

AASB 107.43 Information about transactions and other events which do not result in cash flows during the reporting period but affect assets and liabilities that have been recognised are required to be disclosed where the transactions involve external parties and relate to the financing, investing and other non-operating activities of the Local Government.

Examples of these non-cash financing and investing activities are:

- assets acquired but not paid for at year-end;
- an exchange of non-cash assets or liabilities; and
- assets acquired for debt, obtaining an asset by lease.

These non-cash financing and investing activities would usually be disclosed in the note opposite.

**Restrictions**

Given the classification of term deposits may well result in restrictions falling across the two asset categories of cash and cash equivalents and other financial assets, the model discloses the reconciliation of total restricted assets, found in Note 20.

This note, also reconciles to the detail of reserve accounts as disclosed at Note 33.

## Contingent assets and liabilities

*AASB 137.34* A contingent asset is disclosed where an inflow of economic benefits is probable.

*AASB 137.28, 30* A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. If it becomes probable that an outflow of future economic benefits will be required, a provision is recognised in the period in which the change in probability occurs.

*AASB 137.2*
*AASB 9.4.2.1(c)*
*AASB 7.35M, 38, 39* AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* does not apply to financial instruments that are within the scope of AASB 9 *Financial Instruments.*

Due to audit focus in recent years, this model has included an example disclosure in relation to Contaminated Sites.

When considering whether disclosure is applicable in accordance with AASB 137, the potential for the liability to be material should be considered.

## Capital commitments

### Contracted capital commitments

*AASB 116.74(c)* Capital commitments contracted for at the end of the reporting period do not require disclosure where the commitments have been recognised as liabilities in the statement of financial position.

Where they are contracted for, are not yet recognised as liabilities, and are material, they should be disclosed as capital commitments.

Due to the relative size of local government capital projects, and the likelihood they are considered material, an example disclosure is included in the model.

### GST

The purpose of the commitment note disclosure is to inform users of the commitments for payments from a cash flow perspective and consequently includes GST as appropriate.

## Related party transactions

### Elected members remuneration

The amounts prescribed as maximum amounts that may be paid are contained in the Local Government (Administration) Regulations at Regulations 30 to 34.

Financial Management Regulation 44 no longer requires disclosures in relation to each person.

Our disclosure has been amended to reflect this change.

Comparatives should also be included.

### Key Management Personnel compensation

Note, this does not include elected member remuneration which is disclosed in the disclosure above it.

This is also detailed in narrative form.

### Transactions with related parties (including receivables and payables)

AASB 124 only requires the disclosure of material related party transactions, including outstanding balances and commitments.

Materiality is subject to professional judgement and goes beyond the dollar value of the transaction or balance.

Judgements should consider the objective of the Standard when determining whether quantitative or qualitative materiality justifies the disclosure, or non-disclosure, of transactions in the financial statements.

Local governments need to determine a methodology/approach with respect to collecting related party information.

This will assist in providing sufficient and appropriate evidence to support the disclosures.

If loans to related parties are provided, then information relating to terms and conditions should be disclosed in narrative form.

### Remuneration of employees

Administration Regulation 19B prescribes information in relation to payments made to employees required to be disclosed in the annual report by virtue of S5.53 (2)(g) of the Act.

This information is not required to be disclosed in the annual financial report and consequently it is omitted from the model.

Local governments need to include the information in the annual report to ensure compliance with statutory requirements.

Refer to the introduction section of this manual for further detail noting recent amendments to:

- increase the threshold for disclosure;
- clarify the definition of remuneration; and
- add additional matters requiring disclosure.

## Joint arrangements

Due to the significant number of joint arrangements within Western Australian local governments, the model includes an example disclosure where a local government has a joint arrangement with another entity.

AASB 12 requires information to enable users to evaluate the nature, extent and financial effects of such arrangements as well as the nature of, and changes in, risks associated with them.

Whilst this is not specified and requires individual circumstances to be considered, there are specific requirements relating to:

- identification;
- nature;
- place of business; and
- proportion of ownership.

## Investment in associates

Many local government's in Western Australia have investments/interests in associates.

Although it may not be the only example (and all local governments should consider their own circumstances), the situation used in the model relates to an investment/interest in a regional council.

The application guidance contained in Appendix B of AASB 12 provides specific disclosures in paragraphs B10 to B14, and the model draws on that guidance in arriving at the disclosure format presented.

**Immaterial investments in associates**

AASB12.B16 also requires certain disclosures, in aggregate, relating to investments in associates which are considered immaterial as shown opposite.

**Contingent liabilities**

AASB12.23 requires separate disclosure of any contingent liabilities relating to its interests in joint ventures or associates separately from amounts of other contingent liabilities.

## Financial risk management objectives and policies

*AASB 7.7,31* AASB 7 sets out detailed requirements regarding a local government's obligations to report the identification and management of financial risks.

The note included in the model includes minimum disclosures by way of example only.

They are based on common local government examples included as part of the model.

Each local government needs to consider their financial instruments and risk management processes and modify the wording accordingly based on their own specific facts and circumstances.

The standard requires:

- the qualitative and quantitative disclosures for each type of risk (e.g. credit risk, liquidity risk, and market risk)
- *AASB 7.33,34* qualitative disclosures concerning:
    1. the exposures to risk and how they arise;
    2. the objectives, policies and processes for managing the risk and the methods used to measure the risk; and
    3. any changes in these from the previous period.
- quantitative disclosures in relation to:
    1. summary quantitative data about the local government's exposure to a particular risk at the end of the reporting period, including concentrations of risk.

## Events occurring after the end of the reporting period

*AASB 110*

On occasions, events occur after the end of the reporting period (but prior to the issue of the annual financial report) which effect circumstances in existence at the end of the reporting period. These events may be favourable or unfavourable.

In such circumstances, events occurring after the end of the reporting period are considered in the context of AASB 110 *Events After the Reporting Period* and are classified as either:

- adjusting events; or
- non-adjusting events.

**Adjustable events**

Those providing evidence of conditions existing at the end of the reporting period.

**Non-adjustable events**

Those indicative of conditions that arose after the end of the reporting period but which were not in existence at the end of the reporting period.

**Disclosure**

If the circumstances relate to an adjusting event, then the financial records are adjusted as at the end of the financial period.

If they relate to a non-adjusting event and occur prior to the issue of the annual financial report, then they are disclosed by way of note detailing:

- the nature of the event; and
- an estimate of the financial effect, or a statement that such an estimate cannot be made.

The example used in this note is in relation to a non-adjusting event.

The principle of providing information to users of the financial statements which is useful in enhancing their understanding of the financial position, financial results and cash flows of the local government should be followed.

As always, the principles of materiality apply.

## Other significant accounting policies

*AASB 101*

Significant accounting policies which impact more than one asset or liability classification or a general in nature are disclosed separately in the one note. This assists with the understanding of disclosures throughout the body of the annual financial report.

*FM Reg 36(2)*

**Budget comparative figures**

Only allows the original budget estimates are to be used as comparatives.

**Fair value of assets and liabilities**

This is an additional explanatory note specifically detailing the policy in respect to fair value and the methodology associated with its application.

This adds support and further background to the disclosures made in the specific asset notes to the financial report.

AASB 1052

## Function and activity

### Income and Expenses

As there is no longer a specific requirement to provide a separate Statement of Comprehensive Income – By Program in either the accounting standards or the Financial Management Regulations (refer to earlier guidance for further discussion), this disclosure is now provided by way of note.

This approach is to satisfy the disclosure requirements of AASB 1052 *Disaggregated Disclosure*.

This disclosure also details requirements of AASB 1052 by providing a reconciliation to the Net Profit for the period as detailed on the statement of comprehensive income.

### Total Assets

AASB 1052.11(a)(ii)

This note should summarise the total carrying value of assets (i.e. total current and total non-current assets).

Please note, the disclosure required relates to total assets.

## Rating information

FM Reg 39(a)-(d)

This disclosure note represents the start of the disclosures specifically (and only required by) the Local Government (Financial Management) Regulations.

Whilst the note agrees to the Statement of Comprehensive Income by Nature at the Total Rates line, it agrees to the Rate Setting Statement at the Total amount raised from general rates line.

**Discounts and specified area rates**

Whilst discounts (assuming they are applied to the general rate) are deducted in the calculation of the Total amount raised from general rates, specified area rates are not a general rate and should not be included as such.

Revenue relating to a specified area rate should be included in the program to which the specified area rate applies (in this instance Economic Services).

**Ex-gratia rates**

It may also be interpreted that ex-gratia rates are considered by the *Local Government Act* to be contributions (refer wording of Section 6.26).

Previous guidance provided in the Western Australian Local Government Accounting Manual, clearly classifies ex-gratia rates as rates.

Accordingly, if you have ex-gratia rates, they may be included as a separate line item in the rating information note.

**Sewerage charges**

A local government may have resolved to raise a Specified Area Rate in relation to Sewerage charges.

If this is the case, then it may be disclosed here, but only if it is raised as a genuine Specified Area Rate.

If it is simply raised as a Health Rate in accordance with the *Health Act*, then it should remain in Fees and Charges and be disclosed as such.

## Determination of surplus or deficit

### Information on surplus or deficit brought forward

In most instances, the closing surplus or deficit from the previous year’s annual financial report will be the same as the opening surplus or deficit disclosed in the current year’s annual financial report.

The disclosure in the model reflects this circumstance.

In the rare instance where they differ and it is necessary to reconcile the closing surplus or deficit from the previous year’s annual financial report to the opening surplus or deficit disclosed in the current year’s annual financial report, a separate disclosure will be required.

In the interests of full disclosure and consistency, there is a budget column in the model. This column represents the budget in relation to the year ended 30 June 2023 (i.e. the current year under review).

This note is considered necessary to enable a user to understand the closing net current asset position which is disclosed in compliance with FM Reg 36(e).

## Borrowings and lease liabilities

*FM Reg 48*

Disclosures with respect to borrowing by a local government are contained in Financial Management Regulation 48.

Finance costs (interest) should agree back to borrowing expense on loans disclosed in Note 2(b).

That is, the borrowing expense disclosed in this note should be on an accruals not a cash basis.

**Loan details**

The name of the lending Institution and interest rate details in relation to each loan should be included.

This assists with interest rate risk disclosure and is more meaningful than the weighted average approach.

**Disclosures not shown**

*FM Reg 48(c)*

Borrowings applied for a purpose other than for which the money was borrowed - required disclosures contained in FM Reg 48(c).

*FM Reg 48(e)*

Re-financing of an existing borrowing - disclosures to be made are contained in FM Reg 48(e).

**Short-term borrowings - bank overdraft**

*FM Reg 48(b)*

Disclosures relating to a bank overdraft contained in FM Reg 48(b) are only strictly necessary where there was an overdraft existing at the end of the previous year.

Where there was an overdraft existing at the end of the previous financial year the following disclosures are necessary:

- the amount brought forward on 1 July;
- the purpose for which the overdraft was established;
- the year in which the overdraft was first established;
- the amount by which the overdraft was increased or decreased during the financial year; and
- the amount of overdraft remaining at 30 June.

This model does not have an overdraft brought forward and so the example disclosure will need to be amended if one did exist.

**Lease details**

The name of the leasing company, financial institution or lessor, and interest rate details in relation to each lease, should be included.

This assists with interest rate risk disclosure and is more meaningful than the weighted average approach.

## Reserve accounts

*FM Reg 38* Disclosures with respect to reserve accounts set aside by a local government are contained in Financial Management Regulation 38.

**Restrictions**

Given the classification of term deposits may well result in restrictions falling across the two asset categories of cash and cash equivalents and other financial assets, the reconciliation of total restricted assets is now found at Note 20 and the balance of this note reconciles to it as well as agreeing to the reserve balance on the statement of financial position.

This note has also been classified to illustrate those reserves restricted by legislation, and those restricted by Council.

## Trust funds

The OAG's position paper entitled *Accounting for work bonds, building bonds and hire bonds,* issued on 1 July 2019, provides guidance regarding when funds should be held in trust.

If there is no written law or agreement requiring funds to be held in trust, the relevant moneys should be held in the municipal account.

# Annual Financial Report

# Supplementary Guidance (Detailed)

*AASB 15*
*AASB 1058*

## Revenue recognition

### Background

Adoption of new revenue recognition standards (AASB 15 and AASB 1058) from 1 July 2019 requires an understanding to determine which accounting standard the revenue is recognised under, as it impacts the timing of revenue recognition which also impacts heavily on the budget preparation.

When a local government receives an asset for significantly less than the fair value of the asset principally for the local government to further its objectives, the transaction is captured under AASB 1058 *Income of Not-for-Profit Entities*. When the asset itself is initially recognised, the local government recognises any **related amounts** in accordance with the relevant accounting standards such as:

- Increase in liabilities (AASB 16 *Leases*, AASB 137 *Provisions*, AASB 9 *Financial Instruments*);
- Decrease in assets (AASB 9 *Financial Instruments*); and/or
- Revenue or contract liability from contracts with customers (AASB 15).

With the exception of transfers to enable the local government to acquire or construct a recognisable non-financial asset to be controlled by the local government, any excess of the amount of the asset recognised over the related amounts is recognised immediately as income.

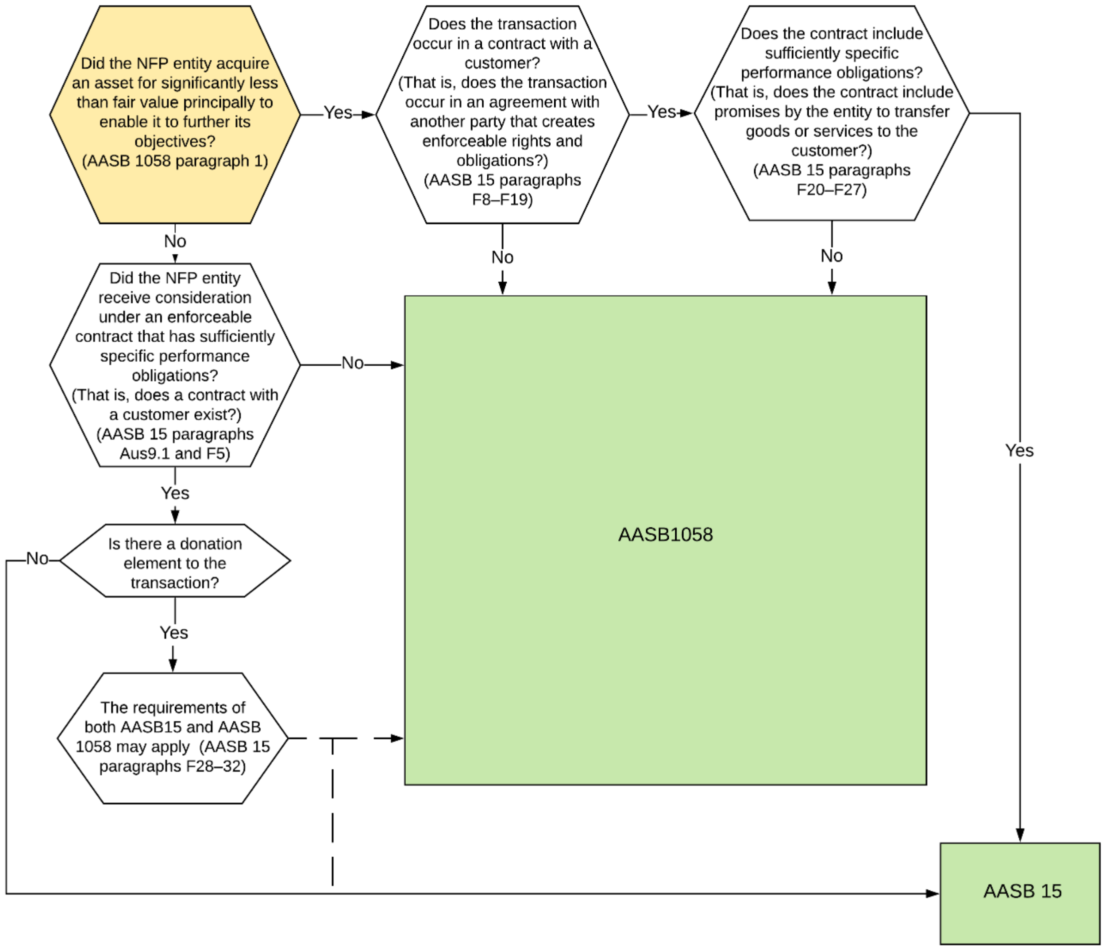
Note: If there are no related amounts, then the amount of the asset is recognised immediately as income in full.

## Revenue recognition (continued)

### Background (continued)

The decision tree below reflects the items to be considered when determining which standard applies to the transaction:

***Decision Tree I – Revenue Recognition Standards AASB 15 & AASB 1058***




Adapted from AASB staff FAQs: AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for-Profit Entities* and AASB 16 *Leases* - October 2020

## Revenue recognition (continued)

*AASB 1058*

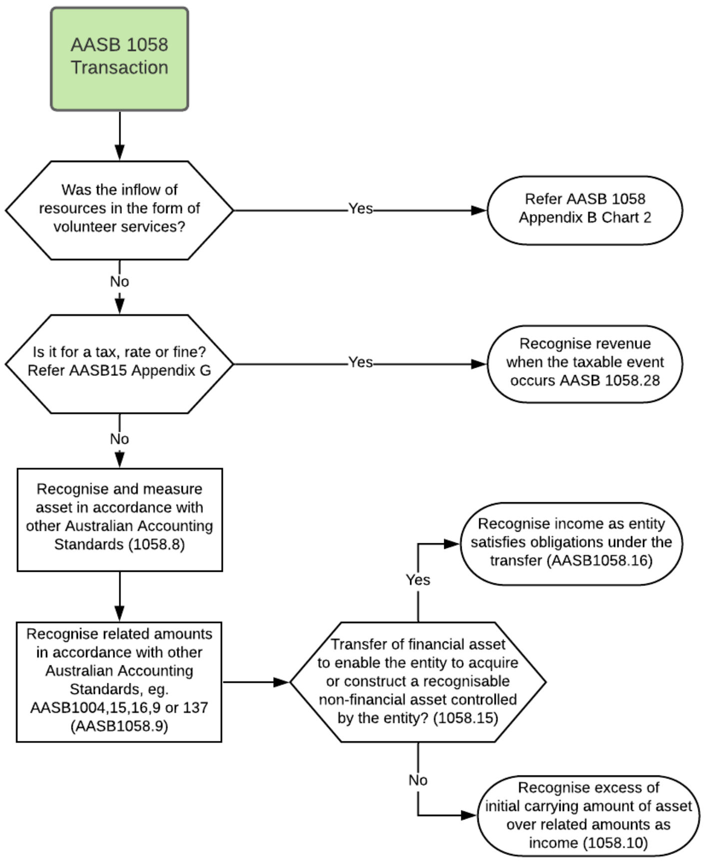
### AASB 1058 *Income of Not-For-Profit Entities*

When a local government receives an asset for significantly less than the fair value of the asset principally for the local government to further its objectives, the transaction is captured under AASB 1058 *Income of Not-for-Profit Entities*. When the asset itself is initially recognised, the local government recognises any **related amounts** in accordance with the relevant accounting standards such as:

- Increase in liabilities (AASB 16 *Leases*, AASB 137 *Provisions*, AASB 9 *Financial Instruments*);
- Decrease in assets (AASB 9 *Financial Instruments*); and/or
- Revenue or contract liability from contracts with customers (AASB 15);

With the exception of transfers to enable the local government to acquire or construct a recognisable non-financial asset to be controlled by the local government, any excess of the amount of the asset recognised over the related amounts is recognised immediately as income or when the taxable event occurs as shown in the decision tree below.

***Decision Tree II - AASB 1058 - Income of Not-for-Profit Entities***




An important element of determining the accounting treatment is the consideration of whether a liability exists in accordance with the relevant standards. Careful consideration must be given to whether a contract liability (AASB 15), a lease liability (AASB 16), a financial liability (AASB 9) or a provision (AASB 137) exists in relation to any commitments to transfer future economic benefits where AASB1059.9 applies.

## Revenue recognition (continued)

Details of when a liability is recognised or derecognised under each of these standards is subject to specific circumstances of each transaction. The following definitions are worthy of note:

**Definitions**

AASB 132.11 ***Financial liability***

Any liability that is:

- 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; or
- a contract that will or may be settled in the entity's own equity instruments.

AASB 15 Appendix A ***Contract liability***

An entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.

AASB 16.27 ***Lease liability***

Comprises the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- Fixed payments;
- Variable lease payments;
- Residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

AASB 137.10 ***Provision***

A liability of uncertain timing or amount.

AASB 137.14 A provision shall be recognised when:

- an entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

## Revenue recognition (continued)

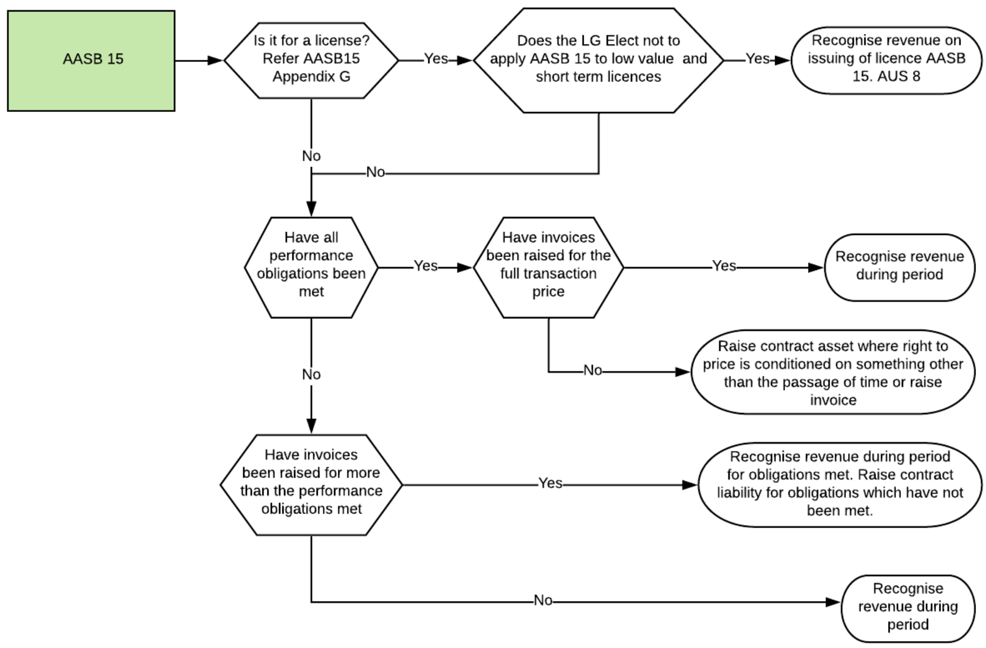
*AASB 15*

### AASB 15 *Revenue from Contracts with Customers*

At the inception of a contract identified as a contract with a customer within the scope of AASB 15 *Revenue from Contracts with Customers,* an assessment is made to identify the performance obligations of the contract with a customer, may end up being recognised as a contract asset or liability. A determination must be made for each assessment as to whether the performance obligations are to be satisfied at a point in time or over time.

For contracts with customers, revenue is recognised when (or as) the LG satisfies a performance obligation by transferring a promised good or service (i.e. an asset or services rendered) to a customer and classified according to the nature or type of the revenue. The timing of the revenue recognition is shown in the decision tree below:

### *Decision Tree III - Contracts with Customers*




Given the specific reporting requirements in relation to contracts with customers, it is important likely transactions are identified as part of the budget process. It may assist if separate revenue accounts are mentioned in relation to these specific transactions.

Determination of the timing of revenue recognition requires an understanding of the following:

- Nature of each source of revenue;
- When obligations are typically satisfied;
- Payment terms;
- Returns/refund/warranties; and
- How the transaction price is determined.

Once these are known, a determination should be made as to when revenue will be recognised.

AASB 138

# Intangibles

## Recognition and measurement

To be recognised, an intangible asset, the item needs to meet:

- the definition of an intangible asset; and
- the recognition criteria.

AASB 138.8 An intangible asset is defined as an identifiable non-monetary asset without physical substance.

AASB 138.12 It must be identifiable and be controlled by the local government.

AASB 138.13 To be controlled, future economic benefits must flow to the local government.

Determining if an intangible asset exists is one of judgement.

Identifiability is a key consideration. An asset is identifiable if it is either:

- separable – capable of being separated/divided and sold, transferred, licensed, rental or exchanged – regardless of whether the entity intends to do so; or
- arises from contractual or other legal rights.

The separable nature and those legal rights must be controlled/ultimately owned by the local government, and should not be confused with similar items acquired or operated under license from a third party (e.g. accounting software).

AASB 138.21 Further, if the above are met, AASB 138 requires an intangible asset shall only be recognised if:

- it is probable expected future economic benefits that will flow to the local government; and
- the cost of the asset can be measured reliably.

AASB 138.24 If it is to be recognised, it is to be measured initially at cost.

AASB 138.24.1 Where, in the case of a local government (not-for-profit entity) the consideration is significantly less than the fair value to enable furthering of objectives, the cost shall be deemed to be its fair value.

AASB 138.75 Intangible assets can only be revalued to fair value where an active market exists. It is exceptionally rare that an active market exists for intangible assets and it is therefore unlikely intangible assets will be revalued to fair value.

## Intangibles assets with a finite life

AASB 138.97 In the case of an intangible asset with a finite useful life, amortisation commences when the intangible asset is available for use and ceases when the asset is classified as held-for-sale or where the asset has been fully amortised (i.e. at the end of its useful life).

Where applicable, a local government needs to elect amortisation policies and useful lives that best reflect the pattern of use.

## Intangibles (continued)

### Disclosure of amortisation

Needs to address:

- The line item(s) of the statement of comprehensive income in which any amortisation of intangible assets is included.

*AASB 138.122(b)*

- A description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the financial statements.

### Intangible assets with an indefinite life

*AASB 138.122(a)*

If an intangible asset is assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life must be disclosed.

In giving these reasons, a local government shall describe the factor(s) that played a significant role in determining the asset has an indefinite useful life.

*AASB 138.107, 108*

Intangible assets assessed as having an indefinite useful life are not amortised but are required to be tested for impairment:

- annually; and
- whenever there is an indication it may be impaired.

### Impairment of intangible assets

A local government needs to disclose information on impaired intangible assets in accordance with AASB 136 *Impairment of Assets* in addition to the information required by AASB 138 *Intangible Assets.*

## Intangibles (continued)

### Additional disclosures - intangibles

The following are examples of policy notes that may be applicable for some local governments:

***Licences***

Licences have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses.

***Website Costs***

Website costs are expensed when incurred unless they directly relate to the acquisition or development of an intangible asset. In this instance they may be capitalised and amortised. Generally, costs in relation to feasibility studies during the planning phase of a website, and ongoing costs of maintenance during the operating phase are expensed. Costs incurred in building or enhancing a website that can be reliably measured, are capitalised to the extent that they represent probable future economic benefits.

***Development Costs***

Research costs are expensed as incurred. Development costs incurred for an individual project are carried forward when the future economic benefits can be reasonably regarded as assured and the total project costs are likely to exceed $50,000. Other development costs are expensed as incurred.

***Computer Software***

Software that is an integral part of the related hardware is recognised as part of the tangible asset. Software that is not an integral part of the related hardware is recognised as an intangible asset. Software costing less than $5,000 is expensed in the year of acquisition.

## Impairment

AASB 136.9, Aus61.1

### Determination of whether an asset is impaired

A local government shall apply AASB 136 *Impairment of Assets* to determine whether an asset is impaired and to account for any impairment loss identified.

This requires, at the end of each reporting period, an assessment whether there is any indication that an asset may be impaired.

If any such indication exists, a local government shall estimate the recoverable amount of the asset.

AASB 136.12

***Impairment indicators***

Indicators can be external and internal to the organisation and include factors such as:

- evidence of obsolescence or damage;
- changes in Government policy; or
- technological changes

AASB 136.12 A local government should also consider all factors and evidence available to them when assessing for indicators of impairment.

The above guidance is generic and each local government should refer to AASB 136 and their individual circumstances to determine if impairment exists.

***Measuring recoverable amount***

AASB 136.18 The recoverable amount is the higher of fair value less costs of disposal and value in use.

For a local government regularly revaluing specialised assets, the recoverable amount is anticipated to be materially the same as fair value.

AASB 136.59

***Asset assessed as impaired***

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

AASB 136.60 An impairment loss is recognised immediately in profit or loss for items carried at historical cost.

AASB 136, Aus61.1 If the relevant asset is carried at a revalued amount, the impairment loss is treated as a revaluation decrease and accounted for in other comprehensive income (to the extent it does not exceed the amount of the revaluation surplus for the class of assets).

AASB 136.117

***Reversal of an impairment loss previously recognised***

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount. The increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

AASB 136.119 A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase in accordance with the relevant standard.

## Provisions – remediation / rehabilitation / make good

*AASB 137.10* **Definitions**

A provision is a liability of uncertain timing or amount

A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of economic benefits.

**Recognition**

*AASB 137.14* A provision shall be recognised when:

- A local government has a present obligation as a result of a past event/activities undertaken;
- It is probable that an outflow of economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

If one of these conditions is not met, no provision shall be recognised.

An outflow of economic benefits is regarded as probable if the event is more likely than not to occur.

That is, probability the event will occur is more likely than the probability it will not.

**Waste/landfill**

In local government, a common example is in relation to waste/landfill sites.

It is very likely these will need to be remediated / rehabilitated and the site made good when they reach the end of their useful life due to either a:

- legal requirement; or
- community / council expectation

Depending on what the reason is, could influence the level of remediation required.

Whilst waste/landfill sites are not the only example (and you should apply your mind to other possibilities) it is the most common.

The model uses waste/landfill for the purposes of illustration.

Possible costs of remediation/rehabilitation:

- investigation/assessment
- clean-up works (including possible decontamination)
- capping
- monitoring

## Provisions – remediation / rehabilitation / make good (continued)

### Measurement

*AASB 137.36* The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

*AASB 137.42*
*AASB 137.48* Risks and uncertainties shall be taken into account in reaching the best estimate as will future events where there is objective evidence they will occur.

*AASB 137.45* Where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation.

*AASB 137.51* That is, a discount factor will need to be applied over the expected life of the waste/landfill site when calculating the provision.

Gains from the expected disposal of assets shall not be considered.

### Periodical review

*AASB 137.59* Unless a reliable estimate of timing of future cash outflows is able to be made, then the amount of the provision is based on current cost and reviewed at the end of each reporting period.

At this point, the provision should be adjusted to reflect the current best estimate (taking into account the effect of the time value of money).

The annual review may result in:

- outflows of resources no longer being probable
  - the provision is reversed
- an increase or decrease in the best estimate
  - the provision is increased or decreased

Subsequent changes in the provision are accounted for in accordance with AASB Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

### Treatment

A change to a provision is normally recognised as income and expenses in the Statement of Comprehensive Income except where it meets the asset recognition criteria in AASB 116.

## Provisions – remediation / rehabilitation / make good (continued)

### Recognition as an asset

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

*AASB 116.7*

a) it is probable that future economic benefits associated with the item will flow to the entity; and

b) the cost of the item can be measured reliably.

*AASB 116.16(c)*

Whilst it may seem counter-intuitive, the cost of an item of property, plant and equipment also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located (the provision).

If such an obligation for this restoration exists, it is incurred 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.

In these circumstances we recognise the provision as part of the overall (whole) asset.

The objective of capitalising and depreciating future remediation costs is to allocate the costs over the period of deriving economic benefits rather than recognising the full amount as an expense when the obligation arises.

The provision effectively becomes part of the overall (whole) asset which might comprise the related (core) waste/landfill asset plus the provision itself, being the waste/landfill asset rehabilitation (provision) component.

### Measurement after recognition

AASB 116 requires a local government to choose the cost or revaluation model.

In the case of a local government, some assets are required, by virtue of the Financial Management Regulations to be measured using the revaluation model.

Under the cost model, an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Under the revaluation model, an item of property, plant and equipment is carried at a revalued amount, being its fair value (in accordance with AASB 13 Fair Value Measurement) at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

### Depreciation

The related (core) asset is depreciated over its useful life in accordance with the requirements of AASB 116.

When subject to the revaluation model, the adjusted depreciable amount of the asset is depreciated over its useful life (the same as any other asset subject to revaluation).

If/once the related (core) asset has reached the end of its useful life, subsequent changes to any related provision should be recognised in profit or loss.

## Provisions – remediation / rehabilitation / make good (continued)

### Unwinding of discount on provision (as calculated)

*AASB 131.60*

The periodic unwinding of the discount shall be recognised in profit or loss as a finance cost as it occurs.

The unwinding of the provision should be recognised before revising the provision for any estimate changes.

This has the effect of bringing the discounted provision calculated upon recognition into line with the amount required to be paid to remediate the site at the time the local government is required to make good.

If a local government has such a provision, it will also need to consider movement relating to annual reviews. Where annual reviews indicate a change, appropriate changes should be accounted for in accordance with AASB Interpretation 1.

### AASB Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

*AASB Interpretation 1.5*

If the related (core) asset is measured using the cost model:

a) subject to (b), changes in the provision shall be added to, or deducted from, the cost of the related asset in the current period;

b) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess shall be recognised immediately in profit or loss;

c) if the adjustment results in an addition to the cost of an asset, the entity shall consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the entity shall test the asset for impairment by estimating its recoverable amount, and shall account for any impairment loss, in accordance with AASB 136 *Impairment of Assets*.

*AASB Interpretation 1.6*

If the related (core) asset is measured using the revaluation model:

a) Changes in the provision alter the revaluation surplus or deficit previously recognised on the asset, so that:

    i. A decrease in the provision shall (subject to (b)) be recognised in other comprehensive income and increase the revaluation surplus within equity, except that it shall be recognised in profit or loss to the extent that it reverses a revaluation deficit on the asset that was previously recognised in profit or loss;

    ii. An increase in the provision shall be recognised in profit or loss, except that it shall be recognised in other comprehensive income and reduce the revaluation surplus within equity to the extent of any credit balance existing in the revaluation surplus in respect of the asset;

b) In the event that a decrease in the provision exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess shall be recognised immediately in profit or loss;

## Provisions – remediation / rehabilitation / make good (continued)

### AASB Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* (continued)

c) A change in the provision is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Matters to Note:

- Subsequent changes to the provision that has been capitalised as part of an asset component corresponding to the provision will, under the revaluation model, be recognised as revaluation increments or decrements.
- Where a change in the provision is material, the related (core) asset and rehabilitation (provision) component, may need to be revalued at the end of the reporting period.
- Although the change in the provision does not necessarily impact the fair value of the related (core) asset, any events affecting the estimate of the provision may indicate the (whole) asset (comprising the related (core) asset plus rehabilitation (provision) component) has to be revalued.

**Provision increases**

Could occur due to:

- Rising costs
- Movement in discount rates
- Greater area to rehabilitate

  When considering the area to rehabilitate, care should be exercised to ensure it is only the current area affected and not the whole area set aside for the purpose, and not yet activated.

**Provision decreases**

Could occur due to:

- Improvements in technology
- Movement in discount rates
- More efficient work practices

**Asset revaluation**

*AASB 137.26*

This is separate to provision assessment in accordance with AASB Interpretation 1 and should be treated in accordance with AASB 13.

**Revaluation surplus**

Could see movements due to:

- Changes to provisions
- Changes to asset values

## Provisions – remediation / rehabilitation / make good (continued)

### Using third condition as a defence

That is, a reliable estimate of the amount of the obligation cannot be made.

Would be an extremely rare circumstance where a sufficiently reliable estimate could not be made.

Nonetheless, in this instance, a local government will need to consider disclosure of a contingent liability.

### Contingent liability

Refer to guidance accompanying contingent assets and liabilities note in the model.

*AASB 1059*

## Service concession arrangements

*AASB 1059.2* A Service concession arrangement is an arrangement which involves an operator:

- that is contractually obliged to provide public services related to a service concession asset on behalf of the grantor; and
- managing at least some of those services under its own discretion, rather than at the direction of the grantor.

**Public service**

Whether an arrangement is providing a public service is a significant area of judgement, as the Standard does not define public services. The Standard, however, has identified the following indicators of public services:

- the services are necessary or essential to the general public;
- generally expected to be provided by a public sector entity in accordance with government policy or regulation; and
- services provided by the asset are not wholly consumed by a public sector entity for the purpose of assisting in the delivery of public services and managed by an external party.

*AASB 1059.B7* The provision of primary or ancillary services by assets in service concession arrangements are other key considerations that should be taken into account in assessing whether assets provide public services. Ancillary services are excluded from public services assessment as they relate to services that are insignificant to the arrangement as a whole.

**Assets**

*AASB 1059.B16* Control is an essential aspect in assessing whether an arrangement is a service concession arrangement. It is defined as the ability to exclude or regulate access to the benefits of an asset.

Control can be explicit or implicit. The grantor may have explicit control through rights held under the contractual arrangement or the grantor may have implicit control through regulation. It is not essential for the contract to specify the grantor’s control. Explicit or implicit control over the asset would result in the arrangement falling within the scope of AASB 1059.

## Service concession arrangements (continued)

### Assets (continued)

#### *Control*

AASB 1059.5 The grantor has control of the asset if, and only if:

a) the grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and
b) the grantor controls significant residual interest in the asset at the end of the term of the arrangement.

AASB 1059.6, B36 Requirement (b) above is not applicable for assets that will be used in a service concession arrangement for its entire economic life or the major part of its economic life. The grantor is considered to have control if they meet requirement (a) under this circumstance.

Assets recognised in a service concession arrangement include:

- existing assets of the operator or grantor provided for use in the arrangement;
- asset constructed, developed, acquired or otherwise provided by the operator; and
- upgrade or replacement of a major component of any of the above assets.

#### *Multiple assets*

Service concession arrangements may involve multiple assets, comprising of a primary asset that provides the principal public service, and a secondary asset that is used or mainly used to complement the primary asset. Both of which can fall within the scope of AASB 1059.

Where an arrangement contains several assets, the grantor should separately assess individual components of the assets within the arrangement that are:

- physically separable;
- capable of being operated independently; and
- meet the definition of a cash-generating unit under AASB 136 *Impairment of Assets*.

AASB 1059.11

#### *Recognition and measurement*

A service concession asset is initially measured at current replacement cost in accordance with the cost approach to fair value in AASB 13 *Fair Value Measurement*.

AASB 1059.7
AASB 1059.8
This same measurement approach applies to existing assets of an local government that has been reclassified as service concession assets at the date of reclassification. Any difference between the carrying amount of the asset and its current replacement cost will be accounted for as if it is a revaluation of the asset.

AASB 1059.9(a) Subsequent to initial recognition or reclassification, a service concession asset is depreciated or amortised in accordance with AASB 116 *Property, Plant and Equipment* or AASB 136 *Intangible Assets*, with any impairment recognised in accordance with AASB 136.

References to fair value in other Standards shall be read as references to current replacement cost in accordance with AASB 1059.

## Service concession arrangements (continued)

### Assets (continued)

#### *Derecognition*

AASB 1059.9(b) At the end of the service concession arrangement, the local government:

- reclassifies the asset based on its nature or function;
- discontinue references to fair value in other Standards as current replacement cost under AASB 1059; and
- derecognises the asset in accordance with AASB 116 or AASB 138 when the local government loses control of the asset.

### Liabilities

AASB 1059.11-12 Where the grantor recognises a service concession asset in accordance with AASB 1059 *Service Concession Arrangements: Grantors*, the grantor shall:

- recognise a liability for the amount initially recognised as the service concession asset (i.e. current replacement cost), adjusted by the amount of any other considerations; and
- not recognise a liability when an existing asset of the grantor is reclassified as a service concession asset, except in circumstances where additional consideration is provided by the operator.

Depending on the nature of the service concession arrangement, the grantor recognises a liability based on the financial liability model, grant of right to the operator model or a combination of both.

#### *Types of consideration*

AASB 1059.14, B51, B56 Depending on the terms of the service concession arrangement, the grantor may compensate the operator for the service concession asset and service provision by any combination of the following:

- making payments to the operator; and
- compensating the operator through non-monetary exchange.

#### *Initial and subsequent measurement*

*Financial liability model*

AASB 1059.15 Where the grantor has a contractual obligation to compensate the operator for the construction, development, acquisition or upgrade of the service concession asset, through the delivery of cash or another financial asset, the grantor shall recognise a financial liability.

AASB 1059.17 The financial liability shall be recognised and disclosed in accordance with AASB 9 *Financial Instruments*, AASB 132 *Financial Instruments: Presentation* and AASB 7 *Financial Instruments: Disclosures,* unless otherwise specified by AASAB 1059.

AASB 1059.B64 For compensation in the form of predetermined payment or series of payments, the grantor shall determine the financial liability under such arrangement using contractually specified interest rate in the arrangement to measure the financial liability. If this is not practical the grantor shall use the prevailing market rate(s) of interest.

## Service concession arrangements (continued)

### Liabilities (continued)

***Initial and subsequent measurement* (continued)**

*Grant of a right to the operator model (GORTO)*

*AASB 1059.21* Where the operator is compensated through non-monetary means by the granting of the right to earn revenue from third-party users from the service concession asset or access to another revenue generating asset, the grantor shall recognise a liability.

*AASB 1059.22* The liability is recognised as unearned revenue at the inception of the service concession arrangement and subsequently reduced as revenue is recognised according to the economic substance of the service concession arrangement. Usually the service concession asset is provided to the operator over the term of the service concession arrangement.

*Hybrid arrangement*

*AASB 1059.24* A hybrid arrangement is a service concession arrangement consisting of a portion related to the financial liability model and a portion related to the grant of a right to the operator model. Under such an arrangement, each portion of the total liability related to the grantor's consideration must be accounted for separately.

*AASB 1059.25* In apportioning the hybrid arrangement, the grantor will first measure and account for the financial liability portion under the hybrid arrangement, before allocating the remaining portion of the liability to the grant of a right to the operator model.

# References and Acknowledgements

## References

The Department of Local Government, Sport and Cultural Industries would like to acknowledge the use of the following references in the consideration and compilation of this Annual Financial Report model:

- Introduction To The Financial Administration Bookcase – Department of Treasury of Western Australia
- Shire/Town/City of Somewhere Annual Financial Report Model – Moore Australia
- Various Accounting Standards, Interpretations, Guidance and Staff Papers issued by the Australian Accounting Standards Board (AASB)
- Local Government Act and Accompanying Regulations
- Australian Government Department of Finance Resource Management Guide 114 Accounting for decommissioning, restoration and similar provisions to make good (RMG 114)
- NSW Office of Local Government Guidance for AASB *Service Concession Arrangements: Grantors* Scoping
- NSW Treasury TPP 19-06 AASB 1059 *Service Concession Arrangement: Grantors* - Scoping
- Introduction to Local Government Accounting – Department of Local Government, Sport and Cultural Industries

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