

Australian Accounting Standard

AAS 27

June 1996

Financial Reporting by Local Governments

Prepared by the
Public Sector Accounting Standards Board of the
Australian Accounting Research Foundation

Issued by the
Australian Accounting Research Foundation
on behalf of the **Australian Society of Certified
Practising Accountants** and **The Institute of
Chartered Accountants in Australia**

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ISSN 1034-3717

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PREFACE

This June 1996 issue of Australian Accounting Standard AAS 27 "Financial Reporting by Local Governments" supersedes the previous Standard as issued in June 1995.

Application of the Standard

This Standard applies to each local government in respect of its general purpose financial reports in relation to its first reporting period that ends on or after 30 June 1996 and later reporting periods.

Background

The amended Standard is primarily the result of a limited review to address the following issues, on which proposals were exposed for public comment in Exposure Draft ED 66 "Amendments to AAS 27" (September 1995):

- (a) whether the requirement to comply with Statements of Accounting Concepts (SACs) should be removed;
- (b) the value at which assets acquired at no cost or for nominal consideration should initially be recognised;
- (c) whether the requirements in relation to agreements equally proportionately unperformed should be amended; and
- (d) whether disclosure of information about capital expenditure commitments should be required.

In addition, the amended Standard reflects the result of a limited review of the application of AAS 27 to land under roads controlled by local governments.

Principal changes

The principal changes to the superseded Standard which stem from the proposals in ED 66 are:

- (a) an amendment to paragraph 13 of the superseded Standard to remove the requirement to comply with SACs;
- (b) an amendment to paragraph 36 of the superseded Standard to require certain assets acquired at no cost or for nominal consideration to be initially recognised at fair value;
- (c) amendments to paragraphs 107 and 108 of the superseded Standard to remove the requirement to recognise assets and liabilities which arise in relation to agreements equally proportionately unperformed (see paragraphs 51 to 55 of this Standard); and
- (d) the addition of paragraph 94, which requires disclosure of capital expenditure commitments contracted for as at the reporting date.

The other principal change to AAS 27 is the addition of transitional provisions under which local governments may elect not to recognise land under roads as an asset in the statement of financial position. These provisions are set out in paragraphs 115 to 121. Background to them is set out below.

Land under roads

A number of local government practitioners and members of the valuation profession have expressed concerns that a reliable measure of a carrying amount for land under roads controlled by local governments can seldom be determined, because of the unique features of land under roads. In response to these concerns, the Public Sector Accounting Standards Board (PSASB) decided to include the abovementioned transitional provisions for land under roads. In the process of developing this amendment to AAS 27, the PSASB consulted widely with its constituents, and received strong support for the amendment.

The purpose of the transitional provisions is to provide an adequate period within which interested parties can address whether and, if so, how concerns about reliable measurement of land under roads can be overcome. The PSASB is establishing a working party to address whether practical difficulties with valuing land under roads can be overcome and, if so, to identify common policies and methodologies for valuing these assets.

The transitional provisions apply to all land under roads controlled by local governments, including land under roads that possesses a cost or other value that can be measured reliably (for example, land under roads that has been acquired at a cost of acquisition). The broad scope of the transitional provisions is intended to minimise uncertainties that may arise with their application, particularly as views may differ as to which items of land under roads can be measured reliably.

AUSTRALIAN ACCOUNTING STANDARD

**AAS 27 "FINANCIAL REPORTING BY
LOCAL GOVERNMENTS"**

Citation

- 1 This Standard may be cited as Australian Accounting Standard AAS 27 "Financial Reporting by Local Governments".

Accounting Standards and Commentary

STANDARDS

- 2 **The accounting standards set out in this Standard are shown in bold print. Commentary is shown in normal print immediately after the accounting standards to which it relates, as an aid to the interpretation of those accounting standards.**

Application and Operative Date

STANDARDS

- 3 **For the purposes of this Standard, each local government is a reporting entity and is therefore required to prepare general purpose financial reports. This Standard:**
- (a) **applies to each local government in respect of its general purpose financial reports, in relation to its first reporting period that ends on or after 30 June 1996 and later reporting periods;**
 - (b) **may be applied by a local government to its general purpose financial reports in respect of reporting periods that end before 30 June 1996; and**
 - (c) **when operative, supersedes Australian Accounting Standard AAS 27 "Financial Reporting by Local Governments" as issued in June 1995.**

The local government reporting entity

COMMENTARY

- 4 Each local government comprises all entities controlled¹ by the governing body of the local government. As such, this Standard requires that the general purpose financial report of a local government is to encompass all business and non-business operations which the governing body controls, either directly or through the operations of controlled entities.
- 5 General purpose financial reports may also be prepared in respect of entities or groups of entities that are controlled by the governing body of a local government. For example, within a jurisdiction the governing bodies of some local governments may control entities that carry on particular operations, such as water reticulation or electricity supply, in addition to operations common to most local governments within the jurisdiction. In addition to requiring information about the local government, as defined in paragraph 12, users may, in comparing the operations of the local government with other local governments, require information about the entity or group of entities controlled by the governing body of the local government that carries on operations common to most local governments within the jurisdiction. Because this Standard is concerned only with financial reporting by local governments, it neither requires nor precludes the preparation of general purpose financial reports by such controlled entities. However, any such reports would need to be prepared in addition to, and not in lieu of, general purpose financial reports for the local government.

Trusts

COMMENTARY

- 6 Local governments may act as trustee for a range of trusts whereby the local government controls the assets of the trusts to meet the objectives of the governing body of the local government. Examples of those trusts are trusts established for the maintenance of local memorials, and trusts established and funded by State or Federal Governments for emergency relief where the local government is charged with the responsibility for the allocation of those funds. Trusts controlled by the local government form part of the local government reporting entity.

¹ In this context, control means the capacity of the governing body to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of an entity so as to enable that entity to operate with it in seeking to achieve the objectives of the governing body. In this Standard, control of an asset means the capacity of the local government to benefit from the asset in the pursuit of its objectives and to deny or regulate the access of others to that benefit.

- 7 These trustee relationships can be contrasted with those by which a local government has legal custody of resources without controlling them, that is, the local government is unable to deploy those resources to meet the objectives of its governing body. This would be the case where the local government acts as a collector of monies for State or Federal government departments, or as trustee for disaster relief funds but other entities control the ultimate deployment of those monies. The general purpose financial report of a local government discloses information about resources controlled by the local government. Therefore, resources of which the local government has legal custody but not control need to be excluded from the general purpose financial report of the local government. Instead, the local government should discharge its accountability for those resources through presentation of separate financial reports to those persons with an interest in the local government's custodianship of those resources.

Statement of Purpose

STANDARDS

- 8 **The purpose of this Standard is to set out standards for the form and content of general purpose financial reports of local governments.**

COMMENTARY

- 9 Statement of Accounting Concepts SAC 2 "Objective of General Purpose Financial Reporting" states that general purpose financial reports shall provide information useful to users for making and evaluating decisions about the allocation of scarce resources, and be presented in a manner which assists in discharging the accountability of the reporting entity's management or governing body. To provide information useful for those purposes, general purpose financial reports of local governments need to disclose information about the performance, financial position, financing and investing, and compliance of those local governments. The aim of this Standard is to ensure that general purpose financial reports of local governments contain information that is useful to users.

Application of Materiality

STANDARDS

- 10 **The accounting standards set out in this Standard shall, in accordance with Australian Accounting Standard AAS 5 "Materiality", apply to general purpose financial reports where such application is of material consequence. Information about a local government is material if its omission, misstatement or non-disclosure has the potential to adversely affect:**
- (a) **decisions about the allocation of scarce resources made by users of the local government's general purpose financial report; or**
 - (b) **the discharge of accountability by the governing body of the local government.**

COMMENTARY

- 11 In deciding whether an item is material, its nature and amount usually need to be evaluated together.

Definitions

STANDARDS

- 12 **In this Standard:**
- "assets" means future economic benefits controlled by the entity as a result of past transactions or other past events;**
- "contributions" means non-reciprocal transfers to the entity;**
- "contributions by owners" means future economic benefits that have been contributed to the entity by parties external to the entity, other than those which result in liabilities of the entity, that give rise to a financial interest in the net assets of the entity which:**
- (a) **conveys entitlement both to distributions of future economic benefits by the entity during its life, such distributions being at the discretion of the ownership group or its representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or**
 - (b) **can be sold, transferred or redeemed;**

"depreciable asset" means a non-current asset having a limited useful life;

"entity" means any legal, administrative, or fiduciary arrangement, organisational structure or other party (including a person) having the capacity to deploy scarce resources in order to achieve objectives;

"equity" means the residual interest in the assets of the entity after deduction of its liabilities;

"expenses" means consumptions or losses of future economic benefits in the form of reductions in assets or increases in liabilities of the entity, other than those relating to distributions to owners, that result in a decrease in equity during the reporting period;

"fair value" means the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction;

"general purpose financial report" means a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs;

"land under roads" means land under roadways, and road reserves (including land under footpaths, nature strips and median strips);

"liabilities" means the future sacrifices of economic benefits that the entity is presently obliged to make to other entities as a result of past transactions or other past events;

"local government" means an entity comprising all entities controlled by a governing body elected or appointed pursuant to a Local Government Act or similar legislation;

"non-reciprocal transfer" means a transfer in which the entity receives assets or services or has liabilities extinguished without directly giving approximately equal value in exchange to the other party or parties to the transfer;

"recognised" means reported on, or incorporated in amounts reported on, the face of the operating statement or of the statement of financial position (whether or not further disclosure of the item is made in notes thereto);

"reporting entity" means an entity (including an economic entity) in respect of which it is reasonable to expect the existence of users

dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources; and

"revenues" means inflows or other enhancements, or savings in outflows, of future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners, that result in an increase in equity during the reporting period.

General Purpose Financial Reports to be Prepared in Accordance with Australian Accounting Standards

STANDARDS

- 13 **The general purpose financial report of a local government shall be prepared in accordance with Australian Accounting Standards other than Australian Accounting Standards AAS 16 "Financial Reporting by Segments" and AAS 22 "Related Party Disclosures". To the extent that the requirements of this Standard differ from the requirements of other applicable Standards, the requirements of this Standard shall be applied.**

COMMENTARY

- 14 The applicability to local governments of Australian Accounting Standards issued subsequently to this Standard will be identifiable from the applicability paragraphs of each of those Standards.

Compliance with legal requirements and other authoritative requirements

COMMENTARY

- 15 Local governments may be subject to detailed financial reporting requirements set out in legislation. In addition, some users of local government financial reports, such as councillors and regulators, may impose requirements for reporting of information about particular transactions or Funds of the local government, or for reporting of detailed information demonstrating the compliance of the local government with particular legislation. To the extent that these requirements differ from the requirements of this Standard, the foregoing requirements would apply in addition to, and not in lieu of, the requirements of this Standard.
- 16 Where those legal or other authoritative requirements conflict with the requirements of this Standard, or where information needed to satisfy those foregoing requirements would detract from effective

communication of the information reported in the general purpose financial report, it will be necessary to satisfy those foregoing requirements through the preparation of financial reports which are additional to the local government's general purpose financial report.

Consolidated Financial Statements

STANDARDS

- 17 **Consolidated financial statements shall be prepared as required by and in accordance with Australian Accounting Standard AAS 24 "Consolidated Financial Reports".**

COMMENTARY

- 18 This Standard requires that each of the financial statements included in the general purpose financial report of a local government is to encompass all of the operations controlled by the governing body of the local government. This form of reporting is necessary to enable users to obtain an overview of the local government's performance, financial position, financing and investing, and compliance.
- 19 Where the financial statements for a local government are prepared by combining individual financial statements for Funds, companies or other entities controlled by the governing body of the local government, they will be consolidated financial statements and are to be prepared in accordance with Australian Accounting Standard AAS 24 "Consolidated Financial Reports".
- 20 In the process of combining financial statements of, or financial information about, entities controlled by the governing body of the local government, the effects of transactions between Funds or other entities forming part of the local government are to be eliminated. Failure to eliminate those amounts would result in double-counting and would distort the representation of the combined operations of the local government.

Financial Statements

STANDARDS

- 21 **The general purpose financial report of a local government shall include an operating statement, a statement of financial position, a statement of changes in equity and a statement of cash flows.**

COMMENTARY

- 22 Appendix 1 to this Standard provides an example of a general purpose financial report of a local government prepared in conformity with the accounting standards set out in this Standard. The method of presentation employed in Appendix 1 is not mandatory for local governments, as other methods of presentation may equally comply with the accounting standards set out in this Standard.

Operating statement

STANDARDS

- 23 **The operating statement shall be prepared in accordance with Australian Accounting Standard AAS 1 "Profit and Loss or other Operating Statements", except for paragraph 31 of that Standard.**

COMMENTARY

- 24 The operating statement reports the revenues and expenses of a local government for the reporting period, and thereby provides information relevant to an assessment of its performance for that reporting period. It enables users to identify the cost of goods and services provided, and the extent to which that cost was recovered from revenues, during the reporting period.
- 25 This Standard requires transfers to and from reserves to be disclosed in the statement of changes in equity. This disclosure requirement overrides that which is contained in Australian Accounting Standard AAS 1 "Profit and Loss or other Operating Statements" whereby transfers to and from reserves, to the extent that they affect accumulated surplus/deficit, are required to be disclosed in the operating statement after the result for the reporting period.
- 26 Disclosure of information by way of note about the budget on which rates for the reporting period were established, and about the extent to which rates were deployed for the purposes for which they were raised, may be useful to ratepayers for making and evaluating decisions about the allocation of their scarce resources and for

assessing the discharge of the local government's accountability. This Standard does not require disclosure of such a budget summary in general purpose financial reports. Where such a note is included in a general purpose financial report, disclosure of the reasons for any material variances between budget and actual amounts would be likely to be useful.

Statement of financial position

STANDARDS

- 27 **The statement of financial position shall disclose the assets, liabilities and equity of the local government as at the reporting date.**

COMMENTARY

- 28 The statement of financial position reports the assets, liabilities and equity of the local government, and thereby provides information about the resources controlled by the local government and other information which is useful for assessing the local government's financial structure, capacity for adaptation and solvency.

Statement of changes in equity

STANDARDS

- 29 **The statement of changes in equity shall disclose a reconciliation of the opening and closing balances of each class of equity of the local government for the reporting period, detailing the nature and amount of any movements in those classes of equity.**

COMMENTARY

- 30 The statement of changes in equity summarises the changes during the reporting period in the amount and composition of the equity of the local government. For example, it indicates the extent to which the result for the reporting period and any asset revaluations recognised during the reporting period have altered equity.

Statement of cash flows

STANDARDS

- 31 **The statement of cash flows shall be prepared in accordance with Australian Accounting Standard AAS 28 "Statement of Cash Flows".**

COMMENTARY

- 32 The statement of cash flows identifies the sources of cash inflows, and the items on which cash was expended, during the reporting period and the cash balance as at the reporting date. It provides information relevant to an assessment of the future cash requirements of the local government and the ability of the local government to generate cash inflows in the future. The statement of cash flows also assists in the discharge of accountability by the governing body of the local government for the cash inflows and cash outflows of the local government during the reporting period.

Specific Issues

Criteria for recognition of assets

STANDARDS

- 33 **An asset of the local government shall be recognised in the statement of financial position when, and only when:**
- (a) **it is probable that the future economic benefits embodied in the asset will eventuate; and**
 - (b) **the asset possesses a cost or other value that can be measured reliably.**

COMMENTARY

- 34 The recognition and appropriate classification of assets in the statement of financial position informs users of the amount and types of future economic benefits deployed by the local government to meet community needs. This information, together with information about the other elements of the financial statements, is useful for assessing the local government's ability to continue to provide goods and services, whether resources provided to the local government by ratepayers and government agencies are being deployed and maintained in the manner intended, and the level of resources that may need to be provided to the local government in the future so that it may continue to provide goods and services.

Any assessment of the efficiency with which assets have been deployed is dependent on information about the full range of assets deployed.

- 35 This Standard requires all assets, including those which yield their economic benefits over long periods of time (for example, buildings, monuments, roads, bridges and underground pipes) to be recognised in the statement of financial position, provided they meet the asset recognition criteria specified in paragraph 33.

Measurement of assets

STANDARDS

- 36 **Subject to paragraph 37, acquisitions of assets which involve a cost of acquisition shall be accounted for in accordance with Australian Accounting Standard AAS 21 "Accounting for the Acquisition of Assets (including Business Entities)".**
- 37 **Subject to paragraph 72, assets acquired at no cost of acquisition, or for nominal consideration, shall initially be recognised at their fair values as at the date of acquisition.**
- 38 **Revaluations of non-current assets shall, subject to paragraph 39, be accounted for in accordance with Australian Accounting Standard AAS 10 "Accounting for the Revaluation of Non-Current Assets".**
- 39 **Where a class of depreciable assets is revalued, local governments shall either:**
- (a) **credit any accumulated depreciation existing in respect of that class of assets immediately prior to revaluation against the asset accounts to which it relates, and then increase or decrease the asset accounts by the amount of the revaluation increment or decrement; or**
 - (b) **restate separately the gross amount and related accumulated depreciation of the assets comprising the class of revalued assets.**

COMMENTARY

- 40 Newly acquired assets are to be accounted for in accordance with Australian Accounting Standard AAS 21 "Accounting for the Acquisition of Assets (including Business Entities)", unless acquired at no cost or for nominal consideration. An acceptable method of initially recognising assets previously acquired by the local government which have not been recognised in the statement

of financial position is to initially recognise them at their written-down current cost, identifying separately, where possible, their current cost and any accumulated depreciation. Where a depreciable asset which has not previously been recognised in the statement of financial position is initially recognised, the local government is required by paragraph 42 of Australian Accounting Standard AAS 4 "Depreciation of Non-Current Assets" to determine its initial carrying amount after taking into account any expired portion of the asset's useful life.

- 41 This Standard prescribes a general requirement that assets which satisfy the recognition criteria in paragraph 33 and are acquired at no cost, or for nominal consideration, are initially to be recognised at their fair values. Assets acquired for nominal consideration are not to be recognised initially at that nominal consideration because it would not provide users with relevant information about the assets acquired. The specialised nature of an asset and/or the absence of an orderly market may mean that fair value needs to be approximated by reference to the lower of the replacement or reproduction cost of the service potential embodied in the asset. Guidance provided in Statement of Accounting Practice SAP 1 "Current Cost Accounting" may assist in determining the replacement or reproduction cost of an asset.
- 42 An exception to the requirement to initially recognise assets acquired at no cost, or for nominal consideration, at their fair values applies to assets acquired by a newly constituted local government by virtue of legislation, ministerial directive or other externally imposed requirement. In accordance with paragraph 72, these assets may initially be recognised at the amounts at which they were recognised by the transferor local government as at the date of the transfer. This exception to the general requirement acknowledges that the timing and scale of the externally imposed restructure of local governments may mean that the costs of remeasuring the acquired assets at their fair values are greater than the benefits.
- 43 Local governments may elect to revalue classes of non-current assets. Where such revaluations occur, they are, subject to the requirements of paragraph 39 of this Standard, to be accounted for in accordance with Australian Accounting Standard AAS 10 "Accounting for the Revaluation of Non-Current Assets". Sub-paragraph 39(a) conforms with the requirements of AAS 10. Preparers of general purpose financial reports may apply sub-paragraph 39(a) or restate separately the gross amount and related accumulated depreciation of any class of revalued depreciable assets. Where a class of depreciable assets is revalued, local governments are encouraged but not required by this Standard to apply sub-paragraph 39(b), such that the gross revalued amounts

and related accumulated depreciation of the revalued depreciable assets are disclosed separately.

- 44 An acceptable basis for revaluations of non-current assets is to revalue them to their written-down current cost. In respect of the application of the principles of current cost accounting in the preparation of financial reports, the accounting profession has issued Statement of Accounting Practice SAP 1 "Current Cost Accounting". For guidance on the determination of the written-down current cost of an asset, preparers of financial reports should refer to SAP 1.

Depreciation of non-current assets

STANDARDS

- 45 **All non-current assets with limited useful lives shall be depreciated in accordance with Australian Accounting Standard AAS 4 "Depreciation of Non-Current Assets".**

COMMENTARY

- 46 Depreciation is the expense associated with the consumption or loss of future economic benefits embodied in non-current assets with limited useful lives. Recognition of depreciation is necessary for faithful representation of the cost of the local government's operations for the reporting period, and of the extent to which that cost has been recovered from revenues for the reporting period. Furthermore, the recognition of depreciation is necessary if the future economic benefits embodied in depreciable assets are not to be overstated.
- 47 This Standard requires that all non-current assets with limited useful lives be depreciated in accordance with Australian Accounting Standard AAS 4 "Depreciation of Non-Current Assets". This requirement applies regardless of funding decisions concerning those assets.
- 48 It is sometimes argued that depreciation should not be recognised in respect of long-lived assets such as buildings, monuments, roads, bridges and underground pipes, because they do not wear out. The view adopted in this Standard is that, with rare exceptions, the future economic benefits embodied in long-lived assets do expire over time, notwithstanding proper maintenance. Accordingly, depreciation of long-lived assets is to be recognised as an expense, except in respect of those assets that have unlimited useful lives, such as most types of land.

Criteria for recognition of liabilities

STANDARDS

- 49 **A liability of the local government shall be recognised in the statement of financial position when, and only when:**
- (a) **it is probable that the future sacrifice of economic benefits will be required; and**
 - (b) **the amount of the liability can be measured reliably.**

COMMENTARY

- 50 The recognition and appropriate classification of liabilities in the statement of financial position informs users of the amount and, in broad terms, the timing of future sacrifices of future economic benefits that the local government is presently obliged to make to other entities. This information is useful to assessments of financial flexibility, including the ability of the local government to meet its obligations as they fall due. Recognition of liabilities is necessary if the financial statements are to represent faithfully the equity of the local government. Where the incurrence of a liability involves the concomitant incurrence of an expense, omission of that liability from the statement of financial position would cause relevant information about the performance of the local government to be omitted from the operating statement.

Agreements equally proportionately unperformed

STANDARDS

- 51 **Subject to paragraph 52, a local government may elect not to recognise assets and liabilities arising from agreements which are equally proportionately unperformed in the statement of financial position.**
- 52 **Where another Australian Accounting Standard sets out requirements for the recognition of assets and liabilities arising from agreements which are equally proportionately unperformed, the requirements of that Standard shall be applied.**

COMMENTARY

- 53 In practice, assets and liabilities arising from agreements equally proportionately unperformed that would satisfy the recognition criteria set out in this Standard have usually been recognised only in respect of particular types of such agreements. For many other agreements, significant uncertainty may exist as to whether the definitions and recognition criteria would be satisfied. In addition, substantial difficulties may arise in determining a reliable and appropriate measure for assets and liabilities which may arise from these agreements. These difficulties are reflected in the fact that recognition of all assets and liabilities which arise from these agreements and satisfy the criteria for recognition would represent a fundamental change to existing reporting practices in Australia and in overseas jurisdictions.
- 54 Requirements in an Australian Accounting Standard for the recognition of assets and liabilities in respect of agreements equally proportionately unperformed would continue to apply. An example of a Standard which sets out requirements in respect of the recognition of assets and liabilities arising from a type of agreement that is equally proportionately unperformed is Australian Accounting Standard AAS 17 "Accounting for Leases".
- 55 Local governments are encouraged to disclose the nature of assets and liabilities arising from agreements which are equally proportionately unperformed, as this information is useful to users for assessing the financial position of a local government. Local governments are also encouraged to disclose the amounts involved in each of these agreements to the extent that these amounts can be measured reliably.

Criteria for recognition of revenues and expenses

STANDARDS

- 56 **A revenue of the local government shall be recognised in the operating statement in the determination of the result for the reporting period when, and only when:**
- (a) **it is probable that the inflow or other enhancement or saving in outflows of future economic benefits has occurred; and**
 - (b) **the inflow or other enhancement or saving in outflows of future economic benefits can be measured reliably.**
- 57 **An expense of the local government shall be recognised in the operating statement in the determination of the result for the reporting period when, and only when:**

- (a) **it is probable that the consumption or loss of future economic benefits resulting in a reduction in assets and/or an increase in liabilities has occurred; and**
- (b) **the consumption or loss of future economic benefits can be measured reliably.**

COMMENTARY

- 58 Recognition of the revenues generated and expenses incurred by the local government during the reporting period provides users with information relevant to an assessment of its performance during that period. The information will be useful for identifying the costs of goods and services provided by the local government, and recoveries of those costs, during the reporting period. The information is useful when assessing the efficiency of service delivery, the resources necessary to enable the local government to continue to provide goods and services in the future and the likely cost of those goods and services. As such, the information is relevant to decisions about such matters as the likely funding requirements of the local government.

Contributions

STANDARDS

- 59 **Contributions other than contributions by owners shall be recognised as revenues when the local government obtains control over the assets comprising the contributions.**

Non-reciprocal transfers

COMMENTARY

- 60 Contributions to a local government are non-reciprocal transfers to the local government, and typically are received in the form of voluntary transfers such as grants and donations, and involuntary transfers such as rates and fines. Contributions are non-reciprocal in the sense that the local government is not required to give approximately equal value in exchange directly to the contributor.
- 61 Reciprocal transfers are inter-entity transfers in which the transferor and transferee directly receive and sacrifice approximately equal value. For a transfer to be reciprocal, it is not sufficient that the transferor receives benefit indirectly as a result of the transfer. For example, when a government provides a grant to a local government, it does not receive value directly in exchange, although it (or those it represents) would indirectly receive a benefit as a result of the local

government deploying the grant in providing goods or services to beneficiaries which the grantor government represents. Examples of reciprocal transfers are sales of goods and services, the provision of loan funds, and the provision of employee services.

- 62 While involuntary transfers to local governments will normally result in the provision of goods or services to the transferors, because the transfers are involuntary, receipt and sacrifice of approximately equal value would occur only by coincidence. For example, local governments are not obliged to provide commensurate benefits, in the form of goods or services, to particular ratepayers in return for their rates.
- 63 It is important to distinguish contributions by owners from other contributions. For example, it may be argued that contributions which are provided on the condition that they be expended on assets which increase the capacity of the local government to provide particular services should be classified as equity contributions. However, such contributions would be contributions by owners as defined in paragraph 12 only where the contributor establishes by way of the contribution a financial interest in the net assets of the local government which conveys entitlement to a financial return on the contribution and/or can be sold, transferred or redeemed.

Accounting for contributions

COMMENTARY

- 64 This Standard requires contributions other than contributions by owners to be recognised as revenues when the local government obtains control over the assets comprising the contributions, irrespective of whether conditions are imposed on the local government's use of the contributions.
- 65 Receipt of contributions does not give rise to a liability as defined in paragraph 12. For transfers to an entity to create a present obligation on that entity to make future sacrifices of economic benefits to particular external parties, the transfers must be reciprocal.
- 66 The receipt of contributions imposes a fiduciary responsibility on the governing body of the local government to use the contributed assets efficiently and effectively in pursuing the objectives of the governing body of the local government. This fiduciary responsibility pertains to all of the local government's assets, not only those in respect of which there are contributor-imposed restrictions, and does not of itself create a present obligation on the local government to make a reciprocal transfer of economic benefits.

- 67 On the other hand, if assets are provided to a local government on the condition that the local government is to make a reciprocal transfer of economic benefits, and that reciprocal transfer has not occurred prior to the reporting date, the local government will have a liability. An example of such a reciprocal transfer is where a user charge is provided to a local government in advance for repairs to a private road, where the charge would be repayable directly to the provider or providers if the works were not performed.
- 68 Control over assets acquired from rates would be obtained at the commencement of the rating period or, where earlier, upon receipt. Control over granted assets would normally be obtained upon their receipt or upon prior notification that a grant has been secured, and the timing of commencement of that control will depend upon the arrangements that exist between the grantor and the local government.
- 69 A liability and an expense would need to be recognised in respect of a contribution if and when, after recognition of the contribution as revenue, the local government fails to meet the specific conditions attaching to the contribution and the amount is required to be repaid. In these circumstances, the local government has a present obligation to a creditor that has arisen as a result of a past event, namely, the failure of the local government to meet the conditions for retention of the contribution.
- 70 A local government may on occasions receive contributions by owners as defined in paragraph 12, such as investments in the capital of companies controlled by the governing body of the local government. Such contributions would need to be recognised as contributions of equity in the statement of changes in equity.

Accounting for a restructure of local governments

STANDARDS

- 71 **Where assets and liabilities are transferred to a local government from another local government at no cost, or for nominal consideration, pursuant to legislation, ministerial directive or other externally imposed requirement, the transferee local government shall recognise:**
- (a) **assets and revenues in respect of those assets; and**
 - (b) **liabilities and expenses in respect of those liabilities.**

- 72 **Assets transferred to a local government from another local government at no cost, or for nominal consideration, by virtue of legislation, ministerial directive or other externally imposed requirement shall be recognised initially either at the amounts at which the assets were recognised by the transferor local government as at the date of the transfer, or at their fair values.**

COMMENTARY

- 73 A restructure of local governments involves the transfer of assets and liabilities of a local government to another local government, at no cost or for nominal consideration, by virtue of legislation, ministerial directive or other externally imposed requirement. This gives rise to assets, liabilities, revenues and expenses of the transferee local government. A restructure of local governments may take the form of a new local government being constituted and other local governments being abolished as a result of a State government's policy to effectively amalgamate a number of local governments.
- 74 A restructure of local governments involves a change in the resources controlled by the local governments involved in the restructure. The transferor local government will decrease its assets by the carrying amount of the assets transferred. The transferred assets will usually be recognised by the transferee at their carrying amounts in the books of the transferor at the time of the transfer. Such amounts provide a practical basis for recognising the transfer of assets, particularly when many assets are involved, as is usually the case in a restructure of local governments. However, the recognition of transferred assets at fair value is permitted by this Standard.
- 75 The restructures of local governments referred to in paragraphs 73 and 74 do not involve transfers between the local government and its ownership group but give rise to revenues and expenses which are recognised in the operating statement.

Disclosures in General Purpose Financial Reports

Classification according to nature or type

STANDARDS

- 76 **Assets, liabilities, revenues and expenses shall be classified according to their nature or type in the general purpose financial report by way of note or otherwise. In addition, assets and liabilities shall be classified into current and non-current categories.**
- 77 **Each class of equity shall be disclosed separately, by way of note or otherwise.**
- 78 **Assets and liabilities transferred during the reporting period and recognised in accordance with paragraph 71 shall be disclosed separately, by class, by way of note or otherwise, and the transferor local government shall be identified.**
- 79 **Revenues and expenses recognised in accordance with paragraph 71 shall be disclosed in the operating statement on a net basis.**

COMMENTARY

- 80 Classification of assets, liabilities, revenues and expenses according to their nature or type assists users in identifying significant characteristics of the performance, financial position, financing and investing, and compliance of the local government. The nature or type of those elements of financial statements may encompass a number of characteristics, and accordingly, there are a number of ways in which classifications of those elements can be made. An example of these disclosures is provided in the illustrative general purpose financial report in Appendix 1 to this Standard. Functional classifications of revenues and expenses in the operating statement may be employed in conformity with the requirements of this Standard.
- 81 Classification of assets on the basis of their nature or type may be made according to such matters as their liquidity, marketability, financial risk, physical characteristics, and the expected timing of cash flows to be derived from them.
- 82 Classification of liabilities on the basis of their nature or type may be made according to such matters as the expected timing of their satisfaction, their sources, and the extent to which they are secured by means of a legal claim on specified assets or assets in general.
- 83 Classification of revenues and expenses according to their nature or type may be made to enable users to identify such matters as:

- (a) the major financial characteristics of the local government's operations for the reporting period, for example the costs of services provided by employees, the interest expense, and the repairs and maintenance expense, for the reporting period;
- (b) the variability of revenues and expenses; and
- (c) the dependence of the local government on particular types of revenues, such as grants and rates, to enable it to provide goods and services to constituents.

84 Equity can be classified on a number of bases, for example by source or by nature. Examples of classes of equity include accumulated surplus/deficiency, contributed equity, asset revaluation reserve and asset replacement reserve.

85 The disclosures required by paragraph 78 will assist users to identify the assets and liabilities recognised as a result of a restructure separately from other assets and liabilities and to identify the transferor local government. In addition, the disclosures required by paragraph 79 will assist users to identify separately the gain or loss which results from a restructure of local governments.

Classification according to function or activity

STANDARDS

86 **In respect of each broad function or activity of the local government, the general purpose financial report shall disclose:**

- (a) **by way of note:**
 - (i) **the nature and objectives of that function/activity; and**
 - (ii) **the carrying amount of assets which are reliably attributable to that function/activity; and**
- (b) **by way of note or otherwise:**
 - (i) **revenues for the reporting period which are reliably attributable to that function/activity, with component revenues from related grants disclosed separately as a component thereof; and**
 - (ii) **expenses for the reporting period which are reliably attributable to that function/activity.**

- 87 **The information provided by way of note in accordance with paragraph 86 shall be aggregated and reconciled to agree with the related information in the financial statements of the local government.**

COMMENTARY

- 88 This Standard requires disclosure of information about the assets, revenues and expenses of the local government according to the broad functions or activities of the local government, whether they be related to service delivery or undertaken for commercial objectives. Disclosure of this information assists users in identifying the resources committed to particular functions/activities of the local government, the costs of service delivery which are reliably attributable to those functions/activities, and the extent to which the local government has recovered those costs from revenues which are reliably attributable to those functions/activities. Function/activity classification of financial information will also assist users in assessing the significance of any financial or non-financial performance indicators reported by the local government.
- 89 Australian Accounting Standard AAS 16 "Financial Reporting by Segments" is not applicable to local governments. The bases considered appropriate for identifying broad functions or activities of local governments would not necessarily accord with the criteria for identification of segments contained in that Standard. However, preparers of financial reports may find that the guidance contained in that Standard is useful in identifying the revenues, expenses and assets which are reliably attributable to the broad functions or activities of the local government. An example of the disclosures required in respect of the broad functions or activities of the local government is provided in the illustrative general purpose financial report in Appendix 1 to this Standard.

Restricted assets

STANDARDS

- 90 **In respect of assets which are recognised in the statement of financial position, the general purpose financial report shall identify, by way of note, those assets the uses of which are restricted, wholly or partially, by regulations or other externally imposed requirements where those restrictions are relevant to assessments of the performance, financial position or financing and investing of the local government. The total and restricted amounts of those assets shall be disclosed, together with details of the nature and extent of those restrictions.**

COMMENTARY

- 91 Information about particular restrictions imposed by regulations or other externally imposed requirements on the manner in which a local government can deploy some of its assets may be relevant to assessments of such matters as the local government's capacity for adaptation or capacity to generate investment revenues. As such, information about the restrictions may be relevant to assessments of the performance, financial position or financing and investing of the local government. Examples of such restrictions are where assets controlled by a local government may be permitted to be spent, or invested, only in certain specified manners; or may be required to be held in a particular form for a specified minimum period.

Conditions on contributions

STANDARDS

- 92 **The general purpose financial report shall disclose separately by way of note:**
- (a) **contributions recognised as revenues during the reporting period in respect of which expenditure in a manner specified by a contributor had yet to be made as at the reporting date;**
 - (b) **contributions recognised as revenues during the reporting period which were provided specifically for the provision of goods or services over a future period;**
 - (c) **contributions recognised as revenues during the reporting period which were obtained in respect of a future rating period identified by the local government for the purpose of establishing a rate;**
 - (d) **the nature of the amounts referred to in sub-paragraphs 92(a), (b) and (c) and, in respect of sub-paragraphs 92(b) and (c), the periods to which they relate; and**
 - (e) **contributions recognised as revenues in a previous reporting period which were obtained in respect of the current reporting period.**

COMMENTARY

- 93 Where a local government receives contributions on the condition that the related assets shall be expended in a particular manner or used over a particular period, and those conditions are undischarged in part or in full as at the reporting date, there will exist a strong fiduciary responsibility on the governing body of the local government in respect of the deployment of those contributed assets. Those fiduciary responsibilities do not constitute liabilities of the local government. However, information about them is likely to be relevant to users of the local government's general purpose financial report, particularly in assessing the local government's performance and the discharge of accountability by the governing body of the local government. In addition, disclosure of contributions recognised as revenues in a previous reporting period which were provided specifically in respect of the current reporting period will provide information relevant to users' assessments of the local government's recovery of the cost of goods and services it has provided during the current reporting period.

Capital expenditure commitments

STANDARDS

- 94 **The general purpose financial report of a local government shall disclose, by way of note, capital expenditure commitments contracted for as at the reporting date and which have not been recognised as liabilities in the statement of financial position. The note shall disclose these commitments in the following time bands, according to the time which is expected to elapse from the reporting date to their expected date of payment:**

- (a) **not longer than 1 year;**
- (b) **longer than 1 and not longer than 2 years;**
- (c) **longer than 2 and not longer than 5 years; and**
- (d) **longer than 5 years.**

Reporting on compliance

STANDARDS

- 95 **The general purpose financial report shall disclose the nature and probable financial effect of any non-compliance by the local government with externally imposed requirements which has occurred and which is relevant to assessments of the local**

government's performance, financial position or financing and investing.

COMMENTARY

- 96 Local governments are subject to a range of legislative and other externally imposed requirements governing their operations. Knowledge of non-compliance with such requirements may affect users' assessments of the local government's performance, financial position or financing and investing. For example, non-compliance with borrowing limits or spending mandates may affect the ability of the local government to raise funds from a particular source in the future and/or to continue to provide the same level of goods and services in the future.
- 97 Users are unlikely to require detailed information demonstrating whether there has been compliance with each of those requirements; disclosure of that information typically would result in preparation of voluminous reports which may hinder users from satisfying their other information needs. Users should be able to presume that, in the absence of disclosures to the contrary, the local government has complied with all externally imposed requirements in respect of which non-compliance would be relevant to assessments of the local government's performance, financial position or financing and investing.

Performance indicators

STANDARDS

- 98 **Where performance indicators are included in the general purpose financial report, such information shall satisfy the concepts of relevance and reliability, and be presented in a manner which satisfies the concepts of comparability and understandability.**

COMMENTARY

- 99 The primary objective of local governments is the provision of goods and services to members of the community, and not the generation of profits. Therefore, non-financial as well as financial measures of performance will be relevant to assessments of the economy, efficiency and effectiveness of local governments in achieving their objectives. This Standard does not require local governments to report non-financial measures of performance. However, local governments are encouraged to report non-financial performance indicators which assist users in assessing the local government's performance in meeting its governing body's objectives.

Frequency, Timeliness and Availability of General Purpose Financial Reports

STANDARDS

- 100 **The general purpose financial report of a local government shall be prepared at least annually and be made readily available to users on a timely basis. The local government shall publicly inform the local government community of the availability of the report.**

COMMENTARY

- 101 If each local government is to satisfy the objective of general purpose financial reporting referred to in paragraph 9, it is necessary that it take reasonable steps to ensure that the local government community is informed on a timely basis that the local government's general purpose financial report has been prepared and is readily available. Such action would probably involve inclusion of public notices in the local press and/or letterbox distribution of notices. Ready availability of general purpose financial reports to users implies that any charges for such reports would not be of such amount that they would deter interested persons from obtaining the reports.
- 102 It is recommended that the general purpose financial report of the local government should form part of, or be prepared to be read in conjunction with, an overall report of the governing body. That report may usefully include commentary on the policies, objectives and achievements of the governing body, highlight significant features of the operations of the local government, and identify any recent changes to those operations. It may also usefully include a formal statement by the governing body as to the fairness of presentation of the general purpose financial report of the local government in accordance with the requirements of this Standard.
- 103 Financial information may lose its relevance if there is undue delay in its reporting, because users may need to make decisions in the absence of that information. Therefore, this Standard requires that the general purpose financial report of a local government be made available to users on a timely basis.

Comparative Information

STANDARDS

- 104 **Subject to paragraph 105, the financial report shall disclose information for the preceding corresponding reporting period which corresponds to the disclosures specified for the reporting period.**
- 105 **Comparative amounts need not be disclosed:**
- (a) **in the first general purpose financial report after the establishment of the local government; and**
 - (b) **on initial application of this Standard, to the extent that:**
 - (i) **the general purpose financial report has been prepared on a different basis to the report for the preceding corresponding reporting period;**
 - (ii) **the Standard requires initial adoption of particular disclosures; or**
 - (iii) **disclosure of the information is impracticable.**

Initial Application

STANDARDS

- 106 **Subject to paragraphs 108, 115 and 122, where the accounting policies required by this Standard are not already being applied as at the beginning of the reporting period to which this Standard is first applied, they shall be applied as at that date. Where this gives rise to initial adjustments which would otherwise be recognised in the operating statement, the net amount of those adjustments shall, in accordance with Australian Accounting Standard AAS 1 "Profit and Loss or other Operating Statements", be adjusted against accumulated surplus/deficiency or its equivalent as at the beginning of the reporting period to which this Standard is first applied.**

COMMENTARY

- 107 Where application of this Standard leads to initial adoption of accrual accounting, the assets, liabilities and equity of the local government as at the beginning of the reporting period of initial adoption are to be determined and recognised, so that the operating

statement will faithfully represent the revenues and expenses for that reporting period.

Transitional Provisions

Recognition of certain assets

STANDARDS

- 108 **From the beginning of the reporting period to which this Standard is first applied, until the beginning of the first reporting period ending on or after 1 July 1996, transitional provisions shall apply. Under those provisions, local governments, while encouraged to apply the full provisions of this Standard, may elect instead not to recognise as assets in the statement of financial position those assets:**
- (a) **which have been acquired prior to the beginning of the reporting period to which this Standard is first applied; and**
 - (b) **in respect of which significant practical problems would arise in determining a reliable measure of a carrying amount.**
- 109 **During the transitional period, where a local government, pursuant to paragraph 108, elects not to recognise assets in the statement of financial position, the local government shall disclose, by way of note, those types of assets and the accounting policy adopted in respect of them.**
- 110 **Where assets referred to in paragraph 108 are first recognised in the statement of financial position during the transitional period specified in paragraph 108 or during the first reporting period that ends on or after 1 July 1996, the net amount of the resultant adjustments shall be adjusted against accumulated surplus/deficiency in the reporting periods in which the assets are first recognised. If, subsequently, the recognised amounts of these assets are revised during the transitional period specified in paragraph 108 to reflect a reassessment of the factors used to determine those recognised amounts, the net amount of the resultant adjustments shall be adjusted against accumulated surplus/deficiency in the reporting periods in which the recognised amounts are revised.**

COMMENTARY

- 111 This Standard requires all assets which satisfy the criteria for recognition in the statement of financial position to be recognised accordingly and, if they are depreciable assets, to be depreciated. To provide an adequate period for local governments to address practical issues relating to implementation of this policy, this Standard contains transitional provisions for phased implementation of this policy for those assets which have been acquired prior to the operative date of this Standard or, where earlier, the beginning of the reporting period to which this Standard is first applied, and in respect of which significant practical problems would arise in determining a reliable measure of a carrying amount. For a particular local government, the types of assets that may be so regarded would depend on factors such as the completeness of asset registers and other accounting records, the extent of an asset's similarity to assets deployed by other local governments, and the period which has elapsed since the asset was acquired. Types of assets that may be so regarded may include, but would not be limited to: roads, streets and bridges; water, sewerage and electricity systems infrastructure; monuments and historic buildings; parks and gardens; and channels and flood mitigation works.
- 112 In respect of the types of assets referred to in paragraph 108, this Standard provides a transitional period from the beginning of the reporting period to which this Standard is first applied, until the beginning of the first reporting period ending on or after 1 July 1996, during which time accounting for those assets in accordance with the full provisions of this Standard may be phased in. Local governments are strongly encouraged, at the earliest possible time, to recognise all assets and, if they are depreciable assets, to depreciate them. In the event that assets of the type referred to in paragraph 108 are recognised during the transitional period at an amount which is subsequently, but still within the transitional period, adjusted in the light of a reassessment of the factors used to determine those recognised amounts, for example, valuation or recognition errors or changes in valuation methodologies, this Standard requires the adjustment to be made against accumulated surplus/deficiency. This requirement is consistent with one of the Standard's key objectives that all assets of the local government are appropriately recognised by the end of the transitional period.
- 113 Where some but not all assets within a class of assets satisfy the criteria in paragraph 108, local governments may, during the transitional period, elect not to recognise those assets while recognising and, where applicable, depreciating the remainder of the assets within that class. In particular, local governments which avail themselves of the transitional provisions may choose to employ

such a policy while they progressively adopt the full requirements of this Standard.

- 114 During the transitional period, where a local government, pursuant to paragraph 108, elects not to recognise assets in the statement of financial position, the local government is required by paragraph 109 to disclose those types of assets and the accounting policy adopted in respect of them, for conformity with Australian Accounting Standard AAS 6 "Accounting Policies". These disclosures should assist users in assessing, during the transitional period, the nature and possible extent of those resources deployed by the local government in the provision of goods and services which have not been recognised and, where applicable, depreciated. As such, these disclosures should facilitate better-informed assessments of the local government's financial position and performance during the transitional period.

Land under roads

STANDARDS

- 115 **From the beginning of the reporting period to which this Standard is first applied, until the end of the first reporting period ending on or after 30 June 2000, transitional provisions shall apply. Under those provisions, local governments, while encouraged to apply the full provisions of this Standard, may elect instead not to recognise land under roads as an asset in the statement of financial position.**
- 116 **During the transitional period, where a local government elects not to recognise land under roads as an asset in the statement of financial position, it shall disclose that policy in the summary of accounting policies.**
- 117 **Where land under roads is first recognised in the statement of financial position, or its recognition is discontinued, during the transitional period specified in paragraph 115, the net amount of the resultant adjustments shall be adjusted against accumulated surplus/deficiency in the reporting periods in which the assets are first recognised or their recognition is discontinued. If, subsequently, the recognised amounts of land under roads are revised during the transitional period specified in paragraph 115 to reflect a reassessment of the factors used to determine those recognised amounts, the net amount of the resultant adjustments shall be adjusted against accumulated surplus/deficiency in the reporting periods in which the recognised amounts are revised.**

COMMENTARY

- 118 A number of local government practitioners and members of the valuation profession have expressed concerns that a reliable measure of a carrying amount for land under roads controlled by local governments can seldom be determined, because of the unique features of land under roads. Because of these concerns, which are unlikely to be resolved in the short term, this Standard provides transitional provisions for the recognition of land under roads as an asset. Land under roads is defined in paragraph 12.
- 119 The transitional provisions set out in paragraph 115 allow local governments to choose whether to recognise land under roads as an asset during the transitional period. Their purpose is to provide an adequate period within which interested parties can address whether and, if so, how concerns about reliable measurement of land under roads can be overcome.
- 120 These transitional provisions principally extend the transitional provisions set out in paragraphs 108 to 114, as they apply to land under roads.
- 121 Local governments are encouraged to recognise land under roads as an asset wherever it can be measured reliably (for example, where land under roads has been acquired at a cost of acquisition).

Controlled operations with different reporting periods

STANDARDS

- 122 **From the beginning of the reporting period to which this Standard is first applied, until the beginning of the first reporting period ending on or after 1 July 1996, transitional provisions shall apply. Under those provisions, the governing body of a local government, while encouraged to apply the full provisions of this Standard, may elect instead to prepare general purpose financial reports for the local government which exclude an entity controlled by the governing body of the local government where that entity must, under legislation, ministerial directive or other externally imposed requirement, prepare general purpose financial reports for reporting periods that differ from the reporting periods for which the general purpose financial reports of the local government must be prepared.**
- 123 **Where a local government, pursuant to paragraph 122, elects not to apply the full provisions of this Standard, the general purpose financial reports of the local government shall:**

- (a) **disclose, by way of note, a description of that entity and the reason for not including it in the general purpose financial reports; and**
- (b) **have attached the most recent general purpose financial report for that entity made available to the local government.**

COMMENTARY

124 In some jurisdictions the governing bodies of local governments control operations, such as electricity supply undertakings, which have reporting periods determined by legislation, ministerial directive or other externally imposed requirement that differ from the reporting periods for which the local governments must prepare general purpose financial reports. The requirement explained in paragraph 18, that each of the financial statements included in the general purpose financial report of a local government is to encompass all of the operations controlled by the governing body of the local government, may necessitate the preparation of an interim financial report in respect of the controlled operations or such other appropriate adjustments as may be necessary to prepare the general purpose financial report for the local government as if the reporting periods were the same. The purpose of the transitional provisions set out in paragraphs 122 and 123 is to provide local governments, and those responsible for legislation, ministerial directives or other externally imposed requirements concerning the preparation of general purpose financial reports of local governments, with an adequate period to develop requirements and processes to overcome difficulties arising from different reporting periods for different operations of those local governments in a cost effective manner.

APPENDIX I

EXAMPLE OF A GENERAL PURPOSE FINANCIAL REPORT FOR A LOCAL GOVERNMENT

This Appendix forms part of the commentary and is provided for illustrative purposes only. It does not attempt to illustrate every possible disclosure that may be appropriate to the circumstances of particular local governments. Other methods of presentation may equally comply with the accounting standards set out in this Standard. For example, local governments may choose to adopt a format for the statement of financial position that, consistent with the entity approach to financial reporting, reports total assets as compared with total liabilities and equity. In addition, local governments may choose to classify items in the operating statement on a functional basis.

Municipality of XYZ
Operating Statement
for the reporting period ended 30 June 19X1

	Note	19X1		19X0	
		\$'000	\$'000	\$'000	\$'000
EXPENSES	3				
Employee costs		(1,956)		(1,794)	
Materials and contracts		(1,951)		(1,970)	
Depreciation and amortisation	4	(1,027)		(964)	
Interest		(345)		(310)	
Other	5	<u>(513)</u>	(5,792)	<u>(471)</u>	(5,509)
REVENUES	3				
Rates - general		1,885		1,765	
- water		<u>124</u>		<u>113</u>	
		<u>2,009</u>		<u>1,878</u>	
User charges		479		462	
Interest		117		101	
Other		<u>20</u>		<u>17</u>	
		<u>616</u>		<u>580</u>	
Grants provided for:					
acquisition of assets	6	567		601	
other purposes		2,465		2,454	
Donations		<u>33</u>		<u>20</u>	
		<u>3,065</u>	5,690	<u>3,075</u>	5,533
Gain on Disposal of Developed Land	7		204		84
Gain on Disposal of Plant and Equipment	8		<u>105</u>		<u>—</u>
CHANGE IN NET ASSETS RESULTING FROM OPERATIONS			<u>207</u>		<u>108</u>

Municipality of XYZ

Statement of Financial Position as at 30 June 19X1

		19X1		19X0	
	Note	\$'000	\$'000	\$'000	\$'000
CURRENT ASSETS					
Receivables	9	324		188	
Land held for resale	10	614		472	
Investments	11	403		377	
Other	12	<u>215</u>		<u>198</u>	
TOTAL CURRENT ASSETS			1,556		1,235
CURRENT LIABILITIES					
Bank overdraft			128		34
Creditors and provisions	13		408		271
Loans			<u>585</u>		<u>530</u>
TOTAL CURRENT LIABILITIES			<u>1,121</u>		<u>835</u>
NET CURRENT ASSETS			435		400
NON-CURRENT ASSETS					
Land held for resale	10	425		190	
Investments	11	632		403	
Other	15	<u>27,737</u>		<u>21,381</u>	
TOTAL NON-CURRENT ASSETS			28,794		21,974
NON-CURRENT LIABILITIES					
Creditors and provisions	13		263		255
Loans			<u>9,982</u>		<u>3,342</u>
TOTAL NON-CURRENT LIABILITIES			<u>10,245</u>		<u>3,597</u>
NET ASSETS			<u>18,984</u>		<u>18,777</u>
EQUITY					
Accumulated surplus		15,744		15,745	
Reserves	17	<u>3,240</u>		<u>3,032</u>	
TOTAL EQUITY			<u>18,984</u>		<u>18,777</u>

Municipality of XYZ

**Statement of Changes in Equity
for the reporting period ended 30 June 19X1**

	Total		Accumulated Surplus		Asset Revaluation Reserve*		Asset Replacement Reserve*	
	19X1 \$'000	19X0 \$'000	19X1 \$'000	19X0 \$'000	19X \$'000	19X \$'000	19X1 \$'000	19X \$'000
					1 0	0 0		0 0
Balance at beginning of reporting period	18,777	18,118	15,745	15,724	2,705	2,154	327	240
Change in net assets resulting from operations	207	108	207	108	—	—	—	—
Transfers to reserves	—	551	(438)	(87)	—	551	438	87
Transfers from reserves	—	—	230	—	—	—	(230)	—
Balance at end of reporting period	18,984	18,777	15,744	15,745	2,705	2,705	535	327

* For further information, refer to Note 17

Municipality of XYZ
Statement of Cash Flows
for the reporting period ended 30 June 19X1

		19X1		19X0	
	Note	\$'000	\$'000	\$'000	\$'000
Cash flows from operating activities					
Payments					
Employee costs		(1,915)		(1,764)	
Materials and contracts		(1,834)		(1,878)	
Interest		(484)		(414)	
Other		(492)		(453)	
Receipts					
Rates		1,833		1,685	
User charges		479		462	
Interest		117		101	
Other		<u>53</u>		<u>37</u>	
Net cash used in operating activities	19		(2,243)		(2,224)
Cash flows from investing activities					
Payments					
Purchase of land and buildings		(6,104)		(1,295)	
Purchase of land held for resale		(921)		(8)	
Purchase of plant, equipment and library books		(676)		(228)	
Purchase of investments		(255)		—	
Purchase of roads, streets and bridges		(472)		(344)	
Purchase of water, sewerage and drainage works		(269)		(285)	
Receipts					
Proceeds from sale of plant, equipment and land held for resale		<u>1,130</u>		<u>504</u>	
Net cash used in investing activities			(7,567)		(1,656)
Cash flows from financing activities					
Proceeds from borrowings	21	6,695		873	
Repayment of borrowings		<u>(11)</u>		<u>—</u>	
Net cash provided by financing activities			6,684		873
Cash flows from government					
Receipts from appropriations/grants					
Recurrent		2,465		2,454	
Capital		<u>567</u>		<u>601</u>	
Net cash provided by government			<u>3,032</u>		<u>3,055</u>
Net (decrease) increase in cash held			(94)		48
Cash at the beginning of the reporting period			<u>(14)</u>		<u>(62)</u>
Cash at the end of the reporting period	18		<u><u>(108)</u></u>		<u><u>(14)</u></u>

Municipality of XYZ
Notes to the Financial Statements
for the reporting period ended 30 June 19X1

1. **Significant Accounting Policies**

(a) *The local government reporting entity*

All Funds through which the Council controls resources to carry on its functions have been included in the financial statements forming part of this financial report.

In the process of reporting on the local government as a single unit, all transactions and balances between those Funds (for example, loans and transfers between Funds) have been eliminated.

Trust Funds

The local government has received rent monies as an agent for the State Ministry of Housing. As the local government performs only a custodial role in respect of these monies, and because the monies cannot be used for Council purposes, they are excluded from the financial statements.

Amounts received as tender deposits and retention amounts controlled by Council are included in the amount disclosed as "creditors" within current liabilities.

(b) *Basis of accounting*

This financial report has been prepared in accordance with applicable Australian Accounting Standards. It has been prepared on the accrual basis under the convention of historical cost accounting, with the exception that:

- (i) non-current assets other than investments and land held for resale are revalued to their current cost less accumulated depreciation at least every 3 years; and
- (ii) assets acquired at no cost of acquisition, or for nominal consideration, are initially recognised at their fair values as at the date of acquisition.

The accounting policies adopted for the reporting period are consistent with those of the previous reporting period.

(c) *Depreciation of non-current assets*

All non-current assets having a limited useful life are systematically depreciated over their useful lives in a manner which reflects the consumption of the future economic benefits embodied in those assets.

Depreciation is recognised on a straight-line basis, using rates which are reviewed each reporting period. Major depreciation periods are:

Bridges - timber	30 to 40	years
- steel and concrete	80 to 100	years
Buildings	30 to 50	years
Main drains and water retarding basins	75 to 85	years
Plant and equipment	5 to 15	years
Sealed roads and streets: construction	20 to 40	years
original surfacing and major re-surfacing		
- bituminous seals	7 to 10	years
- asphalt surfaces	15 to 20	years
Unsealed roads	5 to 10	years
Sewerage piping	90 to 100	years
Water supply piping	65 to 95	years

(d) Employee entitlements

Employee entitlements are accrued for items such as wages and salaries, annual leave, sick leave and long service leave in respect of services provided by employees up to the reporting date. Liabilities for employee entitlements are assessed as at each reporting date. Liabilities for wages and salaries, annual leave and sick leave are measured at their nominal amounts, using remuneration rates current as at the reporting date.

Liabilities for long service leave are measured as the present value of the estimated future cash outflows to be made by the local government in respect of services provided by employees up to the reporting date. The interest rates attaching, as at the reporting date, to Commonwealth Government guaranteed securities are used to discount the estimated future cash outflows to their present value.

The superannuation expense for the reporting period is the amount of the statutory contribution the local government makes to the superannuation plan which provides benefits to its employees. Details of those arrangements are set out in Note 14.

(e) Investments

Investments are valued at cost. Interest revenues are recognised as they accrue.

(f) *Land held for resale*

Land purchased for development and/or resale is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition, development and interest incurred on the financing of that land during its development. Interest and other holding charges incurred after development is complete are recognised immediately as expenses.

Revenue arising from the sale of property is recognised in the operating statement as at the time of signing a binding contract of sale.

(g) *Leases*

The local government's rights and obligations under finance leases, which are leases that effectively transfer to the local government substantially all of the risks and benefits incident to ownership of the leased items, are initially recognised as assets and liabilities equal in amount to the present value of the minimum lease payments. The assets are disclosed as plant and equipment under lease, and are amortised to expense over the period during which the local government is expected to benefit from use of the leased assets. Minimum lease payments are allocated between interest expense and reduction of the lease liability, according to the interest rate implicit in the lease.

Lease liabilities are allocated between current and non-current components. The principal component of lease payments due on or before the end of the succeeding year is disclosed as a current liability, and the remainder of the lease liability is disclosed as a non-current liability.

In respect of operating leases, where the lessor effectively retains substantially all of the risks and benefits incident to ownership of the leased items, lease payments are charged to expense over the lease term.

(h) *Joint venture*

The local government's interest in a joint venture has been recognised in the financial statements by including its share of any assets, liabilities, revenues and expenses of the joint venture within the relevant items reported in the statement of financial position and operating statement. Information about the joint venture is set out in Note 16.

(i) *Rates, grants, donations and other contributions*

Rates, grants, donations and other contributions are recognised as revenues when the local government obtains control over the assets comprising the contributions. Control over assets acquired from rates is obtained at the commencement of the rating period or, where earlier, upon receipt of the rates. Control over granted assets is normally obtained upon their receipt or upon prior notification that a grant has been secured, and

the timing of commencement of control depends upon the arrangements that exist between the grantor and the local government.

Unreceived contributions over which the local government has control are recognised as receivables. In respect of uncollected rates, provision is made for amounts considered uncollectible.

Where contributions recognised as revenues during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the nature of and amounts pertaining to those undischarged conditions are disclosed in Note 6. That note also discloses the amount of contributions recognised as revenues in a previous reporting period which were obtained in respect of the local government's operations for the current reporting period.

2.(a) Functions/Activities of the Municipality

Revenues, expenses and assets have been attributed to the following functions/activities are set out in Note 2(b).												
	LAW, ORDER & PUBLIC SAFETY		HEALTH		WELFARE		HOUSING		COMMUNITY AMENITIES		RECREATION & CULTURE	
	19X1 \$000	19X0 \$000	19X1 \$000	19X0 \$000	19X1 \$000	19X0 \$000	19X1 \$000	19X0 \$000	19X1 \$000	19X0 \$000	19X1 \$000	19X0 \$000
EXPENSES	80	77	66	68	189	167	36	34	357	345	452	445
REVENUES												
Grants	40	42	22	26	140	120	–	–	61	70	100	110
Other	32	34	36	35	42	40	31	29	304	292	82	76
Total	72	76	58	61	182	160	31	29	365	362	182	186
CHANGE IN NET ASSETS RESULTING FROM OPERATIONS												
ASSETS	42	34	130	143	118	120	17	17	2,980	2,898	1,545	1,592

* Under construction

** General rates for this local government have not been attributed to functions

FOOTNOTE

While these functions/activities are appropriate classifications for the circumstances of this local government, they need not necessarily be appropriate for other local governments.

functions/activities. Details of those

TRANSPORT		ECONOMIC SERVICES		LAND DEVELOPMENT		SHOPPING MALL*		OTHER – NOT ATTRIBUTED**		TOTAL	
19X1 \$000	19X0 \$000	19X1 \$000	19X0 \$000	19X1 \$000	19X0 \$000	19X1 \$000	19X0 \$000	19X1 \$000	19X0 \$000	19X1 \$000	19X0 \$000
3,730	3,421	95	86	706	433	–	–	902	853	6,613	5,929
2,193	2,251	30	30	–	–	–	–	479	426	3,065	3,075
261	17	78	69	887	504	–	–	2,002	1,866	3,755	2,962
2,454	2,268	108	99	887	504	–	–	2,481	2,292	6,820	6,037
										207	108
12,703	12,670	33	36	1,354	1,002	8,127	1,808	3,301	2,889	30,350	23,209

2. (b) **Component Functions/Activities**

The activities relating to the local government's components reported on in Note 2(a) are as follows:

LAW, ORDER AND PUBLIC SAFETY

Supervision of various by-laws, fire prevention and animal control.

HEALTH

Food control, immunisation services and operation of the child health centre.

WELFARE

Operation of senior citizens' centre and day care centre; assistance to playgroups; Meals on Wheels and other voluntary services.

HOUSING

Maintenance of housing rented to tenants.

COMMUNITY AMENITIES

Rubbish collection services, operation of tip, noise control, administration of the town planning scheme, and water and sewerage services.

RECREATION AND CULTURE

Maintenance of halls, the aquatic centre, recreation centres and various reserves; operation of library.

TRANSPORT

Construction and maintenance of roads, drainage works, footpaths, parking facilities and traffic signs. Maintenance of bus shelters and the community bus service; cleaning of streets.

ECONOMIC SERVICES

Tourism, pest control services and implementation of building controls.

LAND DEVELOPMENT

Land acquisition, servicing, development and sale.

SHOPPING MALL

Refer to Note 16.

3.	Operating Revenues and Expenses	19X1 \$'000	\$'000	19X0 \$'000	\$'000
	Total operating revenues and expenses for the reporting period were as follows:				
	Proceeds from disposal of developed land	887		504	
	Proceeds from disposal of plant and equipment	243		—	
	Other revenues	<u>5,690</u>		<u>5,533</u>	
	Operating revenues		6,820		6,037
	Cost of developed land sold	683		420	
	Carrying amount of plant and equipment sold	138		—	
	Other expenses	<u>5,792</u>		<u>5,509</u>	
	Operating expenses		<u>6,613</u>		<u>5,929</u>
	Change in net assets from the reporting period's operations		<u><u>207</u></u>		<u><u>108</u></u>
4.	Depreciation and Amortisation Expense	19X1 \$'000		19X0 \$'000	
	Depreciation and amortisation expense for the reporting period was charged in respect of:				
	Buildings	85		83	
	Plant and equipment	226		213	
	Roads, streets and bridges	640		595	
	Water, sewerage and drainage works	42		40	
	Library books	<u>34</u>		<u>33</u>	
			<u><u>1,027</u></u>		<u><u>964</u></u>

5. Other Expenses	19X1 \$'000	19X0 \$'000
Other expenses for the reporting period included:		
Auditor's remuneration		
audit services	29	26
other services	<u>3</u>	<u>4</u>
	<u>32</u>	<u>30</u>
Bad and doubtful debts	40	46
Councillors' emoluments	21	20
Rentals - operating leases	139	144
6. Conditions over Contributions		
Grants which were recognised as revenues during the reporting period and which were obtained on the condition that they be expended on the acquisition of assets but had yet to be applied in that manner as at the reporting date were:		
Grants for road works (transport)	175	80
Grants for day care centre improvements (welfare)	<u>22</u>	<u>—</u>
	197	80
Grants which were recognised as revenues in a previous reporting period and were expended during the current reporting period in the manner specified by the grantor were:		
Grants for road works (transport)	<u>80</u>	<u>104</u>
Net increase (decrease) in restricted assets resulting from grant revenues for the reporting period	<u>117</u>	<u>(24)</u>

7.	Gain on Disposal of Developed Land (Abnormal Item)	19X1 \$'000	19X0 \$'000
	Proceeds from sales	887	504
	Less: cost of sales	<u>683</u>	<u>420</u>
	Gain on disposal	<u>204</u>	<u>84</u>

The Council regards these revenues and expenses as abnormal in relation to previous reporting periods. In addition, the area under development is expected to be fully sold within two years of the reporting date.

8.	Gain on Disposal of Plant and Equipment	19X1 \$'000	19X0 \$'000
	Proceeds from sales	243	—
	Less: carrying amount of assets sold	<u>138</u>	<u>—</u>
	Gain on disposal	<u>105</u>	<u>—</u>

9.	Receivables		
	Rates outstanding	356	223
	Less: provision for doubtful debts	<u>32</u>	<u>35</u>
		<u>324</u>	<u>188</u>

10.	Land Held for Resale, at Cost		
	Cost of purchase	521	323
	Development costs for roads, drainage and water supply	379	265
	Interest on borrowings incurred during land development	<u>139</u>	<u>74</u>
		<u>1,039</u>	<u>662</u>
	classified as:		
	Current	614	472
	Non-Current	<u>425</u>	<u>190</u>
		<u>1,039</u>	<u>662</u>

11. Investments	19X1 \$'000	19X0 \$'000	19X1 \$'000	19X0 \$'000
Government and semi-government bonds, at cost				
Current - unrestricted	20		30	
- subject to external restrictions	<u>383</u>	403	<u>347</u>	377
Non-Current - unrestricted	535		327	
- subject to external restrictions	<u>97</u>	<u>632</u>	<u>76</u>	<u>403</u>
			<u>1,035</u>	<u>780</u>
The following restrictions have been imposed by regulations or other externally imposed requirements:				
<u>Current</u>	19X1 \$'000		19X0 \$'000	
Accrued long service leave	33		20	
Unexpended loan monies (a)	153		247	
Unexpended specific-purpose grants (b)	<u>197</u>		<u>80</u>	
			<u>383</u>	<u>347</u>
(a) These monies are required to be spent on new plant and equipment				
(b) Most of these monies are required to be spent on roadworks				
<u>Non-Current</u>				
Accrued long service leave			<u>97</u>	<u>76</u>
<u>Market value</u>				
Market value of investments as at the reporting date			<u>1,077</u>	<u>819</u>
12. Other Current Assets				
Prepayments		66		47
Stores and materials		<u>149</u>		<u>151</u>
			<u>215</u>	<u>198</u>
13. Creditors and Provisions	19X1 \$'000		19X0 \$'000	

Current

Creditors	264	149
Lease liability (refer to Note 24)	13	11
Annual leave	98	91
Long service leave	<u>33</u>	<u>20</u>
	<u>408</u>	<u>271</u>

Non-Current

Lease liability (refer to Note 24)	166	179
Long service leave	<u>97</u>	<u>76</u>
	<u>263</u>	<u>255</u>

14. **Superannuation**

The local government contributes in respect of its employees to a defined benefit superannuation plan established in respect of all local governments in the State. In accordance with statutory requirements, the local government contributes to the ABC Plan ("the plan") amounts determined by the plan actuary. As such, assets accumulate in the plan to meet members' benefits as they accrue. If the assets of the plan were insufficient to satisfy benefits payable to its beneficiaries, the local government would be required to meet its share of the deficiency. The audited general purpose financial report of the plan as at 30 June 19X1, which was not subject to any audit qualification, indicates that the assets of the plan are sufficient to meet the accrued benefits. No liability of the local government has been recognised as at the reporting date in respect of superannuation benefits for its employees. The general purpose financial report of the plan discloses that the most recent actuarial assessment of the plan was undertaken as at 30 June 19X0 by (name and qualifications), and that the actuary indicated that without improvements to benefit conditions, or other unanticipated events, current contribution rates would be sufficient to meet members' benefits as they accrue.

The amount of superannuation contributions paid by the local government during the reporting period was \$106,000 (19X0 - \$96,000).

15. Other Non-Current Assets	19X1		19X0	
	\$'000	\$'000	\$'000	\$'000
Land				
at cost (acquired after 30 June 19X0)	894		—	
at independent valuation of current cost as at 30 June 19X0	<u>3,958</u>	4,852	<u>3,958</u>	3,958
Buildings				
at cost (acquired after 30 June 19X0)	5,210		—	
at independent valuation of current cost as at 30 June 19X0	<u>2,963</u>		<u>2,963</u>	
	8,173		2,963	
less: accumulated depreciation	<u>2,023</u>	6,150	<u>1,938</u>	1,025
Plant and equipment				
at cost (acquired after 30 June 19W9)	873		223	
at Council's valuation of current cost as at 30 June 19W9	<u>1,828</u>		<u>2,082</u>	
	2,701		2,305	
less: accumulated depreciation	<u>682</u>	2,019	<u>589</u>	1,716
Plant and equipment under lease				
at cost (acquired on 30 June 19W9)	240		240	
less: accumulated amortisation	<u>34</u>	206	<u>17</u>	223
Roads, streets and bridges				
Land at independent valuation of current cost as at 30 June 19X0*	<u>5,130</u>		<u>5,130</u>	
Works at cost (acquired after 30 June 19W9)	1,132		660	
Works at Council's valuation of current cost as at 30 June 19W9	<u>8,690</u>		<u>8,690</u>	
	9,822		9,350	
less: accumulated depreciation	<u>3,055</u>		<u>2,415</u>	
	<u>6,767</u>	11,897	<u>6,935</u>	12,065
Water, sewerage and drainage works				
at cost (acquired after 30 June 19W9)	314		45	
at Council's valuation of current cost as at 30 June 19W9	<u>3,161</u>		<u>3,161</u>	
	3,475		3,206	
less: accumulated depreciation	<u>1,090</u>	2,385	<u>1,048</u>	2,158

	19X1		19X0	
	\$'000	\$'000	\$'000	\$'000
Library books				
at cost (acquired after 30 June 19W9)	46		20	
at Council's valuation of current cost as at 30 June 19W9	<u>410</u>		<u>410</u>	
	456		430	
less: accumulated depreciation	<u>228</u>	<u>228</u>	<u>194</u>	<u>236</u>
		<u>27,737</u>		<u>21,381</u>

* The valuations were undertaken by (name and qualifications).

16. Joint Venture

The local government is a joint venturer in a project for development of the Hill View shopping mall in High Street, XYZ. The local government has a 50% interest in the assets, liabilities and output of this joint venture. The shopping mall is due to be completed in mid 19X2, and the local government's share of its output will be half of shop rentals (which include a percentage of turnover). The local government has contracted to meet half of the operating expenses of the mall.

The local government's share of the assets and liabilities committed to the joint venture are included in the statement of financial position under the following classifications (interest incurred on project financing has been capitalised, during development, as part of buildings and sewerage works):

	19X1	19X0
	\$'000	\$'000
Land	2,702	1,808
Buildings	5,210	—
Sewerage works	<u>215</u>	<u>—</u>
Share of assets employed in joint venture	<u>8,127</u>	<u>1,808</u>
Loans: non-current	<u>7,850</u>	<u>1,600</u>
Output	<u>—</u>	<u>—</u>
Expenses	<u>—</u>	<u>—</u>

	19X1		19X0	
	\$'000	\$'000	\$'000	\$'000
17. Reserves				
<u>Asset Revaluation Reserve</u>				
Balance at beginning of reporting period	2,705		2,154	
Revaluation of:				
Land	—		188	
Buildings	—		119	
Land under roads, streets and bridges	<u>—</u>		<u>244</u>	
Balance at end of reporting period		2,705		2,705
<u>Asset Replacement Reserve</u>				
Balance at beginning of reporting period	327		240	
Amount transferred from accumulated surplus	438		87	
Amount transferred to accumulated surplus re replacement of plant and equipment	<u>(230)</u>		<u>—</u>	
Balance at end of reporting period		<u>535</u>		<u>327</u>
		<u>3,240</u>		<u>3,032</u>

18. **Reconciliation of Cash**

For the purposes of the statement of cash flows, the local government considers cash to include cash on hand and in banks and investments in money market instruments. Cash at the end of the reporting period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	19X1	19X0
	\$'000	\$'000
Bank overdraft	(128)	(34)
Investments in money market instruments	<u>20</u>	<u>20</u>
	<u>(108)</u>	<u>(14)</u>

19. **Reconciliation of Net Cash used in Operating Activities to Change in Net Assets Resulting from Operations**

	19X1 \$'000	19X0 \$'000
Change in Net Assets Resulting from Operations	207	108
Depreciation	1,027	964
Provision for doubtful debts	(3)	5
Increase in employee entitlement liabilities	41	6
Increase in creditors	115	35
Increase in debtors	(133)	(105)
Increase in prepayments	(19)	(2)
Decrease (increase) in stores and materials	2	(22)
Gain on disposal of plant and equipment	(105)	—
Gain on disposal of developed land	(204)	(84)
Government grants	(3,032)	(3,055)
Capitalised interest	<u>(139)</u>	<u>(74)</u>
Net Cash used in Operating Activities	<u>(2,243)</u>	<u>(2,224)</u>

20. **Credit Standby Arrangements**

Bank overdraft limit	200	150
Bank overdraft at reporting date	<u>128</u>	<u>34</u>
Total amount of credit unused	<u><u>72</u></u>	<u><u>116</u></u>

21. **Loan Facilities**

Short-term Loans	585	530
Long-term Loans		
Interest in Joint Ventures (see Note 22)	7,850	1,600
Other	<u>2,132</u>	<u>1,742</u>
Total facilities in use at reporting date*	<u><u>10,567</u></u>	<u><u>3,872</u></u>
Unused loan facilities at reporting date	<u><u>Nil</u></u>	<u><u>Nil</u></u>

The movement in used loan facilities during the reporting period was \$6,695,000 (19X0 - \$873,000).

(* Excludes finance lease facilities - refer to note 24).

22. **Shopping Mall Joint Venture**

Long-term loans relating to the joint venture amounting to \$7,850,000 were outstanding as at the reporting date (19X0 - \$1,600,000). The amount of \$6,250,000 was raised during the reporting period to finance the interest of the local government in the shopping mall joint venture (the share of assets employed in the joint venture increased by

\$6,319,000 during the reporting period). Details of the joint venture are set out in Note 16.

	19X1 \$'000	19X0 \$'000
23. Commitments for Capital Expenditure		
Capital expenditure commitments contracted for as at the reporting date and which have not been recognised as liabilities in the statement of financial position are as follows:		
Joint venture	5,120	10,425
Plant and equipment	<u>475</u>	<u>260</u>
	<u><u>5,595</u></u>	<u><u>10,685</u></u>
The periods expected to elapse from the reporting date to the expected date of payment are as follows:		
Not longer than one year	5,595	5,360
Longer than one year and not longer than two years	<u>—</u>	<u>5,325</u>
	<u><u>5,595</u></u>	<u><u>10,685</u></u>
24. Finance Lease Commitments		
At the reporting date, the local government had the following obligations under finance leases (the sum of which is recognised as a liability after deduction of future lease finance charges included in the obligation):		
Not longer than one year	40	40
Longer than one year and not longer than two years	40	40
Longer than two years and not longer than five years	120	120
Longer than five years	<u>103</u>	<u>143</u>
Minimum lease payments	303	343
Deduct: future finance charges	<u>124</u>	<u>153</u>
Lease liability	<u><u>179</u></u>	<u><u>190</u></u>
classified as:		
Current	13	11
Non-Current	<u>166</u>	<u>179</u>
	<u><u>179</u></u>	<u><u>190</u></u>
25. Operating Lease Commitments	19X1	19X0
	\$'000	\$'000
At the reporting date, the local government		

had the following obligations under non-cancellable operating leases (these obligations are not recognised as liabilities):

Not longer than one year	67	75
Longer than one year and not longer than two years	29	33
Longer than two years and not longer than five years	45	43
Longer than five years	<u>25</u>	<u>21</u>
	<u>166</u>	<u>172</u>

APPENDIX 2
DISCLOSURES RELATING TO A RESTRUCTURE OF
LOCAL GOVERNMENTS

This Appendix forms part of the commentary and is provided for illustrative purposes only. The illustration contained in this Appendix demonstrates a possible format for disclosures required by paragraphs 78 and 79 of the Standard.

Background Information

The Municipality of UVW was constituted on 1 July 19X1 and on that date acquired the assets and assumed the liabilities of three abolished local governments at no charge, by virtue of an Order by the Governor in Council.

The following is an extract from the general purpose financial report of the Municipality of UVW. Only the operating statement and note which would be expected to be provided by the Municipality of UVW as a direct result of the restructure of the local governments are provided in the following illustration.

No comparative information is provided, because this is the first general purpose financial report after the establishment of the Municipality of UVW.

For the purpose of this illustration, the relevant line items in the operating statement are highlighted by bold italics.

Municipality of UVW
Operating Statement
for the reporting period ended 30 June 19X2

	Note	\$'000	19X2	\$'000
EXPENSES	3			
Employee costs		(5,780)		
Materials and contracts		(6,214)		
Depreciation and Amortisation	4	(3,072)		
Interest		(914)		
Other	5	<u>(1,645)</u>		(17,625)
REVENUES	3			
Rates - general		5,655		
- water		<u>372</u>		
		<u>6,027</u>		
User charges		1,614		
Interest		352		
Other		<u>72</u>		
		<u>2,038</u>		
Grants provided for:				
acquisition of assets	6	1,681		
other purposes		8,512		
Donations		<u>103</u>		
		<u>10,296</u>		18,361
Gain on Disposal of Developed Land	7			540
Gain on Disposal of Plant and Equipment	8			<u>310</u>
CHANGE IN NET ASSETS RESULTING FROM OPERATIONS BEFORE GAIN ON RESTRUCTURING				1,586
Gain on restructure of local governments	26			<u>60,814</u>
CHANGE IN NET ASSETS RESULTING FROM OPERATIONS AFTER GAIN ON RESTRUCTURING				<u>62,400</u>

26. **Gain on Restructure of Local Governments**

The Municipality of UVW was constituted on 1 July 19X1 pursuant to an Order by the Governor in Council. By virtue of that Order, three local governments (City of ABC, Shire of DEF and Shire of GHI) were abolished and their assets and liabilities transferred to the Municipality of UVW at no charge. The assets and liabilities were initially recognised by the Municipality of UVW at the amounts at which they were recognised by the abolished local governments on 1 July 19X1 after making adjustments for inter-entity balances.

The gain on restructure of local governments is based on the following amounts at which the transferred assets and liabilities were initially recognised by the Municipality of UVW:

	City of ABC \$'000	Shire of DEF \$'000	Shire of GHI \$'000	Inter- entity Balances \$'000	Total \$'000
Assets					
<i>Current Assets</i>					
Receivables	300	200	500	(200)	800
Land held for resale	600	400	800		1,800
Investments	400	300	500		1,200
Other	<u>700</u>	<u>900</u>	<u>600</u>		<u>2,200</u>
	<u>2,000</u>	<u>1,800</u>	<u>2,400</u>	<u>(200)</u>	<u>6,000</u>
<i>Non-Current Assets</i>					
Land held for resale	400	600	500		1,500
Investments	600	900	800		2,300
Other	<u>29,000</u>	<u>33,500</u>	<u>30,514</u>		<u>93,014</u>
	<u>30,000</u>	<u>35,000</u>	<u>31,814</u>		<u>96,814</u>
	<u>32,000</u>	<u>36,800</u>	<u>34,214</u>	<u>(200)</u>	<u>102,814</u>
Liabilities					
<i>Current Liabilities</i>					
Bank overdraft	150	300	60		510
Creditors and provisions	400	600	800	(200)	1,600
Loans	<u>950</u>	<u>1,100</u>	<u>1,840</u>		<u>3,890</u>
	<u>1,500</u>	<u>2,000</u>	<u>2,700</u>	<u>(200)</u>	<u>6,000</u>
<i>Non-Current Liabilities</i>					
Creditors and provisions	300	400	200		900
Loans	<u>11,700</u>	<u>12,600</u>	<u>10,800</u>		<u>35,100</u>
	<u>12,000</u>	<u>13,000</u>	<u>11,000</u>		<u>36,000</u>
	<u>13,500</u>	<u>15,000</u>	<u>13,700</u>	<u>(200)</u>	<u>42,000</u>
Gain on restructure of local governments	<u>18,500</u>	<u>21,800</u>	<u>20,514</u>		<u>60,814</u>

FOOTNOTE

If the Municipality of UVW had recognised assets acquired from the abolished local governments initially at their fair values, the amounts disclosed for each class of assets would reflect those fair values, rather than the amounts at which they were recognised by the abolished local governments on 1 July 19X1.