TATIARA DISTRICT COUNCIL

ASSET CAPITALISATION

AND

MATERIALITY THRESHOLD

POLICY

1. PREAMBLE

An outlay of expenditure may meet the definition of an asset, in accordance with Accounting Standards, however it may not be recognized as an asset due to the small amount of outlay. This is because financial information should be presented in a manner that is meaningful and material.

There are certain record keeping requirements associated with assets. These requirements have a cost associated with them. Materiality thresholds are applied when deciding whether an asset should be recognized or expensed so that the expense or recording assets is balanced with the need to present financial information fairly.

2. PURPOSE

To set a monetary value for the capitalization (recording) and associated accounting treatment of/for non-current assets for the Tatiara District Council.

3. DEFINITIONS

Asset: An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

Class of assets: A group of assets of a similar nature and use in Council's operations.

Collective assets: Certain assets, or components of assets, are made up of collections of many individual items, each of which is individually below any reasonable capitalisation threshold. Assets which form part of a network or asset group such as desktop PCs; Kerb and watertable.

Materiality: Information is material if its omission, misstatement or non-disclosure has the potential, individually or collectively, to:

a) Influence the economic decisions of users taken on the basis of the financial statements; or
b) Affect the discharge of accountability by the management or governing body of the entity.

Expense: An expense is recognised immediately in the statement of comprehensive statement when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the balance sheet as an asset.

Materiality threshold: The amount at which items of expenditure will be recognised as assets in Council's Balance Sheet.

Depreciation: The systematic allocation of the depreciable amount of an asset over its useful life, or in other words, the allocation of the wearing out of the asset over its useful life.

4. SCOPE

This Policy is applied to Council's non-current assets that are referred to in AASB 116 Property, Plant and Equipment, these are:

Land
Buildings and Other Structures
Roads
Bridges
Footways
Sewerage – Effluent Drainage
Stormwater Drainage
Other Structures
Plant & Equipment
Other Community Assets

5. POLICY STATEMENT

Council is responsible for providing and maintaining many assets for the benefit of the community. These assets are of relatively high values. In order to manage these assets in a financially responsible manner, financial information must be presented in a manner that is useful in decision making.

The relevance of information is affected by its nature and materiality. Information is material if its omission or misstatement could influence the decisions of users or assessments made by users on the basis of the financial statements. Materiality depends on the nature and size of the item judged in the particular circumstances of its omission or misstatement.

Thus materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic that information must have it is to be useful. The concept of materiality leads to the recognition that, in the case of non-current assets, it is not necessary to recognize each and every non-current asset in the Balance Sheet. For example, a small calculator may have a useful life greater than 12 months, but its $45 cost in the context of millions of dollars of office equipment suggests it would be simpler to expense it. The same principal would be applied to a minor refurbishment of a non-current asset.

The purpose of setting a threshold is to minimize the expense and effort associated with maintaining accounting records. This must be balanced with the need to "expense" items, through depreciation, against more than one financial year so that the revenues and expenses are matched and the need to present financial information fairly.

Care needs to be taken to ensure that assets which may be under the threshold, but which form part of a collection or asset group and whose overall value is material are treated as a group.

When upgrade works are carried out as a project eg Public Convenience upgrade items such as painting that would traditionally be expensed will be capitalized as part of the project.

The capitalization process is achieved by recording the capital expenditure of assets into the fixed assets register and then into the balance sheet.

6. COMMUNITY ORGANISATIONS - ASSETS ON COUNCIL LAND

As is the practice in Local Government, many community and sport and recreation groups occupy land which is owned freehold by the Council or is under Council's Care and Control, with ownership retained by the Crown.
Many of these organisations erect buildings and structures on the said land. This built infrastructure is not owned or maintained by Council. It is acknowledged by the Tatiara District Council that ownership of infrastructure is retained by the relevant community organisation. It is a requirement that the community organisation remove all built infrastructure from the land at cessation of occupation.

The Tatiara District Council does not account for this infrastructure in its Asset Register and subsequently, does not account for depreciation in relation to it.

In the event that an organisation ceases to exist and does not remove its infrastructure as required under the lease or permit or subject to this Clause the Tatiara District Council will recognise the infrastructure in its Asset Register effective as at the date of cessation of occupation by the community organisation.

7. CAPITAL EXPENDITURE

General Capital Expenditure

Where the expenditure is above the capitalization threshold and is used to procure a new asset, upgrade the capability of the asset, extend the life of the asset, or restore the asset, the expenditure shall be capital expenditure. According to the Model Set of Financial Statements, expenditure that results in a new asset or an upgrade to an existing asset generally has to be separately disclosed. The corresponding budget is held in the Capital Budget.

Examples of capital expenditure include but are not limited to:

- Purchase / construction of infrastructure – (new capital)
- Purchase of land (new capital)
- Purchase / replacement of plant & equipment – (renewal capital)
- Replacement of roof or kitchen in a building – (renewal capital)

- Upgrade of air conditioning system to increase capacity to extend its life – (upgrade capital)
- Addition of building partitions or extensions – (upgrade capital)
- Upgrade drainage pipe size when replacing pipes (upgrade capital)

Collective Assets Capital Expenditure

Multiple non-current assets, which are taken to perform a whole service (see examples below) are classified as Collective assets. All expenditure on collective assets for purposes of procuring a new asset or upgrading the capability of the asset, extending the life or restoring the asset (ie expenditure that is capital in nature), is to be capitalized, whether or not the individual asset items exceed the capitalization threshold.

Collective assets are classified as follows:

- Roads and associated assets including kerb and watertable, streetscapes and footways. Includes expenditure on reseal or material overlay of roads.
- Drainage – underground culverts and pipe components. Includes expenditure for re-lining pipes
- Computer Equipment – including servers, desktops, laptops and printers.
- Communication equipment – servers.
- Other communication equipment such as smart phones, digital cameras, mobile phones are discussed in the section titled *Register of Small, valuable and portable items.*

Maintenance Expenditure

Where the expenditure is to ensure that an asset continues to operate at the current level of service until the end of its life, it is regarded as maintenance / operational expenditure and the corresponding budget held in the Operating Budget.

8. INITIAL RECOGNITION

All assets are initially recognised at cost.

Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including architects' fees and engineering design fees and all other costs incurred.

For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition.

The cost of non-current assets constructed by the Council includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

All non-current assets purchased or constructed are capitalised at year end but date of recognition is when ready to use and depreciation is calculated from this date. This does not include Land and Buildings.

9. COST MODEL

Following initial recognition as an asset the following classes shall be carried at cost, less accumulated depreciation, less accumulated impairment.

- major plant & equipment

10. REVALUATION MODEL

A desktop review of all other asset classes (that is, those that will not be carried at cost) will be carried out on an annual basis to ensure that the carrying values are not materially different from fair value.

For infrastructure and other asset classes where an active market exists, fair value is determined to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For infrastructure and other asset classes where no active market exists, fair value is determined to be the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

In relation to assets that are valued at fair value, three (3) levels of valuations apply:

- Level 1 - where there are identical assets in an active market (applies to shares and financial assets)
- Level 2 - identical assets in an active market (includes most freehold land and non-specialist buildings)
- Level 3 - unobservable inputs (e.g. land with significant restrictions, specialised buildings and structures. This includes most classes of assets owned by Council.)

11. CAPITALISATION THRESHOLDS

The Capitalisation Thresholds as contained in Note 1 of the Annual Financial Statements are as follows:

Asset Category	Asset Class	Asset Threshold	Useful Life (Years)	Measurement Model	Measurement Unit	Materiality	Revaluation Period
Land	Land		N/A	Revaluation		Major	Min 5

	Community						yearly
	Land Other		N/A	Revaluation		Major	Min 5 yearly
Buildings	Buildings	$5,000	20-100	Revaluation	Fair Value Level 2 or Level 3 Replacement Cost	Major	Min 5 yearly
	Other structures	$5,000	20-100	Revaluation	Fair Value Level 2 or Level 3 Replacement Cost	Major	Min 5 yearly
	Building / Structure (non replaced)	$5,000	20-100	Revaluation	Fair Value Level 2 or Level 3 Replacement Cost	Major	Min 5 yearly
Infrastructure	Roads Sealed	$10,000	17-80	Revaluation	Fair Value Level 3	Major	Min 5 yearly
	Roads Unsealed	$10,000	19-30	Revaluation	Fair Value Level 3	Major	Min 5 yearly
	Footpaths	$5,000	15-50	Revaluation	Fair Value Level 3	Major	Min 5 yearly
	Kerb & Gutter	$5,000	25-65	Revaluation	Fair Value Level 3	Major	Min 5 yearly
	Stormwater	$5,000	50-100	Revaluation	Fair Value Level 3	Minor	Min 5 yearly
	Bridges	$5,000	80-100	Revaluation	Fair Value level 3	Minor	Min 5 yearly
	CWMS	$5,000	15-100	Revaluation	Fair Value Level 3	Major	Min 5 yearly
	Parks & Gardens	$5,000	10-100	Revaluation	Fair Value Level 3	Minor	Min 5 yearly
Plant & Equipment	Plant & Equipment	$5,000	2-60	Cost	Fair Value Level 2	Major	N/A

Library books, IT equipment and office furniture are not depreciated as they are considered to be immaterial.

12. REGISTER OF SMALL, VALUABLE, PORTABLE ITEMS

Some items have a low value and therefore it is not efficient to include them on an asset register which requires all asset accounting entries, including depreciation, to be undertaken. These items will be included on a register to safeguard Council's assets. This register will include details such as where the asset is located, who is the officer responsible for the asset and the purchase and disposal date of the asset.

The register would be kept for, but not limited to, the following asset groups:

- Minor Plant – items under $5,000

- Cameras
- IT Equipment
- Mobile Phones
- Office Furniture

13. RESPONSIBLE POSITION / DEPARTMENT

The Chief Executive Officer has overall responsibility for ensuring that procurement and capitalization of all assets is in accordance with the Local Government Act, Australian Accounting Standards and Council Policies.

The Senior Management Group are responsible implementing the Asset Capitalisation and Materiality Thresholds Policy.

The Finance Manager is responsible for ensuring the asset registers are complete for the preparation of the Annual Financial Statements.

The Director Development & Environmental Services is responsible for maintaining an asset register of Land, Buildings and Other Structures. (ie. Cemeteries, Airfields)

The Asset Manager is responsible for maintaining an asset register of Infrastructure assets including Transport Assets, CWMS network, Stormwater, Parks and Gardens, and Plant & Equipment.

14. FURTHER INFORMATION

This policy will be available for inspection at the Council offices listed below during ordinary business hours and available to be downloaded, free of charge, from Council's
internet site: www.tatiara.sa.gov.au

43 Woolshed Street Bordertown, SA 5268
34 Hender Street Keith SA 5267

15. POLICY REVIEW

This policy may be amended at any time but must be reviewed on an annual basis.

RECORD OF AMENDMENTS

DATE	REVISION NO	REASON FOR AMENDMENT
9th October 2012	Rev: 00	Original Issue Draft
9th October 2012	Rev: 01	Adopted by Council Res: 205
12th May 2015	Rev: 02	Adopted by Council Res: 290
14th June 2016	Rev: 03	Revised policy
9 October 2018	Rev: 04	Reviewed policy