



Regional Services Division

23 April 2010

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Local Government Bulletin

Tropical Council illustrative financial statements for 2009–10

Purpose

The purpose of this bulletin is to advise local governments:

- that Illustrative Financial Statements for councils (Tropical) for the year ending 30 June 2010 has been released; and
- about the changes to Tropical.

Background

Local Governments are required to prepare audited annual financial statements that comply with local government legislation and the Australian Accounting Standards. To assist with this, the Department of Infrastructure and Planning prepares a set of example annual financial statements each year. The statements, commonly referred to as 'Tropical', are updated each year to reflect new and amended Australian Accounting Standards and other legislative requirements.

Applicable legislation

The new *Local Government Act 2009* and accompanying Regulations will be adopted from 1 July 2010 and will not apply to the 2009–10 financial year. Instead, the current suite of local government legislation applies to the preparation of the 2009-10 financial statements.

Changes to Tropical in 2009–10

A significant revision of Tropical has occurred for 2009–10. This includes:

- the development of one version of Tropical for all councils compared to three in 2008–09 for Aboriginal shire councils, new regional councils and continuing councils. The 2009–10 version has customised disclosures to accommodate the different types of councils
- updating Tropical for new and amended Australian Accounting Standards
- incorporating feedback received from the Queensland Audit Office
- improvements to the layout, format and wording of Tropical
- clarification of mandatory versus optional disclosures
- updated and expanded references to Australian Accounting Standards, and
- additional commentary to assist users.

As a consequence many parts of Tropical have changed. It is therefore recommended that councils review the entire Tropical document to be aware of all the changes.

The attached appendix provides a summary of the significant changes to Tropical for 2009–10. The appendix has been separated into changes as a result of new and amended Australian Accounting Standards and other significant changes.



Requirements for Aboriginal shire councils

Local government legislation requires Aboriginal shire councils to prepare financial statements in a form approved under Section 37 of the *Local Government (Community Government Areas) Act 2004*. For 2009–10 the prescribed form for Aboriginal shire councils will be special purpose financial statements which comply with all Australian Accounting Standards except for:

- AASB 1 *First time Adoption of Australian Accounting Standards*, and
- Paragraph 10(f) of AASB 101 *Presentation of Financial Statements*.

However the prescribed form allows those Aboriginal shire councils who are ready to prepare financial statements that fully comply with all relevant Australian Accounting Standards to do so, rather than waiting until 2010–11 when this will be mandated in the new local government legislation. More information on this issue will be provided in a separate Bulletin.

Communication and training

The Tropical Council illustrative financial statements are available on the department's website.

Further communication/assistance is being provided through a series of workshops throughout Queensland in May 2010. The purpose of the workshops will be to provide an update on financial reporting requirements for 2009–2010 and will include the Tropical illustrative financial statements. The sessions will be aimed at officers in local government who are responsible for preparing council annual financial statements. The workshops will cover:

- significant changes to Australian Accounting Standards;
- changes to the Tropical illustrative annual financial statements; and
- new and emerging accounting issues.

Statutory deadlines

As you would be aware, local government legislation requires that councils must submit financial statements to the Auditor-General for auditing as soon as practicable after the end of the financial year and no later than **15 September**. In addition, Section 531 of the *Local Government Act 1993* requires that the annual report be presented to the council for adoption before **30 November**.

Further information

Tropical 2009–10 can be accessed on the department website www.dip.qld.gov.au/lgreports.

Any further enquiries on this matter should be referred to the department:

Email: lgenquiries@dip.qld.gov.au

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The Department's postal address is:
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All recent Local Government Bulletins issued by the department are available on our website www.dip.qld.gov.au/lgbulletin.

You can also subscribe free of charge on the department's website to receive Bulletins by email.

Peta Jamieson
Executive Director
Regional Services and Planning



			<ul style="list-style-type: none"> Fin posn worksheet
Area	Previously in Tropical	What's new	
A.2	Financial instruments (AASB 7 <i>Financial Instruments: Disclosures</i>)	Disclosed in Note 1 and in a financial instruments note	<p>The following changes have been made to accommodate changes to AASB 7:</p> <ul style="list-style-type: none"> Note 1.J - Added "Tropical Council does not recognise financial assets or financial liabilities at fair value in the Statement of Financial Position" to address new requirements of AASB 7 Note 1.J - Added "Amendments to para 27 of AASB 101 which apply in 2009-10 require that if there has been a change in a valuation technique, the entity shall disclose that change and the reasons for making it" to address amendments to AASB 7.27(a) Note 39 - Changed liquidity risk disclosures from "Liquidity risk refers to the situation where the Council may encounter difficulty in meeting obligations associated with financial liabilities" to "Liquidity risk refers to the situation where the Council may encounter difficulty in meeting obligations associated with financial liabilities <u>that are settled by delivering cash or another financial asset</u>" to incorporate amendments in AASB 2009-2 Note 39- Added to liquidity risk disclosures that "The outflows in the above table are not expected to occur significantly earlier and are not expected to be for significantly different amounts than indicated in the table" to address requirements in AASB 7.10A. <p>AASB 7 now requires that where a council recognises financial assets or liabilities at fair value in the Statement of Financial Position, additional disclosures need to be provided which classify the fair values according to a hierarchy that reflects the significance of the inputs used in making these measurements. Example disclosures have been added to Note 39.</p> <p>Tropical references:</p> <ul style="list-style-type: none"> Note 1.J Financial assets and financial liabilities Note 39 Financial instruments
A.3	Accounting for investment property (AASB 140 <i>Investment Property</i>)	Previously property being constructed or developed for further use was classified as work in progress or property, plant and equipment	<p>From 2009-10 property that is being constructed or developed for future use as investment property is now classified as Investment property. Investment property under construction is measured at fair value, unless fair value cannot be reliably determined for an individual property (in which case the property concerned is measured at cost until fair value can be reliably determined).</p> <p>The wording in Note 1.Q and 17 of Tropical have been amended to address this change.</p> <p>Tropical references:</p> <ul style="list-style-type: none"> Note 1. Q Investment property Note 17 Investment property
Area	Previously in Tropical	What's new	



A.4	Terminology (AASB 2009-6 and AASB 2007-10)	Terminology used was "revaluation reserve", "general purpose financial report" and "financial report"	<p>The following changes to terminology have occurred due to AASB 2009-6 and AASB 2007-10 as follows:</p> <ul style="list-style-type: none"> • "asset revaluation reserve" changed to "asset revaluation surplus" • "general purpose financial report" changed to "general purpose financial statements" • "financial report" changed to "financial statements".
A.5	Borrowing costs (AASB 123 <i>Borrowing Costs</i>)	Note 1 disclosed policy on accounting for borrowing costs on qualifying assets	<p>Changes to AASB 123 as a consequence of AASB 2007-6 had meant that borrowing costs on qualifying assets would need to be capitalised. However AASB 2009-1 has since been issued which reintroduces the option for not-for-profit entities such as local governments to expense borrowing costs on qualifying assets in the period in which they are incurred. This thereby allows an entity to choose whether it expenses or capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.</p> <p>The wording in Note 1.Y of Tropical has been amended to complement this change.</p> <p>Tropical references:</p> <ul style="list-style-type: none"> • Note 1.Y Borrowings costs
A.6	Standards and Interpretations in issue but not yet effective		<p>Note 1.G of Tropical provides an overview of new standards which may have an impact on council in the future i.e. AASB 9 <i>Financial Instruments</i> and 2009-11 <i>Amendments to Australian Accounting Standards arising from AASB 9</i> and AASB 2009-5 <i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>.</p> <p>This is not an exhaustive list and each council should assess the impact of all new standards and interpretations.</p> <p>Tropical references:</p> <ul style="list-style-type: none"> • Note 1.G Adoption of new and revised Accounting Standards



Part B—Other significant changes

Area		Previously in Tropical	What's new
B.1	Format and layout of Tropical		<p>Tropical has been updated so:</p> <ul style="list-style-type: none"> - there are consistent fonts and page lay-outs - there is consistent terminology - pages have been set-up ready for users to print. <p>Notes have been reformatted and reordered.</p>
Area		Previously in Tropical	What's new
B.2	Commentary	Non-printable guidance notes included in Tropical	<p>Printable commentary sections have been added through out Tropical (shaded in blue) in order to:</p> <ul style="list-style-type: none"> • provide guidance on the applicability and use of Tropical • provide information on new or amended accounting standards • provide additional guidance or explanations to assist councils prepare financial statements • highlight issues or disclosures which are relevant only to certain types of councils e.g. new regional councils. <p>Tropical references:</p> <ul style="list-style-type: none"> • Sections shaded in blue
B.3	Source references	Source references (e.g. Australian Accounting Standards, local government legislation) included in the left-hand columns of Tropical	<p>References to Australian Accounting Standards and legislation have been expanded and updated so councils can source the legislative requirements for recognition, measurement &/or disclosure of information in the financial statements.</p> <p>Tropical references:</p> <ul style="list-style-type: none"> • Source Reference column
B.4	Optional versus mandatory disclosures	No distinction between mandatory versus optional disclosures	<p>Some disclosures in previous versions of Tropical were not required under local government legislation or Australian Accounting Standards, but were considered useful and relevant disclosures for Queensland local governments. These disclosures are now marked as "Not mandatory" in the Source Reference column so that councils can use their discretion as to whether these disclosures will be made in their financial statements e.g. unfunded depreciation, shire capital.</p> <p>Tropical references:</p> <ul style="list-style-type: none"> • Source Reference column
B.5	All of Tropical	Three Tropicals in 2008-09 – new regional councils, Aboriginal shire councils and continuing councils	<p>One Tropical for 2009-10 has been developed which can be used by all Queensland local governments.</p> <p>Where there are disclosures relevant only to certain councils this has been highlighted in Tropical.</p> <p>Wording in some notes has changed so the notes can</p>



			<p>be customised to suit different councils e.g. Note 3(a) Rates, levies and charges.</p> <p>A separate worksheet has been included in Tropical to assist new regional councils customise Tropical 09-10.</p> <p>Tropical references:</p> <ul style="list-style-type: none"> • All of Tropical • “New council checklist” worksheet
Area		Previously in Tropical	What’s new
B.6	All notes to accounts including Note 1		<p>The wording of notes has been updated to improve relevance and understandability, eliminate duplicate or unnecessary disclosures and ensure they comply with current accounting standards.</p> <p>Tropical references:</p> <ul style="list-style-type: none"> • Note 1 Significant accounting policies • Other notes to accounts
B.7	Statement of Comprehensive Income	Detailed breakdown of income and expenses in the Income Statement	The income and expense line items on the Statement of Comprehensive Income have reduced and some terminology has changed in order to improve disclosures.
B.8	Statement of Comprehensive Income	Separate headings for capital and recurrent income and expenses	The use of capital and recurrent income and expenses categorisation is included in Tropical but is optional, as it is not covered in current or new local government legislation or in Australian Accounting Standards.
B.9	Unfunded depreciation; Shire Capital	Disclosed in Tropical	<p>The disclosure of unfunded depreciation and shire capital is now optional as they not covered in current or new local government legislation or in Australian Accounting Standards. They will be phased out of 2010/11 Tropical.</p> <p>Tropical references:</p> <ul style="list-style-type: none"> • Note 1.R Property, plant and equipment • Note 9 Depreciation and amortisation • Note xx Shire capital
B.10	Accounting for non-reciprocal grants	Note 1 disclosed grant accounting policies	<p>Additional guidance has been included in Tropical on accounting for grants in accordance with AASB 1004 <i>Contributions</i>.</p> <p>Tropical references:</p> <ul style="list-style-type: none"> • Note 1.I has additional commentary to clarify how non-reciprocal grants should be accounted for and disclosed under AASB 1004 • Note 1.AC has an unspent capital grants reserve (this is not mandatory) which has been included to demonstrate accounting for non-reciprocal grants • Note 28 provides an example of how unspent non-reciprocal grants are transferred to and from reserves.
B.11	Work in progress (WIP)	WIP disclosed as a	Given that WIP falls within the definition of property,



		separate note	<p>plant and equipment in AASB 116 <i>Property, Plant and Equipment</i>, on the Queensland Audit Office's suggestion it has now been included as part of Note 18 Property, plant and equipment.</p> <p>Tropical references:</p> <ul style="list-style-type: none"> Note 18 Property, plant and equipment
Area		Previously in Tropical	What's new
B.12	Property plant and equipment	Information on valuer and valuation basis disclosed in property, plant and equipment note	<p>Additional commentary has been added on the requirements of AASB116 <i>Property, Plant and Equipment</i> paragraph 77(c) which requires that the methods and significant assumptions used in estimating fair value be disclosed. This is not a new AASB requirement but has been highlighted by the Queensland Audit Office.</p> <p>Tropical references: Note 18 Property, plant and equipment</p>
B.13	Trade and other payables	Guidance provided on how to classify employee benefits as current and non-current	<p>Additional commentary has been added to assist councils in determining the current / non-current split of employee benefits.</p> <p>Tropical references: Note 20 Trade and other payables</p>
B.14	Financial instruments	Financial instrument note included with disclosures on a consolidated basis	<p>A number of changes have been made to financial instruments disclosures in Note 1.J and Note 39:</p> <ul style="list-style-type: none"> the wording of the notes have been revised to improve disclosures and reflect accounting standard requirements commentary has been added clarifying that the amounts disclosed in Note 39 need to be both on a consolidated and council basis. This is not a new AASB requirement the items and amounts disclosed in the tables in Note 39 have been updated in line with the accounting standards. <p>Tropical references: Note 1.J Financial assets and financial liabilities Note 39 Financial instruments</p>
B.15	Tied grants by project	Tied grants by projects note only included in Tropical for Aboriginal shire councils	<p>An optional note has been added (Note 41) which discloses tied grants by project in order to assist those councils, such as Aboriginal shire councils, who choose to include these disclosures in their annual financial statements.</p> <p>Tropical references: Note 41 Tied grants by project</p>