

nhulunbuy corporation

FM02 ASSETS - CAPITALISATION AND DEPRECIATION POLICY

Title	Assets – Capitalisation and Depreciation Policy
Policy Number	FM02
Type	Financial Management
Owner	Finance Business Partner
Responsible Officer	Finance Officers
Approval date	23 February 2018
Review date	December 2019

1. Purpose

This policy is to set a formal policy for the recognising of infrastructure assets and to set a threshold monetary value for the capitalisation (recording) of Non-Current Assets and the depreciation rates to be applied for the Nhulunbuy Corporation Ltd (NCL). Policy also deals with impairment and disposal of Assets.

2. Policy Objective

The majority of the Corporation's infrastructure assets that are recorded on the fixed asset register are located on land for which the Corporation has no formal tenure. This is because the Town Management Agreement (TMA) and Gove Aerodrome Agreement (GAA) with Swiss Aluminium Australia Ltd (SAAL) and Gove Aluminium Limited (GAL) do not clearly define ownership of assets located on this land.

The previous informal policy in this regard was that assets are only capitalised where they have been acquired or constructed on "community purpose land" (as opposed to land owned by Rio Tinto Gove Operations).

Where the expenditure was above the respective capitalisation threshold and was used to procure a new asset, upgrade the capability of the asset, extend the life of the asset, or restore the asset, the expenditure was treated as capital expenditure providing the asset was constructed on "community purpose land".

Related Policies/Procedures

FM01 Procurement Policy

CO01 Code of Conduct Policy

Purchasing Procedures

3. Scope

This Policy applies to the Corporation's non-current assets that are referred to in AASB 116 Property, Plant and Equipment. Broadly speaking, these include the following asset classes of the Corporation:

- Building and infrastructure
- Furniture and fittings
- Motor vehicles
- Office equipment
- Plant and equipment

- Sundry equipment
- TV and radio equipment

4. Definition of Property, Plant and Equipment

Property, plant and equipment is defined in AASB 116 Property, plant and equipment as tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period. In terms of the Framework and AASB 116, assets are only to be recognized when a) it is probable that future economic benefits will eventuate; and b) the asset possesses a cost or other value that can be measured reliably.

Non-Current Assets are often made up of significant components that are individually capitalised if they have different estimated useful lives (as they depreciate at different rates). For example, a swimming pool complex can be made up of buildings, barbecue, park equipment, filtration/pump system, grandstand seating. Each significant component would be regarded as a Non-Current Asset and capitalised as such.

5. Recognition of Assets (General)

On initial recognition of an asset that meets the definition of property, plant and equipment, all costs incurred in purchasing or constructing the asset and getting it ready for use are capitalized to the value of the asset. The following costs are included in the cost of an item of property, plant and equipment:

The purchase price, including any import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended;

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, where that obligation is recognized and measured in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

Costs incurred subsequent to initial recognition that do not meet the criteria for recognition as an asset are expensed as repairs and maintenance as incurred.

6. Assets Constructed on "Community Purpose Land"

Infrastructure constructed or restored on Special Purpose Lease (SPL) 250 and SPL214 include the following, and are capitalised as an asset:

- Water reticulation - replacement water main pipes; fluoridation plant.
- Sewerage reticulation - new/relined sewerage main pipes; pumping stations; sewerage ponds, pumps and generators
- Roads and carparks - new, re-constructed/sealed; resurfacing pavement >500m² and road widening/kerbing
- Footpath & lighting - new and replacement
- Recreation facilities - facilities constructed by the Corporation on land zoned COMMUNITY PURPOSE, ORGANISED RECREATION or OPEN SPACE. Excludes asset owned by SAAL & GAL. Airport (SML11) - new assets only are capitalised; all renewal and upgrade of existing assets to be expensed i.e. runway reseal

The Corporation has leasehold tenure of the Waste Facility and Mt Saunders site with the

Northern Land Council (NLC). Any leasehold improvements are depreciated over the shorter of the assets' useful lives and the remaining lease term.

7. Capitalisation Threshold and Depreciation Method/Rate

The capitalisation threshold and depreciation rates for Non-Current Asset Classes are set as follows:

Asset Class	Capitalisation Threshold	Depreciation Rate	Useful Life (yrs)
Buildings and capital works	\$5,000	5%	20
- Sewerage pumping stations	\$5,000	20%	5
- Roads, carparks, stormwater & footpaths	\$5,000	10%	10
- Fencing	\$5,000	20%	5
- Shade cloth structures	\$5,000	20%	5
- Colorbond or aluminium structures	\$5,000	10%	10
- Reticulation systems	\$5,000	25%	4
- Playground equipment	\$5,000	20%	5
- Lighting	\$5,000	10%	10
Furniture and fittings	\$2,500	40%	3
Motor vehicles	\$5,000	15%	6
Heavy Plant and equipment	\$5,000	8%	12
Minor equipment	\$5,000	40%	3
TV and radio equipment	\$5,000	25%	4

All asset classes are depreciated based on the diminishing value method, net of the individual assets' residual values (Motor Vehicles and Heavy Plant and Equipment only), over their estimated useful lives.

8. Asset Stock Take/Impairment

All Non-current assets shall be reviewed in full every 3 years. For alternative years, 85% of Written Down Value to be reviewed. All assets must be physically verified, and management valuation determined (market value or depreciated replacement cost) and checked against carrying values of the Non-Current Asset in the asset register. Any obsolescence/disposal is to be reported to the Chief Executive Officer and impairment identified should be presented to the Board of Directors for consideration and adjusted accordingly in the accounts.

9. Disposal of Assets

With respect to assets, the Chief Executive Officer has delegated authority to approve disposal of assets and materials that are surplus to requirements. At all times, surplus assets or materials should be disposed of in a way that maximises returns whilst ensuring open and effective competition. No warranty is to be offered on assets sold.

As a general principle, sale of assets to staff is NOT to occur outside of a public process. However, it is recognised that there will be individual instances where sale to a staff member may be the most practical or fair and reasonable manner of disposal. In these instances, authority for disposal will rest with the Board of Directors. All decisions and the reasons for the decisions must be documented.

A decision to dispose of an asset may be based on one or more of the following:

- Obsolescence
- Non-compliance with occupational health and safety standards
- No usage in the previous 12 months
- Optimum time to maximise return
- Discovery of hazardous chemicals or materials present in the asset
- Uneconomical to repair

Prior to assets being sold a check must be carried out to ensure assets do not contain: additional items not intended for sale; confidential documents (records, files, papers); documents on the Corporation letterhead or which may be used for fraudulent purpose; software and hazardous materials.

The principal methods of disposing of assets are:

- Expression of Interests/Quotations - the Corporation may determine to dispose of items by advertising for expressions of interest or quotations where: the items are of low value; the costs of disposal are disproportionate to the expected returns; or there is very limited interest
- Trade in - trading in surplus goods can be an efficient means of disposal, and a convenient way to upgrade equipment such as plant. Any decision to trade-in surplus goods must be based on a clear analysis of the benefits of the trade-in as opposed to separate sale of the surplus goods
- Donation to Charities or Community Groups – low value assets and scrap materials which are unsuitable for Corporation projects with a cumulative value of less than \$2,000 may be donated to Charities or Community Groups. The charity/community group must remove the asset themselves and at no cost to the Corporation
- Writing off the Value of the Goods (Recycling or Destruction) - the value of an item may be written off and the item recycled or destroyed if it is deemed obsolete or uneconomical to repair
- Sale of major assets - where assets of significant value (being more than \$15,000 excl. GST) are to be sold, Board of Directors approval must be obtained

10. Review process

This policy will be reviewed every two years in December.

Date 22/02/18	Director (Name) Kyle Murray	Signature 
Chief Executive Officer (Name) Adam Seiler		Signature 