



# Shire of Derby / West Kimberley

## SIGNIFICANT ACCOUNTING POLICY

### POLICY STATEMENT

To provide a framework to ensure the Shire's financial information is reported to Council with consistent application of Australian Accounting Standards, and in compliance with statutory requirements under the *Local Government Act 1995*, and the *Local Government (Financial Management) Regulations 1996*.

The significant accounting policies which have been adopted in the preparation of financial statements are:

#### 1. Basis of Preparation

The financial report comprises a general purpose financial statement which have been prepared in accordance with Australian Accounting Standards (as they apply to local governments and not for profit entities and to the extent they are not in-consistent with the *Local Government Act 1995* and accompanying regulations), Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, the *Local Government Act 1995* and accompanying regulations. Accounting policies which have been adopted in the preparation of this financial report have been consistently applied unless stated.

#### 2. Critical Accounting Estimates

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances; the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

#### 3. The Local Government Reporting Entity

All funds through which the Shire controls resources to carry on its functions have been included in the financial statements forming part of the financial reports (annual, monthly and budget).

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.

All monies held in the trust fund are excluded from financial statements.

#### 4. Land Under Roads

In Western Australia, all land under roads is Crown Land, the responsibility of managing which, is vested in the local government.

Effective as at 1 July 2008, Council elected not to recognise any value for land under roads acquired on or before 30 June 2008. This accords with the treatment available in Australian Accounting Standard AASB1051 Land Under Roads and the fact the *Local Government (Financial Management) Regulations 1996* 16(a)(i) prohibits local governments from recognising such land as an asset.



# Shire of Derby / West Kimberley

While such treatment is inconsistent with the requirements of AASB 1051, *Local Government (Financial Management) Regulation 4(2)* provides, in the event of such an inconsistency, the *Local Government (Financial Management) Regulations 1996* prevail.

Consequently, any land under roads acquired on or after 1 July 2008 is not included as an asset of the Shire.

## 5. **Grants, Donations and Other Contributions**

Grants, donations and other contributions are recognised as revenues when the local government obtains control over the assets comprising the contributions.

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 the Notes to the financial statements. 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 period.

## 6. **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, cash at bank, deposits available on demand with banks and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are reported as short-term borrowings in current liabilities in the statement of financial position.

## 7. **Classification and Subsequent Measurement**

Financial assets at fair value through profit and loss are classified as "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss. Assets in this category are classified as current assets.

### 7.1 **Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed maturities and fixed or determinable payments that the Shire has the position intention and ability to hold to maturity. They are subsequently measured at an amortised cost. Gains or losses are recognised in profit or loss.

Held-to-maturity investments are included in current assets, where they are expected to mature within 12 months after the end of the reporting period. All other investments are classified as non-current.

### 7.2 **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (i.e. gains or losses) recognised in other comprehensive income (except for impairment losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.



# Shire of Derby / West Kimberley

## 7.3 Impairment

A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a “loss event”) having occurred, which will have an impact on the estimated future cash flows of the financial asset(s).

Available-for-sale financial assets are included in current assets, where they are expected to be sold within twelve months after the end of the reporting period. All other available-for-sale financial assets are classified as non-current.

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

## 7.4 Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Shire becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Shire commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified ‘at fair value through profit or loss’, in which case transaction costs are expensed to profit or loss immediately.

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or at cost.

Amortised cost is calculated as:

- The amount in which the financial asset or financial liability is measured at initial recognition;
- Less principal repayments and any reduction for impairment; and
- Plus, or minus the cumulative amortisation of the difference, (if any), between the amount initially recognised and maturity amount calculated using the effective interest rate method.

The effective interest rate method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life



# Shire of Derby / West Kimberley

(or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

## 7.5 **Derecognition**

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the Shire no longer has any significant continual involvement in the risks and benefits associated with the asset.

## 8. **Trade and Other Receivables**

Trade and other receivables include amounts due from ratepayers for unpaid rates and service charges and other amounts due from third parties for goods sold and services performed in the ordinary course of business.

Receivables expected to be collected within twelve months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that they will not be collectible.

### 8.1 **Classification and subsequent measurement**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

Loans and receivables are included in current assets where they are expected to mature within twelve months after the end of the reporting period.

## 9. **Inventories**

Inventories are valued at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## 10. **Land Held for Resale**

Land held for development and resale is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition, development, borrowing costs and holding costs until completion of development. Interest and holding charges incurred after development is complete are recognised as expenses.

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

Land held for resale is classified as current except where it is held as non-current based on the Council's intentions to release for sale.



# Shire of Derby / West Kimberley

## **11. Fixed Assets**

Each class of fixed assets within either property, plant and equipment or infrastructure, is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

*Initial recognition and measurement between mandatory revaluation dates.*

All assets are initially recognised at cost and subsequently revalued in accordance with the mandatory measurement framework.

In relation to this initial measurement, cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition. 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 Shire includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

Individual assets acquired between initial recognition and the next revaluation of the asset class in accordance with the mandatory measurement framework, are recognised at cost and disclosed as being at fair value as management believes cost approximates fair value. They are subject to subsequent revaluation at the next anniversary date in accordance with the mandatory measurement framework.

### **11.1 Revaluation**

The fair value of fixed assets is determined at least every five years in accordance with the regulatory framework. At the end of each period the valuation is reviewed and where appropriate the fair value is updated to reflect current market conditions. This process is considered to be in accordance with *Local Government (Financial Management) Regulations 2016 17A (2)* which requires property, plant and equipment to be shown at fair value.

Increases in the carrying amount arising on revaluation of assets are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same class of asset are recognised against revaluation surplus directly in equity. All other decreases are recognised in profit or loss.

## **12. Capitalisation and Depreciation of Non-Current Assets**

The Shire will establish a capitalisation threshold, which represents the minimum cost at which an item will be capitalised as a fixed asset. The capitalisation threshold is determined based on materiality, significance, and financial reporting requirements. The threshold will be periodically reviewed and adjusted if necessary to reflect changes in economic conditions, industry practices, or relevant regulations.

The depreciable amount of all fixed assets including buildings but excluding freehold land and vested land, are depreciated, on a straight-line basis over the asset's useful life from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful life of the improvements.



# Shire of Derby / West Kimberley

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

- a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after considering accumulated impairment losses; or
- b) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset; or
- c) Assets acquired after the revaluation date will be depreciated at the same rate as determined in the revaluation.

#### Capitalisation Thresholds and Depreciation rates

Major depreciation periods and thresholds used for each class of depreciable asset are:

Asset Class	Description (Asset Sub-Class)	Depreciation Period	Threshold
Buildings	Offices, residential, community centres, sports clubs, amenities, stadiums, health centres, commercial premises, public halls, depot sheds.	30 to 80 years.	\$10,000
Open Space and Recreation	Sports fields, courts, irrigation systems, retaining walls, street/park furniture, monuments, lighting, playgrounds, recreation equipment, signs, bins.	10 to 100 years	\$10,000
	Minor structures, including garden sheds, bus shelters, coaches' boxes, kiosks, barbecue shelters, equipment shelters, etc.	10 to 30 years	\$5,000
Roads	Sealed Road Surface	14 to 22 years	\$10,000
	Sealed Road Pavement	75 years	\$10,000
	Concrete Road Pavement	85 years	\$10,000
	Unsealed Road Pavement	25 years	\$10,000
	Road Formation	N/A	\$10,000
	Kerb and Channel	80 years	\$5,000
Off Street Carparks	Sealed carparks	75 to 85 years	\$10,000
	Unsealed carparks	25 years	\$10,000



# Shire of Derby / West Kimberley

Asset Class	Description (Asset Sub-Class)	Depreciation Period	Threshold
Bridges	Road Bridges	60 to 100 years	\$20,000
	Pedestrian bridges	60 to 100 years	\$10,000
	Major culverts	60 to 100 years	\$20,000
Footpaths and cycle ways	Footpaths and cycle paths	10 to 80 years	\$10,000
Drainage	Drainage pipes	100 years	\$10,000
	Drainage pits	100 years	\$10,000
	Minor culverts	100 years	\$10,000
	Retardation basins	100 years	\$10,000
Plant, machinery and equipment	Heavy plant	10 to 20 years	\$5,000
	Vehicles	2 to 7 years	\$5,000
	Minor plant	2 to 5 years	\$5,000
Fixtures, fittings and furniture	Furniture and office equipment	1 to 20 years	\$5,000
	Computer hardware and telecommunications	3 years	\$5,000
IT software	IT software	2 to 5 years	\$20,000

Grouped assets over \$5,000 will be added to the asset register. Individual assets under \$5,000 will be added to the portable and attractive asset register. Processes and controls will be implemented to verify the existence of portable and attractive assets, including regular stocktakes for inventory reconciliation and an annual audit of these assets.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income in the period in which they arise. Disposal forms are filled in and approved by the relevant officer, and records of the asset's disposal, including the method and date.



# Shire of Derby / West Kimberley

## **13. Trade and Other Payables**

Trade and other payables represent liabilities for goods and services provided to the Shire prior to the end of the financial year that are unpaid and arise when the Shire becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured, are recognised as a current liability and are normally paid within 30 days of recognition.

## **14. Loans and Receivables**

### *Financial liabilities*

Financial liabilities are recognised at fair value when the Shire becomes a party to the contractual provisions to the instrument.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

Financial liabilities are derecognised where the related obligations are discharged, canceled or expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer or non-cash assets or liabilities assumed, is recognised in profit or loss.

## **15. Borrowing Costs**

Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset. Where this is the case, they are capitalised as part of the cost of the particular asset until such time as the asset is substantial ready for its intended use or sale.

### *Provisions*

Provisions are recognised when: The Council has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

## **16. Employee Entitlements**

### *Leave Entitlements*

#### Annual Leave and Long Service Leave (Short term employee benefits)

Provision is made for the Shire's obligations for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Shire's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position.



# Shire of Derby / West Kimberley

## Long Service Leave (Long term employee benefits)

The Shire's obligations for employees' long service leave entitlements are recognised as provisions in the statement of financial position.

Long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Excepted future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any re-measurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit and loss in the periods which the changes occur.

The Shire's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Shire does not have an unconditional right to defer settlement for at least twelve months after the end of the reporting period, in which case the obligations are presented as current provisions.

## Superannuation

The Shire contributes to a number of superannuation funds on behalf of employees. All funds to which the Shire contributes are defined contribution plans.

## **17. Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not legal ownership, are transferred to the Shire, are classified as finance leases.

Finance leases are capitalised recording an asset and a liability at the lower of the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimate's useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

## **18. Interests in Joint Arrangements**

Joint arrangements represent the contractual sharing of control between parties in a business venture where unanimous decisions about relevant activities are required.

Separate joint arrangements providing joint ventures with an interest in net assets are classified as a joint venture and accounted for using the equity method. Refer to note 20 for a description of the equity method of accounting.

Joint operations represent arrangements whereby joint operators maintain direct interests in each asset and exposure to each liability of the arrangement. The Shire's interests in the assets, liabilities, revenue and expenses of joint operations are included in the respective line items or the financial statements.



# Shire of Derby / West Kimberley

## **19. Investment in Associates**

An associate is an entity over which the Shire has significant influence. Significant influence is the power to participate in the financial operating policy decisions of that entity but is not control or joint control of those policies. Investment in associates are accounted for in the financial statements by applying the equity method of accounting, whereby the investment is initially recognised at cost and adjusted thereafter for the post- acquisition change in the Shire's share of net assets of the associate. In addition, the Shire's share of the profit or loss of the associate is induced in the Shire's profit or loss.

The carrying amount of the investment includes, where applicable, goodwill relating to the associate. Any discount or acquisition, whereby the Shire's share of the net fair value of the associate exceeds the cost of investment, is recognised in profit or loss in the period in which the investment is acquired. Profits and losses resulting from the transactions between the Shire and the associate are eliminated to the extent of the Shire's interest in the associate. When the Shire's share of losses in an associate equal or exceeds its interest in the associate the Shire continues recognising its share of further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate. When the associate subsequently makes profits, the Shire will resume recognising its share of those profits once its share of the profits equals the share of the losses not recognised.

## **20. Rates**

Control over assets and acquired from rates is obtained at the commencement of the rating period or, where earlier, upon receipt of the rates.

All rates are levied under the *Local Government Act 1995*. This includes general, differential, specified area rates, minimum rates, interim rates, back rates, ex-gratia rates, less discounts and concessions offered. Excludes administration fees, interest on instalments, interest on arrears, service charges and sewerage rates.

## **21. Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows.

## **22. Current and Non-Current Classification**

The asset or liability is classified as current if it is expected to be settled within the next twelve months, being the Shire's operational cycle. In the case of liabilities where the Shire does not have the unconditional right to defer settlement beyond twelve months, such as vested long service leave, the liabilities classified as current even if not expected to be settled within the next twelve months. Inventories held for trading are classified as current or non-current based on the Shire's intentions to release for sale.

## **23. Rounding Off Figures**

All figures shown in this annual financial report, other than a rate in the dollar, are rounded to the nearest dollar. Amounts are presented in Australian Dollars.



# Shire of Derby / West Kimberley

## **24. Comparative Figures**

Where required, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

When the Shire applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements that has material effect on the statement of financial position an additional (third) statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

## **25. Budget Comparative Figures**

Unless otherwise stated, the budget comparative figures shown in this annual financial report relate to the original budget estimate for the relevant item of disclosure.

## **26. Fair Value of Assets and Liabilities**

Fair value is the price that the Shire would receive to sell the asset or would have to pay to transfer a liability; in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximize, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the sale of the asset after considering transaction costs and transport costs).

For non-financial assets, the fair value measurement also considers a market participants ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.



# Shire of Derby / West Kimberley

Policy Details			
<b>Original Adoption date:</b>	28 June 2007	<b>Review Frequency:</b>	2 years
		<b>Next Review Due:</b>	November 2027
<b>Policy Implementing Officer or Team:</b>	Manager Corporate Services	<b>Policy Reviewer:</b>	Director Corporate Services
<b>Legislative Head of Power (Act, Regulation, or Local Law):</b>	<i>Local Government Act 1995</i> <i>Local Government (Financial Management) Regulations 1996</i>		
<b>Related Documents (other Policies, Operational Procedures, Delegations, etc.):</b>	Delegation 1.2.10 Financial Management System and Procedures		
Version Control Council Meeting Review Details:			
Review #:	Council Meeting Date:	Item/Resolution#:	
1.	28 February 2019	Item 9.1.1 Res. 005/2019	
2.	24 June 2021	Item 11.2 Res. 57/21	
3.	24 February 2022	Item 11.5 Res. 07/22	
4.	29 June 2023	Item 12.3 Res. 70/23	
5.	29 February 2024	Item 12.3 Res. 09/24	
6.	8 August 2024	The Acting CEO utilised delegation 1.1.34 Minor Amendments to Policies and Delegations to make minor amendments to thresholds for Plant, machinery and equipment and Fixtures, fittings and furniture. Synergy Record No. N21918.	
7.	27 November 2025	Item 14.1 Res. 46/25	