Forecast Financial Statements

DESTINATION ROTORUA

PURPOSE OF FINANCIAL STATEMENTS

Prospective Income Statement

This statement discloses the net surplus or deficit and the components of the net surplus (deficit), arising from activities or events during the year that are significant for the assessment of both past and future financial performance.

Prospective Statement of Changes in Equity

This financial statement contributes to the objectives of general purpose financial reporting by combining information, about net surplus (deficit) with other aspects of Council's financial performance in order to give a degree of measure of comprehensive income.

Prospective Balance Sheet

Information about the economic resources controlled by Council and its capacity to modify those resources, is useful in assessing Council's ability to generate cash and/or provide services in the future. Information about the financing structure is useful in assessing future borrowing needs, and how future surpluses and cashflows may be distributed among those with an interest in the Council. The information is also useful in assessing how successful the Council is likely to be in raising further finance.

Prospective Cashflow Statement

This statement reflects Council's cash receipts and cash payments during the year and provides useful information about Council's activities in generating cash through operations to:

- repay debt; or
- re-invest to maintain or expand operating capacity.

Statement of Accounting Policies

The accounting policies adopted by Council can have a significant impact on the financial and service performance, financial position and cashflows that are reported in its financial reports. Therefore, for a proper appreciation of those reports, users need to be aware of:

a) the measurement system underlying the preparation of the financial reports; and
b) the accounting policies followed in respect of individual items in the financial reports, especially where there are acceptable alternatives for dealing with any such items; and
c) any changes in the measurement system, assumptions or particular accounting policies.

PROSPECTIVE INCOME STATEMENT

(thousands)	2007 LTCCP	2008 LTCCP	2008 Annual Plan	Variance
General Rates	40,952	42,715	43,509	(794)
Less Rates Paid By Council	(777)	(795)	(803)	8
Total Rates	40,175	41,920	42,706	(786)
Castlecorp Bus Unit	148	150	150	
Corporate Wide	1,692	1,740	1,740	
Economic	2,191	2,345	2,279	66
Environment	4,102	4,138	4,622	(484)
Infrastructure	36,074	48,800	34,691	14,109
Community Leadership	916	829	1,173	(344)
Social and Cultural	8,270	12,154	12,900	(746)
Less Water by Meter used internally	(153)	(160)	(173)	13
Total Other Revenue	53,239	69,997	57,383	12,614
Total Revenue	93,414	111,917	100,089	11,828
OPERATING EXPENDITURE				
Castlecorp Bus Unit	147	86	150	(64)
Corporate Wide	800	826	984	(158)
Economic	5,200	5,471	5,453	18
Environment	9,073	8,907	9,628	(721)
Infrastructure	40,267	42,585	42,811	(226)
Community Leadership	3,901	3,794	4,260	(466)
Social and Cultural	29,431	31,872	32,311	(439)
	88,819	93,541	95,597	(2,056)
Less Internal Charges Included in Operating Expenses	930	955	976	(22)
Total Operating Expenditure	87,889	92,586	94,621	(2,034)
Operating Surplus	5,524	19,331	5,468	13,863
Income Taxation				
SURPLUS FOR THE YEAR	5,524	19,331	5,468	13,863
Footnote:- Included in the above Operating Expenditure				
Finance Costs	5,583	7,533	7,337	196
Depreciation/Amortisation	21,795	22,598	22,863	(265)

This statement contains prospective financial information and should be read in conjunction with the accompanying Statement of Accounting Policies.

DESTINATION ROTORUA

PROSPECTIVE STATEMENT OF CHANGES IN EQUITY

(thousands)	2007 LTCCP	2008 LTCCP	2008 Annual Plan	Variance
-				
Opening Equity	730,782	736,306	736,725	419
Net Surplus for the Period	5,524	19,331	5,468	-13,863
Revaluation Changes	0	24	0	-24
CLOSING EQUITY	736,306	755,661	742,193	-13,468

This statement contains prospective financial information and should be read in conjunction with the accompanying Statement of Accounting Policies.

PROSPECTIVE BALANCE SHEET

(thousands)	2007 LTCCP	2008 LTCCP	2008 Annual Plan	Variance
CURRENT ASSETS				
Financial Assets:-				
Cash and Cash Equivalents	1,964	1,922	2,148	226
Loans & Other Receivables	11,085	11,085	11,677	592
Inventories	1,125	1,125	1,238	113
Assets Held for Sale	0	0	60	60
Capital Projects under Construction	8,591	8,591	8,566	-25
TOTAL CURRENT ASSETS	22,765	22,723	23,689	966
Less CURRENT LIABILITIES				
Financial Liabilities:-				
Trade and Other Payables	8,680	8,680	7,793	887
Other Financial Liabilities	2,637	2,637	3,397	-760
Current Portion of Landfill Aftercare costs	60	60	60	0
Current Portion of Employee Entitlements	2,430	2,430	2,430	0
Current Portion of Public Debt	9,007	22,507	12,507	10,000
TOTAL CURRENT LIABILITIES	22,814	36,314	26,187	10,127
WORKING CAPITAL	-49	-13,591	-2,498	11,093
NON-CURRENT ASSETS				
Held to Maturity Financial Assets	1,932	1,917	3,185	1,268
Property, Plant & Equipment	828,392	865,673	855,519	-10,154
Intangible Assets	2,693	2,257	1,595	-662
Biological Assets	856	880	856	-24
Assets held for sale	85	85	1,032	947
TOTAL NON-CURRENT ASSETS	833,958	870,812	862,187	-8,625
LESS NON-CURRENT LIABILITIES				
Financial Liabilities	96,093	100,050	115,151	15,101
Less Employee Entitlements	970	970	839	-131
Landfill Aftercare Provision	540	540	1,506	966
TOTAL NON-CURRENT LIABILITIES	97,603	101,560	117,496	15,936
TOTAL NET ASSETS	736,306	755,661	742,193	-13,468
Represented By:				
RATEPAYERS EQUITY				
General Reserve	420,327	447,840	444,025	-3,815
Self-funding Reserves	-41,646	-50,136	-53,942	-3,806
Council Created Reserves	48	49	31	-18
Restricted Reserves	76	383	1,216	833
Asset Revaluation Reserve	357,501	357,525	350,863	-6,662
TOTAL RATEPAYERS EQUITY	736,306	755,661	742,193	-13,468

This statement contains prospective financial information and should be read in conjunction with the accompanying Statement of Accounting Policies.

PROSPECTIVE CASHFLOW STATEMENT

Description (thousands)	2007 LTCCP	2008 LTCCP	2008 Annual Plan	Variance
Cash flows from Operating Activities:				
Cash was provided from:				
Rates	56,071	60,283	59,811	(472)
General Revenue	34,819	49,037	37,043	(11,994)
Interest on Investments	32	32	32	0
Dividends	0	0	0	0
	90,922	109,352	96,886	(12,466)
Cash was applied to:				
Payments to Employees & Councillors	27,735	28,477	30,619	2,142
Other Payments	42,959	32,996	32,656	(340)
Taxation Payments	0	0	0	0
Interest on Public Debt	5,583	7,533	7,337	(196)
Net Goods and Services Tax Paid	0	0	0	0
	76,277	69,006	70,612	1,606
				0
Net Cash Flows From Operating Activities	14,645	40,346	26,274	(14,072)
Cash flows from Investing Activities:				
Cash was provided from:				
Proceeds from Sale of Fixed Assets	363	1,255	929	(326)
Collections on Advances	686	15	15	0
	1,049	1,270	944	(326)
Cash was applied to:				
Purchase of Fixed Assets	58,274	58,958	63,750	4,792
Net Movement in Investments	1,108	145	360	215
Loan Advances made	21	12	996	984
	59,403	59,115	65,106	5,991
Net Cash Used In Investing Activities	(58,354)	(57,845)	(64,162)	(6,317)
Cash flows from Financing Activities:				
Cash was provided from:				
Loans Raised	53,242	26,464	47,502	21,038
Cash was applied to:				
Repayment of Public Debt	10,409	9,007	9,007	0
Net Cash Used In Financing Activities	42,833	17,457	38,495	21,038
Net Increase (Decrease) in Cash	(876)	(42)	607	649
Opening Cash Brought Forward	2,840	1,964	1,541	(423)
CLOSING CASH CARRIED FORWARD	1,964	1,922	2,148	226

This statement contains prospective financial information and should be read in conjunction with the accompanying Statement of Accounting Policies.

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

Rotorua District Council is a territorial local authority governed by the Local Government Act 2002.

The financial statements are prepared in accordance with the Local Government Act 2002. The Council's financial statements are for Rotorua District Council as a separate legal entity (the Parent). Consolidated financial statements, where shown, are of the "Group" comprising Rotorua District Council, and its subsidiary Rotorua Regional Airport (100% owned).

The primary objective of Rotorua District Council is to provide goods or services for the community or social benefit rather than making a financial return. Accordingly, Rotorua District Council has designated itself and the group as public benefit entities for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Rotorua District Council has chosen to take advantage of public benefit exemptions available within the following standards:

- NZIFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards
- NZIAS 16 Property, Plant & Equipment
- NZIAS 20 Accounting for Government Grants & Disclosure of Government Assistance
- NZIAS 40 Investment Property

The financial statements incorporated in the Annual Plan have been prepared in compliance with NZFRS 42; Prospective Financial Statements.

Basis of Preparation

The prospective financial statements of Rotorua District Council are for the year ending 30 June 2008 and were adopted by Council on 27 June 2007.

The Annual Plan budget figures included in these financial statements are for the Council as a separate entity and do not include budget information relating to any subsidiary. These figures are those approved by the Council prior to the beginning of the year following a period of consultation with the public as part of the Annual Plan process. These figures do not include any additional expenditure subsequently approved by the Council outside the Annual Plan process.

The financial statements of Rotorua District Council have been prepared in accordance with the Local Government Act 2002: Part 6, Section 98 and Part 3 of Schedule 10, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

They comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, certain infrastructural assets, investment property, biological assets and financial instruments (including derivative instruments).

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000).

Accounting Policies

Where individual financial statements of subsidiaries, associates and joint ventures of the Rotorua District Council are prepared using accounting policies different from those of the group, appropriate adjustments are made on consolidation, in order to ensure that uniform accounting policies have been applied.

Judgements and Estimations

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Where material, information on the major assumptions is provided in the relevant accounting policy or will be provided in the relevant note to the financial statements.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Basis of Consolidation

Subsidiaries

For this Annual Plan the financial accounts are for the parent only. The Council has not presented group prospective financial statements because the Council believes that the parent prospective financial statements are more relevant to users. The main purpose of prospective financial statements in the Annual Plan is to provide users with information about the core services that the Council intends to provide ratepayers, the expected cost of those services and as a consequence how much the Council requires by way of rates to fund the intended levels of service. The level of rates funding required is not affected by subsidiaries except to the extent that the Council obtains distributions from, or further invests in, those subsidiaries. Such effects are included in the prospective financial statements of the Council.

Associates

Associates are entities in which the Council has significant influence, but not control, over their operating and financial policies. The Council's share of the assets, liabilities, income and expenditure of associates is included in the financial statements of the Group on an equity accounting basis. Dividends from associates are recognised in the parent's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

If Rotorua District Council's share of deficits of an associate equals or exceeds its interest in the associate, Rotorua District Council discontinues recognising its share of further deficits. After Rotorua District Council interest is reduced to zero, additional deficits are provided for, and a liability is recognised, only to the extent that Rotorua District Council has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports surpluses, Rotorua District Council will resume recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognised.

Rotorua District Council's share in the associate's surplus or deficits resulting from unrealised gains on transactions between the Rotorua District Council and its associates is eliminated.

Rotorua District Council's investments in associates are carried at cost in Rotorua District Council's own "parent entity" financial statements.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. The parent financial statements show investments in associates at cost.

Income

Revenue

Revenue is measured at the fair value of consideration received.

Rates are set annually by a resolution from Council and relate to a financial year. All ratepayers are invoiced within the financial year to which the rates have been set. Rates revenue is recognised when payable.

Water billing revenue is recognised on an accrual basis. Unbilled usage, as a result of unread meters at year-end, is accrued on an average usage basis.

Grants

Grants income includes any transfers of resources to the Council in return for past or future compliance with certain conditions relating to the operating activities of the Council. An unconditional grant is recognised in the income statement as other operating income when the grant becomes receivable, A conditional grant is recognised in the income statement as other operating income to the extent that conditions have been complied with. For the purposes at this Policy, a grant is defined as 'conditional' where Council has legal, constructive, or moral obligation to refund the grant (or part thereof), should conditions not be met.

Commission income

Where revenue is derived by acting as an agent for another party, the revenue that is recognised is the commission or free on the transaction.

Traffic and parking infringements

Traffic and parking infringements are recognised when cash is received.

Donated, subsidised or vested assets

Where a physical asset is acquired for nil or nominal consideration the fair value of the asset received is recognised as revenue.

Interest

Interest income is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Dividends

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income

Rental income is recognised on a straight line basis over the term of the lease. Lease incentives granted are recognised evenly over the term of the lease as a reduction in total rental income.

Sales of goods

Sales of goods are recognised when a Group entity has transferred the risks and rewards of ownership of the goods to the purchaser. Sales of goods are recognised net of GST, rebates and discounts.

Other income

All other income is recognised when billed or earned on an accrual basis.

Expenses

Grants and subsidies

Expenditure is classified as a grant if it results in a transfer of resources to another entity in return for past or future compliance with certain conditions relating to the operating activities of that entity. Grants expenditure includes any expenditure arising from a funding arrangement with another entity that has been entered into to achieve the objectives of the Council. Grants are distinct from donations which are discretionary charitable gifts.

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given.

Interest

Interest expense is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Donated Services

The Council benefits from the voluntary service of many community minded organisations and individuals in the delivery of its activities and services. Due to the difficulty in determining the value of these donated services with sufficient reliability, donated services are not recognised in these financial statements.

Cost Allocation

Rotorua District Council has derived the cost of service for each significant activity of Rotorua District Council using the cost allocation system outlined below.

The major types of indirect costs are building costs, payroll/personnel, information technology and information management, administration costs, treasury, accounting costs, records, asset management overheads, fleet, land information services, waterworks overheads, business units, laboratory and graphic solutions. The net costs of support services are charged to significant activities on the appropriation basis of floor space, staff time, direct use when available, share of estimated rates, volume of transactions used, volume of records used, level of activity areas supported, and percentage of service utilised.

Interest Allocation

Council allocates the net cost of interest, being interest expense less interest income, to its various activities:

a) Interest is credited to or allocated to self-funding activities based on the average annual balance of the self funding account according to whether the balances are in funds or overdrawn respectively.
b) The balance of interest is allocated to other significant activities on the basis of the book value of fixed assets employed in the activity.

Leases

Leases in which substantially all of the risks and rewards of ownership transfer to the lessee are classified as finance leases. At inception, finance leases are recognized as assets and liabilities on the balance sheet at the lower of the fair value of the leased property and the present value of the minimum lease payments. Any additional direct costs of the lessee are added to the amount recognized as an asset. Subsequently, assets leased under a finance lease are depreciated as if the assets are owned.

Operating Lease Payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance Lease Payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability, the finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Taxation

Council's income tax expense comprises the total amount included in the determination of profit or loss for the period in respect of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year (using tax rates enacted or substantially enacted at balance sheet date) together with any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method and applied on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities.

The enactment of tax rates and legislation at balance sheet date determine the application of deferred tax and applies when the related deferred tax asset is realised or when deferred tax liability is settled.

Deferred tax is not accounted for if an asset or liability of a non-business transaction does not affect either accounting profit or taxable profit. Similarly, deferred tax is not accounted for on temporary differences associated with investments in subsidiaries, branches, associates and joint ventures where the reversal of the temporary difference is controlled by Council, and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable future taxable profit will be available against which deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, with the exception of receivables and payables, which are stated as GST inclusive. Where GST is not recoverable as an input tax (e.g. residential housing) then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

Commitments and contingencies are disclosed exclusive of GST.

Financial Instruments

The Group classifies its financial assets and financial liabilities according to the purpose for which they were acquired. The Group determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

Financial Assets

The Group classifies its investments into the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are further separated into two sub-categories: financial assets held for trading, and those designated at fair value through profit and loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivative financial instruments are also categorised as held for trading unless they are designated as hedges. Financial assets are classified as current assets if they are either held for trading or are expected to be realised within 12 months of balance sheet date. Financial assets held for trading and financial assets designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the Income Statement. Gains or losses reported in the Income Statement include any interest component. Transaction costs are expensed as they are incurred.

Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available for sale financial assets are initially recorded at fair value plus transaction costs. They are subsequently recorded at fair value with any resultant fair value gains or losses recognised directly in equity except for impairment losses. Any interest is calculated using the effective interest method. At derecognition the cumulative fair value gain or loss previously recognised directly in equity is recognised in the Income Statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after balance date in which case they are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet. Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Loans and receivables issued with duration less than 12 months are recognised at their nominal value. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. They are included in non-current assets, except for those with maturities less than 12 months from balance sheet date, which are classified as current assets. Held-to-maturity investments are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents comprise cash balances and call deposits with up to three months maturity. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Biological Assets

Biological Assets comprise standing trees, being predominantly radiata pine wood lots located on various reserve land owned by Council. Valuations are performed at fair value annually. Methodologies involve market valuation based on discounted cashflow of projected earnings, less costs and compounded cost calculations. Any agricultural produce harvested from Council's biological assets are measured at fair value, less estimated point-of-sale costs, at point of harvest. The latest valuation of the Forestry assets was performed as at July 2005. No biological assets have matured to date, and no harvesting has been performed.

Investment Property

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation.

Investment property is measured initially at its cost, including transaction costs.

After initial recognition, Rotorua District Council measures all investment property at fair value as determined annually by an independent valuer.

Gains or losses arising from a change in the fair value of investment property are recognised in the statement of financial performance.

Timing of Recognition

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Fair values

If the market for financial assets is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same and discounted cash flow analysis.

Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit and loss for that asset - is removed from equity and recognised in the income statement.

Financial Liabilities

The Group classifies its financial liabilities into the following categories: financial liabilities at fair value through profit and loss or other financial liabilities. Financial liabilities at fair value through profit and loss are further separated into two sub-categories: liabilities held for trading and those designated as fair value through profit and loss. Financial liabilities held for trading and financial liabilities designated at fair value through profit and loss are recorded at fair value with any realised and unrealised gains or losses recognised in the Income Statement. Gains or losses reported in the Income Statement include any interest component. Transaction costs are expensed as they are incurred.

Other financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with duration less than 12 months are recognised at their nominal value. Amortisation is recognised in the Income Statement as is any gain or loss when the liability is derecognised.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Derivatives

Derivative financial instruments are recognised as either assets or liabilities at fair value on the date the derivative is entered into and are subsequently re-measured to their fair value. Derivatives that do not qualify for hedge accounting are classified as held for trading financial instruments with fair value gains or losses recognised in the Income Statement.

Inventory

Inventories (such as spare parts and other items) held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at the lower of cost and current replacement cost.

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the FIFO method.

Non-current assets held for sale

Non-current assets are separately classified as held for sale where their carrying amount will be recovered through a sale transaction rather than through continuing use. A non-current asset is classified as held for sale where:

- The asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets,
- The Group is committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan has been initiated,
- The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value,
- The sale is expected to qualify for recognition as a sale within one year from the date of classification or beyond one year where a delay has occurred which is caused by events beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset, and
- Actions required to complete the plan to sell the asset indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

A non-current asset classified as held for sale is recognised at the lower of its carrying amount and fair value less costs to sell. An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell.

A gain is recognised for any subsequent increases in fair value less costs to sell of the asset but not in excess of any cumulative impairment losses previously recognised. Impairment losses or reversal of impairment losses are included in profit or loss. Any gain or loss not previously recognised by the date of the sale of the asset is recognised at the date of derecognition.

Property, Plant and Equipment

Recognition

Property, plant and equipment consists of operational assets, restricted assets and infrastructure assets. Expenditure is capitalised as property, plant and equipment when it creates a new asset or increases the economic benefits over the total life of an existing asset and can be measured reliably. Costs that do not meet the criteria for capitalisation are expensed.

Operational assets include (but is not limited to) land, buildings, Energy Events Centre, Convention Centre, Tourism Office, Library building, International Stadium, Museum, and plant and equipment.

Restricted assets include heritage buildings, and parks and reserves land. These assets provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.

Infrastructure assets include the fixed utility systems comprising the roading, water reticulation and drainage systems, land under roads and infrastructure land and airport. Each asset type includes all items that are required for the network to function.

Measurement

Vested assets are recognised within their respective asset classes at fair value. Vested assets are those assets where ownership and control is transferred to the Council from a third party (for example; infrastructure assets constructed by developers and transferred to the Council on completion of a sub-division). Fair value is determined on a basis consistent with the valuation of existing assets within the class.

Revaluations

The result of any revaluation of the Council's property, plant and equipment is credited or debited to the asset revaluation reserve for that class of property, plant and equipment. Where this results in a debit balance in the reserve for a class of property, plant and equipment, the balance is expensed in the Income Statement, Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the Income Statement, will be recognised firstly in the Income Statement up to the amount previously expensed, and then secondly credited to the revaluation reserve for that class of property, plant and equipment.

Accumulated depreciation at revaluation date is eliminated against the gross carrying amount and the net amount is restated to the revalued amount.

Impairment

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the assets ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

The value in use for cash-generating assets is the present value of expected future cash flows.

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the Income Statement.

For assets not carried at a revalued amount, the total impairment loss is recognised in the Income Statement. The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in the Income Statement, a reversal of the impairment loss is also recognised in the Income Statement.

For assets not carried at a revalued amount (other than goodwill) the reversal of an impairment loss is recognised in the Income Statement.

Disposal

Gains and losses arising from the disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are recognised in the Income Statement in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

Valuation

Those asset classes that are revalued are valued on a three yearly 'rolling' valuation cycle on the basis described below. All other asset classes are carried at depreciated historical cost. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value.

Land and Buildings are recorded at fair value at highest and best use as at 1 July 2005. Quotable Value New Zealand Ltd has certified that these valuations are appropriate for financial reporting purposes.

Asset additions since 1 July 2005 are valued at historic cost. The fair value of Land and Buildings is reviewed at three yearly intervals.

Infrastructural Assets (roading network, bridges, drains, water and sewerage reticulation systems) have been valued by Council's engineers at replacement cost. An estimate for accumulated depreciation has then been deducted to give a depreciated replacement value as at 1 July 2005. Road reserves have been valued on an average of the district's land value adjusted for restrictions on the land and its existing use. The basis of these in-house valuations have been certified as correct by an independent registered valuer. All capital expenditure on these assets since 1 July 2005 have been capitalised at historic cost. The value of all of Council's infrastructural assets will be revised at three yearly 'rolling' intervals.

The library collection was valued at estimated depreciated replacement cost as at 1 July 2005 as estimated by Council's library staff. The basis of these in-house valuations have been certified as correct by an independent registered valuer. All library purchases since 1 July 2005 have been capitalised at historical cost. The value of the library collection is revised at three yearly intervals.

The collections of the Rotorua Museum of Art & History are valued at market value as at 30 June 1992 by Gow, Landsford Fine Art Valuers and Peter Webb Galleries Limited, Estate & Fine Art Auctioneers & Valuers. Any additions since then have been capitalised at historic cost.

Vested infrastructural assets have been valued based on the actual quantities of infrastructural components vested at the current "in the ground" cost of providing identical services. All other revenue is recognised when it is due and receivable.

Council purchased the Airport assets of Rotorua Regional Airport Limited on 30 June 2005. The Airport land, buildings and runway were re-valued as at 28 September 2004 by registered valuers Cleghorn Gillespie Jensen Limited at fair value in accordance with FRS 36. Asset purchased by RRAL subsequent to re-valuation date were purchased by Council at cost

All other fixed assets are valued at cost except where historic cost records were not available, in which case Council has estimated the cost.

Depreciation

Depreciation is provided on all fixed assets with certain exceptions. The exceptions are:

- Land is not depreciated.
- Roading, wastewater reticulation, stormwater systems and water reticulation assets are depreciated as noted below. A number of the components of the roading network such as excavation, sub base materials and compaction are not depreciated as these assets have an infinite life. Signs and markings are not depreciated as these assets are maintained to the same level.
- The useful lives of the Rotorua Museum of Art & History collections and the library reference collection are considered to be extremely long. Therefore, due to its insignificance, no depreciation has been brought to charge.

All other assets are depreciated on a straight line basis at rates that will write off their cost or valuation over their expected useful economic lives.

Vehicles are depreciated on the basis of diminishing value and at a rate of 20% calculated to allocate the motor vehicles cost over their estimated useful lives.

The expected lives of major classes of assets are:

General	Years
Bathhouse building	40
Buildings (other)	50
Plant and Equipment	10 to 15
Office Equipment	5
Furniture and Fittings	10 to 20
Computer Systems	3 to 5
Library Books (excl Reference)	2 to 15
Parking	10 to 50
Landfill Improvements	3 to 100
Wastewater Reticulation	
Man holes	110
Treatment Plant	10 to 100
Pump Stations	10 to 75
Pipes	100
Water Reticulation	**Years**
Pipes	50 to 90
Motors/Pumps	20 to 30
Reservoirs and other Water-Retaining Structures	50 to 100
Meters	15 to 100
Parks	
Street and Outdoor Furniture	15
Street Signals	15
Fencing and Related Structures	15
Playgrounds	25
Jetties and Related Structures	20
Irrigation Pipes and Sprinklers	6 to 50
Park roads, paths	20 to 100
Kerbs	100
Bridges	70 to 100
Top surface (seal)	1 to 15
Pavement (basecourse)	20 to 100
Drainage	100
Shoulders/Feathers	20 to 100
Culverts	100
Footpaths (concrete)	100
Footpaths (bitumen)	10 to 15
Stormwater systems	
Pipes	70 to 100
Manholes, Cesspits	70 to 100
Service connections and outlets	70 to 100
Airport	
Runway 150mm AC surface	10 to 15

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

Work in progress

The cost of projects within work in progress is transferred to the relevant asset class when the project is completed and then depreciated.

Intangible Assets

Acquired intangible assets are initially recorded at cost. The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. The development phase occurs after the following can be demonstrated: technical feasibility; ability to complete the asset; intention and ability to sell or use; and development expenditure can be reliably measured. Development costs with a finite useful life that have been capitalised are amortised from the commencement of use or sale of the products developed on a straight line basis over the period of its expected benefit.

Expenditure incurred on research of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when it is incurred. Development costs previously recognised as an expense are not subsequently recognised as an asset in a subsequent period.

Intangible assets with finite lives are subsequently recorded at cost less any amortisation and impairment losses. Amortisation is charged to the Income Statement on a straight-line basis over the useful life of the asset. Typically, the estimated useful lives of these assets are as follows:

Computer Software 3 to 8 years

Easements are recognised at cost, being the costs directly attributable in bringing the asset to its intended use. Easements have an indefinite useful life and are not amortised, but are instead tested for impairment annually.

Goodwill is initially measured at its cost, being the excess of the cost of the cost of the acquisition over Rotorua District Council's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill on acquisition of subsidiaries is included in intangible assets by applying the purchase method. Goodwill on acquisition of associates is included in investments in associates by applying the equity method.

Realised gains and losses arising from disposal of intangible assets are recognised in the Income Statement in the period in which the transaction occurs. Intangible assets are reviewed at least annually to determine if there is any indication of impairment. Where an intangible asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. Losses resulting from impairment are reported in the Income Statement.

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance date.

Employee Benefits

A provision for employee benefits (holiday leave, long service leave, and retirement allowances) is recognised as a liability when benefits are earned.

Short Term Benefits

Liabilities for wages and salaries, including non-monetary benefits, expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Holiday Leave

Holiday leave (annual leave and time off in lieu) is calculated on an actual entitlement basis at the greater of the average or current hourly earnings in accordance with sections 16(2) & 16(4) of the Holidays Act 2003. Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the balance sheet date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Sick Leave

Liabilities for accumulating short-term compensated absences (e.g., annual and sick leave) are measured as the amount of unused entitlement accumulated at the balance sheet date that the entity anticipates employees will use in future periods in excess of the days that they will be entitled to in each of those periods.

Long Service Leave

Long-service leave (not yet qualified for) and retirement gratuities have been calculated on an actuarial basis based on the likely future entitlements accruing to staff, after taking into account years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and other contractual entitlements information. The present value of the estimated future cash flows has been calculated using an inflation factor of 3.3% and a discount rate of 6.75%. The discount rate used represents the Council's average cost of borrowing.

Other Contractual Entitlements

Other contractual entitlements include termination benefits. Termination benefits are recognised in the Income Statement only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy, Termination benefits settled within 12 months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

Critical accounting estimates and assumptions

In preparing these financial statements Rotorua District Council has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Landfill post closure costs

The council, as operator of the Rotorua Landfill, has a legal obligation to apply for resource consents when the landfill, or landfill stages, reaches the end of their operating life and are to be closed. These resource consents will set out the closure requirements and the requirements for ongoing maintenance and monitoring services at the landfill site after closure. A provision for post-closure costs is recognised as a liability when the obligation for post closure arises.

The provision is measured based on the present value of future cash flows expected to be incurred, taking into account future events including known changes to legal requirements and known improvements in technology. The provision includes all costs associated with landfill post-closure including final cover application and vegetation; incremental drainage control features; completing facilities for leachate collection and monitoring; completing facilities for water quality monitoring; completing facilities for monitoring and recovery of gas.

Amounts provided for landfill post-closure are capitalised to the landfill asset where they give rise to future economic benefits or if they are incurred to enable future economic benefits to be obtained. The capitalised landfill asset is depreciated over the life of the landfill based on capacity used.

The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the Council.

Infrastructural assets

There are a number of assumptions and estimates used when performing DRC valuations over infrastructural assets. These include:

- The physical deterioration and condition of an asset, for example the Council could be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets, which are not visible, for example stormwater, waste water and water supply pipes that are underground. This risk is minimised by Council performing a combination of physical inspections and condition modelling assessments of underground assets;
- Estimating any obsolescence or surplus capacity of an asset; and
- Estimates are made when determining the remaining useful lives over which the asset will be depreciated. These estimates can be impacted by the local conditions, for example weather patterns and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then Rotorua District Council could be over or under estimating the annual depreciation charge recognised as an expense in the statement of financial performance. To minimise this risk Rotorua District Council's infrastructural asset useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group, and have been adjusted for local conditions based on past experience. Asset inspections, deterioration and condition modelling are also carried out regularly as part of the Rotorua District Council's asset management planning activities, which gives Rotorua District Council further assurance over its useful life estimates.

Experienced independent valuers perform the Council's infrastructural asset revaluations.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than no that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Other liabilities and provisions are recorded at the best estimate of the expenditure required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at their present value.

Contingent Assets and Liabilities

Contingent liabilities and contingent assets are disclosed in the Statement of Contingent Liabilities and Contingent Assets at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Third party transfer payment agencies

Rotorua District Council collects monies for many organisations. Where collections are processed through Rotorua District Council's books, any monies held are shown as Accounts Payable in the Statement of Financial Position. Amounts collected on behalf of third parties are not recognised as revenues, but commissions earned from acting as agent are recognised in revenue.

Financial guarantee contracts

A financial guarantee contract is a contract that requires Rotorua District Council to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are initially recognised at fair value. If a financial guarantee contract was issued in a stand-alone arm's length transaction to an unrelated party, its fair value at inception is equal to the consideration received. When no consideration is received a provision is recognised based on the probability Rotorua District Council will be required to reimburse a holder for a loss incurred, discounted to present value. The portion of the guarantee that remains unrecognised, prior to discounting to fair value, is disclosed as a contingent liability.

Financial guarantees are subsequently measured at the initial recognition amount less any amortisation, however if Rotorua District Council assesses that it is probable that expenditure will be required to settle a guarantee, then the provision for the guarantee is measured at the present value of the future expenditure.

Borrowings

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Equity

Ratepayers' Equity is the community's interest in the Council as measured by the value of the total assets less liabilities. Ratepayers' Equity is disaggregated and classified into a number of reserves to enable a clearer identification of the specific uses Council makes of its accumulated surpluses.

Statement of Cash Flows

The statement of cash flows has been prepared using the direct approach subject to the netting of certain cash flows. Cash flows in respect of investments and borrowings that have been rolled-over under arranged finance facilities have been netted in order to provide more meaningful disclosures.

Operating activities include cash received from all income sources of the Council and the Group; record the cash payments made for the supply of goods and services and include cash flows from other activities that are neither investing nor financing activities. Investing activities relate to the acquisition and disposal of assets. Financing activities relate to activities that change the equity and debt capital structure of the Council and Group.

Related Parties

A party is related to the Council if:

- directly or indirectly through one or more intermediaries, the party:
  - controls, is controlled by, or is under common control with, the council
  - has an interest in the council that gives it significant influence over the count
  - has joint control over the council
- the party is an associate of the council
- the part is a joint venture in which the council is a venturer
- the party is a member of key management personnel (including any directors) of the council or its parent
- the party is a close member of the family of any individual referred to above
- the party is an entity controlled jointly control or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to above

Councillors, including the Mayor, are considered directors as they occupy the position of a member of the governing body of the Council reporting entity. Directors' remuneration is any money, consideration or benefit received receivable or otherwise made available, directly or indirectly, to a director during the reporting period. Directors' remuneration does not include reimbursement of legitimate work expenses or the provision of work related equipment such as cell phones and laptops.

Reserves

Council Created Reserves:

Council Created Reserves are that part of the accumulated surpluses established by Council resolution. Council may alter Council Created Reserves without reference to any third party or the Courts. Transfers to and from these reserves are at the discretion of Council.

Restricted Reserves:

Restricted Reserves are those reserves subject to specific conditions accepted as binding by the Council, and which may not be revised by Council without reference to the courts or a third party. Transfers from Restricted Reserves may be made only for certain specified purposes or if certain specified conditions are met.

Sinking Fund Reserves:

Prior to 1 July 1998, when the Local Government Act was amended, funds were required to be set aside each year to meet future repayments of loans or commitments. These funds, described as sinking funds, were administered by an independent body of Sinking Fund Commissioners appointed by the council. These funds are included in the Balance Sheet and any associated interest income is included in the Income Statement.

Self-funding Reserves:

Certain activities are undertaken by Council on the basis that the activities generate enough revenue over time to cover the cost of their operation. The net surplus or deficit held on behalf of these activities have been included in the Balance Sheet as Self-funding Reserves.

Asset Revaluation Reserves

Revaluations are credited or debited to an asset revaluation reserve for that class of asset. When this results in a debit balance in the asset revaluation reserve, this balance is expensed in the Income Statement.