Forecast financial statements

Purpose of financial statements

Prospective Statement of Comprehensive Income

This statement discloses the net surplus or deficit and their components, arising from activities or events during the year that are significant for assessing past and future financial performance.

Prospective Statement of Changes in Equity

This financial statement presents a measure of comprehensive income. Equity is measured as the difference between the total value of assets and total liabilities. Accumulated Equity represents the community's investment in publicly owned assets resulting from past surpluses.

Prospective Statement of Financial Position

Information about 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. The information is also useful in assessing how successful the council is likely to be in raising further finance.

Prospective Statement of Cashflows

This statement reflects Council's prospective 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
- Reinvest to maintain or expand operating capacity.

Statement of Accounting Policies

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

a) the measurement system underlying preparation of 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 such items; and
c) any changes in the measurement system, assumptions or particular accounting policies.

Notes to the Financial Statements

These provide further explanation of accounting policies adopted by the council and the assumptions used in preparing the financial statements. Some rounding differences may occur.

Prospective statement of comprehensive income

($'s in 000's)	Annual Plan 2009/10	Ten Year Plan 2010/11	Annual Plan 2010/11	Variance
General Rates	34,648	36,207	34,629	(1,578)
Less Rates Paid by Council	(820)	(820)	(1,575)	(754)
Total Rates	**33,828**	**35,387**	**33,054**	**(2,332)**
			-	
Castlecorp Business Unit	148	152	188	36
Community Leadership	832	858	956	97
Corporate Wide	1,790	1,843	1,852	8
Environmental & Regulatory	5,282	5,451	5,546	96
Infrastructure	48,536	59,714	55,895	(3,819)
Social & Cultural	16,027	15,098	14,851	(247)
Tourism & Economic Development	6,444	10,189	10,841	652
Less Water by Meter used internally	(173)	(177)	(254)	(77)
Total Other Revenue	**78,885**	**93,129**	**89,875**	**(3,254)**
Total Revenue	**112,713**	**128,516**	**122,929**	**(5,586)**
Operating Expenditure				
Castlecorp Business Unit	148	152	191	(39)
Community Leadership	4,245	4,496	4,954	(458)
Corporate Wide	849	874	874	-
Environmental & Regulatory	10,251	10,188	10,092	96
Infrastructure	43,633	47,401	47,287	114
Social & Cultural	31,299	32,280	32,381	(101)
Tourism & Economic Development	9,474	10,427	11,799	(1,372)
Less Internal Charges Included in Operating Expenses	(993)	(997)	(1,828)	831
Total Operating Expenditure	**98,905**	**104,822**	**105,750**	**(928)**
Operating Surplus	**13,808**	**23,694**	**17,179**	**(6,515)**
Income Taxation	-	-	-	-
NET SURPLUS	**13,808**	**23,694**	**17,179**	**(6,515)**
			-	
Gains/(Loss) on property Revaluations	23,564	40,184	24,125	(16,059)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**37,372**	**63,878**	**41,304**	**(22,574)**
Footnote1:- Included in above Operating Expenditure				
Finance Costs	7,184	9,575	8,754	821
Depreciation/Amortisation	23,823	24,856	24,288	568

Prospective statement of changes in equity

($'s in 000's)	Annual Plan 2009/10	Ten Year Plan 2010/11	Annual Plan 2010/11	Variance
Opening Equity	787,964	825,339	821,743	3,596
Net Surplus for the period	13,810	23,694	17,179	6,515
Asset Revaluation Changes	23,564	40,184	24,125	16,059
	825,338	**889,217**	**863,047**	**26,170**
RATEPAYERS EQUITY				
General Reserves	786,237	822,990	833,918	(10,928)
Self funding Accounts	(56,791)	(65,356)	(69,441)	4,085
Council Crated Reserves	31	33	35	(2)
Restricted Reserves	1,769	562	955	(393)
Revaluation Reserves	99,775	139,959	109,412	30,547
Fair Value Reserves	230	230	(120)	350
Development Contributions	(5,912)	(9,202)	(11,712)	2,510
TOTAL RATEPAYERS EQUITY	**825,339**	**889,216**	**863,047**	**26,169**

Prospective statement of financial position

($'s in 000's)	Annual Plan 2009/10	Ten Year Plan 2010/11	Annual Plan 2010/11	Variance
Current Assets				
Cash & Cash Equivalents	4,409	2,504	2,837	(333)
Trade & Other Receivables	17,479	19,712	20,308	(596)
Inventories	1,373	1,414	1,388	26
Total Current Assets	**23,261**	**23,630**	**24,533**	**(903)**
Less Current Liabilities				
Trade and Other Payables	18,954	28,218	31,533	(3,315)
Provisions	453	467	413	54
Employee Entitlements	4,427	4,546	6,085	(1,539)
Borrowings	41,091	42,324	18,600	23,724
Total Current Liabilities	**64,925**	**75,555**	**56,631**	**18,924**
WORKING CAPITAL	**(41,664)**	**(51,925)**	**(32,098)**	**(19,827)**
Non-Current Assets				
Trade and Other Receivables	23	24	14	10
Other Financial Assets	2,778	3,078	2,860	218
Fixed Assets	961,649	1,054,579	1,022,087	32,492
Intangible Assets	1,983	1,983	9,245	(7,262)
Biological Assets (Forestry)	409	409	468	(59)
Total Non-Current Assets	**966,842**	**1,060,073**	**1,034,674**	**25,399**
Less Non-Current Liabilities				
Borrowings	97,633	116,707	137,214	(20,507)
Provisions	1,486	1,486	1,515	(29)
Employee Entitlements	720	720	800	(80)
Total Non-Current Liabilities	**99,839**	**118,913**	**139,529**	**(20,616)**
TOTAL NET ASSETS	**825,339**	**889,235**	**863,047**	**26,188**
Ratepayers Equity				
General Reserves	786,237	822,990	833,918	(10,928)
Self Funding Reserves	(56,791)	(65,356)	(69,441)	4,085
Council Created Reserves	31	33	35	(2)
Restricted Reserves	1,769	562	955	(393)
Fair Value through Equity	230	230	109,412	(109,182)
Asset Revaluation Reserve	99,775	139,959	(120)	140,079
Development Contributions	(5,912)	(9,202)	(11,712)	2,510
TOTAL RATEPAYERS EQUITY	**825,339**	**889,216**	**863,047**	**26,169**

Prospective statement of cashflows

($'s in 000's)	Annual Plan 2009/10	Ten Year Plan 2010/11	Annual Plan 2010/11	Variance
Cash Flows from Operating Activities:				
Cash was provided from :				
Rates*	65,788	69,073	66,621	(2,452)
General Revenue	44,278	56,168	54,414	(1,754)
Interest on investments	60	57	60	3
	110,126	**125,298**	**121,095**	**(4,203)**
Cash was applied to:				
Payments to employees and councillors	32,394	33,241	33,152	(89)
Other Payments	31,974	33,868	34,909	1,041
Interest on Public Debt	7,184	9,575	8,754	(821)
	71,552	**76,684**	**76,815**	**131**
Net Cash from Operating Activities	**38,574**	**48,614**	**44,280**	**(4,334)**
Cash Flow from Investing Activities:				
Cash was Provided from:				
Proceeds from sale of Fixed Assets	200	206	234	28
	200	**206**	**234**	**28**
Cash was applied to:				
Purchase of Fixed Assets	71,197	71,032	74,699	3,667
	71,197	**71,032**	**74,699**	**3,667**
Net Cash used in Investing Activities	**(70,997)**	**(70,826)**	**(74,465)**	**(3,639)**
Cash Flow from financing Activities:				
Cash was provided from :				
Proceeds from Borrowings	38,724	25,308	35,518	10,210
Cash was applied to:				
Repayment of Borrowings	4,000	5,000	5,000	-
Net Cash Used in financing Activities	**34,724**	**20,308**	**30,518**	**10,210**
Net Increase (Decrease) in Cash	2,302	(1,905)	333	2,238
Opening Cash Brought Forward	2,107	4,409	2,504	(1,905)
Closing Cash Carried Forward	**4,409**	**2,504**	**2,837**	**333**

* rates above include both general rates and targeted rates

Statement of accounting policies

Reporting Entity

The Rotorua District Council is a Local Authority governed by the Local Government Act 2002 and is domiciled within New Zealand.

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 (NZIFRS).

Financial information contained within the Annual Plan may not be appropriate for purposes other than those described.

Basis of Preparation

Statement of Compliance

The financial statements have been prepared in accordance with the generally accepted accounting practice in New Zealand as required under section 111 of the Local Government Act 2002 (LGA), and the Long Term Council Community Plan requirements of section 93 of the LGA. It is audited under section 94 of the Local Government Act 2002.

The financial statements comply with applicable Financial Reporting Standards, which include New Zealand equivalents to International Financial Reporting Standards (NZIFRS). The financial statements incorporated in the Long Term Council Community Plan have been prepared in accordance with Financial Reporting Standard (FRS) number 42; Prospective Financial Statements.

Rotorua District Council is a Public Benefit Entity (PBE) and has applied the PBE exemptions allowable under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Significant Accounting Policies

This set of financial statements has been prepared based on NZ IFRS and opening balances for the year ended 30 June 2010. Estimates have been reinstated accordingly if required.

The measurement basis applied is historical cost, modified by the revaluation of certain assets and liabilities as identified in this statement of accounting policies.

The accrual basis of accounting has been used unless otherwise stated. These financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless otherwise stated.

Where individual financial statements of subsidiaries, associates and joint ventures of 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.

Basis of Consolidation

Subsidiaries

These 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 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.

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 is measured at the fair value of consideration received or receivable.

Rates Revenue

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

Revenue from water rates by meter is recognised on an accrual basis. Unbilled usage, as a result of unread meters at year-end is accrued on an average usage basis.

Statement of accounting policies cont.

Development and Financial Contributions
The Council's development and financial contributions are governed under its development and financial contribution policies. Development and financial contributions are recognised as revenue when Council provides, or is able to provide, the service for which the contribution was charged. Development and financial contributions are classified as part of "Other Revenue".

Grants
Government grants are recognised when claimed on previously approved programmes, or when eligibility has been established by the grantor.

Government grants are received from the New Zealand Transport Agency, which subsidies part of the Rotorua District Council's costs in maintaining the local roading infrastructure. The subsidies are recognised as revenue upon entitlement as conditions pertaining to eligible expenditure have been fulfilled.

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. Assets vested in the Rotorua District Council are recognised as revenue when control over the asset is obtained.

Interest
Interest Income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividends
Dividends are recognised when they are entitled to be received.

Parking Infringements
Parking Infringements are recognised when payment of the ticket is received.

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
Revenue from the sale of goods is recognised when a product is sold to the customer.

Other income
All other revenue is recognised at the time goods and services are provided.

Donated Services
The Council benefits from the voluntary service of many community minded organisations and individuals in the delivery of its activities and services. Since these services are not purchased by the Council and because of the difficulty of determining their value with reliability, donated services are not recognised in theses statements.

Expenses

Grants and Donations
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.

Because grants and subsidies are discretionary until payment, the expense is generally 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.

Overhead/Support Services Allocation
Rotorua District Council has derived the cost of service for each Council activity using the following cost allocation system.

Direct costs are those costs directly attributable to a significant activity. Indirect costs are those costs which cannot be identified in an economically feasible manner for a specific Council activity. Direct Costs are charged directly to the Council activities that incur those costs. Indirect costs are charged to Council activities using appropriate cost drivers such as amount of floor space, staff time, direct use when available, 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.

Statement of accounting policies cont.

Leases

Finance Lease Payments
These are leases that transfer to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the commencement of the lease term, Rotorua District Council recognises finance leases as assets and liabilities in the Prospective Statement of Financial Position at the lower of the fair value of the leased term or the present value of the minimum lease payments.

The finance charge is charged to the Prospective Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether Rotorua District Council will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of either the lease term or its useful life.

Operating Lease Payments
An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Prospective Statement of Cashflows

Operating activities include cash received from all income sources of the Council and record the cash payments made for the supply of goods and services. Agency transactions are not recognised as receipts and payments in the Prospective Statement of Cashflows.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt capital structure of the Council.

Cash and Cash Equivalents

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 Prospective Statement of Financial Position.

Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

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 Prospective Statement of Financial Position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Prospective Statement of Cashflows.

Financial assets

Financial assets and liabilities are initially measured at fair value plus transaction costs unless they are carried at fair value through profit or loss, in which case the transaction costs are recognised in the statement of comprehensive income.

Purchases and sales of investments are recognised on trade-date, the date on which the Rotorua District Council 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 council has transferred substantially all the risks and rewards of ownership.

Council classifies its financial assets into the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and financial assets at fair value through equity. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss
Financial Assets at fair value through profit and loss include financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. Rotorua District Council's financial assets at fair value through profit and loss include derivatives that are not designated as hedges.

After initial recognition they are measured at their fair values. Gains or losses on remeasurement are recognised in the statement of comprehensive income.

Statement of accounting policies cont.

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 are included in current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets. Rotorua District Council's loans and receivables comprise cash and cash equivalents, debtors and other receivables, term deposits, community and related party loans.
After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the statement of comprehensive income.

Loans to community organisations made by Rotorua District Council at nil or below-market interest rates are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar financial instrument. The loans are subsequently measured at amortised cost using the effective interest method. The difference between the face value and present value of expected future cash flows of the loan is recognised in the statement of comprehensive income as a grant.

Held to maturity investments
Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that council has the positive intention and ability to hold to maturity. They are included in current assets, except for maturities greater than 12 months after balance date, which are included in non-current assets. Currently council does not hold any financial assets in this category.

Financial assets at fair value through equity
Financial assets at fair value through equity are those that are designated as fair value through equity or are not classified in any of the other categories above. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance date. Rotorua District Council's financial assets at fair value through equity comprise local authority stock and investments in quoted and unquoted shares. Rotorua District Council includes in this category:

- Investments that council intends to hold long-term but which may be realised before maturity; and
- Shareholdings that council holds for strategic purposes.

Rotorua District Council's investments in its subsidiary is not included in this category as they are held at cost (as allowed by NZ IAS 27 *Consolidated and Separate Financial Statements*) whereas this category is to be measured at fair value.

After initial recognition these investments are measured at their fair value, with gains and losses recognised directly in equity except for impairment losses, which are recognised in the statement of comprehensive income.

On derecognition the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income.

Fair value
The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Rotorua District Council uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as discounted expected cash flows, are used to determine fair value for the remaining financial instruments.

Impairment of financial assets

At each balance sheet date council assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised in the statement of comprehensive income.

Loans and other receivables
Impairment of a loan or a receivable is established when there is objective evidence that Rotorua District Council will not be able to collect amounts due according to the original terms. Significant financial difficulties of the debtor/issuer, probability that the debtor/issuer will enter into bankruptcy, and default in payments are considered indicators that the asset is impaired. The amount of the impairment is the difference between the assets carrying amount and the present value of estimated future cashflows, discounted using the effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. When the receivable is uncollectible, it is written off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (i.e. not past due). For term deposits, local authority stock, government stock and community loans, impairment losses are recognised directly against the instruments carrying amount.

Impairment of term deposits, local authority, government stock, and related party and community loans is established when there is objective evidence that Rotorua District Council will not be able to collect amounts due to the original terms of the instrument. Significant financial difficulties of the issuer, probability the issuer will enter into bankruptcy, and default in payments are considered indicators that the instrument is impaired.

Statement of accounting policies cont.

Quoted and unquoted equity instruments
For equity instruments classified as fair value through equity, a significant or prolonged decline in the fair value of the investment below its cost is considered an indicator of impairment. If such evidence exists for investments at fair value through equity, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income) is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity investments are not reversed through the statement of comprehensive income.

Derivative financial instruments, hedging activities and foreign currency transactions

Rotorua District Council uses derivative financial instruments to hedge exposure to foreign exchange and interest rate risks arising from financing activities. In accordance with its treasury policy, Rotorua District Council does not hold or issue derivative financial instruments for trading purposes.

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the statement of comprehensive income.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each balance date.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Rotorua District Council designates certain derivatives as either:
- Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- Hedges of highly probably forecast transactions (cashflow hedge).

The Rotorua District Council documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Rotorua District Council also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cashflows of hedged items.

The full fair value of hedging derivatives is classified as non-current if the remaining item of the hedged item is more than 12 months and as current if the remaining maturity of the hedged item is less than 12 months.

Fair value hedge
The gain or loss from remeasuring the hedging instrument at fair value, along with the changes in the fair value on the hedged item attributable to the hedged risk, is recognised in the statement of comprehensive income. Rotorua District Council only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the statement of comprehensive income within “finance costs”. The gain or loss relating to the ineffective portion is recognised in the statement of comprehensive income as part of “gains” or “other expenses”. Changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognised in the statement of comprehensive income within “finance costs”.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

Cash flow hedge
The portion of the gain or loss on a hedging instrument that is determined to be an effective hedge is recognised directly in equity through the statement of changes in equity and the ineffective portion of the gain or loss on the hedging instrument is recognised in the statement of comprehensive income as part of “gains” or “other expenses”.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in equity will be reclassified into profit and loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. However, if Rotorua District Council expects that all or a portion of a loss recognised directly in equity will not be recovered in one or more future periods, it will reclassify into profit or loss the amount that is not expected to be recovered.

When a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then the associated gains and losses that were recognised directly in equity will be included in the initial cost or carrying amount of the asset or liability.

Statement of accounting policies cont.

If a hedging instrument expires or is sold, terminated, exercised or revoked, or it no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging instrument that remains recognised directly in equity from the period when the hedge was effective will remain separately recognised in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss on the hedging instrument that remains recognised directly in equity from the period when the hedge was effective will be recognised in the statement of comprehensive income.

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 is measured at the lower of cost, adjusted where applicable, for any loss of service potential.

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 average cost method.

The amount of any write-down for the loss of service potential or from cost to net realisable value is recognised in the prospective statement of comprehensive income in the period of the write down.

Forestry assets

Forestry assets are independently revalued annually at fair value less estimated point of sale costs. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined pre-tax rate.

Gains or losses arising on initial recognition of biological assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the prospective statement of comprehensive income.

The costs to maintain the forestry assets are included in the prospective statement of comprehensive income.

Non-current assets held for sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the statement of comprehensive income.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Property, plant and equipment

Property, plant and equipment consist of;

Operational assets – These include land, buildings, landfill post closure, library books, plant and equipment and motor vehicles.

Restricted Assets - Restricted assets are parks and reserves owned by Rotorua District Council which provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.

Infrastructure assets – Infrastructure assets are the fixed utility systems owned by Rotorua District Council. Each class includes all items that are required for the network to function, for example, sewer reticulation includes reticulation piping and sewer pump stations.

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

Revaluations

Council accounts for revaluations of property, plant and equipment on a class of asset basis.

The results of revaluing are credited or debited to an asset revaluation reserve for that class of asset. Where this result is a debit balance in the asset revaluation reserve, this balance is expensed in the statement of comprehensive income. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the prospective statement of comprehensive income will be recognised first in the prospective statement of comprehensive income up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to Rotorua District Council and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Statement of accounting policies cont.

Disposals
Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the prospective statement of comprehensive income. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

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

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

Intangible assets

Software acquisition and development
Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software for internal use by Rotorua District Council, are recognised as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Easements
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.

Statement of accounting policies cont.

Amortisation
The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in statement of comprehensive income.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Computer software	3-5 years	20-33%

Impairment of property, plant and equipment and intangible assets

Intangible assets that have an indefinite useful life, or not yet available for use, are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for indicators of impairment at each balance date. When there is an indicator of impairment, the asset's recoverable amount is estimated. 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 it's remaining future economic benefits or service potential.

The value in use for cash-generating assets and cash-generating units 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 statement of comprehensive income.

For assets not carried at a revalued amount, the total impairment loss is recognised in the statement of comprehensive income.

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 statement of comprehensive income, a reversal of the impairment loss is also recognised in the statement of comprehensive income.

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

Employee benefits

Short-term employee entitlements
Employee benefits that Rotorua District Council expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

Rotorua District Council recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that Rotorua District Council anticipates it will be used by staff to cover those future absences.

Rotorua District Council recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Long-term employee entitlements
Entitlements that are payable beyond 12 months, such as long service leave and retiring leave, have been calculated on an actuarial basis. The calculations are based on:
- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated future cash flows.

The discount rate is based on the weighted average of government interest rates for stock with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.

Superannuation schemes

Defined contribution schemes
Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the statement of comprehensive income as incurred.

Defined benefit schemes
The council belongs to the Defined Benefit Plan Contributors Scheme (the scheme), which is managed by the Board of Trustees of the National Provident Fund. The scheme is a multi-employer defined benefit scheme.

Statement of accounting policies cont.

Insufficient information is available to use defined benefit accounting, as it is not possible to determine from the terms of the scheme, to the extent to which the surplus/deficit will affect future contributions by individual employers, as there is no prescribed basis for allocation. The scheme is therefore accounted for as a defined contribution scheme.

Landfill post closure costs

Rotorua District Council has resource consent to operate the Rotorua Landfill. The Council has responsibility under the resource consent to provide ongoing maintenance and monitoring of the landfill after the site is closed.

The management of the landfill will influence the timing of recognition of some liabilities. A liability relating to stage one will only be created when this stage is commissioned and when refuse begins to accumulate in this stage.

The cash outflows for landfill post-closure are expected to occur in about fifteen year's time. The long-term nature of the liability means that there are inherent uncertainties in estimating costs that will be incurred. The provision has been estimated taking into account existing technology and using a discount rate that reflects current market assessments of the time value of money and the risks specific to the Council.

Provisions

Rotorua District Council recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditures will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

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 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.

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.

Cautionary Note

The information in the prospective financial statements is uncertain and the preparation requires the exercise of judgement. Actual financial results achieved for the period covered are likely to vary from the information presented, and the variations may be material. Events and circumstances may not occur as expected or may not have been predicted or the Council may subsequently take actions that differ from the proposed courses of action on which the prospective financial statements are based.

The information contained within these prospective financial statements may not be suitable for use in another capacity.

Assumptions underlying Prospective Financial Information

The financial information contained within these policies and documents is prospective financial information in terms of FRS42: Prospective Financial Information. The purpose for which it has been prepared is to enable the public to participate in the decision making processes as to the services to be provided by the Rotorua District Council, and to provide a broad accountability mechanism of the Council to the Community.

Statement of accounting policies cont.

Borrowings

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method where the difference to carrying value is material. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Borrowings are classified as current liabilities unless Rotorua District Council has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

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 Prospective 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.

Equity

Equity is the community's interest in the Rotorua District Council and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of reserves.

The components of equity are:
- Retained earnings
- Self-funding reserves
- Council created reserves
- Restricted reserves
- Fair value through equity reserves
- Asset revaluation reserves

Restricted reserves
Restricted reserves are a component of equity generally representing a particular use to which various parts of equity have been assigned. Reserves may be legally restricted or created by Rotorua District Council.

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

Also included in restricted reserves are reserves restricted by Council decision. The Council may alter them without references to any third party or the Courts. Transfers to and from these reserves are at the discretion of the Council.