

# STATEMENT OF ACCOUNTING POLICIES

## Reporting Entity

Rotorua District Council is a territorial local authority as defined in the Second Schedule of the Local Government Act 2002.

The Rotorua District Council Group consists of Rotorua District Council and Rotorua Regional Airport Ltd (100% owned), a company registered under the Companies Act 1993.

The financial information presented in the Long Term Council Community Plan has been prepared in accordance with section 93 of the Local Government Act 2002 which includes the requirement to comply with generally accepted accounting practice.

## Basis of Consolidation

Consolidated Statement of Financial Performance, Statement of Cash Flow, Statement of Movement in Equity and the Statement of Financial Position have been prepared in accordance with General Accepted Accounting Practices – Financial Reporting Standard (FRS-36 and FRS-37).

All significant inter-group transactions arising from trading between the various activities of the council have been eliminated on consolidation.

Unless shown separately the financial statements and notes refer to both the Council and Group accounts.

## Goodwill

Goodwill on consolidation is amortised on a straight line basis over 20 years.

The goodwill expensed is included in the Airport expenditure line in the group statement of financial performance.

## Measurement Base

The measurement base adopted is that of historical cost, modified by the revaluation of certain assets.

## Rounding

The amounts in the financial statements and notes are rounded to the nearest thousand unless otherwise stated.

## Specific Accounting Policies

### Basis of Preparation of the Financial Statements

The Long Term Council Community Plan for the Council and its group includes a Statement of Financial Performance, a Statement of Movements in Equity, a Statement of Financial Position, a Statement of Cashflows and the consolidated financial statements of the group comprising of the Rotorua District Council and its subsidiary Rotorua Regional Airport Ltd, encompassing all activities of the Council and group activities.

In order to meet its obligations of public accountability, the Council has included for each significant activity a separate Statement of Cost of Service which shows costs of providing the service less all directly related revenue.

All significant inter-activity transactions arising on trading between various activities of the Council are eliminated from the Statement of Financial Performance to ensure that this statement reflects only those transactions conducted with parties external to the Council.

### Overhead/Support Services Allocation

The major types of expenditure classed as support services are civic centre operating, 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 either 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.

### Goods and Services Tax

The financial statements are prepared on a Goods and Services Tax (GST) exclusive basis, except for accounts receivable and accounts payable, which are stated as GST inclusive. The balance outstanding at balance date is shown as an accounts receivable or accounts payable as the case may be.

### Budgets

The budgeted figures are those approved by the Council and are subject to a period of consultation with the public as part of the Long Term Council Community Plan process. The budgeted figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Council for the preparation of the financial statements.

## Funding Requirements Pooled Across Multiple Activities

Council has established through its Funding Policy an appropriate level of user-pays for each activity. These user-pay charges are collected by way of separate rates, fees and charges.

After deducting the user pays charges, the remaining funding requirements for all activities are pooled. This total cost is then recovered by way of general rates charged to all ratepayers. In this way all ratepayers contribute towards the costs of the activities that provide a general public benefit.

## Revenue Recognition

Rates revenue is recognised as income when levied. Grants are recognised as income when eligibility has been established by the grantor agency and the work has been performed and/or conditions met. Vested assets are recognised when control over the asset is obtained. Parking fines are recognised on a cash basis when payment is received.

## Donated Services Recognition

The Council benefits from the voluntary services of many Rotorua citizens 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.

## Rating

The Rotorua District Council has a policy of rating its own properties. The effect of this policy is eliminated from the Statement of Financial Performance and the Statement of Cashflows.

## Internal Property Rental

Internal property rents are charged to each significant activity where appropriate. This charge is based on floor area occupied, to cover the actual costs of each building.

## 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.

## Taxation

The Council uses the liability method of accounting for deferred taxation and applies this on a comprehensive basis. Future tax benefits attributable to tax losses or timing differences are only recognised when there is virtual certainty of realisation.

Income tax expense (if any) is charged in the Statement of Financial Performance in respect of the current year's surplus after allowing for permanent differences.

## Accounts Receivable

Accounts Receivable are shown at estimated realisable value after providing against debts where collection is doubtful. Bad debts are written off against the provision for doubtful debts accounts in the period in which it is determined that the debts are uncollectible.

Receivables in respect of parking fines are not recognised in the statement of financial position due to the uncertainty of collection.

## Inventories

Stocks for own use and Stocks for resale are valued at the lower of net realisable value or cost on a first in first out (FIFO) basis.

## Properties Intended for Resale

Properties intended for resale as at 30 June 2003 are recorded at the lower of cost and net realisable value.

## Statement of Cashflows

*Cash* means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which Council invests as part of its day to day cash management.

*Operating activities* include cash received from all income sources of the group and record the cash payments made for the supply of goods and services.

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

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

*Agency transactions* (for example, the collection of regional council rates) are recognised as receipts and payments in the statement of cash flows given that they flow through the Council's main bank account, and are included as part of operating activity.

## Leases

### Finance Leases:

Leases which effectively transfer to the lessee substantially all the risks and benefits incidental to ownership of the lease item are classified as finance leases. These are capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments. The leased assets and corresponding lease liabilities are recognised in the statement of financial position. The leased assets are depreciated over the period the Council is expected to benefit from their use.

### Operating Leases:

Council has equipment on operating leases, where the lessors effectively retain substantially all risks and benefits of ownership of the leased item. The operating lease payments are charged as expenses in the periods in which they are incurred.

## Investments

Bank investments are stated at cost.

Investments in shares are stated at the lower of cost or estimated realisable value.

Interest Income is recognised in the Statement of Financial Performance on an accrual basis. Dividend income is recognised when the dividend is declared.

The Council has had 100% ownership of the Rotorua Regional Airport Ltd since 31 July 2002.

## Fixed Assets

### Valuation:

Land and Buildings are recorded at fair value as at 1 July 2002. Quotable Value New Zealand Ltd has certified that these valuations are appropriate for financial reporting purposes.

Asset additions since 1 July 2002 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 2002. 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 2002 has been capitalised at historic cost. The value of all of Council's infrastructural assets will be revised at three yearly intervals.

The Library collection was valued at estimated historic cost as at 1 July 2002 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 2002 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 current 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.

Airport land, buildings and runway have been valued as at the date of purchase (31 July 2002) by registered valuers Cleghorn Gillespie Jensen & Associates at fair value in accordance with FRS-36. All assets since have been capitalised at historic 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 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:

<b>General</b>	<b>Years</b>
Bathroom building	40
Buildings (other)	50
Plant and Equipment	10
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	5 to 50
<b>Wastewater Reticulation</b>	
Manholes	70 to 100
Treatment Plant	10 to 100
Pump Stations	10 to 50
Pipes	70

<b>Water Reticulation</b>	<b>Years</b>
Pipes	45 to 90
Motors/Pumps	20 to 25
Reservoirs and other	
Water-Retaining Structures	60 to 80
Meters	15 to 100
<b>Parks</b>	
Street and Outdoor Furniture	1 to 20
Street Signals	15
Fencing and Related Structures	40
Playgrounds	25
Jetties and Related Structures	15 to 30
Irrigation Pipes and Sprinklers	6 to 50
Park roads, paths	10 to 100
Kerbs	100
Bridges	50 to 100
Top surface (seal)	8 to 20
Pavement (basecourse)	25 to 80
Drainage	100
Shoulders/Feathers	25 to 80
Culverts	100
Footpaths (concrete)	100
Footpaths (bitumen)	10 to 40
<b>Stormwater systems</b>	
Pipes	70 to 100
Manholes, Cesspits	70 to 100
Service connections and outlets	70 to 100
<b>Airport</b>	
Runways, Taxiways and Aprons	50
Runway Reseal	12.5

## Employee Entitlements

A provision is made in respect of the Council's liability for annual leave, long service leave, and retirement gratuities.

Wages and salaries, annual leave and other entitlements that are expected to be settled within twelve months of reporting date are measured at nominal values on actual entitlement basis at current rate of pay.

Entitlements that are payable beyond twelve months, such as long service leave, resigning 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. A discount rate of 5.5% (2001/2002 6.5%), and an inflation factor of 2.5% (2001/2002 2.6%) were used. 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.

## Financial Instruments

All financial instrument arrangements except guarantees have been included in the Statement of Financial Position using the concepts of accrual accounting. They have been included at their fair value. These instruments include bank accounts, accounts receivable and payable, cash investments, equity investments and long term debt. Revenue and expenses in relation to all financial instruments are recognised in the Statement of Financial Performance.

## 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, reach 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.

## Ratepayers' 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.

## 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 Statement of Financial Position, and any associated interest income is included in the Statement of Financial Performance.

### 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 Statement of Financial Position 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 Statement of Financial Performance.

## Nature of Prospective Information

The information provided in this Long Term Council Community Plan is of a prospective nature. This means that it is based on the forecasting of future events and it is expected that actual results may vary from the estimates. In making these forecasts, Council has made a number of significant assumptions. These assumptions are set out in detail within the "Long Term Financial Strategy LTFS) Outline". The Council will revise this LTFS in March 2004.

This Long Term Council Community Plan has primarily been derived from Council's Long Term Financial Strategy. The budget figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Council for the preparation of the financial statements.

## Changes in Accounting Policies

All Accounting Policies have been applied on a basis consistent with prior years.