

Forecast Financial Statements



PURPOSE OF FINANCIAL STATEMENTS

Statement of Financial Performance

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.

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.

Statement of Financial Position

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.

Statement of Cashflows

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.

Note: This statement should be used for the purpose stated above and may not be appropriate for purposes other than described.

STATEMENT OF FINANCIAL PERFORMANCE

(\$'s in thousands)	Annual Plan 2007/08	Ten Year Plan 2008/09	Annual Plan 2008/09	Variance
General Rates	43,509	44,465	45,770	1,305
Less Rates Paid by Council	(803)	(814)	(820)	(5)
Total Rates	42,706	43,651	44,950	1,300
Castlecorp Bus Unit	150	153	153	-
Community Leadership	1,173	999	636	(363)
Corporate Wide	1,740	1,790	1,790	-
Economic	2,279	2,282	2,306	24
Environment	4,622	4,232	4,530	298
Infrastructure	34,691	44,967	36,844	(8,123)
Social and Cultural	12,900	12,639	11,438	(1,201)
Less Water by Meter used internally	(173)	(169)	(172)	(3)
Total Other Revenue	57,383	66,893	57,525	(9,368)
Total Revenue	100,089	110,544	102,475	(8,069)
Operating Expenditure				
Castlecorp Bus Unit	151	84	154	(70)
Community Leadership	4,260	4,110	3,737	373
Corporate Wide	983	849	849	-
Economic	5,453	5,482	5,686	(204)
Environment	9,628	9,176	9,897	(721)
Infrastructure	42,811	46,101	45,786	315
Social and Cultural	32,311	32,920	34,244	(1,324)
	95,597	98,722	100,353	(1,631)
Less Internal Charges Included in Operating Expenses	976	983	991	8
Total Operating Expenditure	94,621	97,739	99,362	(1,623)
Surplus for the Year	5,468	12,805	3,113	(9,692)
Footnote:- Included in the above Operating Expenditure				
Finance costs	7,337	8,869	7,436	1,433
Depreciation	22,864	24,871	24,331	540

The accompanying Statement of Accounting Policies should be read in conjunction with these Financial Statements

STATEMENT OF CHANGES IN EQUITY

(\$'s in thousands)	Annual Plan 2007/08	Ten Year Plan 2008/09	Annual Plan 2008/09	Variance
Opening Equity	736,725	755,661	738,307	(17,354)
Net Surplus for the Period	5,468	12,805	3,113	(9,692)
Revaluation Changes		28,730	28,730	-
Closing Equity	742,193	797,196	770,150	(27,046)

The accompanying Statement of Accounting Policies should be read in conjunction with these Financial Statements

STATEMENT OF FINANCIAL POSITION

(\$'s in thousands)	Annual Plan 2007/08	Ten Year Plan 2008/09	Annual Plan 2008/09	Variance
CURRENT ASSETS				
Financial Assets:-				
Cash and Cash Equivalents	2,148	1,947	1,465	(482)
Trade & Other Receivables	11,677	11,085	9,915	(1,170)
Inventories	1,238	1,125	1,182	57
Assets Held for Sale	60	-	-	-
Capital Projects under Construction	8,566	8,591	9,390	799
TOTAL CURRENT ASSETS	23,689	22,748	21,952	(796)
Less CURRENT LIABILITIES				
Financial Liabilities:-				
Trade and Other Payables	7,793	8,680	18,539	(9,859)
Current Portion Provisions	3,457	2,697	600	2,097
Current Portion of Employee Entitlements	2,430	2,430	3,865	(1,435)
Current Portion of Public Debt	12,507	4,008	5,710	(1,702)
TOTAL CURRENT LIABILITIES	26,187	17,815	28,714	(10,899)
WORKING CAPITAL	(2,498)	4,933	(6,762)	(11,695)
NON-CURRENT ASSETS				
Held to Maturity Financial Assets	3,185	1,896	2,063	167
Property, Plant & Equipment	855,519	928,123	902,006	(26,117)
Intangible Assets	1,595	1,490	2,456	966
Biological Assets	856	904	414	(490)
Assets held for sale	1,032	85	-	(85)
TOTAL NON-CURRENT ASSETS	862,187	932,498	906,939	(25,559)
LESS NON-CURRENT LIABILITIES				
Borrowings	115,151	138,725	127,622	11,103
Employee Entitlements	839	970	732	238
Provisions	1,506	540	1,673	(1,133)
TOTAL NON-CURRENT LIABILITIES	117,496	140,235	130,027	10,208
TOTAL NET ASSETS	742,193	797,196	770,150	(27,046)
Represented By:				
RATEPAYERS EQUITY				
General Reserve	444,025	477,360	797,326	319,966
Self-funding Reserves	(53,942)	(67,502)	(81,942)	(14,440)
Council Created Reserves	31	50	342	292
Restricted Reserves	1,216	1,033	1,045	12
Asset Revaluation Reserve	350,863	386,255	53,379	(332,876)
TOTAL RATEPAYERS EQUITY	742,193	797,196	770,150	(27,046)

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STATEMENT OF CASHFLOWS

(\$'s in thousands)	Annual Plan 2007/08	Ten Year Plan 2008/09	Annual Plan 2008/09	Variance
Cash Flows from Operating Activities:				
Cash was provided from:				
Rates	59,811	64,076	63,908	(168)
General Revenue	37,043	43,695	35,890	(7,805)
Interest on Investments	32	32	32	-
Dividends	-	-	-	-
	<u>96,886</u>	<u>107,803</u>	<u>99,830</u>	<u>(7,973)</u>
Cash was applied to:				
Payments to Employees & Councillors	30,619	29,277	31,808	(2,531)
Other Payments	32,656	33,737	34,022	104
Taxation Payments	-	-	-	-
Interest on Public Debt	7,337	8,767	7,435	1,332
Net Goods and Services Tax Paid	-	-	-	-
	<u>70,612</u>	<u>71,781</u>	<u>73,265</u>	<u>(1,484)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Flows From Operating Activities	<u>26,274</u>	<u>36,022</u>	<u>26,565</u>	<u>(9,457)</u>
Cash flows from Investing Activities:				
Cash was provided from:				
Proceeds from Sale of Fixed Assets	929	3,870	1,302	(2,568)
Collections on Advances	15	21	-	(21)
	<u>944</u>	<u>3,891</u>	<u>1,302</u>	<u>(2,589)</u>
Cash was applied to:				
Purchase of Fixed Assets	63,750	59,928	77,876	(17,948)
Net Movement in Investments	360	130	130	-
Loan Advances made	996	6	-	6
	<u>65,106</u>	<u>60,064</u>	<u>78,006</u>	<u>(17,942)</u>
Net Cash Used In Investing Activities	<u>(64,162)</u>	<u>(56,173)</u>	<u>(76,704)</u>	<u>(20,531)</u>
Cash flows from Financing Activities:				
Cash was provided from:				
Loans Raised	47,502	42,683	63,702	(21,019)
Cash was applied to:				
Repayment of Public Debt	9,007	22,507	12,500	(10,007)
Net Cash Used In Financing Activities	<u>38,495</u>	<u>20,176</u>	<u>51,202</u>	<u>(31,026)</u>
Net Increase (Decrease) in Cash	607	25	1,063	1,038
Opening Cash Brought Forward	1,541	1,922	402	(1,520)
CLOSING CASH CARRIED FORWARD	<u>2,148</u>	<u>1,947</u>	<u>1,465</u>	<u>(482)</u>

The accompanying Statement of Accounting Policies should be read in conjunction with these Financial Statements

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

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

The Rotorua District Council group (Group) consists of Rotorua District Council (Council) and its 100% owned subsidiary Rotorua Regional Airport Ltd (RRAL). The RRAL subsidiary is incorporated in New Zealand.

The primary objective of the Rotorua District Council is to provide goods or services for the community or social benefit rather than making a financial return. Accordingly, the 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).

Basis of preparation

The prospective financial statements of the Rotorua District Council are for the year ended 30 June 2009. The financial statements were authorised for issue by Council on 4 March 2008.

The financial statements of the Rotorua District Council group have been prepared in accordance with the requirements of 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).

These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

The prospective financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, infrastructural assets, collections, biological assets and financial instruments.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of Rotorua District Council group is New Zealand dollars.

Foreign currency transactions 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 financial performance.

Standards and interpretation issued and not yet adopted

There are no standards, interpretations, and amendments that have been issued, but are not yet effective, that Rotorua District Council has not yet applied.

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 fair value 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.

Revenue

Revenue is measured at the fair value of consideration received.

Rates revenue

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.

Other revenue

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.

Traffic and parking infringements are recognised when tickets are paid.

The Rotorua District Council receives government grants from Land Transport New Zealand, which subsidises part of 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.

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided.

Sales of goods are recognised when a product is sold to the customer. Sales are usually in cash / Eftpos or by credit card. The recorded revenue is the gross amount of the sale, including credit card fees payable for the transaction. Such fees are included in other expenses.

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 Council are recognised as revenue when control over the asset is obtained.

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

Interest income is recognised using the effective interest method.

Dividends are recognised when the right to receive payment has been established.

Development contributions are classified as part of "Other Revenue".

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Grant expenditure

Non-discretionary grants are those grants that are awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received. Discretionary grants are those grants where the council has no obligation to award on receipt of the grant application and are recognised as expenditure when a successful applicant has been notified of the council's decision.

Income Tax

Income tax expense in relation to the surplus or deficit for the period comprises current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantially enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and

interests in joint ventures, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantially enacted by balance date.

Current tax and deferred tax is charged or credited to the statement of financial performance, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

Leases

Finance leases

A finance lease is a lease that transfers 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, the council recognises finance leases as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

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

Operating leases

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.

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 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.

Loans, including loans to community organisations made by 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 asset/investment. They 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 financial performance as a grant.

A provision for impairment of receivables is established when there is objective evidence that council 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 using the effective interest method.

Inventories

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.

The write down from cost to current replacement cost or net realisable value is recognised in the statement of financial performance.

Financial assets

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 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 financial performance.

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.

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. 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 estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The four categories of financial assets are:

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

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

Currently, the council does not hold any financial assets in this category.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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 financial performance. Loans and receivables are classified as "Trade and Other Receivables" in the statement of financial position.

Held to maturity investments

Held to maturity investments are assets with fixed or determinable payments and fixed maturities that council has the positive intention and ability to hold to maturity.

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 financial performance.

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.

This category encompasses:

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

Gains and losses are recognised directly in equity except for impairment losses, which are recognised in the statement of financial performance. In the event of impairment, any cumulative losses previously recognised in equity will be removed from equity and recognised in the statement of financial performance irrespective that the asset has not been derecognised.

On derecognition the cumulative gain or loss previously recognised in equity is recognised in the statement of financial performance.

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 financial performance.

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 financial performance.

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

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 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.

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 statement of financial performance. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to council and the cost of the item can be measured reliably.

Accounting for 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 in a debit balance in the asset revaluation reserve, this balance is expensed in the statement of financial performance. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the statement of financial performance will be recognised first in the statement of financial performance up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

Land and Buildings

Land and Buildings are recorded at fair value at highest and best use as at 1 July 2006. Quotable Value New Zealand Ltd has certified that these valuations are appropriate for financial reporting purposes. Asset additions since 1 July 2006 are valued at historic cost. The fair value of Land and Buildings is reviewed at three yearly intervals.

Infrastructural Assets

Infrastructural Assets (roading network, bridges, drains 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. The water reticulation is recorded at fair value at highest and best use as at 1 July 2006.

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 has been certified as correct by Beca Valuation Services Ltd. All capital expenditure on these assets (except water reticulation) since 1 July 2005 have been capitalised at historic cost. Water reticulation capital expenditures have been capitalised at historic cost since 1 July 2006.

The value of all of Council's infrastructural assets will be revised at three yearly 'rolling' intervals.

Vested infrastructural assets

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.

Collections

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 has been certified as correct by Beca Valuation Services Ltd. 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.

Airport assets

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 1 July 2006 by Quotable Value New Zealand Ltd at fair value.

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
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

Parks	Years
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.

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 associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with the development of software for internal use by council, are recognised as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

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.

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 financial performance.

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

Computer software	3-5 years	33-20%
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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 statement of financial performance.

The costs to maintain the forestry assets are included in the statement of financial performance.

Impairment of non-financial assets

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 asset's 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 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 financial performance.

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

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 financial performance, a reversal of the impairment loss is also recognised in the statement of financial performance.

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

Employee benefits

Short-term benefits

Employee benefits that 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.

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 council anticipates it will be used by staff to cover those future absences.

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 benefits

Long service leave and retirement leave

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. A discount rate of 8% and an inflation factor of 2.5% 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.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the statement of financial performance 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.

Insufficient information is available to use defined benefit accounting, as it is not possible to determine from the terms of the scheme, 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.

Provisions

The 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 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.

Financial guarantees are subsequently measured at the initial recognition amount less any amortisation, however if 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

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
- Sinking fund reserves
- Fair value through equity reserves
- Asset revaluation reserves

Restricted and Council created 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 council.

Restricted reserves are those subject to specific conditions accepted as binding by council and which may not be revised by 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.

Good and Service Tax (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax 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.

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 statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Budget figures

The budget figures are those approved by the Council at the beginning of the year in the annual plan. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by council for the preparation of the financial statements.