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 Cash flows

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 cash flows 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.

Prospective statement of comprehensive income

$ in thousands	Annual Plan 2010/11	Ten Year Plan 2011/12	Annual Plan 2011/12	Variance
General Rates	34,629	37,836	33,616	(4,220)
Less Rates Paid by Council	(1,575)	(820)	(1,587)	(767)
Total Rates	**33,054**	**37,016**	**32,029**	**(4,987)**
Castlecorp Business Unit	188	157	302	145
Corporate and Customer Services Group	2,285	2,231	2,378	147
Corporate Wide	1,852	1,898	1,852	(46)
Economic and Regulatory Services Group	22,712	18,154	25,397	7,244
Infrastructure Services Group	63,092	76,178	61,576	(14,602)
Less Water by Meter used internally	(254)	(183)	(266)	(83)
Total Other Income	**89,874**	**98,435**	**91,239**	**(7,196)**
Total Income	**122,928**	**135,451**	**123,268**	**(12,184)**
Operating Expenditure				
Castlecorp Business Unit	191	157	256	(99)
Corporate and Customer Services Group	13,081	12,244	13,229	(985)
Corporate Wide	874	900	874	26
Economic and Regulatory Services Group	29,751	30,138	30,170	(32)
Infrastructure Services Group	63,680	66,311	65,367	944
Less Internal Charges Included in Operating Expenses	(1,828)	(1,003)	(1,854)	851
Total Operating Expenditure	**105,749**	**108,747**	**108,042**	**705**
Operating Surplus	**17,179**	**26,705**	**15,226**	**(11,479)**
Income Taxation	-	-	-	-
NET SURPLUS AFTER TAXATION	**17,179**	**26,705**	**15,226**	**(11,479)**
Other Comprehensive Income				
Revaluations of Property, Plant and Equipment	24,125	23,195	25,350	2,155
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**41,304**	**49,900**	**40,576**	**(9,324)**
Footnote1:- Included in above Operating Expenditure				
Finance Costs	8,754	10,973	9,499	1,474
Depreciation/Amortisation	24,288	25,743	24,419	1,324
Footnote2:- Included in above Revenue				
Remission Costs (netted off total rates)	460	480	480	0

Note: Due to regrouping Corporate & Customer Services, Economic & Regulatory Services, and Infrastructure Services, figures may differ to the 2009-19 Ten Year Plan

Prospective statement of changes in equity

$ in thousands	Annual Plan 2010/11	Ten Year Plan 2011/12	Annual Plan 2011/12	Variance
Opening Balance	**821,743**	**889,216**	**871,823**	**17,393**
Total comprehensive income	41,304	49,900	40,576	9,324
Closing Balance	**863,047**	**939,116**	**912,399**	**26,717**

Prospective statement of financial position

$ in thousands	Annual Plan 2010/11	Ten Year Plan 2011/12	Annual Plan 2011/12	Variance
Current Assets				
Cash and Cash Equivalents	2,837	2,950	2,652	298
Trade and Receivables	20,308	20,616	18,218	2,398
Inventories	1,388	1,456	1,454	2
Total Current Assets	**24,533**	**25,022**	**22,324**	**2,698**
Non-Current Assets				
Trade and Other Receivables	14	25	29	(4)
Other Financial Assets	2,860	3,378	2,063	1,315
Fixed Assets	1,022,087	1,110,464	1,069,592	40,872
Intangible Assets	9,245	1,983	4,029	(2,046)
Biological Assets (Forestry)	468	409	316	93
Total Non-Current Assets	**1,034,674**	**1,116,259**	**1,076,029**	**40,230**
Total Assets	**1,059,207**	**1,141,281**	**1,098,353**	**42,928**
Liabilities				
Current Liabilities				
Trade and Other Payables	31,533	27,414	27,757	(343)
Provisions	413	481	555	(74)
Employee Benefit Liabilities	6,085	4,669	4,972	(303)
Borrowings	18,600	43,593	28,300	15,293
Total Current Liabilities	**56,631**	**76,157**	**61,585**	**14,572**
Non-Current Liabilities				
Provisions	1,515	1,486	1,979	(493)
Employee Benefit Liabilities	800	760	691	69
Borrowings	137,214	123,761	121,700	2,061
Total Non-Current Liabilities	**139,529**	**126,007**	**124,369**	**1,638**
Total Liabilities	**196,160**	**202,164**	**185,954**	**(11,875)**
Equity				
Retained Earnings	833,918	848,799	874,534	(25,735)
Self Funding Reserves	(69,441)	(64,456)	(69,158)	4,702
Council Created Reserves	(11,677)	(9,818)	(17,347)	7,529
Restricted Reserves	955	1,207	1,488	(281)
Fair Value through Equity	(120)	230	230	-
Asset Revaluation Reserve	109,412	163,154	122,652	40,502
TOTAL RATEPAYERS EQUITY	**863,047**	**939,116**	**912,399**	**26,717**

Prospective statement of cash flows

$ in thousands	Annual Plan 2010/11	Ten Year Plan 2011/12	Annual Plan 2011/12	Variance
Cash Flows from Operating Activities:				
Receipts from Rates Revenue	66,621	74,973	68,653	(6,320)
Interest Received	60	147	60	(87)
Receipts from Other Revenue	54,414	56,799	52,567	(4,232)
Payments to Suppliers and Employees	(68,061)	(69,953)	(79,478)	(9,525)
Interest Paid	(8,754)	(10,973)	(9,499)	1,474
Net Cash from Operating Activities	**44,280**	**50,993**	**32,304**	**(18,689)**
Cash Flow from Investing Activities:				
Proceeds from Sale of Property, Plant and Equipment	234	212	203	(9)
Purchase of Property Plant and Equipment	(74,699)	(59,083)	(48,780)	10,303
Net Cash from Investing Activities	**(74,465)**	**(58,871)**	**(48,577)**	**10,294**
Cash Flow from financing Activities:				
Proceeds from Borrowings	35,518	21,823	30,424	8,601
Repayment of Borrowings	(5,000)	(13,500)	(13,500)	-
Net Cash from Financing Activities	**30,518**	**8,323**	**16,924**	**8,601**
Net Increase (Decrease) in Cash and Cash equivalents	333	445	650	205
Opening Cash at the beginning of the year	2,504	2,504	2,002	(502)
Closing Cash at the end of the year	**2,837**	**2,949**	**2,652**	**(297)**

Statement of accounting policies

General Information

The prospective financial statements are for Rotorua District Council, the parent only. The council publishes group accounts for the annual report. For the purpose of the council's annual plan, it is only the parent accounts that are relevant for public consultation.

This prospective financial information has been prepared to meet the requirements of the Local Government Act 2002. This information may not be suitable for use in any other context.

Since these prospective financial statements are for the period 1 July 2011 to 30 June 2012, actual results are not reflected. The actual results achieved for the period covered by this plan are likely to vary from the information presented in this document, and these variations may be material.

The reforecast statement of financial position as at 30 June 2010 has been used to give an opening position for the prospective statement of financial position.

The elected council is responsible for the prospective financial information presented in this document, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures. The council approved these underlying assumptions on 16 February 2011.

The prospective financial statements comply with Financial Reporting Standard 42 Prospective Financial Statements. The council does not intend to update the prospective financial statement subsequent to presentation.

Statement of Accounting Policies

Reporting Entity

Rotorua District Council is a local authority in New Zealand.

The council is a public benefit entity as defined under New Zealand International Financial Reporting Standards (NZ IFRS). The council's primary objective is to provide services and facilities for the community as a social benefit rather than to make a financial return.

Basis of preparation

Statement of Compliance

The financial statements have been prepared in accordance with the requirements of the Local Government Act 2002. This includes the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and in accordance with Financial Reporting Standard 42 Prospective Financial Statements (FRS 42).

Measurement Base

The financial statements are prepared on an historical cost basis modified by the revaluation of the following;

- land and buildings
- certain infrastructural assets
- collections
- biological assets
- and certain financial instruments.

The methods used to measure fair value are discussed in the specific accounting policies.

Currency

The financial statements are presented in New Zealand dollars ($), the council's functional currency, rounded to the nearest thousand dollars ($000) unless otherwise stated.

Presentation

Please note that some of the tables and financial statements may not add up due to rounding of numbers. Rounding may also show different values of an item in different tables.

In some cases, the depreciation and consequential operating costs arising form a capital project will appear under a different activity from the capital expenditure. This occurs when the capital project is carried out to achieve a specific strategic objective, and the resulting asset resides in a different strategy.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant assumptions are listed in the Ten Year Plan 2009-19.

Cost allocation

Cost of service for each significant activity is determined as follows. Specifically attributable costs are charged directly. Indirect costs are apportioned using appropriate cost drivers such as actual usage, staff numbers and floor area.

Specific accounting policies

Investments

Subsidiaries
Subsidiaries are those entities in which the council has control. The financial statements show investment in subsidaries at cost.

Shaping Rotorua

Statement of accounting policies cont.

Associates and joint ventures
Associates are entities in which the council has significant influence, but not control, over operating and financial policies. A joint venture is a contractual arrangement where two or more parties undertake and activity that is subject to joint control. The financial statements show investment in associates and joint ventures at cost.

Acquisitions

The equity method of accounting is used to account for all acquisitions (including business combinations).

The investment in the associate is initially recognised at cost and the carrying amount in the financial statements is increased or decreased to recognise the share of the surplus or deficit of the associate after the date of acquisition. Distributions received from an associate reduce the carrying amount of the investment.

Dilutions gains or losses arising from investments in associates are recognised in the statement of comprehensive income.

Goods and services tax (GST)

Items in the financial statements are exclusive of GST, with the exception of receivables and payables. The net amount of GST receivable from, or payable to, the Inland Revenue Department is included as part of receivables or payables in the statement of financial position. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense. The council has assumed an unchanged rate of GST at 15.0 per cent.

Property, plant and equipment

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 the 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 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.

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

Values calculated at depreciated replacement cost are not market related. This applies to certain specialist assets, such as infrastructure assets and specialised buildings, which do not trade readily in the market.

Land and buildings (operational and restricted), library books, and infrastructural assets (except land under roads) are revalued on a rolling basis over a three-year cycle, with a portion of the portfolio valued at 01 July each year. Each year the council considers the adequacy of the valuation of its assets to ensure their carrying value reflects fair value. All other assets are carried at depreciated historical cost.

Increases in asset carrying amounts due to revaluation, increase revaluation reserves in equity. Decreases in asset carrying amounts decrease revaluation reserves in equity only to the extent that the class of assets has sufficient revaluation reserves to absorb the reduction. All other decreases are charged to the statement of comprehensive income.

If a revaluation increase reverses a decrease previously recognised in the statement of comprehensive income, the increase is recognised first in the statement of comprehensive income to reverse previous decreases. Any remaining increase is applied to revaluation reserves in equity.

Subsequent Costs
Subsequent costs are included in the asset's carrying amount, or recognised as a separate asset, when it is likely that future economic benefits associated with the item will flow to the council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income for the financial period they relate to.

Additions
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 at the date acquisition.

Sale or Disposal of assets
Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the statement of comprehensive income. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to accumulated funds.

Depreciation
Depreciation writes off the cost of the assets to residual value over their useful life.

Depreciation is provided on all fixed assets with certain exceptions. The exceptions are:
- Land is not depreciated.

Statement of accounting policies cont.

- 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 useful life (years) of major classes of assets are:

	Expected useful life (years)
Roads	1–100
Stormwater	70 – 100
Water	
Wastewater Reticulation	15-100
Parks	6-100
Buildings	40-50
Library books	2-5
Plant	10-15
Computer equipment	3-5
Office Equipment	5
Furniture and Fittings	10-20
Parking	10-50
Landfill Improvements	3-100
Airport	10-15

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

Investment property

Investment property is held for long-term rental yields and is not occupied by the council. Properties leased to third parties under operating leases are generally not classified as investment property because:

- The occupants provide services that are integral to the operation of the councils business or these services could not be provided efficiently and effectively by the lessee in another location.
- The council is a public benefit entity and the property is held to meet service objectives, rather than to earn rental or for capital appreciation.
- The property is being held for future delivery of services.
- The lessee uses the council services and those services are integral to the reasons for their occupancy of the property.

Investment property is initially recoded at cost, including transaction costs. After initial recognition, all investment property is measured at fair value, representing open-market value determined annually by independent external valuers. Changes in fair values are recorded in the statement of comprehensive income.

Intangible assets

Intangible assets are initially recorded at cost. Where acquired in a business combination, the cost is their fair value at the date of acquisition. The cost of an internally generated intangible asset represents expenditure incurred in the development phase only.

Subsequent to initial recognition, intangible assets with finite useful lives are recorded at cost, less any amortisation and impairment losses. Assets with indefinite lives are not amortised, but are tested annually for impairment, and are carried at cost less impairment losses.

Realised gains and losses arising from disposal of intangible assets are recognised in the statement of comprehensive income in the period in which the disposal occurs.

Where an intangible asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. Losses resulting from impairment are reported in the 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%

Computer software

Computer software licenses are capitalised on the basis of the costs incurred to acquire and install the specific software. These costs are amortised using the straight-line method over their estimated useful lives.

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

Costs directly associated with the development of identifiable and unique software products controlled by the council, that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Computer software development costs recognised as assets are amortised using the straight-line method over their estimated useful lives. Staff training costs are recognised as an expense when incurred.

Statement of accounting policies cont.

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.

No impairment losses have been recognised for easements, as the carrying amount of the assets has been assessed as less than their replacement costs.

Impairment of property, plant and equipment and intangible assets

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 its 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 debit 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 the 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.

Forestry assets

Standing forestry assets are independently revalued annually at fair value less estimated point of sale costs for one growth cycle. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined pre-tax rate. This calculation is based on existing sustainable felling plans and assessments regarding growth, timber prices, felling costs and silviculture costs and takes into consideration environmental, operational, and market restrictions.

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 comprehensive income.

Forestry maintenance costs are recognised in the statement of comprehensive income when incurred.

Financial Assets

The council classifies its financial assets in the following categories:

- Financial assets at fair value
  - Through profit and loss
  - Through equity
- Loans and receivables
- Held to maturity investments

The classification depends on the reason behind acquiring the investment. The council decides how to classify its investments when they are acquired.

Purchases and sales of investments are recorded on the value date. Financial assets are no longer recognised when the right to receive cash flows from the financial assets has expired or been transferred.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the council establishes fair value through valuation techniques.

The council assesses at each year-end whether there is evidence that a financial asset or group of financial assets is impaired. Any impairment loss is recognised in the statement of comprehensive income.

Financial assets at fair value through profit and loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit and loss. A financial asset falls in this category if acquired principally to sell in the short-term or is designated this way by council. After initial recognition, they are measured at fair value. These financial assets are classified as current assets if they are held for trading or expected to be realised within 12 months of the year-end date.

Financial assets at fair value through equity
Financial assets at fair value through equity are non-derivative assets designated in this category or not classified in the other categories. After initial recognition, they are measured at fair value. They are included in non-current assets, unless the council intends to dispose of the asset within 12 months of year-end.

Statement of accounting policies cont.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments not quoted in an active market. They arise when the council provides money, goods and services directly to a debtor, with an intention of selling the receivable asset. After initial recognition, they are measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income. These balances are included in current assets, except for those with maturities greater than 12 months after the year-end date, which are classified as non-current assets.

Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the council's management has the intention and ability to hold to maturity. After initial recognition, they are measured at amortised cost using the effective interest method.

Derivatives

Derivatives, such as interest swaps, are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured using the effective interest method.

When a derivative is entered into hedging activity, the council documents a hedge relationship either as a cash flow hedge (hedge of a forecast transaction) or a fair value hedge (hedge of the fair value of a recognised asset or liability). Also documented are the nature of the risk being hedged, its risk management objective, strategy for hedge transactions, identification of the hedging instrument and hedged item, and how the hedging instrument's effectiveness is to be assessed.

The fair value of financial instruments traded in active markets is based on quoted market prices at the year-end date. The quoted market price used for financial assets held by the council is the current bid price. The quoted market price for financial liabilities is the current ask price.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recorded in the statement of comprehensive income.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets accounting criteria, any cumulative gain or loss in equity at that time remains in equity and is recognised when the forecast transaction is recorded in the statement of comprehensive income.

The council only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of the interest rate swaps that hedge 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 other comprehensive income within "other gains/(losses). 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 recorded in the statement of comprehensive income.

Derivatives that do not qualify for hedge accounting

Certain derivatives do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the statement of comprehensive income within "other gains/(losses)".

Trade and other receivables

Trade and other receivables are recognised initially at fair value, and subsequently measured at amortised cost less any provision for impairment. They are due for settlement no more than 30 days from the date of recognition.

The council reviews the collection of trade receivables on an ongoing basis and writes off bad debts known to be uncollectible. A provision is made for doubtful receivables when there is evidence that the council will not be able to collect all amounts due according to the original terms of the receivables. The amount provided is the difference between the receivables carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. This amount provided is recorded in the statement of comprehensive income.

Inventories

Inventories 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, adjusted when applicable, for any loss of service potential. Where inventories are acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

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 from cost to net realisable value is recognised in the statement of comprehensive income in the period of the write down.

Statement of accounting policies cont.

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.

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.

They are measured at the lower of their carrying amount and fair value less costs to sell.

Any reduction in assets value is recognised as an impairment loss.

A gain is recognised for any subsequent increases in fair value, loss costs of sale, but not in excess of any cumulative impairment loss previously recognised.

A gain or loss not previously recognised by the date of the non-current asset is recognised at the date of sale.

Non-current assets held for sale are not depreciated or amortised. Interest and other expenses continue to be recognised if they relate to the liabilities of a disposal group classified as held for sale.

Non-current assets held for sale and assets of a disposal group classified as held for sale are disclosed separately from other assets in the statement of financial position. Also, the liabilities of a disposal group classified as held for sale are disclosed separately from other liabilities in the statement of financial position.

Equity

Equity is the ratepayers' interest in the 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 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.

Property revaluation reserves
This reserve relates to the revaluation of property, plant and equipment to fair value.

Fair value through other comprehensive income reserves
This reserve comprises the cumulative net change in the fair value of fair value through other comprehensive income instruments.

Cash flow hedge reserves
This reserve comprises the effective portion of the cumulative net change in the fair value of derivatives designated as cash flow hedges.

Borrowings

Borrowings are initially recognised at their fair value (net of transaction costs), and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and amortised cost is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless council or the group has an unconditional right to defer settlement of the liability for at least 12 months after the year end date.

Provisions

Provisions are recognised when:
- The council has a present legal or constructive obligation due to past events.
- It is more likely than not that an outflow of resources will be required to settle the obligation.
- The amount has been reliably estimated.

Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure 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.

Environmental
The council has a responsibility to provide ongoing maintenance and monitoring of the Rotorua Landfill. A provision has been estimated taking into account existing technology and using a discount rate of 7%.

Statement of accounting policies cont.

Contractual
A contractual provision is recognised when legal claims have been issued against the council for past transactions and it is probable that the council will be liable for these claims. The amounts recorded in the financial statements are the estimated cost of these claims.

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, even if a payment under the guarantee is not considered probable.. 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.

Income Tax

The income tax expense is the tax payable on the current period's taxable income based on the New Zealand tax rate, and adjusted for changes in deferred tax assets and liabilities, and adjustments to income tax payable in respect of prior years. Rotorua District Council has minimal sources of income that are assessable for income tax.

Trade and other payables

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

Employee benefit liabilities

Short-term employee entitlements
These include wages and salaries, annual leave and sick leave. These liabilities are expected to be settled within 12 months of the reporting date. They include employees' services up to year end date and are measured at the amounts the council expects to pay when the liabilities are settled. A liability is recognised for bonuses where they are 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 have been actuarially measured as the present value of expected future payments for services provided by employees up to the year-end date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Retirement benefit
A number of current and former employees of the council are entitled to benefits, on retirement, disability or death, from the council's multi-employer benefit scheme. The council has insufficient information and cannot follow defined benefit accounting, so the scheme is accounted for as a defined contribution plan. Contributions are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset, if a cash refund or a reduction in the future payments is available.

Revenue

The council measures revenue at the fair value of the amounts received or receivable, net of discounts, duties and taxes paid. It accounts for revenue for the major activities as follows:

- Rates – when levied. Penalties and discounts relating to rates are included where applicable.
- Traffic and Parking infringements – when payment of the ticket is received.
- Licences and permits revenue – on application.
- Rental revenue – for the period it relates to.
- Sale of goods – when the risks and rewards of the ownership of the goods passes to the purchaser.
- Interest income – on a time-proportion basis using the effective interest method.
- Dividend income – when the right to received payment is established.
- Royalty income – on an accruals basis in accordance with the royalty agreements.
- Development and financial contributions – are recognised when the council provides or is able to provide the service for which the contribution was charged. Otherwise, development and financial contributions are recognised as liabilities until such time the council provides, or is able to provide the service.
- Grants and subsidies – received in relation to the provision of services are recognised on a percentage of completion basis. Other grants and subsidies are recognised when receivable.
- Contra transactions - are measured at the fair value of the assets received or the fair value of goods given up.

Construction contracts

Contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract at balance date. The stage of completion is measured by reference to the contract costs incurred up to the balance date as a percentage of total estimated costs for each contract.

Statement of accounting policies cont.

Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms of the contract and an allocation of overhead expenses incurred in connection with the group's construction activities in general.

An expected loss on construction contracts is recognised immediately as an expense in the surplus or deficit.

Where the outcome of a contract cannot be reliably estimated, contract costs are recognised as an expense as incurred, and where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred.

Construction work in progress is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings. If there are contracts where progress billings exceed the aggregate costs incurred plus profit less losses, the net amounts are presented under other liabilities.

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 finance charge is charged to the surplus or deficit 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 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.

Currently council holds no finance leases.

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.

Borrowing costs

All 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.

Foreign currency transactions

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 comprehensive income.

Critical Accounting Estimates and Assumptions

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 for the financial year 2011/2012, and to provide a broad accountability mechanism of the Council to the Community.

Changes in accounting policies

The accounting policies have been applied consistently to all periods presented.