

## Accounting Policies

### STATEMENT OF ACCOUNTING POLICIES FOR THE LONG TERM COMMUNITY PLAN

#### REPORTING ENTITY

Opotiki District Council (ODC) is a territorial local authority governed by the Local Government Act 2002.

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

The prospective financial statements of ODC are for the ten year period commencing July 2009. The financial statements were authorised for issue by Council on 23 February, 2009.

The Council, who are authorised to do so and believe that the assumptions underlying these prospective financial statements are appropriate, has approved the Long Term Council Community Plan for distribution.

The Council and management of the Opotiki District Council accept responsibility for the preparation of their prospective financial statements, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

No actual financial results have been incorporated within the prospective financial statements.

The Council intends to update the prospective financial statements subsequent to presentation May 2009. The final prospective financial statements are then to be presented to the Council for adoption on 30 June 2009.

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

#### BASIS OF PREPARATION

##### Statement of compliance

The prospective financial statements of ODC 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.

##### Measurement base

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

##### Functional and presentation currency

The prospective financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000). The functional currency of ODC is New Zealand dollars.

##### Changes in accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

#### SIGNIFICANT ACCOUNTING POLICIES

##### 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.

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Rates collected on behalf of Bay of Plenty Regional Council (EBOP) are not recognised in the financial statements as ODC is acting as agent for EBOP.

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

## *Government Grants*

ODC receives government grants from NZ Transport Agency, which subsidises part of ODC'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.

## *Vested assets*

Where a physical asset is acquired for nil or nominal consideration, the fair value of the asset received is recognised as income. Assets vested in ODC are recognised as revenue when control over the asset is obtained.

## *Sale of goods*

Sales of goods are recognised when a product is sold to the customer.

## **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 ODC 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 ODC's decision.

## **Income Tax**

ODC is exempt under Section CW37 of the Income Tax Act 2007 which specifically exempts local authorities from income tax unless derived from a CCO or port-related commercial activities.

## **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.

The finance charge is charged to the statement of financial performance over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

## *Interest and dividends*

Interest income is recognised using the effective interest method.

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

## *Development contributions*

Development and financial contributions are recognised as revenue 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.

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.

At the commencement of the lease term, ODC 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 payment.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether ODC 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.

## **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.

## **Debtors and other receivables**

Debtors 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 ODC 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 ODC 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.

## Financial assets

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

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

ODC classifies its financial assets into the following categories: 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.

### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognised in the Prospective Statement of comprehensive performance.

ODC does not anticipate holding any financial assets in this category.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance date, which are in non-current assets. ODC's loans and receivables comprise cash and cash equivalents, debtors and other receivables, term deposits and loan advance.

After initial recognition they are measured at amortised cost using the effective interest method less impairment. Gains and losses when the asset is impaired or derecognized are recognised in the Prospective Statement of Financial Income.

Loans to community organizations made by ODC at nil or below-market interest rates are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar financial instrument. The loans are subsequently measured at amortised cost using the effective interest method. The difference between the face value and the present value of expected cash flows of the loan is recognised in the Prospective Statement of Financial Income.

### *Held to maturity investments*

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that ODC has the positive intention and ability to hold to maturity. They are included in current assets, except for maturities greater than twelve months after the balance date, which are included in non-current assets.

After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or de-recognised are recognised in the Prospective Statement of Financial Income.

ODC does not hold any financial assets in this category.

### *Financial assets at fair value through equity*

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

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

After initial recognition these investments are measured at their fair value, with gains and losses recognised directly in equity except for impairment losses, which are recognised in the Prospective Statement of Financial Income.

# Accounting Policies

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

## *Fair value*

The fair value of financial instruments traded in an active market 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 on an active market is determined using valuation techniques. ODC uses a variety of methods and makes assumptions that are based on the current market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as discounted expected cash flows, are used to determine fair value for the remaining financial instruments.

ODC hold no fair value investments.

## **Impairment of financial assets**

At each balance sheet date ODC 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.

## *Loans and other receivables*

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

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

## *Quoted and unquoted equity investments*

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

## **Non-current assets held for sale**

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

Any impairment losses for write-downs of non-current assets held for sale are recognised in the statement of 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 consist of:

*Operational assets* — These include land, buildings, plant, machinery and vehicles, fixtures, fittings and equipment and library collections.

*Restricted assets* — Restricted assets are land and buildings owned by ODC 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 ODC. Each asset 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 are shown at cost or valuation, less accumulated depreciation and impairment losses.

## *Revaluation*

Land, buildings (operational and restricted), library books, and infrastructural assets (except land under roads) are revalued with sufficient regularity to ensure their carry amount does not differ materially from fair value, and at least every three years. All other asset classes are carried at depreciated historical cost. ODC assesses the carrying values of its revalued assets annually to ensure that they do not differ materially from the assets' fair values. If there is a material difference, then the off-cycle asset classes are revalued.

ODC accounts for revaluation of property, plant and equipment on a class of asset basis. The result of revaluing are credited or debited to an asset revaluation reserve for that class of asset. Where this results 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 value of the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

## *Additions*

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

## *Depreciation*

Depreciation is provided on a straight-line basis on all property, plant and equipment other than land, at rates that will write-off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

## Buildings

- Structure 35 to 85 years (2.86% - 1.18%)
- Roof 40 years (2.5%)
- Services 15 to 50 years (6.67% - 2.0%)
- Internal fit out 15 to 35 years (6.67% - 2.86%)

Plant and machinery 5 to 10 years (10% - 20%)

Motor vehicles 5 years (20%)

Fixtures, fittings and equipment 3 to 5 years (33% - 20%)

Library collections 5 to 10 years (10% - 20%)

## Infrastructural assets

### Roading network

- Formation N/A (Nil)
- Sub base N/A (Nil)
- Basecourse (unsealed) 8 years (12.5%)
- Basecourse (sealed) 25 to 50 years (2% - 4%)
- Seal 15 years (6.67%)
- Bridges 100 years (1.0%)
- Hot mix 10 years (10.0%)

Kerb and footpaths 50 years (2.0%)

Reticulation 5 to 100 years (0.5% - 20.0%)

Traffic facilities (roading components) 10 to 20 years (5.0% - 10.0%)

Culverts (roading components) 50 years (2.0%)

Pumps 10 to 20 years (5.0% - 10.0%)

Meters, valves and connections 25 to 75 years (1.5% - 4.0%)

River protection works 100 years (1.0%)

Drainage associated with the roading infrastructure is not depreciated. The annual maintenance programme set out in the asset management plan will ensure the specific level of service is maintained.

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

## **Intangible assets**

### *Software acquisition and development*

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

Costs that are directly associated with the development of software for internal use by ODC are recognised as intangible asset. Direct cost will include the software development employee costs and appropriate portion of relevant overheads. Staff training costs are recognised as an expense when incurred.

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

## *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 de-recognised. The amortisation charge for each period is recognised in the Prospective Statement of Financial Income.

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

Computer software 4 to 5 years (20% - 25%)

## **Impairment of property, plant and equipment and intangible assets**

Intangible assets that have an indefinite useful life, or are 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 indicator of impairment at each balance date. When there is an indicator of impairment the assets 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 the 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 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 balance is recognised in the Prospective Statement of Financial Income.

For assets not carried at a revalued amount, the total impairment loss is recognised in the Prospective Statement of Financial 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 financial performance, a reversal of the impairment loss is also recognised in the Prospective Statement of Financial Income.

For assets not carried at a revalued amount the reversal of an impairment loss is recognised in the Prospective Statement of Financial Income.

## **Investment property**

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

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

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

Gains or losses arising from a change in the fair value of investment property are recognised in the Prospective Statement of Financial Income.

## **Creditors and other payables**

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

## **Borrowings**

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

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

## **Employee entitlements**

### *Short-term employee entitlements*

Employee benefits that ODC 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.

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

#### *Long-term employee entitlements*

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

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

#### **Superannuation schemes**

##### *Defined contribution schemes*

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the Prospective Statement of Financial Income as incurred.

#### **Provisions**

ODC 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.

#### *Landfill*

ODC operated a landfill at Woodlands Road Opotiki. This has closed but ODC has responsibility under the resource consent to provide ongoing maintenance and monitoring of the site. A provision for post-closure costs is recognised as a liability when the obligation for post-closure arises.

#### **Equity**

Equity is the community's interest in ODC 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
- Restricted reserves
- Asset revaluation reserves
- Fair value 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 ODC.

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

#### **Goods and Services 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.

#### **Estimated expenses and governance statements**

The cost of service statements report the net cost of service for significant activities of Council, and are represented by all the operating revenue that can be allocated to these activities less the operating cost of providing that service.

# Accounting Policies

## **Cost allocation**

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

Direct costs are those costs directly attributable to a significant activity. Indirect costs are those costs which cannot be identified in an economically feasible manner with a specific significant activity.

Direct costs are charged directly to significant activities. Indirect costs are charged to significant activities using appropriate cost drivers, such as actual usage, staff numbers and floor area.

## **Critical accounting estimates and assumptions**

In preparing these financial statements, ODC has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgments 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 judgment. 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 planned course 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 presented within these policies and documents is prospective financial information in terms of FRS 42: 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 Opotiki District Council over the financial years from 2009/2010 to 2018/2019 and to provide a broad accountability mechanism of the Council to the community.

The reader is referred to page 76 for a full list of underlying assumptions.