

*Waimate 2020*

**Waimate District Council  
Financial Policy 409**

**Statement of Accounting Policies**



**Version 2.4  
1st March 2006**

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### REPORTING ENTITY

The Waimate District Council (WDC) is a territorial local authority governed by the Local Government Act 2002 and qualifies as a 'public benefit entity' (PBE) under the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The Waimate District Council group consists of Waimate District Council, Forestry Joint Ventures (53% owned), Downlands Joint Venture (14.81% owned), and a subsidiary, Waimate Medical Centre Ltd (100% owned).

The financial statements and group financial statements have been prepared in accordance with the requirements of section 98 of the Local Government Act 2002 which includes the requirement to comply with generally accepted accounting practice.

### MEASUREMENT BASE

All statements follow the general accounting principles recognised as appropriate for the measurement and reporting of results and financial position on an historical cost basis modified by the valuation of certain assets.

### SUMMARY OF ACCOUNTING POLICIES

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice. They comply with the NZ IFRS and other applicable financial reporting standards as appropriate for PBEs. The principal accounting policies adopted are set out below.

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

### 1 Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the WDC and enterprises controlled by the WDC (its subsidiaries) made up to 30 June each year.

All business combinations are accounted for by applying the purchase method.

Control is achieved where the WDC has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess (deficiency) of the cost of acquisition over (below) the fair values of the identifiable net assets acquired is recognised as Goodwill (Discount on Acquisition). IFRS 3 requires that, after reassessment, any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination should be recognised immediately in profit or loss. IFRS 3 prohibits the recognition of Discount on Acquisition in the Statement of Financial Position.

The interest of minority shareholders is stated at the minority's proportion of the net fair values of the assets, liabilities and contingent liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated Statement of Financial Performance from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All significant intragroup transactions and balances between group enterprises are eliminated on consolidation.

### 2 Joint Ventures

A joint venture is a contractual arrangement whereby the WDC and other parties undertake an economic activity that is subject to joint control.

Where the WDC undertakes its activities using jointly controlled assets, the WDC's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the WDC's financial statements and classified according to their nature.

Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the WDC's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Where the WDC transacts with these joint ventures, unrealised profits and losses are eliminated to the extent of the WDC's interest in the joint venture, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred.

### 3 Budget Figures

The budget figures are those approved by Council at the beginning of the year after a period of consultation with the public as part of the LTCCP/Annual Plan process. The budget figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Council for the preparation of the financial statements.

### 4 Goods and Services Tax (GST)

These financial statements have been prepared exclusive of GST, except for receivables and payables, which are GST inclusive. Where GST is not recoverable as an input tax, it is recognised as part of the related asset or expense.

### 5 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year.

Taxable profit differs from net profit as reported in the Statement of Financial Performance because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Statement of Financial Position date.

Deferred tax is the tax expected to be payable or recoverable on 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, and is accounted for using the Statement of Financial Position liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realised.

Deferred tax is charged or credited in the Statement of Financial Performance, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Council intends to settle its current tax assets and liabilities on a net basis.

### 6 Revenue Recognition

Sales of goods are recognised when the significant risks and rewards of ownership of the assets have been transferred to the buyer which is usually when the goods are delivered and title has passed.

Rates revenue is recognised by Council as income on a straight line basis over the rating

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period.

Water Billing is recognised based on the volumes delivered.

Revenue from a contract to provide services is recognised by reference to the stage of completion.

Dividends are recognised, net of imputation credits, as revenue when the shareholders' rights to receive payment have been established. Levies are recognised as income when assessments are issued.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Lease incentives granted are recognised as part of the total rental income. Rental income from investment and other property is recognised in the Statement of Financial Performance on a straight-line basis over the term of the lease.

Government grants are recognised as revenue to the extent of eligibility for grants established by the grantor agency. Transfund roading subsidies are recognised as revenue upon entitlement, which is when conditions pertaining to eligible expenditure have been fulfilled.

Other revenue including assets vested in Council, with or without restrictions are recognised as revenue when control over the assets is obtained.

## 7 Equity

Equity is the community's interest in the Council and group and is measured as the difference between total assets and total liabilities. Public equity is disaggregated and classified into a number of reserves to enable clearer identification of the specified uses that the Council and group makes of its accumulated surpluses. The components of equity are:

- Accumulated Funds
- Revaluation Reserve
- Reserve Funds & Trust Funds

## 8 Reserves

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 reserves subject to specific conditions accepted as binding by the Council and which may not be revised by the 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.

Council-created reserves are reserves established by Council decision. The Council may alter them without reference to any third party or the Courts. Transfers to and from these reserves are at the discretion of the Council.

## 9 Accounts Receivable

Accounts receivable include rates and water charges and are recorded at their amortised cost which approximates their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. As there are statutory remedies to recover unpaid rates, penalties and water meter charges, no provision has been made for doubtful debts in respect of rates receivables.

Trade receivables are stated at their amortised cost which approximates their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

## 10 Inventories

Inventories are valued at the lower of net realisable value and weighted average cost.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

## 11 Investments

Equity investments in subsidiaries are valued in the Council's parent financial statements at cost less accumulated impairments. Any impairments are recognised in the Statement of Financial Performance.

Equity investments in other entities are classified as 'Available for Sale' and are valued in the Council's parent financial statements at fair value. Any gains and losses arising from changes in fair value are recognised directly in Equity, except for impairment losses, until the security is disposed of, at which time the cumulative gain or loss previously recognised in Equity is included in the Statement of Financial Performance for the period. Impairment losses are recognised in the Statement of Financial Performance for equity investments classified as 'Available for Sale' and are not subsequently reversed through the Statement of Financial Performance.

Other investments are recognised on a trade-date basis and are initially measured at fair value, including transaction costs. At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments other than held-to-maturity debt securities are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period.

For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

## 12 Property, Plant and Equipment

Property, Plant and Equipment are stated at their revalued amounts except for Furniture and Equipment; Motor Vehicles, Plant and Machinery, and Library Books. The latter are

stated at their cost or deemed cost. The revalued amounts are their fair values at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at balance date.

Additions between valuations are recorded at cost, except for vested assets. Certain infrastructure assets and land have been vested in the Council as part of the subdivisional consent process. The vested reserve land has been initially recognised at the most recent appropriately certified government valuation. Vested infrastructure assets have been valued based on the actual quantities of infrastructure components vested and the current "in the ground" cost of providing identical services.

Revaluation increments and decrements are credited or debited to the 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 offsets a previous decrease in value is 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. On disposal, the attributable revaluation surplus remaining in the revaluation reserve, is transferred directly to Retained Earnings.

Costs incurred in obtaining any resource consents are capitalised as part of the asset to which they relate. If a resource consent application is declined then all capitalised costs are written off.

All LTCCP financial reports are based on these valuations, plus a calculated revised value to represent inflation or otherwise for each year since the most recent valuation up to 1st July 2006 in order to represent a realistic starting value at that date. The factors used for inflation are described in the section on assumptions earlier in this volume.

### Land and Buildings

Freehold land and buildings were revalued at 1 July 2005 with reference to their highest and best use by Quotable Value Ltd. Additions are valued at cost, less accumulated depreciation.

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## Infrastructure Assets

- Roading and Bridges have been re-valued by Opus Consultants, Registered Valuers, at 30 June 2003, on a depreciated replacement cost basis. Rural water assets were revalued at 30 June 2004 on a depreciated replacement cost basis by Opus Consultants. Land under roads is valued at current rating values.
- Sewerage assets were revalued by Beca Valuations Limited, Registered Valuers, at 30 June 2004, on a depreciated replacement cost basis.
- Waimate Urban Water was revalued by Opus Consultants, Registered Valuers, at 30 June 2004, on a depreciated replacement cost basis.
- Other infrastructural assets, including stormwater assets, were revalued as at 1 July 2005 on a depreciated replacement cost basis. Additions are valued at cost, less accumulated depreciation. The valuation was carried out by Beca Valuations Limited, Registered Valuers.
- Council's sanitation assets consist of a constructed Transfer Station and a recycling building. As at 30 June 2004, sanitation assets were valued on a depreciated replacement cost basis.
- The Elephant Hill drain was valued at depreciated replacement cost by the Canterbury Regional Council as at 30 June 1993, which is deemed cost, less accumulated depreciation.
- Meritec, Registered Valuers, revalued the Downlands Water Scheme at depreciated replacement cost as at 1 July 2005.

## Furniture and Equipment

Furniture and Equipment is recorded at second-hand market valuation by Morton & Co, Registered Valuers, as at 30 June 2000, which is depreciated replacement cost less accumulated depreciation. Subsequent purchases are valued at cost, less accumulated depreciation.

## Motor Vehicles, Plant and Machinery

Motor Vehicles, Plant and Machinery were valued internally at net realisable values, by the Council's Works and Engineering Manager, as at 30 June 1991, which is

deemed cost less accumulated depreciation. Subsequent purchases are valued at cost, less accumulated depreciation.

## Library Books

Library books were valued internally as at 30 June 2003 by the Council's Librarian at estimated cost, which is deemed cost, less accumulated depreciation. Subsequent purchases are valued at cost, less accumulated depreciation.

## 13 Forestry

Forests were valued as at 1 July 2005, by Resource Management Ltd, registered Forestry Consultants, and members of the New Zealand Institute of Forestry in accordance with NZ IAS 41. All forests have been valued at 'fair value' less estimated point of sale costs which exclude transportation costs required to get the logs to market.

Council has a policy to revalue its forests annually. Any increase or decrease in the valuation is reflected in the Statement of Financial Performance.

## 14 Investment Property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value at balance date. An external, independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation.

The valuations reflect, where appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit worthiness; and

the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and where appropriate counter notices have been validly served within the appropriate time.

Any gain or loss arising from a change in fair value is recognised in the Statement of Financial Performance.

Rental income from investment property is accounted for as described in the Revenue Recognition accounting policy.

When an item of property, plant and equipment which is revalued, is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognised immediately in the Statement of Financial Performance.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes of subsequent recording. When WDC begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on fair value model, and is not reclassified as property, plant and equipment during the re-development.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when WDC holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value. Lease payments are accounted for as described in the Revenue Recognition accounting policy.

The investment properties were valued by Quotable Value Limited, Registered Valuers as at 1 July 2006.

## 15 Intangible Assets

### (i) Goodwill

Goodwill represents amounts arising on acquisition of subsidiaries and jointly controlled entities. Goodwill represents the difference between the cost of the

acquisition and the fair value of the Group's interest in the identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition for acquisitions after 1 July 2005.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 July 2005 have not been restated in preparing the Council's Statement of Financial Position at 1 July 2005 in accordance with the exemption allowed under NZ IFRS 1.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment or whenever there is any indication that the Goodwill may be impaired.

Any impairment is recognised immediately in the Statement of Financial Performance and is not subsequently reversed.

### (ii) Computer software

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by WDC, and where it is probable that these software products will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development, employee costs and an appropriate portion of relevant overheads.

### (iii) Other intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's development of its

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research findings is recognised only if all of the following conditions are met:

- an asset is created that can be identified such as new processes;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by WDC are stated at cost less accumulated amortisation and impairment losses and are amortised on a straight line basis over their useful lives.

Expenditure on internally generated goodwill and brands is recognised in the Statement of Financial Performance as an expense as incurred.

## (iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

## (v) Amortisation

Amortisation is charged to the Statement of Financial Performance on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and other intangible assets with an indefinite useful life are systematically tested for impairment at each Statement of Financial Position date. Other intangible assets are amortised from the date they are available for use.

## 16 Depreciation

Depreciation has been provided on a straight line or diminishing value basis on all property, plant and equipment at rates which will write off the cost (or valuation) 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:

Infrastructural Assets	Depreciable Life (Years)
<b>Roading Assets</b>	
Land	Not depreciable
Road formation – shoulders	Not depreciable
Road Pavement	
- Sealed roads	100 (50% residual value)
- Unsealed roads	100 (50% residual value)
Road surfacing	10-16 (no residual value)
Culverts	100
Kerb and channel	50
Footpaths	50-70
Bridges	80-120
<b>Water Assets</b>	
Pipe reticulation	65-130
Pumps	25
Reservoir components	20-100
<b>Wastewater Assets</b>	
Pipe reticulation	100-120
Treatment facilities	20-100
<b>Sanitation Assets</b>	
Transfer station asset	15-100
<b>Stormwater Assets</b>	
These are depreciated on a straight-line basis over 20 to 100 years, depending on the nature of the network asset.	

The depreciation rates of the other classes of assets are:

## Operating Assets:

Asset	Rate
Buildings	2% Straight Line
Furniture & Fittings	20% Diminishing Value
Office Equipment	20% Diminishing Value
Plant & Machinery	10% Diminishing Value
Motor Vehicles	20% Diminishing Value
Library Books	10% Diminishing Value
Computer Software	20% Diminishing Value
Elephant Hill Drainage	5% Diminishing Value

## 17 Non-Current Assets Held for Resale

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. The valuation of fair value less costs to sell, was carried out by Quotable Value Limited, Registered Valuers.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

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.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the Statement of Financial

Position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the Statement of Financial Position.

## 18 Impairment

At each balance date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists and for indefinite life intangibles, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the greater of fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

For non-revalued assets, impairment losses are recognised as an expense immediately.

For revalued assets, other than investment property, the impairment loss is treated as a revaluation decrease to the extent it reverses previous accumulated revaluation increments for that asset class.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. An impairment loss recognised for Goodwill is not reversed in a subsequent period.

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## 19 Employee Entitlements

Provision is made for annual leave, long service leave, sick leave and retiring gratuities.

The retiring gratuity liability is assessed on an actuarial basis using future rates of pay taking into account years of service, years to entitlement and the likelihood staff will reach the point of entitlement. These estimated amounts are discounted to their present value using an interpolated 10 year government bond rate.

Liabilities for accumulating short-term compensated absences (e.g., annual and sick leave) are measured as the additional amount of unused entitlement accumulated at the balance date.

## 20 Landfill Post-Closure Costs

As operator of the Waimate District landfill, the Council has a legal obligation under the resource consent to provide ongoing maintenance and monitoring services at the landfill site after closure. A provision for post-closure costs is recognised as a liability when the obligation for post-closure costs arises.

The provision is measured based on the present value of future cash flows expected to be incurred, taking into account future events including new legal requirements, and known improvements in technology, where there is sufficient evidence that these events will occur. The provision includes all other costs associated with landfill post-closure.

Amounts provided for landfill post-closure are capitalised to the landfill asset where they give rise to future economic benefits to be obtained. Components of the capitalised landfill asset are depreciated over their useful lives.

The estimated length of time needed for post-closure care for the closed landfills is an additional 16 years for Upper Pareora, Morven, Otaio, Hook, Makikihi, Glenavy, Waihao and Waimate landfills as at 30 June 2006.

The discount rate used is a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

## 21 Borrowings

Interest-bearing bank loans and overdrafts and other term borrowings, are initially recorded at fair value which is usually the proceeds received, net of direct issue costs. Subsequently, they are measured at amortised cost using the effective interest rate method.

Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

All borrowing costs are recognised in net profit or loss in the period in which they are incurred.

## 22 Trade Payables

Trade payables are stated at their amortised cost which approximates their nominal value given their short term nature.

## 23 Construction Contracts

Profits on contracts are recognised progressively over the period of each contract on a percentage of completion basis.

Foreseeable losses on a contract are recognised immediately.

## 24 Leases

### Finance Leases

Leases which effectively transfer to the lessee substantially all of the risks and benefits incident to ownership of the leased item are classified as finance leases. These are capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments. The leased assets and corresponding lease liabilities are recognised in the Statement of Financial Position. Lease payments are apportioned between finance charges and the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the Statement of Financial Performance. The leased assets are depreciated over the period the Council is expected to benefit from their use.

## Operating Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments under these leases are charged as expenses on a straight line basis over the term of the lease. Benefits received and receivable as an incentive to enter into an operating lease are spread on a straight line basis.

## 25 Financial Instruments

The Council is party to financial instrument arrangements as part of its everyday operations. These financial arrangements include bank deposits, investments, bonds, accounts receivable, bank overdraft facility, accounts payable and term loans.

Revenue and Expenditure in relation to all financial instruments are recognised in the Statement of Financial Performance. All financial instruments are recognised in the Statement of Financial Position at their fair value when the Group becomes a party to the contractual provisions of the instrument.

## 26 Statement of Cash Flows

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, and with original maturities of three months or less, in which the Council, or group invests as part of its day-to-day cash management.

Operating activities include cash received from all income sources of the group and record the cash payments made for the supply of goods and services. Agency transactions are recognised as receipts and payments in the Statement of Cash Flows given that they flow through the Council's main bank account.

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

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

## 27 Cost of Service Statements

The Cost of Service Statements as provided in the Statement of Service Performance report the net cost of service for significant activities of the Council, and are represented by the costs of providing the service less all directly related revenue that can be allocated to these activities.

## 28 Cost Allocation

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

### Cost Allocation Policy

Direct Costs are charged directly to significant activities. Indirect costs are charged to significant activities based on cost drivers and related activity/usage information.

### Criteria for Direct and Indirect Costs

'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.

### Cost Drivers for Allocation of Indirect Costs

The costs of internal services not directly charged to activities are allocated as overheads using appropriate cost drivers such as actual usage, staff numbers and floor area.

## CHANGES IN ACCOUNTING POLICIES

There have been the following significant changes from the accounting policies adopted in the last audited financial statements.

All policies, other than those noted below, have been applied on a basis consistent with the previous period.

Where necessary prior period comparisons have been amended in line with current year's disclosures.

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## Accounting Policies Disclosed in Relation to Annual Report.

The accounting policies disclosed above are in relation to Council's upcoming Annual Reports for years ended 30 June 2006 to 2016. It is important to note that whereas Council's Annual Reports are presented on a consolidated basis principally including Council's Council Controlled Trading Organisation, Waimate Medical Centre Ltd, Council's LTCCP Document is unconsolidated, and shows the projected performance of Council alone, not the group.

## Application of IFRS to Council's Financial Statements

At time of publication of Final LTCCP 2006-2016, in June 2006 Council's intention is that its Annual Report for year ended 30 June 2006, be fully compliant with NZ IFRS. Substantial (although incomplete) background work preparatory to the introduction of NZIRFS for Annual Reporting Purposes, has indicated that the impacts of NZIRFS on Council's LTCCP are not believed to be material for Council's Statement of Financial Performance or Rate take. For this reason Council has published its Final LTCCP 2006-2016, without reflecting changes arising from NZIRFS Compliance.

## 29.PUBLICATION DETAILS

All inquiries or suggestions regarding this Document should be referred to:-	Policy Analyst
Proposed Revision	2.6
Revision Date	7th June 2006
Effective Date	1st July 2006
Minimum Review by:	1st March 2007 to align with Annual Plan/LTCCP
Document Owner – Release Signature	Corporate Services Manager
Chief Executive – Release Signature	

