

# Statement of Accounting Policies

FOR THE YEAR ENDED 30 JUNE 2005

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## REPORTING ENTITY

The Kaikoura District Council is a territorial local authority within the definition of the Local Government Act 2002. The financial statements of this Annual Report have been prepared in accordance with the requirements of section 98 of the Local Government Act 2002, and comply with generally accepted accounting practice and financial reporting standards.

The Kaikoura Enhancement Trust is a charitable trust owned by Council. This Trust in turn owns 49% of Innovative Waste Kaikoura Ltd. The Kaikoura Enhancement Trust has been identified as a Council Controlled Organisation under the definitions in the Local Government Act 2002. Therefore the financial results of this Trust have been consolidated with those of the Kaikoura District Council on a line by line basis.

## MEASUREMENT BASE

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

## ACCOUNTING POLICIES

### Revenue Recognition

Rates and other revenue are recognised by Council as income in the period to which they relate.

### Grants

Grants that contribute to the operating income are recorded as income on an accrual basis when eligibility has been 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.

### Allocation of Overheads

All overheads of support activities are allocated to Council activities on a percentage of use basis.

### Budget Figures

The budget figures in the Statement of Financial Performance are those approved by Council at the beginning of the year after a period of consultation with the public as part of the Annual Plan process.

### Goods and Services Tax

The Financial Statements have been prepared exclusive of GST with the exception of trade receivables and payables, which are stated with GST included. When GST is not recoverable as an input tax, then it is recognised as part of the related asset or expense.

## **Equity**

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

The components of equity are:

- Ratepayers Equity
- Special Reserves
- Special Funds
- Asset Revaluation Reserves

## **Investments**

All investments are stated at the lower of cost and net realisable value. Increases have been recognised in the statement of financial performance.

## **Joint Venture**

The Council has an 11.38% interest in the Marlborough Regional Forestry joint venture. The Council's interest in the joint venture is accounted for using the proportionate method of consolidation. Of Council's interest, 13.37% is held in trust on behalf of Environment Canterbury. This has been recognised as a liability in the financial statements.

## **Operating Leases and Finance 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 in the periods in which they are incurred.

Finance leases result in the lessee ultimately retaining ownership of the leased item. The asset cost is capitalised, and the finance lease liability is added to current liabilities, in the period in which they are incurred.

## **Financial Instruments**

The Council is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, investments, debtors, creditors and loans. All financial instruments are recognised in the statement of financial position, and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

## **Fixed Assets**

Fixed Assets consist of:

- *Operational Assets* - These include land, buildings, improvements, library books, plant, equipment, forests and motor vehicles.
- *Restricted Assets* - These 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.

- *Infrastructural Assets* - The fixed utility systems owned by the Council. Each asset type includes all items that are required for the network to function; for example, sewerage includes reticulation piping and sewer pump stations.

## Valuation

### Infrastructural Assets

Roading, Sewer, Stormwater, and Urban and Rural Water assets have been valued at optimised depreciated replacement cost by Connell Wagner Ltd as at 30 June 2004, subsequent additions are shown at cost less accumulated depreciation. All infrastructural assets, except for land under roads, are valued every three years. Land under roads was valued by Connell Wagner Ltd at 30 June 2001, this is deemed to be cost.

### Other Assets

- Land and buildings have been valued at fair value by Quotable Value NZ Ltd at 30 September 2003, with the exception of the Council Offices, Memorial Hall and Library building. These have been valued to component level by Quotable Values as at 30 June 2003. Subsequent additions are shown at cost less accumulated depreciation.
- Motor Vehicles are valued at cost less accumulated depreciation.
- Office equipment is valued at cost less accumulated depreciation.
- Library Books were valued at 30 June 2003 using actual cost per book.
- Forestry assets at Clarence and South Bay have been valued on the fair value method by an independent valuer, Merrill & Ring NZ Ltd, as at 30 November 2001. This valuation is deemed to be cost. Subsequent planting and pruning costs have been capitalised. Forestry Sales have been included as revenue.
- Art work is based on estimated current valuation as determined by an independent valuation undertaken by Robert McDougall Art Gallery as at 31 October 1991.
- Additions to all asset categories are valued at cost.

## Depreciation

Assets have been depreciated as follows:

<u>Infrastructural Assets</u>	<u>Years</u>	<u>Rate (Rounded)</u>
<i>Roading</i>		
Land & Road Formation		Not Depreciated
Base course	50	2% SL
Bridges – Concrete	100	1% SL
Bridges – Wooden	50	2% SL
Sealed Top Layer	12	8.3% SL
Unsealed Top Layer	8	12.5% SL
Water Channels	80	1.25% SL
Traffic Facilities	15-20	5% to 6.7% SL
Drainage	50	2% SL
Footpaths – Structure		Not Depreciated
Footpaths – Surface	6-50	2% to 16.7% SL

### Sewerage

Land		Not Depreciated
Buildings	50	2% SL
Equipment & Pump Stations	50	2% SL
Rising Mains/Gravity	25-77	From 1.3% to 4.0% SL
Reticulation		

### Water

Rural Water Supplies	50	2% SL
Land		Not Depreciated
Buildings & Equipment	50	2% SL
Intake Gallery	77	1.3% SL
Chlorine Treatment Facility	20	5% SL
Groundwater Bores & Pumps	20-60	From 1.7% to 5.0% SL
Pressure Mains	50-77	From 1.3% to 2.0% SL
Valves & Fittings	15-50	From 2.0% to 6.7% SL

### **Infrastructural Assets**      **Years**      **Rate (Rounded)**

### Stormwater

Manholes, Outlets, Pipes	44-72	From 1.4% to 2.3% SL
Drums	8	12.5% SL

### **Operational Assets**      **Years**      **Rate (Rounded)**

Buildings – Structure	50	2% S.L.
Buildings – Services	30	3.33% S.L.
Buildings – Internal Fit out	5	20% S.L.
Harbour Seawall	50	2% S.L.
Computer Equipment	5	20% S.L.
Plant, Vehicles and Machinery	5	20% S.L.
Software	5	20% S.L.
Art Work		Not Depreciated
Forestry		Not Depreciated
Land		Not Depreciated
Library books	12	8.33% S.L.
Library non-books	5	20% S.L.

### **Restricted Assets**      **Years**      **Rate (Rounded)**

Parks & Reserves Buildings	50	2% S.L.
Parks & Reserves Land		Not Depreciated

Connell Wagner Ltd, using the assets present condition as the basis for determining remaining useful lives, has determined depreciation rates for infrastructural assets.

### **Sinking Funds**

Whenever loans are raised, funds are required to be set aside each year to meet future repayments of loan principal. An independent body of Sinking Fund Commissioners, appointed by the Council, administers these funds, described as Sinking Funds. The funds are

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

## **Stock**

Stock is valued at the lower of cost (determined on a first-in first-out basis) and net realisable value.

## **Accounts Receivable**

Accounts Receivables are stated at estimated realisable value after providing against debts where collection is doubtful.

## **Taxation**

The income tax expense is charged in the statement of financial performance in respect of the current year's surplus after allowing for permanent differences.

Deferred taxation is determined on a comprehensive basis using the liability method. Deferred tax assets attributable to timing differences or income tax losses are recognised only when there is a virtual certainty of realisation.

## **Statement of Cash Flows**

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

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

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

*Finance activities* comprise activities that change the equity and debt capital structure of the Council, such as the raising of loans.

The Statement of Cash Flows includes an 11.38% proportionate share of the Marlborough Regional Forestry for operating, investing, and finance activities.

## **International Financial Reporting Standards**

In December 2002 The New Zealand Accounting Standards Review Board announced that International Financial Reporting Standards (IFRS) will apply to all New Zealand entities for periods commencing on or after 1 January 2007. Entities will also have the option for early adoption of the new standards for periods beginning on or after 1 January 2005. The Council has made the decision to adopt NZIFRS from 1 July 2006.

At the date of this report, the key differences in accounting policies that are expected to arise from adopting NZIFRS are not known and can not be reliably estimated.

## **Changes in Accounting Policy**

There have been no significant changes in accounting policies, these having been applied on a basis consistent with those used in previous years.