Statement of Accounting Policies

For The Year Ended 30 June 2014

REPORTING ENTITY

The Far North District Council is a territorial Local Authority governed by the Local Government Act 2002 and is domiciled in New Zealand. The financial statements reflect the operations of Far North District Council and its subsidiaries, Far North Holdings Limited (100% owned), Rolands Wood Trust and the Te Ahu Charitable Trust, and are prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with Generally Accepted Accounting Practice (GAAP).

Far North District Council has designated itself and the group to be a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Far North District Council's primary objective is to provide goods and services for community or social benefit and any equity has been provided with a view to supporting that primary objective rather than for a financial return. All available reporting exemptions allowed under the framework for public benefit entities have been adopted.

The financial statements are for the year to 30 June 2014 and were authorised by Far North District Council for issue on 30th October 2014.

BASIS OF PREPARATION

Statement of compliance

The financial statements 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 the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

Measurement base

The financial information has been prepared on a historical cost basis, modified by the revaluation of forestry assets, certain classes of property, plant and equipment, certain classes of intangible assets, investment property and certain financial instruments (including derivatives).

Functional and presentation currency

The financial statements are presented in New Zealand dollars (NZD) and are rounded to the nearest thousand dollars ($000's). The functional currency of Council and its subsidiaries is New Zealand dollars.

Changes in accounting policies

The accounting policies set out below have been applied consistently to the financial statements. No changes have been made to these policies during the financial year.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

STANDARDS AND INTERPRETATION ISSUED AND ADOPTED

Standards, amendments, and interpretations issued that are not yet effective and have not been early adopted by the group.

NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus / (deficit). The new standard is required to be adopted for the year ended 30 June 2016. However, as a new accounting standards framework will apply before this date, there is no certainty when an equivalent standard to NZ IFRS 9 will be applied by Public Benefit Entities.

The Minister of Commerce has approved a new accounting standards framework (incorporating a tier strategy) developed by the External Reporting Board (XRB). Under this accounting standards framework, Far North District Council is classified as a Tier 1 reporting entity and it will be required to apply full Public Benefit Entity Accounting Standards (PAS). These standards have been developed by the XRB based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is for reporting periods beginning on or after 1 July 2014. This means Council will transition to the new standards in preparing its 30 June 2015 financial statements. Council has not assessed the implications of the new accounting standards framework at this time.

Due to the change in the accounting standards framework for Public Benefit Entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to Public Benefit Entities. Therefore, the XRB has effectively frozen the financial reporting requirements for Public Benefit Entities up until the new accounting standard framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude Public Benefit Entities from their scope.

SPECIFIC ACCOUNTING POLICIES

(a) Basis of consolidation

The acquisition method is used to prepare the consolidated financial statements, which involves adding together like items of assets, liabilities, equity, income and expenses, on a line by line basis. All significant intragroup balances, transactions, income and expenses are eliminated on consolidation.

Subsidiaries

Council consolidates in the group financial statements all entities where Council has the capacity to control their financing and operating policies so as to obtain benefits from the activities of the subsidiary. This power exists where Council controls the majority voting power on the governing body or where such policies have been irreversibly predetermined by Council or where the determination of such policies is unable to materially affect the level of potential ownership benefits that arise from the activities of the subsidiary.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The consideration transferred in an acquisition of a subsidiary reflects the fair value of the asset transferred by the acquirer and liabilities incurred by the acquirer to the former owner.

Council will recognise goodwill where there is an excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed. This difference reflects the goodwill to be recognised by Council. If the consideration transferred is lower than the fair value of Council's interest in the identifiable assets acquired and liabilities assumed, the difference will be recognised immediately in the surplus or deficit. For the purposes of the parent company financial statements, Far North District Council's equity investment in its subsidiary company is stated at cost.

Joint venture

A joint venture is a contractual arrangement whereby 2 or more parties undertake an economic activity that is subject to joint control. For jointly controlled operations, Council and group recognises in its financial statements the assets it controls, the liabilities and expenses it incurs, and the share of income that it earns from the joint venture.

(b) Budget Figures

The budget figures are those approved by Council after consultation with the public as part of the Annual Plan / LTP process. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by Far North District Council for the preparation of the financial statements.

(c) Cost Allocation

Far North District Council has derived the net cost of service for each significant activity of Council using the cost allocation system outlined below. Direct costs are charged directly to significant activities. Indirect costs are charged to significant activities based on cost drivers and related activity / usage information.

(d) Criteria for Direct and Indirect Costs

"Direct costs" are those costs directly attributable to a significant activity.

"Indirect costs" are those costs that cannot be identified in an economically feasible manner with a specific significant activity.

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.

(e) Cost of Service Statement

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

(f) Property, Plant and Equipment

Property, plant and equipment shown at cost or valuation, less accumulated depreciation and impairment losses. Property, plant & equipment consists of:

(i) Operational assets

These include land, buildings, improvements, plant and equipment, and motor vehicles.

(ii) Restricted assets

Restricted assets are parks and reserves owned by Council that provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.

(iii) Infrastructural assets

Infrastructure assets are the fixed utility systems owned by Council. Each asset type includes all items that are required for the network to function; for example, sewer reticulation includes reticulation piping and sewer pump stations.

(g) Revaluations

Far North District Council accounts for revaluations of property, plant and equipment on a class of asset basis. Valuations are performed with sufficient regularity to ensure that the carrying amount is not materially different to their fair value. Carrying values of revalued assets are assessed annually to ensure they do not differ materially to fair value. If there is a material difference then a revaluation is performed.

All assets are valued at historical cost, except the following assets which are shown at fair value, based on periodic valuations by independent valuers, less subsequent depreciation:

- Roading infrastructural assets;
- Stormwater infrastructural assets;
- Water and sewerage infrastructural assets;
- Drainage infrastructural assets;
- Maritime assets;
- Footpaths and footbridges;
- Carparks;
- Refuse transfer stations;
- Library books;
- Ferry assets;
- Heritage assets; and
- Community facilities buildings.

The results 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 recognized in the surplus or deficit. Any subsequent increase on revaluation that offsets a previous decrease in value recognised in the surplus/(deficit) will be recognised first in the surplus/(deficit) up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

Additions

Additions between valuations are recorded at cost, except for vested assets. Certain infrastructure assets and land have been vested in Council as part of the sub divisional consent process. The vested reserve land has been valued at 50% of the surrounding residential land as per an appropriately certified government valuation. Vested infrastructure assets have been valued based on the actual quantities of infrastructure components vested and the current unit rates for that component provided by the most recent valuation.

Disposals

Gains and losses are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus/(deficit). When revalued assets are sold, the amounts included in the asset revaluation reserves in respect of those assets are transferred to retained earnings.

Depreciation

Depreciation is provided for on a straight line basis on all property, plant & equipment, other than land and roading formation, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. Assessed economic life is calculated using the methodology in the New Zealand Institute of Asset Management (NZIAM) manual. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Operational Assets:

Runways	10 yrs	10%
Buildings	25 - 100 yrs	1 - 4%
Motor vehicles	3 - 5 yrs	20 - 33%
Plant and machinery	1 - 40 yrs	2.5 - 100%
Wharves (concrete)	10 - 85 yrs	1.17 - 2%
Wharves (timber), moorings & ramps	10 - 50 yrs	2 - 10%
Office furniture & equipment	5 - 15 yrs	6.67 - 20%
Computers	3 - 7 yrs	20 - 33%
Library books	3 - 45 yrs	2.22 - 33%
Heritage assets	10 - 140 yrs	0.71 - 6.7%

Infrastructural Assets:

Roads		
Top surface (seal)	5-50 yrs	2-20%
Pavement (base course) – sealed	35 yrs	2.85%
Culverts, cesspits	15 - 100 yrs	1 - 6.7%
Footpaths	25 - 60 yrs	1.6 - 4%
Kerbs	50 - 80 yrs	1.25 - 2%
Street lights	8 - 60 yrs	1.67 - 12.5%
Signs	10 - 15 yrs	6.67 - 10%
Bridges	50 - 100 yrs	1 - 2%
Water Reticulation		
Pipes	40 - 100 yrs	1 - 2.5%
Valves, hydrants	50 - 70 yrs	1.43 - 2%
Pump stations	10 - 50 yrs	2 - 10%
Tanks / dams	40 - 80 yrs	1.25 - 2.5%
Sewerage Reticulation		
Pipes	40 - 100yrs	1 - 2.5%
Manholes	80 yrs	1.25%
Treatment plant	15 - 50 yrs	2 - 6.67%
Stormwater Systems		
Pipes	40 - 120 yrs	0.83 - 2.5%
Manholes	100 yrs	1%

Improvements to leased assets are depreciated over the shorter of the unexpired period of the leases and the estimated useful lives of the improvements. The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Land is not depreciated.

Subsequent Costs

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

Assets Under Construction

Assets under construction are not depreciated. The total cost of a project is transferred to the relevant asset class on its completion and then depreciated.

(h) Intangible Assets

Intangible assets that are acquired by the Far North District Council are stated at cost less accumulated amortisation. Easements, resource consents, public access rights, software and electronic books are included in this category.

Computer Software

Acquired computer software systems are capitalised on the basis of costs incurred to acquire and bring to use the specific software. Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Other Intangible Assets

Other intangible assets that are acquired by Far North District Council, excluding easements which are not amortised, are stated at cost less accumulated amortisation and impairment losses. The useful lives and associated amortisation classes of intangible assets have been estimated as follows:

Resource consents	5 - 30 years	3.33 - 20%
Software and electronic books	3 - 10 years	10 - 33%
Public access rights	10 - 50 years	2 - 10%

Where Council invests at least $100,000 in a project, but will not ultimately own an asset, and the community has the right to use the facility, and in terms of the contract, that right exists for longer than 12 months, the cost of the right will be treated as an intangible asset. In all instances the cost will be amortised over the shorter of the expected life of the asset or the term of the contract rights.

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, and it meets the definition of, and recognition criteria for, an intangible asset. All other expenditure is expensed as incurred.

Amortisation
An intangible asset with a finite useful life is amortised over the period of that life, annually assessed for indicators of impairment and tested for impairment if indicators of impairment exist and carried at cost less accumulated amortisation and accumulated impairment losses.

An intangible asset with an indefinite useful life is not amortised.

(i) Forestry Assets

Forestry assets are stated at fair value less point of sale costs and are independently revalued to estimated market valuation based on net present value. The net gain or loss arising from changes in the forest asset valuation is included in the surplus/(deficit). All revenues from harvesting are recognised in the Statement of Comprehensive Income when realised.

Related costs are expensed as incurred.

(j) Employee Entitlements

Short term employee entitlements
Employee benefits expected to be settled within 12 months after the end of the period in which the employee renders the related service are measured 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, and sick leave.

A liability for sick leave is recognised 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 it will be used by staff to cover those future absences.

A liability and an expense are recognised for bonuses where Council or group has a contractual obligation or where there is a past practice that has created a constructive obligation.

Presentation of employee entitlements
Sick leave, annual leave, vested long service leave, and non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date, are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Defined contribution schemes
Obligations for contributions to Kiwisaver are accounted for as defined contribution superannuation schemes and are recognised as an expense in the surplus or (deficit) when incurred.

(k) Equity

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

The components of equity are:
- Accumulated funds;
- Restricted reserves;
- Property revaluation reserves;
- Fair value through equity reserves; and
- Cash flow hedge reserve.

Accumulated funds
- Retained earnings; and
- Capital reserves.

Restricted reserves
Restricted reserves are a component of equity generally representing a particular use to which various parts of the equity have been assigned. Reserves may be legally restricted or created by Council.

Funds that are received or set aside for particular purposes, and have legislative restrictions placed upon them, are considered as restricted funds. These include some special funds or reserves and sinking funds created prior to the repeal of the Local Authorities Loans Act. The portion of these funds not required in the current year has been shown as restricted funds.
Restricted reserves are those reserves 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.

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

Property revaluation reserves
These reserves relate to the revaluation of property, plant and equipment to fair value.

Fair value through equity reserves.
This reserve comprises the cumulative net change in the fair value through equity assets.

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.

(l) Debtors and Other Receivables

Short term debtors and other receivables are stated at expected face value, less any provision for impairment. A receivable is impaired when there is objective evidence that Council will not be able to collect amounts due. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership, or liquidation, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows. 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 surplus or deficit. When the receivable is uncollectible, it is written off against the allowance account for receivables. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due).

(m) Revenue

Revenue is measured at the fair value of consideration received or receivable.

Rates revenue
Rates are set annually by 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 classified as a non exchange transaction and is recognised when levied. Rates collected on behalf of the Northern Regional Council are not recognised in the financial statements, as Council is acting as an agent. Water billing revenue is recognised on an accrual basis. Unbilled sales, as a result of unread meters at year end, are accrued on an average usage basis.

Government grants
Grants from the government, such as New Zealand Transport Agency (NZTA) roading subsidies, are recognised at their fair value where there is a reasonable assurance that the grant will be received and Far North District Council will comply with all attached conditions.

Services rendered
Revenue from services rendered is recognised in proportion to the stage of completion of the transaction at the Statement of Financial Position date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods or continuing management involvement with the goods.

Sale of goods
Revenue from fees and charges is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Development contributions

The revenue recognition point for development contributions is the later of the point when Council provides or is ready to provide the service for which the contribution is levied or the event that will give rise to a requirement for a development contribution under the legislation.

Rental income

The Statement of Comprehensive Income on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Other grants and bequests

Other grants and bequests, and assets vested in Council – with or without conditions – are recognised as revenue when control over the assets is obtained. Where a physical asset is acquired for nil or nominal consideration the fair value of the asset received is recognised as revenue when control over the asset is obtained.

Dividends

Dividends are recognised on an accrual basis net of imputation credits when the right to receive the dividend is established.

Third party / agency income

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

Interest

Interest income is recognised using the effective interest method.

(n) Creditors and Other Payables

A liability is recognised when the service has been received or the goods received or when it has been established that the rewards of ownership have been transferred from the seller / provider to Council and when it is certain that an obligation to pay arises. Short term creditors and other payables are initially measured at fair value and are subsequently measured at amortised cost.

(o) Leases

Finance lease

Leases that effectively transfer to the lessee substantially all risks and benefits incident to ownership of the leased item are classified as finance leases. At the commencement of the lease term, Far North District Council recognises the finance leases as assets and capitalises them 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. The leased assets are depreciated over the shorter of the lease term or its useful life.

Liabilities are recognised in the Statement of Financial Position. The leased assets are depreciated over the shorter of the lease term or its useful life.

Operational lease

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.

(p) Borrowing

Borrowing

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

Borrowing costs

A Public Benefit Entity that elects to defer the application of NZ IAS 23 (revised 2008) shall expense borrowing costs in accordance with NZ IAS 23 (2004). Far North District Council has elected to defer application and borrowing costs are recognised in the period in which they are incurred.

(q) Development Costs

Expenditure on development projects is carried forward to be expended against future revenue to be derived from the project. Expenditure carried forward is expensed at such time Council determines that the project has ceased or no identified future benefits will be derived.

(r) 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 3 months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

(s) Financial Assets

Far North District Council classifies its financial assets in the following categories for the purpose of measurement:

i) Financial assets or financial liabilities at fair value through profit or loss

This category has 2 sub categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Far North District Council does not have any financial assets that meet this definition.

ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the surplus/(deficit). Loans and receivables are classified as "trade and other receivables" in the Statement of Financial Position.

iii) Held to maturity investments

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Far North District Council does not have any financial assets that meet this definition.

iv) Fair value through equity financial assets

Fair value through equity financial assets are non derivatives that are either designated in this category or not classified in any of the other categories. Financial assets that are included in this category are shares in Local Government Insurance Corporation Limited.

The classification depends on the purpose for which the investments were acquired.

Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(t) Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST. Where GST is not recoverable as an 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 or receivables or payables in the Statement of Financial Position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

(u) Inventories and Work In Progress

Inventories are valued at the lower of cost (determined on a first in first out basis) and net realisable value. This valuation includes allowances for slow moving and obsolete inventories. Work in progress is valued at cost. Inventories held for distribution at no charge, or for a nominal amount, are stated at the lower of cost and current replacement cost.

The write down from cost to current replacement cost or net realisable value is recognised in the surplus/(deficit).

(v) Investment Properties and Properties Intended for Resale

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both.

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

After initial recognition, Far North District Council measures all investment properties at fair value determined annually by an independent valuer. 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.

Any gain or loss arising from a change in fair value is recognised in the surplus/(deficit). There is no depreciation on investment properties.

Rental income from investment property is accounted for as described in the accounting policy for revenue recognition.

When an item of property, plant and equipment 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 surplus/(deficit).

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 Far North District Council or its subsidiary 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, and is not reclassified as property, plant and equipment during the redevelopment.

(w) Provisions

A provision is recognised in the Statement of Financial Position when Council has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits, the amount of which can be reliably estimated, will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Landfill post – closure costs

Council as an operator of both closed and operational landfills has a legal obligation under the Resource Management Act (1991) to provide ongoing maintenance and monitoring services at the landfill sites after closure. A provision for post closure costs is recognised as a liability when the obligation for post closures costs arises.

The provision is measured based on the present value of future cash flows expected to be incurred, taking into account ongoing future events including new legal requirements and known improvements in technology. The provision includes all costs associated with landfill post closure.

Far North District Council measures landfill assets using the cost model with changes in the provision for decommissioning costs being added to, or deducted from, the asset value until closure of the asset, at which time all changes to the provision are taken to the surplus/(deficit).

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

(x) Statement of Cash Flows

Cash or cash equivalents means cash balances on hand, held in bank accounts, demand deposits of 3 months or less and other highly liquid investments in which Council or its subsidiaries invest as part of its day to day cash management.

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

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

Financing activities comprise the change in equity and debt capital structure of Council and its subsidiary, FNHL.

(y) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised against the surplus or deficit except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the Statement of Financial Position date, and any adjustment to tax payable in respect of previous years. Deferred tax is provided using the Statement of Financial Position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Statement of Financial Position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(z) Impairment

Non financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that have a finite life are reviewed for impairment when ever events or changes in circumstances indicate that the carry amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds the 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 an 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 it's remaining future economic benefits or service potential.

The carrying amounts of Far North District Council and the group's assets are reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the surplus/(deficit). Impairment losses on revalued assets offset any balance in the asset revaluation reserve, with any remaining impairment loss being posted to the surplus/(deficit).

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 surplus/(deficit), a reversal of the impairment loss is also recognised in the surplus/(deficit).

For assets not carried at a revalued amount the reversal of an impairment loss is recognised in the surplus/(deficit).

(aa) Non Current Assets Held for Sale

Non current assets 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. An impairment loss is recognised for any initial or subsequent write down of the asset 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 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 is recognised at the date of de-recognition.

Non current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities classified as held for sale continue to be recognised.

Non current assets classified as held for sale are presented separately from the other assets in the Statement of Financial Position.

(ab) Critical Accounting Estimates and Assumptions

In preparing these financial statements, Far North District Council 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. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Landfill aftercare provision

Note 21 discloses an analysis of the exposure of Far North District Council in relation to the estimates and uncertainties surrounding the landfill aftercare provision.

Infrastructural Assets

There are a number of assumptions and estimates used when performing Depreciated Replacement Cost (DRC) valuations over infrastructural assets. These include:

The physical deterioration and condition of an asset. Far North District Council may be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets that are not visible, such as stormwater, wastewater and water supply pipes that are underground. This risk is minimised by Council performing physical inspections and assessments;

Estimating any obsolescence or surplus capacity of an asset; and
Estimates are made when determining the remaining useful lives over which the asset will be depreciated.

If useful lives do not reflect the actual consumption of the benefits of the asset, then Far North District Council could be over or under estimating the annual depreciation charge recognised as an expense in the Statement of Comprehensive Income.

To minimise this risk, Far North District Council's infrastructural asset useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group and have been adjusted for local conditions based upon past experience.

Experienced independent valuers perform Council's infrastructural asset revaluations.

(ac) Derivative Financial Instruments and Hedge Accounting

Far North District Council uses derivative financial instruments to hedge interest rate risks arising from financing activities. In accordance with its Treasury Policy, Far North District Council does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each balance date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The associated gains or losses of derivatives that are not hedge accounted are recognised in the surplus/(deficit). Far North District Council designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- Hedges of highly probable forecast transactions (cash flow hedge).

Far North District Council documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Far North District Council also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of hedging derivatives is classified as non current if the remaining maturity of the hedged item is more than 12 months and as current if the remaining maturity of the hedged item is less than 12 months.

Cash flow hedge

The portion of the gain or loss on a hedging instrument that is determined to be an effective hedge is recognised directly in equity through the Statement of Changes in Equity and the ineffective portion of the gain or loss on the hedging instrument is recognised in the surplus/(deficit).

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in equity will be reclassified into surplus/(deficit) in the same period or periods during which the asset acquired or liability assumed affects then surplus/(deficit). However, if Far North District Council expects that all or a portion of a loss recognised directly in equity will not be recovered in one or more future periods, it will reclassify into surplus or deficit the amount that is not expected to be recovered.

When a hedge of a forecast transaction subsequently results in the recognition of a non financial asset or a nonfinancial liability, or a forecast transaction for a non financial asset or non financial liability becomes a firm commitment for which fair value hedge accounting is applied, then the associated gains and losses that were recognised directly in equity will be included in the initial cost or carrying amount of the asset or liability.

If a hedging instrument expires or is sold, terminated, exercised or revoked, or it no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging instrument that remains recognised directly in equity from the period when the hedge was effective will remain separately recognised in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss on the hedging instrument that remains recognised directly in equity from the period when the hedge was effective is reclassified from equity to the surplus/(deficit).

(ad) Critical judgments in applying Far North District Council's accounting polices

Management has exercised the following critical judgments in applying the Far North District Council accounting policies for the period ended 30 June.

Classification of property

Far North District Council owns a number of properties which are maintained primarily to provide housing to pensioners. The receipt of market based rental from these properties is incidental to holding these properties. These properties are held for service delivery objectives as part of the Far North District Council's social housing policy. These properties are accounted for as property, plant and equipment.