

# Statement of Accounting Policies

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## 1. Reporting Entity

Central Hawkes Bay District Council (Council) is a territorial local authority governed by the Local Government Act 2002.

The Central Hawkes Bay District Council Group (CHBDC) consists of Central Hawkes Bay District Council and its subsidiary – Tamatea Limited (100% owned). Tamatea Limited (Tamatea) was incorporated in New Zealand on 26 October 2006.

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

The financial statements of CHBDC are for the year ended 30 June 2007. These financial statements were authorised for issue by Council on 4<sup>th</sup> October 2007.

## 2. Summary of Significant Accounting Policies

### 2.1 Statement of Compliance and basis of preparation

The financial statements of CHBDC have been prepared in accordance with the Local Government Act 2002, which includes the requirement to comply with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with NZ IFRS and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

This is the first set of financial statements prepared using NZ IFRS and comparatives for the year ended 30 June 2006 have been restated to NZ IFRS accordingly. Reconciliations of equity and net surplus/(deficit) for the year ended 30 June 2006 under NZ IFRS to the balances reported in the 30 June 2006 financial statements are detailed in note 19.

The financial statements are presented in New Zealand Dollars (NZD).

### 2.2 Basis of Financial Statement Preparation and Measurement Base

In respect of CHBDC the measurement base adopted is that of historical cost basis modified by the revaluation of certain assets.

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.

## Statement of Accounting Policies *continued*

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The estimates and underlying assumptions are reviewed on an ongoing basis. 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 revision and future periods if the revision affects both current and future periods.

### 2.3 Investment in Subsidiary:

Council consolidates its investment in its subsidiary - Tamatea — as it has the capacity to control that company's financing and operating policies so as to obtain benefits from the activities of the entity. This exists because Council, as the sole shareholder, controls the voting power of the governing body.

Any excess of the cost of the business combination over Council's interest in the fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill. If Council's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised exceeds the carrying value of the investment, the difference is immediately recognised in the Income Statement.

### 2.4 Basis of consolidation

The purchase 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

### 2.5 Investment in Associate

CHBDC accounts for its investment in Infracon Limited using the equity method.

An Associate is an entity over which CHBDC, through its subsidiary Tamatea, has significant influence, and where this entity is neither a subsidiary nor Joint Venture. The investment is initially recognised at cost and the carrying value is increased or decreased to recognise CHBDC's share of the surplus or deficit of the associate after the date of acquisition. CHBDC's share of the surplus or deficit is recognised in CHBDC's income statement. Distributions received from the associate reduce the carrying value of the investment.

### Specific Accounting Policies

The following particular accounting policies have a material effect on the measurement of results and Balance Sheet.

### 2.6 Equity

Equity is the community's interest in the Council 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 make of its accumulated surpluses.

## Statement of Accounting Policies *continued*

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The components of equity are:

- Accumulated funds
- General Reserves
- Trust Funds
- Revaluation Reserves

### 2.7 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 the Council.

#### 2.7.1 Council-created Reserves

These 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.

#### 2.7.2 Trust Funds

These are funds received by the Council over time, usually by way of donation or bequest, which restrict the use of the funds. All such funds are separately invested and are not available for any other purposes. The interest earned is credited to the funds.

### 2.8 Overhead Allocations

The costs of providing support services for the Council are accumulated and then allocated to each significant activity using appropriate allocation bases which reflect usage and/or capacity for each significant activity.

### 2.9 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Council and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised —

Rates are recognised as revenue when struck.

Revenue from the sale of goods and services is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer or the obligation to pay arises. In the case of Licence fees, upon renewal of the licence.

## Statement of Accounting Policies *continued*

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Revenue from services rendered is recognised when invoiced. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of the goods.

Government grants and subsidies are recognised as revenue when entitlement has been established by the grants agency, and are recognised at their fair value.

Dividends are recognised when the shareholder's right to receive payment is established.

Revenue from developer contributions is recognised when it is acknowledged that the liability of payment exists to the Council based on the issue of the compliance certificate and when conditions of the servicing agreements have been met.

Vested assets are recognised when the significant risks and rewards of ownership have been transferred to the Council and when the obligation to accept the transfer of the assets to the Council has been determined.

### 2.10 Valuation

#### 2.10.1 Current Assets

Accounts receivable are stated at estimated net realisable value, after providing for doubtful and uncollectible debts.

All other current assets are stated at cost.

Cash and Short Term Investments in the balance sheets comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

#### 2.10.2 Non Current Assets

(a) Investments:

Investments consist of Local Authority Stock, Debt Securities and Bank Notes and are classified as financial assets and accounted for at fair value as determined by reference to market evidence. Any resulting gain or loss is recognised in the Income Statement.

(b) Work In Progress:

Work in progress is treated as a non current asset on the basis that there is a high likelihood that it will be capitalised. This covers work on infrastructural assets, plant, property or equipment that is incomplete at balance date, and excludes borrowing costs.

On completion the total cost of the project is transferred to the relevant asset class and then depreciated.

## Statement of Accounting Policies *continued*

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### (c) Land and Buildings

Land and Buildings are revalued on a maximum of a three yearly cycle, or more frequently where market evidence reflects that the current values of land and buildings is materially different to their fair value. The valuation uses the depreciated replacement cost method, based on currently accepted valuation methodology.

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 expensed to the income statement.

Land under Roads is revalued annually based on the fair value of adjacent land.

### (d) Property, Plant and Equipment (Fixed Assets):

On acquisition, all fixed assets are initially stated at cost.

Plant and Machinery are stated at historical cost less accumulated depreciation and any impairment in value.

Library Books are valued at historical cost. All subsequent and future additions are recognised at cost. Depreciation is provided over the asset's useful lives.

### (e) Infrastructural Assets:

Infrastructural Assets: water, stormwater, and waste/sewerage are revalued on a three yearly cycle, or more frequently where the value has changed significantly, using the depreciated replacement cost method, based on currently accepted valuation methodology.

The Landfill and Transfer Stations are revalued on a three yearly cycle, using the depreciated replacement cost method.

Roading and its networks are revalued each year using the depreciated replacement cost method.

All subsequent additions to Infrastructural Assets are stated at depreciated cost.

## 2.11 Depreciation

### 2.11.1 Property, Plant and Equipment: (Excluding Infrastructural Assets)

Council's fixed assets, with the exception of infrastructural assets and land, are depreciated on a straight line basis at rates, which will write off their cost or value over their estimated useful economic lives. This depreciation charge is reflected in the appropriate cost of service statement.

## Statement of Accounting Policies *continued*

The expected lives of major fixed asset classes are:

	<b>Years</b>
• Buildings	6 - 165
• Emergency Equip, Misc Plant, Computer Equip, Office Equip	4 - 5
• Office furniture, Library Books	4 - 10
• Land is considered to have an indefinite useful life and is not depreciated	

### 2.11.2 Infrastructural Assets

(a) Water, Sewerage and Stormwater Assets:

Water, Sewerage and Stormwater Assets are the utility systems, which provide continuing services to the community and are not generally regarded as tradeable.

Depreciation is calculated using useful life of components as provided by Opus International Consultants Asset Valuation Reports and in accordance with the standard NZ Infrastructure Asset Valuation and Depreciation Guidelines (NZIAVDG).

The expected lives of major fixed asset classes are:

	<b>Years</b>
<b>Water Systems</b>	
• Pipes	40 - 100
• Valves, Hydrants, Meters, Tobbies	20 - 60
• Pump Stations	15 - 90
• Reservoirs	60 - 90
<b>Sewerage Systems</b>	
• Pipes	50 - 120
• Manholes	100
• Valves	25 - 40
• Pump Stations	25 - 90
• Treatment Plant	15 - 100
<b>Stormwater Systems</b>	
• Pipes	50 - 125
• Manholes	100

## Statement of Accounting Policies *continued*

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- Open Channels 50
- Service Laterals 80
- Sumps 75

(b) **Roading Assets:**

Roading Assets is the roading network, which provides continuing services to the community and is not generally regarded as tradeable.

Depreciation is calculated using useful life of components as provided by Opus International Consultants Asset Valuation Reports and in accordance with the standard NZ Infrastructure Asset Valuation and Depreciation Guidelines (NZIAVDG).

The expected lives of major fixed asset classes are:

	<b>Years</b>
• Pavement Maintenance - Unsealed	7
• Pavement Maintenance - Sealed	70
• Chip Seals	10
• Area Wide Pavement Treatment	
Surface	10
Base course	70
Sub base	Not depreciated
Wearing Course	7
• Bridges	50
• Traffic – pavement marking	1
• Traffic – signs	15
• Footpaths	50-70

(c) **Landfill and Transfer Stations**

The Landfill and Transfer Stations are the individual facilities which provides continuing services to the community and are not generally regarded as tradable. The expected future lives of the Landfill and Transfer Stations are 50 years

## Statement of Accounting Policies *continued*

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### 2.12 Borrowings

Borrowings are classified as financial liabilities and accounted for at fair value. Any resulting gain or loss is recognised in the Income Statement.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 2.13 Loan to Tamatea

This loan arises from the transfer to Tamatea of the shares in Infracon Limited – formerly held directly by Council. The loan is interest free and has no fixed terms of repayment.

### 2.14 Goods and Services Tax

These financial statements have been prepared exclusive of Goods and Services Tax (GST), except for receivables and payables that are stated inclusive of GST.

### 2.15 Employee Entitlements

#### *Long term benefits*

Provision is made in respect of the Council's liability for long service leave. Long service leave, has been calculated on a probability basis, which takes into consideration the likelihood that the Council will be obligated to make the payments

#### *Short term benefits*

Wages, salaries, and annual leave are measured at nominal values on actual entitlement basis at current rates of pay.

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 that Council anticipates it will be used by staff to cover these future absences.

### 2.16 Financial Instruments

Financial Instruments are limited to bank balances, short term investments, accounts receivable, accounts payable, and public debt; all of which are included in the financial statements at their estimated fair value.

### 2.17 Operating Leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight line basis over the lease term.

## Statement of Accounting Policies *continued*

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### 2.18 Landfill Post-closure Provision

Council as operator of the district landfill has a legal obligation to apply for resource consents when the landfill reaches the end of its operating life. The resource consents will set out the closure requirements and requirements for 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 arises. The provision is measured based on the present value of future cash flows expected to be incurred, taking into account future events including known changes to legal requirements and technological improvements.

The provision includes all costs associated with landfill post-closure: final cover application and vegetation, fencing off, completing facilities for leachate collection and the monitoring of gas systems, stormwater systems, and vegetation systems. Amounts provided for landfill post-closure are capitalised to the landfill asset where they give rise to future economic benefits or if they are incurred to enable future economic benefits to be obtained. The capitalised landfill asset is depreciated over the life of the landfill based on the anticipated capacity used.

### 2.19 Statement of Cash Flows

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Operating activities include cash received from all income sources and record the cash payments made for the supply of goods and services. Agency transactions are not recognised as receipts and payments in the Statement of Cash Flows as they do not represent transactions that Council can control.

Investing activities are those activities relating to the acquisition and disposal of non-current assets. Investing and financing activity transactions have had their respective sources and applications of cash netted off where rollover of financing has occurred and where there have been transfers between Council bank accounts.

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

### 2.20 Income Tax

The income tax expense recognised in the income statement is the estimated income tax payable in the current year, adjusted for any differences between the estimated and actual income tax payable in prior periods.

The nature of the CHBDC's taxable earnings is such that it does not give rise to deferred tax assets or liabilities.

# Statement of Financial Performance

## For the Year Ended 30 June

2006 Council Actual \$'000	Note	2006/07 Council LTCCP \$'000	2007 Council Actual \$'000	2007 Group Actual \$'000
<b>Revenue</b>				
10,794		11,717	11,800	11,800
392		348	466	466
5,071		5,180	5,974	5,974
1,411		1,612	1,462	1,462
-		174	114	114
153		129	-	163
229		193	-	244
		(29)	-	
18,050	<b>2</b>	19,324	19,816	20,223
<b>Expenditure</b>				
400		495	472	481
129		151	119	119
929		1,156	878	878
10,253		10,127	11,287	11,287
1,403		1,628	1,493	1,493
1,283		1,486	1,484	1,484
1,086		1,539	1,262	1,262
336		417	350	350
720		728	761	761
114		125	129	129
211		164	154	154
398		346	390	390
428		387	292	292
116		147	121	121
159		164	163	163
<b>Financing Costs</b>				
(14)		-	(107)	(107)
1,388		-	43	43
19,339	<b>2</b>	19,060	19,291	19,300
(1,289)		264	525	923
-		-	-	-
(1289)		264	525	923
(1289)		264	525	923

747	Total financing costs	493	610	610
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### Reconciliation of Operating Surplus to Rating Surplus

<b>Net Surplus/(Deficit)</b>	264	525	923
Less			
Fair Value adjustments to Public Debt/Investments	0	-64	-64
Interest on Special Funds	-312	-390	-390
Developer Contributions for Infrastructure upgrade:	-174	- 114	- 114
Funding for repayment of Debt not provided for	-556	- 556	- 556
Associate Earnings	-293	-	- 407
<b>Rating Deficit</b>	-1,071	- 599	- 608

## Statement of Movements in Equity

### For the Year Ended 30 June

2006 Council Actual \$'000	Note	2006/07 Council LTCCP \$'000	2007 Council Actual \$'000	2007 Group Actual \$'000
523,982	Public Equity at Beginning of Year	524,916	547,352	547,352
24,555	Movements in Asset Revaluation Reserves	15,955	50,326	50,326
104	Share of Associate's Revaluation Reserve	-	-	163
(1,289)	Net Surplus/(Deficit) for the Year	263	525	923
23,370	<b>Total Recognised Revenue &amp; Expenses for the Year</b>	16,218	50,851	51,412
547,352	Public Equity at End of Year	541,134	598,203	598,764

## Statement of Financial Position

For the Year Ended 30 June

2006 Council Actual \$'000	Note	2006/07 Council LTCCP \$'000	2007 Council Actual \$'000	2007 Group Actual \$'000
<b>ASSETS</b>				
<b>Current Assets</b>				
1,836	3	2,469	2,021	2,175
1,468	4	88	2,513	2,513
71		-	91	91
-		-	90	90
<b>3,375</b>		<b>2,557</b>	<b>4,715</b>	<b>4,869</b>
<b>Non Current Assets</b>				
4,209	5	5,318	4,348	4,348
3,983	5	3,814	-	4,390
-	5	-	1	1
-	5	-	3,983	0
547,352	6	544,462	597,453	597,453
<b>555,544</b>		<b>553,594</b>	<b>605,785</b>	<b>606,192</b>
<b>558,919</b>		<b>556,151</b>	<b>610,500</b>	<b>611,061</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
2,678	7	5,429	3,454	3,454
152	7	-	191	191
2,827	7	-	352	352
<b>5,657</b>		<b>5,429</b>	<b>3,997</b>	<b>3,997</b>
<b>Non Current Liabilities</b>				
5,803	8	9,485	8,193	8,193
107	9	103	107	107
<b>5,910</b>		<b>9,588</b>	<b>8,300</b>	<b>8,300</b>
<b>11,567</b>		<b>15,017</b>	<b>12,297</b>	<b>12,297</b>
<b>PUBLIC EQUITY</b>				
5,167	10	6,133	5,461	5,461
190	10	177	192	192
299,561	10	292,287	349,318	349,481
242,434		242,537	243,232	243,630
<b>547,352</b>		<b>541,134</b>	<b>598,203</b>	<b>598,764</b>
<b>558,919</b>		<b>556,151</b>	<b>610,500</b>	<b>611,061</b>

# Statement of Cash Flows

For the Year Ended 30 June

2006 Council Actual \$'000	Note	2006/07 Council LTCCP \$'000	2007 Council Actual \$'000	2007 Group Actual \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Cash was provided from</b>				
10,773	Rates	11,717	11,756	11,756
6,003	Subsidies & Grants	5,180	5,974	5,974
392	Interest	348	466	466
2,132	User Charges	1,612	1,461	1,461
-	Developer Contributions	174	114	114
153	Dividends	129	153	153
19,453		19,160	19,924	19,924
<b>Cash was applied to</b>				
(9,318)	Payments to Suppliers of Goods & Services	(8,827)	(7,826)	(7,826)
(2,210)	Payments to employees	(2,360)	(2,619)	(2,619)
(747)	Interest paid	(585)	(610)	(610)
(12,275)		(11,772)	(11,055)	(11,055)
<b>7,178</b>	<b>Net Cash from Operating Activities</b>	<b>7,388</b>	<b>8,869</b>	<b>8,869</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Cash was applied to</b>				
(7,817)	Purchase of Fixed Assets	(8,240)	(7,846)	(7,846)
<b>(7,817)</b>	<b>Net Cash Flow from Investing Activities</b>	<b>(8,240)</b>	<b>(7,846)</b>	<b>(7,846)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>Cash was provided from</b>				
898	Loans Raised	838	22	22
898		838	22	22
<b>898</b>	<b>Net Cash Flow From Financing Activities</b>	<b>838</b>	<b>22</b>	<b>22</b>
<b>259</b>	<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>	<b>(14)</b>	<b>1,045</b>	<b>1,045</b>
1,209	PLUS TOTAL CASH RESOURCES AT 1 JULY 2006	5,420	1,468	1,468
1,468	NET CASH RESOURCES AT 30 JUNE 2007	5,406	2,513	2,513
<b>Represented by</b>				
-	Bank Overdraft	-	-	-
1,468	Cash & Short Term Investments	5,406	2,513	2,513
<b>1,468</b>		<b>5,406</b>	<b>2,513</b>	<b>2,513</b>

# Notes to Financial Statements

## 1 Explanation of transition to NZ IFRS

### Transition to NZ IFRS

CHBDC's financial statements for the year ended 30 June 2007 are the first financial statements that comply with NZ IFRS. CHBDC has applied NZ IFRS 1 in preparing these financial statements.

CHBDC's transition date is 1 July 2005. CHBDC prepared its opening NZ IFRS balance sheet at that date. The reporting dates of these financial statements is 30 June 2007. The CHBDC adoption date is 30 June 2006.

In preparing these consolidated financial statements in accordance with NZ IFRS 1, CHBDC has applied the mandatory exemptions from full retrospective application of NZ IFRS 1

### Reconciliation of Equity

The following table shows the changes in equity resulting from the transition from previous NZ GAAP to NZ IFRS

Reconciliation of Equity (all amounts \$'000)

	Note below	Previous NZ GAAP 1st July 2005	Effect of transition to NZ IFRS 1st July 2005	NZ IFRS 1st July 2005	Previous NZ GAAP 30th June 2006	Effect of transition to NZ IFRS 30th June 2006	NZ IFRS 30th June 2006
<b>ASSETS</b>							
Investments		4,808		4,808	5,240		5,240
Investment in Infracon		5,038	75	5,113	3,983		4,051
Property Plant and Equipment		14,431		14,431	13,035		13,035
Infrastructural Assets		507,799		507,799	534,317		534,317
Intangible Assets							
<b>Total Non Current Assets</b>		<u>532,076</u>	<u>75</u>	<u>532,151</u>	<u>556,575</u>		<u>556,575</u>
<b>Total Current Assets</b>		<u>3,702</u>		<u>3,702</u>	<u>2,343</u>		<u>2,343</u>
<b>TOTAL ASSETS</b>		<u>535,778</u>	<u>75</u>	<u>535,853</u>	<u>558,918</u>	<u>0</u>	<u>558,918</u>
<b>EQUITY</b>							
Ratepayers Equity	(i) + (ii) + (iii)	245,442	-43	245,399	242,421	14	242,435
Revaluation Reserves		274,902		274,902	299,561		299,561
Special Reserves		3,639		3,639	5,356		5,356
<b>TOTAL EQUITY</b>		<u>523,983</u>	<u>-43</u>	<u>523,940</u>	<u>547,338</u>	<u>14</u>	<u>547,352</u>
<b>LIABILITIES</b>							
Non Current Liabilities	(ii) + (iii)	7,853	118	7,971	5,924	-14	5,910
Current Liabilities		3,942		3,942	5,656		5,656
<b>TOTAL LIABILITIES</b>		<u>11,795</u>	<u>118</u>	<u>11,913</u>	<u>11,580</u>	<u>-14</u>	<u>11,566</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>535,778</u>	<u>75</u>	<u>535,853</u>	<u>558,918</u>	<u>0</u>	<u>558,918</u>

Reconciliation of surplus for the year ended 30 June 2006

		Previous GAAP	Effect of transition to NZ IFRS	NZ IFRS
Revenue		18,050		18,050
Expenditure	(ii) + (iii)	-17,965	14	-17,951
Impairment		-1,388		-1,388
<b>Operating surplus/(deficit)</b>		<u>-1,303</u>	<u>14</u>	<u>-1,289</u>

- (i) Recognition of the impact of IFRS adjustments to the Net Equity of Infracon Limited at 30 June 2006 (after allowance for a fair value adjustment of \$1303 under previous GAAP)
- (ii) Sick leave under previous GAAP was expensed as it was taken as unused sick leave is not recognised as a liability due to its non vesting nature. Under NZ IFRS sick leave in excess of the annual entitlement is recognised as a liability.
- (iii) Fair value adjustment to Long Term Borrowings is based on market value information at respective reporting dates

Amounts of \$ 2158 (2006 \$1031) have been restated from investments to cash and cash equivalents to comply with NZ IAS 32

Other than the above there have been no material adjustments to the Statement of Cash Flows for the year ended 30 June 2006 on transition to NZ IFRS

# Notes to Financial Statements *continued*

## 2 Operating Expenses

This note lists items requiring separate disclosure, having not been disclosed on the face of the Income Statement or in other notes.

(a) Pursuant to Section 98 of the Local Government Act 2002, Council incurred the following expenses.

	2007 Council \$'000	2007 Group \$'000	2006 Council \$'000
<b>Expenses</b>			
Insurance premiums	147	150	149
Entertainment		-	6
Subscriptions and levies		-	51

(b) Pursuant to NZ IAS 1, issued by the New Zealand Institute of Chartered Accountants, Council and the Group incurred the following expenses.

	2007 Council \$'000	2007 Group \$'000	2006 Council \$'000
<b>Expenses</b>			
Audit Fees - for statutory services	74	79	56
Other fees paid to Auditor	-	-	-
Other assurance services provided by the auditor	5	5	-
Audit of LTCCP	-	-	35
Depreciation (see note 6)	7,798	7,798	6,922
Diminution in Value of Library Books	-	-	51
Minimum Lease payments and Rental Costs			174

Other than that disclosed in Notes 16 and 17 of these financial statements, no further settlement payments requiring disclosure under Section 19 of Schedule 10 of the Local Government Act 2002 have been made.

(c) **Budget Variance**

Variances to forecast budgets are explained in the Cost of Service Statements earlier in these financial reports.

(d) **Income**

Income included in the Income Statement includes amounts where the associated expenditure has been or will be capitalised. In the current year \$312,000 of interest income has been credited to Special Funds, and \$114,000 from Developer Contributions will be held to meet future capital upgrades.

## 3 Trade and other receivables

	2007 Council \$'000	2007 Group \$'000	2006 Council \$'000
Rates Debtors	572	572	528
Transfund NZ Subsidies	855	855	639
General Debtors	650	650	734
Dividend due		163	
Current Account Tamatea Limited	9	-	-
	2,086	2,240	1,901
Less Provision for Impairment of Receivables	(65)	(65)	(65)
	<u>2,021</u>	<u>2,175</u>	<u>1,836</u>

## 4 Cash & cash equivalents

	2007 Council \$'000	2007 Group \$'000	2006 Council \$'000
<b>Cash and Cash Equivalents</b>			
Cash at bank and in hand	- 6	- 6	67
Short term deposits maturing 3 months or less from date of acquisition	2,519	2,519	1,401
Total Cash and Cash Equivalents	<u>2,513</u>	<u>2,513</u>	<u>1,468</u>

## Notes to Financial Statements *continued*

### 5 Investments

	2007 Council \$'000	2007 Group \$'000	2006 Council \$'000
<b>Other Financial Assets</b>			
Local Authority Stock	770	770	1,664
Telecom Bonds	497	497	949
PowerCo	94	94	97
Bank Deposits & Notes	2,295	2,295	986
Bank Unsecured Notes	684	684	505
	4,340	4,340	4,201
<b>Shares</b>			
N.Z. Local Government Insurance Corp. Limited	8	8	8
	8	8	8
<b>Total Term Investments</b>	4,348	4,348	4,209
<b>Investments in Subsidiaries and Associates</b>			
<b>Investment in Tamatea Limited</b>	1	-	-
<b>Investment in Infracon Limited</b>	-	4,390	3,983
<b>Total Investments</b>	4,349	8,738	8,192

Council transferred its 34% shareholding in Infracon Limited to Tamatea Limited in May 2007. Tamatea is 100% owned by Council and was incorporated to oversee Council's investment in Infracon Limited through a Statement of Intent approved by Council annually.

#### Summarised Financial Information of Infracon Limited

Assets	29,144	28,612
Liabilities	12,208	12,873
Revenue	15,739	15,040
Surplus	1,676	1,148
Group Interest	5,757	5,351
Carrying amount at beginning of year	3,983	5,038
Adjustment to carrying value **	0	(1,388)
Share of Revaluation Reserve	163	104
Share of Retained Surplus/Deficit	244	229
<b>Carrying amount at end of year</b>	4,390	3,983
Share of Capital expenditure commitments	578	-
Share of Contingent Liabilities	728	918
Aggregate amount of liabilities for which the Council is jointly and severally liable	-	-

\*\* the carrying value of this investment was adjusted to match an offer received for the 34% minority share in the company in April 2006. Following Community consultations, a decision was made not to sell.

#### Loan to Tamatea Limited

The loan represents the value of Council's shareholding in Infracon Limited transfer to Tamatea Limited at cost in October 2007. The loan is interest free and has no terms of repayment.

## Notes to Financial Statements *continued*

### 6 Council's Property Plant and Equipment

Council's Infrastructural Assets	Water, Sewerage, Stormwater	Roading	Landfill	Total
	\$'000	\$'000	\$'000	\$'000
Opening Book Value 1 July 2006	32,329	499,395	2,593	534,317
Opening Cost 1 July 2006	32,329	499,395	3,100	534,824
Additions	1,735	6,339	58	8,132
Disposals	-	-	-	-
Revaluation*	-	35,590	-	35,590
Closing Cost 30 June 2007	34,064	541,324	3,158	578,546
Opening Accum. Deprn.	-	-	507	507
Deprn. Expense	879	6,539	73	7,491
Deprn offset in revaln *	-	-6,539	-	-6,539
Closing Accum. Deprn.	879	-	580	1,459
Closing Book Value 30 June 2007	33,185	541,324	2,578	577,087

Note:

\* Roading and its network were revalued as at 30 June 2007 by Riaz Ul-Islam, Specialist Infrastructural Asset Management Engineer of Opus International Consultants Limited, using optimised depreciated replacement cost. The total valuation was \$541,324,445

\*\*Utility Assets were most recently revalued at 30 June 2006 by B O'Connor, Specialist Infrastructural Asset Manager, of Opus International Consultants Limited, using optimised depreciated replacement cost. The total valuation was \$32,157,289

Property, Plant And Equipment Assets	Land	Buildings	Emergency Equipment	Misc Plant	Sub Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Book Value 1 July 2006	5,105	5,850	22	120	11,097
Opening Cost 1 July 2006	5,105	6,074	162	286	11,627
Reclassifications	-	-90	-	69	-21
Additions	18	303	-	86	407
Disposals	-	-	-	-1	-1
Revaluation ***	6,340	1,511	-	-	7,851
Closing Cost 30 June 2007	11,463	7,798	162	440	19,863
Opening Accum. Deprn.	-	224	140	166	530
Reclassifications	-	-	-	63	63
Deprn. Expense	-	122	11	50	183
Deprn offset in revaln	-	346	-	-	-346
Closing Accum. Deprn.	-	-	151	279	430
Closing Book Value 30 June 2007	11,463	7,798	11	161	19,433

# Notes to Financial Statements *continued*

Council's Property, Plant And Equipment Assets (continued)	Computer Equipment	Office Furniture & Equipment	Library Books	Sub Total	Total Property Plant & Equipment
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Book Value 1 July 2006	67	130	623	820	11,917
Opening Cost 1 July 2006	345	491	674	1,510	13,137
Reclassifications	-	-69	-	-69	-90
Additions	45	28	84	153	560
Disposals	-	-	-	-	-1
Revaluation	-	-	-	-	7,851
Closing Cost 30 June 2007	390	450	758	1,594	21,457
Opening Accum. Deprn.	278	361	51	690	1,220
Reclassifications	-	-63	-	-63	-
Deprn. Expense	39	26	58	123	306
Deprn offset in revaln	-	-	-	-	-346
Closing Accum. Deprn.	317	324	109	750	1,180
Closing Book Value 30 June 2007	73	126	649	844	20,277

Note:

\*\*\*Land & Buildings were revalued by Quotable Value (registered valuers) as at 30 June 2007 using fair market valuations. The total valuation was \$19,349,650.

Plant and Machinery are stated at cost less accumulated depreciation

Furniture and Equipment are stated at cost less accumulated depreciation

Library Books are valued by Council staff annually using the depreciated replacement cost method.

Total Property Plant and Equipment	Total Infrastructural Assets \$'000	Total Property Plant & Equipment \$'000	Total \$'000
Opening Book Value 1 July 2006	534,317	11,917	546,234
Opening Cost 1 July 2006	534,824	13,137	547,961
Reclassifications	-	-90	-90
Additions	8,132	560	8,692
Disposals	-	-1	-1
Revaluation	35,590	7,851	43,441
Closing Cost 30 June 2007	578,546	21,457	600,003
Opening Accum. Deprn.	507	1,220	1,727
Deprn. Adjustment	-	-	-
Deprn. Expense	7,491	306	7,797
Deprn offset in Revaln	-6539	-346	-6,885
Closing Accum. Deprn.	1,459	1,180	2,639
Closing Book Value 30 June 2007	577,087	20,277	597,364
add Work in Progress			89
Total Property Plant and Equipment			597453

### Work in Progress

Description	2007 \$'000	2006 \$'000
Water Supply - Takapau	10	48
Water Supply - Porangahau	10	73
District Sewer Consents	-	532
Closed Dump	-	25
Water Supply - Wpk	-	17
Stormwater - Wpk	-	66
Stormwater - Wpa	69	124
Water Supply - Kairakau	-	29
District Reserves	-	28
District Cemetary	-	9
District Water Supply	-	19
Water Supply - Otane	-	109
Sewer - Takapau	-	27
District Toilets	-	12
	89	1,118

2006/7 was a year of consolidation with the commencement of a number of studies relating to water, waste water and stormwater issues. These included work undertaken in Takapau, Otane and Waipawa. Some upgrades of Council owned buildings, including the Waipawa Town Hall, were also undertaken.

## Notes to Financial Statements *continued*

### 6 Council's Property Plant and Equipment

Infrastructural Assets	Water, Sewerage, Stormwater \$'000	Roading \$'000	Landfill \$'000	Total \$'000
Opening Book Value 1 July 2005	21,134	483,999	2,666	507,799
Opening Cost 1 July 2005	22,573	483,999	3,100	509,672
Additions	2,836	6,049		8,885
Disposals				-
Revaluation*	6,920	9,347		16,267
Closing Cost 30 June 2006	32,329	499,395	3,100	534,824
Opening Accum. Deprn.	1,439	-	434	1,873
Deprn. Expense	748	5,818	73	6,639
Deprn offset in revaln *	(2,187)	(5,818)		(8,005)
Closing Accum. Deprn.	-	-	507	507
Closing Book Value 30 June 2006	32,329	499,395	2,593	534,317

Note:

\* Roading and its network were revalued as at 30 June 2006 by Riaz Ul-Islam, Specialist Infrastructural Asset Management Engineer of Opus Consultants Limited, using optimised depreciated replacement cost.

Utility Assets were revalued at 30 June 2006 by B O'Connor, Specialist Infrastructural Asset Manager, of Opus Consultants Limited, using depreciated replacement cost.

Property, Plant And Equipment Assets	Land \$'000	Buildings \$'000	Emergency Equipment \$'000	Misc Plant \$'000	Sub Total \$'000
Opening Book Value 1 July 2005	5,069	5,963	28	161	11,221
Opening Cost 1 July 2005	5,069	6,066	156	276	11,567
Additions	36	8	6	10	60
Disposals					-
Revaluation					-
Closing Cost 30 June 2006	5,105	6,074	162	286	11,627
Opening Accum. Deprn.		103	128	115	346
Deprn. Expense		121	12	51	184
Closing Accum. Deprn.		224	140	166	530
Closing Book Value 30 June 2006	5,105	5,850	22	120	11,097

## Notes to Financial Statements *continued*

Property, Plant And Equipment Assets (continued)	Computer Equipment	Office Furniture & Equipment	Library Books	Sub Total	Total Property Plant & Equipment
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Book Value 1 July 2005	74	84	599	757	11,978
Opening Cost 1 July 2005	309	440	599	1,348	12,915
Additions	36	72	75	183	243
Disposals		(21)		(21)	(21)
Revaluation					
Closing Cost 30 June 2006	345	491	674	1,510	13,137
Opening Accum. Deprn.	235	356	-	591	937
Deprn. Adjustment					
Deprn. Expense	43	5	51	99	283
Closing Accum. Deprn.	278	361	51	690	1,220
Closing Book Value 30 June 2006	67	130	623	820	11,917

Note:

Land & Buildings were most recently valued by Valuation NZ (registered valuers) as at 30 June 2004 using the Net Current Value Method.

Plant and Machinery are stated at cost less accumulated depreciation

Furniture and Equipment are stated at cost less accumulated depreciation

Library Books are valued by Council staff annually using the depreciated replacement cost method.

Total Fixed Assets	Total Infrastructural Assets	Total Property Plant & Equipment	Total Fixed Assets
	\$'000	\$'000	\$'000
Opening Book Value 1 July 2005	507,799	11,979	519,778
Opening Cost 1 July 2005	509,672	12,915	522,587
Additions	8,885	243	9,128
Disposals	-	(21)	(21)
Revaluation	16,267		16,267
Closing Cost 30 June 2006	534,824	13,137	547,961
Opening Accum. Deprn.	1,873	937	2,810
Deprn. Adjustment			-
Deprn. Expense	6,639	283	6,922
Deprn offset in Revaln	(8,005)		(8,005)
Closing Accum. Deprn.	507	1,220	1,727
Closing Book Value 30 June 2006	534,317	11,917	546,234

## Notes to Financial Statements *continued*

### 7 Trade and other payables

	2007 Council \$'000	2007 Group \$'000	2006 Council \$'000
<b>Trade Creditors</b>			
Trade Creditors	2,780	2,780	2,092
	<u>2,780</u>	<u>2,780</u>	<u>2,092</u>
<b>Other</b>			
Current Portion Public Debt	352	352	2,827
Employee benefit liabilities	191	191	152
Other Accounts Payable and Accrued Expenses	674	674	586
	<u>1,217</u>	<u>1,217</u>	<u>3,565</u>
<b>Total</b>	<u>3,997</u>	<u>3,997</u>	<u>5,657</u>

### 8 Public Debt

	2007 Council \$'000	2007 Group \$'000	2006 Council \$'000
<b>Public Debt</b>			
Loans as at 1 July	8,630	8,630	7,864
Fair Value Adjustments	(107)	(107)	(132)
Plus Loans raised during the year	30	30	898
Less Loans repaid during the year	- 8	- 8	-
Less Loans repayable within 12 months	- 352	- 352	- 2,827
Non Current Public Debt	<u>8,193</u>	<u>8,193</u>	<u>5,803</u>

Interest rates payable are in the range 6.05% to 8.45%. The average interest rate payable is 7.54%.

Public Debt is due for repayment in the following periods :-

	2007 Council \$'000	2007 Group \$'000	2006 Council \$'000
Current	352	352	2,827
One to Two years	1,638	1,638	0
Three to Five years	3,354	3,354	2,262
More than Five years	3,201	3,201	3,541
	<u>8,545</u>	<u>8,545</u>	<u>8,630</u>

### 9 Provision for Landfill Decommissioning and Aftercare Cost

	2007 Council \$'000	2007 Group \$'000	2006 Council \$'000
Opening Balance	107	107	107
Effect of Discounting	14	14	15
Release of Provision	(14)	(14)	(15)
Closing balance	<u>107</u>	<u>107</u>	<u>107</u>

A Provision for decommissioning and aftercare of the district landfill has been established. The Council operates one landfill and has responsibility for its eventual closure, and to provide ongoing maintenance and monitoring of the landfill and after it closes. Closure includes closure responsibilities such as final cover application and vegetation, fencing off, completing facilities for leachate collection and monitoring gas systems, stormwater systems, leachate system and vegetation. The provision has been calculated based on the present value to 30 June 2007 of a Tonkin Taylor estimate of aftercare costs and current Landfill usage. The key assumptions used in their calculation are therefore the estimation of these closure costs and the estimation of the expected life of the landfill

# Notes to Financial Statements *continued*

## 10 Public Equity

### (a) Council Special Funds

Special Funds are established by Council resolution restricting how the funds may be used. To show independence from general Ratepayers' Equity, a separate account is maintained for each fund.

	Council Balance 1st July 2006	Council Transfers from R'payers Equity	Council Transfers to R'payers Equity	Council Balance 30 June 2007
	\$'000	\$'000	\$'000	\$'000
Capital Projects Fund	3	-	(1)	2
Ruahine Ward Disbursement Fund	416	25	(10)	431
Ruataniwha Ward Disbursement Reserve	52	3	-	55
Aramoana Ward Disbursement Fund	181	11	-	192
Takapau Ward Seal Extension Reserve	26	2	-	28
Elections & Byelection Reserve Fund	38	3	-	41
Retiring Allowances Reserve Fund	11	1	-	12
Wpa Depot Loan Reserve	9	-	-	9
Esplanade Reserves Fund	375	21	-	396
Off Equip Disbursement Reserve	103	5	-	108
Emerg & Monitoring Disp Reserve	53	2	-	55
Ruahine Ward Hall Maintenance Reserve	22	1	-	23
Rural Fire Reserve	45	2	-	47
Mayors Relief Fund	5	-	(5)	-
Adverse Events Reserve Fund	285	17	-	302
Catastrophic Events Reserve Fund	1,200	73	-	1,273
Rates Relief Rebate Fund	89	5	-	94
Waipawa Sewer Service Renewal Reserve Fund	7	-	-	7
Waipawa Water Supply Reserve Fund	53	3	-	56
Kairakau Water Supply Reserve Fund	11	-	-	11
Waipukurau Water Reserve Fund	10	-	-	10
Waipukurau Sewer Reserve Fund	42	2	-	44
Te Aute Drain Channel Clearing Reserve Fund	39	2	(24)	17
Library Donation Reserves	20	2	(5)	17
CHB District Pensioner Housing Reserve Fund	36	2	-	38
Retirement Maturing Debt Fund	1,830	111	-	1,941
<b>TOTAL SPECIAL FUNDS</b>	<b>4,961</b>	<b>293</b>	<b>(45)</b>	<b>5,209</b>

### (b) Carryover Funds

Carryover Funds are set up to ensure funding carried from one financial year to another is easily identified.

	Council Balance 1st July 2006	Transfers between funds	Council Transfers from R'payers Equity	Expenditure from funds	Council Transfers to R'payers Equity	Council Balance 30 June 2007
Admin Reserve Account	55	-	83	(48)	-	90
Water Services Reserve Account	75	-	5	-	-	80
Recreational Facility Reserve Account	66	-	4	-	-	70
	196	-	92	(48)	-	240

### (c) Other Funds

From time to time Council assists community organisations and holds funds on their behalf.

	Council Balance 1st July 2006	Council Transfers from R'payers Equity	Expenditure from funds	Council Transfers to R'payers Equity	Council Balance 30 June 2007
	\$'000	\$'000	\$'000	\$'000	\$'000
Te Aute Koiri Reserve	11	1	-	-	12
	11	1	-	-	12

### Total of Funds in a, b & c

	Council Balance 1st July 2006	Council Transfers from R'payers Equity	Expenditure from funds	Council Transfers to R'payers Equity	Council Balances 30 June 2007
	\$'000	\$'000	\$'000	\$'000	\$'000
	5,168	386	(93)	-	5,461

# Notes to Financial Statements *continued*

## (d) Trust Funds

Trust Funds are set up to account for grants to council with restrictions on their use. They usually consist of donations and bequests.

	Council Balance 1st July 2006	Council Transfers from R'payers Equity	Council Transfers to R'payers Equity	Council Balances to 30 June 2007
	\$'000	\$'000	\$'000	\$'000
Wpa Building Society Scholarship Trust	106	7	-6	107
Eric Tate Scholarship Trust	71	5	-4	72
Creative NZ Grants unspent	13			13
	<u>190</u>	<u>12</u>	<u>-10</u>	<u>192</u>

## (e) Asset Revaluation Reserve

Infrastructure	Water, Stormwater, Sewerage \$'000	Roads \$'000	Share of Associates Revaln Res	Total \$'000
Opening Balance 2006	12,375	280,960	569	293,904
Transfer to Ratepayers Equity				(569)
Revaluation Reserve Change		42,129		42,129
Transfer from/ (to) Ratepayers Equity			(569)	(569)
Closing Balance 2007	<u>12,375</u>	<u>323,089</u>	<u>-</u>	<u>335,464</u>

  

Other Property Plant and Equipment	Land \$'000	Buildings \$'000	Total \$'000
Opening Balance 2006	3,086	2,571	5,657
Current Year Revaluation	6,340	1,857	8,197
Closing Balance 2007	<u>9,426</u>	<u>4,428</u>	<u>13,854</u>

  

Total Revaluation Reserve	Council	Group
Opening Balance 2006	299,561	299,561
Less Share of Associate's Reserve transferred to Equity	(569)	(569)
Current Year Revaluation	50,326	50,326
Transfer from Ratepayers Equity		
	<u>349,318</u>	<u>349,318</u>
Share of Associates Revaluation Reserve	-	163
	<u>349,318</u>	<u>349,481</u>
Closing Balance 2007	<u>349,318</u>	<u>349,481</u>

## 10 Public Equity

### (a) Special Funds

Special Funds are established by Council resolution restricting how the funds may be used. To show independence from general Ratepayers' Equity, a separate account is maintained for each fund.

	Council Balance 1st July 2005	Transfers between funds	Council Transfers from R'payers Equity	Expenditure from funds	Council Transfers to R'payers Equity	Council Balance 30 June 2006
	\$'000		\$'000		\$'000	\$'000
Capital Projects Fund	3		-			3
Ruahine Ward Disbursement Fund	382		34			416
Ruataniwha Ward Disbursement Reserve	48		4			52
Aramoana Ward Disbursement Fund	167		14			181
Takapau Ward Seal Extension Reserve	24		2			26
Elections & Byelection Reserve Fund	35		3			38
Retiring Allowances Reserve Fund	11		-			11
Wpa Depot Loan Reserve	8		1			9
Espanade Reserves Fund	350		31	(6)		375
Off Equip Disbursement Reserve	94		9			103
Emerg & Monitoring Disp Reserve	48		5			53
Ruahine Ward Hall Maintenance Reserve	20		2			22
Rural Fire Reserve	41		4			45
Mayors Relief Fund	5		1			6
Adverse Events Reserve Fund	156	115	14	(1)		285
Catastrophic Events Reserve Fund	1,474	(115)	128		(287)	1,200
Rates Relief Rebate Fund	82		7			89
Landfill Sinking Fund Reserve	31	(31)				-
Waipawa Water Supply Sinking Fund Reserve	2	(2)				-
Waipukurau Sewer Sinking Fund Reserve	32	(32)				-
Waipawa Sewer Sinking Fund Reserve	11	(11)				-
Waipukurau Storm Water Sinking Fund Reserve	4	(4)				-
Waipawa Sewer Service Renewal Reserve Fund	7		-			7
Waipawa Water Supply Reserve Fund	50		3			53
Kairakau Water Supply Reserve Fund	10		1			11
Waipukurau Water Reserve Fund	9		1			10
Waipukurau Sewer Reserve Fund	39		3			42
Lindsay Water Race Reserve	10	(10)				-
Ashcott Water Race Reserve	7	(7)				-
Te Aute Drain Channel Clearing Reserve Fund	36		3			39
Library Donation Reserves	19		10	(9)		20
CHB District Pensioner Housing Reserve Fund	33		3			36
Retirement Maturing Debt Fund	0	98	1,732			1,830
TOTAL SPECIAL FUNDS	<u>3,247</u>	<u>1</u>	<u>2,015</u>	<u>(16)</u>	<u>(287)</u>	<u>4,960</u>

### (b) Carryover Funds

Carryover Funds are set up to ensure funding carried from one financial year to another is easily identified.

	Council Balance 1st July 2005	Transfers between funds	Council Transfers from R'payers Equity	Expenditure from funds	Council Transfers to R'payers Equity	Council Balance 30 June 2006
Admin Reserve Account	4	51				55
Land Transport Activity Reserve Account	-					-
Water Activity Reserve Account	107	(44)	12			75
Recreational Facility Reserve Account	68	(8)	6			66
	<u>179</u>	<u>(1)</u>	<u>18</u>	<u>-</u>	<u>-</u>	<u>196</u>

# Notes to Financial Statements *continued*

## (c) Other Funds

From time to time Council assists community organisations and holds funds on their behalf.

	Council Balance 1st July 2005	Council Transfers from R'payers Equity \$'000	Expenditure from funds	Council Transfers to R'payers Equity	Council Balance 30 June 2006
Porangahau Playground Reserve	\$'000 36	-	(25)	-	11
Te Aute Koiri Reserve	36	-	(25)	-	11

### Total of Funds in a, b & c

	Council Balance 1st July 2005	Council Transfers from R'payers Equity \$'000	Expenditure from funds	Council Transfers to R'payers Equity \$'000	Council Balances 30 June 2006
	\$'000				\$'000
	3,462	0	2,033	(41)	(287)
					5,167

## (d) Trust Funds

Trust Funds are set up to account for grants to council with restrictions on their use. They usually consist of donations and bequests.

	Council Balance 1st July 2005	Council Transfers from R'payers Equity \$'000	Council Transfers to R'payers Equity \$'000	Council Balances 30 June 2006
Wpa Building Society Scholarship Trust	\$'000 106			\$'000 106
Eric Tate Scholarship Trust	71			71
Creative NZ Grants unspent		13		13
	177	13		190

## (e) Asset Revaluation Reserve Infrastructure

	Water, Stormwater, Sewerage \$'000	Roads \$'000	Share of Associates Revaln Res	Total \$'000
Opening Balance 2005	3,269	265,511	465	269,245
Transfer to Ratepayers Equity				
Revaluation Reserve Change	9,106	15,165	104	24,375
Transfer from Rateayers Equity				284
Closing Balance 2006	12,375	280,676	569	293,904

### Property, Plant & Equipment

	Land \$'000	Buildings \$'000	Total \$'000
Opening Balance 2005	3,086	2,571	5,657
Current Year Revaluation	-	-	-
Closing Balance 2006	3,086	2,571	5,657

### Total Revaluation Reserve

Opening Balance 2005	274,902
Current Year Revaluation	24,271
Transfer from Ratepayers Equity	284
	24,555
Share of Associates Revaluation Reserve	104
	24,659
Closing Balance 2006	299,561

# Notes to Financial Statements *continued*

## 11 Reconciliation of Net Surplus on Operations to Net Cash from Operating Activities

	2007 Council \$'000	2007 Group \$'000	2006 Council \$'000
<b>Operating Surplus/(Deficit) After Taxation</b>	525	923	(1,289)
	<u>525</u>	<u>923</u>	<u>(1,289)</u>
<b>Plus/ (less) Non-Cash Items</b>			
Depreciation	7,798	7,798	6,922
Fair value adjustments to investments/Public Debt	(64)	(64)	1,374
	<u>7,734</u>	<u>7,734</u>	<u>8,296</u>
<b>Add(less) Movements in Other Working Capital Items</b>			
Increase/(Decrease) in Accounts Payable	776	622	(1,119)
Increases/(Decrease) in Provision for Staff Payments	39	39	6
(Increase)/Decrease in Accounts Receivable	(185)	(185)	1,632
(Increase)/Decrease in Prepayments	(20)	(20)	(15)
	<u>610</u>	<u>456</u>	<u>504</u>
<b>Add(less) Items Classified as Investing Activity</b>			
<b>Net</b>			
Infracon - Share of income	-	(244)	(333)
<b>Net Cash from Operating Activities</b>	<u>8,869</u>	<u>8,869</u>	<u>7,178</u>

## 12 Taxation

	2007 Council \$'000	2007 Group \$'000	2006 Council \$'000
<b>Net operating surplus/(deficit) before taxation</b>	525	923	85
	<u>525</u>	<u>923</u>	<u>85</u>
<b>Net Operating Surplus/(Deficit) before Taxation</b>			
Prima Facie Taxation at 33%	173	305	28
<b>Adjusted for the tax effect of Permanent Differences:</b>			
Council's non assessable income	(6,539)	(6,620)	(5,906)
Council's non deductible expenses			
Imputation Credit			
Other non deductible expenses	6,366	6,370	5928
<b>Income Tax Expense</b>			
Less Imputation Credits			
Less Taxation paid			
Imputation credit	-	(55)	(51)
<b>Provision/(Refund) for Taxation</b>			
	<u>-</u>	<u>-</u>	<u>-</u>

## 13 Related Party Transactions

	2007 Council \$'000	2007 Group \$'000	2006 Council \$'000
Council, through its 100% ownership of Tamatea Limited, owns 34% of Infracon Ltd. Infracon performed construction work and facilities management for Council			
Charges made to Council by Infracon Ltd	8,537	8,537	7,766
Charges made by Council to Infracon Ltd	16	16	11
Amounts owed to Council by Infracon Ltd	8	8	-
Amounts owed by Council to Infracon Ltd	1,345	1,345	831
Dividends receivable by Tamatea Limited from Infracon		153	180
During the year Councillors and key management, as part of a normal customer relationship, were involved in minor transactions with Council (such as payment of rates purchase of rubbish bags etc)			
During the year Council purchased legal services from McKay Mackie - Waipawa. Councillor Waite is a principal of that firm. Amounts paid were \$1166 (on behalf of Tamatea Limited) (2006 - \$4468 for Council employment issues)			
During the year Council contracted with Watwill Partnership (Councillor Williams) and Hansen Contracting (Councillor Hansen) to provide mowing of Council Reserves. Amounts paid were \$ 2250 (2006 - \$2250) and \$2700 (2006 - \$2700) respectively			
No provision has been required, nor any expense recognised for impairment of receivables for any loans or other receivables to related parties (2006 \$ nil)			
Salaries and other short term employee benefits paid to key management, CE and Councillors	711	711	653

# Notes to Financial Statements *continued*

## 14 Statement of Commitments

(a)	Non Cancellable Lease Commitment	2007 Council \$'000	2006 Council \$'000
	Less than 1 year	167	153
	1 - 2 years	140	136
	3 - 5 years	278	274
	Over 5 years	2,530	2,372

**NOTE:**

the amounts included in the annual lease charge for each vehicle includes:

1. The monthly lease payment
2. The excess mileage charge.

Repairs, insurance, and other miscellaneous payments are not included.

**Buildings**

Waipawa Library  
Further terms = N/a  
Final expiry date = 30 Sept-10  
Annual rental = \$22,137 plus GST

**Land**

Landfill  
Rental of \$75k per annum (inflation adjusted) plus a turnover rent of \$5/tonne (also inflation adjusted) for quantities of over 7,000 tonnes in any 12 month period.  
Further terms = 10 years  
Final expiry date = 28 Nov 45

**Takapau Transfer Station**

Rent reviews are carried out at 5 yearly intervals from 11 September 1995  
Amounts are subject to these reviews.  
Further terms = 2 of 10 years  
Final expiry date = 11 September 2025  
Annual rental = \$1,820 plus GST

**Vehicles**

Council has entered into operating lease agreements for its vehicle fleet.  
The rates are subject to variation dependent on the kilometer usage through the term of the lease.  
11 Vehicles are leased, typically for a 36 month period. Annual rental is \$70,000 per annum

## 15 Remuneration of Chief Executive

The Chief Executive of Council appointed under Section 42 of the Local Government Act 2002, received a salary of \$157k (2006 \$ 121k)

No additional benefits were paid

## 16 Severance Payments to Staff

During the financial year, no severance payments were made to former staff members (2006 - \$22k)

## 17 Councillors fees

2006 \$000		2007 \$000
59	T Gilbertson , Mayor Councillor's	58
29	David Tennent	29
14	Russell Chant	15
23	Patricia Giddens	24
14	Terry Kingston	15
21	Michael Waite	21
14	Rod Hansen	15
14	Mark Williams	15
14	Sally Butler	15
14	Maitland Manning	15
14	Michael Mullins	14
230	Total cost of remuneration for the Mayor and Councillors	236

No Directors fees are paid from Tamatea Limited

## Notes to Financial Statements *continued*

### 18 Financial Instruments

#### Financial Instrument Risks

CHBDC has a series of policies to manage the risks associated with financial instruments. CHBDC is risk averse and seeks to minimise exposure from its treasury activities. CHBDC has established Council approved Liability Management and Investment Policies. These policies do not allow any transaction that is speculative in nature to be entered into.

#### Market Risks

##### Price Risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. CHBDC is exposed to equity security price risks on its investments, which are classified as financial assets held at fair value through equity. This price risk arises due to market movements in listed securities. This price risk is managed using consultants to ensure diversity of CHBDC's investment portfolio in accordance with limits set out in CHBDC's investment policy.

##### Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange. CHBDC is not exposed to currency risk, as it does not enter into foreign currency transactions.

##### Interest Rate Risk

The interest rates on CHBDC's investments are disclosed in note 5 and on borrowings in note 8

##### Fair Value Interest Rate Risk

Fair Value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Borrowing issued at fixed rates expose CHBDC to fair value interest rate risk. In addition, investments at fixed interest rates expose CHBDC to fair value interest rate risk.

If interest rates on investments at 30 June 2007 had fluctuated by plus or minus .5%, the effect would have been to increase/decrease the fair value through the Income Statement by \$32,000

##### Credit Risk

Credit risk is the risk that a third party will default on its obligations to CHBDC, causing CHBDC to incur a loss. CHBDC has no significant concentrations of credit risk, as it has a large number of credit customers, mainly ratepayers, and powers under the Local Government (Rating) Act 2002 to recover outstanding debts from ratepayers.

CHBDC invests funds only in deposits with registered banks and Risk Free/Near Risk Free investments as described in its Investment Policy, which also limits the amount of credit exposure to any one institution or organisation.

Accordingly, CHBDC does not require any collateral or security to support these financial instruments.

##### Liquidity Risk

Liquidity risk is the risk that CHBDC will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit lines.

CHBDC meets its liquidity requirements by managing its borrowings in accordance with its funding and financial policies .

### 19 Contingencies

In the ordinary course of business the Council can be subject to claims from clients utilising the services of Council. Council do not consider that any liabilities will arise as a consequence of outstanding claims as at 30 June 2007 (2006 Nil).

## Acknowledgements

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Council acknowledges the contributions made by individuals and organisations both within the district and outside that have helped make Central Hawke's Bay a vibrant and enjoyable place to live.

### **Summer Reading**

Eastern & Central have again generously supported the E.C. READ'N summer reading programmes in our libraries and those throughout the region.

# Audit Report

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Chartered Accountants

**TO THE READERS OF  
CENTRAL HAWKE'S BAY DISTRICT COUNCIL AND GROUP'S  
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION  
FOR THE YEAR ENDED 30 JUNE 2007**

The Auditor-General is the auditor of Central Hawke's Bay District Council and group. The Auditor-General has appointed me, Marcus Henry, using the staff and resources of Ernst & Young, to carry out an audit on his behalf. The audit covers the District Council's compliance with the requirements of Schedule 10 of the Local Government Act 2002 that apply to the annual report of the District Council and group for the year ended 30 June 2007, including the financial statements.

## Unqualified Opinion

In our opinion:

- The financial statements of the District Council and group on pages 53 to 79:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - the District Council and group's financial position as at 30 June 2007; and
    - the results of their operations and cash flows for the year ended on that date.
- The service provision information of the District Council and group on pages 11 to 48 fairly reflects the levels of service provision as measured against the intended levels of service provision adopted, as well as the reasons for any significant variances, for the year ended on that date; and
- The Council has complied with the other requirements of Schedule 10 of the Local Government Act 2002 that apply to the annual report (the "other requirements").

The audit was completed on 4 October 2007, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Council and the Auditor, and explain our independence.

## Audit Report *continued*



### **Basis of Opinion**

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements, performance information and the other requirements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements, performance information and the other requirements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements, performance information and the other requirements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Council;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all required disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements, performance information and the other requirements.

We evaluated the overall adequacy of the presentation of information in the financial statements, performance information and the other requirements. We obtained all the information and explanations we required to support our opinion above.

## Audit Report *continued*



### Responsibilities of the Council and the Auditor

The Council is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the District Council and group as at 30 June 2007. They must also fairly reflect the results of their operations and cash flows and the levels of service provision for the year ended on that date. The Council is also responsible for meeting the other requirements of Schedule 10 and including that information in the annual report. The Council's responsibilities arise from Section 98 and Schedule 10 of the Local Government Act 2002.

We are responsible for expressing an independent opinion on the financial statements, performance information and the other requirements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 99 of the Local Government Act 2002.

### Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit and in conducting the audit of the Long Term Council Community Plan, we have no relationship with or interests in the District Council or any of its subsidiaries.

A handwritten signature in cursive script that reads 'Marcus P. Henry'.

Marcus Henry  
Ernst & Young  
On behalf of the Auditor-General  
Wellington, New Zealand

# Glossary

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**ANNUAL PLAN**

The Annual Plan sets out what Council plans to do in the upcoming year and what this will cost. It is the Council's budget and is done once a year. The Annual Plan process provides an opportunity for you to comment on Council's proposed Plan.

**ANNUAL REPORT**

The Annual Report is produced every year and records whether or not Council did what it said it would do in the Annual Plan, and explanations of why and why not.

**ASSET MANAGEMENT PLANS**

Plans that identify Council's assets and their current status, note the maintenance and cost required to look after them and if appropriate what is required to meet new growth/demand/standards.

**CAPITAL PROJECTS FUND**

Council currently has money in an account for the specific purpose of providing substantial funding assistance for the purchase or construction of new recreational, cultural or infrastructural assets anywhere in the district.

**CAPITAL VALUE RATES**

Calculated on the value of the ratepayers land and improvements (buildings, sheds etc).

**COST OF SERVICE STATEMENT**

Calculates the cost to the Council for providing services.

**COUNCIL ASSETS**

Council owned property and possessions that have value.

**CULTURAL FACILITIES**

These are the libraries, playing fields, parks, reserves, cemeteries, public conveniences, swimming baths, Waipawa Town Hall, Civic Theatre and the Settlers Museum.

**CURRENT ASSETS**

Assets which can be readily converted to cash, or will be used up during the year. These include cash, stock, debtors, and operational investments.

**DECLINE IN SERVICE POTENTIAL (DISP)**

A requirement by law to put aside money for the maintenance of infrastructural assets (like water supply pipes) so that they will always be kept in good condition. The amount required is calculated from the Asset Management Plans.

**DEPRECIATION**

The wearing out, being used up or other loss of an asset.

**DRAFT PLANS**

Plans that are prepared by Council and then circulated for comment and subject to change before being adopted. For example the Draft Annual Plan and Draft Long Term Financial Strategy.

**EXPENDITURE/EXPENSES**

Money that either has or is budgeted to be spent.

**FUNDING POLICY**

Sets out who should pay for Council Activities and how they should pay.

## Glossary *continued*

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### **INCOME/REVENUE**

Money received.

### **INFRASTRUCTURAL ASSETS**

Assets that provide a service to the community, but are generally not tradable. For example roads, water pipes and sewerage systems.

### **INTERGENERATIONAL EQUITY**

This concept is concerned with spreading the costs and benefits of assets over time. Therefore assets that are used by future generations are also partly paid for by future generations.

### **LAND VALUE RATES**

Calculated on the value of the ratepayers land.

### **LOCAL AUTHORITY TRADING ENTERPRISE (LATE)**

An enterprise that is set up to operate a business for the Council.

### **LONG TERM FINANCIAL STRATEGY**

The Long Term Financial Strategy determines and guides Council's actions over the next 10 years. The purpose of the Strategy is to ensure that Council's services remain affordable and sustainable over time.

### **POLICY**

A course of action or set of parameters adopted by the Council or by management within which decisions can be made and action can be taken.

### **RESERVES**

Council has a number of reserve accounts for specific purposes. The accounts are maintained at a certain level for future spending. The accounts are not funded annually, but have accumulated from money collected from past generations. Examples of these accounts are the Rural Fire Reserve Account and the Catastrophic Events Account.

### **RESERVE MANAGEMENT PLANS**

Reserve Management Plans are required by law for all of the Council's parks and reserves in the District. The Plans which are developed in consultation with the community set out how the reserve should be utilised.

### **STATEMENT OF FINANCIAL PERFORMANCE**

Shows Council's ability to pay its bills from the money that it receives. See page 62.

### **STATEMENT OF MOVEMENT IN EQUITY**

Shows how Council's resources are increasing in value over time. See page 63.

### **STATEMENT OF FINANCIAL POSITION**

Shows what money Council has and what it is owed and what money Council owes. See page 64.

### **STATEMENT OF CASHFLOWS**

The turnover of cash experienced by Council each year. See page 65.

### **SUBMISSION**

A comment, received in writing or verbally about one of Council's Plans. There is a set timeframe for submissions to be received and then considered by Council.

### **TREASURY POLICY**

This policy states when, how and why Council will borrow money.

## **Glossary *continued***

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### **USER CHARGES**

Money that is derived from a direct charge or fee from the person that is using the service/facility. For example, if you need a building consent you pay the amount of money that it costs to provide the consent.

### **UNIFORM ANNUAL CHARGES**

A charge of the same amount to each ratepayer regardless of the value of the property. For example each rateable property in the district could pay a uniform annual charge of \$6 to cover the provision of libraries.