

FINANCIAL STATEMENTS

- Prospective Income Statement - page 63
- Prospective Balance Sheet - page 63
- Prospective Statement of Movements in Equity - page 64
- Prospective Statement of Cashflow - page 64
- Prospective Overall Activity Statement - page 65
- Balanced Budget Statement - page 65
- Prospective Movement in Public Debt - page 66
- Notes to Financial Statements - page 67
- Capital Works Schedules - page 77



Financial Statement

Prospective Income Statement

	LTCCP 2006-07 \$000's	LTCCP 2007-08 \$000's	Revised 2007-08 \$000's
INCOME			
Fees and Charges	1,879	1,935	2,133
External Subsidies	3,386	3,713	3,596
Targeted Rates	10,641	11,056	10,937
General Rates	6,146	6,469	6,465
Petrol Tax	120	124	190
Gains/(Losses) on Revaluation of Investment Property and Properties Held for Resale	-	13	13
Quarry Sales	2,720	2,804	2,798
Business Unit Surpluses	158	163	163
TOTAL INCOME	25,050	26,277	26,295
Less			
Total Operating Expenditure	* 21,465	22,036	22,586
Quarry Expenditure	* 2,200	2,268	2,268
Interest Expense	222	600	310
Provision for Bad Debts	50	52	52
Miscellaneous	270	278	278
Net result from Operations	843	1,043	801
* Includes Depreciation of:	6,125	6,245	6,214

Prospective Balance Sheet

	LTCCP 30 June 07 \$000's	LTCCP 30 June 08 \$000's	Revised 30 June 08 \$000's
Current Assets			
Bank and Short Term Deposits	0	0	9
Trade Debtors	6,402	6,600	6,598
Provision for Doubtful Debts	(300)	(309)	(309)
Inventory	420	433	433
Prepayments	115	119	119
Total Current Assets	6,637	6,843	6,850
Current Liabilities			
Bank Overdraft	44	31	0
Trade Creditors	4,852	5,056	5,056
Current Portion of Employee Entitlements	68	70	70
Current Portion of Non-Current Liabilities	56	56	56
Less Total Current Liabilities	5,020	5,213	5,182
Working Capital	1,617	1,630	1,668
Investments	189	189	189
Intangible Assets (Computer Software)	487	479	482
Non-Current Assets			
Property, Plant And Equipment	380,828	388,029	384,355
Biological Assets (Forestry)	831	905	908
Investment Properties	933	446	446
Total Non-Current Assets	382,592	389,380	385,709
Non-Current Liabilities			
Landfill Aftercare Provision	1,750	1,503	1,503
Employee Entitlements Provision	444	442	442
Term Debt	5,572	11,566	8,266
	7,766	13,511	10,211
NET ASSETS	377,119	378,167	377,837
Represented by:			
General Reserve	314,516	315,714	315,459
Council Created Reserves	3,145	2,995	2,920
Asset Revaluation Reserve	59,458	59,458	59,458
RATEPAYERS EQUITY	377,119	378,167	377,837

Financial Statement

Prospective Statement of Movements in Equity

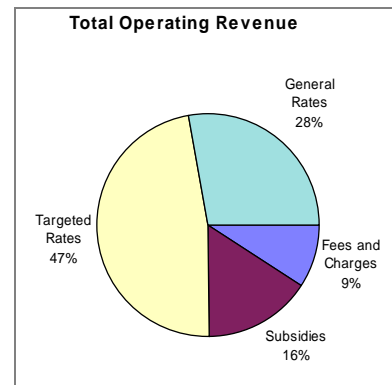
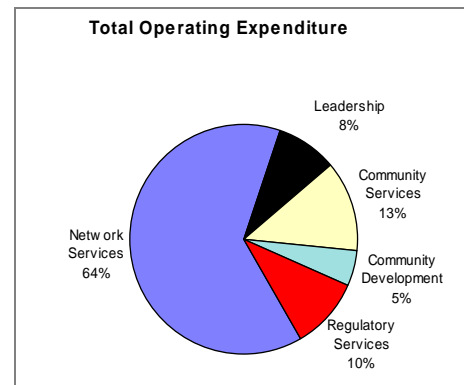
	LTCCP 2006-07 \$000's	LTCCP 2007-08 \$000's	Revised 2007-08 \$000's
Equity at the start of the Period	376,276	377,124	377,124
Net Surplus/(Deficit) for the year	843	1,043	801
Increase in Revaluation Reserves	-	-	(88)
Equity at the end of the Period	<u>377,119</u>	<u>378,167</u>	<u>377,837</u>

Prospective Statement of Cashflow

	LTCCP 2006-07 \$000's	LTCCP 2007-08 \$000's	Revised 2007-08 \$000's
Operating Activities			
Cash to be provided from:			
Rates	16,788	17,526	17,399
Fees, Charges and Subsidies	8,212	8,686	8,830
	<u>25,000</u>	<u>26,212</u>	<u>26,229</u>
Cash to be applied to:			
Employees and Suppliers	17,774	18,308	18,892
Interest on Loans	222	600	310
Net Taxes paid	31	31	31
	<u>18,027</u>	<u>18,939</u>	<u>19,233</u>
Net Cash flows from Operating Activities	6,973	7,273	6,996
Investing Activities			
Cash to be provided from:			
Decrease in Investments	-	-	-
Sale of Assets	1,750	500	500
	<u>1,750</u>	<u>500</u>	<u>500</u>
Cash to be applied to:			
Acquisition of Investments	94	74	75
Operating & Infrastructural Asset Acquisitions	11,971	13,439	13,802
	<u>12,065</u>	<u>13,513</u>	<u>13,877</u>
Net Cash flows from Investing Activities	(10,315)	(13,013)	(13,377)
Financing Activities			
Cash to be provided from:			
Lease Receipts	28	28	28
Loans Raised	4,500	6,000	6,650
	<u>4,528</u>	<u>6,028</u>	<u>6,678</u>
Cash to be applied to:			
Lease Payments	28	28	28
Landfill Liability Reduction	202	247	247
Loan Repayments	-	-	-
	<u>230</u>	<u>275</u>	<u>275</u>
Net Cash flows from Financing Activities	4,298	5,753	6,403
NET CHANGE IN CASH HOLDINGS	956	13	22
Plus Opening Cash	(1,000)	(44)	(13)
CLOSING CASH BALANCE	<u>(44)</u>	<u>(31)</u>	<u>9</u>
Represented by:			
Cash at Bank	(45)	(32)	8
Petty Cash	1	1	1
	<u>(44)</u>	<u>(31)</u>	<u>9</u>

Prospective Overall Activity Statement

	LTCCP 2006-07 \$000's	LTCCP 2007-08 \$000's	Revised 2007-08 \$000's
OPERATING EXPENDITURE			
Network Services	14,780	15,237	15,083
Leadership	1,865	1,948	2,013
Community Services	2,900	3,018	3,019
Community Development	1,071	1,210	1,305
Regulatory Services	2,077	2,146	2,361
	<u>22,693</u>	<u>23,559</u>	<u>23,781</u>
Less Internal Interest	1,228	1,523	1,195
TOTAL OPERATING EXPENDITURE	<u>21,465</u>	<u>22,036</u>	<u>22,586</u>
LESS OPERATING REVENUE			
Fees and Charges	1,879	1,935	2,133
Subsidies	3,386	3,713	3,596
Targeted Rates	10,640	11,058	10,934
General Rates	6,146	6,466	6,347
TOTAL OPERATING REVENUE	<u>22,051</u>	<u>23,172</u>	<u>23,010</u>
OPERATING SURPLUS/(DEFICIT)	<u>586</u>	<u>1,136</u>	<u>424</u>



Balanced Budget Statement

Council is required to operate a balanced budget for each activity, i.e. Council's revenues in any particular year must be set to meet that years projected operating expenses. Exceptions are available and prior year surpluses or future years surpluses may be used to offset any short funding in a particular year (Operating expenses includes depreciation and interest costs).

Council aims to apply the balanced budget criteria for each activity. However on occasions deficits are projected that may occur over a few years in one or more activities. The prior year/future year surplus offset has been applied in these situations. Generally this is where there has been a sizeable increase in the depreciation of major assets due to the revaluation of the assets. Council has the view that deficit funding or consuming prior years surpluses or anticipating future years surpluses is a prudent financial decision to make.

Council operates a balanced budget at a Council level, i.e. across all activities. However during the term of this plan we do show some activities not fully funding operating expenses in every year.

For the Water and Stormwater activities Council has applied the prior/future year surpluses to offset the deficits projected.

In the case of the Wastewater activity the deficit funding extends beyond a couple of years. Council has taken the view that deficit funding over the next few years and relying on future surpluses is a financially prudent and acceptable course of action. In making this decision Council was mindful of the considerable capital work done in the last five years where all major treatment plants have been upgraded, resource consents have been renewed and there is minimal capital work forecast over the next fifteen years. Council has confidence in the forecasts that show operating surpluses will be generated in the future and will apply those to offset the deficits projected.

Democracy, RMA Policy and Pensioner Housing have expenditure that is cyclical in nature. Council has determined that is appropriate to smooth the funding for these activities over the life of the Plan by applying the forecast surpluses to offset the deficits.

Within the Community Initiatives activity Council intends to grant funds to Waihi College for heating of the swimming pool. This pool will be available for use by the public. It intends to fund this by accumulated financial contributions considering the long term nature of the benefits resulting from the expenditure.

Prospective Movement in Public Debt

	LTCCP 2006-07 \$000's	LTCCP 2007-08 \$000's	Revised 2007-08 \$000's
Opening Balance	1,128	5,628	1,672
Less Repayments	-	-	-
Plus New Loans Drawn Down	4,500	5,994	6,650
Term Debt	5,628	11,622	8,322
Interest Expense as a percentage of Rates Revenue	1.7%	4.4%	2.3%
Interest Expense as a percentage of Total Revenue	1.0%	2.5%	1.3%
Long Term Liabilities per Rating Unit	\$ 655	\$ 1,326	\$ 925

Notes to the Financial Statements

Note 1: Statement of accounting policies for the forecast years 2006/07

1. PROJECTED FINANCIAL STATEMENTS

The forecast financial statements have been prepared in accordance with the requirements of the Local Government Act 2002. It may not be appropriate for the information disclosed in this Annual Plan to be used for purposes other than those for which it is prepared. The accounting principles established by the New Zealand Institute of Chartered Accountants have been applied in the preparation of this Annual Plan.

These financial statements constitute a forecast in terms of Financial Reporting Standard No. 42. Actual results for the periods covered are likely to vary from this forecast. The financial information contained within this document is prospective financial information in terms of accounting standard FRS42. The purpose for which it has been prepared is to enable ratepayers, residents and any other interested parties to obtain information about the expected future financial performance, position and cashflow of Hauraki District Council for the 2007/08 financial year.

In relation to that standard, the financial information for the 2007/08 financial year is considered to be a "forecast". The actual results achieved for the same period are likely to vary from the information presented, and may vary materially depending upon the circumstances that arise during that period.

2. REPORTING ENTITY

Hauraki District Council (HDC) is a territorial local authority governed by the Local Government Act 2002. The primary objective of HDC is to provide goods or services for the community or social benefit rather than making a financial return. Accordingly, HDC has designated itself as public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

3. MEASUREMENT BASE

The general accounting principles recognised as appropriate for the measurement and reporting of results and financial position on a fair value basis, modified by the revaluation of certain fixed assets, have been followed.

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

STATEMENT OF COMPLIANCE

The financial information contained within this report is prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of section 93, and audited under section 94, of the Local Government Act 2002.

The financial statements comply with applicable Financial Reporting Standards, which include New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). The financial statements incorporated in the Annual Plan have been prepared in compliance with FRS-42; Prospective Financial Statements.

This set of financial statements has been prepared based on NZ IFRS and opening balances for the year ended 30 June 2008 estimates have been re-stated accordingly.

4. ACCOUNTING POLICIES

The following accounting policies, which materially affect the measurement of results and financial position have been applied:

a) Revenue

Revenue is recognised when it is probable that economic benefits will flow to Council that can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods or services in the normal course of business, net of discounts and sales related taxes.

- Rates and levies are recognised as income on the due date for each instalment.
- Water billing revenue is recognised on an accrual basis. Unbilled usage, as a result of unread meters at year end, is accrued on an average usage basis. Traffic and parking infringements are recognised when tickets are issued.
- Government grants are recognised as income when conditions associated with the grant approval have been fulfilled.
- Other grants and bequests, and assets vested in Council with or without conditions are recognised as revenue when control over the assets is obtained.
- Interest income is accrued on a time basis at the coupon rate, from the date of investment to balance date.
- Dividends are recognised when received.
- Other levies and charges are recognised as income when the goods or services have been supplied.

b) Investments

Loans & Advances

These are classified as Loans & Receivables and valued at amortised cost.

Shares in Companies

These are classified as Available for Sale and are valued at Fair Value.

TV Combined District Emergency Plan Unit

This investment is classed as a joint venture of which the council has a 27% share. It is accounted for using the equity method, meaning that 27% of the equity in the joint venture is recorded as the investment.

c) Trade and other Receivables

Trade and other receivables are valued at amortised cost using the effective interest method, less any provision for impairment. A provision for impairment of receivables is established when there is objective evidence that HDC will not be able to collect all amounts due according to the original terms of receivables.

d) Stocks/Inventories

Stocks are valued at the lower of cost or net realisable value, less any provisions for damaged or obsolete items. Quarry metal stocks are valued at the lower of cost, using the cost of extraction including production overheads, and net realisable value.

e) Taxation

(i) Goods and Services Tax

The forecast financial statements have been prepared on a GST exclusive basis with the exception of debtors and creditors, which are stated with GST included. The balance of GST at 30 June each year is shown as a creditor in the Statement of Financial Position.

(ii) Fringe Benefit Tax

Where a fringe benefit tax liability arises this has been charged to operating expenditure.

f) Special Funds

In accordance with the Local Government reorganisation scheme Special Funds set up by the former authorities under the Local Government Act 1974, have been set aside for specific purposes. These are disclosed under the category Council Created Reserves.

g) Maintenance and Capital Expenditure

Capital expenditure is expenditure that adds to the service potential or usefulness of an asset for more than one accounting period either by lengthening the asset's useful life or by increasing its capacity. Capital expenditure is debited to asset accounts and allocated to the current and future periods through depreciation. Maintenance expenditure is debited to expense accounts when incurred and is matched against revenue in that period.

h) Biological Assets

Council has had its forestry assets professionally valued as at 30 June 2006 by P F Olsen and Company, a recognised forestry valuer. The basis used to value the forests was the expected yield at maturity. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined pre-tax rate. Trees are assumed to reach maturity twenty-eight years from the date of planting. New plantings since the date of valuation have been included at cost. Gains or losses arising on initial recognition of biological assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the statement of financial performance. The costs to maintain the forestry assets are included in the statement of financial performance.

i) Non Current Assets held for sale

The only assets currently included in this category is property held for sale.

The majority of property intended for sale relates to two subdivisions that Council has developed in Ngatea and Waihi. Council has accepted deposits on some of these sections prior to balance date and expects all remaining sections to be sold by 30 June 2008.

Council has capitalised the cost of the land, design/survey fees, power and telephone reticulation, and other expenses directly associated with the project. Council considers the amounts capitalised to be less than net realisable value. Properties intended for resale are valued at the lower of cost or net realisable value.

Expenditure incurred on the development of roading, including footpaths and kerb and channelling, wastewater and water reticulation and stormwater have

not been included. The cost of these assets has been added to the appropriate infrastructural classification.

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

Any impairment losses for write-downs of non-current assets held for sale are recognised in the statement of financial performance.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

j) Investment Properties

Properties which are held for capital appreciation or to earn rental returns or with no intended future use, are classified as Investment Properties. These properties are valued at fair value as determined by a registered valuer. Any change in fair value is recorded as income or expenditure in the Income Statement.

k) Intangible Assets

Computer Software

Computer Software is depreciated on a straight line basis that will spread the cost of the asset, less any residual value over the expected useful life of the asset. The range of expected useful life of software is 3 to 5 years.

l) Property, Plant and Equipment

Operational assets, being tangible assets such as land, buildings, library books, plant and equipment, and motor vehicles.

Restricted assets, being property, owned by HDC which provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions, such as parks and reserves, landfill post closure.

Financial Statement

Infrastructure Assets, being the fixed utility systems owned by HDC. Each infrastructural asset class includes all items that are required for the network to function, for example, wastewater reticulation includes reticulation piping and wastewater pump stations. These are generally not regarded as tradable.

Initial Recognition

The cost of purchased property, plant and equipment is the initial purchase price plus directly attributable costs of bringing the assets to the location and condition necessary for their intended use. Constructed assets are initially recorded at the cost of construction (including materials and direct labour), costs of obtaining Resource Management Act consents and other direct costs. These are initially recorded as work in progress until the asset is ready for productive use. When the asset is ready for productive use it is capitalised and the ongoing operating are recorded as expenses.

Subsequent recognition

Land and buildings and restricted assets are carried at fair values which reflect the current market values, which is the amount that would be expected from an orderly sale. Land and Buildings are re-valued every three years

All land and buildings are currently recorded at rating valuation as at 1 July 2003, plus additions/development at cost, less disposals. These valuations have been confirmed by Valuation and Management Services Ltd, qualified valuers, as being suitable for financial reporting.

Infrastructural assets are also carried at fair value, which is deemed to be depreciated replacement cost because the assets are of a specialised nature. The depreciated replacement costs are determined on the basis of valuations prepared every three years. The revaluation process involves assessing the current optimised replacement cost on a brownfields basis, using highest and best use basis and remaining useful lives. Infrastructural assets will be next re-valued as at 1 July 2008.

Roading and above-ground Water, Wastewater, Stormwater and Drainage Assets were valued by MWH New Zealand Ltd as at 30 June 2005. The valuation as at 30 June 2005 of belowground Water, Wastewater, Stormwater, Drainage Assets and resource consents were prepared by

Council staff and peer-reviewed by MWH New Zealand Ltd. Land under roads was valued by Opus International Consultants Ltd as at 30 June 2002 using the average market value of land by ward and land use category.

All additions since the latest valuation are brought into the accounts at cost and depreciated in the year following construction.

Motor vehicles, office equipment and work in progress are carried at cost less accumulated depreciation.

The changes in the value of each class of property, plant and equipment as a result of the revaluations are recorded in a revaluation reserve. HDC maintains a revaluation reserve for assets. Where cumulative decreases exceed cumulative increases in the value of a class of assets, the net amount is recognised as an expense in the statement of financial performance. Any revaluation increase is credited to the asset class revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously charged as an expense in the statement of financial performance. Any accumulated depreciation at the date of the revaluation is transferred to the gross carrying amount of the asset and the asset cost restated to the revalued amount.

Library Books are valued annually and are valued at depreciated replacement cost as at 30 June 2006 by Council staff, assuming the books are on average half way through their useful life.

Additions

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

In most instances, an item of property, plant and equipment and any additions to existing is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

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 HDC and the cost of the item can be measured reliably.

Financial Statement

Impairment

Asset carrying values are reviewed at the end of each year to determine whether there is any indication that the assets have suffered an impairment loss or increase in fair value. If any such indication exists, the fair value of the asset is estimated in order to determine the extent of the impairment loss or gain (if any). If the fair value of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its fair value. An impairment loss is recognised as a revaluation decrease and any gain in value as a revaluation increase for all classes of assets other than motor vehicles and office equipment. For the non-revalued asset classes of motor vehicles and office equipment, impairment losses are recognised as an expense in the statement of financial performance.

Disposals

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

(iii) Depreciation

Land and Assets Under Construction: Land and assets under construction are not depreciated.

All other assets are depreciated on a straight line basis that will spread the cost of the asset, less any residual value, over the expected useful life of the asset. The useful lives of assets have been identified on a component-by-component basis. A summary of the range of expected useful lives of assets follows:

The useful lives of assets, excluding buildings, have been identified on a component-by-component basis.

Roading

Seal (10-70 years)
Basecourse (30 - 75 years)
Surface Water Channels (10-20 years)
Culverts (50-60 years)
Footpaths (15-50 years)
Bridges (50-100 years)

Buildings

Structure (80 years)
Roof cladding (30 years)
Electrical/Mechanical (25 years)
Plumbing (30 years)
Internal wall linings (25 years)
Lifts (25 years)
Air Conditioners (15 years)
Site Improvements (25 years)

Other Assets

Water Reticulation (60 - 120 years)
Water Treatment (8 - 150 years)
Wastewater (10 - 100 years)
Computer Hardware (3 years)
Stormwater/Drainage (20 - 200 years)
Fixtures & Fittings (5-10 years)
Communications Equipment (5 years)
Heavy Plant & Machinery (8 years)
Light Plant (2-5 years)
Motor Vehicles - Cars & Utilities (3-5 years)

Assets purchased during the financial year are depreciated on a remaining month's basis.

HDC 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 HDC's social housing policy. These properties are accounted for as property, plant and equipment.

m) Loans and Borrowing

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest

Financial Statement

method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains or losses are recognised in the Income Statement when the liabilities are derecognised and as well as through the amortisation process.

n) Borrowing Costs

Borrowing costs are recognised as an expense when incurred.

o) Overhead Allocation

The cost of Support Services has been fully allocated over the significant activities. The costs of servicing external debt have been allocated to the internal treasury function, which charges and pays interest to each separately rated activity on the basis of its forecast opening cash position.

p) Employee Entitlements

Salaries and wages are recognised at their nominal amount and liabilities have been recognised where salaries have been incurred but employees have not been fully paid at balance date.

Provision is made in respect of the group's liability for annual leave, long service leave, and retirement gratuities. These have been calculated on an actuarial entitlement basis at current rates of pay, except for annual leave which is on an actual basis. Actuarial gains and losses are recognised immediately as income or expense in the Income Statement.

Sick leave does not vest but is permitted to accumulate. A provision has not been recognised for the unused entitlement at balance date that is likely to be paid in the next financial year as it not considered materially significant.

q) Statement of Cashflows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which Council invests 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.

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

Financing activities comprise changes in the equity and debt capital structure of Council.

r) Provisions

Provisions are recognised when the Council has a present obligation as a result of a past event, and it is probable that the Council will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at balance date, and are discounted to present value where the effect is material.

Landfill Aftercare Provision

Council has responsibility for the closure and aftercare of three closed landfills and has recognised its liability for these costs as a provision. The provision is measure based on the present value of future cash flows expected to be incurred, taking into account future events including new legal requirements and known improvements in technology. The provision includes all costs associated with landfill post-closure. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and risks specific to Council.

s) Financial Instruments

Council is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, investments, debtors, creditors and loans. All financial instruments are recognised in the Balance Sheet and all revenues and expenses in relation to financial instruments are recognised in the Income Statement. Except for loans, which are recorded at cost, and those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.

t) Leases

Finance Leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the commencement of the lease term, HDC recognises finance leases as assets and liabilities in the statement of financial position at the lower of the

Financial Statement

fair value of the leased item or the present value of the minimum lease payments.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether HDC will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

The lease assets are depreciated over the period the Council is expected to benefit from their use. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the Income Statement in accordance with the Council's policy on borrowing costs.

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.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease income.

5. CHANGES IN ACCOUNTING POLICIES

There have been some changes to accounting policies from previous years to comply with the New Zealand International Financial Reporting Standards and the effects of these changes are detailed below. Apart from the impacts of the NZIFRS standards, other policies have been applied on a consistent basis with previous years.

The impacts of adopting NZ IFRS on the total equity as reported under previous New Zealand generally accepted accounting practice (NZ GAAP) are illustrated below.

RECONCILIATION OF TOTAL EQUITY AS PRESENTED UNDER PREVIOUS NZ GAAP TO THAT UNDER NZ IFRS

The impacts of adopting NZ IFRS on the total equity as reported under previous New Zealand generally accepted accounting practice (NZ GAAP) are illustrated below.

Reconciliation of total equity as presented under previous NZ GAAP to that under NZ IFRS

	\$000's
Total equity under previous NZ GAAP	376,150
<i>Adjustments to General Equity</i>	
a) Transfer from Asset Revaluation Reserve	1,850
b) Transfer from Forestry Revaluation Reserve	708
<i>Adjustments to retained earnings</i>	
c) Changes in valuation of employee entitlements	85
d) Changes in value of investments (Civic Insurance Shares)	40
<i>Adjustments to Forestry reserve</i>	
b) Transfer to General Equity	(708)
<i>Adjustments to Asset Revaluation Reserve</i>	
a) Transfer to General Equity	(1,850)
Total equity under NZ IFRS	<u>376,275</u>

- a) Under NZIFRS-40 "Investment Property" any existing investment property revaluation reserve must be transferred to General Equity. The transferred relates to the revaluation of only those assets classified as "Investment Properties".
- b) Under NZIFRS-41 "Agriculture" any existing forestry revaluation reserve must be transferred to General Equity. This transfer includes the \$672,000 previously included in the forestry revaluation reserve together with the \$36,000 revaluation to bring the Forestry asset up to the valuation as at 30 June 2006 of \$714,000.

Financial Statement

- c) Under previous NZ GAAP, long service leave and retirement gratuities were calculated on actual entitlement at current rate of pay. Under NZ IAS 19 “employee benefits” the actuarial valuation method has been used to determine the present value of the defined benefit obligation and related current service cost. This results in an increase in total equity.
- d) Fair value movements in the Civic Insurance share investment under NZ IAS 39 “financial instruments; recognition and measurement”: has resulted in an increase in total equity.

6. CAUTIONARY NOTE

The information in the prospective financial statements is uncertain and the preparation requires the exercise of judgement. Actual financial results achieved for the period covered are likely to vary from the information presented, and the variations may be material. Events and circumstances may not occur as expected or may not have been predicted or Council may subsequently take actions that differ from the proposed courses of action on which the prospective financial statements are based.

Financial Statement

Note 2: Financial Assumptions

Forecasting Assumptions - Financial	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
<p>Inflation - Council has included allowances for inflation in this LTCCP.</p> <p>Council has used inflation projections prepared by BERL (Business and Economic Research Limited) on behalf of Local Government specifically for the purposes of inclusion in local government's long term plans.</p> <p>Separate inflation projections have been used for individual cost categories for each year of the 10 year projections. For details of the indexes used please refer to the table at the foot of this section.</p>	That inflation will be significantly higher or lower than forecast.	Medium	<p>Inflation is affected by external economic factors.</p> <p>Council's costs and the income required to fund those costs will change by the difference between the actual rate of inflation and the rate of inflation used in the forecast.</p> <p>Council has relied on the current parameters the Reserve Bank is required to operate under in terms of inflation being held within the range of 1.5% to 3%. A 1% increase in inflation would increase operating costs by approximately \$170,000 and asset acquisitions by approximately \$120,000.</p>
<p>Interest – Interest on Term Debt is calculated at 8.0% per annum. Interest on Investments is calculated at 7.0%</p>	That interest rates will change from those used in the calculations.	Medium	Interest rates are influenced by international economic factors. Council will manage this through interest-rate risk management instruments authorised in the Borrowing Management Policy for external debt and by using internal borrowing as much as possible.
<p>Land Transport New Zealand (LTNZ) - Council currently receives subsidy income at a rate of 54% from LTNZ for qualifying roading expenditure. This rate has been used for all years in the 10 year plan.</p>	That the rate of subsidy will change from the current rate.	Medium	<p>The rate of subsidy may be influenced by general economic pressures and changes in national roading priorities.</p> <p>A 1% reduction in subsidy would amount to a reduction in income of \$50,000.</p>
<p>Revaluation – The projections provide for changes in asset valuations every three years based on capital works, retired assets and the amount of inflation over that period of time.</p>	<p>That the cost of constructing/replacing assets will be significantly higher or lower than forecast.</p> <p>That assets are not replaced at the times indicated in the plan.</p>	Medium	The value of Council's assets and subsequent depreciation expense may change as a result of changes in valuation methodologies or cost changes significantly different to those projected.
<p>Vested Assets – No vesting of assets has been included in the plan.</p>	That Council will have assets vested thereby increasing the depreciation expense in subsequent years.	High	<p>Vested assets fluctuate considerably from year to year but historical levels have not been significant.</p> <p>Financial effect of uncertainty is unable to be quantified but is expected to be low.</p>

Financial Statement

Forecasting Assumptions - Financial	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
Funding Sources – Sources of funds are as per the Revenue and Financing Policy.	That some user charges may not be achievable.	Low	Levels of charges have been set at previously achieved levels.
Capital Works Costs – On average, costs of major capital works will not vary significantly from costs estimated at the concept stage.	That some project costs turn out greater than estimates resulting in increased debt levels.	Medium in years one to three but higher further out.	Council has a higher level of confidence regarding the costs of capital projects in the short-term but less certainty in the longer term due to possible fluctuations in the economy, growth patterns, consent conditions, etc.
Asset Life – Useful lives of assets is as recorded in asset management plans or based upon professional advice – refer to the Accounting Policies in Note 1.	That assets wear out earlier than estimated.	Low	Asset life is based upon estimates of engineers and valuers. <u>Asset Replacements</u> Capital projects could be brought forward in event of early expiration of assets affecting interest costs (depreciation expense may also increase.) The negative impacts would be at least partially offset by other assets lasting longer than estimated.

INFLATION BY COST INDEX BY YEAR

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Roading	2.6%	2.4%	2.4%	2.1%	2.1%	1.8%	1.7%	1.5%	1.6%
Property/Parks	2.9%	2.8%	2.7%	2.5%	2.3%	2.2%	2.0%	1.7%	1.8%
Water	4.2%	4.2%	4.0%	3.8%	3.6%	3.4%	3.2%	2.9%	2.9%
Energy	4.1%	4.0%	3.9%	3.7%	3.5%	3.3%	3.0%	2.8%	2.8%
Staff	2.5%	2.5%	2.3%	2.1%	2.0%	1.9%	1.7%	1.5%	1.5%
Other	3.1%	3.1%	2.8%	2.7%	2.6%	2.4%	2.1%	2.0%	1.9%
Pipelines	4.6%	4.5%	4.3%	4.2%	4.0%	3.7%	3.5%	3.2%	3.3%
Earthmoving	3.4%	3.2%	3.2%	2.9%	2.8%	2.6%	2.4%	2.1%	2.2%
Private Labour	2.5%	2.5%	2.3%	2.1%	2.0%	1.9%	1.7%	1.4%	1.6%

Financial Statement

Note 3: Explanation of Variances

Prospective Income Statement

Total Operating Expenditure is \$455,000 greater than forecast. This comprises:

- Increased costs to process greater numbers of consents (\$172,000)
- Previously unbudgeted walking and cycling strategy (\$70,000)
- Road safety programme (\$72,000)
- A number of smaller variances.

Prospective Statement of Cashflows

Cash to be applied to employees and suppliers is \$485,000 greater due to the increases above.

Cash to be provided from loans raised is also \$550,000 greater due to increased acquisition of infrastructural assets (\$363,000) and previously forecast operating cash surpluses not available to fund asset acquisitions.

Prospective Balance Sheet

Property, Plant and Equipment is \$3.7 million less than forecast. This is due to projects expected to be completed in 2007/08 and previous years that were deferred.

Term Debt is \$3.4 million less than forecast as the borrowings to fund the projects referred to above are not expected to be required by 2007/08.

Funded by internal/external borrowing is \$581,000 greater than forecast due to increased acquisition of assets (\$343,000) and previously forecast operating cash surpluses not available to fund asset acquisitions.

KEY VARIANCES IN CAPITAL PROGRAMME

Pouarua-Maukoro Land Drainage Scheme Southern Stage

A survey is underway to assess what level of stop bank raising is required at the Maukoro Stopbank (left bank). The Pouarua/Maukoro Final Design/Documentation, the Southern Area Works and the Ngatea Urban Pump Upgrades are to be progressed in conjunction with Environment Waikato. No detail design has been completed to date and as such the budgeted expenditure of \$1,226,000 for the scheme has been postponed from the 2007/08 year to 2009/10 based on the assumption that as design is not complete, development can not begin.

Mains upgrades

In 2006/07 it was programmed that upgrading of the water mains from Kerepehi Main Road intersection to Bush Street intersection take place. \$850,000 had been budgeted for this to take place. \$800,000 towards this upgrade has been delayed until the 2007/08 financial year.

Capital Works Schedule

	LTCCP	LTCCP	Revised
	2006-07	2007-08	2007-08
	\$000's	\$000's	\$000's

Network Services

Roading

Subsidised Roothing			
Resurfacing	938	1,275	905
Major Drainage Control	220	251	150
Kerb and Channel	663	680	477
Area Wide Pavement Treatment	790	1,052	1,165
Bridge Repairs	5	5	6
Minor Safety Works	224	263	285
Subs-Reconstruction	194	-	-
Seal Extensions	170	174	158
Non-Subsidised Roothing			
Seal Extensions	330	339	320
New Vehicle Crossings	12	12	12
Kerb and Channel	-	-	95
New Street Lights	9	9	9
Walking physical work	25	5	-
Cycling physical work	10	21	-
Bridge Replacements	-	-	-
Plains Unallocated Works	30	51	51
Footpath Replacements	39	35	35
Footpaths Additional	60	72	72
Vehicle Crossings	12	12	12

Financial Statement

	LTCCP 2006-07 \$000's	LTCCP 2007-08 \$000's	Revised 2007-08 \$000's
Water			
Kaimanawa			
Connect to Kerepehi/Paeroa	-	-	-
Treated Water reservoir	-	-	-
Other	1	1	1
Karangahake			
Connect to Paeroa	-	63	63
Treated Water Storage	-	-	-
Mains from New Reservoir	-	-	-
Other	4	7	7
Ohinemuri			
Decomission Dams	5	104	104
Mains Upgrades	-	-	-
Te Aroha Wilkies Bridge	25	-	-
Waihi Rd SH 2 - Bottle to Catholic School	-	-	-
Waihi Rd SH 2 - Catholic School to Reservoir Rd	-	-	-
Rotokohu Rd	8	-	-
SH26 past Hubbard Rd	25	25	26
Other	2	2	2
Paeroa			
Sludge Disposal	70	-	73
Treatment Upgrade	-	-	-
Raw Water Main Replacement	-	-	-
Raroa Rd	-	-	-
Princess St	-	-	-
Willoughby Street	-	31	31
Kennedy St	-	16	16
Tower St	-	-	-
Andrew St	-	-	-
Other	9	28	28

Financial Statement

	LTCCP 2006-07 \$000's	LTCCP 2007-08 \$000's	Revised 2007-08 \$000's
Plains			
Mains Upgrades	-	-	-
SH2 from Kerepehi Main rd int. to Bush st int.	850	-	800
Orchard east Rd	-	-	-
Bush Rd section 1 (Orchard East to Piako)	-	-	-
Bush Rd section 2 (Piako to Pipiroa Pump)	-	-	-
SH25 from Bush Rd int. towards Kopu	-	-	-
West end of Fisher to Netherton	-	-	-
Kerepehi Waitakaruru Feeder	-	-	-
Hopai West 1	-	-	-
Hopai West 2	-	-	-
Mains Renewals			
Pipiroa Rd 100mm Cast Pipiroa End	-	21	21
Ponui Ave	-	13	13
Raratuna St West	21	-	-
Reservoir Canal off Riding Rd	-	-	-
Parfit Place	-	-	-
Steen Rd Raw Water Main	30	31	31
Mains Trunk Hauraki; Wharepoa to SH2	-	-	-
Mains Trunk; Kerepehi to Huirau	-	-	-
Other	13	5	5
Meter Replacements	20	21	21
Resource Consent (Mangatarata Take)	-	-	-
Resource Consent (Mangatarata Temp Weir)	-	-	-
Resource Consent (Place Silt)	-	-	-
Resource Consent (Desilt Dam)	-	-	-
Resource Consent (Borefield Take)	-	-	-
Resource Consent (Steen Rd Dam)	-	-	-
Resource Consent (Waitak. Take)	-	-	-
Public Health Risk Management Plan	-	-	-
Treatment Minor Upgrades	615	10	525
Kerepehi Sludge Option	100	-	-

Financial Statement

	LTCCP 2006-07 \$000's	LTCCP 2007-08 \$000's	Revised 2007-08 \$000's
Kerepehi WTP Galv Protect	-	-	-
Kerepehi Treated Storage	-	-	-
Kerepehi Treatment Upgrade	1,900	1,980	1,850
Waitakaruru Decommission Steen Rd Dam	-	-	-
Waitakaruru Raw Water Storage	-	1,563	1,563
Waitakaruru Treated Water Storage	-	-	-
Waitakaruru Treatment Upgrade	-	-	-
Waitakaruru WTP bores servicing (2 at a time)	-	25	25
Waihi			
Mains Upgrading			
Dean Cres to assist with the Waikino Link	-	-	-
Fire Fighting Capacity, Hydrant locations and mains upgrades	-	-	-
Mains Renewal			
SH2 Wrigley- Cannon	-	-	-
SH2 Wrigley- Margaret- Cannon across road in berm	24	-	25
SH2 Wrigley- Margaret- Cannon- Cornwall	-	-	-
Mataura	13	-	-
Toomey St	-	-	-
Seddon Ave	-	-	-
Moresby Ave Fire Fighting requirement	-	42	42
Smith St	-	-	-
Rosemont Rd	-	-	-
Consuls st	-	-	-
Meter Replacements	3	3	3
Resource Consent Renewal (Waitete Take)	40	-	42
Resource Consent Renewal (Walmsley Take)	-	-	-
Resource Consent Renewal (Walmsley Structure)	-	-	-
Resource Consent Renewal (Backwash)	-	-	-
Raw Water Source Storage	300	-	313
WTP Plant Upgrade	-	-	-
Other	15	10	10

Financial Statement

	LTCCP 2006-07 \$000's	LTCCP 2007-08 \$000's	Revised 2007-08 \$000's
Waikino			
Clean Dam /Decommission	-	-	-
New Main Connecting to Waihi	-	-	-
Resource Consent Renewal (Mangakara take)	25	-	-
Other	7	6	6
Wastewater			
Kerepehi			
Resource Consent Renewal	5	-	-
Treatment Investigations	15	-	-
Treatment Upgrades	-	125	125
Aerator Replacement	-	-	-
Pond De sludge	-	-	-
Upgrade rising main from Domain P/S	5	-	-
Ngatea			
Reticulation Mains replacement	-	-	-
WWTP Slag replacement	-	-	-
Paeroa			
Infiltration/mains replacement/extension	40	42	42
Replacement lines from investigation/monitoring programme.	-	-	-
Septage Facility	160	-	-
Reticulation extensions	40	-	-
Inflow testing	15	16	31
Flow Monitor	15	-	16
New STP sludge disposal	-	-	-
Other	-	26	26
Waihi			
Victoria St Rising Main construction	-	313	313
Victoria St Pump Replacement	80	-	83
East End extensions; Council Share	25	26	26
Other	5	-	-

Financial Statement

	LTCCP 2006-07 \$000's	LTCCP 2007-08 \$000's	Revised 2007-08 \$000's
Waitakaruru			
Extend Reticulation	120	52	126
Other	44	-	46
Whiritoa			
Coppicing	35	36	36
WWTP forest irrigation extension	-	-	-
Desludging Ponds	-	-	-
Mako PS odour treatment	15	-	-
WWTP Telemetry	-	5	5
Inlet Screens at WWTP	-	-	-
Other	15	-	-
General			
Pump Replacements	15	-	-
Pump Station Upgrades	-	13	13
Cabinet Upgrades	18	-	19
Pump Station Telemetry Upgrade and extension	-	10	10
CCTV Investigations	6	8	8
Main Trunk Models	10	-	10
Sub Catchment Models	-	16	16
Pipe Performance Models	-	-	-
Asset Management System	5	5	5
District Sludge Disposal Investigations	-	10	10
Other	10	-	-
Land Drainage			
Eastern Plains			
Turua S/W Improvements	30	31	31
Kerepehi S/W Improvements	20	21	21
Other	15	10	10

Financial Statement

	LTCCP 2006-07 \$000's	LTCCP 2007-08 \$000's	Revised 2007-08 \$000's
Western Plains			
Piping Ngatea Township	50	52	52
Maukoro Stopbank LB	-	103	103
Van Eyk Replacement	-	-	-
Waitakaruru Floodgate Upgrade/Relief Structure	-	-	-
Pouarua/Maukoro Final Design/Documentation	100	103	103
Pouarua/Maukoro Southern Area Works	-	1,160	-
Ngatea Urban Pump Upgrades	-	103	103
Smythes FG Replace	80	-	-
Miscellaneous Renewals	30	46	46
Waitakaruru Stopbank right bank	60	-	-
Indian to Waitakaruru	60	-	-
Pump Screens	-	-	-
Waitakaruru U/StW SH	20	-	-
Catchment Management Plan	10	-	-
Tirohia-Rotokohu			
Kauoiti Stopbank Reconstruction	-	-	-
Stormwater			
Paeroa Urban Stormwater			
Arney St	-	105	105
Arney/Wood	10	-	-
Arrow St	35	-	-
Marshall St	150	-	-
Wharf St	150	-	-
Hill St	-	52	52

Financial Statement

	LTCCP 2006-07 \$000's	LTCCP 2007-08 \$000's	Revised 2007-08 \$000's
Telemetry for Criterion Pump	12	-	-
Main Drain Retaining	15	-	-
Normanby Rd	20	42	42
Miscellaneous Renewals	-	-	-
Other	5	-	-
Waihi Urban Stormwater			
Miscellaneous Upgrades	30	31	31
Morgan Park S/Water Line Renewal	-	49	49
Catchment Mgmt Plan	10	-	-
Whiritoa Beach Outfalls	12	13	13
School Lane	50	-	-
Miscellaneous Renewals	25	26	26
Barry Rd	-	63	63
Consent Renewals	-	5	5
Solid Waste			
Paeroa RTS - Slab Replacement/Rehabilitation	48	-	48
Waihi RTS - Mobile Compactor	45	-	-
Waihi RTS - Roadway Reseal	-	-	-
Ngatea Recycling Depot	-	10	10

Financial Statement

LTCCP 2006-07 \$000's	LTCCP 2007-08 \$000's	Revised 2007-08 \$000's
-----------------------------	-----------------------------	-------------------------------

Community Services

Parks and Reserves

State Highway Two Reserves			
Karangahake Reserve Toilet Holding Tank	50	-	-
Passive Reserves			
Reserve Management Plan	10	-	-
Paeroa Domain			
Reseal Internal Roads	-	-	-
Sports Field Drainage	150	-	-
Lights (Sports Fields)	10	144	104
Other	20	10	21
Hugh Hayward Domain			
Signage	10	-	10
New Playground	-	51	51
Sports Centre/Development	-	206	206
Morgan Park			
Netball Courts Relevel	-	10	-
Players Shelter	5	-	-
Skateboard Upgrade	20	-	-
Paeroa Reserves			
Railway Reserve - Footpaths	-	12	12
Other	11	-	-
Plains Reserves			
Turua Boat Ramp - Upgrading	20	-	-
Waihi Reserves			
Gilmour Lake - Landscape Development	-	93	93
Fishermens' Bend Carpark/Fence	40	-	-
Replace Playground Whiritoa Reserve	-	-	-
Victoria Park - Replace Rocket	25	-	-

Financial Statement

	LTCCP 2006-07 \$000's	LTCCP 2007-08 \$000's	Revised 2007-08 \$000's
Library			
New Books	50	52	52
Halls			
Paeroa War Memorial Hall			
Repaint Interior	-	-	-
Repaint Exterior	-	-	-
Stage Curtain	-	-	-
Disabled Ramp	5	-	-
Curtains	20	-	-
Tables/Chairs	20	-	-
Floors	10	-	-
Ngatea War Memorial Hall			
Paint Interior Walls	-	-	-
Paint Exterior	12	-	-
Paint Roof	10	-	-
Carpets	-	-	-
Curtains (top windows)	15	-	-
Curtains (supper room)	10	-	-
Floor Reseal	-	-	-
Waihi Events Centre			
Events Centre - Repaint Interior	30	-	-
Other	-	-	-
Waihi Memorial Hall			
Kitchen Refit	25	-	-
Carpets	-	-	-
Exterior Painting	20	-	-
Other	13	-	-

Financial Statement

	LTCCP 2006-07 \$000's	LTCCP 2007-08 \$000's	Revised 2007-08 \$000's
Public Toilets			
New Toilet Blocks			
Paeroa - Disabled Toilets Domain	9	-	-
Paeroa - Town Centre	150	-	-
Turua	-	-	-
Waitakaruru - New Toilet Block	-	93	93
Whiritoa - Sport & Recreation Reserve	-	-	-
Cemeteries			
Paeroa Cemetery			
RSA carpark extension	-	21	21
Extension (Boundary Fence)	-	-	-
Waihi Cemetery			
Upgrade Toilet/Sexton Shed	-	26	26
New Road	-	31	31
Other	5	5	5
Pools			
Paeroa Pool			
Covers	-	-	-
Upgrade Changing Sheds	-	51	51
Heating Assessment	5	-	-
Repaint Complex	15	-	-
Other	28	15	31
Ngatea Pool			
Ngatea Pool - Changing Shed Upgrade	30	-	-
Other	-	5	5

Financial Statement

	LTCCP 2006-07 \$000's	LTCCP 2007-08 \$000's	Revised 2007-08 \$000's
Other			
Waihi Community CCTV	30	-	-
LIDAR Project	125	-	-
Paeroa Streetscape	500	513	513
Ngatea Entranceway Landscaping	20	-	-
Whiritoa Entranceway	20	-	-
Waihi Museum Carpark Extension	15	-	-
Other	-	6	6
Other			
Property Development			
Council Chambers Sound System	-	-	20
Waihi Library Extension	-	257	257
Plant	415	647	655
Office Equipment	100	103	103
SAP Implementation	247	89	91
TOTAL CAPITAL EXPENDITURE	11,971	13,431	13,861