

# *FINANCIAL STATEMENTS*

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## Financial Statements

### Prospective Income Statement

	Forecast 2008-09 \$000's
<b>INCOME</b>	
Fees and Charges	2,421
External Subsidies	3,182
Targeted Rates	11,446
General Rates	7,098
Petrol Tax	196
Gains/(Losses) on Revaluation of Investment Property and Properties Held for Resale	51
Quarry Sales	2,889
Business Unit Surpluses	168
<b>TOTAL INCOME</b>	<b>27,451</b>
<b>Less</b>	
Total Operating Expenditure	* 24,283
Quarry Expenditure	* 2,352
Interest Expense	524
Provision for Bad Debts	53
Miscellaneous	287
<b>Net result from Operations</b>	<b>(48)</b>
* Includes Depreciation of:	7,249

### Prospective Balance Sheet

	Forecast 30 June 09 \$000's
<b>Current Assets</b>	
Cash and cash equivalents	136
Trade and other receivables	7,099
Provision for Doubtful Debts	(646)
Inventories	662
Other Financial Assets	1,042
<b>Total Current Assets</b>	<b>8,790</b>
<b>Current Liabilities</b>	
Cash and cash equivalents	0
Trade and other payables	5,281
Landfill Aftercare Provision	434
Employee Entitlements Provision	828
Borrowings	1,556
<b>Less Total Current Liabilities</b>	<b>8,099</b>
<b>Working Capital</b>	<b>691</b>
<b>Non-Current Assets</b>	
Property, Plant And Equipment	455,648
Biological Assets - Forestry	989
Intangible Assets - Computer Software	342
Investment Properties	1,362
Investments in Associates	72
Investments in Joint Ventures	51
Other Financial Assets	32
<b>Total Non-Current Assets</b>	<b>458,496</b>
<b>Non-Current Liabilities</b>	
Landfill Aftercare Provision	958
Employee Entitlements Provision	404
Borrowings	7,216
	8,578
<b>NET ASSETS</b>	<b>450,609</b>
<b>Represented by:</b>	
General Equity	383,455
Council Created Reserves	3,496
Asset Revaluation Reserve	63,007
<b>RATEPAYERS EQUITY</b>	<b>450,609</b>

## Prospective Statement of Movements in Equity

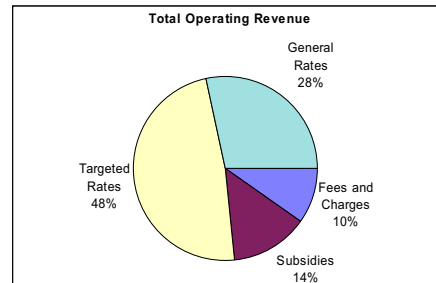
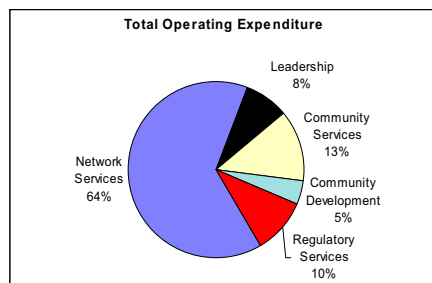
	Forecast 2008-09 \$000's
<b>Equity at the start of the Period</b>	416,283
Net Surplus/(Deficit) for the year	(48)
Increase in Revaluation Reserves	34,374
<b>Equity at the end of the Period</b>	<u>450,609</u>

## Prospective Statement of Cashflow

	Forecast 2008-09 \$000's
<b>Operating Activities</b>	
Cash to be provided from:	
Rates	18,540
Fees, Charges and Subsidies	8,802
	<u>27,342</u>
Cash to be applied to:	
Employees and Suppliers	19,624
Interest on Loans	524
Net Taxes paid	31
	<u>20,179</u>
<b>Net Cash flows from Operating Activities</b>	7,163
<b>Investing Activities</b>	
Cash to be provided from:	
Decrease in Investments	-
Sale of Assets	-
	<u>-</u>
Cash to be applied to:	
Acquisition of Investments	98
Operating & Infrastructural Asset Acquisitions	12,141
	<u>12,239</u>
<b>Net Cash flows from Investing Activities</b>	(12,239)
<b>Financing Activities</b>	
Cash to be provided from:	
Lease Receipts	28
Loans Raised	5,650
	<u>5,678</u>
Cash to be applied to:	
Lease Payments	28
Landfill Liability Reduction	423
Loan Repayments	-
	<u>451</u>
<b>Net Cash flows from Financing Activities</b>	5,227
<b>NET CHANGE IN CASH HOLDINGS</b>	151
Plus Opening Cash	(15)
<b>CLOSING CASH BALANCE</b>	<u>136</u>
<b>Represented by:</b>	
Cash at Bank	135
Petty Cash	1
	<u>136</u>

## Prospective Overall Activity Statement

	Budget 2007-08 \$000's	Forecast 2008-09 \$000's
<b>OPERATING EXPENDITURE</b>		
Network Services	15,083	16,018
Leadership	2,013	2,319
Community Services	3,019	3,539
Community Development	1,305	1,322
Regulatory Services	2,361	2,752
	<u>23,781</u>	<u>25,950</u>
Less Internal Interest	1,195	1,667
<b>TOTAL OPERATING EXPENDITURE</b>	<u>22,586</u>	<u>24,283</u>
<b>LESS OPERATING REVENUE</b>		
Fees and Charges	2,133	2,421
Subsidies	3,596	3,182
Targeted Rates	10,934	11,449
General Rates	6,347	7,113
<b>TOTAL OPERATING REVENUE</b>	<u>23,010</u>	<u>24,165</u>
<b>OPERATING SURPLUS/(DEFICIT)</b>	<u>424</u>	<u>(118)</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, Strategic Planning, RMA Policy and Pensioner Housing have expenditure that is cyclical in nature. Council has determined that it 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*

	<b>Forecast 2008-09 \$000's</b>
<b>Opening Balance</b>	3,122
Less Repayments	-
Plus New Loans Drawn Down	5,650
<b>Term Debt</b>	<u>8,772</u>
Interest Expense as a percentage of Rates Revenue	3.6%
Interest Expense as a percentage of Total Revenue	2.1%
Long Term Liabilities per Rating Unit	\$ 807

### *Notes to the Financial Statements*

#### **Note 1: Statement of accounting policies for the forecast year 2008/09**

#### **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 2008/09 financial year.

In relation to that standard, the financial information for the 2008/09 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 2009 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:

#### **Subsidiaries**

HDC has no subsidiaries.

#### **Associates**

HDC accounts for investments in associates in the financial statements using the equity method. An associate is an entity over which the HDC has significant influence and that is neither a subsidiary nor an interest in a joint venture. The investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise HDC's share of the surplus or deficit of the associate after the date of acquisition. HDC's share of the surplus or deficit of the associate is recognised in HDC's statement of financial performance. Distributions received from an associate reduce the carrying amount of the investment.

If HDC's share of deficits of an associate equals or exceeds its interest in the associate, HDC discontinues recognising its share of further deficits. After HDC's interest is reduced to zero, additional deficits are provided for, and a liability is recognised, only to the extent that HDC has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports surpluses, HDC will resume recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognised.

HDC's share in the associate's surplus or deficits resulting from unrealised gains on transactions between the HDC and its associates is eliminated.

#### **Joint ventures**

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. HDC accounts for its interest in a jointly controlled operation using the equity method.

#### **Revenue**

Revenue is measured at the fair value of consideration received.

#### *Rates revenue*

Rates are set annually by a resolution from Council and relate to a financial year. All ratepayers are invoiced within the financial year to which the rates have been set. Rates revenue is recognised when payable.

#### *Metered Water Rates Revenue*

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.

#### *Other revenue*

HDC receives government grants from Land Transport New Zealand, which subsidises part of HDC's costs in maintaining the local roading infrastructure. The subsidies are recognised as revenue upon entitlement as conditions pertaining to eligible expenditure have been fulfilled.

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided.

Sales of goods are recognised when a product is sold to the customer. The recorded revenue is the gross amount of the sale.

Where a physical asset is acquired for nil or nominal consideration the fair value of the asset received is recognised as revenue. Assets vested in HDC are recognised as revenue when control over the asset is obtained.

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

Interest income is recognised using the effective interest method.

Dividends are recognised when the right to receive payment has been established.

#### *Development contributions*

The revenue recognition point for development and financial contributions is at the later of the point when HDC is ready to provide the service for which

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the contribution was levied, or the event that will give rise to a requirement for a development or financial contribution under the legislation.

In cases where contributions are collected in advance to fund a service that is not currently provided in an area, the contribution is initially recognised as revenue in advance, for example where no water supply is available in an area and a new water supply scheme is planned that will be funded in part from the development contributions.

### **Construction contracts**

HDC did not engage into Construction Contracts as a Contractor, apart from minor public works.

### **Borrowing costs**

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

### **Grant expenditure**

Non-discretionary grants are those grants that are awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received.

Discretionary grants are those grants where HDC has no obligation to award on receipt of the grant application and are recognised as expenditure when a successful applicant has been notified of the HDC's decision.

### **Taxation**

#### *Goods and Services Tax*

The financial statements have been prepared on a GST exclusive basis with the exception of Accounts Receivable and Accounts Payable, which are stated with GST included. The balance of GST at 30 June 2007 is included in Accounts Payable in the Statement of Financial Position.

Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or

payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows. Commitments and contingencies are disclosed exclusive of GST.

#### *Fringe Benefit Tax*

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

### **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 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.

#### ***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.

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### ***Cash and cash equivalents***

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

### ***Trade and other receivables***

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Loans, including loans to community organisations made by HDC at nil, or below-market interest rates are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar asset/investment. They are subsequently measured at amortised cost using the effective interest method. The difference between the face value and present value of expected future cash flows of the loan is recognised in the statement of financial performance as a grant.

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. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows and in case of Community Loans, discounted using the effective interest method.

### ***Inventories***

Inventories (such as spare parts and other items) held for distribution or consumption in the provision of services that are not supplied on a commercial basis, are measured at the lower of cost and current replacement cost.

Inventories held for re-sale are measured at the lower of cost and net re-sale value.

### **Financial assets**

HDC classifies its financial assets into four categories - the classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets and liabilities are initially measured at fair value plus transaction costs unless they are carried at fair value through profit or loss in which case the transaction costs are recognised in the statement of financial performance.

Purchases and sales of investments are recognised on trade-date, the date on which HDC commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the HDC has transferred substantially all the risks and rewards of ownership.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used is the current bid price. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. HDC uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The four categories of financial assets are:

#### *Financial assets at fair value through profit or loss*

This category has two sub-categories - financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognised in the statement of

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financial performance. Currently, HDC does not hold any financial assets in this category.

### *Loans and Receivables*

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the statement of financial performance. Loans and receivables are classified as "trade and other receivables" in the statement of financial position.

### *Held to maturity investments*

Held to maturity investments are assets with fixed or determinable payments and fixed maturities that HDC has the positive intention and ability to hold to maturity. After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the statement of financial performance.

HDC does not hold any Assets in this category at present.

### *Financial assets at fair value through equity*

Financial assets at fair value through equity are those that are designated as fair value through equity or are not classified in any of the other categories above. This category encompasses Investments that HDC intends to hold long-term but which may be realised before maturity and shareholdings, that HDC holds for strategic purposes. After initial recognition these investments are measured at their fair value.

Gains and losses are recognised directly in equity except for impairment losses, which are recognised in the statement of financial performance. In the event of impairment, any cumulative losses previously recognised in equity will be removed from equity and recognised in statement of financial performance even though the asset has not been de-recognised. On de-recognition the cumulative gain or loss previously recognised in equity is recognised in the statement of financial performance.

### **Impairment of financial assets**

At each balance sheet date HDC assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised in the statement of financial performance.

### **Accounting for derivative financial instruments and hedging activities**

HDC currently does not use derivative financial instruments to hedge exposure to foreign exchange and interest rate risks arising from financing activities. In accordance with its Investment and Liability Management policy, HDC does not hold or issue derivative financial instruments for trading purposes.

### **Non-current assets held for sale**

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

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.

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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.

### **Property, plant and equipment**

This category of assets includes:

- 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.
- 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 2006, 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.

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.

Infrastructural assets will be next re-valued as at 1 July 2008. The 30 June 2009 values were calculated using the values as at 1 July 2007 plus additions at cost and applying forecast inflation factors prepared by BERL.

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 re-valued amount.

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Library Books are valued annually and are valued at depreciated replacement cost, 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 asset 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.

### *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-re-valued 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 re-valued assets

are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

### *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:

### *Roading:*

Seal (10-70 years)  
Base course (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)

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Fixtures & Fitting (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.

### Intangible Assets

#### *Software acquisition and development*

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with the development of software for internal use by HDC, are recognised as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

#### *Easements*

HDC has no easements as prescribed for this category.

#### *Amortisation*

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in statement of financial performance. The useful lives of major classes of intangible assets have been estimated as follows:

Computer software 3 years 33%

### Forestry assets

Forestry assets are independently re-valued by PF Olsen & Company, a registered forest valuer annually at fair value less estimated point of sale costs. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined pre-tax rate.

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.

### Investment property

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation.

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

After initial recognition, HDC measures all investment property at fair value as determined annually by an independent valuer.

Gains or losses arising from a change in the fair value of investment property are recognised in the statement of financial performance.

### Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

## Financial Statements

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the assets ability to generate net cash inflows and where the entity would, if deprived of the asset, replace it's remaining future economic benefits or service potential.

The value in use for cash-generating assets is the present value of expected future cash flows.

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For re-valued assets the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the statement of financial performance.

For assets not carried at a re-valued amount, the total impairment loss is recognised in the statement of financial performance.

The reversal of an impairment loss on a re-valued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in statement of financial performance, a reversal of the impairment loss is also recognised in the statement of financial performance.

For assets not carried at a re-valued amount the reversal of an impairment loss is recognised in the statement of financial performance.

### Employee benefits

#### *Short-term benefits*

Employee benefits that HDC expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

HDC recognises a liability for sick leave 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 HDC anticipates it will be used by staff to cover those future absences.

#### *Long-term benefits*

Long service leave and retirement leave entitlements that are payable beyond 12 months have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- The present value of the estimated future cash flows. A discount rate of 6% and an inflation factor of 4% were used. The discount rate is based on the weighted average of Government interest rates for stock with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.

### Superannuation schemes

HDC has not engaged into a defined benefit scheme. Payments to defined contributions schemes are expensed.

### Provisions

HDC recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditures will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

## Financial Statements

### *Financial guarantee contracts*

A financial guarantee contract is a contract that requires HDC to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are initially recognised at fair value. If a financial guarantee contract was issued in a stand-alone arm's length transaction to an unrelated party, its fair value at inception is equal to the consideration received. When no consideration is received a provision is recognised based on the probability HDC will be required to reimburse a holder for a loss incurred discounted to present value. The portion of the guarantee that remains unrecognised, prior to discounting to fair value, is disclosed as a contingent liability.

Financial guarantees are subsequently measured at the initial recognition amount less any amortisation, however if HDC assesses that it is probable that expenditure will be required to settle a guarantee, then the provision for the guarantee is measured at the present value of the future expenditure.

### **Borrowings**

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

### **Equity**

Equity is the community's interest in HDC and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of reserves.

The components of equity are:

- Retained earnings
- Restricted reserves
- Fair value
- Asset revaluation reserves

### **Council created reserves**

Council created reserves are a component of equity generally representing a particular use to which various parts of equity have been assigned. Council created reserves are those subject to specific conditions accepted as binding by HDC and which may not be revised by HDC without approval by Council. Transfers from these reserves may be made only for certain specified purposes or when certain specified conditions are met. HDC's objectives, policies and processes for managing capital are described in note 10.

### **Budget figures**

The budget figures are those approved by the Council at the beginning of the year in the annual plan. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by HDC for the preparation of the financial statements.

### **Cost allocation**

Direct costs are charged directly to significant activities. Indirect costs are charged to significant activities using appropriate cost drivers such as actual/estimated usage, staff numbers and floor area.

The cost of Support Services has been fully allocated over the significant activities.

The costs of debt servicing have been allocated to the internal treasury function, which charges and pays interest to each separately rated activity on the basis of its opening cash position.

## **5. CHANGES IN ACCOUNTING POLICIES**

There have been no significant changes to accounting policies from previous years.

### 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 Statements

### Note 2: Financial Assumptions

Forecasting Assumptions - Financial	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
<p><b>Inflation</b> - 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><b>Interest</b> – 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><b>Land Transport New Zealand (LTNZ)</b> - 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><b>Revaluation</b> – 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><b>Vested Assets</b> – 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 Statements

Forecasting Assumptions - Financial	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
<b>Funding Sources</b> – 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.
<b>Capital Works Costs</b> – 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.
<b>Asset Life</b> – 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 2008/09

	2008/09
Roading	2.4%
Property/Parks	2.7%
Water	4.0%
Energy	3.8%
Staff	2.4%
Other	2.9%
Pipelines	4.3%
Earthmoving	3.2%
Private Labour	2.4%

## Financial Statements

### Note 3: Explanation of Variances

#### Prospective Income Statement

Total Operating Expenditure is \$224,000 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 \$255,000 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.

## Capital Works Schedule

LTCCP  
2008-09  
\$000's

Budget  
2007-08  
\$000's

Forecast  
2008-09  
\$000's

### Network Services

#### Roading

##### Subsidised Roding

1,053	Resurfacing	905	1,296
236	Major Drainage Control	150	100
696	Kerb and Channel	477	158
908	Area Wide Pavement Treatment	1,165	490
5	Bridge Repairs	6	-
-	Streetlight Replacement	6	-
246	Minor Safety Works	285	226
179	Seal Extensions	158	120

##### Non-Subsidised Roding

347	Seal Extensions	320	342
-	Kerb and Channel	12	108
12	New Vehicle Crossings	95	16
9	New Street Lights	9	8
53	Plains Unallocated Works	51	53
-	Waihi Local Roding Upgrading	51	53
36	Footpath Replacements	35	41
74	Footpaths Additional	72	76
13	Vehicle Crossings	12	13

## Financial Statements

LTCCP 2008-09 \$000's		Budget 2007-08 \$000's	Forecast 2008-09 \$000's
<b>Water</b>			
<b>Kaimanawa</b>			
1	Other	1	1
<b>Karangahake</b>			
-	Connect to Paeroa	63	-
7	Other	7	7
<b>Ohinemuri</b>			
-	Decomission Dams	104	-
35	Waihi Rd SH 2 - Bottle to Catholic School	-	35
-	SH26 past Hubbard Rd	26	26
2	Other	2	2
<b>Paeroa</b>			
-	Sludge Disposal	73	-
759	Treatment Upgrade	-	-
491	Raw Water Main Replacement	-	-
-	Willoughby Street	31	-
-	Kennedy St	16	-
10	Other	28	10
<b>Plains</b>			
<b>Mains Upgrades</b>			
-	SH2 from Kerepehi Main rd int. to Bush st int.	800	-
671	Bush Rd section 1 (Orchard East to Piako)	-	671
<b>Mains Renewals</b>			
-	Piropia Rd 100mm Cast Pipiroa End	21	-
-	Ponui Ave	13	-
5	Reservoir Canal off Riding Rd	-	5
33	Steen Rd Raw Water Main	31	33
15	Other	5	15

## Financial Statements

LTCCP 2008-09 \$000's		Budget 2007-08 \$000's	Forecast 2008-09 \$000's
22	Meter Replacements	21	22
14	Resource Consent (Mangatarata Take)	-	14
5	Resource Consent (Mangatarata Temp Weir)	-	5
3	Resource Consent (Place Silt)	-	3
3	Resource Consent (Desilt Dam)	-	3
11	Resource Consent (Borefield Take)	-	11
5	Resource Consent (Steen Rd Dam)	-	5
14	Resource Consent (Waitak. Take)	-	14
11	Treatment Minor Upgrades	525	11
542	Kerepehi Treated Storage	-	-
-	Kerepehi Treatment Upgrade	1,850	2,060
705	Waitakaruru Raw Water Storage	1,563	1,789
26	Waitakaruru WTP bores servicing (2 at a time)	25	26
<b>Waihi</b>			
Mains Renewal			
23	SH2 Wrigley- Cannon	-	23
-	SH2 Wrigley- Margaret- Cannon across road in berm	25	-
33	Moresby Ave Fire Fighting requirement	42	33
3	Meter Replacements	3	3
-	Resource Consent Renewal (Waitete Take)	42	-
-	Raw Water Source Storage	313	-
379	WTP Plant Upgrade	-	-
5	Other	10	5
<b>Waikino</b>			
11	Clean Dam /Decommision	-	11
295	New Main Connecting to Waihi	-	-
6	Other	6	6

## Financial Statements

LTCCP 2008-09 \$000's		Budget 2007-08 \$000's	Forecast 2008-09 \$000's
<b>Wastewater</b>			
<b>Kerepehi</b>			
206	Treatment Upgrades	125	206
22	Pond De sludge	-	22
<b>Paeroa</b>			
33	Infiltration/mains replacement/extension	42	33
109	Replacement lines from investigation/monitoring programme.	-	109
55	Reticulation extensions	-	55
15	Inflow testing	31	15
-	Flow Monitor	16	-
27	Other	26	27
<b>Waihi</b>			
108	Victoria St Rising Main construction	313	108
-	Victoria St Pump Replacement	83	-
27	East End extensions; Council Share	26	27
54	Other	-	54
<b>Waitakaruru</b>			
-	Extend Reticulation	126	55
-	Other	46	-
<b>Whiritoa</b>			
-	Coppicing	36	-
-	WWTP Telemetry	5	-
<b>General</b>			
-	Pump Station Upgrades	13	-
-	Cabinet Upgrades	19	-
16	Pump Station Telemetry Upgrade and extension	10	16
10	CCTV Investigations	8	10
-	Main Trunk Models	10	-
-	Sub Catchment Models	16	-
5	Pipe Performance Models	-	5
5	Asset Management System	5	5
-	District Sludge Disposal Investigations	10	-

## Financial Statements

LTCCP  
2008-09  
\$000's

Budget  
2007-08  
\$000's

Forecast  
2008-09  
\$000's

### Land Drainage

#### Eastern Plains

33	Turua S/W Improvements	31	33
22	Kerepehi S/W Improvements	21	22
-	Other	10	-

#### Western Plains

55	Piping Ngatea Township	52	55
-	Maukoro Stopbank LB	103	-
106	Van Eyk Replacement	-	-
101	Waitakaruru Floodgate Upgrade/Relief Structure	-	-
-	Pouarua/Maukoro Final Design/Documentation	103	106
159	Pouarua/Maukoro Southern Area Works	-	-
-	Ngatea Urban Pump Upgrades	103	106
64	Miscellaneous Renewals	46	64

### Stormwater

#### Paeroa Urban Stormwater

-	Amey St	105	-
-	Hill St	52	-
-	Normanby Rd	42	-
164	Miscellaneous Renewals	-	164

#### Waihi Urban Stormwater

33	Miscellaneous Upgrades	31	33
-	Morgan Park S/Water Line Renewal	49	-
-	Whiritoa Beach Outfalls	13	-
27	Miscellaneous Renewals	26	27
-	Barry Rd	63	-
-	Consent Renewals	5	-

## Financial Statements

LTCCP 2008-09 \$000's		Budget 2007-08 \$000's	Forecast 2008-09 \$000's
	<b>Solid Waste</b>		
-	Paeroa RTS - Slab Replacement/Rehabilitation	48	-
-	Ngatea Recycling Depot	10	-
	<b>Community Services</b>		
	<b>Parks and Reserves</b>		
	<b>Paeroa Domain</b>		
-	Lights (Sports Fields)	104	104
-	Other	21	-
	<b>Hugh Hayward Domain</b>		
-	Signage	10	-
-	New Playground	51	50
211	Sports Centre/Development	206	338
	<b>Paeroa Reserves</b>		
-	Railway Reserve - Footpaths	12	-
5	Other	-	16
	<b>Waihi Reserves</b>		
159	Gilmour Lake - Landscape Development	93	78
53	Replace Playground Whiritoa Reserve	-	53
	<b>Library</b>		
53	New Books	52	137
-	New Computer System	-	50
-	Other	-	13

## Financial Statements

LTCCP 2008-09 \$000's		Budget 2007-08 \$000's	Forecast 2008-09 \$000's
<b>Halls</b>			
Paeroa War Memorial Hall			
11	Stage Curtain	-	-
Ngatea War Memorial Hall			
4	Floor Reseal	-	4
Waihi Events Centre			
5	Other	-	5
<b>Public Toilets</b>			
New Toilet Blocks			
-	Waitakaruru - New Toilet Block	93	-
95	Whiritoa - Sport & Recreation Reserve	-	95
<b>Cemeteries</b>			
Paeroa Cemetery			
-	RSA carpark extension	21	-
-	Extension (Drainage)	10	-
-	Extension (Roding/Parking)	60	-
Waihi Cemetery			
-	Upgrade Toilet/Sexton Shed	26	-
-	New Road	31	-
-	Other	5	-
<b>Pools</b>			
Paeroa Pool			
-	Upgrade Changing Sheds	51	-
-	Treatment and Pipe Renewal	-	210
-	Heating Systems	-	50
-	Other	31	-
Ngatea Pool			
-	Other	5	-

# Financial Statements

LTCCP 2008-09 \$000's		Budget 2007-08 \$000's	Forecast 2008-09 \$000's
	<b>Other</b>		
-	Paeroa Streetscape	513	300
-	Other	6	-
	<b>Community Development</b>		
-	No Capital or Renewal Expenditure	-	-
	<b>Regulatory Services</b>		
-	No Capital or Renewal Expenditure	-	-
	<b>Other</b>		
	<b>Property Development</b>		
-	Council Chambers Sound System	20	-
-	Waihi Library Extension	257	750
361	Plant	655	361
106	Office Equipment	103	106
9	SAP Implementation	91	115
<b>10,540</b>	<b>TOTAL CAPITAL EXPENDITURE</b>	<b>13,861</b>	<b>12,141</b>