

## FINANCIAL STATEMENTS

### STATEMENT OF FINANCIAL POSITION

as at 30 June 2007

	Note	Actual 30 June 2007 \$000	Budget 30 June 2007 \$000	Actual 30 June 2006 \$000
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	11	565	(44)	1,836
Trade and other receivables	12	6,683	6,402	8,980
Provision for doubtful debts	12	(608)	(300)	(568)
Non-current assets held for resale	16	470	0	36
Inventories	13	623	420	534
Other Financial Assets	14	981	115	1,178
<b>Total Current Assets</b>		<b>8,714</b>	<b>6,593</b>	<b>11,996</b>
<b>Current Liabilities</b>				
Trade and other payables	23	4,852	4,852	7,707
Landfill Aftercare Provision	24	322	0	386
Borrowings	26	1,789	56	61
Employee Entitlements Provision	25	780	68	620
<b>Total Current Liabilities</b>		<b>7,743</b>	<b>4,976</b>	<b>8,774</b>
<b>Working Capital</b>		<b>971</b>	<b>1,617</b>	<b>3,222</b>

The notes to the financial statements form part of these financial statements.

	Note	Actual 30 June 2007 \$000	Budget 30 June 2007 \$000	Actual 30 June 2006 \$000
<b>Non-Current Assets</b>				
Property, Plant & Equipment	17	414,415	380,828	382,339
Biological Assets (Forestry)	19	814	831	714
Intangible Assets - Computer Software	18	211	487	99
Investment Properties	20	1,288	933	1,913
Investments in Associates	21	72	32	72
Investments in Joint Ventures	22	51	48	45
Other Financial Assets	14	32	109	54
<b>Total Non-Current Assets</b>		<b>416,883</b>	<b>383,268</b>	<b>385,236</b>
<b>Non-Current Liabilities</b>				
Employee Entitlements Provision	25	380	444	387
Landfill Aftercare Provision	24	1,814	1,750	1,880
Borrowings	26	72	5,572	113
<b>Total Non-Current Liabilities</b>		<b>2,266</b>	<b>7,766</b>	<b>2,380</b>
<b>NET ASSETS</b>		<b>415,588</b>	<b>377,119</b>	<b>386,078</b>
<i>Represented by:</i>				
<b>EQUITY</b>				
General equity	27	382,433	314,516	382,089
Council created reserves	27	3,871	3,145	3,362
Asset revaluation reserve	27	28,633	59,458	0
Forestry revaluation reserve	27	651	0	626
<b>TOTAL EQUITY</b>		<b>415,588</b>	<b>377,119</b>	<b>386,077</b>

The notes to the financial statements form part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2007

	Note	Actual 2007 \$000	Budget 2007 \$000	Actual 2006 \$000
<b>Balance at 1 July</b>		386,077	376,276	385,545
<b>Property, Plant &amp; Equipment</b>				
Valuation gains/(losses) taken to equity		28,839	0	0
<b>Biological Assets (Forestry)</b>				
Valuation gains/(losses) taken to equity		25	0	(85)
<b>Surplus/(Deficit) for the year</b>		647	843	617
<b>Balance at 30 June</b>		<b>415,588</b>	<b>377,119</b>	<b>386,077</b>

The notes to the financial statements form part of these financial statements.

## STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2007

	Note	Actual 2007 \$000	Budget 2007 \$000	Actual 2006 \$000
<b>INCOME</b>				
Targeted rates	4	10,619	10,641	9,644
General rates	4	6,321	6,146	6,027
Other revenue	5	9,796	8,263	9,461
Other gains/(losses)	6	1,028	0	1,206
<b>Total Income</b>		<b>27,764</b>	<b>25,050</b>	<b>26,338</b>
<b>EXPENDITURE</b>				
<b>Activity Expenditure</b>	7			
Network Services		14,945	14,780	15,274
Leadership		1,881	1,865	1,757
Community Services		3,295	2,900	2,620
Community Development		1,087	1,071	1,135
Regulatory Services		2,236	2,077	1,923
Less Internal Interest		(1,185)	(1,228)	(961)
Add Net Overheads/Property/Plant		621	0	323
		<b>22,880</b>	<b>21,465</b>	<b>22,071</b>

The notes to the financial statements form part of these financial statements.

	Note	Actual 2007 \$000	Budget 2007 \$000	Actual 2006 \$000
<b>Other Expenditure</b>				
Finance Costs	8	292	222	165
Miscellaneous expenditure	7	3,940	2,520	3,484
		<b>4,232</b>	<b>2,742</b>	<b>3,649</b>
<b>Total Expenditure</b>		<b>27,112</b>	<b>24,207</b>	<b>25,720</b>
<b>OPERATING SURPLUS/(DEFICIT)</b>		<b>652</b>	<b>843</b>	<b>618</b>
Share of loss/(income) from associates/joint ventures	21,22	5	0	2
<b>TOTAL SURPLUS/(DEFICIT)</b>		<b>647</b>	<b>843</b>	<b>616</b>

The notes to the financial statements form part of these financial statements.

## STATEMENT OF CASHFLOWS

For the year ended 30 June 2007

The notes and the statement of accounting policies form part of these financial statements.

	Note	Actual 2007 \$000	Budget 2007 \$000	Actual 2006 \$000
<b>Cash Flows from operating activities</b>				
Receipts from rates revenue		16,668	16,788	15,523
Interest received		58	0	249
Dividends received		0	0	0
Receipts from other revenue		11,403	8,212	9,052
Payments to suppliers and employees		(21,093)	(17,774)	(18,545)
Interest paid		(112)	(222)	(1)
Goods and services tax (net)		248	(31)	143
<b>Net cash from operating activities</b>	<b>28</b>	<b>7,172</b>	<b>6,973</b>	<b>6,421</b>
<b>Cash Flows from investing activities</b>				
Proceeds from sale of property, plant & equipment		2,396	1,750	1,766
Mortgage Payments received		3	0	3
Proceeds from sale of investments		0	0	0
Purchase of intangible assets		(161)	0	(27)
Purchase of property, plant & equipment		(12,358)	(11,971)	(12,767)
Purchase of investment property		0	(94)	0
Advances made to Sporting Bodies, etc		(10)	0	(1,040)
<b>Net cash from investing activities</b>		<b>(10,130)</b>	<b>(10,315)</b>	<b>(12,065)</b>

The notes to the financial statements form part of these financial statements.

	Note	Actual 2007 \$000	Budget 2007 \$000	Actual 2006 \$000
<b>Cash Flows from financing activities</b>				
Proceeds from borrowings		11,620	4,528	0
Landfill Liability reduction		(62)	(202)	(47)
Repayment of borrowings		(9,871)	0	(1)
Repayment of Finance Lease Liabilities		0	(28)	0
<b>Net cash from financing activities</b>		<b>1,687</b>	<b>4,298</b>	<b>(48)</b>
<b>Net (decrease) increase in cash, cash equivalents and bank overdrafts</b>				
		(1,271)	956	(5,692)
Cash, cash equivalents and bank overdrafts at the beginning of the year		1,836	(1,000)	7,528
<b>Cash, cash equivalents and bank overdrafts at the end of the year</b>		<b>565</b>	<b>(44)</b>	<b>1,836</b>

The GST (net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

The notes to the financial statements form part of these financial statements.

## SUMMARY STATEMENT OF COST OF SERVICES

For the year ended 30 June 2007

	Actual 2007 \$000	Budget 2007 \$000	Actual 2006 \$000
<b>OPERATING EXPENDITURE</b>			
Network Services	14,945	14,780	15,274
Leadership	1,881	1,865	1,757
Community Services	3,295	2,900	2,620
Community Development	1,087	1,071	1,135
Regulatory Services	2,236	2,077	1,925
	<u>23,444</u>	<u>22,693</u>	<u>22,711</u>
Less Internal Interest	(1,185)	(1,228)	(961)
Add Net Overheads	286	-	(20)
Add Net Property	338	-	162
Add Net Plant	(30)	-	122
	<u>22,853</u>	<u>21,465</u>	<u>22,014</u>
<b>OPERATING REVENUE</b>			
Fees and Charges	1,988	1,879	1,784
External Subsidies	3,867	3,386	3,565
Targeted Rates	10,619	10,640	9,644
General Rates	6,321	6,146	6,027
	<u>22,795</u>	<u>22,051</u>	<u>21,020</u>
<b>OPERATING SURPLUS/(DEFICIT)</b>	<b>(58)</b>	<b>586</b>	<b>(994)</b>

The notes to the financial statements form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 30 June 2007*

## 1 Accounting policies for the year ended 30 June 2007

### Reporting Entity

Hauraki District Council 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). The financial statements of HDC are for the year ended 30 June 2007 and were adopted by Council 31 October, 2007.

### Basis of preparation

The financial statements of HDC have been prepared in accordance with the requirements of the Local Government Act 2002: Part 6, Section 98 and Part 3 of Schedule 10, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities. This is the first set of financial statements prepared using NZ IFRS and comparatives for the year ended 30 June 2006 have been restated to NZ IFRS accordingly. Reconciliations of equity and net surplus/(deficit) for the year ended 30 June 2006 under NZ IFRS to the balances reported in the 30 June 2006 financial statements are detailed in note 2.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an

opening NZ IFRS statement of financial position as at 1 July 2005 for the purposes of the transition to NZ IFRS.

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, certain infrastructural assets, investment property, biological assets and financial instruments..

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000). The functional currency of HDC is New Zealand dollars.

### Standards and interpretation issued and not yet adopted

There are no standards, interpretations, and amendments that have been issued, but are not yet effective, that HDC has not yet 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 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.

##### ***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 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.

The majority of property intended for sale relates to a subdivision that Council has developed in Kerepehi. Council has accepted deposits on most 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.

### **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. 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 re-valued amount.

Library Books are valued annually and are valued at depreciated replacement cost as at 30 June 2007 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 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)  
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.

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 contribution 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 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.

### **Critical accounting estimates and assumptions**

In preparing these financial statements HDC has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### **Landfill aftercare provision**

Note 24 discloses an analysis of the exposure of HDC in relation to the estimates and uncertainties surrounding the landfill aftercare provision.

#### **Infrastructural assets**

There are a number of assumptions and estimates used when performing depreciated replacement cost valuations over infrastructural assets. These include:

- The physical deterioration and condition of an asset, for example the Council could be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets, which are not visible, for example storm water, wastewater and water supply pipes that are underground. This risk is minimised by Council performing a combination of physical inspections and condition modelling assessments of underground assets;
- Estimating any obsolescence or surplus capacity of an asset; and
- Estimates are made when determining the remaining useful lives over which the asset will be depreciated. These estimates can be impacted by the local conditions, for example weather patterns, ground condition and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then HDC could be over or under estimating the annual depreciation charge recognised as an expense in the statement of financial performance. To minimise this risk HDC's infrastructural asset

useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group and have been adjusted for local conditions based on past experience. Asset inspections, deterioration and condition modelling are also carried out regularly as part of the HDC's asset management planning activities, which gives HDC further assurance over its useful life estimates.

- Experienced independent valuers perform/review the Council's infrastructural asset revaluations.

## 2 Explanation of transition to NZ IFRS

### Transition to NZ IFRS

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

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

In preparing these consolidated financial statements in accordance with NZ IFRS 1, HDC has applied the mandatory exceptions and certain optional exemptions from full retrospective application of NZ IFRS.

### Exemptions from full retrospective application elected by HDC

HDC has elected to apply the following exemptions from full retrospective application:

#### a) *Business combination exemption*

HDC has applied the business combinations exemptions in NZ IFRS1. It has not restated business combinations that took place prior to the 1 July 2005 transition date.

#### b) *Fair value as deemed cost exemption*

HDC has elected to measure land, buildings, restricted land, land under roads, and infrastructural assets at fair value as at 1 July 2005 and use that fair value as the deemed cost at that date.

#### c) *Designation of financial assets and financial liabilities exemption*

HDC designated various securities as financial assets at fair value through equity at the date of the transition to NZ IFRS.

HDC is required to make the following mandatory exception from retrospective application:

#### a) *Estimates exception*

Estimates under NZ IFRS at 1 July 2005 are consistent with estimates made for the same date under previous NZ GAAP.

### Reconciliation of equity

The following table shows the changes in equity, resulting from the transition from previous NZ GAAP to NZ IFRS as at 1 July 2005 and 30 June 2006.

	Note	GAAP 1 July 2005	NZIFRS Transition	IFRS Transition	GAAP 30 June 2006	NZIFRS Transition	IFRS Transition
<b>ASSETS</b>							
<b>Current Assets</b>							
Cash and cash equivalents		7,528	7,528	0	1,836	1,836	0
Trade and other receivables	a	6,102	6,402	300	8,413	8,980	567
Provision for doubtful debts	a	0	(709)	(709)	0	(568)	(568)
Non-current assets held for resale	b	237	91	(146)	314	36	(278)
Inventories		419	419	0	534	534	0
Other Financial Assets	c	115	118	3	209	1,178	969
<b>Total Current Assets</b>		<b>14,401</b>	<b>13,849</b>	<b>(552)</b>	<b>11,306</b>	<b>11,996</b>	<b>690</b>
<b>Current Liabilities</b>							
Trade and other payables	d	5,146	4,852	(294)	8,094	7,707	(387)
Landfill Aftercare Provision							
Borrowings		29	29	0	61	61	0
Employee Entitlements Provision		494	494	0	620	620	0
<b>Total Current Liabilities</b>		<b>5,669</b>	<b>5,375</b>	<b>(294)</b>	<b>8,775</b>	<b>8,388</b>	<b>(387)</b>
<b>Working Capital</b>		<b>8,732</b>	<b>8,474</b>	<b>(258)</b>	<b>2,531</b>	<b>3,608</b>	<b>1,077</b>
<b>Non-Current Assets</b>							
Property, Plant & Equipment	b,f,g	379,175	376,306	(2,869)	384,072	382,339	(1,733)
Biological Assets (Forestry)	e	701	738	37	714	714	0
Intangible Assets - Computer Software	f	0	123	123	0	99	99
Investment Properties	g	0	2,893	2,893	0	1,913	1,913
Investments in Associates		32	32	0	73	72	(1)
Investments in Joint Ventures		48	48	0	45	45	0
Other Financial Assets	c	70	55	(15)	1,106	54	(1,052)

	Note	GAAP 1 July 2005	NZIFRS	IFRS Transition	GAAP 30 June 2006	NZIFRS	IFRS Transition
<b>Non-Current Liabilities</b>							
Employee Entitlements Provision	h	564	579	15	370	387	17
Landfill Aftercare Provision	d	1,698	1,698	0	1,880	1,880	0
Borrowings		50	50	0	113	113	0
<b>Total Non-Current Liabilities</b>		<b>2,312</b>	<b>2,327</b>	<b>15</b>	<b>2,363</b>	<b>2,380</b>	<b>17</b>
<b>NET ASSETS</b>		<b>386,446</b>	<b>386,465</b>	<b>19</b>	<b>386,178</b>	<b>386,563</b>	<b>385</b>
<i>Represented by:</i>							
<b>EQUITY</b>							
General equity	a,c,h,i	321,311	382,183	60,872	321,763	382,089	60,326
Council created reserves		3,155	3,155	0	3,362	3,362	0
Asset revaluation reserve	i	61,308	0	(61,308)	60,427	0	(60,427)
Forestry revaluation reserve	e	672	709	37	626	626	0

- a) *Trade and other receivables*  
Under previous GAAP the Provision for doubtful debts and the Trade and other receivables were shown as one net figure. Under IFRS these are shown separately. The 1 July 2005 provision calculated under previous GAAP was \$300,000. The IFRS calculation increased this figure to \$709,000. The effect on transition is an increase in the provision and a decrease in general equity.
- b) *Non-current assets held for resale*  
Under previous GAAP land held for resale that was not in a state ready for immediate sale was classified as property, plant and equipment. Under IFRS this has been included as land held for resale. Work on infrastructural assets being developed on subdivision land to prepare it for resale was previously classified as land held for resale. Under IFRS this has been classified as property, plant and equipment. The effect on transition is a decrease in land held for resale \$146,000 (30 June 2006 \$278,000) and a corresponding increase in property, plant and equipment.
- c) *Community Loans*  
Under previous GAAP community loans were valued at the original loan principal amount less any principal repayments made. NZ IAS 39 requires receivables to be initially recognised at fair value and subsequently measured at amortised cost. Accordingly community loans have been valued at the net present value of expected future repayments, using market interest rates as the discount factor. The effect of this has been a reduction in the carrying value of \$11,000 (30 June 2006 \$83,000). Previously all community loans were classified as non-current. The effect of reclassifying the current portion of community loans has increased current, and decreased non-current, other financial assets by \$3,000 (30 June 2006 \$969,000).
- d) *Landfill aftercare provision*  
Under previous GAAP the current portion of the landfill aftercare provision was included with the non-current provision. The effect on transition is to increase trade and other payables, and to decrease the non-current landfill aftercare provision by \$294,000 (30 June 2006 \$387,000).
- e) *Biological Assets (Forestry)*  
Under previous GAAP forestry was not revalued annually. The effect on transition was to increase biological assets and the forestry revaluation reserve by \$37,000 (30 June 2006 \$0).
- f) *Computer software*  
Under previous GAAP computer software was included in property, plant and equipment. The \$99,000 (30 June 2006 \$123,000) value of software is now classified as intangible assets.
- g) *Investment Properties*  
Under previous GAAP properties held as investments were included in property, plant and equipment. The \$1,913,000 (30 June 2006 \$2,893,000) value of this property is now classified separately as investment property.
- h) *Employee Entitlements Provision*  
Under previous GAAP HDC did not recognise any liability for accumulated sick leave. NZ IAS 19 requires HDC to recognise employees' unused sick entitlement that can be carried forward at balance date to the extent that HDC anticipates it will be used in future. HDC has estimated the value of this to be \$15,000 (30 June 2006 \$17,000).
- i) *Deemed Cost*  
HDC has applied the deemed cost exemption available under NZ IFRS 1 for all assets that had revaluation reserves under

previous GAAP, with the exception of forestry. This includes land, restricted land, land under roads, buildings, and infrastructural assets. The effect on transition is a transfer of \$61,308,000 (30 June 2006 \$60,427,000) from asset revaluation reserves to general equity.

## Reconciliation of 2006 surplus

	Note	2006		IFRS
		GAAP \$000	NZIFRS \$000	Transition \$000
<b>INCOME</b>				
Targeted rates		9,644	9,644	0
General rates		6,027	6,027	0
Other revenue		9,461	9,461	0
Other gains/(losses)	a,b	1,249	1,206	(43)
<b>Total Income</b>		<b>26,381</b>	<b>26,338</b>	<b>(43)</b>
<b>EXPENDITURE</b>				
<b>Activity Expenditure</b>				
Network Services		15,274	15,274	0
Leadership		1,757	1,757	0
Community Services		2,620	2,620	0
Community Development		1,135	1,135	0
Regulatory Services		1,923	1,923	0
Less Internal Interest		(961)	(961)	0
Add Net Overheads/Property/Plant		323	323	0
		<b>22,071</b>	<b>22,071</b>	<b>0</b>

Note	2006		IFRS
	GAAP \$000	NZIFRS \$000	Transition \$000
<b>Other Expenditure</b>			
Finance Costs	165	165	0
Miscellaneous expenditure	3,484	3,484	0
	<b>3,649</b>	<b>3,649</b>	<b>0</b>
<b>Total Expenditure</b>	<b>25,720</b>	<b>25,720</b>	<b>0</b>
<b>OPERATING SURPLUS/(DEFICIT)</b>	<b>661</b>	<b>618</b>	<b>(43)</b>
Share of loss/(income) from associates/joint ventures	2	2	0
<b>TOTAL SURPLUS/(DEFICIT)</b>	<b>659</b>	<b>616</b>	<b>(43)</b>

### a) *Community Loans*

Under previous GAAP community loans were valued at the original loan principal amount less any principal repayments made. NZ IAS 39 requires receivables to be initially recognised at fair value and subsequently measured at amortised cost. Accordingly community loans have been valued at the net present value of expected future repayments, using market interest rates as the discount factor. The effect of this has been a reduction in the 2006 surplus of \$72,000.

### b) *Revaluation of Investment Property*

Under previous GAAP revaluations of investment property was recognised through revaluation reserves. Under IFRS this is now recognised through the profit and loss statement. The effect on transition is to increase the 2006 surplus by \$29,000.

### 3. Explanation of Major Variances

#### Statement of Financial Performance

The Operating Surplus was \$200,000 lower than budgeted. This was principally due to a \$870,000 unbudgeted writedown of assets on disposal, \$160,000 extra water expenditure, \$400,000 extra community services expenditure, \$290,000 of extra overheads, \$340,000 of additional property expenses, and \$710,000 of additional quarry expenditure. Offsetting this were unbudgeted gains on asset sales of \$1,100,000, and increased roading subsidies of \$480,000, and \$1,000,000 of assets vested in Council from subdivision activity.

#### Statement of Financial Position

Overall borrowings are \$3.7 million lower than budget due to the deferral of prior year, and current year, capital projects. Property, plant and equipment is \$34 million higher than forecast because of revaluation increases. General equity was increased by \$68 million principally from the transfer of asset revaluation reserves on IFRS adoption. The asset revaluation reserve is \$31 million lower due to the transfer to general equity and the revaluation increases noted above.

#### Statement of Cashflows

Opening Cash was \$2.8 million higher than budgeted due to prior year projects being deferred. Due to this increased opening cash balance, only \$1.8 million of the forecast external borrowing of \$4.5 million was required and the closing cash balance was also higher than budgeted. Property, plant and equipment purchases were 2.2 million higher than forecast principally due to development of the Kerepehi Industrial subdivision.

### 4. Rates Revenue

Note	2007 \$000	2006 \$000
<b>Targeted rates attributable to activities</b>		
Water	3,882	3,703
Wastewater	2,435	2,174
Roading	451	470
Drainage	1,112	1,067
Stormwater	436	347
Solid Waste	376	279
Parks and Reserves	674	658
Community Facilities	848	581
Community Development	405	365
	<b>10,619</b>	<b>9,644</b>
<b>General rates</b>	<b>6,321</b>	<b>6,027</b>

The rates shown above are net of the following rates that were remitted under HDC's remissions policies:

	2007	2006
<b>Rates Remissions</b>		
Penalties	74	27
UAGCs on contiguous properties	5	3
Excess water rates	80	22
Rates assessed in error	92	16
Multiple owned maori freehold land	7	6
Wastewater rates assessed on educational establishments	26	22
Voluntarily protected land	2	0
Community, sporting and other organisations	5	2
	<b>291</b>	<b>98</b>

## 5. Other Revenue

Note	2007 \$000	2006 \$000
Fees and charges	1,988	1,784
Land Transport NZ government grants	3,867	3,565
Quarry revenue	2,658	2,965
Petrol tax	188	192
Dividends	4	0
Business unit surpluses	(403)	164
Vested assets	1,019	165
Rental Income from Investment Properties	52	82
Interest income from financial assets not at fair value through P&L	58	248
Development contributions	365	224
Other	0	71
	<u>9,796</u>	<u>9,460</u>

There are no unfilled conditions or other contingencies attached to government grants or development contributions recognised

## 6 Other gains/(losses)

Note	2007 \$000	2006 \$000
Gain/(loss) on changes in fair value of forestry (note 19)	25	(83)
Gain/(loss) on changes in fair value of other financial assets (note 14)	3	(72)
Gain/(loss) on disposal of property, plant and equipment (note 17)	1,111	1,249
Gain/(loss) on changes in fair value of property, plant and equipment (note 17)	28,738	0
Gain/(loss) on changes in fair value of investment property (note 20)	(11)	29
Total gains/(losses)	<u>29,866</u>	<u>1,123</u>
Less (gains)/losses through revaluation reserves	(28,838)	83
	<u>1,028</u>	<u>1,206</u>

## 7 Expenditure

Note	2007 \$000	2006 \$000
<b>Expenditure shown in the income and expenditure statement includes:</b>		
Audit fees for financial statement audit	75	73
Audit fees for LTCCP audit	0	42
Depreciation/amortisation	6,135	5,762
Donations	163	259
Employee benefits	8,121	7,022
Operating lease payments	0	12
Write-down of inventories	0	0
<b>Miscellaneous expenditure includes:</b>		
Impairment of property, plant and equipment (note 17)	868	450
Quarry expenses	2,907	2,594
Impairment of receivables (note 12)	140	417
Expenses from investment property generating income	25	23
Expenses from investment property not generating income	0	0
	<u>3,940</u>	<u>3,484</u>

## 8 Finance Cost

### Interest Expense

	Note	2007 \$000	2006 \$000
Interest on bank borrowings		112	0
Provisions: discount unwinding	24	180	165
Total Finance Costs		<u>292</u>	<u>165</u>

## 9 Financial Instrument Risks

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

### Market risk

#### Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. HDC has no exposure to equity securities price risk as it has no investments classified as financial assets held at fair value through equity.

#### Currency risk

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

#### Interest rate risk

The interest rate on HDC's borrowings is disclosed in note 26.

#### Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Borrowings issued at fixed rates expose the HDC to fair value interest rate risk.

HDC's Liability Management policy outlines the level of borrowing that is to be secured using fixed rate instruments. Fixed to floating interest rate swaps are entered into to hedge the fair value interest rate risk arising where HDC has borrowed at fixed rates. In addition, investments at fixed interest rates expose the HDC to fair value interest rate risk.

If interest rates on borrowings at 30 June 2007 had fluctuated by plus or minus 0.5%, the effect would have been to decrease/increase the surplus after tax by \$7,000 (2006 \$0) as a result of higher/lower interest expense on floating rate borrowings.

#### Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings and investments issued at variable interest rates expose HDC to cash flow interest rate risk.

HDC manages its cash flow interest rate risk on borrowings by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings at floating rates and swaps them into fixed rates that are generally lower than those available if HDC borrowed at fixed rates directly. Under the interest rate swaps, HDC agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

### *Credit risk*

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

HDC invests funds only in deposits with registered banks and local authority stock and its Investment Policy limits the amount of credit exposure to any one institution or organisation. Investments in other Local Authorities are secured by charges over rates. Other than other local authorities, the group only invests funds with those entities, which have a Standard and Poor's credit rating of at least A1 for short term and AA - for long-term investments. Accordingly, HDC does not require any collateral or security to support these financial instruments.

### *Liquidity risk*

Liquidity risk is the risk that HDC will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

HDC aims to maintain flexibility in funding by keeping committed credit lines available.

HDC manages its borrowings in accordance with its funding and financial policies, which includes a Liability Management policy. These policies have been adopted as part of the HDC's Long Term Council Community Plan. HDC has a maximum amount that can be drawn down against its overdraft facility of \$5,000,000 (2006 \$5,000,000). There are no restrictions on the use of this facility. The maturity profiles of the HDC's interest bearing investments and borrowings are disclosed in notes 14 and 26 respectively.

## **10 Capital Management**

The Council's capital is its equity (or ratepayers' funds), which comprise retained earnings and reserves. Equity is represented by net assets.

The Local Government Act 2002 [the Act] requires the Council to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community.

Ratepayer's funds are largely managed as a by-product of managing revenues, expenses, assets, liabilities, investments, and general financial dealings. The objective of managing these items is to achieve intergenerational equity, which is a principle promoted in the Act and applied by the Council. Intergenerational equity requires today's ratepayers to meet the costs of utilising the Council's assets and not expecting them to meet the full cost of long term assets that will benefit ratepayers in future generations.

Additionally, the Council has in place asset management plans for major classes of assets detailing renewal and maintenance programmes, to ensure ratepayers in future generations are not required to meet the costs of deferred renewals and maintenance.

The Act requires the Council to make adequate and effective provision in its Long Term Council Community Plan (LTCCP) and in its annual plan (where applicable) to meet the expenditure needs identified in those plans. The Act also sets out the factors that the Council is required to consider when determining the most appropriate sources of funding for each of its activities. The sources and levels of funding are set out in the funding and financial policies in the Council's LTCCP.

*HDC has two types of Council created reserves:*

- Reserves for different areas of benefit and, trust and bequest reserves.

- Reserves for different areas of benefit are used where there is a discrete set of rate or levy payers as distinct from the general rate. Any surplus or deficit relating to these separate areas of benefit is applied to the specific reserves.

Trust and bequest reserves are set up where Council has been donated funds that are restricted for particular purposes. Interest is added to trust and bequest reserves where applicable and deductions are made where funds have been used for the purpose they were donated.

## 11 Cash and Cash Equivalents

Note	30 June 2007 \$000	30 June 2006 \$000
Cash at Bank and in Hand	537	815
Short term deposits maturing three months or less from date of acquisition	28	1,021
<b>Total Cash or Cash Equivalents</b>	<b>565</b>	<b>1,836</b>

The carrying value of short-term deposits with maturity dates of three months or less approximates their fair value.

## 12 Trade and Other Receivables

Note	30 June 2007 \$000	30 June 2006 \$000
Rates receivables	1,771	1,738
Water receivables	2,215	2,505
Government grants	1,327	1,344
GST	58	0
Sundry receivables	1,312	3,393
	<b>6,683</b>	<b>8,980</b>
Less provision for impairment	(608)	(568)
	<b>6,075</b>	<b>8,412</b>

The carrying value of trade and other receivables approximates their fair value.

There is no significant concentration of credit risk in receivables.

All overdue receivables have been assessed for impairment and provision has been made for that impairment.

Government Grants include Rates Rebates applied for, LTNZ Subsidy claims & Petrol Tax

	30 June 2007 \$000	30 June 2006 \$000
<b>Movement in the impairment provision of receivables</b>		
At 1 July	568	709
Provision for Doubtful Debts - Rates	458	527
Provision for Doubtful Debts - Water	64	84
Provision for Doubtful Debts - Sundry Debtors	46	98
Additional provisions made during the year	40	(141)
Provision for Doubtful Debts - Rates	80	(69)
Provision for Doubtful Debts - Water	(21)	(20)
Provision for Doubtful Debts - Sundry Debtors	(19)	(52)
At 30 June	608	568
Provision for Doubtful Debts - Rates	538	458
Provision for Doubtful Debts - Water	43	64
Provision for Doubtful Debts - Sundry Debtors	27	46
<b>TOTAL</b>	<b>608</b>	<b>568</b>

## 13 Inventories

Quarry Metal Stockpile
Other
<b>Total Inventories</b>

Note	30 June 2007 \$000	30 June 2006 \$000
	530	455
	93	79
	<b>623</b>	<b>534</b>

The carrying amount of inventories held for distribution is measured at current replacement cost.

## 14 Other Financial Assets

Note	30 June 2007 \$000	30 June 2006 \$000
Prepayments	36	209
Community Loans	977	1,023
	<u>1,013</u>	<u>1,232</u>
Current Portion		
Prepayments	36	209
Community Loans	945	969
	<u>981</u>	<u>1,178</u>
Non-Current Portion		
Community Loans	32	54
	<u>1,013</u>	<u>1,232</u>

Investments are subject to Council's Investment Management Policy which became operative 1 July 2004.

Community Loans includes a \$980,000 advance to the Haurakian trust (Community group). This is an advance payment towards the purchase of land for sub-division.

## 15 Derivative Financial Assets

Council did not hold any derivative financial assets during the financial reporting period.

## 16 Non-Current Assets Held for Sale

Note	30 June 2007 \$000	30 June 2006 \$000
Land	470	36
Buildings	0	0
	<u>470</u>	<u>36</u>

HDC owns property in various location, which it holds for sale. The Council has approved the sale of the properties, as they will provide no further use for HDC. The majority of these properties are subdivision sections in Waihi and Ngatea, which are expected to be sold at completion of the subdivision process.

The properties are valued according to the last Rating Valuation, confirmed by VAMS Ltd.

## 17 Property, Plant & Equipment

2006	Cost / Revaluation 01/07/05	Acc Depr and Impairment 01/07/05	Carrying Amount prior to Revaluation	Revaluation Surplus	Carrying Amount 01/07/05	Transfers	Current year additions	Current year disposals	Current year impairment	Current year depreciation	Cost / Revaluation 30/06/06	Acc Depr and Impairment 30/06/06
<b>Council operational assets</b>												
Land	5,284,327	0	5,284,327	0	5,284,327	-91,373	666,181	324,391	0	0	5,534,743	0
Buildings	11,919,053	1,059,125	10,859,928	0	10,859,928	0	815,020	143,730	0	497,799	12,590,343	1,556,924
Library Books	378,500	0	378,500	-54,521	323,979	0	57,021	0	0	0	381,000	0
Plant and Motor Vehicles	6,641,431	3,736,313	2,905,118	0	2,905,118	0	1,544,096	316,523	0	88,958	7,869,005	3,825,271
Office Equipment	2,392,658	1,671,812	720,846	0	720,846	0	229,575	1,251,758	0	200,642	1,370,475	668,242
Office Equipment - Finance Leases	0	0	0	0	0	0	168,448	0	0	0	168,448	0
Work in Progress												
Total operational Assets	26,615,968	6,467,250	20,148,718	-54,521	20,094,197	-91,373	3,480,341	2,036,402	0	787,399	27,914,013	6,050,436
<b>Council Infrastructural Assets</b>												
Land	975,374	0	975,374	0	975,374	0	0	0	0	0	975,374	0
Wastewater System	29,666,830	0	29,666,830	0	29,666,830	0	1,577,323	10,996	0	915,269	31,233,157	915,269
Water System	39,102,871	0	39,102,871	0	39,102,871	0	2,558,961	329,477	0	1,246,492	41,332,355	1,246,492
Drainage Network	33,986,644	0	33,986,644	0	33,986,644	0	1,096,703	28,637	0	545,044	35,054,710	545,044
Roading Network	168,742,317	0	168,742,317	0	168,742,317	0	4,502,778	80,618	0	1,963,854	173,164,477	1,963,854
Land under Roads	78,911,000	0	78,911,000	0	78,911,000	0	0	0	0	0	78,911,000	0
Work in Progress	728,102	0	728,102	0	728,102	0	404,483	647,884	0	0	484,701	0
Total Infrastructural Assets	352,113,139	0	352,113,139	0	352,113,139	0	10,140,248	1,097,612	0	4,670,659	361,155,775	4,670,659
<b>Council Restricted Assets</b>												
Land	4,170,157	126,278	4,043,879	0	4,043,879	0	0	53,914	0	0	4,116,243	126,278
Total HDC Property, Plant & Equipment	382,899,264	6,593,528	376,305,737	-54,521	376,251,216	-91,373	13,620,588	3,187,928	0	5,458,058	393,186,031	10,847,373
Software - see Note 18	203,280	80,004	123,275	0	123,275	0	27,372	0	51,812	0	230,652	131,816
Land held for re-sale - see Note 16	90,512	0	90,512	0	90,512	91,373	0	145,482	0	0	36,403	0
Investment Properties - see Note 20	2,892,600	0	2,892,600	28,800	2,921,400	0	0	1,008,400	0	0	1,913,000	0

2007	Cost / Revaluation 01/07/06	Acc Depr and Impairment 01/07/06	Carrying Amount prior to Revaluation	Revaluation Surplus	Carrying Amount 01/07/06	Transfers	Current year additions	Current year disposals	Current year impairment	Current year depreciation	Cost / Revaluation 30/06/07	Acc Depr and Impairment 30/06/07
<b>Council operational assets</b>												
Land	5,534,744	0	5,534,744	10,026,844	15,561,588	-470,000	74,954	234,135	0	0	14,932,407	0
Buildings	12,590,343	1,556,924	11,033,419	9,624,863	20,658,282	0	1,147,452	30,463	-20,000	957,854	21,842,048	1,004,632
Library Books	381,000	0	381,000	-75,556	305,444	0	58,864	0	0	67,021	364,308	67,021
Plant and Motor Vehicles	7,869,005	3,825,271	4,043,734	0	4,043,734	0	629,509	323,889	0	60,445	8,174,625	3,885,716
Office Equipment	1,370,475	668,242	702,233	0	702,233	0	326,572	0	0	219,476	1,697,047	887,718
Office Equipment - Finance Leases	168,448	0	168,448	0	168,448	0	0	62,792	0	0	105,656	0
Work in Progress												
Total operational Assets	27,914,014	6,050,436	21,863,577	19,576,151	41,439,728	-470,000	2,237,352	651,280	-20,000	1,304,796	47,116,091	5,845,086
<b>Council Infrastructural Assets</b>												
Land	975,374	0	975,374	2,187,898	3,163,272	0	0	0	0	0	3,163,272	0
Wastewater System	31,233,157	915,269	30,317,888	0	30,317,888	0	416,670	994	0	899,575	31,648,833	1,814,844
Water System	41,332,355	1,246,492	40,085,863	0	40,085,863	0	1,014,029	648,848	0	1,242,263	41,697,536	2,488,755
Drainage Network	35,054,710	545,044	34,509,666	0	34,509,666	0	1,241,208	38,689	0	560,253	36,257,229	1,105,297
Roading Network	173,164,477	1,963,854	171,200,623	0	171,200,623	0	5,277,455	179,040	0	2,078,543	178,262,893	4,042,397
Land under Roads	78,911,000	0	78,911,000	0	78,911,000	0	0	0	0	0	78,911,000	0
Work in Progress	484,701	0	484,701	0	484,701	0	1,822,811	449,508	0	0	1,858,004	0
Total Infrastructural Assets	361,155,775	4,670,659	356,485,116	2,187,898	358,673,014	0	9,772,173	1,317,079	0	4,780,634	371,798,767	9,451,293
<b>Council Restricted Assets</b>												
Land	4,116,243	126,278	3,989,965	6,998,363	10,988,328	0	77,501	0	269,500	0	11,192,107	395,778
Total HDC Property, Plant & Equipment	393,186,031	10,847,373	382,338,658	28,762,412	411,101,070	-470,000	12,087,026	1,968,358	249,500	6,085,430	430,106,965	15,692,157

The values shown for 30/06/07 Cost/Revaluation, and Accumulated Depreciation and Impairment, for buildings have both been reduced by \$1,490,000 to reflect the reversal of accumulated depreciation on revaluation.

## 18 Intangible Assets

Note	30 June 2007 \$000	30 June 2006 \$000
<b>Computer Software</b>		
Cost	392	231
Accumulated amortisation and impairment	(181)	(132)
Closing carrying amount	<u>211</u>	<u>99</u>
Opening Balance	99	123
Additions	161	28
Amortisation charge	(49)	(52)
Closing carrying amount	<u>211</u>	<u>99</u>

## 19 Forestry Assets

Note	30 June 2007 \$000	30 June 2006 \$000
Balance at 1 July	714	738
Increases due to improvements	75	59
Gains/(losses) arising from changes in fair value less estimated point of sale costs attributable to physical changes	(1)	56
Gains/(losses) arising from changes in fair value less estimated point of sale costs attributable to price changes.	26	(139)
Decreases due to sales	0	0
Decreases due to harvest	0	0
Balance as at 30 June	<u>814</u>	<u>714</u>

HDC owns 142.6 ha of Radiata forest, which are at varying stages of maturity ranging from 6 - 9 years. No forests have been harvested during the period (2005 nil, 2006 nil).

HDC had its forestry asset professionally valued as at 30 June 2007 by PF Olsen & Company, a recognised forestry valuer. The basis used to value the forests was the expected yield at maturity. A 7% discount factor was then applied to obtain a net present valued. Trees are assumed to reach maturity 28 years from date of planting.

The 2005 value has been re-stated to include the valuation as at 30 June 2005.

HDC is exposed to financial risks arising from changes in timber prices. HDC is a long-term investor and does not expect timber prices to decline significantly in the foreseeable future, therefore, has not taken any measures to manage the risks of a decline in timber prices. HDC reviews its outlook for timber prices regularly in considering the need for active financial risk management.

## 20 Investment property

Note	30 June 2007 \$000	30 June 2006 \$000
Balance at 1 July	1,913	2,893
Acquisitions	0	0
Improvements	0	0
Disposals	(614)	(1,009)
Fair value gains/(losses) on valuation (note 6)	(11)	29
Balance as at 30 June	<u>1,288</u>	<u>1,913</u>

HDC's investment properties are leasehold sections at Waihi Beach. Unless HDC acquires the lessees' interest they can only be sold to the lessees.

HDC's investment properties are revalued annually at 30 June at fair value based on open market evidence. The latest valuation was carried out by John P Cullen a registered public valuer of Townshend Cullen Associates. Townshend Cullen have extensive knowledge of the local market and the types of investment properties owned by HDC.

## 21 Investments in Associates

	Number of Shares	% Holding	Balance Date	30 June 2007 \$000	30 June 2006 \$000
<b>Shares in other organisations</b>					
NZ Local Government Insurance Company Limited	31717	0.5%	31 December	0	0
Local Authority Shared Services Limited (SVDS shares)	40215	2.5%	30 June	32	32
Local Authority Shared Services Limited (Initial Shares)	1	7.7%	30 June	40	40
				0	0
				<u>72</u>	<u>72</u>

## 22 Joint Ventures

HDC has a 26% interest in the Thames Valley Combined Districts Emergency Planning Unit (TVCDEPU). This has been accounted for as a jointly controlled operation using the equity method.

Note	30 June 2007 \$000	30 June 2006 \$000
<b>Movements in carrying amount</b>		
Balance at 1 July	45	47
Share of total revenues and expenses	6	(2)
Balance as at 30 June	51	45

TVCDEPU shares a common balance date with HDC, but its accounts have not been audited. HDC's share of the Proprietors' Funds has been recognised as Investment in Joint Ventures in the Statement of Financial Position.

## 23 Trade and Other Payables

Note	30 June 2007 \$000	30 June 2006 \$000
Trade Payables	2,548	3,199
Deposits and bonds	476	356
GST	0	183
Monies held in trust	698	541
Accrued Expenses	770	1,619
Amounts due to related parties (note 32)	14	77
Rates in advance	346	1,732
Amounts due to customers for contract work (note 28)	0	0
Advances received for contract work	0	0
Total Trade and Other Payables	4,852	7,707

## 24 Provisions

Note	30 June 2007 \$000	30 June 2006 \$000
Financial Guarantees	0	0
Landfill Aftercare Provision	2,136	2,267
Total non - current provisions	<u>1,814</u>	<u>1,880</u>
Total current provision	<u>322</u>	<u>387</u>

HDC has responsibility under the resource consent of the landfill operation to provide ongoing maintenance and monitoring of the landfill after the site is closed. The cash outflows for landfill post closure are expected to occur in ten to thirty years time. The long-term nature of the liability means that there are inherent uncertainties in estimating costs that will be incurred. The provision has been estimated taking into account existing technology and using a discount rate of 7.5%.

## 25 Employee Benefit Liabilities

Note	30 June 2007 \$000	30 June 2006 \$000
Accrued Pay	0	0
Annual Leave	657	500
Long Service Leave	123	120
Retirement Gratuities	362	370
Sick Leave	18	17
Total Employee Benefit Liabilities	<u>1,160</u>	<u>1,007</u>
<i>Comprising:</i>		
Current	780	620
Non-Current	380	387
Total Employee Benefit Liabilities	<u>1,160</u>	<u>1,007</u>

## 26 Borrowing

Note	30 June 2007 \$000	30 June 2006 \$000
<b>Current</b>		
Bank overdraft	0	0
Secured loans	1	2
Debentures	1,750	0
Lease Liabilities	38	59
<b>Total Current Borrowings</b>	<b>1,789</b>	<b>61</b>
<b>Non Current</b>		
Secured loans	4	4
Debentures	0	0
Lease Liabilities	68	109
<b>Total Non Current Borrowings</b>	<b>72</b>	<b>113</b>

### Security

HDC has a cash advance facility with the maximum amount that can be drawn against of \$5,000,000. There are no restrictions on the use of this facility

The cash advance facility is secured by Debenture over rates revenue.

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

### Financing

HDC manages its borrowings in accordance with its funding and financial policies, which includes a Liability Management policy. These policies have been adopted as part of the HDC's Long Term Council Community Plan.

### Maturity Analysis and effective interest rates

The following is a maturity analysis of HDC's borrowings (excluding finance leases, which are shown separately below).

	Overdraft \$000	Secured Loans \$000	Debentures \$000
<b>2007</b>			
Less than one year	0	1	1,750
<i>weighted average effective interest rate</i>		10.91%	8.35%
Later than one year but not more than five years	0	4	0
<i>weighted average effective interest rate</i>		10.91%	
Later than five years	0	0	0
<i>weighted average effective interest rate</i>			
	<b>0</b>	<b>5</b>	<b>1,750</b>

### 2006

	Overdraft \$000	Secured Loans \$000	Debentures \$000
Less than one year	0	1	0
<i>weighted average effective interest rate</i>		10.91%	
Later than one year but not more than five years	0	5	0
<i>weighted average effective interest rate</i>		10.91%	
Later than five years	0	0	0
<i>weighted average effective interest rate</i>			
	<b>0</b>	<b>6</b>	<b>0</b>

### Fair values of non-current borrowings

The carrying amounts and the fair values of non-current borrowings are as follows:

	30 June 2007 \$000	30 June 2006 \$000
<b>Secured Loans</b>		
Carrying amounts	4	5
Fair Value	4	5

## 27 Equity

	Note	30 June 2007 \$000	30 June 2006 \$000
<b>Retained Earnings</b>			
As at 1 July		382,089	381,679
Transfers from/(to):			
Asset Revaluation Reserve on disposal of PPE		206	0
Restricted Reserves		(509)	(207)
Surplus/(Deficit) for the year		647	617
As at 30 June		382,433	382,089
<b>Restricted Reserves</b>			
As at 1 July		3,362	3,155
Transfers to Retained Earnings		(109)	(240)
Transfers from Retained Earnings		618	447
As at 30 June		3,871	3,362
Restricted Reserves consist of:			
Trusts & Bequests		12	12
Development Contributions		1,198	864
Council Created Reserves		2,661	2,487

	Note	30 June 2007 \$000	30 June 2006 \$000
<b>Forestry Revaluation Reserves</b>			
As at 1 July		626	709
Revaluation gains/(losses)		25	(83)
As at 30 June		651	626
<b>Asset Revaluation Reserves</b>			
As at 1 July		0	0
Revaluation gains/(losses)		28,838	0
Transfer of revaluation reserve to retained earnings PPE		(205)	0
As at 30 June		28,633	0
Asset Revaluation Reserves consist of:			
<i>Operational Assets</i>			
Land		19,008	0
Buildings		9,625	0
Total		28,633	0
As at 30 June		415,588	386,077

## 28 Reconciliation of net surplus/(deficit) after tax to net cash flow from operating activities

	Note	30 June 2007 \$000	30 June 2006 \$000
<b>Surplus/ (deficit) after Tax</b>		647	617
<b>Add/(less) non - cash items:</b>			
Share of associate surplus/(deficit)	21	0	0
Depreciation & Amortisation	17	6,343	5,696
Impairment Charges	17	250	0
Vested Assets	5	1,019	165
(Gains)/Losses in fair value of biological Asset	6	25	(120)
(Gains)/Losses in fair value of Investment Property	20	(7)	(43)
<b>Add/(less) items classified as investing or financing activities:</b>			
(Gains)/losses on disposal of property, plant and equipment	6	1,111	1,249
Borrowings		(1,750)	0
(Gains)/losses on disposal of investments classified as fair value through equity		0	0
<b>Add/(less) movements in working capital items:</b>			
Accounts Receivable	12	2,342	(2,316)
Inventories	13	(89)	(115)
Accounts Payable	23	(2,805)	1,187
Income Tax payable		0	0
Provisions	24	(66)	182
Employee Benefits	25	152	(81)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>7,172</b>	<b>6,421</b>

	Note	2007 \$000	2006 \$000
<b>Surplus/ (deficit) after Tax</b>		647	617
<b>Add/(less) non - cash items:</b>			
Share of associate surplus/(deficit)	21	0	0
Depreciation & Amortisation	17	6,343	5,696
Impairment Charges	17	250	0
Vested Assets	5	1,019	165
(Gains)/Losses in fair value of biological Asset	6	25	(120)
(Gains)/Losses in fair value of Investment Property	20	(11)	(43)
<b>Add/(less) items classified as investing or financing activities:</b>			
(Gains)/losses on disposal of property, plant and equipment	6	1,111	1,249
Borrowings		(1,750)	0
<b>Add/(less) movements in working capital items:</b>			
Accounts Receivable	12	2,339	(2,316)
Inventories	13	(89)	(115)
Accounts Payable	23	(995)	1,187
Income Tax payable		0	0
Provisions	24	(66)	182
Employee Benefits	25	152	(81)
<b>Net cash inflow/(outflow) from operating activities</b>		8,975	6,421

## 29 Capital Commitments and Operating Leases

Note	30 June 2007 \$000	30 June 2006 \$000
<b>Capital Commitments</b>	225	557
<i>Capital expenditure contracted for at balance date but not yet incurred for propoerty, plant and equipment.(IAS16.74)</i>		
<b>Operating Commitments</b>	2,547	534
<i>Operating expenditure for future years contracted on non-cancellable contracts at balance date but not yet incurred.</i>		
<b>Operating Leases as Lessee</b>		
<i>HDC leases property in the normal course of it's business. These leases have a non-cancellable term of 36 months. The future aggregate minimum lease payments to be collected under non-cancellable operating leases are:</i>		
Not later than one year	22	35
Later than one year and not later than five years	10	32
Later than five years	0	0
<b>Operating Leases as Lessor</b>		
<i>HDC leases its investment property under operating leases. The majority of the leases have a non-cancellable term of 21 years. The future aggregate minimum lease payments to be collected under non-cancellable operating leases are:</i>		
Not later than one year	200	200
Later than one year and not later than five years	200	200
Later than five years	94	137
	<b>3,298</b>	<b>1,695</b>
Less provision for impairment	0	0
	<b>3,298</b>	<b>1,695</b>

The total minimum future sublease payments expected to be received under non-cancellable subleases at balance date is \$nil (2006\$nil).

Contingent rent/lease payable has been determined on the basis of fair market value.

Leases can be renewed at HDC's option, with rents set by reference to current market rates for items of equivalent age and condition.

There are no restrictions placed on HDC by any of the leasing arrangements.

No contingent rents have been recognised in the statement of financial performance during the period.

### 30 Contingencies

Note	30 June 2007 \$000	30 June 2006 \$000
Weathertight Homes Claims <i>HDC has contacted the Weathertight Homes Resolution Service (WHRS) on 2 October 2007. There were two known claims against HDC as at 30 June 2007. As neither property had a building consent or code compliance certificate issued Council believes it has no liability.</i>	0	0
Insurance Claims <i>There were no known claims against HDC as at 30 June 2007.</i>	0	0
Guarantees Paeroa Netball Association - 15,000                      Paeroa Centennial Park Board - 30,000                      Waihi Netball Association - 50,000	95	95
	95	95
Less provision for impairment	0	0
	95	95

## 31 Related Party Transactions

	Note	30 June 2007 \$000	30 June 2006 \$000
Outstanding amounts to parties related to key management personnel		1	1
Local Authority Shared Services Ltd		12	76
		<u>13</u>	<u>77</u>
		0	0
		<u>13</u>	<u>77</u>

### **Key Management Personnel**

During the year Councillors and key management, as part of a normal customer relationship, were involved in minor transactions with the Council (such as payment of rates, purchase of rubbish bags).

During the year they received remuneration related to their roles as Councillors and staff as per note 33.

Councillors also had interests in the following transactions (GST incl.) during the year:

		2007 \$000	2006 \$000
Mrs Mary Carmine	Publications	2	2
Mr Ian Troughton - I & S Troughton	Transport and Contracting	0	2
Mr John Tregidga - L & P Café and L & P Catering	Café-Refreshments	18	10
Mr Paul Milner	Fuel and Oil	2	2
Mrs Bronwyn Wightman - Wightman Contracting	Transport	5	4

At 30 June Council owed the following amounts (GST incl.) to organisations that Councillors had an interest in. These amounts outstanding are included in the transactions noted above:

	2007 \$000	2006 \$000
Mr John Tregidga - L & P Café and L & P Catering	1	1
Mrs Mary Carmine	0	0

**Close Family Members of Key Management Personnel**

Close family members of councillor Baker are directors and shareholders in S G Baker Waihi Ltd.

Close family members of councillor Challis are directors and majority shareholders in Kerepehi Transport Ltd.

Council paid the following (GST incl.) to the entities listed above:

SG Baker Waihi Ltd	Building Construction	9	0
Kerepehi Transport Ltd	Transport and Contracting	425	89

**Associates**

During the year Council paid the Thames Valley Combined Districts Emergency Planning Unit for Civil Defence services (note 22)	78	76
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During the year Council paid Local Authority Shared Services Ltd for database services (note 21)	0	0
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## 32 Remuneration of Chief Executive and Elected Members

Note	2007 \$	2006 \$
The Chief Executive of the Hauraki District Council, appointed under Section 42(1) of the Local Government Act 2002 received a salary of:	207,298	146,710
In terms of his contract the Chief Executive also received the following benefits:		
Subscriptions	600	600
Telephone	500	500
Motor Vehicle	14,267	14,167
The total annual cost, including fringe benefit tax, to the Hauraki District Council of the remuneration package received by the Chief Executive was:	<u>221,405</u>	<u>161,977</u>
The 2007 figure above includes backpays relating to 2006 which were not paid until after 30 June 2006. The 2007 total remuneration the Chief Executive was entitled to receive was \$194700.		
Other members of Council's senior management team received total benefits of:	516,763	440,278
Elected members received salary and meeting allowances as follows:		
Mr Sel Baker	17753	17,798
Mrs Julie Bubb	13536	14,478
Mrs Mary Carmine	22681	25,282
Mr Don Challis	13504	15,054
Mr Bruce Gordon	16419	18,370
Mr George Gray	11867	11,081
Mr Mike Hayden	13504	14,835
Mr Don Lockwood	13504	13,453
Mr Tom Meyers	9495	9,333
Mr Paul Milner	9495	9,264

Note	2007 \$	2006 \$
Mr John Tregidga (Mayor)	58214	56,295
Mr Keith Trembath	13504	12,888
Mr Ian Troughton	16459	17,198
Mrs Bronwyn Wightman	7820	15,046
For sitting on Hearings Committees elected members also received remuneration as follows:		
Mrs Julie Bubb	527	525
Mrs Mary Carmine	426	544
Mr Bruce Gordon	697	465
Mr Mike Hayden	0	75
Mr Keith Trembath	0	75
Fringe Benefit Tax on vehicles was also paid on behalf of elected members as follows:		
Mr John Tregidga (Mayor)	8,830	8,360

During the transition from paying by meeting fees to paying by salary some individual Councillors were overpaid by amounts not exceeding \$160. The total allowable remuneration pool for Councillors was not exceeded. Retrospective approval will be sort from the remuneration authority.

### 33 Severance Payments

Note	2007 \$000	2006 \$000
Council made the following severance payments to employees:		
Retirement Gratuities:		
Employee One	24	40
Employee Two	13	4
Employee Three	11	0
Employee Four	11	0
Total Severance Payments	59	44

No other severance payments were made.

### **34 Events after balance date**

There were no significant events after balance date.

### **35 Significant variance**

Significant variances in actual transactions from the LTCCP have been detailed in the Cost of Services Statements and the Chief Executive's Report.

## ***STATEMENT OF COMPLIANCE AND RESPONSIBILITY***

### ***Statement of Compliance***

The Council and Management of Hauraki District Council confirm that the provisions of the Local Government Act 2002 regarding financial management and borrowing, have been complied with.

### ***Statement of Responsibility***

The Council and Management of Hauraki District Council accept responsibility for the preparation of the annual Financial Statements and the judgements used in them.

The Council and Management of Hauraki District Council accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the opinion of the Council and Management of Hauraki District Council, the annual Financial Statements for the year ended 30 June 20078 fairly reflect the financial position and operations of Hauraki District Council.

J P Tregidga  
Mayor

L D Cavers  
Chief Executive