

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

as at 30 June 2008

| | Note | Actual 30 June 2008 \$000 | Budget 30 June 2008 \$000 | Actual 30 June 2007 \$000 |
|------------------------------------|------|---------------------------------|---------------------------------|---------------------------------|
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | 10 | 478 | 9 | 565 |
| Trade and other receivables | 11 | 6,174 | 6,598 | 6,683 |
| Provision for doubtful debts | 11 | (874) | (309) | (608) |
| Non-current assets held for resale | 15 | 301 | 0 | 470 |
| Inventories | 12 | 1,190 | 433 | 623 |
| Other Financial Assets | 13 | 31 | 119 | 981 |
| Total Current Assets | | 7,300 | 6,850 | 8,714 |
| Current Liabilities | | | | |
| Trade and other payables | 21 | 4,838 | 5,056 | 4,852 |
| Landfill Aftercare Provision | 22 | 500 | | 322 |
| Borrowings | 24 | 1,999 | 56 | 1,789 |
| Employee Entitlements Provision | 23 | 1,004 | 70 | 780 |
| Total Current Liabilities | | 8,341 | 5,182 | 7,743 |
| Working Capital | | (1,041) | 1,668 | 971 |

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

Annual Report 2007/08

| | Note | Actual 30 June 2008 \$000 | Budget 30 June 2008 \$000 | Actual 30 June 2007 \$000 |
|---------------------------------------|------|---------------------------------|---------------------------------|---------------------------------|
| Non-Current Assets | | | | |
| Property, Plant & Equipment | 16 | 432,778 | 384,355 | 414,415 |
| Biological Assets (Forestry) | 18 | 645 | 908 | 814 |
| Intangible Assets - Computer Software | 17 | 471 | 482 | 211 |
| Investment Properties | 19 | 1,282 | 446 | 1,288 |
| Investments in Joint Ventures | 20 | 42 | 51 | 51 |
| Other Financial Assets | 13 | 84 | 138 | 104 |
| Total Non-Current Assets | | 435,302 | 386,380 | 416,883 |
| Non-Current Liabilities | | | | |
| Employee Entitlements Provision | 23 | 425 | 442 | 380 |
| Landfill Aftercare Provision | 22 | 1,762 | 1,503 | 1,814 |
| Borrowings | 24 | 2,033 | 8,266 | 72 |
| Total Non-Current Liabilities | | 4,220 | 10,211 | 2,266 |
| NET ASSETS | | 430,041 | 377,837 | 415,588 |
| <i>Represented by:</i> | | | | |
| EQUITY | | | | |
| General equity | 25 | 383,659 | 316,085 | 383,084 |
| Council created reserves | 25 | 4,638 | 2,920 | 3,871 |
| Asset revaluation reserve | 25 | 41,744 | 58,832 | 28,633 |
| Forestry revaluation reserve | 25 | 0 | 0 | 0 |
| TOTAL EQUITY | | 430,041 | 377,837 | 415,588 |

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2008

| | Note | Actual 2008 \$000 | Budget 2008 \$000 | Actual 2007 \$000 |
|--|------|-------------------------|-------------------------|-------------------------|
| Balance as at 1 July | 26 | 415,588 | 377,124 | 386,077 |
| Property, Plant & Equipment | | | | |
| Valuation gains/(losses) taken to equity | | 13,151 | (88) | 28,839 |
| Surplus/(Deficit) for the year | | 1,302 | 801 | 672 |
| Balance as at 30 June | | 430,041 | 377,837 | 415,588 |

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

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2008

| | Note | Actual 2008 \$000 | Budget 2008 \$000 | Actual 2007 \$000 |
|----------------------------------|------|-------------------------|-------------------------|-------------------------|
| INCOME | | | | |
| Targeted rates | 3 | 11,204 | 10,937 | 10,619 |
| General rates | 3 | 6,608 | 6,465 | 6,321 |
| Other revenue | 4 | 11,924 | 8,880 | 9,797 |
| Other gains/(losses) | 5 | 1,386 | 13 | 1,053 |
| Total Income | | 31,122 | 26,295 | 27,790 |
| EXPENDITURE | | | | |
| Activity Expenditure | 6 | | | |
| Network Services | | 17,567 | 15,083 | 14,945 |
| Leadership | | 2,052 | 2,013 | 1,881 |
| Community Services | | 3,700 | 3,019 | 3,295 |
| Community Development | | 1,127 | 1,305 | 1,087 |
| Regulatory Services | | 2,412 | 2,361 | 2,236 |
| Less Internal Interest | | (1,894) | (1,195) | (1,185) |
| Add Net Overheads/Property/Plant | 6 | 1,199 | 0 | 621 |
| | | 26,163 | 22,586 | 22,880 |

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| | Note | Actual 2008 \$000 | Budget 2008 \$000 | Actual 2007 \$000 |
|--|------|-------------------------|-------------------------|-------------------------|
| Other Expenditure | | | | |
| Finance Costs | 7 | 458 | 310 | 292 |
| Miscellaneous expenditure | 6 | 3,190 | 2,598 | 3,940 |
| | | 3,648 | 2,908 | 4,232 |
| Total Expenditure | | 29,811 | 25,494 | 27,112 |
| OPERATING SURPLUS/(DEFICIT) | | 1,311 | 801 | 678 |
| Share of loss/(income) from joint ventures | 20 | 9 | 0 | 5 |
| TOTAL SURPLUS/(DEFICIT) | | 1,302 | 801 | 673 |

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

STATEMENT OF CASHFLOWS

For the year ended 30 June 2008

| | Note | Actual 2008 \$000 | Budget 2008 \$000 | Actual 2007 \$000 |
|---|-----------|-------------------------|-------------------------|-------------------------|
| Cash Flows from operating activities | | | | |
| Receipts from rates revenue | | 18,262 | 17,399 | 16,668 |
| Interest received | | 51 | 0 | 58 |
| Dividends received | | 4 | 0 | 0 |
| Receipts from other revenue | | 10,154 | 8,830 | 11,403 |
| Payments to suppliers and employees | | (22,778) | (18,892) | (21,093) |
| Interest paid | | (290) | (310) | (112) |
| Goods and services tax (net) | | 636 | (31) | 248 |
| Net cash from operating activities | 27 | 6,039 | 6,996 | 7,172 |
| Cash Flows from investing activities | | | | |
| Proceeds from sale of property, plant & equipment | | 2,045 | 500 | 2,396 |
| Mortgage Payments received | | 34 | 0 | 3 |
| Proceeds from sale of investments | | 0 | 0 | 0 |
| Purchase of intangible assets | | (560) | 0 | (161) |
| Purchase of property, plant & equipment | | (9,727) | (13,802) | (12,358) |
| Forestry asset development | | (47) | (75) | 0 |
| Advances made to Sporting Bodies, etc | | 0 | 0 | (10) |
| Net cash from investing activities | | (8,255) | (13,377) | (10,130) |

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| Note | Actual 2008 \$000 | Budget 2008 \$000 | Actual 2007 \$000 |
|--|-------------------------|-------------------------|-------------------------|
| Cash Flows from financing activities | | | |
| Proceeds from borrowings | 17,002 | 6,678 | 11,620 |
| Landfill Liability reduction | (43) | (247) | (62) |
| Repayment of borrowings | (14,795) | 0 | (9,871) |
| Repayment of Finance Lease Liabilities | (35) | (28) | 0 |
| Net cash from financing activities | 2,129 | 6,403 | 1,687 |
| Net (decrease) increase in cash, cash equivalents and bank overdrafts | (87) | 22 | (1,271) |
| Cash, cash equivalents and bank overdrafts at the beginning of the year | 565 | (13) | 1,836 |
| Cash, cash equivalents and bank overdrafts at the end of the year | 478 | 9 | 565 |

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

1 Accounting policies for the year ended 30 June 2008

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 2008 and were adopted by Council 29 October, 2008.

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.

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

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 has no associates.

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 2008 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 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.

Impairment of a loan or a receivable is established when there is objective evidence that HDC will not be able to collect amounts due according to the original terms. Significant financial difficulties of the debtor/issuer, probability that the debtor/issuer will enter into bankruptcy, and default in payments are considered indicators that the asset is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of financial performance. When the receivable is uncollectible, it is written off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (i.e. not past due). For term deposits, local authority stock, government stock and community loans, impairment losses are recognised directly against the instruments carrying amount.

Impairment of term deposits, local authority, government stock, and related party and community loans is established when there is objective evidence that the HDC will not be able to collect amounts due to the original terms of the instrument. Significant financial difficulties of the issuer, probability the issuer will enter into bankruptcy, and default in payments are considered indicators that the instrument is impaired. Impairment losses are *Quoted and unquoted equity investments*.

For equity investments classified as fair value through equity, a significant or prolonged decline in the fair value of the investment below its cost is considered an indicator of impairment. If such evidence exists for investments at fair value through equity, the cumulative loss

(measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of financial performance) is removed from equity and recognised in the statement of financial performance. Impairment losses recognised in the statement of financial performance on equity investments are not reversed through the statement of financial performance.

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 was marketing these sections at balance date and expects all remaining sections to be sold by 30 June 2009.

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

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.

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 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.

Subsequent recognition

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.

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 assets were valued by the independent valuers, Opus International Consultants Limited as at 30 June 2008. Above-ground Water, Wastewater, Stormwater and Drainage Assets were valued by the independent valuers, 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 the independent valuers, MWH New Zealand Ltd. Land under roads was valued by the independent valuers, 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 2008 by Council staff.

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 (3 - 60 years)
Base course (5 - 100 years)
Surface Water Channels (75 years)
Culverts (50 years)
Footpaths (75 years)
Bridges (30 – 100 years)
Streetlighting (25 years)
Signs (12.5 – 20 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 - 5 years (20 - 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 9.

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 23 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.

Critical judgements in applying Council's accounting policies

Management has exercised the following critical judgements in applying Council's accounting policies for the period ended 30 June 2008:

Classification of property

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

2. Explanation of Major Variances

Statement of Financial Performance

The operating surplus was \$0.5 million higher than budgeted. This was principally due to \$1.7 million of vested assets, \$1.5 million of gain on sale of assets, \$0.5 million of development contributions and \$0.7 million of additional internal interest. Offsetting these increased revenue items was increased expenditure on Roding (\$1.2 million), Water (\$0.8 million), Overheads (\$0.8 million), Parks and Community Facilities (\$0.6 million), and Property (\$0.4 million).

Statement of Financial Position

Overall borrowings are \$4.4 million lower than budget due to the deferral of prior year, and current year, capital projects. Property, plant and equipment is \$48 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 \$17 million lower due to the transfer to general equity and the revaluation increases noted above.

Statement of Cashflows

Compared to budget Council received increased cash receipts from Rates Revenue (\$0.8 million), Other Revenue (\$1.3 million), GST (\$0.6 million) and sales of property (\$1.5 million). Council also paid less for purchases of Property, Plant and Equipment (\$4.1 million).

Offsetting this were increased payments to suppliers and employees (\$3.9 million).

The effect of these differences meant that Council was able to reduce its cash requirements from net borrowings by 4.4 million.

3. Rates Revenue

| Note | 2008 \$000 | 2007 \$000 |
|--|---------------|---------------|
| Targeted rates attributable to activities | | |
| Water | 4,106 | 3,882 |
| Wastewater | 2,555 | 2,435 |
| Roading | 460 | 451 |
| Drainage | 1,141 | 1,112 |
| Stormwater | 475 | 436 |
| Solid Waste | 383 | 376 |
| Parks and Reserves | 775 | 674 |
| Community Facilities | 925 | 848 |
| Community Development | 384 | 405 |
| | 11,204 | 10,619 |
| General rates | 6,608 | 6,321 |

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

| Rates Remissions | | |
|---|------------|------------|
| Penalties | 107 | 74 |
| UAGCs on contiguous properties | 7 | 5 |
| Excess water rates | 69 | 80 |
| Rates assessed in error | 20 | 92 |
| Multiple owned maori freehold land | 8 | 7 |
| Wastewater rates assessed on educational establishments | 28 | 26 |
| Voluntarily protected land | 2 | 2 |
| Community, sporting and other organisations | 4 | 5 |
| | 245 | 291 |

4. Other Revenue

| Note | Actual 2008 \$000 | Actual 2007 \$000 |
|---|-------------------------|-------------------------|
| Fees and charges | 2,165 | 1,988 |
| Land Transport NZ / Government grants | 3,983 | 3,867 |
| Quarry revenue | 2,858 | 2,659 |
| Petrol tax | 190 | 188 |
| Dividends | 4 | 4 |
| Business unit surpluses | 405 | (403) |
| Vested assets | 1,716 | 1,019 |
| Rental Income from Investment Properties | 71 | 52 |
| Interest income from financial assets not at fair value through P&L | 51 | 58 |
| Development contributions | 481 | 365 |
| | <u>11,924</u> | <u>9,797</u> |

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

5 Other gains/(losses)

| Note | Actual 2008 \$000 | Actual 2007 \$000 |
|--|-------------------------|-------------------------|
| Gains/(losses) through income statement: | | |
| Gain/(loss) on changes in fair value of forestry (note 18) | (216) | 25 |
| Gain/(loss) on changes in fair value of other financial assets (note 13) | 71 | 3 |
| Gain/(loss) on disposal of property, plant and equipment (note 16) | 1,537 | 1,111 |
| Revaluation Decrements (note 16) | 0 | (76) |
| Gain/(loss) on changes in fair value of investment property (note 19) | (6) | (11) |
| Total gains/(losses) | <u>1,386</u> | <u>1,052</u> |

6 Expenditure

| Note | 2008 \$000 | 2007 \$000 |
|--|---------------|---------------|
| Expenditure shown in the income and expenditure statement includes: | | |
| Audit fees for financial statement audit | 85 | 75 |
| Audit fees for LTCCP audit | 9 | 0 |
| Depreciation/amortisation | 6,813 | 6,135 |
| Donations | 192 | 163 |
| Employee benefits | 8,744 | 8,121 |
| Operating lease payments | 5 | 0 |
| Write-down of inventories | 0 | 0 |
| Impairment of property, plant and equipment (note 16) | 0 | 868 |
| Miscellaneous expenditure includes: | | |
| Impairment of property, plant and equipment (note 16) | 0 | 868 |
| Quarry expenses | 2,866 | 2,907 |
| Impairment of receivables (note 11) | 301 | 140 |
| Expenses from investment property generating income | 23 | 25 |
| Expenses from investment property not generating income | 0 | 0 |
| | 3,190 | 3,940 |

7 Finance Cost

| Note | 2008 \$000 | 2007 \$000 |
|--------------------------------|---------------|---------------|
| Interest Expense | | |
| Interest on bank borrowings | 290 | 112 |
| Provisions: discount unwinding | 22 | 180 |
| Total Finance Costs | 458 | 292 |

8 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 24.

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 2008 had fluctuated by plus or minus 0.5%, the effect would have been to decrease/increase the surplus after tax by \$20,000 (2007 \$7,000) 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 borrowing facilities of \$15,000,000 (2007 \$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 13 and 24 respectively.

9 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.

10 Cash and Cash Equivalents

| Note | 30 June 2008 \$000 | 30 June 2007 \$000 |
|--|-----------------------|-----------------------|
| Cash at Bank and in Hand | 478 | 537 |
| Short term deposits maturing three months or less from date of acquisition | 0 | 28 |
| Total Cash or Cash Equivalents | <u>478</u> | <u>565</u> |

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

11 Trade and Other Receivables

| Note | 30 June 2008 \$000 | 30 June 2007 \$000 |
|-------------------------------|-----------------------|-----------------------|
| Rates receivables | 1,855 | 1,771 |
| Water receivables | 2,223 | 2,215 |
| Government grants | 1,742 | 1,327 |
| GST | (585) | 58 |
| Sundry receivables | 939 | 1,312 |
| | 6,174 | 6,683 |
| Less provision for impairment | (874) | (608) |
| | 5,300 | 6,075 |

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

Movement in the impairment provision of receivables

| | 30 June 2008 \$000 | 30 June 2007 \$000 |
|---------------------------------------|-----------------------|-----------------------|
| At 1 July | 608 | 568 |
| Provision for Doubtful Debts - Rates | 538 | 458 |
| Provision for Doubtful Debts - Water | 43 | 64 |
| Provision for Doubtful Debts - Sundry | 27 | 46 |
| Additional provisions made during the | 266 | 40 |
| Provision for Doubtful Debts - Rates | 221 | 80 |
| Provision for Doubtful Debts - Water | 10 | (21) |
| Provision for Doubtful Debts - Sundry | 35 | (19) |
| At 30 June | 874 | 608 |
| Provision for Doubtful Debts - Rates | 759 | 538 |
| Provision for Doubtful Debts - Water | 53 | 43 |
| Provision for Doubtful Debts - Sundry | 62 | 27 |
| TOTAL | 874 | 608 |

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| | 30 June 2008 | | | 30 June 2007 | | |
|---------------------|--------------|------------|--------------|--------------|------------|--------------|
| | Gross | Impairment | Net | Gross | Impairment | Net |
| <i>Rates</i> | | | | | | |
| Not past due | 1,113 | 149 | 964 | 1,065 | 92 | 973 |
| Past due 2006 | 173 | 121 | 52 | 174 | 86 | 88 |
| Past due 2005 | 142 | 114 | 28 | 147 | 80 | 67 |
| Past due 2004 | 124 | 104 | 20 | 123 | 76 | 47 |
| Past due > 2004 | 303 | 272 | 31 | 262 | 204 | 58 |
| | 1,855 | 760 | 1,095 | 1,771 | 538 | 1,233 |
| <i>Water</i> | | | | | | |
| Not past due | 1,567 | 0 | 1,567 | 1,537 | 0 | 1,537 |
| Past due 1 Month | 119 | 0 | 119 | 96 | 0 | 96 |
| Past due 2 Months | 30 | 3 | 27 | 34 | 0 | 34 |
| Past due 3 Months | 0 | 0 | 0 | 0 | 0 | 0 |
| Past due > 3 Months | 507 | 49 | 458 | 548 | 43 | 505 |
| | 2,223 | 52 | 2,171 | 2,215 | 43 | 2,172 |
| <i>Sundry</i> | | | | | | |
| Not past due | 188 | 0 | 188 | 477 | 6 | 471 |
| Past due 1 Month | 229 | 0 | 229 | 261 | 0 | 261 |
| Past due 2 Months | 236 | 1 | 235 | 301 | 0 | 301 |
| Past due 3 Months | 72 | 4 | 68 | 34 | 0 | 34 |
| Past due 4 Months | 1 | 1 | 0 | 1 | 0 | 1 |
| Past due 5+ Months | 212 | 56 | 156 | 238 | 21 | 217 |
| | 938 | 62 | 876 | 1,312 | 27 | 1,285 |

12 Inventories

| Note | 30 June 2008 \$000 | 30 June 2007 \$000 |
|--------------------------|-----------------------|-----------------------|
| Quarry Metal Stockpile | 1,098 | 530 |
| Other | 92 | 93 |
| Total Inventories | 1,190 | 623 |

The carrying amount of inventories held for distribution is measured at the lower of current replacement cost and net realisable value.

No inventories are pledged as security for liabilities (2007 \$nil).

13 Other Financial Assets

| Note | 30 June 2008 \$000 | 30 June 2007 \$000 |
|--|-----------------------|-----------------------|
| Prepayments | 9 | 36 |
| Community Loans | 34 | 977 |
| Shares in other organisations | 72 | 72 |
| | 115 | 1,085 |
| Current Portion | | |
| Prepayments | 9 | 36 |
| Community Loans | 22 | 945 |
| | 31 | 981 |
| Non-Current Portion | | |
| Community Loans | 12 | 32 |
| Unlisted shares in: | | |
| NZ Local Government Insurance Company Limited | 32 | 32 |
| Local Authority Shared Services Limited (SVDS shares) | 40 | 40 |
| Local Authority Shared Services Limited (Initial Shares) | 0 | 0 |
| | 84 | 104 |
| | 115 | 1,085 |

Investments are subject to Council's Investment Management Policy which became operative 1 July 2007.

Community Loans

The fair value of community loans is \$33,546 (2007 \$977,007).

Shares in other organisations

The fair value of shares NZ Local Government Insurance Company Ltd and Local Authority Shared Services Ltd have been determined at fair value through equity. This encompasses investments that HDC intends to hold long-term but which may be realised before maturity, and shareholdings that HDC holds for strategic purposes. Gains and losses are recognised directly in equity except for impairment losses, which are recognised in the statement of financial performance.

Impairment

There were no impairment provisions for other financial assets. None of the financial assets are either past due or impaired.

14 Derivative Financial Assets

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

15 Non-Current Assets Held for Sale

| Note | 30 June 2008 \$000 | 30 June 2007 \$000 |
|-----------|-----------------------|-----------------------|
| Land | 301 | 470 |
| Buildings | 0 | 0 |
| | <u>301</u> | <u>470</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 Kerepehi, which are expected to be sold at completion of the subdivision process.

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

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16 Property, Plant & Equipment

| 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 | Acc Depr Rev'd on Disp/Reval | Cost / Revaluation 30/06/07 | Acc Depr and Impairment 30/06/07 | Carrying Amount 30/06/07 |
|---------------------------------------|-----------------------------------|---|---|------------------------|--------------------------------|-----------|------------------------------|------------------------------|-------------------------------|---------------------------------|------------------------------------|-----------------------------------|---|--------------------------------|
| Council operational assets | | | | | | | | | | | | | | |
| 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 | 14,932,407 |
| 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 | 1,490,146 | 21,842,048 | 1,004,632 | 20,837,416 |
| Library Books | 381,000 | 0 | 381,000 | -75,556 | 305,444 | 0 | 58,864 | 0 | 0 | 67,021 | | 364,308 | 67,021 | 297,287 |
| 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 | 4,288,909 |
| Office Equipment | 1,370,475 | 668,242 | 702,233 | 0 | 702,233 | 0 | 326,572 | 0 | 0 | 219,476 | | 1,697,047 | 887,718 | 809,329 |
| Office Equipment - Finance Leases | 168,448 | | 168,448 | 0 | 168,448 | 0 | 0 | 62,792 | 0 | 0 | | 105,656 | 0 | 105,656 |
| Work in Progress | | | | | | | | | | | | | | |
| Total operational Assets | 27,914,014 | 6,050,437 | 21,863,577 | 19,576,151 | 41,439,728 | -470,000 | 2,237,352 | 651,280 | -20,000 | 1,304,796 | 1,490,146 | 47,116,091 | 5,845,087 | 41,271,004 |
| Council Infrastructural Assets | | | | | | | | | | | | | | |
| Land | 975,374 | 0 | 975,374 | 2,187,898 | 3,163,272 | 0 | 0 | 0 | 0 | 0 | | 3,163,272 | 0 | 3,163,272 |
| 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 | 29,833,989 |
| 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 | 39,208,781 |
| 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 | 35,151,932 |
| 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 | 174,220,496 |
| Land under Roads | 78,911,000 | 0 | 78,911,000 | 0 | 78,911,000 | 0 | 0 | 0 | 0 | 0 | | 78,911,000 | 0 | 78,911,000 |
| Work in Progress | 484,701 | 0 | 484,701 | 0 | 484,701 | 0 | 1,822,811 | 449,508 | 0 | 0 | | 1,858,004 | 0 | 1,858,004 |
| 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 | 0 | 371,798,767 | 9,451,293 | 362,347,474 |
| Council Restricted Assets | | | | | | | | | | | | | | |
| 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 | 10,796,329 |
| Total HDC Property, Plant & Equipment | 393,186,032 | 10,847,374 | 382,338,658 | 28,762,412 | 411,101,070 | -470,000 | 12,087,026 | 1,968,359 | 249,500 | 6,085,430 | 1,490,146 | 430,106,965 | 15,692,158 | 414,414,807 |

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| 2008 | Cost / Revaluation 01/07/07 | Acc Depr and Impairment 01/07/07 | Carrying Amount 01/07/07 | Transfers | Current year additions | Current year disposals | Current year impairment | Current year depreciation | Acc Depr Rev'd on Disp/Reval | Carrying Amount prior to Revaluation | Revaluation Surplus | Cost / Revaluation 30/06/08 | Acc Depr and Impairment 30/06/08 | Carrying Amount 30/06/08 |
|---------------------------------------|-----------------------------------|---|--------------------------------|------------|------------------------------|------------------------------|-------------------------------|---------------------------------|------------------------------------|---|------------------------|-----------------------------------|---|--------------------------------|
| Council operational assets | | | | | | | | | | | | | | |
| Land | 14,932,407 | 0 | 14,932,407 | -320,000 | 889,316 | 15,537 | 0 | 0 | 0 | 15,486,186 | | 15,486,186 | 0 | 15,486,186 |
| Buildings | 21,842,048 | 1,004,632 | 20,837,416 | 0 | 757,164 | 116,067 | 0 | 976,509 | 63 | 20,502,004 | | 22,483,082 | 1,981,078 | 20,502,004 |
| Library Books | 364,308 | 67,021 | 297,287 | 0 | 62,342 | 0 | 0 | 50,941 | | 308,688 | | 426,650 | 117,962 | 308,688 |
| Plant and Motor Vehicles | 8,174,625 | 3,885,716 | 4,288,909 | 0 | 526,350 | 68,536 | 0 | 361,189 | 71,885 | 4,385,534 | | 8,560,554 | 4,175,020 | 4,385,534 |
| Office Equipment | 1,697,047 | 887,718 | 809,329 | 0 | 58,856 | 520 | 0 | 306,642 | 8,138 | 561,023 | | 1,747,245 | 1,186,222 | 561,023 |
| Office Equipment - Finance Leases | 105,656 | 0 | 105,656 | 0 | 0 | 35,010 | 0 | 0 | | 70,646 | | 70,646 | 0 | 70,646 |
| Work in Progress | 0 | 0 | 0 | 0 | 92,816 | | | | | 92,816 | | 92,816 | 0 | 92,816 |
| Total operational Assets | 47,116,091 | 5,845,087 | 41,271,004 | -320,000 | 2,386,844 | 235,670 | 0 | 1,695,281 | 80,086 | 41,406,897 | 0 | 48,867,179 | 7,460,282 | 41,406,897 |
| Council Infrastructural Assets | | | | | | | | | | | | | | |
| Land | 3,163,272 | 0 | 3,163,272 | 320,000 | 141,236 | 0 | 0 | 0 | | 3,624,508 | | 3,624,508 | 0 | 3,624,508 |
| Wastewater System | 31,648,833 | 1,814,844 | 29,833,989 | 365,569 | 867,055 | 6,111 | 0 | 892,678 | | 30,167,824 | | 32,875,346 | 2,707,522 | 30,167,824 |
| Water System | 41,697,536 | 2,488,755 | 39,208,781 | 87,059 | 149,721 | 21,129 | 0 | 1,226,353 | | 38,198,079 | | 41,913,187 | 3,715,108 | 38,198,079 |
| Drainage Network | 36,257,229 | 1,105,297 | 35,151,932 | 255,789 | 1,221,689 | 69,375 | 0 | 568,521 | | 35,991,514 | | 37,665,332 | 1,673,818 | 35,991,514 |
| Roading Network | 178,262,893 | 4,042,397 | 174,220,496 | 1,758,641 | 3,356,068 | 226,543 | 0 | 2,129,558 | 6,398,498 | 176,979,104 | 13,151,321 | 189,903,882 | -226,543 | 190,130,425 |
| Land under Roads | 78,911,000 | 0 | 78,911,000 | -947,625 | 18,466 | | 0 | | | 77,981,841 | | 77,981,841 | 0 | 77,981,841 |
| Work in Progress | 1,858,004 | 0 | 1,858,004 | -1,656,914 | 4,279,757 | | 0 | | | 4,480,847 | | 4,480,847 | 0 | 4,480,847 |
| Total Infrastructural Assets | 371,798,767 | 9,451,293 | 362,347,474 | 182,519 | 10,033,992 | 323,158 | 0 | 4,817,110 | 6,398,498 | 367,423,717 | 13,151,321 | 388,444,943 | 7,869,905 | 380,575,038 |
| Council Restricted Assets | | | | | | | | | | | | | | |
| Land | 11,192,107 | 395,778 | 10,796,329 | 0 | 0 | 0 | 0 | 0 | 0 | 10,796,329 | | 11,192,107 | 395,778 | 10,796,329 |
| Total HDC Property, Plant & Equipment | 430,106,965 | 15,692,158 | 414,414,807 | -137,481 | 12,420,836 | 558,828 | 0 | 6,512,391 | 6,478,584 | 419,626,943 | 13,151,321 | 448,504,229 | 15,725,965 | 432,778,264 |

17 Intangible Assets

| Note | 30 June 2008 \$000 | 30 June 2007 \$000 |
|---|-----------------------|-----------------------|
| Computer Software | | |
| Cost | 952 | 392 |
| Accumulated amortisation and impairment | (481) | (181) |
| Closing carrying amount | <u>471</u> | <u>211</u> |
| Opening Balance | 212 | 99 |
| Additions | 559 | 161 |
| Amortisation charge | (300) | (49) |
| Closing carrying amount | <u>471</u> | <u>211</u> |

18 Forestry Assets

| Note | 30 June 2008 \$000 | 30 June 2007 \$000 |
|---|-----------------------|-----------------------|
| Balance at 1 July | 814 | 714 |
| Increases due to improvements | 47 | 75 |
| Gains/(losses) arising from changes in fair value less estimated point of sale costs attributable to physical changes | 16 | (1) |
| Gains/(losses) arising from changes in fair value less estimated point of sale costs attributable to price changes. | (232) | 26 |
| Decreases due to sales | 0 | 0 |
| Decreases due to harvest | 0 | 0 |
| Balance as at 30 June | <u>645</u> | <u>814</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 (2007 nil).

HDC had its forestry asset professionally valued as at 30 June 2008 by PF Olsen & Company, a recognised forestry valuer. The basis used to value the forests was the expected yield at maturity. A pre-tax discount rate of 7% (2007 7%) has been used in discounting the present value of expected cashflows.

National land rental costs have been included for freehold land. The forest has been valued on a going concern basis and only includes the value of the existing crops on a single rotation basis. No allowance for inflation has been provided. Cost are current average costs. No allowance has been made for cost improvements in future operations and log prices are based on a 3 year historical rolling average.

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.

19 Investment property

| Note | 30 June 2008 \$000 | 30 June 2007 \$000 |
|---|-----------------------|-----------------------|
| Balance at 1 July | 1,288 | 1,913 |
| Acquisitions | 0 | 0 |
| Improvements | 0 | 0 |
| Disposals | 0 | (614) |
| Fair value gains/(losses) on valuation (note 5) | (6) | (11) |
| Balance as at 30 June | <u>1,282</u> | <u>1,288</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.

20 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 2008 \$000 | 30 June 2007 \$000 |
|--------------------------------------|-----------------------|-----------------------|
| Movements in carrying amount | | |
| Balance at 1 July | 52 | 45 |
| Share of total revenues and expenses | (10) | 6 |
| Balance as at 30 June | <u>42</u> | <u>51</u> |

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.

| | 30 June 2008 \$000 | 30 June 2007 \$000 |
|--|-----------------------|-----------------------|
| Hauraki's interest in TVCDEPU are as follows: | | |
| Current assets | 38 | 27 |
| Non-current assets | 33 | 35 |
| Current liabilities | 31 | 12 |
| Non-current liabilities | 0 | 0 |
| Income | 135 | 141 |
| Expenditure | 145 | 135 |

21 Trade and Other Payables

| Note | 30 June 2008 \$000 | 30 June 2007 \$000 |
|--|-----------------------|-----------------------|
| Trade Payables | 1,287 | 2,548 |
| Deposits and bonds | 628 | 476 |
| GST | 0 | 7 |
| Monies held in trust | 622 | 698 |
| Accrued Expenses | 1,916 | 764 |
| Amounts due to related parties (note 32) | 1 | 14 |
| Rates in advance | 384 | 346 |
| Amounts due to customers for contract work (note 28) | 0 | 0 |
| Advances received for contract work | 0 | 0 |
| Total Trade and Other Payables | 4,838 | 4,853 |

22 Provisions

| Note | 30 June 2008 \$000 | 30 June 2007 \$000 |
|---------------------------------------|-----------------------|-----------------------|
| Financial Guarantees | 0 | 0 |
| Landfill Aftercare Provision | 2,262 | 2,136 |
| Total non - current provisions | 1,762 | 1,814 |
| Total current provision | 500 | 322 |

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%.

| | 2008 \$000 | 2007 \$000 |
|------------------------------|---------------|---------------|
| Balance as at 1 July | 2,136 | 2,017 |
| Additional provisions made | 0 | 0 |
| Amounts used | (39) | (61) |
| Unused amounts reversed | 0 | 0 |
| Discount unwinding | 165 | 180 |
| Balance as at 30 June | 2,262 | 2,136 |

The discount rate used for the landfill aftercare provision has not changed.

23 Employee Benefit Liabilities

| Note | 30 June 2008 \$000 | 30 June 2007 \$000 |
|---|-----------------------|-----------------------|
| Annual Leave | 876 | 657 |
| Long Service Leave | 128 | 123 |
| Retirement Gratuities | 395 | 362 |
| Sick Leave | 30 | 18 |
| Total Employee Benefit Liabilities | 1,429 | 1,160 |
| <i>Comprising:</i> | | |
| Current | 1,004 | 780 |
| Non-Current | 425 | 380 |
| Total Employee Benefit Liabilities | 1,429 | 1,160 |

24 Borrowing

| Note | 30 June 2008 \$000 | 30 June 2007 \$000 |
|-------------------------------------|-----------------------|-----------------------|
| Current | | |
| Bank overdraft | 0 | 0 |
| Secured loans | 2 | 1 |
| Debentures | 1,958 | 1,750 |
| Lease Liabilities | 39 | 37 |
| Total Current Borrowings | 1,999 | 1,788 |
| Non Current | | |
| Secured loans | 2 | 4 |
| Debentures | 2,000 | 0 |
| Lease Liabilities | 31 | 68 |
| Total Non Current Borrowings | 2,033 | 72 |

Security

HDC has cash advance facilities with the maximum amount that can be drawn against these of \$10,000,000 (2007 \$5,000,000). There are no restrictions on the use of these facilities. Borrowings at 30 June against these facilities were \$1,958,000 (2007 \$1,750,000) at interest rates which are fixed quarterly.

HDC has a term advance facility with the maximum amount that can be drawn against of \$5,000,000 (2007 \$0). There are no restrictions on the use of this facility. Borrowings at 30 June against these facilities were \$2,000,000 (2007 \$0) at floating interest rates.

The facilities are 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.

| 2008 | Lease Liabilities \$000 | Secured Loans \$000 | Debentures \$000 |
|---|-------------------------------|---------------------------|---------------------|
| Less than one year <i>weighted average effective interest rate</i> | 39 13.00% | 2 13.85% | 1,958 9.03% |
| Later than one year but not more than five years <i>weighted average effective interest rate</i> | 31 13.00% | 2 13.85% | 2,000 8.62% |
| Later than five years <i>weighted average effective interest rate</i> | 0 | 0 | 0 |
| | 70 | 4 | 3,958 |

| 2007 | Lease Liabilities \$000 | Secured Loans \$000 | Debentures \$000 |
|---|-------------------------------|---------------------------|---------------------|
| Less than one year <i>weighted average effective interest rate</i> | 37 13.00% | 1 10.91% | 1,750 8.35% |
| Later than one year but not more than five years <i>weighted average effective interest rate</i> | 68 13.00% | 4 10.91% | 0 |
| Later than five years <i>weighted average effective interest rate</i> | 0 | 0 | 0 |
| | 105 | 5 | 1,750 |

Fair values of non-current borrowings

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

| | 30 June 2008 \$000 | 30 June 2007 \$000 |
|----------------------|-----------------------|-----------------------|
| Debentures | | |
| Carrying amounts | 2 | 4 |
| Fair Value | 2 | 4 |
| Secured Loans | | |
| Carrying amounts | 2,000 | 0 |
| Fair Value | 2,000 | 0 |

Fair values of current borrowings

The carrying amounts of current borrowings are the fair value amounts.

Sensitivity Analysis

A 0.5% movement in interest rates would change the fair value of non-current borrowings by \$20,000 increase/decrease (2007 7,000)

25 Equity

| Note | 30 June 2008 \$000 | 30 June 2007 \$000 |
|--|-----------------------|-----------------------|
| Retained Earnings | | |
| As at 1 July | 383,084 | 382,715 |
| Transfers from/(to): | | |
| Asset Revaluation Reserve on disposal of PPE | 40 | 206 |
| Restricted Reserves | (767) | (509) |
| Surplus/(Deficit) for the year | 1,302 | 672 |
| As at 30 June | 383,659 | 383,084 |
| Restricted Reserves | | |
| As at 1 July | 3,871 | 3,362 |
| Transfers to Retained Earnings | (71) | (109) |
| Transfers from Retained Earnings | 838 | 618 |
| As at 30 June | 4,638 | 3,871 |
| Restricted Reserves consist of: | | |
| Trusts & Bequests | 13 | 12 |
| Development Contributions | 1,736 | 1,198 |
| Council Created Reserves | 2,889 | 2,661 |
| | 4,638 | 3,871 |

| Note | 30 June 2008 \$000 | 30 June 2007 \$000 |
|--|-----------------------|-----------------------|
| Asset Revaluation Reserves | | |
| As at 1 July | 28,633 | 0 |
| Revaluation gains/(losses) | 13,151 | 28,838 |
| Transfer of revaluation reserve to retained earnings PPE | (40) | (205) |
| As at 30 June | 41,744 | 28,633 |
| Asset Revaluation Reserves consist of: | | |
| <i>Operational Assets</i> | | |
| Land | 18,998 | 19,008 |
| Buildings | 9,595 | 9,625 |
| <i>Infrastructural Assets</i> | | |
| Roading Network | 13,151 | 0 |
| Total | 41,744 | 28,633 |
| As at 30 June | 430,041 | 415,588 |

The 2007 comparatives and the budget figures have been restated to include forest valuation movements in the Income Statement.

26 Prior Period Adjustments

| | Actual 2007 \$000 |
|--|----------------------------------|
| Retained Earnings | |
| As at 1 July 2006 | 382,089 |
| Transfer from Forestry Revaluation Reserve | 626 |
| Revised balance as at 1 July 2006 | <u>382,715</u> |
| Forestry Revaluation Reserve | |
| As at 1 July 2006 | 626 |
| Less transfer to Retained Earnings | (626) |
| Revised balance as at 1 July 2006 | <u>0</u> |

In the 2007 Annual Report accumulated revaluation surpluses were disclosed in a revaluation reserve. For 2008 these have been treated as being part of retained earnings in accordance with International Financial Reporting Standards. To accomplish this the opening balance of the reserve was transferred to retained earnings and the 2007 movement was disclosed in the statement of financial performance

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

| | Note | 2008 \$000 | 2007 \$000 |
|---|------|---------------|---------------|
| Surplus/ (deficit) after Tax | | 1,302 | 672 |
| Add/(less) non - cash items: | | | |
| Share of associate surplus/(deficit) | 20 | 9 | 0 |
| Depreciation & Amortisation | 16 | 7,171 | 6,343 |
| Impairment Charges | 16 | 301 | 250 |
| Vested Assets | 4 | (1,716) | 1,019 |
| (Gains)/Losses in fair value of biological Asset | 5 | 216 | 25 |
| (Gains)/Losses in fair value of Investment Property | 19 | 6 | (7) |
| (Gains)/Losses in fair value of Other Financial Assets | 5 | (71) | 0 |
| Add/(less) items classified as investing or financing activities: | | | |
| (Gains)/losses on disposal of property, plant and equipment | 5 | (1,538) | 1,111 |
| Borrowings | | 0 | (1,750) |
| (Gains)/losses on disposal of investments classified as fair value through equity | | 0 | 0 |
| Add/(less) movements in working capital items: | | | |
| Accounts Receivable | 11 | (168) | 2,342 |
| Inventories | 12 | (566) | (89) |
| Prepayments | 12 | 27 | (89) |
| Accounts Payable | 21 | (8) | (2,830) |
| GST payable | | 636 | 0 |
| Provisions | 22 | 168 | (66) |
| Employee Benefits | 23 | 269 | 152 |
| Net cash inflow/(outflow) from operating activities | | 6,038 | 7,083 |

28 Capital Commitments and Operating Leases

| Note | 30 June 2008 \$000 | 30 June 2007 \$000 |
|---|-----------------------|-----------------------|
| Capital Commitments | 1,956 | 225 |
| <i>Capital expenditure contracted for at balance date but not yet incurred for property, plant and equipment, (IAS16.74)</i> | | |
| Operating Commitments | 5,264 | 2,547 |
| <i>Operating expenditure for future years contracted on non-cancellable contracts at balance date but not yet incurred.</i> | | |
| Operating Leases as Lessee | | |
| <i>HDC leases property in the normal course of its 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 | 4 | 22 |
| Later than one year and not later than five years | 4 | 10 |
| Later than five years | 0 | 0 |
| Operating Leases as Lessor | | |
| <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 | 55 | 200 |
| Later than one year and not later than five years | 192 | 200 |
| Later than five years | 481 | 94 |
| | 7,956 | 3,298 |
| Less provision for impairment | 0 | 0 |
| | 7,956 | 3,298 |

The total minimum future sublease payments expected to be received under non-cancellable subleases at balance date is \$nil (2007\$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.

29 Contingencies

| Note | 30 June 2007 \$000 | 30 June 2006 \$000 |
|---|-----------------------|-----------------------|
| Weatheright Homes Claims | 0 | 0 |
| <i>There were two known claims against HDC as at 30 June 2008. As neither property had a building consent or code compliance certificate issued Council believes it has no liability.</i> | | |
| Insurance Claims | 0 | 0 |
| <i>There were no known claims against HDC as at 30 June 2007.</i> | | |
| Guarantees | 95 | 95 |
| Paeroa Netball Association - 15,000 | | |
| Paeroa Centennial Park Board - 30,000 | | |
| Waihi Netball Association - 50,000 | | |
| | 95 | 95 |
| Less provision for impairment | 0 | 0 |
| | 95 | 95 |

30 Related Party Transactions

| Note | 30 June 2008 \$000 | 30 June 2007 \$000 |
|--|-----------------------|-----------------------|
| Outstanding amounts to parties related to key management personnel | 1 | 1 |
| Local Authority Shared Services Ltd | 0 | 12 |
| | <u>1</u> | <u>13</u> |
| | 0 | 0 |
| | <u>1</u> | <u>13</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 salaries and other short term benefits related to their roles as Councillors and staff as per note 31. No other benefits were paid.

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

| | | 2008 \$000 | 2007 \$000 |
|--|-------------------|---------------|---------------|
| Mrs Mary Carmine | Publications | 4 | 2 |
| Mr John Tregidga - L & P Café and L & P Catering | Café-Refreshments | 0 | 18 |
| Mr Paul Milner | Fuel and Oil | 1 | 2 |
| Mrs Bronwyn Wightman - Wightman Contracting | Transport | 0 | 5 |

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:

| | | |
|---|---|---|
| Mr Don Challis - Kerepehi Transport | 0 | 0 |
| Mr B A Gordon - Dudding & Assoc. | 0 | 0 |
| Mr John Tregidga - L & P Café and L & P Catering | 0 | 1 |
| Mrs Mary Carmine | 0 | 0 |
| Mr Paul Milner | | |

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 | 39 | 9 |
| Kerepehi Transport Ltd | Transport and Contracting | 244 | 425 |

Associates

| | | |
|--|----|----|
| During the year Council paid the Thames Valley Combined Districts Emergency Planning Unit for Civil Defence services (note 22) | 81 | 78 |
|--|----|----|

| | | |
|--|----|---|
| During the year Council paid Local Authority Shared Services Ltd for database services (note 21) | 49 | 0 |
|--|----|---|

31 Remuneration of Chief Executive and Elected Members

| Note | 2008 \$ | 2007 \$ |
|---|------------|------------|
| The Chief Executive of the Hauraki District Council, appointed under Section 42(1) of the Local Government Act 2002 received a salary of: | 192,427 | 207,298 |
| In terms of his contract the Chief Executive also received the following benefits: | | |
| Subscriptions | 600 | 600 |
| Telephone | 0 | 500 |
| Motor Vehicle | 12,120 | 14,267 |
| The total annual cost, including fringe benefit tax, to the Hauraki District Council of the remuneration package received by the Chief Executive was: | 205,147 | 222,665 |
| Other members of Council's senior management team received total salaries and other short term benefits of: | 566,821 | 516,763 |
| Elected members received salary and meeting allowances as follows: | | |
| Mr Sel Baker | 17480 | 17,753 |
| Mrs Julie Bubb | 17290 | 13,536 |
| Mrs Mary Carmine | 23623 | 22,681 |
| Mr Don Challis | 14845 | 13,504 |
| Mr Bruce Gordon | 17290 | 16,419 |
| Mr Mike Hayden | 13610 | 13,504 |
| Mr Tom Meyers | 13083 | 9,495 |
| Mr Paul Milner | 13083 | 9,495 |
| Mr G Harris | 8192 | |
| Mrs G Leonard | 8192 | |
| Mr J Thorp | 8192 | |
| Mr H Shepherd | 8419 | |
| Mr C Francis | 8419 | |
| Mr John Tregidga (Mayor) | 59136 | 58,214 |

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| Note | 2008 \$ | 2007 \$ |
|---|------------|------------|
| Previous Members | | |
| Mr George Gray | 4185 | 11,867 |
| Mr Don Lockwood | 3920 | 13,504 |
| Mr Keith Trembath | 4182 | 13,504 |
| Mr Ian Troughton | 5698 | 16,459 |
| Mrs Bronwyn Wightman | 0 | 7,820 |
| | 248839 | 237755 |
| For sitting on Hearings Committees elected members also received remuneration as follows: | | |
| Mrs Julie Bubb | 1,003 | 527 |
| Mrs Mary Carmine | 1,003 | 426 |
| Mr Bruce Gordon | 918 | 697 |
| Mr Mike Hayden | 0 | 0 |
| Mrs G Leonard | 204 | |
| | 3,128 | 1,650 |
| Previous Members | | |
| Mr Keith Trembath | 0 | 0 |
| Fringe Benefit Tax on vehicles was also paid on behalf of elected members as follows: | | |
| Mr John Tregidga (Mayor) | 7,404 | 8,830 |
| | 7,404 | 8,830 |
| | 259,371 | 248,235 |

32 Severance Payments

| Note | 2008 \$000 | 2007 \$000 |
|---|---------------|---------------|
| Council made the following severance payments to employees: | | |
| Retirement Gratuities: | | |
| Employee One | 16 | 24 |
| Employee Two | 0 | 13 |
| Employee Three | 0 | 11 |
| Employee Four | 0 | 11 |
| Total Severance Payments | 16 | 59 |

No other severance payments were made.

33 Events after balance date

Council has resolved to dispose of 77% of its forestry assets. No contract to sell the forests has been entered into to date.

34 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 2008 fairly reflect the financial position and operations of Hauraki District Council.

J P Tregidga
Mayor

L D Cavers
Chief Executive