

# Section Four: Financials



## 4.1 Introduction to the Financial Statements

Financial Statements are produced by the Council to fulfil the requirements of the Local Government Act 2002 and also to communicate its financial performance and position to the ratepayers. This introduction will give you a guide on how to follow the financial information given in this report. Ratepayers are welcome to contact the Manager Financial Services if further assistance or clarification is required.

1. The Income Statement (page 57) shows all income received including income from Rates, the Significant Activities and Council's subsidiary company.
2. The Statement of Recognised Income and Expense (page 58) discloses movements in total equity.
3. The Balance Sheet (page 59) shows the assets and liabilities of the Waitomo District Council and its subsidiary.
4. The Statement of Cash Flows (page 60) summarises the cash flows from operating, investing and financing activities during the year.
5. The "Notes to the Financial Statements" (pages 62-104) should be read in conjunction with the above statements.
6. The individual Statements of Cost of Service for Council's Significant Activities (pages 14-54) record the revenue and costs associated with the provision of each service.
7. The figures used in the Statements of Cost of Services for Estimated Gross Cost and Actual Gross Cost are extracted from the detailed management accounts.

## 4.2 Income Statement for the year ended 30 June 2009

	Note	2009 Council Budget \$000's	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
<b>Revenue</b>						
Rates Revenue (including Penalties)	1	12,378	12,331	10,801	12,331	10,801
Other Revenue	2	10,328	9,379	10,005	55,517	54,582
Other Gains/(Losses)	3	0	(2,814)	0	486	0
<b>Total Revenue and Gains/(Losses)</b>		<b>22,706</b>	<b>18,896</b>	<b>20,806</b>	<b>68,334</b>	<b>65,383</b>
<b>Expenditure</b>						
Employee Benefit Expenses	4	3,009	3,105	2,761	19,276	22,872
Depreciation and Amortisation	18,19	3,924	3,983	3,734	5,946	5,913
Finance Costs	5	2,709	2,312	2,134	3,294	3,496
Other Expenditure	6	11,315	11,780	12,498	45,167	34,051
<b>Total Expenditure</b>		<b>20,957</b>	<b>21,180</b>	<b>21,127</b>	<b>73,683</b>	<b>66,332</b>
<b>Surplus/(Deficit) Before Tax</b>		<b>1,749</b>	<b>(2,284)</b>	<b>(321)</b>	<b>(5,349)</b>	<b>(949)</b>
Taxation Expense	7	0	63	100	1,300	916
<b>Net Surplus/(Deficit)</b>		<b>1,749</b>	<b>(2,221)</b>	<b>(221)</b>	<b>(4,049)</b>	<b>(33)</b>

Note: rates penalties were classified in the Annual Plan 2008/09 as other revenue whereas they are classified as Rates Revenue in the Annual Report. The budget figures have been restated so that they are comparable with actual results reported.

### 4.3 Statement of Recognised Income and Expense for the year ended 30 June 2009

	Note	2009 Council Budget \$000's	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
<b>Balance at 1 July</b>		<b>245,857</b>	<b>240,760</b>	<b>246,431</b>	<b>234,557</b>	<b>234,590</b>
Property, plant and equipment revaluation gains taken to equity	8	0	0	0	340	0
Loss on Available for sale Financial Assets	8	0	(7,637)	(5,450)	0	0
<b>Net Income Recognised directly in Equity</b>		<b>0</b>	<b>(7,637)</b>	<b>(5,450)</b>	<b>340</b>	<b>0</b>
Net Surplus/(Deficit) for the year		1,749	(2,221)	(221)	(4,049)	(33)
<b>Total Recognised Income and expense for the Year</b>		<b>1,749</b>	<b>(9,858)</b>	<b>(5,671)</b>	<b>(3,709)</b>	<b>(33)</b>
<b>Balance at 30 June</b>		<b>247,606</b>	<b>230,902</b>	<b>240,760</b>	<b>230,848</b>	<b>234,557</b>

## 4.4 Balance Sheet as at 30 June 2009

	Note	2009 Council Budget \$000's	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
<b>Equity</b>						
Retained Earnings	8	200,311	196,530	196,741	195,809	197,848
Other Reserves	8	13,191	860	10,405	860	2,768
Revaluation Reserve	8	34,104	33,512	33,614	34,179	33,941
<b>Total Equity</b>		<b>247,606</b>	<b>230,902</b>	<b>240,760</b>	<b>230,848</b>	<b>234,557</b>
<b>Current Assets</b>						
Cash and Cash Equivalents	9	991	219	356	253	422
Other Financial Assets	10	0	1	1	1	1
Inventories	11	1	88	87	3,305	4,271
Trade and Other Receivables	12	2,800	3,378	5,784	9,532	14,868
Derivative Financial Instruments	13	0	0	0	0	38
Taxation Receivable		0	0	0	0	515
<b>Total Current Assets</b>		<b>3,792</b>	<b>3,686</b>	<b>6,228</b>	<b>13,091</b>	<b>20,115</b>
<b>Current Liabilities</b>						
Bank Overdraft (Secured)		0	0	0	2,913	4,080
Trade and Other Payables	14	3,636	3,353	5,809	7,893	9,368
Current Portion of Borrowings	15	4,700	6,168	8,679	13,711	18,243
Provisions	16	7	37	13	335	197
Taxation Payable		0	0	0	2	16
Employee Entitlements	17	205	344	308	1,565	1,657
<b>Total Current Liabilities</b>		<b>8,548</b>	<b>9,902</b>	<b>14,809</b>	<b>26,419</b>	<b>33,561</b>
<b>Net Working Capital</b>		<b>(4,756)</b>	<b>(6,216)</b>	<b>(8,581)</b>	<b>(13,328)</b>	<b>(13,446)</b>
<b>Non Current Assets</b>						
Property, Plant and Equipment	18	259,373	259,405	253,232	271,817	266,791
Intangible Assets	19	136	0	0	6	2,556
Forestry Assets	20	85	75	75	75	75
Investment Property	21	334	833	334	833	334
Other Financial Assets	10	22,837	6,436	17,388	36	38
Deferred Tax Asset	7	0	163	100	1,721	474
<b>Total Non Current Assets</b>		<b>282,765</b>	<b>266,912</b>	<b>271,129</b>	<b>274,488</b>	<b>270,268</b>
<b>Non Current Liabilities</b>						
Borrowings	15	29,786	29,115	21,283	29,115	21,555
Employee Entitlements	17	55	61	59	107	133
Provisions	16	562	618	446	618	446
Derivative Financial Instruments	13	0	0	0	472	131
<b>Total Non Current Liabilities</b>		<b>30,403</b>	<b>29,794</b>	<b>21,788</b>	<b>30,312</b>	<b>22,265</b>
<b>Net Assets</b>		<b>247,606</b>	<b>230,902</b>	<b>240,760</b>	<b>230,848</b>	<b>234,557</b>

## 4.5 Statement of Cash Flows for the year ended 30 June 2009

	Note	2009 Council Budget \$000's	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
<b>Cash flows from Operating Activities</b>						
Cash was provided from:						
Rates Revenue (including penalties)		12,378	13,414	12,165	13,414	12,165
Subsidies and Grants		7,186	9,960	7,367	9,960	7,367
Property Rentals		181	338	329	338	329
Petroleum Tax		150	124	114	124	114
Interest from Investments		0	30	22	30	84
Receipts from Other Revenue and Construction Contracts		1,563	3,239	503	59,236	52,069
Tax Refunds Received		0	0	0	554	285
Dividend Received		1,030	0	0	0	0
Subvention Received		220	0	0	0	0
		<b>22,708</b>	<b>27,105</b>	<b>20,500</b>	<b>83,656</b>	<b>72,413</b>
<b>Cash was applied to:</b>						
Payments to Suppliers and Employees		14,124	16,498	15,071	68,807	62,773
Elected Members		202	200	215	200	215
Interest Paid on Borrowings		2,709	2,331	2,167	3,313	3,527
GST Received/(paid) (net)		0	6	(46)	2,348	1,855
		<b>17,035</b>	<b>19,035</b>	<b>17,407</b>	<b>74,668</b>	<b>68,370</b>
<b>Net Cash Inflow from Operating Activities</b>	24	<b>5,673</b>	<b>8,070</b>	<b>3,093</b>	<b>8,988</b>	<b>4,043</b>
<b>Cash flows from Investing Activities</b>						
<b>Cash was provided from:</b>						
Proceeds from Sale of Property, Plant and Equipment		0	20	0	566	1,203
Repayment from Advance to Community Groups		0	2	0	2	0
		<b>0</b>	<b>22</b>	<b>0</b>	<b>568</b>	<b>1,203</b>
<b>Cash was applied to:</b>						
Purchase and Development of Property, Plant and Equipment		11,506	13,550	8,471	11,573	11,314
Purchase of Intangible Assets		0	0	0	7	7
Business Acquisitions	30	0	0	0	0	17
		<b>11,506</b>	<b>13,550</b>	<b>8,471</b>	<b>11,580</b>	<b>11,338</b>
<b>Net Cash Outflow from Investing Activities</b>		<b>(11,506)</b>	<b>(13,528)</b>	<b>(8,471)</b>	<b>(11,012)</b>	<b>(10,135)</b>
<b>Cash flow from Financing Activities</b>						
<b>Cash was provided from:</b>						
Proceeds from Borrowings		11,375	13,606	9,092	13,664	10,246
		<b>11,375</b>	<b>13,606</b>	<b>9,092</b>	<b>13,664</b>	<b>10,246</b>
<b>Cash was applied to:</b>						
Repayment of Borrowings		4,700	8,285	3,693	10,642	5,347
		<b>4,700</b>	<b>8,285</b>	<b>3,693</b>	<b>10,642</b>	<b>5,347</b>
<b>Net Cash Inflow from Financing Activities</b>		<b>6,675</b>	<b>5,321</b>	<b>5,399</b>	<b>3,022</b>	<b>4,899</b>

Net increase/(decrease) in cash, cash equivalents and bank overdrafts	842	(137)	21	998	(1,193)
Cash, cash equivalents and bank overdrafts at the beginning of the year	149	356	335	(3,658)	(2,465)
<b>Cash, cash equivalents and bank overdrafts at the end of the year</b>	<b>991</b>	<b>219</b>	<b>356</b>	<b>(2,660)</b>	<b>(3,658)</b>
<b>Balance at end of year represented by:</b>					
Cash and Cash Equivalents	991	219	356	253	422
Bank Overdraft	0	0	0	(2,913)	(4,080)
	<b>991</b>	<b>219</b>	<b>356</b>	<b>(2,660)</b>	<b>(3,658)</b>

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

During the period, the Council acquired property, plant and equipment totalling \$nil (2008: \$182,000) by means of finance leases.

The Statement of Accounting Policies and the Notes to the Financial Statements (pages 62-104) form an integral part of these Financial Statements.

## 4.6 Notes to the Financial Statements

### Statement of Accounting Policies for the year ended 30 June 2009

#### Reporting Entity

Waitomo District Council is a territorial local authority governed by the Local Government Act 2002. Waitomo District Council Group (the Council) consists of Waitomo District Council and its 100% owned subsidiary, Inframax Construction Limited incorporated in New Zealand, and its subsidiary Independent Roadmarkers Taranaki Ltd (100% owned) incorporated in New Zealand.

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

The financial statements of the Council are for the year ended 30 June 2009. The financial statements were authorised for issue by the Council on 28 October 2009.

#### Basis of Preparation

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

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

#### Going Concern

The financial statements of the Group have been prepared on a going concern basis. The going concern assumption is dependent on the continuing financial support from the lenders to Inframax Construction Limited and an improvement in the financial performance of Inframax Construction Limited (a material subsidiary to the Group).

Inframax Construction Limited was in breach of its loan covenants as at 30 June 2009 (refer to note 15 for details). Subsequent to balance date Inframax Construction Limited has renegotiated its covenants with its lender with the new ratio's being effective from 1 July 2009.

If Inframax Construction Limited or its subsidiary were unable to continue to operate and pay their debts as and when they become due and payable, adjustments may have to be made to reflect the situation that assets may need to be realised and liabilities extinguished, other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the Group's Balance Sheet.

The Group financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should Inframax Construction Limited be unable to continue to operate.

#### Standards approved but not yet effective

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective. Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Council's financial report:

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRS - 8 'Operating Segments'	1 January 2009	30 June 2010
NZ IAS - 1 Presentation of Financial Statements	1 January 2009	30 June 2010

Initial application of the following standards could have an impact on the financial statements of the Council and Group. The Council has yet to analyse the impact of the changes.

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IAS - 23 'Borrowing Costs' - revised 2007	1 January 2009	30 June 2010
NZ IFRS - 3 Business Combinations - revised 2008	1 July 2009	30 June 2010
NZ IAS - 27 Consolidated and Separate Financial Statements - revised 2008	1 July 2009	30 June 2010
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2008	*	*



	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Improving Disclosures about Financial Instruments (Amendments to NZ IFRS 7 Financial Instruments: Disclosures)	1 January 2009	30 June 2009
NZ IFRIC-18 'Transfers of Assets from Customers	1 July 2009	30 June 2010
Omnibus Amendments (2008)	1 January 2009	30 June 2010
Omnibus Amendments (2009)	1 July 2009	30 June 2010
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2009	**	30 June 2011

\* The effective date and transitional provisions vary by Standard. Most of the improvements are effective for annual periods beginning on or after 1 January 2009, with earlier adoption permitted, and they are to be applied retrospectively.

\*\* The effective date and transitional provisions vary by Standard. Most of the improvements are effective for annual periods beginning on or after 1 January 2010, with earlier adoption permitted.

Other standards and interpretations have been issued. The other standards issued but not yet effective are not relevant to the Council or Group and therefore have not been disclosed.

### **Basis of Consolidation**

The purchase method is used to prepare the consolidated financial statements, which involves adding together like items of assets, liabilities, equity, income and expenses on a line-by-line basis. All significant intragroup balances, transactions, income and expenses are eliminated upon consolidation.

The Council's investment in its subsidiary is carried at fair value in the Council's own financial statements.

### **Revenue**

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

Revenue is measured at fair value of the consideration received or receivable.

#### *Rates*

Rates are recognised as revenue when rates are levied.

#### *Levies & Charges*

Other levies and charges are recognised as revenue when the obligation to pay arises or, in the case of licence fees, upon renewal of the licence.

#### *Other*

Other grants, bequests and assets vested in the Group are recognised as revenue when control over the asset is obtained.

#### *Government Grants*

Government grants and subsidies are recognised at their fair value when there is reasonable assurance that the conditions associated with the grant approval have been fulfilled. The Group receives government grants from Land Transport New Zealand, which subsidises part of the Group's costs of maintaining local roading. In addition to this, Group has also received government grants from the Ministry of Health which subsidises part of the Group's cost of providing a sewerage reticulation system at Piopio and replacement of water reticulation pipes at Benneydale.

#### *Interest*

Revenue is recognised using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument.

### *Dividends*

Dividends from the subsidiary are recognised in the Income Statement on the date that the dividends are declared.

### *Rental Income*

Rental income arising on property owned by the Group is accounted for on a straight-line basis over the lease term.

### *Construction Contracts*

Revenue from construction contracting services includes revenue from building and civil contracting services. Revenue and expenditure are recognised by reference to the stage of completion of the contract at balance date. The stage of completion is measured by reference to costs incurred up to balance date as a percentage of the total estimated costs for each contract.

Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms of the contract and an allocation of overhead expenses incurred in connection with the Group's construction activities in general.

Expected losses are recognised immediately as an expense in the Income Statement.

Where the outcome of a contract cannot be reliably estimated, contract costs are recognised as an expense as incurred, and where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred.

Construction work in progress is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings. If there are contract costs where progress billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented under trade and other payables.

### **Expenditure**

Expenditure is recognised when the Group has been supplied with the service or has control of the goods supplied.

### **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 the Group 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 Group's decision.

### **Borrowing costs**

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

### **Income Tax**

Income tax expense on the surplus or deficit for the period comprises current tax expense and deferred tax. Income tax expense is recognised in the Income Statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity. Current tax is the amount of income tax payable based on the taxable profit for the current year plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantially enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised only to the extent that it is probable that the taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, except where the Group can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the tax rates which are expected to apply in the period the liability is settled or asset realised using tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## 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 on the face of the Balance Sheet.

## Inventories

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the FIFO method.

The amount of any write down from the loss of service potential or from cost to net realisable value is recognised in the Income Statement.

Metal stocks held by Inframax Construction Limited are measured using a standard cost, this cost is based on the average cost of production. This valuation includes allowance for slow moving or obsolete items. The standard cost approximates actual costs and is reviewed annually and adjusted where necessary to reflect current conditions.

Subdivision property is stated at the lower of cost and net realisable value. Cost comprises development expenditure including engineering costs, direct professional fees, and construction costs relating to establishing utilities as well as related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price of the property less the applicable variable selling expense.

## Financial Assets

The Group classifies its financial assets into the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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 Income Statement.

Purchases and sales of investments are recognised on trade-date, the date on which Group commits to purchase or sell the asset. Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks or 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. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. 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:

### 1. *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. Derivatives are also categorised as held for trading unless they are designated as hedges. 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 Income Statement.

Derivative financial instrument assets are included in this class.

### 2. *Loans & 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 de-recognised are recognised in the Income Statement. Loans and receivables are classified as "trade and other receivables" in the Balance Sheet.

Loans made by the Group 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 Income Statement.

A provision for impairment of receivables is established when there is objective evidence that the Group 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, discounted using the effective interest method.

### 3. *Held to Maturity Investments*

Held to maturity investments are assets with fixed or determinable payments and fixed maturities that the Group 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 de-recognised are recognised in the Income Statement.

The Group does not hold any financial assets in this category.

### 4. *Available for Sale*

Available for sale financial assets are those that are not classified in any of the other categories above.

This category encompasses:

- Investments that the Group intends to hold long-term but which may be realised before maturity; and
- Shareholdings that the Group holds for strategic purposes. The Group's investment in Inframax Construction Limited is included in this category.

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 Income Statement. In the event of impairment, any cumulative losses previously recognised in equity will be removed from equity and recognised in Income Statement 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 Income Statement.

## **Impairment of Financial Assets**

At each balance sheet date the Group 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 Income Statement.

## **Derivative Financial Instruments**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group uses various instruments to manage operational risks but does not apply hedge accounting therefore the associated gains or losses of derivatives are recognised in the Income Statement. The full fair value of a derivative is classified as a non-current asset or liability when the remaining maturity of the derivative is more than 12 months and as a current asset or liability when the remaining maturity of the derivative item is less than 12 months.

## **Payables**

Trade payables and other payables are recognised when the Group becomes obligated to make future payments resulting from the purchase of goods or services.

## **Borrowings**

All loans and borrowings are initially recognised at their fair value net of transaction costs.

After initial recognition, all borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

## **Good and Service Tax (GST)**

All items in the Income Statement and Balance Sheet are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense. The Cash Flow Statement is stated inclusive of GST in accordance with NZ IAS 7.

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 Balance Sheet. 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.

## Provisions

The Group 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 Group 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 disclosed as contingent liabilities. The amount of these contingent liabilities is equal to the loan balances guaranteed.

### *Landfill Post Closure Costs*

The Group has a legal obligation under the resource consents for open and closed landfills to provide ongoing maintenance and monitoring services at the sites after closure. A provision for post closure costs is recognised as a liability when the obligation for post closure arises.

The provision is a measure based on the present value of future cash flows expected to be incurred, taking into account future events including legal requirements and known improvements in technology. The provision includes all costs associated with landfill post closure.

Amounts provided for landfill post closure are capitalised to the landfill asset where they give rise to future economic benefits to be obtained. Components of the capitalised landfill asset are depreciated over their useful lives.

The discount rate of 5.97% (2008 6.42%) is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to Group.

## Employee Benefits

### *Short-Term Benefits*

Employee benefits that the Group expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at the rate expected to apply at the time of settlement.

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.

The Group 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 the Group anticipates it will be used by staff to cover those future absences.

### *Long-Term Benefits*

#### *Retirement Gratuities*

Entitlements that are payable beyond twelve months, such as retirement gratuities have been calculated on an actuarial basis. The calculations are based on the 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 estimated future cash flows. A discount rate of 5.97% (2008 6%) and an inflation rate of 2% (2008 2%) 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.

## 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, the Group recognises finance leases as assets and liabilities in the Balance Sheet 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 the Group 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.

## Property, Plant & Equipment

Property, Plant and Equipment have been divided into 3 broad categories.

### *Operational Assets*

Operational assets are tangible assets, able to be dealt with as part of the operating strategy and include land, buildings, furniture and fittings, computer hardware, plant and equipment, library books and motor vehicles.

### *Infrastructural Assets*

Infrastructural assets are the fixed utility systems providing an ongoing service to the community, but are not generally regarded as tradable. They include roads, water reticulation systems, refuse transfer stations, sewerage reticulation systems, stormwater systems, and land under roads.

### *Restricted Assets*

Restricted assets cannot be disposed of because of legal and other restrictions but provide a benefit or service to the community. These are mainly assets associated with reserves vested under the Reserves Act, endowments and other property held in Trust for specific purposes.

Property, plant and equipment are shown at cost or valuation, less accumulated depreciation and impairment losses.

### *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 the Group 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.

### *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 income statement. When revalued assets are sold, the amounts included in the asset revaluation reserves in respect of those assets are transferred to retained earnings.

### *Subsequent Costs*

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

### *Depreciation*

Depreciation is provided on a straight-line basis on all property, plant and equipment other than land and land under roads at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives.

### *Operational Assets*

Operational assets are depreciated on a straight line basis. The estimated useful lives are as follows:

Buildings	40-100 years
Plant and Equipment	2-15 years
Motor Vehicles	5-15 years
Furniture and Fittings	2-5 years
Computers	2-5 years
Library books	3-7 years
Archive books	Not depreciated

## Infrastructural Assets

Infrastructural assets are depreciated on a straight line basis. The estimated useful lives are as follows:

### Roads

Top surface	2-16 years
Base course	40-50 years
Sub base	60-100 years
Formation and running course	Not depreciated
Culverts – timber and other	40-80 years
Signs	15 years
Street Lights and poles	15-60 years
Bridges	70-100 years
Footpath surface and base	35-80 years

### Water Reticulation

Pipes, hydrant, valves	60-100 years
Pump station, reservoirs	25-100 years

### Sewerage Reticulation

Pipes and manholes	60-80 years
Pump station	15-100 years
Treatment plant	10-80 years

### Stormwater Systems

Pipes, cesspits	60-100 years
Flood Control Systems	10-80 years

### Refuse Systems

Retaining walls	70-90 years
Drainage	70-75 years
Signs	9 years
Kerb and channelling	60-75 years
Truck wash and weighbridge	28 years

The depreciation rates are applied at a component level and are dependent on the remaining useful life of each component.

### Restricted Assets

Restricted assets are depreciated on a straight line basis as follows:

Buildings	40-100 years
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### Capital Work in Progress

Capital work in progress is not depreciated.

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

### Revaluation

Those assets that are revalued are valued on a three yearly valuation cycle on the basis described below. All other asset classes are carried at depreciated historical cost. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value. If there is a material difference, then off cycle asset classes are revalued.

### Revaluation of Operational Assets

Land and buildings are stated at fair value. Quotable Value New Zealand (independent Registered Valuers) valued the Group's land and buildings on 1 July 2006 and A Doyle and K Wrenn (independent Registered Valuers) valued Inframax Construction Ltd's land and buildings on 30 June 2009. Land has been valued as if vacant and incorporates the influences of size, contour, quality, location, zoning, designation and current and potential usage. Where the fair value of buildings can be determined by reference to the price in an active market for the same asset or a similar asset, the fair value of the asset is determined using this information. Where fair value of the asset is not able to be reliably determined using market-based evidence, depreciated replacement cost is considered to be the most appropriate basis for determination of the fair value. Subsequent additions are at cost less accumulated depreciation. Library books were revalued at 1 July 2004 by North Langley and Associates (Registered Valuers). Subsequent additions are at cost less accumulated depreciation.

### *Revaluation of Infrastructural Assets*

Infrastructural assets are stated at fair value determined based on depreciated replacement cost by Maunsell Limited (independent Registered Valuers) as at 1 July 2006. Additions to the infrastructural buildings are valued at cost less accumulated depreciation. Infrastructural land was valued at fair value on 30 June 2006 by Quotable Value New Zealand (independent Registered Valuers). Land under roads was revalued at fair value by suitably qualified staff at 1 July 2001 with values verified by Doyle Valuations Ltd (independent Registered Valuers). Land under roads is not revalued.

### *Revaluation of Restricted Assets*

Restricted assets cannot be disposed of because of legal or other restrictions and provide a benefit or service to the community. They are principally reserves vested under the Reserves Act. Quotable Value New Zealand (independent Registered Valuers) valued restricted assets on 1 July 2006 at fair value based on market based evidence.

### *Accounting for Revaluations*

The Group accounts for revaluations of property, plant and equipment on a class of asset basis. Any revaluation surpluses and deficits are recognised in the Statement of Movements in Equity and credited to the Revaluation Reserve for that class of asset. Where a revaluation of a class of assets results in a revaluation deficit, and the amount of the deficit is greater than an existing revaluation reserve, the revaluation deficit is recognised in the Income statement. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the Income Statement will be recognised first in the Income Statement up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

## **Intangible Assets**

### *Software*

Computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The costs associated with maintaining computer software are recognised as an expense as incurred. The costs associated with the development and maintenance of the Group's website are recognised as an expense as incurred.

### *Goodwill*

Goodwill is initially measured at its cost, being the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill on acquisition of subsidiaries is included in intangible assets by applying the purchase method. Goodwill on acquisition of associates is included in investments in associates by applying the equity method.

Goodwill arising in business combinations is not amortised. Instead, goodwill is tested for impairment annually or where there is an indication that it is impaired. After initial recognition, the Group measures goodwill at cost less any accumulated impairment losses. An impairment loss recognised for goodwill will not be reversed in any subsequent period.

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination, in which the goodwill arose.

### *Easements*

Easements are recognised at cost, being the costs directly attributable in bringing the asset to its intended use. Easements have an indefinite useful life and are not amortised, but are instead tested for impairment annually.

### *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 de-recognised. The amortisation charge for each period is recognised in the Income Statement.

The useful lives and associated amortisation rates for software have been estimated as follows:

Computer software	2 to 5 years	20% to 50%
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## **Forestry Assets**

Forestry Assets are independently valued at fair value less point of sale costs by North Langley and Associates (Registered Valuers) as at 30 June 2006. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined pre-tax rate.

The costs to maintain the forestry assets are included in the Income Statement.

Gains or losses arising on initial recognition of forestry assets at fair value less estimated point of sale costs. The change in fair value is recognised in the Income Statement.

## **Non-current Assets Held For Sale**

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. This condition is regarded as met only when the sale is highly probable and



the assets (or disposal group) is available for immediate sale in its present condition and the sale of the asset (or disposal group) is expected to be completed within one year from the date of classification. 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 Income Statement.

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.

### **Investment Property**

Investment properties consist of miscellaneous housing properties. Investment properties are held primarily for capital growth, rental or similar income. 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, the Group 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 Income Statement.

Investment properties were valued by Quotable Value New Zealand (Registered Valuers) on 30 June 2009.

### **Overhead Allocation**

All overhead costs have been allocated to significant activities.

Overhead costs are allocated on a pro-rata basis to those activities of Group which are funded by rates.

### **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 or where there is an indication that the asset is impaired. 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 revalued 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 Income Statement.

For assets not carried at a revalued amount, the total impairment loss is recognised in the Income Statement.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in Income Statement, a reversal of the impairment loss is also recognised in the Income Statement.

For assets not carried at a revalued amount (other than goodwill) the reversal of an impairment loss is recognised in the Income Statement.

### **Equity**

Equity is the community's interest in the Group and is measured as the difference between total assets and total liabilities. Equity is dis-aggregated and classified into a number of reserves.

The components of equity are:

- Retained earnings
- Other reserves
- Asset revaluation reserves

## Reserves

Restricted reserves are a component of equity generally representing a particular use to which various parts of equity have been assigned. Reserves may be legally restricted or created by the Group. Restricted reserves are those subject to specific conditions accepted as binding by the Group and which may not be revised by the Group without reference to the Courts or a third party. Transfers from these reserves may be made only for certain specified purposes or when certain specified conditions are met.

Also included in restricted reserves are reserves restricted by Group decision. Transfers to and from these reserves are at the discretion of the Group.

## Statement of Cash Flows

The Cash Flow Statement is prepared inclusive of GST. For the purpose of the Cash Flow Statement cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Group invests as part of its day-to-day cash management net of bank overdrafts.

*Operating activities* include cash received from all income sources of the Group and record the cash payments made for the supply of goods and services. Agency transactions (e.g. the collection of regional Group rates) are recognised as receipts and payments in the Statement of Cash Flows given that they flow through the Group's main bank account.

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

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

## Budget Figures

The budget figures are those approved by the Group 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 the Group for the preparation of the financial statements.

## Critical Accounting Estimates & Judgements

In preparing these financial statements the Group 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 16 discloses an analysis of the exposure of the Group 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 discounted replacement cost valuations over infrastructural assets. These include:

- the physical deterioration and condition of an asset, for example the Group 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 stormwater, wastewater and water supply pipes that are underground. This risk is minimised by Group 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 and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then the Group could be over or under estimating the annual depreciation charge recognised as an expense in the Income Statement. To minimise this risk the Group'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 Group's asset management planning activities, which gives the Group further assurance over its useful life estimates.

Experienced independent valuers perform the Group's infrastructural asset revaluations.

### *Property, plant and equipment useful lives and residual values*

At each balance date the Group reviews the useful lives and residual values of its property, plant and equipment. Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires the Group to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by the Group, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will impact on the depreciable amount of an asset, therefore impacting on the depreciation expense recognised in the Income Statement, and carrying amount of the asset in the

Balance Sheet. The Group minimises the risk of this estimation uncertainty by:

- physical inspection of assets;
- asset replacement programs;
- review of second hand market prices for similar assets; and
- analysis of prior asset sales.

The Group has not made significant changes to past assumptions concerning useful lives and residual values. The carrying amounts of property, plant and equipment are disclosed in note 18.

### Estimating Construction Contract Revenue

Assessment of projects on a percentage of completion basis, in particular with regard to accounting for variations, the timing of profit recognition and the amount of profit recognised. The amount recognised in revenue is disclosed in note 2, and the receivable in note 12 and the payable in note 14 and 16.

### Impairment of Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which the goodwill has been allocated. The value in use calculation requires the company to estimate the future cash flows expected to arise from cash generating units and a suitable discount rate in order to calculate the present value. Details are provided in note 19.

### Valuation of Investment in Inframax Construction Ltd

The fair value of the Council's investment in Inframax Construction Ltd is based on projected earnings for 2010 using a multiple of between 3.75 and 4.25. The 2010 budget was compared against the historical level of EBITDA achieved adjusted for known changes after discussion with Inframax's management. The earnings multiple was based on evidence from public listed companies in Australasia which operate similar businesses adjusted for dependence on one off contracts, historical volatility of earnings, future work prospects, market position and size, and the fact that Inframax is an unlisted company.

Valuation techniques provide a range of values. The Council has used the mid point to value its investment in Inframax. Refer to note 10 for the carrying value of the Council's investment in Inframax.

### Deferred Tax Asset

Determining whether or not to recognise a deferred tax asset requires estimation of future cash flows. Any significant deviation from the assumptions used in forecasting future cash flows may effect the carrying value of the asset.

The evidence supporting its recognition and the outstanding balance at balance date is disclosed in Note 7.

### Net Realisable Value of property Held as Inventory

Management have obtained a market valuation of the likely sales prices of the sites held for sale in the Te Kuiti subdivision. The Directors have then estimated the required discount factor to adjust the market selling prices down to net realisable value for financial reporting purposes. This discount factor used is a estimate only based on the best information available at the time and does involve a degree of uncertainty. Refer to note 11 for the carrying value of property held as inventory.

### Changes in Accounting Policy

There have been no changes in accounting during the year.

### Note 1: Rates Revenue

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
General Rates	2,246	5,086	2,246	5,086
Uniform Annual General Charges	2,944	1,984	2,944	1,984
Targeted Rates - Wastewater and Sewerage	1,270	1,466	1,270	1,466
Targeted Rates - Water	1,203	1,177	1,203	1,177
Targeted Rates - Waste	728	815	728	815
Targeted Rates - Other	3,893	267	3,893	267
Rates Penalties	221	170	221	170
<b>Sub Total</b>	<b>12,505</b>	<b>10,965</b>	<b>12,505</b>	<b>10,965</b>
Less Rates paid on Council properties	(174)	(164)	(174)	(164)
<b>Total Rates Revenue</b>	<b>12,331</b>	<b>10,801</b>	<b>12,331</b>	<b>10,801</b>

**Note 2: Other Revenue**

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
Interest Revenue	30	22	75	84
Income from Construction Contracts	0	0	44,685	42,471
Dividend Income	0	0	0	0
Land Transport New Zealand Government Grants	6,337	5,967	6,337	5,967
Ministry of Health Government Grants	(34)	2,065	(34)	2,065
Subvention Received	0	20	0	0
Other Revenue	2,708	1,639	4,116	3,703
Property Rentals	327	281	327	281
Rental Income from Investment Properties	11	11	11	11
<b>Total Other Revenue</b>	<b>9,379</b>	<b>10,005</b>	<b>55,517</b>	<b>54,582</b>

Council has entered into an agreement with the Ministry of Health to provide a subsidy for the construction of the Piopio wastewater system. The subsidy is subject to Council receiving resource consent and completion of works within two years of the date of the funding agreement. The Council has yet to obtain the resource consent and this process is currently underway. Council considers it unlikely that the resource consent will not be granted. The construction has been delayed and is expected to be completed by June 2011. Council has sought an extension of the consent conditions from the Ministry of Health.

**Note 3: Other Gains/(Losses)**

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
Gain/(Loss) in change in fair value of investment property	499	0	499	0
Gain/(Loss) on land and building revaluation	0	0	(13)	0
Gain/(Loss) in relation to available for sale financial assets	(3,313)	0	0	0
<b>Total Other Gains/(Losses)</b>	<b>(2,814)</b>	<b>0</b>	<b>486</b>	<b>0</b>

**Note 4: Employee Benefit Expenses**

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
Salaries and Wages	3,067	2,645	19,394	22,721
Increase/(Decrease) in Employee Benefit Liabilities	38	116	(118)	151
<b>Total Employee Benefit Expenses</b>	<b>3,105</b>	<b>2,761</b>	<b>19,276</b>	<b>22,872</b>

**Note 5: Finance Costs**

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
Interest on Bank Borrowings	2,266	2,127	3,236	3,489
Interest on Finance Leases	20	18	32	18
Discount Unwinding on Provision (note 16)	26	(11)	26	(11)
<b>Total Finance Costs</b>	<b>2,312</b>	<b>2,134</b>	<b>3,294</b>	<b>3,496</b>

**Note 6: Other Expenditure**

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
Audit Fees for Financial Statements Audit	102	98	168	171
Audit Related Fees for Assurance Related Services	79	26	79	32
Directors Fees	0	0	117	125
Donations	0	0	0	0
Grants	182	111	182	111
Impairment of Subdivision Property	0	0	370	909
Impairment of Goodwill	0	0	2,526	0
Insurance Expenses	207	125	567	529
Inventories	0	0	5,050	7,718
Lease Expenses	75	80	2,598	2,816
Increase in Provision for Doubtful Debt	165	206	258	206
Remuneration of Elected Members	200	204	200	204
(Gain)/Loss on Sale or Disposal of Property, Plant and Equipment	105	919	(132)	967
Subscriptions	45	68	64	111
(Gain)/Loss on Derivatives	0	0	494	94
Road Maintenance	4,179	4,407	4,179	4,407
Direct Contract Expenses	0	0	14,949	8,716
Other Expenditure	6,428	6,235	13,485	6,922
Investment Property Expenditure	13	19	13	13
<b>Total Other Expenditure</b>	<b>11,780</b>	<b>12,498</b>	<b>45,167</b>	<b>34,051</b>

The audit related services relates to the audit of the 2009-2019 Long Term Plan. (2008: Audit of the opening balance sheet and comparatives under NZ IFRS and the audit of the 2007/08 Exceptions Annual Plan and review of the net present value lease calculations for Inframax Construction Limited).

**Note 7: Tax**

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
<i>Income Tax Recognised in the Income Statement</i>				
Current Tax	-	0	2	(53)
Deferred Tax	(63)	(100)	(1,302)	(863)
	<b>(63)</b>	<b>(100)</b>	<b>(1,300)</b>	<b>(916)</b>

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
<i>Reconciliation of Accounting Profit/(loss) Before Tax and Income Tax Expense</i>				
Deficit before Taxation	(2,284)	(321)	(5,349)	(949)
Prima facie taxation at 30% (2008: 33%)	(685)	(106)	(1,605)	(313)
Taxation effect of non deductible expenditure	622	29	375	(362)
Non taxable income	0	0	(69)	0
Imputation credit adjustment	0	7	0	70
Under/(over) provided in prior periods	0	(30)	(1)	(311)
<b>Taxation Expense</b>	<b>(63)</b>	<b>(100)</b>	<b>(1,300)</b>	<b>(916)</b>

The tax rate used in the above reconciliation is the corporate tax rate of 30% (2008: 33%). The corporate tax rate changed from 33% to 30% effective from 1 April 2008.

Deferred tax balances are as follows;

	Property, Plant and Equipment	Provisions and Payables	Receivables and Prepayments	Tax Losses Carried Forward	Total Deferred Tax Asset / (Liability)
<b>Council 2009</b>					
Opening Balance	0	0	0	100	100
(Charged)/Credited to Income Statement	0	0	0	63	63
<b>Closing Balance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>163</b>	<b>163</b>
<b>Council 2008</b>					
Opening Balance	0	0	0	0	0
(Charged)/Credited to Income Statement	0	0	0	100	100
<b>Closing Balance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>100</b>	<b>100</b>
<b>Group 2009</b>					
Opening Balance	65	567	(258)	100	474
(Charged)/Credited to Income Statement	(273)	996	516	63	1,302
(Charged)/Credited to Directly to Equity	(55)	0	0	0	(55)
<b>Closing Balance</b>	<b>(263)</b>	<b>1,563</b>	<b>258</b>	<b>163</b>	<b>1,721</b>
<b>Group 2008</b>					
Opening Balance	(466)	312	(235)	0	(389)
(Charged)/Credited to Income Statement	531	255	(23)	100	863
<b>Closing Balance</b>	<b>65</b>	<b>567</b>	<b>(258)</b>	<b>100</b>	<b>474</b>

Council believes, based on profit projections from its subsidiaries that it is probable that future taxable profits will be available to offset the tax losses carried forward and have accordingly recognised a deferred tax asset.

#### Imputation Credit Account

	2009 Group Actual \$000's	2008 Group Actual \$000's
Balance 1 July	4,241	4,438
Income tax payments during the year	18	138
Income Tax refunds during the year	(515)	(250)
Transfers from other tax types	(328)	(85)
<b>Closing Balance</b>	<b>3,416</b>	<b>4,241</b>

**Note 8: Equity**

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
<b>Retained Earnings</b>				
Balance at 1 July	196,741	195,466	197,848	196,385
Transfer between Reserves	2,010	1,496	2,010	1,496
Surplus/(Deficit) for the year	(2,221)	(221)	(4,049)	(33)
<b>Balance at 30 June</b>	<b>196,530</b>	<b>196,741</b>	<b>195,809</b>	<b>197,848</b>
<b>Other Reserves</b>				
<b>Council Created Reserves</b>				
Balance at 1 July	2,764	3,780	2,764	3,780
Transfers between Reserves	(1,908)	(1,016)	(1,908)	(1,016)
<b>Balance at 30 June</b>	<b>856</b>	<b>2,764</b>	<b>856</b>	<b>2,764</b>
<b>Available for sale Reserves</b>				
Balance at 1 July	7,641	13,091	4	4
Valuation Gains/(Losses) taken to Equity	(7,637)	(5,450)	0	0
<b>Balance at 30 June</b>	<b>4</b>	<b>7,641</b>	<b>4</b>	<b>4</b>
<b>This is made up of:</b>				
Investment in Inframax Construction Ltd	0	7,637	0	0
Investment in Local Govt. Insurance Company	4	4	4	4
<b>Total Available for sale Reserves</b>	<b>4</b>	<b>7,641</b>	<b>4</b>	<b>4</b>
<b>Total Other Reserves</b>	<b>860</b>	<b>10,405</b>	<b>860</b>	<b>2,768</b>
<b>Revaluation Reserves</b>				
Balance at 1 July	33,614	34,094	33,941	34,421
Transfer to Retained Earnings on Asset Disposal	(102)	(480)	(102)	(480)
Related Income Tax	0	0	(55)	0
Revaluation Gains/(Losses)	0	0	395	0
<b>Balance at 30 June</b>	<b>33,512</b>	<b>33,614</b>	<b>34,179</b>	<b>33,941</b>
<b>This is made up of:</b>				
Infrastructural Buildings	1,071	1,071	1,071	1,071
Infrastructural Land	788	788	788	788
Water Assets	1,436	1,490	1,436	1,490
Roading Assets	14,641	14,669	14,641	14,669
Sewerage Assets	912	912	912	912
Land Drainage Assets	3,293	3,293	3,293	3,293
Refuse Assets	226	226	226	226
Operational Land	3,848	3,848	4,271	3,963
Operational Buildings	629	629	873	841
Restricted Land	5,885	5,885	5,885	5,885
Restricted Buildings	440	440	440	440
Library Books	343	363	343	363
<b>Total Revaluation Reserves</b>	<b>33,512</b>	<b>33,614</b>	<b>34,179</b>	<b>33,941</b>

Council created reserves are a combination of depreciation reserves and transfers of Surplus or Deficit from operations. The purpose of the reserves is to maintain balances of funded depreciation for future renewal of assets and to hold revenue streams in separate balances as required by Council.

Available for sale Reserves consists of valuation gains associated with Council's investments, classified as Available for Sale.

**Note 9: Cash and Cash Equivalents**

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
Cash at bank and in hand	219	356	253	422
<b>Total Cash and Cash Equivalents</b>	<b>219</b>	<b>356</b>	<b>253</b>	<b>422</b>

Cash and bank overdrafts include the following for the purposes of the Statement of Cash Flows:

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
Cash at bank and in hand	219	356	253	422
Bank Overdrafts	0	0	(2,913)	(4,080)
<b>Total Cash and Cash Equivalents</b>	<b>219</b>	<b>356</b>	<b>(2,660)</b>	<b>(3,658)</b>

**Note 10: Other Financial Assets**

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
<b>Current</b>				
Loans and Advances	1	1	1	1
<b>Total Current Investments</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Non Current</b>				
Loans and Advances	29	31	29	31
Shares in Companies	7	7	7	7
Shares in Subsidiary	6,400	17,350	0	0
<b>Total Non-Current Investments</b>	<b>6,436</b>	<b>17,388</b>	<b>36</b>	<b>38</b>
<b>Total Investments</b>	<b>6,437</b>	<b>17,389</b>	<b>37</b>	<b>39</b>

Shares in Companies

Council is a shareholder in Local Authority Shared Services Ltd (LASS). LASS is jointly owned by 13 local authorities and has been set up to develop shared service initiatives, including a valuation database. Council also holds 2,470 shares in NZ Local Government Insurance Company (2008: 2,470).

Shares in Subsidiaries

Council has 100% shareholding in Inframax Construction Ltd (2008:100%). The principal activity of the company is roading. The balance date of the company is 30 June.

**Valuation of Investment in Inframax Construction Ltd**

The Council measures its investment in Inframax Construction Limited at fair value in the Council only financial Statements. The valuation was performed by PricewaterhouseCoopers as at 30 June 2009.

The fair value of the Council's investment in Inframax Construction Ltd is based on projected earnings for 2010 using a multiple of between 3.75 and 4.25 (2008: 4.0-4.5). The 2010 budget was compared against the historical level of EBITDA Achieved adjusted for known changes after discussion with Inframax's management. The earnings multiple was based on evidence from public listed companies in Australasia which operate similar businesses adjusted for dependence on one off contracts, historical volatility of earnings, future work prospects, market position and size, and the fact that Inframax is an unlisted company. Valuation techniques provide a range of values. The Council has used the mid point to value its investment in Inframax.



**Note 11: Inventories**

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
Subdivision Property	0	0	1,400	1,912
Metal Stockpiles and Landfill Stock	82	87	1,687	2,072
Fuels, Spares and Consumables	6	0	218	287
<b>Total Inventories</b>	<b>88</b>	<b>87</b>	<b>3,305</b>	<b>4,271</b>

Some inventories are subject to retention of title clause.

The cost of inventories in note 6 includes \$92,227 in respect of write-downs of inventory to net realisable value (2008 : Nil).

The Group through its subsidiary has completed a subdivision in Te Kuiti (Parkside Subdivision). Sections are currently being marketed by Century 21 real estate agents. Titles were made available in September 2008. An independent market valuation of the sections was prepared for Inframax in April 2009. The Directors have since determined that a further impairment should be applied to take account of current conditions in the domestic real estate market. After provision for anticipated selling/marketing and legal expenses, an impaired value of \$1,400,000 has been determined as the fair value of the subdivision at 30 June 2009. An impairment loss of \$370,000 (2008: \$909,000) has been recognised (refer to note 6).

**Note 12: Trade and Other Receivables**

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
Construction Contracts Accrued Income	0	0	316	560
Rates Receivables *	1,679	1,221	1,679	1,221
Related Party Receivables	6	43	0	0
General Debtors	2,277	5,027	4,588	9,658
Amounts due from Customers for Contract Work	0	0	2,798	3,071
Retentions Receivable	0	0	659	704
Prepayments	66	36	235	197
	<b>4,028</b>	<b>6,327</b>	<b>10,275</b>	<b>15,411</b>
Provision for Doubtful Debts	(650)	(543)	(743)	(543)
<b>Total Trade and Other Receivables</b>	<b>3,378</b>	<b>5,784</b>	<b>9,532</b>	<b>14,868</b>

\* Included in the rates receivable figure is an amount of \$472,567 (2008: \$377,219) relating to rate penalties.

## Impairment

As of 30 June 2009 and 2008, all overdue receivables, have been assessed for impairment and appropriate provisions applied. The Council holds no collateral as security or other credit enhancements over receivables that are either past due or impaired.

The status of receivables at 30 June 2009 and 2008 for both Council and Group are detailed below:

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
<b>Gross Receivables</b>				
Current	2,961	4,649	8,295	11,252
Past due 1-30 days	40	293	40	2,160
Past due 31-60 days	51	342	613	499
Past due 61-90 days	112	8	144	85
Past due > 90 days	864	1,035	1,183	1,415
<b>Total Gross Receivables</b>	<b>4,028</b>	<b>6,327</b>	<b>10,275</b>	<b>15,411</b>
<b>Impairment of Receivables</b>				
Current	0	0	0	0
Past due 1-30 days	0	(20)	0	(20)
Past due 31-60 days	0	0	0	0
Past due 61-90 days	0	(6)	0	(6)
Past due > 90 days	(650)	(517)	(743)	(517)
<b>Total Impairment of Receivables</b>	<b>(650)</b>	<b>(543)</b>	<b>(743)</b>	<b>(543)</b>
<b>Net Receivables</b>				
Current	2,961	4,649	8,295	11,252
Past due 1-30 days	40	273	40	2,140
Past due 31-60 days	51	342	613	499
Past due 61-90 days	112	2	144	79
Past due > 90 days	214	518	440	898
<b>Total Net Receivables</b>	<b>3,378</b>	<b>5,784</b>	<b>9,532</b>	<b>14,868</b>

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
Individual Impairment	105	96	198	96
Collective Impairment	545	447	545	447
<b>Total Provision for Impairment</b>	<b>650</b>	<b>543</b>	<b>743</b>	<b>543</b>

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
Past due 1-30 days	0	0	0	0
Past due 31-60 days	0	0	0	0
Past due 61-90 days	0	7	0	7
Past due > 90 days	105	89	198	89
<b>Total Provision for Individual Impairment</b>	<b>105</b>	<b>96</b>	<b>198</b>	<b>96</b>

	<b>2009 Council Actual \$000's</b>	<b>2008 Council Actual \$000's</b>	<b>2009 Group Actual \$000's</b>	<b>2008 Group Actual \$000's</b>
Balance at 1 July	(543)	(448)	(543)	(448)
Additional provisions made during the year	(165)	(206)	(258)	(206)
Receivables written off during the period	58	111	58	111
<b>Balance at 30 June</b>	<b>(650)</b>	<b>(543)</b>	<b>(743)</b>	<b>(543)</b>

### **Note 13: Derivative Financial Instruments**

The full fair value of a derivative is classified as a non-current asset or liability if the remaining maturity of the derivative is more than 12 months and is a current asset or liability if the maturity of the derivative is less than 12 months.

The Group, through Council's ownership of Inframax Construction Ltd, has derivative financial instruments. These instruments consist of the following:

#### **Derivative Financial Instrument Asset**

##### **Diesel Contracts**

The notional principal amounts of the outstanding diesel contracts at 30 June 2009 were \$nil (2008: \$37,784). The diesel contracts were terminated on 29 August 2008.

#### **Derivative Financial Instrument Liability**

##### **Interest Rate Swaps**

The notional principal amounts of the outstanding interest rate swaps contracts at 30 June 2009 were \$471,766 liability (2008: \$131,468 liability). At 30 June 2009 the floating rate for the applicable loan was 8.29% (2008 10.05%).

### **Note 14: Trade and Other Payables**

	<b>2009 Council Actual \$000's</b>	<b>2008 Council Actual \$000's</b>	<b>2009 Group Actual \$000's</b>	<b>2008 Group Actual \$000's</b>
Trade Payables	1,725	2,185	6,981	8,607
Related Party Payables	956	3,093	44	0
Deposits and bonds	149	102	149	102
Retention Monies	272	159	272	159
Revenue in Advance	150	142	150	142
Councillors and Directors Fees Payable	7	15	7	15
Interest Accrual	94	113	94	113
Amounts due to Customers for Contract Work	0	0	196	230
<b>Total Trade and Other Payables</b>	<b>3,353</b>	<b>5,809</b>	<b>7,893</b>	<b>9,368</b>

Trade and other payables are non-interest bearing and are normally settled on 30 day terms, therefore the carrying value of trade and other payables approximates their fair value.

**Note 15: Borrowings**

	<b>2009 Council Actual \$000's</b>	<b>2008 Council Actual \$000's</b>	<b>2009 Group Actual \$000's</b>	<b>2008 Group Actual \$000's</b>
<b>Current</b>				
Secured Loans	6,100	8,610	13,616	18,153
Lease Liabilities	68	69	95	90
<b>Total Current</b>	<b>6,168</b>	<b>8,679</b>	<b>13,711</b>	<b>18,243</b>
<b>Non Current</b>				
Secured Loans	29,011	21,111	29,011	21,355
Lease Liabilities	104	172	104	200
<b>Sub Total</b>	<b>29,115</b>	<b>21,283</b>	<b>29,115</b>	<b>21,555</b>
<b>Total Borrowings</b>	<b>35,283</b>	<b>29,962</b>	<b>42,826</b>	<b>39,798</b>

**Council**

The current portion of secured loans as at 30 June 2009 for the Council is made up of two amounts: \$1,300,000 drawn down under a wholesale advance facility and \$4,800,000 term loan which is due to expire on 15 December 2009. The wholesale advance facility has a limit of \$2,000,000 (2008: \$6,000,000). There was \$700,000 (2008: \$2,090,000) available on this facility as at 30 June 2009. The Council's bankers, Westpac has been consulted during the strategic planning of the Council through the Annual Plan process and the LTCCP. Subsequent to year end Westpac extended the facility to 31 July 2012 and increased the limit from \$2,000,000 to \$5,000,000 and approved two wholesale term loans of \$2,000,000 each, one to fund the equity injection of Inframax Construction Limited and one to finance capital works projects. In addition subsequent to year end the Council granted Westpac a deed of charge over all rates revenue and rates receivables.

**Group**

The current portion of secured loans as at 30 June 2009 for the Group is made up of the Council loans noted above and bank loans issued to Inframax Construction Limited and Independent Roadmarkers Limited. As part of Inframax Construction Limited's security arrangements with Westpac, Inframax Construction Limited is required to meet the banks covenant requirements on a quarterly basis. At balance date, Inframax Construction Limited a subsidiary of the Group was in breach of all three of its banking covenants. Accordingly, the interest bearing borrowings for Inframax Construction Limited have been reclassified as current pursuant to NZ IFRS (NZ IAS 1). The carrying value of non-current loans reclassified to current borrowings is \$7,272,205 (2008: \$9,543,003). Both Westpac and the Board of Directors of Inframax Construction Limited are aware of the breaches and are committed to rectifying the breaches in the coming financial year through negotiation and business process improvements. Since balance date the banking covenants have been re-negotiated with Westpac effective from 1 July 2009 and Inframax Construction Limited have agreed to communicate with the bank certain matters and obtain approval from Westpac prior to payment of dividends. It was also agreed with Westpac that the Council would inject \$2,000,000 equity into Inframax Construction Limited. The equity injection was completed on 28 August 2009.

At 30 June 2009, Inframax Construction Ltd had a multi option credit line facility of \$3,750,000 (2008: \$3,250,000) of which \$835,910 (2008:0) was available at 30 June 2009. The multi option credit line facility matures on 31 March 2011.

**Security**

The overdraft facility and loans of Inframax Construction Ltd are secured by way of debenture over the assets of the business.

The repayment terms for borrowings are:

	<b>2009 Council Actual \$000's</b>	<b>2008 Council Actual \$000's</b>	<b>2009 Group Actual \$000's</b>	<b>2008 Group Actual \$000's</b>
<b>Repayment Terms</b>				
Payable in less than 1 year	6,168	8,679	13,711	18,243
Payable in 1-2 years	8,383	4,868	8,383	5,132
Payable in 2-5 years	20,732	16,415	20,732	16,423
<b>Total</b>	<b>35,283</b>	<b>29,962</b>	<b>42,826</b>	<b>39,798</b>

## Analysis of Finance Lease Liabilities

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
Total Future Minimum Lease Liability	221	313	251	375
Less Future Finance Charges	(49)	(72)	(52)	(85)
<b>Present Value of Minimum Lease Payments</b>	<b>172</b>	<b>241</b>	<b>199</b>	<b>290</b>
Not later than 1 year	68	69	95	90
Later than 1 Year but not more than 5 years	104	172	104	200
<b>Present Value of Minimum Lease Payments</b>	<b>172</b>	<b>241</b>	<b>199</b>	<b>290</b>
<b>Lease liabilities</b>				
Weighted average interest rates	11.76%	10.95%	11.76%	10.95%

### Variations from/Changes to the Policy on Liability Management

Council's Policy on Liability Management provides the parameters under which it will manage its public debt and other borrowings. There have been no significant variations or changes to the policy during the year.

#### Note 16: Provisions

##### Provision for Landfill Aftercare

Council owns the Rangitoto Landfill as well as a number of closed landfill sites. The closed landfill sites are located at Te Kuiti, Mokau, Piopio, Aria and Benneydale. Council has closure and post closure responsibilities for these landfills. The responsibility for closed landfills consists of obligations imposed under the resource consents issued. Non compliance with these consents may lead to prosecution under the Resource Management Act.

Closure responsibilities include final cover application and vegetation, completing facilities for leachate collection, water quality and gas monitoring.

Post-closure responsibilities include leachate, water and gas monitoring and remedial measures such as ongoing site maintenance for drainage systems, final cover and vegetation.

Council has resource consents for all sites except Mokau Landfill. Council has the responsibility under the resource consent to provide ongoing maintenance and monitoring of the landfill after the sites are closed.

The Rangitoto Landfill has a remaining capacity of 400,000 cubic metres. The estimated remaining life of the landfill is 27 years. 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 is discounted using a discount rate of 5.97% (2008: 6.42%).

##### Provision for Contract Rework

A provision for contract rework is recognised for certain contracts where either the work is not finished or that the work has not been completed to a satisfactory level. The provision is recognised in the Income Statement within Other Expenditure. The balance at 30 June 2009 is expected to be utilised in the following financial year.

##### Provision for Riskpool Insurance Calls

RiskPool is a mutual fund created and owned by local authorities to provide long term, affordable legal and professional liability protection. The purpose of RiskPool is to replace conventional Public Liability and Professional Indemnity insurance products with discretionary mutual protection from risk. Waitomo District Council is a member of Riskpool.

RiskPool has been under financial pressure as a result of the leaky building issue, where Councils and RiskPool have found themselves as respondents to legal claims from property owners. Council has been advised that the Board of RiskPool will be making a Call on member Councils for a shortfall in the mutual pool's funds and therefore Council has provided for two future calls being made by Riskpool.

##### Provision for Restructuring

A provision for restructuring has been recognised for employee redundancy costs associated with the restructuring currently being undertaken by Inframax Construction Limited in the Te Kuiti and New Plymouth regions. These redundancy payments were made during the month of July 2009.

	<b>2009 Council Actual \$000's</b>	<b>2008 Council Actual \$000's</b>	<b>2009 Group Actual \$000's</b>	<b>2008 Group Actual \$000's</b>
<b>Provision for Landfill Aftercare</b>				
<b>Balance at 1 July</b>	459	569	459	569
Additional Provisions made during the year	149	184	149	184
Amounts used during the year	(18)	(6)	(18)	(6)
Discount unwinding	26	(11)	26	(11)
Unused amounts reversed	0	(277)	0	(277)
<b>Balance at 30 June</b>	<b>616</b>	<b>459</b>	<b>616</b>	<b>459</b>
<b>Provision for Contract Rework</b>				
<b>Balance at 1 July</b>	0	0	184	0
Additional Provisions made during the year	0	0	59	184
Amounts used during the year	0	0	(30)	0
Discount unwinding	0	0	0	0
Unused amounts reversed	0	0	(69)	0
<b>Balance at 30 June</b>	<b>0</b>	<b>0</b>	<b>144</b>	<b>184</b>
<b>Provision for Riskpool Insurance Liability</b>				
<b>Balance at 1 July</b>	0	0	0	0
Additional Provisions made during the year	39	0	39	0
Amounts used during the year	0	0	0	0
Discount unwinding	0	0	0	0
Unused amounts reversed	0	0	0	0
<b>Balance at 30 June</b>	<b>39</b>	<b>0</b>	<b>39</b>	<b>0</b>
<b>Provision for Restructuring</b>				
<b>Balance at 1 July</b>	0	0	0	0
Additional Provisions made during the year	0	0	154	0
Amounts used during the year	0	0	0	0
Discount unwinding	0	0	0	0
Unused amounts reversed	0	0	0	0
<b>Balance at 30 June</b>	<b>0</b>	<b>0</b>	<b>154</b>	<b>0</b>
<b>Total Provisions</b>	<b>655</b>	<b>459</b>	<b>953</b>	<b>643</b>
<b>This is made up of:</b>				
Current	37	13	335	197
Non Current	618	446	618	446
<b>Total Provisions</b>	<b>655</b>	<b>459</b>	<b>953</b>	<b>643</b>

**Note 17: Employee Entitlements**

	<b>2009 Council Actual \$000's</b>	<b>2008 Council Actual \$000's</b>	<b>2009 Group Actual \$000's</b>	<b>2008 Group Actual \$000's</b>
Accrued Pay	77	61	437	410
Annual Leave and Sick Leave	252	234	1,113	1,235
Gratuities and Retirement Provision	76	72	122	145
<b>Total Employee Entitlements</b>	<b>405</b>	<b>367</b>	<b>1,672</b>	<b>1,790</b>
This is made up of:				
Current	344	308	1,565	1,657
Non Current	61	59	107	133
<b>Total Employee Entitlements</b>	<b>405</b>	<b>367</b>	<b>1,672</b>	<b>1,790</b>

**Note 18: Property, Plant and Equipment**

Council 2009	Cost/ Revaluation 01.07.08	Acc Depn & Impairment Charges 01.07.08	Carrying Value 01.07.08	Current Year Additions	Current Year Disposals	Current Year Impairment Charges	Current Year Depreciation	Revaluation Gain/(Loss)	Cost/ Revaluation 30.06.09	Acc Depn & Impairment Charges 30.06.09	Carrying Value 30.06.09
<b>\$000's</b>											
<b>Operational Assets</b>											
Land	4,907	0	4,907	0	0	0	0	0	4,907	0	4,907
Buildings	5,162	588	4,574	163	0	0	306	0	5,325	894	4,431
Plant and equipment	113	85	28	0	0	0	9	0	113	94	19
Motor Vehicles	471	138	333	150	33	0	93	0	588	231	357
Furniture and fittings	1,027	783	244	17	0	0	63	0	1,044	846	198
Computers	1,410	1,389	21	0	0	0	19	0	1,410	1,408	2
Library Books	633	432	201	75	19	0	67	0	689	499	190
Finance leases - office equipment	436	198	238	0	0	0	71	0	436	269	167
<b>Total Operational Assets</b>	<b>14,159</b>	<b>3,613</b>	<b>10,546</b>	<b>405</b>	<b>52</b>	<b>0</b>	<b>628</b>	<b>0</b>	<b>14,512</b>	<b>4,241</b>	<b>10,271</b>
<b>Restricted Assets</b>											
Land	6,938	0	6,938	0	0	0	0	0	6,938	0	6,938
Buildings	3,645	288	3,357	26	0	0	152	0	3,671	440	3,231
<b>Total Restricted Assets</b>	<b>10,583</b>	<b>288</b>	<b>10,295</b>	<b>26</b>	<b>0</b>	<b>0</b>	<b>152</b>	<b>0</b>	<b>10,609</b>	<b>440</b>	<b>10,169</b>
<b>Infrastructural Assets</b>											
Land	1,306	0	1,306	28	0	0	0	0	1,334	0	1,334
Buildings	2,944	64	2,880	0	0	0	30	0	2,944	94	2,850
Roads	196,539	4,402	192,137	6,312	25	0	2,475	0	202,826	6,877	195,949
Water Reticulation	7,963	362	7,601	1,075	49	0	205	0	8,989	567	8,422
Sewerage Reticulation	7,236	472	6,764	167	0	0	260	0	7,403	732	6,671
Stormwater Systems	6,495	285	6,210	204	0	0	144	0	6,699	429	6,270
Refuse Systems	2,814	82	2,732	148	0	0	89	0	2,962	171	2,791
Land under roads	9,883	0	9,883	0	0	0	0	0	9,883	0	9,883
<b>Total Infrastructural Assets</b>	<b>235,180</b>	<b>5,667</b>	<b>229,513</b>	<b>7,934</b>	<b>74</b>	<b>0</b>	<b>3,203</b>	<b>0</b>	<b>243,040</b>	<b>8,870</b>	<b>234,170</b>
Contract Work in Progress	2,878	0	2,878	1,917	0	0	0	0	4,795	0	4,795
<b>Total Council Assets</b>	<b>262,800</b>	<b>9,568</b>	<b>253,232</b>	<b>10,282</b>	<b>126</b>	<b>0</b>	<b>3,983</b>	<b>0</b>	<b>272,956</b>	<b>13,551</b>	<b>259,405</b>



Group 2009	"Cost/ Revaluation 01.07.08"	"Acc Depn & Impairment Charges 01.07.08"	"Carrying Value 01.07.08"	"Current Year Additions"	"Current Year Disposals"	"Current Year Impairment Charges"	"Current Year Depreciation"	"Revaluation Gain/(Loss)"	"Cost/ Revaluation 30.06.09"	"Acc Depn & Impairment Charges 30.06.09"	"Carrying Value 30.06.09"
<b>Operational Assets</b>											
Land	5,289	0	5,289	0	0	0	0	211	5,499	0	5,499
Buildings	7,767	796	6,971	17	171	0	380	184	7,515	894	6,621
Plant and equipment	113	85	28	0	0	0	9	0	113	94	19
Motor Vehicles	23,166	11,570	11,596	1,093	269	0	1,868	0	22,269	11,717	10,552
Furniture and fittings	1,825	1,402	423	41	9	0	145	0	1,658	1,348	310
Computers	1,410	1,389	21	0	0	0	19	0	1,410	1,408	2
Library Books	633	432	201	75	19	0	67	0	689	499	190
Finance leases - plant and vehicles	84	26	58	0	0	0	15	0	84	41	43
Finance leases - office equipment	436	198	238	0	0	0	71	0	436	269	167
<b>Total Operational Assets</b>	<b>40,723</b>	<b>15,898</b>	<b>24,825</b>	<b>1,226</b>	<b>468</b>	<b>0</b>	<b>2,574</b>	<b>395</b>	<b>39,673</b>	<b>16,270</b>	<b>23,403</b>
<b>Restricted Assets</b>											
Land	6,938	0	6,938	0	0	0	0	0	6,938	0	6,938
Buildings	3,645	288	3,357	26	0	0	152	0	3,671	440	3,231
<b>Total Restricted Assets</b>	<b>10,583</b>	<b>288</b>	<b>10,295</b>	<b>26</b>	<b>0</b>	<b>0</b>	<b>152</b>	<b>0</b>	<b>10,609</b>	<b>440</b>	<b>10,169</b>
<b>Infrastructural Assets</b>											
Land	1,306	0	1,306	28	0	0	0	0	1,334	0	1,334
Buildings	2,944	64	2,880	0	0	0	30	0	2,944	94	2,850
Roads	195,819	4,402	191,417	6,312	25	0	2,475	0	202,106	6,877	195,229
Water Reticulation	7,963	362	7,601	1,075	49	0	205	0	8,989	567	8,422
Sewerage Reticulation	7,236	472	6,764	167	0	0	260	0	7,403	732	6,671
Stormwater Systems	6,495	285	6,210	204	0	0	144	0	6,699	429	6,270
Refuse Systems	2,814	82	2,732	148	0	0	89	0	2,962	171	2,791
Land under Roads	9,883	0	9,883	0	0	0	0	0	9,883	0	9,883
<b>Total Infrastructural Assets</b>	<b>234,460</b>	<b>5,667</b>	<b>228,793</b>	<b>7,934</b>	<b>74</b>	<b>0</b>	<b>3,203</b>	<b>0</b>	<b>242,320</b>	<b>8,870</b>	<b>233,450</b>
Work in Progress	2,878	0	2,878	1,917	0	0	0	0	4,795	0	4,795
<b>Total Assets</b>	<b>288,644</b>	<b>21,853</b>	<b>266,791</b>	<b>11,103</b>	<b>542</b>	<b>0</b>	<b>5,929</b>	<b>395</b>	<b>297,397</b>	<b>25,580</b>	<b>271,817</b>

Council 2008	Cost/ Revaluation 01.07.07	Acc Depn & Impairment Charges 01.07.07	Carrying Value 01.07.07	Current Year Additions	Current Year Disposals	Current Year Impairment Charges	Current Year Depreciation	Revaluation Gain/(Loss)	Cost/ Revaluation 30.06.08	Acc Depn & Impairment Charges 30.06.08	Carrying Value 30.06.08
<b>Operational Assets</b>											
Land	4,907	0	4,907	0	0	0	0	0	4,907	0	4,907
Buildings	5,041	293	4,748	124	3	0	295	0	5,162	588	4,574
Plant and equipment	109	75	34	4	0	0	10	0	113	85	28
Motor Vehicles	194	94	100	289	12	0	44	0	471	138	333
Furniture and fittings	888	705	183	139	0	0	78	0	1,027	783	244
Computers	1,410	1,361	49	0	0	0	28	0	1,410	1,389	21
Library Books	590	349	241	64	21	0	83	0	633	432	201
Finance leases - office equipment	293	131	162	182	39	0	67	0	436	198	238
<b>Total Operational Assets</b>	<b>13,432</b>	<b>3,008</b>	<b>10,424</b>	<b>802</b>	<b>75</b>	<b>0</b>	<b>605</b>	<b>0</b>	<b>14,159</b>	<b>3,613</b>	<b>10,546</b>
<b>Restricted Assets</b>											
Land	6,966	0	6,966	0	28	0	0	0	6,938	0	6,938
Buildings	3,604	137	3,467	42	1	0	151	0	3,645	288	3,357
<b>Total Restricted Assets</b>	<b>10,570</b>	<b>137</b>	<b>10,433</b>	<b>42</b>	<b>29</b>	<b>0</b>	<b>151</b>	<b>0</b>	<b>10,583</b>	<b>288</b>	<b>10,295</b>
<b>Infrastructural Assets</b>											
Land	1,306	0	1,306	0	0	0	0	0	1,306	0	1,306
Buildings	2,929	35	2,894	15	0	0	29	0	2,944	64	2,880
Roads	191,717	2,089	189,628	5,229	407	0	2,313	0	196,539	4,402	192,137
Water Reticulation	7,572	177	7,395	548	157	0	185	0	7,963	362	7,601
Sewerage Reticulation	7,018	241	6,777	218	0	0	231	0	7,236	472	6,764
Stormwater Systems	6,437	144	6,293	58	0	0	141	0	6,495	285	6,210
Refuse Systems	1,565	37	1,528	1,521	277	0	40	0	2,814	82	2,732
Land under roads	9,883	0	9,883	0	0	0	0	0	9,883	0	9,883
<b>Total Infrastructural Assets</b>	<b>228,427</b>	<b>2,723</b>	<b>225,704</b>	<b>7,589</b>	<b>841</b>	<b>0</b>	<b>2,939</b>	<b>0</b>	<b>235,180</b>	<b>5,667</b>	<b>229,513</b>
Contract Work in Progress	2,005	0	2,005	961	87	0	0	0	2,878	0	2,878
<b>Total Council Assets</b>	<b>254,434</b>	<b>5,868</b>	<b>248,566</b>	<b>9,394</b>	<b>1,032</b>	<b>0</b>	<b>3,695</b>	<b>0</b>	<b>262,800</b>	<b>9,568</b>	<b>253,232</b>

Group 2008	"Cost/ Revaluation 01.07.07"	"Acc Depn & Impairment Charges 01.07.07"	"Carrying Value 01.07.07"	"Current Year Additions"	"Current Year Disposals"	"Current Year Impairment Charges"	"Current Year Depreciation"	"Revaluation Gain/(Loss)"	"Cost/ Revaluation 30.06.08"	"Acc Depn & Impairment Charges 30.06.08"	"Carrying Value 30.06.08"
<b>Operational Assets</b>											
Land	5,288	0	5,288	1	0	0	0	0	5,289	0	5,289
Buildings	7,232	363	6,869	548	13	0	433	0	7,767	796	6,971
Plant and equipment	109	75	34	4	0	0	10	0	113	85	28
Motor Vehicles	22,323	9,752	12,571	1,467	624	0	1,818	0	23,166	11,570	11,596
Furniture and fittings	1,597	1,210	387	231	3	0	192	0	1,825	1,402	423
Computers	1,410	1,361	49	0	0	0	28	0	1,410	1,389	21
Library Books	590	349	241	64	21	0	83	0	633	432	201
Finance leases - plant and vehicles	0	0	0	84	0	0	26	0	84	26	58
"Finance leases - office equipment"	293	131	162	182	39	0	67	0	436	198	238
<b>Total Operational Assets</b>	<b>38,842</b>	<b>13,241</b>	<b>25,601</b>	<b>2,581</b>	<b>700</b>	<b>0</b>	<b>2,657</b>	<b>0</b>	<b>40,723</b>	<b>15,898</b>	<b>24,825</b>
<b>Restricted Assets</b>											
Land	6,966	0	6,966	0	28	0	0	0	6,938	0	6,938
Buildings	3,604	137	3,467	42	1	0	151	0	3,645	288	3,357
<b>Total Restricted Assets</b>	<b>10,570</b>	<b>137</b>	<b>10,433</b>	<b>42</b>	<b>29</b>	<b>0</b>	<b>151</b>	<b>0</b>	<b>10,583</b>	<b>288</b>	<b>10,295</b>
<b>Infrastructural Assets</b>											
Land	1,306	0	1,306	0	0	0	0	0	1,306	0	1,306
Buildings	2,929	35	2,894	15	0	0	29	0	2,944	64	2,880
Roads	190,997	2,089	188,908	5,229	407	0	2,313	0	195,819	4,402	191,417
Water Reticulation	7,572	177	7,395	548	157	0	185	0	7,963	362	7,601
Sewerage Reticulation	7,018	241	6,777	218	0	0	231	0	7,236	472	6,764
Stormwater Systems	6,437	144	6,293	58	0	0	141	0	6,495	285	6,210
Refuse Systems	2,761	37	2,724	405	277	0	120	0	2,814	82	2,732
Land under Roads	9,883	0	9,883	0	0	0	0	0	9,883	0	9,883
<b>Total Infrastructural Assets</b>	<b>228,903</b>	<b>2,723</b>	<b>226,180</b>	<b>6,473</b>	<b>841</b>	<b>0</b>	<b>3,019</b>	<b>0</b>	<b>234,460</b>	<b>5,667</b>	<b>228,793</b>
Work in Progress	2,005	0	2,005	961	88	0	0	0	2,878	0	2,878
<b>Total Assets</b>	<b>280,320</b>	<b>16,101</b>	<b>264,219</b>	<b>10,057</b>	<b>1,658</b>	<b>0</b>	<b>5,827</b>	<b>0</b>	<b>288,644</b>	<b>21,853</b>	<b>266,791</b>

## Fair Value (Council)

The Council considers the valuations, as currently reflected in the Council and Group's financial statements, to be the fair value of land and buildings.

## Fair Value (Inframax Construction Ltd)

The Company considers the valuations, as currently reflected in the Group's financial statements, to be the fair value of land and buildings. Land and buildings were revalued at 30 June 2009 by Doyle Valuations Ltd.

There are no items or property, plant and equipment that are not in current use.

There have been no impairment losses recognised in relation to property, plant and equipment.

## Note 19: Intangible Assets

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
<b>Goodwill</b>				
<b>Cost</b>				
Balance at 1 July	0	0	2,623	2,426
Goodwill recognised on business acquisition (note 30)	0	0	0	197
Balance at 30 June	0	0	2,623	2,623
<b>Accumulated Impairment Losses</b>				
Balance at 1 July	0	0	97	97
Impairment Losses for the year	0	0	2,526	0
Balance at 30 June	0	0	2,623	97
<b>Net Book Value at 30 June</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,526</b>
<b>Software</b>				
<b>Cost</b>				
Balance at 1 July	596	596	1,208	1,201
Additions	0	0	6	10
Disposals	0	0	(13)	(3)
Balance at 30 June	596	596	1,201	1,208
<b>Accumulated Amortisation</b>				
Balance at 1 July	596	557	1,178	1,092
Amortisation expense for the year	0	39	17	86
Balance at 30 June	596	596	1,195	1,178
<b>Net Book Value at 30 June</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>30</b>
<b>Carrying Book Value</b>				
Goodwill	0	0	0	2,526
Software	0	0	6	30
<b>Total Carrying Value at 30 June</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>2,556</b>

## Impairment of Goodwill

Goodwill is allocated to related cash-generating units and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

All goodwill recorded has been acquired in a business combination and is allocated, at acquisition, to the cash generating unit (CGU) that is expected to benefit from the business combination.

The carrying amount of Goodwill of the Group is \$nil (30 June 2008: \$2,525,700), it is allocated to CGU's in the following way;

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
Inframax Construction Ltd	0	0	0	2,329
Independent Roadmarkers Taranaki Ltd	0	0	0	197
<b>Balance at 30 June</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,526</b>

The Goodwill acquired by the Group in the year to 30 June 2008 was allocated to Independent Roadmarkers Taranaki Limited, CGU. During the financial year, the Group assessed the recoverable amount of Goodwill and determined that Goodwill associated with past acquisitions of asset purchases was impaired (30 June 2008: Nil).

The main factor contributing to the impairment is the lack of ongoing business benefitting Inframax Construction Ltd and Independent Roadmarkers Taranaki Ltd in the Wanganui and South Taranaki regions where the goodwill arose through acquisitions of businesses in these regions.

The recoverable amount has been determined using the fair value less disposal cost method. The method used was consistent with the method used to value the Council's investment in Inframax Construction Ltd which is disclosed in note 10.

## Note 20: Forestry Assets

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
Balance at 1 July	75	75	75	75
Increases due to Purchases	0	0	0	0
Gains/(Losses due to change in fair value less estimated point of sale costs	0	0	0	0
Decreases due to Harvest	0	0	0	0
<b>Balance at 30 June</b>	<b>75</b>	<b>75</b>	<b>75</b>	<b>75</b>

No forest assets have been harvested during the year (2008: Nil).

The Council owns 15.7 hectares of pinus radiata which mature in 17 years. No forests have been harvested during the year (2008: Nil).

Revaluation of Council's forestry assets to determine its fair value less estimated point of sale costs has not been undertaken at 30 June 2009, because Council does not believe the carrying of its forestry assets is materially different from its fair value less estimated point of sales costs.

### Financial Risk Management Strategies

The Council is exposed to financial risks arising from changes in timber prices. The Council is a long-term forestry 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. The Council reviews its outlook for timber prices regularly in considering the need for active financial risk management.

**Note 21: Investment Property**

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
Balance at 1 July	334	334	334	334
Additions	0	0	0	0
Gains/(Losses) due to change in Fair Value	499	0	499	0
Disposals	0	0	0	0
<b>Balance at 30 June</b>	<b>833</b>	<b>334</b>	<b>833</b>	<b>334</b>

The Council's investment properties are stated at fair value as at 30 June 2009. All investment properties were valued based on open market evidence using highest and best use scenario.

The valuation was performed by Quotable Value New Zealand, an independent valuer. Quotable Value New Zealand is an experienced valuer with extensive market knowledge in the types of investment properties owned by the Council.

**Note 22: Capital Commitments and Operating Leases****Commitments**

	2009 Council Outstanding at 30 June \$000's	2008 Council Outstanding at 30 June \$000's	2009 Group Outstanding at 30 June \$000's	2008 Group Outstanding at 30 June \$000's
<b>Commitments for capital expenditure contracted but not provided for:</b>				
<b>Capital Expenditure</b>	1,265	1,192	1,265	1,403
<b>Non-Cancellable Operating Leases as Lessee</b>				
Not later than one year	68	69	2,708	2,969
Later than one year but not later than five years	104	172	6,219	7,617
Later than five years	0	0	1,474	2,053
<b>Total Non-Cancellable Operating Leases as Lessee</b>	<b>172</b>	<b>241</b>	<b>10,401</b>	<b>12,639</b>
<b>Operational Commitments</b>				
Not later than one year	4,374	9,809	4,374	9,809
Later than one year but not later than five years	2,566	6,343	1,889	6,343
Later than five years	0	0	677	0
<b>Total Operational Commitments</b>	<b>6,940</b>	<b>16,152</b>	<b>6,940</b>	<b>16,152</b>
<b>Total Commitments</b>	<b>8,377</b>	<b>17,585</b>	<b>18,606</b>	<b>30,194</b>

**Note 23: Contingencies**

In respect of the mining licence for McKenzies Quarry, Council has provided the Ministry of Commerce with a land reinstatement bond of \$10,700 (2008: \$10,700), in lieu of a cash deposit.

A legal claim has been lodged against Council by G and M Forde in relation to damage to two power lines on the Forde's farm as a result of a tree located on Council land falling down during a storm. The amount of the claim is \$6,482.43. Council considers it unlikely that the claim will be successful and therefore have not provided for this claim.

Council is a shareholder in Local Authority Shared Services Ltd. LASS is jointly owned by 13 local authorities and has been set up to develop shared service initiatives, including a valuation database. There is uncalled capital of \$34,221 (2008: \$34,221) that Council may be required to pay if called. Council considers it unlikely that it will be called upon for the capital and therefore have not provided for this claim.

Westpac Banking Corporation has provided bond guarantees to Inframax Construction Ltd totalling \$2,465,616 (2008: \$3,471,913). These bond guarantees will be payable if Inframax cannot fulfil its contractual obligations.

**Provision for Financial Guarantees**

The Council is listed as sole guarantor to two community organisation bank loans for a total of \$100,000 (2008: \$100,000). The Council is obligated under the guarantee to make loan payments in the event the organisation defaults on a loan arrangement. The exercising of guarantees will be dependent on the financial stability of the community organisations, which will vary over time. Council considers it unlikely that the groups will default on the loan arrangement and therefore have not provided for these guarantees.

**Note 24: Operating Cash Flow Reconciliation**

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
<b>Net Surplus/(Deficit) After Tax</b>	<b>(2,221)</b>	<b>(221)</b>	<b>(4,049)</b>	<b>(33)</b>
<b>Add/(Less) Non Cash Items</b>				
Depreciation and Amortisation	3,983	3,734	5,946	5,913
Gain in change of fair value of investment property	(499)	0	(499)	0
Loss in change of fair value of financial assets	3,313	0	0	0
Loss on Land and Buildings Revaluation	0	0	13	0
Impairment of Goodwill	0	0	2,526	0
Loss/(Gain) on Disposal of Assets	105	919	(132)	967
Change in Deferred Taxation Asset/Liability	(63)	(100)	(1,247)	(863)
<b>Add/(Less) Movements in Working Capital Items</b>				
Increase/(Decrease) in Trade and Other Payables	(2,456)	2,606	(1,475)	776
(Increase)/Decrease in Trade and Other Receivables	2,406	(2,956)	5,336	(2,882)
(Increase)/Decrease in Inventories	(1)	(87)	966	(1,505)
(Increase)/Decrease in Taxation Receivable	0	0	515	167
(Increase)/Decrease in Taxation Payable	0	0	(14)	16
Increase/(Decrease) in Employee Entitlements	38	116	(118)	151
Increase/(Decrease) in Provisions	196	(110)	310	74
Derivative Financial Instrument	0	0	379	94
<b>Add/(Less) Items Classified as Investing or Financing Activities</b>	<b>3,269</b>	<b>(808)</b>	<b>531</b>	<b>1,168</b>
<b>Net Cash Flows from Operating Activities</b>	<b>8,070</b>	<b>3,093</b>	<b>8,988</b>	<b>4,043</b>

**Note 25: Capital Expenditure**

	<b>2009 Council Budget \$000's</b>	<b>2009 Council Actual \$000's</b>	<b>2008 Council Actual \$000's</b>
Leadership	0	171	531
Community Facilities	542	259	326
Solid Waste	82	358	1,521
Stormwater	277	204	0
Sewerage	2,210	1,915	1,056
Water	2,426	1,063	673
Roads	5,972	6,312	5,287
<b>Total Capital Expenditure</b>	<b>11,509</b>	<b>10,282</b>	<b>9,394</b>

**Summary of Significant Capital Additions and Replacements**

<b>Activity</b>	<b>Description (actual cost in brackets)</b>	<b>Reason for expenditure</b>
Roothing (Total spend \$6.312 million)	Emergency structural reinstatement (\$1.3 million)	To repair damage to roads as a result of bad weather events.
	Pavement rehabilitation (\$1.2 million)	To reduce future road maintenance costs.
	Drainage renewals (\$0.7 million)	To renew culverts throughout the district.
	Unsealed road metalling (\$1.0 million)	To add structural support to unsealed roads district wide.
	Sealed road surfacing (\$0.9 million)	To improve the smoothness of the road surface where the existing surface has deteriorated beyond normal capacity.
	Waitomo Caves Rd improvement (\$0.2 million)	To construct Pukeroa Road and close off Kiwi Rd on to State Highway 37.
	Minor improvements (\$0.2 million)	To improve road safety and alignment of roads.
	Traffic services (\$0.2 million)	To improve road safety through signage and road markings.
Sewerage (Total spend \$1.915 million)	Te Kuiti WWTP upgrade and investigation costs (\$0.6 million)	Reconfiguration of and upgrade of Te Kuiti wastewater treatment plant.
	Te Kuiti main pump station upgrade (\$0.5 million)	To upgrade the main sewer pump station in Te Kuiti.
	Scada and telemetry and wireless connection (\$0.1 million)	To upgrade the scada and control system to assist with monitoring water supply systems and providing better water management.
	Piopio Sewerage (\$0.3 million)	To continue the construction of Piopio sewerage scheme.
Water (Total spend \$1.063 million)	Mokau water (\$0.7 million)	To replace the main water line along State Highway 3, improvements to supply security and treatment plant renewals.
	Benneydale water (\$0.3 million)	To continue with the ongoing upgrade of Benneydale water treatment plant.
Solid Waste (total spend \$0.358 million)	Waitomo District Landfill improvements (\$0.3 million)	To increase the space of Cell 2 at the landfill and carrying out safety improvements to the site.



## Significant Variations to Budget

Total capital expenditure was \$1.2 million less than budget.

Community Facilities expenditure was \$283,000 less than budget. Renewal work for Piopio Hall, public toilets, Cultural and Arts Centre and wharves were not undertaken during the year. There was also a budget to upgrade the library software system which was not spent.

Water expenditure was \$1.4 million under budget. Limited works has been carried out during the year for Te Kuiti water with some of this work being carried over into the 2009/10 construction season. The water treatment plant upgrade at Piopio water has also been deferred to the 2009/10 year and is dependent on the level of subsidy funding available.

Roads was \$340,000 over budget due to additional costs being incurred for emergency works reinstatement that was carried out during the year as a result of flood damage.

Solid Waste expenditure was \$276,000 over budget. The expenditure for the year was mainly for earthworks to improve safety. This work was unbudgeted expenditure but was planned for once Council resumed direct management.

Sewerage was \$295,000 less than budget due to delays experienced with the Piopio Sewerage scheme because of Environment Court action. Only minor works have been completed during the year.

Leadership was \$171,000 more than budget due to unbudgeted renewal expenditure on the administration building and fleet purchases.

**Note 26: Financial Instruments****Financial Instrument Categories**

The accounting policies for financial instruments have been applied to the line items below:

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
<b>Financial Assets</b>				
<b>Fair Value through Profit and Loss - held for trading</b>				
Derivative Financial Instrument Assets	0	0	0	38
<b>Loans and Receivables</b>				
Cash and Cash Equivalents	219	356	253	422
Trade and Other Receivables	3,378	5,784	9,532	14,868
Loans and Advances - Current	1	1	1	1
Loans and Advance - Non Current	29	31	29	31
<b>Total Loans and Receivables</b>	<b>3,627</b>	<b>6,172</b>	<b>9,815</b>	<b>15,322</b>
<b>Available for Sale</b>				
Shares in Companies	7	7	7	7
Shares in Subsidiaries	6,400	17,350	0	0
<b>Total Available for Sale</b>	<b>6,407</b>	<b>17,357</b>	<b>7</b>	<b>7</b>
<b>Financial Liabilities</b>				
<b>Fair Value through Profit and Loss - held for trading</b>				
Derivative Financial Instrument Liabilities	0	0	472	131
<b>Financial Liabilities at Amortised Cost</b>				
Trade and Other Payables	3,353	5,809	7,893	9,368
Bank Overdraft	0	0	2,913	4,080
Secured Loans - Current	6,100	8,610	13,616	18,153
Secured Loans - Non Current	29,011	21,111	29,011	21,355
Lease Liabilities - Current	68	69	95	90
Lease Liabilities - Non Current	104	172	104	200
<b>Total Financial Liabilities at Amortised Cost</b>	<b>38,636</b>	<b>35,771</b>	<b>53,632</b>	<b>53,246</b>

**Financial Instrument Risks**

The Group has a series of policies to manage the risks associated with financial instruments. The Group is risk averse and seeks to minimise exposure from its treasury activities. The Group has established 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 fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. The Council is exposed to equity securities price risk on its investments, which are classified as available for sale. This price risk arises due to movements in the fair value of these investments. This price risk is managed by diversification of Council's investment portfolio in accordance with the limits set out in Council's Investment Policy.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

All financial instruments are denominated in New Zealand dollars and the Group has no foreign currency risk exposure.

## Interest Rate Risk

### Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in market interest rates.

### 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 the Council and Group to cash flow interest rate risk.

The Group invests in both short and long term instruments to minimise its exposure to negative variations in interest rates. The Council limits interest rate exposure by allowing up to 60% of total debt to have a floating rate profile. Council also ensures that the total interest expense does not exceed 40% of total revenue excluding subsidies or that borrowing does not exceed 30% of total ratepayer's equity whichever is higher.

## **Credit Risk**

Credit risk is the risk that a third party will default on its obligation to the Group, causing the Group to incur a loss. Due to the timing of its cash inflows and outflows, the Group invests surplus cash into term deposits, which gives rise to credit risk.

The Group has no collateral or other credit enhancements for financial instruments that give rise to credit risk.

The Group also minimises credit risk by limiting investments to registered banks, local government stock and other entities with a Standard and Poor's credit rating no less than AA-.

### Maximum Exposure to Credit Risk

Council's maximum credit exposure for each class of financial instrument is as follows:

	<b>2009 Council Actual \$000's</b>	<b>2008 Council Actual \$000's</b>	<b>2009 Group Actual \$000's</b>	<b>2008 Group Actual \$000's</b>
Cash and Cash Equivalents	219	356	253	422
Trade and Other Receivables	3,378	5,784	9,532	14,868
Loans and Advances (note 10)	30	32	30	32
Derivative Financial Instrument Assets	0	0	0	38
Financial Guarantees	111	111	2,576	3,583
<b>Total Credit Risk</b>	<b>3,738</b>	<b>6,283</b>	<b>12,391</b>	<b>18,943</b>

## Credit Quality of Financial Assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard and Poor's credit ratings (if available) or to historical information about counterparty default rates:

	<b>2009 Council Actual \$000's</b>	<b>2008 Council Actual \$000's</b>	<b>2009 Group Actual \$000's</b>	<b>2008 Group Actual \$000's</b>
<b>Counterparties with Credit Ratings</b>				
<b>Cash and Cash Equivalents</b>				
AA	219	356	253	422
<b>Derivative Financial Instrument Assets</b>				
AA	0	0	0	38
<b>Counterparties without Credit Ratings</b>				
<b>Other Financial Assets - Loans and Advances</b>				
Existing counterparty with no defaults in the past	30	32	30	32
Existing counterparty with defaults in the past	0	0	0	0

Trade and other receivables mainly arise from Group's statutory functions, therefore there are no procedures in place to monitor or report the credit quality of debtors and other receivables with reference to internal or external credit ratings.

The Group has no significant concentrations of credit risk in relation to debtors and other receivables, as it has a large number of credit customers, mainly rate payers, and the Council has powers under the Local Government (Rating) Act 2002 to recover outstanding debts from ratepayers.

## Liquidity Risk

### Management of Liquidity Risk

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

The Group aims to maintain flexibility in funding by keeping committed credit lines available. The Group manages its borrowings in accordance with its funding and financial policies. These policies have been adopted as part of the Council's Long Term Council Community Plan.

## Contractual Maturity Analysis of Financial Liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate on the instrument at balance date. The amounts disclosed are the contractual undiscounted cash flows:

	Effective Interest Rates %	Carrying Amount \$000's	Contractual Cashflows \$000's	Less than 1 Year \$000's	1 - 2 Years \$000's	2 - 5 Years \$000's
<b>Council 2009</b>						
Trade and Other Payables	0.00%	3,353	3,353	3,353	0	0
Borrowings						
Secured Loans - Current	6.59%	6,100	6,316	6,316	0	0
Secured Loans - Non-current	5.36%	29,011	32,659	1,555	9,523	21,581
Lease Liabilities - Current & Non-current	11.76%	172	221	89	74	58
<b>Total</b>		<b>38,636</b>	<b>42,549</b>	<b>11,313</b>	<b>9,597</b>	<b>21,639</b>
<b>Group 2009</b>						
Trade and Other Payables	0.00%	7,893	7,893	7,893	0	0
Borrowings						
Bank Overdraft	5.79%	2,913	2,913	2,913	0	0
Secured Loans - Current	6.14%	13,616	13,886	13,886	0	0
Secured Loans - Non-current	5.36%	29,011	32,659	1,555	9,523	21,581
Lease Liabilities - Current & Non-current	11.76%	199	251	118	75	58
Derivative Financial Instruments	0.00%	472	928	259	259	410
<b>Total</b>		<b>54,104</b>	<b>58,530</b>	<b>26,624</b>	<b>9,857</b>	<b>22,049</b>
<b>Council 2008</b>						
Trade and Other Payables	0.00%	5,809	5,809	5,809	0	0
Borrowings						
Secured Loans - Current	7.89%	8,610	9,057	9,057	0	0
Secured Loans - Non-current	8.17%	21,111	25,715	1,725	6,360	17,650
Lease Liabilities - Current & Non-current	10.95%	241	313	92	89	132
<b>Total</b>		<b>35,771</b>	<b>40,894</b>	<b>16,683</b>	<b>6,449</b>	<b>17,782</b>
<b>Group 2008</b>						
Trade and Other Payables	0.00%	9,368	9,368	9,368	0	0
Borrowings						
Bank Overdraft	10.93%	4,080	4,526	4,526	0	0
Secured Loans - Current	8.94%	18,153	18,600	18,600	0	0
Secured Loans - Non-current	8.16%	21,355	25,959	1,725	6,584	17,650
Lease Liabilities - Current & Non-current	10.95%	290	375	119	116	140
Derivative Financial Instrument		131	131	131	0	0
<b>Total</b>		<b>53,377</b>	<b>58,959</b>	<b>34,469</b>	<b>6,700</b>	<b>17,790</b>

## Contractual Maturity Analysis of Financial Assets

The Group does not manage its liquidity risks for financial assets based on maturity dates.

Councils' and the Group's most significant financial assets are cash and cash equivalents and Trade and other receivables, which are expected to be settled within one year after balance date for their carrying value.

Inframax Construction Limited borrowings have been disclosed in the liquidity table as less than 1 year due to the breach in debt covenants at 30 June 2009. The contractual repayment period ranges between less than 1 year to between 2-5 years.

## Sensitivity Analysis

The table below illustrates the potential profit and loss impact for reasonably possible market movements, with all other variables held constant, based on Group's financial instrument exposures at balance date. The impact on Equity is the same as the profit and loss impact below. A movement of 50bps (basis points), which is 0.50% represents managements assessment of the reasonably possible change in interest rates:

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
<b>Interest Rate Risk</b>				
Market Interest Rates increase by 50bps	(7)	(19)	(90)	(80)
Market Interest Rates decrease by 50bps	7	19	90	80

The sensitivity analysis is prepared assuming the amount of liability outstanding at balance date was outstanding for the whole year.

### Explanation of Sensitivity Analysis - Council

Council has floating rate debt with a principal amount totalling \$1,300,000 (2008: \$3,910,000). A movement in interest rates of plus or minus 50bps has the effect on interest expense of \$6,500 (2008: \$19,550). A movement in market interest rates on fixed debt does not have any impact because secured loans are accounted for at amortised cost using the effective interest method.

### Explanation of Sensitivity Analysis - Group

The Group has exposure to market interest movements through its floating interest rate derivative and non-derivative financial instruments.

## Fair Value

The carrying value of cash and cash equivalents, trade and other receivables, loans, advances, current borrowings, bank overdraft and trade and other payables approximates their fair value. The fair value of non-current portion of borrowings of Council is \$29.34 million (2008: \$21.43 million) and for the Group \$29.34 million (2008: \$21.71 million).

## Note 27: Related Party Transactions

The Council is the ultimate parent of the Group. Related parties include its subsidiary Inframax Construction Ltd and Inframax's subsidiary Independent Roadmarkers Taranaki Ltd, the Council's investment in Local Authority Shared Services Ltd and NZ Local Government Insurance Company.

### Council

Waitomo District Council has a 100% shareholding in Inframax Construction Ltd. The following related party transactions are included in Council's financial statements.

	2009 Actual \$000's	2008 Actual \$000's
<b>Transactions with Inframax Construction Limited</b>		
Road construction and maintenance expenditure	8,052	8,992
Landfill expenditure	184	17
Other income	237	82
Subvention Income	0	20
Dividend Income	0	0
<b>Balances Outstanding with Inframax Construction Limited</b>		
Creditors	956	3,016
Debtors	6	6

## Inframax Construction Limited

The Company paid plant hire fees of \$239,032 (2008: \$303,644) to C C Browne Contracting, a business owned by C C Browne, an employee of the Company. There was \$41,113 outstanding at year end (2008: \$37,798).

The Company paid plant hire fees of \$76,405 (2008: \$50,890) to R & M Simpson Contracting, a business owned by R Simpson, an employee of the Company. There was \$2,953 owing at year end (2008: \$8,308).

## Remuneration of the Chief Executive (Council)

In the 2008/09 financial year the total remuneration paid to the Council's Chief Executive was \$191,077.

## Elected Representatives

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
Mayor Ammon	56	56	56	56
Deputy Mayor Hickey	29	29	29	29
Councillor Chaplow	0	7	0	7
Councillor Sutherland	0	7	0	7
Councillor Stone	23	23	23	23
Councillor Hanna	23	24	23	24
Councillor Keeling	23	24	23	24
Councillor Ryan	23	17	23	17
Councillor Smith	23	17	23	17
Directors Fees	0	0	117	125
<b>Total Elected members Remuneration and Directors Fees</b>	<b>200</b>	<b>204</b>	<b>317</b>	<b>329</b>

## Key Management Personnel

	2009 Council Actual \$000's	2008 Council Actual \$000's	2009 Group Actual \$000's	2008 Group Actual \$000's
Short Term Employee Benefits	1,065	1,028	1,821	1,798
Post Employment Benefits	0	0	0	0
Other Long Term Benefits	0	0	0	0
Termination Benefits	0	0	0	0
Share Based Payments	0	0	0	0
<b>Total Payments made to Key Management Personnel</b>	<b>1,065</b>	<b>1,028</b>	<b>1,821</b>	<b>1,798</b>

Council's key management personnel include the Mayor, Councillors, Chief Executive and other senior management personnel.

The Group's key management personnel include the Mayor, Councillors, Chief Executive and other senior management personnel and the Directors and executive staff of Inframax Construction Ltd.

There were no other related party transactions during the year (2008: Nil).

**Note 28: Construction Contracts**

	2009 Group Actual \$000's	2008 Group Actual \$000's
Recognised Contract Profits	15,118	15,321
Retentions	659	704
Progress Billings	(12,344)	(12,104)
<b>Contracts in Progress at 30 June</b>	<b>3,433</b>	<b>3,921</b>
Amounts Due from Customers (Note 12)	2,798	3,071
Retentions Receivable (Note 12)	659	704
Amounts Due to Customers (Note 14)	(196)	(230)
Construction Contract Accrued Income (Note 12)	316	560
Provision for Contract Rework (Note 16)	(144)	(184)
<b>Contracts in Progress at 30 June</b>	<b>3,433</b>	<b>3,921</b>

**Note 29: Severance payments**

There were no severance payments paid during the year.

**Note 30: Business Acquisition**

On the 7 February 2008 Inframax Construction Limited acquired the remaining 50% shareholding in Independent Roadmarkers Taranaki Ltd.

	2009 Group Actual \$000's	2008 Group Actual \$000's
<b>A) Subsidiary Acquired</b>		
<b>Current Assets</b>		
Trade and Other Receivables	0	348
Inventories	0	47
Taxation Receivable	0	49
<b>Non Current Assets</b>		
Plant and Equipment	0	367
<b>Current Liabilities</b>		
Trade and Other Payables	0	(396)
Bank Overdraft	0	(16)
<b>Non Current Liabilities</b>		
Borrowings	0	(350)
<b>Net Assets Acquired</b>	<b>0</b>	<b>49</b>
Goodwill on Acquisition (note 19)	0	197
	<b>0</b>	<b>246</b>
<b>B) Net Cash Outflow on Acquisition</b>		
Total Purchase Consideration	0	246
Less Investment in Associate	0	(245)
Consideration paid	0	1
Plus Overdraft Acquired	0	16
<b>Total Cash Outflow on Acquisition</b>	<b>0</b>	<b>17</b>



## **Impact of the acquisition on the results of the group**

Included in the profit for the 2007/08 year was \$238,637 attributable to the purchase of Independent Roadmarkers Taranaki Limited.

### **Note 31: 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. Ratepayers' 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 Council. Intergenerational equity requires today's ratepayers to meet the costs of utilising the Councils' 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. And the Act set 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 Revenue and Financing policies in the Council's LTCCP.

Waitomo District Council has the following 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.

### **Note 32: Events after balance date**

Subsequent to 30 June 2009, Council increased its investment in Inframax Construction Ltd by way of additional share capital of \$2,000,000. This amount was paid to the company on 28 August 2009.

Since balance date, Inframax Constructoin Ltd has renegotiated its borrowing covenants with Westpac effective from the 1 July 2009.

Council has announced that an organisation restructure will be undertaken in the 2009/10 year. At this time no estimate on the financial effect of the restructuring can be made.

Subsequent to year end Westpac extended the facility to 31 July 2012 and increased the limit from \$2,000,000 to \$5,000,000 and approved two wholesale term loans of \$2,000,000 each, one to fund the equity injection of Inframax Construction Limited and one to finance capital works projects. In addition, subsequent to year end the Council granted Westpac a deed of charge over all rates revenue and rates receivables.

### **Note 33: Explanations of Variances to Budget (Council)**

Waitomo District Council reported a net deficit after tax of \$2.2 million compared to a budgeted surplus of \$1.7 million. The result was attributable to the performance of Council's wholly owned subsidiary; Inframax Construction Limited which in addition to not receiving any investment income as budgeted for, Council incurred a further loss of \$3.3 million for the write down of value of its investment in Inframax Construction Limited.

Results from Council's own operations were close to budgeted forecasts as explained below;

## Revenue

Revenue and other gains/ losses were \$3.8 million less than budget due to five factors;

- No dividend and subvention revenue was received from Inframax Construction Ltd for the 2008/09 financial year and in addition to this the value of Council's investment in the company was also written down incurring a further loss of \$3.3 million.
- Subsidy revenue for Mokau Water and Piopio Sewerage was not received as planned because the capital works for which the subsidy relates to was not started or completed. Part of subsidy income recognised as revenue last year for Piopio Sewerage had to be reversed this year. This was due to some costs of the scheme not being eligible for subsidy whereas previously it was anticipated they would be.
- Roothing subsidy was also greater than expected due to subsidy being received for emergency reinstatement work that was carried out as a result of flood damage repairs. Emergency reinstatement work is subsidised at a greater rate than other classes of work carried on the road network.
- A gain on revaluation of investment properties contributed \$0.5 million in a one off gain due to revaluing these assets to fair value. These assets were previously recognised at their historic cost, which was very low.
- Revenues also increased and were more than budget due to Council's resumption of management of the Waitomo District Landfill and the Te Kuiti Information Centre. These changes resulted in Council being responsible for all the operating revenues (and also all the expenses) associated with these two activities and was not budgeted for in the Annual Plan.

## Expenditure

Expenditure was \$223,000 more than budget and is due to the following factors;

- Council resumed direct management of the Waitomo District Landfill at the beginning of the financial year and the Te Kuiti Information Centre from November 2008 and became responsible for all of the operating costs of these activities. These changes in mode of service delivery were not planned for in the Annual Plan.
- Losses on disposal of assets due to them being replaced were also incurred during the year and these were not budgeted for.
- Water and sewerage operational costs increased due to the contract with Council's principal service provider United Water contract entering its second operational phase part way through the year.
- Significant savings were achieved in the Community Facilities activity because maintenance expenditure was only spent as and when required.
- Finance costs were less than budget due to the low interest rate environment enjoyed during the financial year.

## Balance Sheet

Council's total equity was \$16.7 million less than projected in the Annual Plan 2008/09. The net deficit reported for the year contributed to Retained Earnings being \$4.0 million less than budgeted. More significantly Council Reserves were reduced due to the fair value write down of Council's investment in its wholly owned subsidiary Inframax Construction Limited.

Current liabilities were \$1.4 million more than budget due to use of Councils' Wholesale Advance facility at year end that was not planned for in the Annual Plan. \$4.8 million of term loans were due for refinancing and are therefore classed as current at year end.

Non current assets were \$15.9 million less than projected in the Annual Plan primarily due to the decrease in the value of investment in Inframax Construction Limited which saw a reduction in Other Financial Assets to \$6.4 million from what was budgeted to be \$22.8 million. Against this trend, Investment property increased by \$0.5 million due to a revaluation gain.

With respect to certain income streams, in particular income from Council Controlled Organisations, Council is a taxpayer. Against this income is tax deductions can be made for certain expenses. Council has incurred tax losses during the year that are able to be carried forward to offset future taxable income; these tax losses are recognised as a deferred tax asset. No deferred tax asset was recognised in the Annual Plan.

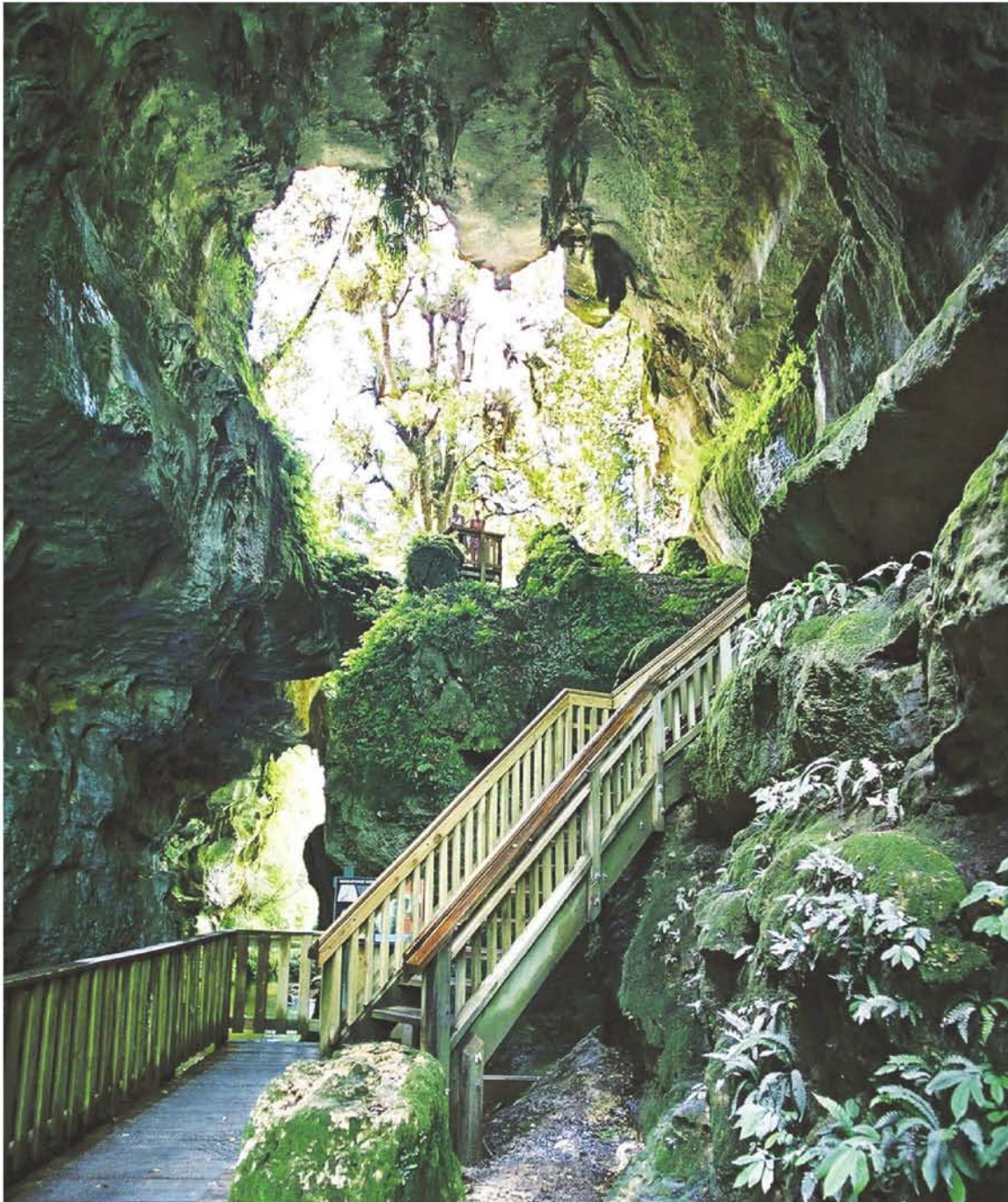
During the year additional borrowings of \$7.8 million was undertaken. These funds were used to fund Councils capital works programme, the reimbursement of Inframax Construction Limited for cancellation of the landfill deed, part funding of land transport operating costs, and funding other Council costs that would otherwise have been funded by investment income. The Annual Plan provided for \$6.7 million loans to be raised to fund Council's capital programme and part of Land Transport operating costs.

### **Note 34: Compliance with Legislation**

Council is required under Section 92 of the Local Government Act 2002, to monitor and report at least every three years on the progress made by the community in achieving the community outcomes identified by the community as being important for the district.

Council has not complied with Section 92. The reason for not completing this work was due to Council rebuilding capacity and focusing on the development of an integrated planning framework to establish a revised strategic direction.

# Section Five: Report of the Audit Office



## AUDIT REPORT

### TO THE READERS OF WAITOMO DISTRICT COUNCIL AND GROUP'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2009

The Auditor-General is the auditor of Waitomo District Council (the District Council) and group. The Auditor-General has appointed me, Bruce Taylor, using the staff and resources of Deloitte, to carry out an audit on her behalf. The audit covers the District Council's compliance with the requirements of Schedule 10 of the Local Government Act 2002 that apply to the annual report of the District Council and group for the year ended 30 June 2009, including the financial statements.

#### Unqualified Opinion

In our opinion:

- The financial statements of the District Council and group on pages 57 to 104:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - the District Council and group's financial position as at 30 June 2009; and
    - the results of operations and cash flows for the year ended on that date.
- The service provision information of the District Council and group disclosed in the Statements of Service Performance tables on pages 17, 21, 22, 23, 26, 29, 30, 31, 35, 38, 40, 42, 47, 50 and 53 fairly reflects the levels of service provision as measured against the intended levels of service provision adopted, as well as the reasons for any significant variances, for the year ended on that date; and
- The Council has complied with the other requirements of Schedule 10 of the Local Government Act 2002 that apply to the annual report (the "other requirements").

The audit was completed on 28 October 2009, and is the date at which our opinion is expressed.

The basis of our opinion, which refers to the serious financial difficulties being experienced by one of the Group's subsidiaries is explained below. In addition, we outline the responsibilities of the Council and the Auditor, and explain our independence.

#### Basis of Opinion

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

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

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

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

Audit procedures generally include:

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

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

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

### **Serious Financial Difficulties**

In forming our unqualified opinion, we note that the Group incurred a loss of \$4.0 million and has a working capital deficit of \$13.3 million. As stated in note 15, a substantial amount of the working capital deficit for the Group has arisen from one of the Group's subsidiaries borrowings being classified as current liabilities as a result of the subsidiary breaching its banking covenants. Since year end, the subsidiary has managed the situation by re-negotiating its banking covenants with its lender. Details of the circumstances relating to financial difficulties are described in the going concern section of the accounting policies on page 62.

### **Responsibilities of the Council and the Auditor**

The Council is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the District Council and group as at 30 June 2009. They must also fairly reflect the results of operations and cash flows and the levels of service provision for the year ended on that date. The Council is also responsible for meeting the other requirements of Schedule 10 and including that information in the annual report. The Council's responsibilities arise from Section 98 and Schedule 10 of the Local Government Act 2002.

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

## Independence

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

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



Bruce Taylor  
Deloitte  
On behalf of the Auditor-General  
Hamilton, New Zealand

This audit report relates to the financial statements, performance information and the other requirements of Waitomo District Council and group for the year ended 30 June 2009 included on Waitomo District's website. The Waitomo District Council is responsible for the maintenance and integrity of Waitomo District Council's website. We have not been engaged to report on the integrity of Waitomo District Council's website. We accept no responsibility for any changes that may have occurred to the financial statements, performance information and the other requirements since they were initially presented on the website.

The audit report refers only to the financial statements, performance information and the other requirements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements, performance information and the other requirements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements, performance information and the other requirements as well as the related audit report dated 28 October 2009 to confirm the information included in the audited financial statements, performance information and the other requirements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.



# Section Six: Inframax Construction Ltd





## 6.1 Inframax Construction Ltd Statement of Performance Measures for the year ended 30 June 2009

The results achieved compare with the performance criteria contained in the Statement of Corporate Intent as follows:

### Financial Performance Measures

	Statement of Corporate Intent	Actual Achievement
Return on net assets	17%	-66%
Equity ratio	41%	32%
Dividend and Subvention Payment	\$920,000	\$0

The Return on net assets ratio is the ratio of net profit before tax (after adding back subvention payments) expressed as a % of average net assets.

The Equity ratio is the ratio of average shareholder's funds expressed as a % of average total assets.

Dividend paid to the shareholder (plus net benefit of subvention payment) as a % of net profit after tax.

Average assets and average shareholder's funds are based on 30 June 2008 and 30 June 2009 figures.

### Non-financial Performance Measures

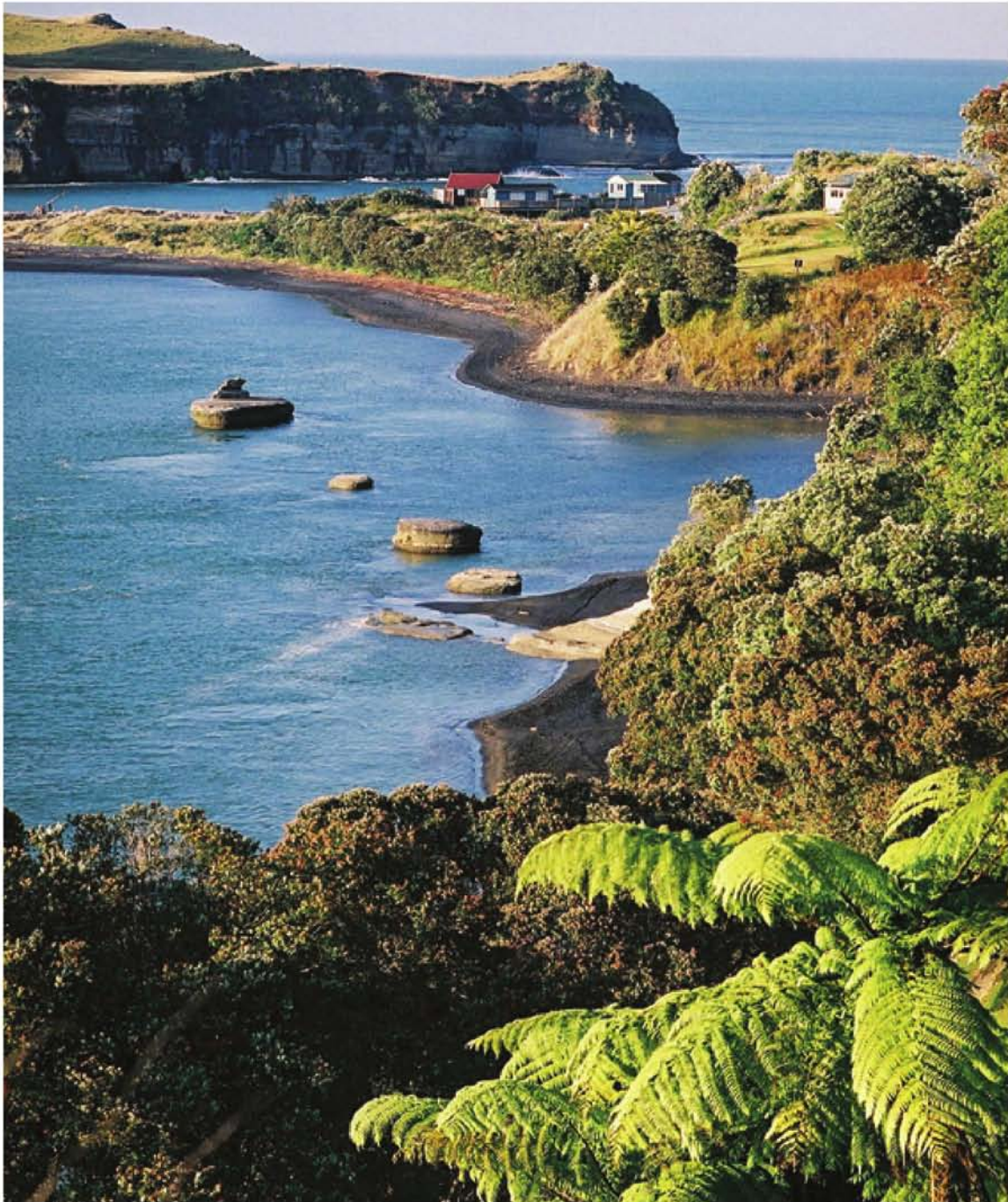
	Statement of Corporate Intent	Actual Achievement
Lost time injury accident rate	10.0	1.53

The Lost time injury accident rate is a measurement of the effectiveness of the Company's health and safety policies. It is calculated as the number of lost time injury accidents per million hours worked.

## 6.2 Inframax Construction Ltd Income Statement 2008/2009

	2009 Actual \$000's	2008 Actual \$000's
Total Revenue	53,285	51,644
Total Expenditure (including Depreciation and Interest)	59,434	52,526
Subvention payment	0	20
<b>Net Profit / (Loss) Before Tax</b>	<b>(6,149)</b>	<b>(902)</b>
Company Tax	(1,228)	851
<b>Net Profit / (Loss) After Tax</b>	<b>(4,921)</b>	<b>(51)</b>

# Section Seven: Appendices



# Appendix One: Waitomo District Profile

## District Background

The Waitomo County Act was passed in 1904 and the first meeting of the Waitomo County Council was held in September 1905.

The Borough of Te Kuiti was constituted in 1910.

In 1922 the Awakino County was amalgamated with the Waitomo Council in an area of the then Otorohanga County to form a separate local authority.

Part of the Kawhia County was included with Waitomo County in 1956 and the balance incorporated with Otorohanga.

The Te Kuiti Borough and Waitomo County Councils were amalgamated to form the Waitomo District Council on 1st April 1976, and although minor changes to boundaries occurred with the 1989 reorganisation, the District remains substantially unchanged.

The present Waitomo District Council was reconstituted on 1st November 1989 as a result of the local government reorganisation process that occurred across New Zealand.

## District History

The town of Te Kuiti and the majority of the Waitomo District is situated within the King Country, a large tract of the western central North Island. The name King Country arose because this was the region in which King Tawhiao sought refuge after the Waikato land wars. He prohibited the entry of Europeans to the area.

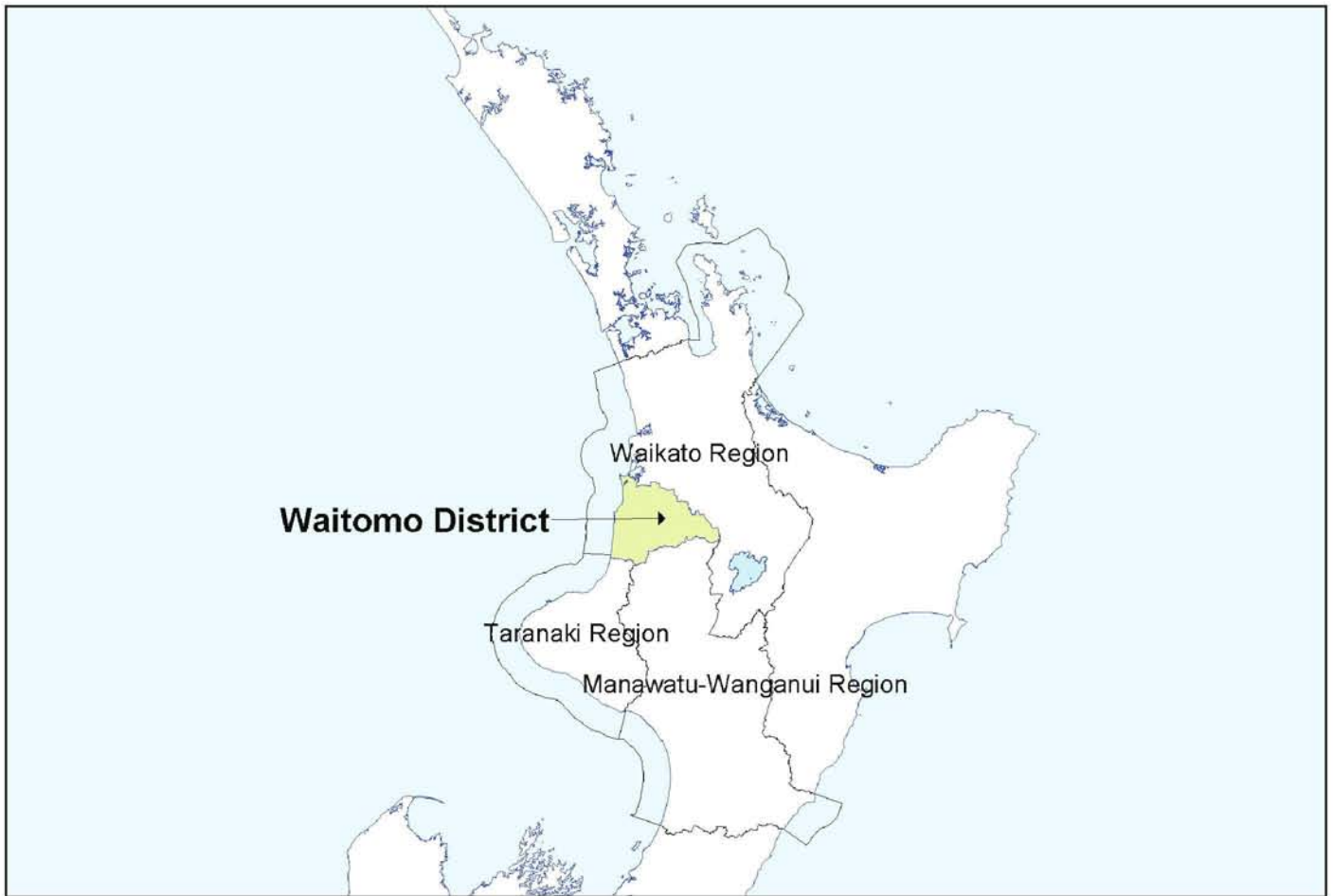
To the Maori people the region was known as Te Rohe Potae. Within Te Rohe Potae there were five tribes who signed an agreement with the Crown, which eventually allowed the North Island Main Trunk Railway line to come into the area. The five tribes were Ngati Maniapoto, Ngati Hikairo, Ngati Raukawa, Ngati Tuwharetoa and Whanganui.

It was also to this area that the rebel Te Kooti fled in 1871, and in return for sanctuary left as a gift for the Maniapoto people, Te Tokanganui-a-noho, the carved meeting house which now stands at the south end of Te Kuiti's main street. Te Kuiti was also the headquarters for paramount Maniapoto chiefs, Wahanui Huatere and Taonui who were instrumental in the opening up of the King Country to the railway and the North Island Main Trunk Railway line.

Te Kuiti lies on an area known to Maori as Pukenui. The original Te Kuiti was situated at the mouth of the Mangaokewa Gorge, just below where the Mangaokewa River emerges, from the higher country through ramparts of limestone.

Situated in a pleasant valley with this narrow gorge at the south end, Te Kuiti's original name was Te Kuiti O Nga Whakaaro O Te Iwi, meaning the narrowing down or thoughts of the people.





Sourced from LINZ data. Crown and Critchlow Copyright reserved. Census boundaries from Statistics NZ.

## Appendix Two: District Statistics

### Location

Latitude:	38° 21' South
Longitude:	175° 11' East of Greenwich
Altitude:	55m above mean sea level
Area:	336,357 hectares (3363.57 sq km)

### Climate

Temperature Summer Average	18.5°C	Winter Average	9.5°C
Sunshine Mean Average	1,749 hours		
Rainfall Average	1,473mm per year		
Frosts Average	47 days per year		

### Population Analysis ([www.elections.org.nz](http://www.elections.org.nz))

Total Population (as per <a href="http://www.elections.org.nz">www.elections.org.nz</a> )	9,441
Electors (as per <a href="http://www.elections.org.nz">www.elections.org.nz</a> )	5,793

### Rating Statistics

Total Rates Revenue 2008/09 (excluding Penalties)	Budget	\$12,233,000
	Actual	\$12,284,000
Total Rateable Capital Value as at 30 June 2009		\$3,087,204,700
Total Capital Value as at 30 June 2009		\$3,449,805,550
Number of Rateable Properties as at 30 June 2009		5546

### Public Debt Outstanding

30 June 2009 (Actual)	\$35,283,000
30 June 2009 (Budget)	\$34,486,000

### Public Equity

30 June 2009 (Actual)	\$230,902,000
30 June 2009 (Budget)	\$247,606,000

### Other Information

Number of Building Consents 2008/09	274
Value of Building Consents 2008/09	\$14,026,547
Total District Roading Sealed (June 2009)	449 kilometres
Total District Roading Unsealed (June 2009)	561 kilometres
Registered Dogs Total (30 June 2009)	4,091



## Appendix Three: Iwi Consultation

The Local Government Act 2002 (the Act) sets out the need to recognise and respect the Crown's responsibility to take appropriate account of the principles of the Treaty of Waitangi.

That responsibility takes the form of maintaining and improving upon opportunities for Maori to contribute to the various decision making processes undertaken by Council.

Direction as to the need to facilitate that participation is provided at Section 14, Part 2 of the Act which sets out a list of principles that Council, as a local authority, must act in accordance with. That principle position is supported by Section 81 which sets out three particular obligations and requires Council to make judgements from time to time as to the manner in which it complies with those obligations.

In addition Council is obligated to deal with Tangata Whenua in terms of the Resource Management Act, and Council can be an advocate for Maori policy initiatives and resource needs.

Council recognises that to obtain Maori input Council must engage in an effective manner and on a regular basis. The prime aim of any consultation must be to ensure that the interest of Maori in the Waitomo District is taken into account in all economic, political and social policy decisions.

Council has endeavoured to develop and maintain a good quality relationship with the Maniapoto Maori Trust Board (MMTB), through the Board's Chairperson and its Chief Executive.

That relationship has been observed and fostered at both formal and informal levels.

With the help of the MMTB, Council has developed a better understanding of how to facilitate an appropriate consultation process and has been able to identify the correct marae grouping or whenua boundaries and relationships.

It was agreed that quarterly meetings would be held with the MMTB and Council representatives.



## Appendix Four: Elected Members



**Mayor** Mark Ammon  
41 Waitete Road, TE KUITI  
Phone: (07) 878 0800 (Business);  
(07) 878 6359 (Home)  
Fax: (07) 878 7771



**Deputy Mayor**  
Pat Hickey (Urban Ward)  
1604 Te Kumi Road, TE KUITI  
Phone: (07) 878 3408 (Business);  
(07) 878 6316 (Home)  
Fax: (07) 878 3409



Peter Keeling  
(Rural Ward)  
166 Paekaka Road R D 2,  
PIOPIO 3970  
Phone: (07) 878 5236 (Business);  
(07) 877 8779 (Home)  
Fax: (07) 878 7157



Brian Hanna  
(Rural Ward)  
160 Tate Road, RD2, TE KUITI 3982  
Phone: (07) 877 7227  
Fax: (07) 877 8407



Pauline Ryan  
(Urban Ward)  
6 South Street, TE KUITI  
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(07) 878 6797 (Home)  
Fax: (07) 878 8072



Sue Smith  
(Rural Ward)  
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Fax: (07) 876 7518



Doug Stone  
(Urban Ward)  
7 Gladstone Road, TE KUITI  
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