FINANCIAL STATEMENTS - Section Four

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FINANCIAL STATEMENTS CONTENTS

Guide to Financial Statements

Introduction

The Local Government Act 2002 requires the Council to report its actual performance compared to targets published in the Ten Year Plan. We report against both financial and non-financial measures. The main purpose of providing financial statements is to enable stakeholders (residents and ratepayers, other local authorities, business community groups, Government regulatory bodies etc) to assess our performance and make decisions regarding the Council and how it conducts its business.

This information includes the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the accompanying Statement of Accounting Policies and Notes to the Financial Statements. This information must be prepared according to generally accepted accounting practice and recognised accounting standards.

Statement of Accounting Policies

These explain the basis upon which the financial statements are prepared. They explain the methods adopted by the Council used to measure the transactions incorporated into the financial statements above.

Statement of Comprehensive Income

The Statement of Comprehensive Income shows all of the Council's revenue earned and expenses incurred for the 12 months up to 30 June 2012. Revenue includes income received from rates and other income such as investment income, rent and fees while expenses paid includes costs such as operating costs, interest payments and depreciation.

This statement shows how total comprehensive income is arrived at. Total comprehensive income is then added or subtracted from the Council's equity as shown in the Statement of Changes in Equity.

Statement of Changes in Equity

This statement provides information about the nature of changes in the Council's equity during the year.

Statement of Financial Position

The Statement of Financial Position shows the assets and liabilities of the Council as at 30 June 2012.

Assets include cash, accounts receivable (money owed to the Council but not yet received), investments, land, buildings, operational and infrastructural assets. Current assets are amounts owed to the Council that are expected to be received within the next 12 months while current liabilities are the Council's debts that are due to be paid within the next 12 months.

Investments are the Council funds held in income earning securities while property, plant and equipment are of a permanent nature and are held for the benefit of the community.

Non-current liabilities represent money owed by the Council that does not have to be paid within the next 12 months.

Statement of Cash Flows

This statement covers all the inflows and outflows of cash during the year covered by the Statement of Comprehensive Income. The Statement of Cash Flows identifies the sources and application of cash in respect of the Council's operating, investing and financing activities.

Notes to the Financial Statements

These notes to the accounts provide further details of what the summarised amounts reported on in the above financial statements are comprised of. The reference to the note is included in the financial statements 'Notes' column, beside the dollar values for the current financial year.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

2011			2012	
Actual			Budget	Actual
$000's		Notes	$000's	$000's
	REVENUE			
9,954	Activity revenue	3	9,402	9,490
2,439	Contributions revenue	3	3,812	955
35	Investment revenue	3	15	32
59,563	Rates revenue	3	59,285	59,253
5,552	Subsidies revenue	3	6,364	5,613
488	Gains on changes in fair value of biological assets	3	0	0
2,700	Property vested	3	3,234	846
80,731	TOTAL REVENUE		82,112	76,190
	EXPENDITURE			
16,495	Depreciation and amortisation	4	18,313	17,016
13,017	Personnel costs	4	13,576	13,380
3,130	Finance costs	4	4,366	3,361
38,216	Other direct operating expenses	4	41,537	38,217
3,119	Other losses	4	0	3,885
73,977	TOTAL EXPENDITURE		77,792	75,858
6,754	**SURPLUS FROM OPERATIONS**		**4,320**	**330**
(5)	Share of joint venture surplus/(deficit)	18	0	14
6,749	**NET SURPLUS FOR THE YEAR**		**4,320**	**344**
	OTHER COMPREHENSIVE INCOME			
44,052	Gain on property revaluation	7	31,632	16,816
(4,653)	Loss on property impairment		0	0
39,399	**TOTAL OTHER COMPREHENSIVE INCOME**		**31,632**	**16,816**
46,149	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**35,952**	**17,160**

The accompanying notes form part of these financial statements.

The explanations of major variances against budget are provided in Note 35.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

2011			2012	
Actual			Budget	Actual
$000's		Notes	$000's	$000's
1,127,772	Balance at 1 July		1,176,587	1,173,921
46,149	Total comprehensive income	7	35,952	17,160
46,149	**Total comprehensive income**		**35,952**	**17,160**
1,173,921	**BALANCE AT 30 JUNE**	**7**	**1,212,539**	**1,191,081**

The accompanying notes form part of these financial statements.

The explanations of major variances against budget are provided in Note 35.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

2011			2012	
Actual			Budget	Actual
$000's		Notes	$000's	$000's
	ASSETS			
	Current Assets			
57	Cash and cash equivalents	8	193	823
6,142	Debtors and other receivables	9	6,353	6,885
78	Other financial assets	11	0	82
416	Inventories	12	431	238
6,693	Total Current Assets		6,977	8,028
	Non-current Assets			
239	Postponed rates	14	243	359
198	Other financial assets	11	284	206
5,155	Intangible assets	16	5,170	7,352
2,437	Forestry assets	17	1,371	2,363
1,229,261	Property, plant and equipment	15	1,287,314	1,249,109
1,237,290	Total Non-current Assets		1,294,383	1,259,389
1,243,983	**TOTAL ASSETS**		**1,301,360**	**1,267,417**
	LIABILITIES			
	Current Liabilities			
14,671	Creditors and other payables	19	13,536	15,571
655	Derivative financial instruments	10	756	934
1,675	Employee entitlements	20	1,634	1,172
400	Provisions	21	425	812
91	Borrowings	22	28,956	30,956
17,491	Total Current Liabilities		45,308	49,444
	Non-current Liabilities			
306	Employee entitlements	20	266	349
4,691	Provisions	21	2,567	6,195
2,125	Derivative financial instruments	10	1,085	3,856
45,449	Borrowings	22	39,594	16,493
52,571	Total Non-current Liabilities		43,513	26,893
70,062	**TOTAL LIABILITIES**		**88,821**	**76,337**
1,173,921	**NET ASSETS**		**1,212,539**	**1,191,081**
	EQUITY			
441,443	Accumulated funds	7	172,499	442,814
33,357	Restricted reserves	7	248,065	33,357
(12,308)	Council-created reserves	7	48,255	(13,032)
711,429	Property revaluation reserves	7a	743,720	727,941
1,173,921	**TOTAL EQUITY**		**1,212,539**	**1,191,081**

The accompanying notes form part of these financial statements.

The explanations of major variances against budget are provided in Note 35.

Glenn Leach
DISTRICT MAYOR

David Hammond
CHIEF EXECUTIVE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012

2011			2012	
Actual			Budget	Actual
$000's		Notes	$000's	$000's
	CASH FLOWS FROM OPERATING ACTIVITIES			
	Cash was provided from:			
58,550	Receipts from rates revenue		59,243	58,140
20,294	Receipts from other revenue		19,578	17,316
35	Interest received		15	32
(243)	Goods and services tax received		0	(92)
78,636			78,837	75,396
	Cash was applied to:			
52,078	Payments to suppliers and employees		55,269	50,749
2,940	Finance costs		4,366	3,290
55,018			59,635	54,039
23,618	**Net cash inflow/(outflow) from operating activities**	**23**	**19,202**	**21,357**
	CASH FLOWS FROM INVESTING ACTIVITIES			
	Cash was provided from:			
4	Advance payments received		0	0
55	Proceeds from sale of property, plant and equipment		45	60
59			45	60
	Cash was applied to:			
0	Advance payments made		0	4
18,140	Purchase of property, plant and equipment		32,083	20,025
2,037	Purchase of intangible assets		967	2,531
20,177			33,050	22,560
(20,118)	**Net cash inflow/(outflow) from investing activities**		**(33,005)**	**(22,500)**
	CASH FLOWS FROM FINANCING ACTIVITIES			
	Cash was provided from:			
122,800	Proceeds from borrowings		15,946	105,200
122,800			15,946	105,200
	Cash was applied to:			
53	Repayment of finance lease liabilities		0	41
126,449	Repayment of borrowings		3,035	103,250
126,502			3,035	103,291
(3,702)	**Net cash inflow (outflow) from financing activities**		**12,911**	**1,909**
(203)	Net increase/(decrease) in cash and cash equivalents		(892)	766
260	Cash and cash equivalents at the beginning of the year		1,085	57
57	**CASH AND CASH EQUIVALENTS AT END OF THE YEAR**	**8**	**193**	**823**

The accompanying notes form part of these financial statements.
The GST (net) component of operating activities reflects the net GST paid to and received from the Inland revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes and to be consistent with the presentation basis of the other primary financial statements.

The explanations of major variances against budget are provided in Note 35.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 - STATEMENT OF ACCOUNTING POLICIES

1.1 REPORTING ENTITY

Thames-Coromandel District Council (the Council) is a territorial local authority governed by the Local Government Act 2002 and is domiciled in New Zealand.

The Council consists of Thames-Coromandel District Council, and the joint venture arrangement with the Thames Valley Emergency Operating Area (TVEOA). TVEOA is incorporated and domiciled within New Zealand.

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

The financial statements include activity Cost of Service Statements, a Statement of Comprehensive Income, a Statement of Changes in Equity, a Statement of Financial Position and Statement of Cash flows, with supporting notes.

The financial statements of the Council are for the year ended 30 June 2012 and were authorised for issue by the Council on ***26 September 2012***.

1.2 BASIS OF PREPARATION

1.2.1 Statement of compliance

The financial statements of the Council have been prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with generally accepted accounting practice in New Zealand ("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.

1.2.1 Measurement base

The financial statements have been prepared on an historical cost basis, modified by the revaluation of land and buildings, certain infrastructural assets, investments, forestry assets and certain financial instruments (including derivative instruments).

1.2.2 Functional and presentation currency

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

1.2.3 Changes in accounting policies

There have been no changes in accounting policies during the financial year.

The Council has adopted the following revisions to accounting standards during the financial year, which have had only a presentational or disclosure effect:

- Amendments to NZ IAS 1 Presentation of Financial Statements. The amendments introduce a requirement to present, either in the statement of changes in equity or the notes, for each component of equity, an analysis of other comprehensive income by item. The Council has decided to present this analysis in note 7
- FRS-44 New Zealand Additional Disclosures and Amendments to NZ IFRS to harmonise with IFRS and Australian Accounting Standards (Harmonisation Amendments) – The purpose of the new standard and amendments is to harmonise Australian and New Zealand accounting standards with source IFRS and to eliminate many of the differences between the accounting standards in each jurisdiction. The main effect of the amendments on the Council is that certain information about property valuations is no longer required to be disclosed. However, as good practice, Council has continued to disclose the name of the property valuer for each asset class. Accordingly, note 15 has only been slightly modified for these changes.

1.2.4 Change in reporting format from prior year

There have been no changes in reporting format from prior years.

1.2.5 Standards, amendments and interpretations issued that are not yet effective and have not been early adopted

Standards, amendments and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the Council include:

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 - STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

- NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus/deficit. The new standard is required to be adopted for the year ended 30 June 2016. However, as a new Accounting Standards Framework will apply before this date, there is no certainty when an equivalent standard to NZ IFRS 9 will be applied by public benefit entities.

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, the Council is classified as a Tier 1 reporting entity and it will be required to apply full Public Benefit Entity Accounting Standards (PAS). These standards are being developed by the XRB based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is expected to be for reporting periods beginning on or after 1 July 2014. This means the Council expects to transition to the new standards in preparing its 30 June 2015 financial statements. As the PAS are still under development, the Council is unable to assess the implications of the new Accounting Standards Framework at this time.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

1.3 SIGNIFICANT ACCOUNTING POLICIES

1.3.1 Basis of Consolidation

The consolidated financial statements are prepared 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 on consolidation.

(a) Joint venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. For jointly controlled operations, the Council recognises in its financial statements the assets it controls, the liabilities and expenses it incurs, and the share of the income that it earns from the joint venture.

(b) Associates

An associate is an entity, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Investments in associates are recognised under the equity method of accounting as prescribed in NZ IAS 28 *Investments in Associates* whereby the investment in the associate is recognised at cost with the carrying amount adjusted to reflect the ownership interest in the associate.

Council has elected to recognise its interests in both the Hauraki Rail Charitable Trust and Destination Coromandel Trust as associates of Council. Given however that Council does not have an ownership interest in either trust and that no share of the profit or loss is made to Council, it would be impractical for Council to recognise its relationship with the trusts through this method. Nevertheless, the relationship is recognised as a related party with the appropriate disclosures made in accordance with NZ IAS 24 Related Party Disclosures.

1.3.2 Revenue Recognition

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

(a) Rates revenue

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

Revenue from water by volume rates is recognised on an accrual basis. Unbilled usage, as a result of unread meters at year-end is accrued on an average usage basis.

(b) Government grants

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 - STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(c) Vested assets

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

(d) Sale of goods

Revenue from sales of goods is recognised when a product is sold to the customer.

(e) Parking infringements

Parking infringements are recognised when payment of the infringement notice is received.

(f) Interest and dividends

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividends are recognised when received.

(g) Development and financial contributions

Development and financial contributions from subdivision consents are recognised as income upon the granting of the resource consent and prior to the completion certificate being issued pursuant to Section 224c of the Resource Management Act 1991. Contributions from land use consents are recognised as income upon the granting of the resource consent.

Development contributions are recognised as revenue when Council provides, or is able to provide, the service for which the contribution was charged. However, where contributions are collected in advance to fund a service that is not actually provided in a particular area, the contribution is classified as revenue in advance.

1.3.3 Donated services

The work of the Council relies on the voluntary services of residents, particularly in the activities of parks and reserves, libraries, and foreshores. Since these services are not purchased by the Council and, because of the difficulty of determining their value with reliability, donated services are not recognised in these statements.

1.3.4 Equity

Equity is the community's interest in the Council and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of components to enable clearer identification of the specified uses of equity within the Council.

The components of equity are:

- Accumulated funds
- Restricted reserves
- Property revaluation reserves
- Council created reserves.

(a) Accumulated funds

The accumulated surpluses do not represent cash available to offset future rate increases, but rather it represents the community's investment in publicly owned assets resulting from past surpluses.

(b) Restricted reserves

Restricted reserves are those reserves that are subject to specific conditions of use, whether under statute or accepted as binding by the Council, and that may not be revised without reference to the Courts or third parties. Transfers from these reserves may be made only for certain specified purposes or when certain specified conditions are met.

(c) Property revaluation reserves

The property revaluation reserves recognise any increase or decrease in the carrying value of Council's non-current assets.

(d) Council created reserves

Council created reserves are reserves restricted by Council decision. Council may alter them without references to any third party or the Courts. Transfers to and from these reserves are at the discretion of the Council.

Council created reserves consist of specifically named reserves into which funds are put for specific purposes, and unspent revenue from one year which the Council deems appropriate to be expended in the following year, usually to finish incomplete, but previously budgeted work. Council created reserves also include reserves for depreciation which have been funded but not yet utilised.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 - STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

1.3.5 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less, net of outstanding bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

1.3.6 Debtors and other receivables

Debtors and other receivables are recorded at net realisable value, less any provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that Council will not be able to collect all amounts due according to the original terms of the receivable. 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.

1.3.7 Derivative Financial Instruments and Foreign Currency Transactions

Council uses derivative financial instruments to hedge exposure to foreign exchange and interest rate risks arising from financing activities. Council does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at 30 June 2012. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments. Any gains or losses arising from changes in fair value are taken directly to the surplus or deficit for the year.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in the surplus or deficit.

The portion of the fair value of an interest rate derivative that is expected to be realised within 12 months of balance date is classified as current, with the remaining portion classified as non-current.

Council has elected not to apply hedge-accounting to its derivative financial instruments.

1.3.8 Other Financial Assets

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

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

Council classifies its financial assets into the following three categories:

- financial assets at fair value through profit or loss
- loans and receivables
- Financial assets at fair value through other comprehensive income.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation every reporting date.

(a) Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit and loss include financial assets held for trading. A financial asset is classified in this category if is acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

After initial recognition, they are measured at their fair values with gains or losses on re-measurement recognised in the surplus or deficit.

Council's financial assets at fair value through profit and loss include derivatives that are not designated as hedges including interest rate swaps and foreign exchange options.

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets.

After initial recognition, they are measured at amortised cost using the effective interest method, less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 - STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Loans to community organisations made by Council 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 similar financial instruments. They are subsequently measured at amortised cost using the effective interest method. The difference between the face value and present value of the expected future cash flows of the loan is recognised in the surplus or deficit as a grant.

Council's loans and receivables are comprised of cash and cash equivalents, trade and other receivables, term deposits and loans.

(c) Fair Value through other comprehensive income

Financial assets at fair value through other comprehensive income are those that are designated into the category at initial recognition or are not classified in any of the other categories above. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance date or if the debt instrument is not expected to be realised within 12 months of balance date.

Council includes in this category:

- investments that it intends to hold long-term but which may be realised before maturity
- Shareholdings that it holds for strategic purposes.

These investments are measured at their fair value, with gains and losses recognised through other comprehensive income, except impairment losses, which are recognised through the surplus or deficit.

On derecognition, the cumulative gains or losses previously recognised in other comprehensive income are reclassified from equity to profit and loss.

Investments in this category include shares held in New Zealand Local Government Insurance Corporation Limited and Local Authority Shared Services Limited.

Council has a one-thirteenth ordinary shareholding in the Local Authority Shared Services Limited. The investment also consists of shares in the Shared Valuation Data Service, service shares in the Waikato Region Aerial Photography Service and Waikato Regional Transport Model. These shares have been measured at cost at the date of acquisition and have remained at cost, which may not equate to fair value.

Each year within the Annual Report, the Council recognises its interest in its jointly controlled entity, the Thames Valley Emergency Operating Area using the Equity Method (per NZIAS 28 Para. 11-12). This allows the Council to recognise the investment initially recognised at cost. The carrying amount is then increased or decreased to recognise the Council's share of the surplus or deficit of the jointly controlled entity after the date of recognition.

1.3.9 Fair Value

The fair value of financial instruments traded in active markets is based on quoted market prices at balance 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 other valuation techniques. Council uses a variety of methods and makes assumptions that are based on market conditions which exist at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments held.

1.3.10 Impairment of Financial Assets

At each balance date, Council 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 surplus or deficit.

(a) Loans and Receivables

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

(b) Quoted and Unquoted Equity Instruments

For equity instruments classified as fair value through other comprehensive income, a significant or prolonged decline in the fair value of the investment below its cost is considered an indicator of impairment. The cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the surplus or deficit) is removed from equity and recognised in the surplus or deficit. Impairment losses recognised in the surplus or deficit on equity investments are not reversed through the surplus or deficit.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 - STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

1.3.11 Inventories

Inventories (such as spare parts and other items) held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at the lower of cost, and adjusted when and where applicable, for any loss of service potential.

Where inventory is acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

The amount of any write-down for the loss of service potential or from cost to net realisable value is recognised in the surplus or deficit in the period of the write-down.

1.3.12 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 rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the surplus or deficit.

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.

1.3.13 Goods and Services Tax (GST)

All items in the financial statements are stated exclusive of GST, except for debtors, and other receivables, and creditors and other 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 net amount of GST recoverable from, or payable to, the Inland Revenue Department is included as part of receivables or payables in the Statement of Financial Position.

The net GST paid to, or received from the Inland Revenue Department, 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.

1.3.14 Biological Assets

Standing forestry assets are independently revalued annually at fair value less estimated point of sale costs for harvesting, transport, roading and management for one growth cycle. Fair value is determined based on the present value of expected net cash flows that would arise if the asset were harvested today, discounted at a current market determined pre-tax rate. This calculation is based on existing sustainable felling plans and assessments regarding growth, timber prices, felling costs and silvicultural costs and takes into consideration environmental, operational and market restrictions. The valuation is of standing timber only, exclusive of the underlying land value.

Gains or losses arising on initial recognition of biological assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the surplus or deficit.

The cost to maintain the forestry assets are included in the surplus or deficit.

1.3.15 Property Plant and Equipment

Property, plant and equipment consist of operational assets, restricted assets, and infrastructural assets.

(a) Operational Assets

These include operational land, buildings and improvements, library books, furniture and fittings, plant and equipment, swimming pools, refuse processing and disposal, computer hardware, motor vehicles, and leased photocopiers.

(b) Restricted Assets

Restricted assets are parks and reserves (including public toilets) owned by Council, which provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.

(c) Infrastructural Assets

Infrastructure assets are the fixed utility systems owned by Council including roads, footpaths, bridges and culverts, water, wastewater, storm water, reserve improvements and harbour facilities. Each asset class includes all items that are required for the network to function, for example, wastewater reticulation includes reticulation piping and sewer pump stations.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 - STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(d) Recognition

Expenditure is capitalised as property, plant and equipment when it creates a new asset or increases the economic benefits over the total life of an existing asset. Costs that do not meet the criteria for capitalisation are expensed.

(e) Measurement

Land is measured at fair value, and buildings and infrastructure are measured at fair value less accumulated depreciated and impairment losses. All other assets are measured at cost, less accumulated depreciated and impairment losses.

(f) Unformed or paper roads

An unformed or paper road is a term for a road that is legally established and recorded in survey plans, but has not been formed, and that ownership of the land associated with the paper road resides with Council.

Council does not recognise land under unformed paper roads in the financial statements because there is no service potential from the majority of paper roads. The public good of having access routes is very difficult to value. In addition there is a very limited market for sale to the surrounding or adjacent property owners, and the value cannot be measured reliably because of the small individual area of many paper roads, and due to the high cost of disposal.

(g) Revaluations

The result of any revaluation of the Council's property, plant and equipment is recognised within other comprehensive income and is also credited or debited to the asset revaluation reserve for that class of property, plant and equipment.

Where this results in a debit balance in the reserve for a class of property, plant and equipment, the debit balance component is included within the surplus or deficit.

Any subsequent increase on revaluation that off-sets a previous decrease in value recognised within the surplus or deficit will be recognised firstly, within the surplus or deficit up to the amount previously expensed, and then secondly recognised within other comprehensive income and credited to the revaluation reserve for that class of property, plant and equipment.

Accumulated depreciation at revaluation date is eliminated against the gross carrying amount so that the carrying amount after revaluation equals the revalued amount. Property, plant and equipment are shown at cost or valuation, less accumulated depreciation and impairment losses.

The carrying value of land is assessed in between revaluation cycles to ensure that it does not differ materially from its fair value. If there is a material difference, then it would be required to be revalued.

Operational Assets	Is asset class revalued?	Revaluation Frequency
Land	Yes	Bi-Annual
Buildings	Yes	Annually
Computer Hardware	No	Not applicable
Furniture and Fittings	No	Not applicable
Library Collections	No	Not applicable
Plant and Machinery	No	Not applicable
Swimming Pool	No	Not applicable
Refuse Processing and Disposal	Yes	Annually
Infrastructural Asset		
Parks and Furniture	Yes	Annually
Bridges and Culverts	Yes	Annually
Footpaths	Yes	Annually

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 - STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Harbour Facilities	Yes	Annually
Roads (incl. land under roads)	Yes	Annually
Water, Stormwater and Wastewater	Yes	Annually
Reserves Land	Yes	Bi-Annual

(h) 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 Council and the cost of the item can be measured reliably.

Work in progress in recognised at cost less impairment and is not depreciated.

Property, plant, and equipment is initially 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.

(i) Disposals

Realised gains and losses arising from the disposal of property, plant and equipment are recognised within the surplus or deficit in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to accumulated funds.

(j) Depreciation

Depreciation is provided on all property, plant and equipment, with certain exceptions. The exceptions are land and assets under construction (work in progress). Depreciation is calculated on a straight line basis, to allocate the cost or value of the asset (less any residual value) over its estimated useful life.

The estimated useful lives of the major classes of property, plant and equipment and associated depreciation are as follows:

Operational Assets	Useful Life	Depreciation Rate
Buildings	5-43 years	2.33%-20%
Computer Hardware	3-10 years	10-33.3%
Furniture and Fittings	3-25 years	4%-33.3%
Library Collections	10 years	10%
Plant and Machinery	5-10 years	10%-20%
Refuse Processing and Disposal Bins Civil	 10 years 15-80	 10% 1.25%-6.67%
Swimming Pool	10-50 years	2.0%-10%

Infrastructural Assets	Useful Life	Depreciation Rate
Reserve Improvements		
Cemeteries	10-80 years	1.3%-10%
Equipment	5-50 years	2.0%-20%
Fencing	10-75 years	1.3%-10 %
Furniture	10-30 years	3.33%-10%
Pavement	8-90 years	1.1%-12.5%
Playground	25 years	4%
Signs	10-50 years	2%-10%
Structures	10-80 years	1.25%-10%
Bridges and Culverts	100 years	1%

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 - STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Footpaths	20-50 years	2%-5 %
Harbour Facilities		
Boat Ramps	100 years	1%
Wharves	40-50 years	2%-2.5%
Harbours General	20-50 years	2%-5%
Slipway	50 years	2%
Reclamations	15-100 years	1%-6.67%
Causeway Base/Breakwater	Infinite	Not depreciated
Water		
Plant	5-100 years	1.1%-20%
Signs	10 years	10%
Hydrants/valves	15-80 years	1.25%-6.67%
Mains	60-100 years	1.0%-1.7%
Connections	80 years	1.3%
Wastewater		
Mains	60-100 years	1%-1.7%
Connections	80 years	1.3%
Manholes	80 years	1.3%
Plant	5-100 years	1.1%-20%
Vents	20-80 years	1.3%-5%
Stormwater		
Pits	80-100 years	1%-1.25%
Drains	50-100 years	1%-2%
Plant	10-90 years	1.1%-10%
Roads		
Railing	15-20 years	5%-6.7%
Drainage	60 years	1.7%
Signs	15 years	6.7%
Lights	2-10 years	10%-50%
Poles	25-50 years	2%-4%
Brackets	50 years	2%
Retaining Walls	99 years	1.1%
Minor Structures	30 years	3.3%
Surface Water Channels	15-50 years	2%-10%
Surface	3-30 years	3.3%-33.3%
Basecourse	60-80 years	1.25%-1.67%
Subbase	60-70 years with a 100% residual value	0%
Formation	Infinite	Not depreciated

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

1.3.16 Intangible Assets

(a) Software Acquisition and Development Costs

Software Acquisition and development costs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Preliminary staff costs for new software attributable to either, preparing the asset for its intended use, or testing whether the asset is functioning properly, are capitalised.

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

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 - STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(b) Easements

Easements are not cash generating in nature, instead they give Council the right to access private property where infrastructural assets are located.

Council has not valued and recognised easements as an intangible asset under *NZ IAS 38 Intangibles*. The work required identifying and developing a central register to record easements and paper roads would be considerable and difficult to ensure that it was comprehensive and complete. The Council is also concerned that the cost to establish the register would be substantial with minimal benefits being achieved. Registered valuers would have difficulty determining a fair value for the easements due to their unique nature, and having no active market for this particular asset type. There is also no recognised valuation methodology.

For these reasons, Council has opted not to recognise easements as an intangible asset because they cannot be quantified and the value of the easements cannot be measured reliably.

(c) Resource Consents

It is difficult to determine the fair value of Resource Consents due to their specialised nature and having no active market to compare values against.

For these reasons, Council holds resource consents at deemed cost and they are amortised over the life of the asset.

(d) Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Intangible Asset	Useful Life	Amortisation Rate
Computer software	5 years	20%
Resource consents	7-30 years	3.3%-14.3%
Aerial Photography	5 years	20%

1.3.17 Impairment of Property, Plant and Equipment and Intangible Assets

The carrying amounts of property, plant and equipment are reviewed at least annually to determine if there is any indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised.

The recoverable amount is the higher of an item's fair value less costs to sell and value in use. Losses resulting from impairment are reported within the surplus or deficit, unless the asset is carried at a revalued amount in which case any impairment loss is treated as a revaluation decrease and recorded within other comprehensive income. Should the impairment loss result in a debit balance in the revaluation reserve, the balance is recognised in the surplus or deficit.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve, and subsequently through other comprehensive income. However, to the extent that an impairment loss for that class of asset was previously recognised in the surplus or deficit, a reversal of the impairment loss is also recognised in the surplus or deficit.

For assets not carried at a revalued amount (other than goodwill), the reversal of an impairment loss is recognised in the surplus or deficit.

1.3.18 Assets under Construction

Assets under construction are not depreciated. The total cost of a completed project is transferred to the relevant asset class at balance date.

1.3.19 Creditors and other payables

Creditors and other payables are initially measured at fair value.

1.3.20 Borrowings

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method where the difference to carrying value is material. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Borrowings are classified as current liabilities unless Council has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 - STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

1.3.21 Borrowing Costs

Council has elected to defer the adoption of NZ IAS 23 *Borrowing Costs (Revised 2007)* in accordance with its transitional provisions that are applicable to public benefit entities. Consequently, all borrowing costs are recognised as an expense in the period in which they are incurred.

1.3.22 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 Council has no obligation to award on receipt of the grant application and are recognised as expenditure when a successful applicant has been notified of Council's decision.

1.3.23 Provisions

A provision is recognised 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, and 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 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 and is included in 'finance costs'.

(a) Landfill Post-closure Costs

The Council has a legal obligation to provide on-going maintenance and monitoring services at its five closed landfill sites. A provision for post-closure costs is recognised as a liability in the Statement of Financial Position. The provision is measured based on the present value of future cash outflows expected to be incurred, taking into account future events including new legal requirements and known improvements in technology. The provision includes all known costs associated with landfill post-closure.

(b) Leaky Home Settlement Costs

As a result of legal precedent that Councils are liable for a share of leaky homes repair costs, a provision for estimated settlement costs has been recognised as a liability in the Statement of Financial Position. The provision is measured based on the present value of future cash outflows expected to be incurred, taking into account future events. The provision includes all expected settlement costs. When there is a high level of uncertainty, a contingent liability is recognised.

(c) Reserve Contribution Credits

A provision has been established in the Statement of Financial Position for the estimated liability associated with historic reserve contribution credits, as a result of subdivision's vesting of reserves prior to the introduction of the Development Contribution Policy in October 2004. In addition to this, a provision has been established for Reserve Contribution credits associated with the development of the Whitianga multi-sports complex centre.

(d) Financial Guarantee Contracts

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

Financial guarantee contracts have not been provided for in the Statement of Financial Position because Council has assessed the probability of a financial guarantee being called up as 'less than likely to occur' and the club or organisation has provided an indemnity to the Council that transfers ownership of the assets to Council in the event of the guarantee being called up. The Council's exposure to any risk is therefore mitigated and minimal. Financial guarantees are disclosed as a contingent liability because it is not probable that a present obligation exists.

1.3.24 Leases

(a) 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, Council recognises finance leases as assets and liabilities in the Statement of Financial Position at the lower of the fair value of the leased item or the present value of the minimum lease payments. The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether Council 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.

Council holds two photocopier leases that are classified as finance leases.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 - STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(b) 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 in the surplus or deficit on a straight-line basis over the lease term.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

1.3.25 Income tax

The Council is exempt from income tax. Accordingly, no provision has been made for income tax.

1.3.26 Employee Entitlements

(a) Short-term employee entitlements

Employee benefits expected be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, and sick leave.

A liability for sick leave is recognised to the extent that compensated 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 it will be used by staff to cover those future absences.

A liability and a corresponding expense are recognised for bonuses where the Council has a contractual obligation, or where a past practice has created a constructive obligation at balance date.

(b) Long-term employee entitlements

Employee benefits that are due to be settled beyond 12 months after the end of the period in which the employee renders the related service, such as long service leave and retirement gratuities, have been calculated on an actuarial basis. The calculations are based on:

I. 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 entitlement information

II. The present value of estimated future cash flows.

Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows for entitlements. The inflation factor is based on the expected long-term increase in remuneration for employees.

(c) Presentation of employee entitlements

Sick leave, annual leave, vested long service leave, and non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date, are classified as a current liability. All other employee entitlements are classified as a non-current liability in the Statement of Financial Position.

1.3.27 Superannuation schemes

(a) Defined contribution schemes

Obligations for contributions to KiwiSaver are accounted for as defined contribution superannuation schemes and are recognised as an expense in the surplus or deficit when incurred.

(b) Defined benefit schemes

The Council makers employer contributions to the Defined Benefit Plan Contributors Scheme (the scheme), which is managed by the Board of Trustees of the National Provident Fund The scheme is a multi-employer defined benefit scheme.

Insufficient information is available to used defined benefit plan accounting, as it is not possible to determine from the terms of the scheme the extent to which the scheme's surplus or deficit will affect future contributions by individual employers, as there is no prescribed bases for allocation. The scheme is therefore accounted for as a defined contribution scheme. Further information on this scheme is disclosed in note 28.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 - STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

1.3.28 Statement of Cash Flows

Operating activities include cash received from all income sources of Council and record the cash payments made for the supply of goods and services. Agency transactions are not recognised as receipts and payments in the Statement of Cash Flows.

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

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

1.3.29 Budget figures

The budget figures are those approved by the Council for the 2011/12 financial year in the 2011/12 Annual Plan. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by Council for the preparation of these financial statements.

1.3.30 Cost Allocation

Council has derived the cost of service for each Council activity using the cost allocation system outlined below.

Direct costs are those costs directly attributable to a significant activity. Indirect costs are those costs, which cannot be identified in an economically feasible manner for a specific Council activity.

Direct costs are charged directly to the Council activities that incur those costs. Indirect costs are charged to Council activities using appropriate cost drivers such as actual usage, staff numbers and floor area.

1.3.31 Critical accounting estimates and assumptions

In preparing these financial statements, Council has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions 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 with in the next financial year are discussed below.

(a) Infrastructural assets

Note 15 provides further information about the estimates and the assumptions applied in determining the fair value of infrastructural assets.

(b) Landfill aftercare provision

Note 21 provides further information about the estimates and the assumptions surrounding the Landfill aftercare provision.

(c) Leaky Home settlement costs

Note 21 provides further information about the estimates and the assumptions surrounding the Leaky Home Settlement Provision.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 2 - SUMMARY COST OF SERVICES

2011		2012	
Actual		Budget	Actual
$000's		$000's	$000's
	REVENUE		
	Council activities		
2,936	Community leadership	2,606	2,750
3,831	Planning for the future	3,615	4,108
31,442	Strong communities	34,396	31,290
39,334	Safeguarding the environment	38,262	37,195
77,543	Total revenue from Council activities	78,879	75,343
2,700	Assets vested and introduced	3,234	846
488	Other gains	0	0
80,731	**TOTAL REVENUE**	**82,112**	**76,190**
	EXPENDITURE		
	Council activities		
3,607	Community leadership	4,296	3,747
2,879	Planning for the future	3,380	3,078
30,020	Strong communities	32,446	31,542
34,317	Safeguarding the environment	37,670	33,607
70,823	Total cost of services	77,792	71,974
36	Impairment on inventory	0	176
3,119	Other losses	0	3,710
73,977	**TOTAL EXPENSES**	**77,792**	**75,860**
6,754	**SURPLUS FROM OPERATIONS**	**4,320**	**330**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3 - REVENUE

2011 Actual $000's		2012 Actual $000's
	RATES REVENUE	
8,789	General rates	8,903
8,442	Uniform annual general charge	8,060
40,430	Targeted rates	40,434
1,217	Water by volume	1,120
685	Penalties	736
59,563	**Total Rates Revenue**	**59,253**
	ACTIVITY REVENUE	
9,240	User fees and charges	8,819
212	Infringements and fines	198
502	Petrol tax	473
9,954	**Total operating revenue**	**9,490**
	INVESTMENT REVENUE	
35	Interest received	32
35	**Total investment revenue**	**32**
	GAINS	
488	Gains on changes in fair value of biological assets	0
488	**Total other gains**	**0**
	ASSETS VESTED	
0	Plant and equipment	16
199	Reserves land	2
7	Reserves improvements	19
1,679	Roads and footpaths	384
213	Wastewater	125
363	Water	96
239	Stormwater	204
2,700	**Total assets vested in Council**	**846**
	OTHER REVENUE	
2,439	Contributions	955
5,552	New Zealand Transport Agency subsidies*	5,613
7,991	**Total other revenue**	**6,568**
80,731	**TOTAL REVENUE**	**76,190**

*There are no unfulfilled conditions and other contingencies attached to NZTA subsidies recognised.

Non-Rateable Land

Under the Local Government (Rating) Act 2002 certain properties cannot be rated for general rates, the uniform annual general charge and certain targeted rates. These include schools, places of religious worship, public gardens and reserves. These non-rateable properties may be subject to targeted rates in respect of sewerage, water and refuse. Non-rateable land does not constitute a remission under the Council's rates remission policy.

Gifted and Vested Assets

Gifted Assets

The following assets were gifted to the Council during the 2011-2012 financial year:

- The Ferry Landing Library Building
- Picnic Tables at Te Karo (1), Whitianga (1) and Matarangi (1)
- Park Seats at Hot Water Beach (2) and Buffalo Beach (1)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3 - REVENUE (CONTINUED)

- Historical information signs at Tairua (20); and
- Kerb and Channeling work within the Ferry Landing Cemetery

Ferry Landing Library

The Ferry Landing Library building was previously owned and operated by a small Ferry landing Library committee.

An enthusiastic group of volunteers managed to build a varied collection of 1600 books that are now renewed and exchanged with the District library in Whitianga. Unfortunately, due to a recent flooding event the original library building was deemed inhabitable for public use. Volunteers were prepared to undertake major reconstructive work on the building but due to the age and state of the structure it was determined that a full replacement of the building was the only option.

A small committee was established to undertake the “replica” replacement project. The committee decided that as the building is located on Council land at 1138 Purangi Road, the new building should be formally “handed over” or vested in Council. This was to ensure that the building could be well maintained and enjoyed by the general public for future generations to come.

Park Seats and Picnic Tables

Each park seat was valued at $788 and each picnic table was valued at $694 with the exception of the picnic table at Te Karo which was valued at $788.

Park Seats and Picnic Tables are donated to Council in memoriam of a passed loved one. These seats and picnic tables generally symbolise a favoured spot or location on the Peninsula of the person being remembered. The benches and picnic tables are donated to Council with a commemorative plaque. Council then meets all installation costs and any on-going maintenance costs of the assets. It should be noted however, that Council does not replace a plaque should it be either damaged or stolen.

Historical Signs

The Tairua Historical Society presented Council with twenty signs to mark twenty significant historical sites within Tairua. Council met all installation costs of the signs and will meet any on-going maintenance costs of the signs. Each sign was valued at $501.

Kerb and Channeling Work

The work was completed in the services section of the cemetery and although Council owns the asset, a case was put forward by Council for the Veteran Affairs to pay for the works. Veteran Affairs agreed to fund this work in its entirety.

Vested Assets

The Council has had vested to it certain infrastructural assets and land as part of the sub-divisional process. The Council recognises the value of these assets as income in the statement of comprehensive income with an equivalent increase in property, plant and equipment in the statement of financial position.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 4 - EXPENDITURE

2011 Actual $000's		2012 Actual $000's
	PERSONNEL COSTS	
12,793	Salaries and wages	13,683
13	Employer contributions to multi-employer defined benefit plans	0
130	Employer contributions to defined contribution plans	158
81	Increase/(decrease) in employee benefit liabilities	(461)
13,017	**Total personnel costs**	**13,380**
	AMORTISATION	
232	Resource Consents	209
0	Aerial Photography	89
195	Computer software	247
427	Total amortisation expense	545
	DEPRECIATION	
708	Buildings	735
386	Computer hardware	447
177	Furniture and fittings	183
125	Library collections	135
296	Plant, machinery and vehicles	300
274	Solid Waste	182
302	Bridges and culverts	319
668	Footpaths	702
119	Harbour facilities	127
806	Reserves improvements	820
4,414	Roads	4,671
980	Stormwater	1,053
4,529	Wastewater	4,288
2,283	Water	2,509
16,067	Total depreciation expense	16,471
16,495	**Total depreciation and amortisation expense**	**17,016**
	FINANCE COSTS	
	Interest expense	
2,934	Interest on bank borrowings	3,288
6	Interest on finance leases	2
190	Discount unwinding: Refer Note 21 Provisions	71
3,130	**Total finance costs**	**3,361**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 4 - EXPENDITURE (CONTINUED)

	OTHER EXPENSES	
	Audit fees	
130	Fees for annual report audit	142
0	Fees for 2012-22 Long Term Plan audit	120
229	Grants provided	197
301	Impairment of receivables: Refer Note 9 Debtors and other receivables	156
0	Impairment of property intended for sale: Refer Note 13	0
15	Operating leases	19
394	Rates remissions: Refer Note 5 Rates remissions	458
21	Impairment of swimming pool plant	0
37,112	Other operating expenses	37,125
38,201	**Total other expenses**	**38,217**
	OTHER LOSSES	
2,176	Losses on disposal of property, plant and equipment: Refer Note 6 Gains/losses on disposal	1,618
0	Losses on changes in fair value of forestry assets	74
943	Losses on changes in fair value of interest rates swaps	2,017
15	Impairment of spare parts for obsolence	176
3,134	**Total other losses**	**3,885**
73,977	**TOTAL EXPENDITURE**	**75,859**

Employer contributions to multi-employer defined benefit plans include contributions to Kiwisaver and the Defined Benefit Plan Contributors Scheme.

Grants provided are for grants made by Council or Community Boards only. Payments covered by service level agreements have been excluded.

NOTE 5 - RATES REMISSIONS

Rates relief provided by the Council includes rates postponement (for further details refer Note 14: Postponed rates) and rates remissions. The objective of rates remissions is to recognise the diverse nature of the Coromandel and enhance the social and economic development throughout the Peninsula. The different type of rates remissions and the specific objectives of each type of rates remission are set in accordance with the policy outlined in the Ten Year Plan. Council's remission policy has been treated as an expense in accordance with the Council's view that this is in the nature of a grant, not a reduction of revenue.

2011 Actual $000's		2012 Actual $000's
	Rates remissions are comprised of:	
5	Land held for conservation or preservation purposes	5
20	Community sporting and non-profit organisations	23
120	Maori freehold land	140
2	Land affected by a natural calamity	5
17	Rating units occupied/owned in common (includes residential and rural)	20
55	Wastewater charges for schools	65
171	Rating units containing two separately habitable units (second dwelling)	196
4	Unusable land	4
394	**TOTAL REMISSIONS**	**458**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 6 - GAINS/LOSSES ON DISPOSAL OF PPE

The following gains/losses on the disposal of fixed assets are included as an expense in the Statement of Comprehensive Income:

2011 Actual $000's		2012 Actual $000's
	Gains on disposal include:	
0	Hardware	3
0	Plant	1
26	Motor Vehicles	1
26	**Total gains on disposal of property, plant and equipment**	**5**
	Losses on disposal include:	
0	Software	17
56	Buildings	0
41	Swimming Pool	0
26	Footpaths	28
45	Harbour facilities	0
0	Furniture and Fittings	4
89	Reserves improvements	41
1,180	Roading	696
17	Solid waste disposal	0
295	Stormwater	34
453	Wastewater	55
0	Water	81
0	Work in progress	667
2,202	**Total losses on disposal of property, plant and equipment**	**1,623**
2,176	**TOTAL LOSS/(GAIN) ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT**	**1,618**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 7 - EQUITY

2011		2012
Actual		Actual
$000's		$000's
	ACCUMULATED FUNDS	
444,063	Opening balance	441,442
(13,407)	Net movement in restricted reserves	0
3,259	Net movement in Council created reserves	724
778	Transfers from property revaluation reserves on disposal	305
6,749	Net surplus for the year	344
441,442	**Total consolidated accumulated funds**	**442,815**
	RESTRICTED RESERVES	
	Reserves land (restrictions imposed by title)	
18,422	Opening balance	31,616
13,194	Net movement in reserves land	0
31,616	Closing balance	31,616
	Endowment farms trust property (restrictions imposed by statute)	
1,528	Opening balance	1,741
213	Net movement in endowment farms trust property reserve	0
1,741	Closing balance	1,741
33,357	**Total restricted reserves**	**33,357**
	COUNCIL CREATED RESERVES	
	Specifically named reserves available to fund activities	
(22,682)	Opening balance	(29,601)
(6,919)	Net movement in specifically named reserves	(3,932)
(29,601)	Closing balance	(33,533)
	Retained revenue reserves available to fund activities	
7,972	Opening balance	9,849
1,877	Net movement in retained revenue reserves	1,923
9,849	Closing balance	11,771
	Funded depreciation reserves to fund capital items	
3,800	Opening balance	5,486
1,686	Net movement in funded depreciation reserves	1,262
5,486	Closing balance	6,748
	Special LGAC reserves to fund capital items	
1,862	Opening balance	1,959
97	Net movement in special LGAC reserves	23
1,959	Closing balance	1,982
(12,308)	**Total council created reserves**	**(13,032)**
	PROPERTY REVALUATION RESERVES	
672,807	Opening revaluation reserves	711,429
44,052	Net revaluation gains	16,816
(4,653)	Gains/(losses) taken to equity for impairments of land	0
(778)	Transfer to accumulated funds on disposal of property	(305)
711,429	**Closing property revaluation reserves**	**727,941**
1,173,921	**TOTAL EQUITY**	**1,191,081**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 7 - EQUITY (CONTINUED)

Council Created reserves are reserves created at Council discretion. The debit balance within Council Created Reserves has come about as a result of Council's internal funding allocation (an internal loan reserve is created from which internal loans are drawn down). If not disclosed through Council Created Reserves this internal funding allocation would be consolidated into Accumulated Funds.

The accumulated surpluses do not represent cash available to offset future rate increases, rather they represent the community's investment in publicly owned assets resulting from past surpluses.

Council created reserves consist of:

- Specifically named reserves into which funds are put for specific purposes;
- Unspent (retained) revenue from one year which the Council deems appropriate to be expended in the following year, usually to finish incomplete budgeted work; and
- Unspent depreciation reserves.

NOTE 7A - PROPERTY REVALUATION RESERVE

2011		2012
Actual		Actual
$000's		$000's
9,893	Buildings	9,570
6,768	Footpaths	7,196
2,167	Harbour facilities	1,389
237,914	Land	237,914
3,996	Reserves Improvements	4,941
4,875	Bridges and Culverts	5,684
303,823	Roads	324,244
1,864	Refuse processing and disposal	1,717
24,841	Stormwater	37,614
62,276	Wastewater	43,174
53,010	Water	54,498
711,429	**TOTAL PROPERTY REVALUATION RESERVES**	**727,941**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 8 - CASH AND CASH EQUIVALENTS

2011 Actual $000's		2012 Actual $000's
57	Cash at bank and in hand	823
57	**TOTAL CASH AND CASH EQUIVALENTS**	**823**

The carrying value of cash at bank and term deposits with maturities less than three months approximates their fair value.

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

2011		2012
3	Cash on hand	3
28	Council current account	789
26	Domain committee current accounts	31
57	**TOTAL CASH AND CASH EQUIVALENTS**	**823**

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

The Council has $819,438 of cash and cash equivalents and other short term deposits with the ANZ, National Bank, Bank of New Zealand and Westpac New Zealand.

NOTE 9 - DEBTORS AND OTHER RECEIVABLES

2011 Actual $000's		2012 Actual $000's
4,038	Rates	4,559
157	Building consents	103
1	Licensing	0
201	Resource consents	138
210	Water	195
219	Water to be billed	186
204	Contributions	266
455	Other trade receivables	442
1,267	GST	1,471
1,002	New Zealand Transport Agency subsidies	1,002
88	Petrol Tax	90
129	Other receivables	428
7,971	Gross debtors and other receivables	8,880
(1,290)	Less provision for impairment of rates receivables: Refer Note 9b	(1,482)
(301)	Less provision for impairment of other receivables: Refer Note 9b	(154)
6,381	**TOTAL DEBTORS AND OTHER RECEIVABLES**	**7,244**
	Less non-current portion:	
239	Postponed rates: Refer Note 14	359
239	Total non-current portion	359
6,142	**CURRENT PORTION DEBTORS AND OTHER RECEIVABLES**	**6,885**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 9 - DEBTORS AND OTHER RECEIVABLES (CONTINUED)

Fair Value

Debtors and other receivables are non-interest bearing and receipt is normally on 30-day terms. As such, the carrying value of trade and other receivables approximates their fair value.

Impairment

The Council does not provide for any impairment on rates receivable, except on Maori Freehold Land as it has various powers under the Local Government (Rating) Act 2002 to recover any outstanding debts.

These powers allow the Council to commence legal proceedings to recover any rates that remain unpaid four months after the due date for payment. If payment has not been made within three months of the Court's judgement, then the Council can apply to the Registrar of the High Court to have the judgement enforced by sale or lease of the rating unit.

Ratepayers can apply for payment plan options in special circumstances. Where such repayment plans are in place, debts are discounted to their net present value if the impact of discounting is material.

The carrying amount of receivables that would otherwise be past due or impaired, whose terms have been renegotiated is $381,560 (2011: $343,897).

For further details refer to Note 9c *Arrangements to pay*.

NOTE 9 A - AGEING OF RECEIVABLES

The status of receivables as at 30 June 2011 and 2012 are detailed below.

	2011				2012	
Gross	Impairment	Net		Gross	Impairment	Net
$000's	$000's	$000's		$000's	$000's	$000's
3,161	0	3,161	Not past due	3,563	0	3,563
186	0	186	Past due 1 to 30 days	162	0	162
47	0	47	Past due 31 to 61 days	77	0	77
4,339	1,591	2,748	Past due > 61 days	4,719	1,636	3,083
7,733	**1,591**	**6,142**	**TOTAL CURRENT PORTION**	**8,521**	**1,636**	**6,885**

The status of receivables as at 30 June 2011 and 2012 are detailed below.

All overdue receivables have been assessed for impairment, individually and appropriate provisions applied. The impairment provision has been calculated based on expected losses for the Council's debtors. Expected losses have been determined based on an analysis of the Council's losses in previous periods, and by reviewing debtors individually.

NOTE 9 B - MOVEMENTS IN PROVISIONS FOR IMPAIRMENT

2011		2012
Actual		Actual
$000's		$000's
1,371	Opening impairment provision	1,591
340	Additional provisions made during the year	173
(120)	Receivables written off during the year	(128)
1,591	**CLOSING IMPAIRMENT PROVISION**	**1,636**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 9 C - ARRANGEMENTS TO PAY

The age of receivables overdue, whose payment terms have been renegotiated, but not impaired are as follows:

2011 Actual $000's		2012 Actual $000's
290	0-12 months	329
54	> 12 months	52
344	**TOTAL CARRYING AMOUNT OF ARRANGEMENTS TO PAY**	**381**

The Council does not hold collateral as security or other credit enhancements over receivables that are either past due or impaired.

NOTE 10 - DERRIVATIVE FINANCIAL INSTRUMENTS

2011 Actual $000's		2012 Actual $000's
	CURRENT LIABILITY PORTION	
655	Interest rate swaps	934
655	**Total current liability portion**	**934**
	NON-CURRENT LIABILITY PORTION	
2,125	Interest rate swaps	3,856
2,125	**Total non-current liability portion**	**3,856**
2,780	**TOTAL DERIVATIVE FINANCIAL INSTRUMENT LIABILITIES**	**4,790**

Fair Value

Interest rate swaps

The fair values of interest rate swaps have been determined by calculating the expected cash flows under the terms of the swaps and discounting these values to their present value. The inputs into the valuation model are from independently sourced market parameters such as interest rate yield curves. Most market parameters are implied from instrument prices.

The notional principal amounts of the outstanding interest rate swap contracts for the Council were $45.5 million (2011: $54 million).

At 30 June 2012, the fixed interest rates of cash flow hedge interest rate swaps varied from 3.45% to 6.845% (2011: 3.45% to 6.845%).

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 11 - OTHER FINANCIAL ASSETS

2011		2012
Actual		Actual
$000's		$000's
78	Current	82
198	Non-current	206
276	**TOTAL OTHER FINANCIAL ASSETS**	**288**

Other financial assets are comprised of:

	CURRENT PORTION	
78	Short-term deposits with maturities of 4-12 months	82
0	Royal New Zealand Plunket Society Thames Branch Incorporated	0
	Total Loans and Receivables	82
78	**Total current portion**	**82**
	NON-CURRENT PORTION	
17	Unlisted shares: New Zealand Local Government Insurance Corporation Limited	11
0	Unlisted shares: Local Authority Shared Services Limited	0
108	Unlisted shares: Shared Valuation Data Service	108
22	Unlisted shares: Waikato Regional Transport Model	23
50	Interest in: Thames Valley Emergency Operating Area	64
198	Total Investments	206
198	**Total non-current portion**	**206**
276	**TOTAL OTHER FINANCIAL ASSETS**	**288**

Term Deposits
The carrying amount of term deposits approximates their fair value.

Unlisted Shares
Unlisted shares are held in non-commercial entities and are carried at cost less impairment because either the fair value of the investment cannot be reliably determined using a standardised valuation technique or due to cost not being materially different to fair value.

New Zealand Local Government Insurance Corporation Limited (Civic Assurance)
Civic Assurance is the trading name of New Zealand Local Government Insurance Corporation Limited. Civic Assurance provides insurance products and other financial services principally to New Zealand local government. The Council holds 7,120 fully paid shares (2011: 7,120) of $1.00 (2011: $1) in this entity. The value of these shares reflects the asset backing of $1.58 per share according to the financial statements of the company as at 31 December 2011.

Local Authority Shared Services Limited
The Council has a one-thirteenth ordinary shareholding (1 share at $1,000) in the Local Authority Shared Services Limited Company. The remaining shares are owned by Waikato Regional Council, Waikato District Council, Hamilton City Council, Waipa, Hauraki, Matamata-Piako, Otorohanga, Waitomo, South Waikato, Taupo and Rotorua District Councils. The shares have been issued but have not yet been called.

Holders of ordinary shares have the rights conferred on shareholders under the Companies Act 1993.

The Council also holds:

- 108,015 fully paid service shares at $1 in the Shared Valuation Data Service (SVDS), (2011: 108,015 at $1)
- 6,476 service shares in the Waikato Region Aerial Photography Service, as yet uncalled (2011: 6,476), and
- 2,250 fully paid shares in Waikato Regional Transport Model. (2011: 2,250t)

Service shareholdings entitle the holders to participate in certain services provided by the company. However, they do not provide rights to a share in the distribution of surplus assets, nor do they provide the holder of such shares to any voting rights.

For further details refer Council Controlled Organisations on page **174**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 11 - OTHER FINANCIAL ASSETS (CONTINUED)

Joint Venture

The Council recognises its interest in its jointly controlled entity, Thames Valley Emergency Operating Area, using the equity method. This investment has initially been recognised at cost as at 1 July 2009, and the carrying amount is increased or decreased to recognise the Council's share of the surplus or deficit of the jointly controlled entity after the date of recognition. The Council's share of the surplus or deficit of the jointly controlled entity is recognised in the statement of comprehensive income. The carrying amount of the investment is shown in other financial assets in the statement of financial position. This is a change in the method of disclosure because up until 30 June 2009, the Council prepared consolidated financial statements but is no longer required to do so.

Loans and Receivables

Impairment

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

Maturity Analysis

The maturity dates for all other financial assets with the exception of equity investments, and advances are as follows:

2011 Actual $000's		2012 Actual $000's
78	Other investments maturing within 1 year or less:	82
0	Investments maturing after 1 year but less than 2 years	0
0	Investments maturing after 2 year but less than 3 years	0
0	Investments maturing after 3 year but less than 5 years	0
0	Investments maturing after 4 year but less than 5 years	0
198	More than five years	206
276	**FAIR VALUE OF FINANCIAL ASSETS**	**288**
78	Other investments maturing within 1 year or less:	82
0	Investments maturing after 1 year but less than 2 years	0
0	Investments maturing after 2 year but less than 3 years	0
0	Investments maturing after 3 year but less than 5 years	0
0	Investments maturing after 4 year but less than 5 years	0
198	More than five years	206
276	**CARRYING VALUE OF FINANCIAL ASSETS**	**288**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 12 - INVENTORY

2011 Actual $000's		2012 Actual $000's
416	Wastewater spare parts	238
416	**TOTAL INVENTORY**	**238**

Inventory held for distribution

Inventory held for distribution or consumption are spare parts that have arisen from the decommissioning of the Whitianga, Whangamata and Pauanui wastewater treatment plants. The Council intends to hold these spare parts as inventory until they can be utilised in the future.

Council impaired $177,600 (2011: $14,000) worth of spare parts during the financial year.

NOTE 13 - NON-CURRENT ASSETS HELD FOR SALE

2011 Actual $000's		2012 Actual $000's
0	Land and buildings	0
0	**TOTAL NON-CURRENT ASSETS HELD FOR SALE**	**0**

No Council assets have been identified as being ‘held-for-sale’ as at 30 June 2012.

NOTE 14 - POSTPONED RATES

2011 Actual $000's		2012 Actual $000's
239	Postponed rates	359
239	**TOTAL POSTPONED RATES**	**359**

The face value of postponed rates is $358,747 (2011: $238,759). Fair value has not been determined by using discounted cash flows.

Interest was charged at a rate of 7.75% on postponed rates for the 2011/2012 year (2011: 7.75%). Future interest rates are notified annually in the Ten Year Plan or Annual Plan.

Postponed rates are secured by statutory land charges over the rating units on which rates have been postponed.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 15 - PROPERTY PLANT AND EQUIPMENT

Table 1

1 July 2011				30 June 2012			
Cost / Revaluation	Accum.dep and Impairment charges	Carrying amount		Current year revaluation	Accum. Depn reversed on revaluation	Current year additions	Assets Reclassified
$000's	$000's	$000's		$000's	$000's	$000's	$000's
			OPERATIONAL ASSETS				
21,190	705	20,485	Buildings	(1,027)	705	309	(218)
2,263	1,510	753	Computer hardware	0	0	339	0
1,943	985	958	Furniture and fittings	0	0	86	0
27,694	0	27,694	Land	0	0	279	0
1,275	575	700	Library collections	0	0	174	0
2,476	1,070	1,406	Plant and machinery	0	0	186	218
4,465	273	4,192	Refuse processing and disposal	(418)	271	199	0
61,306	**5,118**	**56,188**	**Total Operational Assets**	**(1,445)**	**976**	**1,572**	**0**
			INFRASTRUCTURAL ASSETS				
15,638	302	15,335	Bridges and culverts	507	302	0	0
17,804	667	17,137	Footpaths	(228)	667	779	0
6,141	119	6,022	Harbour facilities	(897)	119	161	0
9,937	798	9,139	Reserves improvements	170	798	3,501	0
546,668	4,097	542,571	Roads	16,516	4,096	7,736	0
57,160	980	56,180	Stormwater	11,812	979	2,505	0
174,256	4,517	169,739	Wastewater	(23,610)	4,517	7,745	0
96,514	2,283	94,231	Water	(745)	2,283	3,741	0
924,118	**13,763**	**910,355**	**Total Infrastructural Assets**	**3,525**	**13,761**	**26,168**	**0**
249,652	4,650	245,002	Restricted Assets: Reserves land	0	0	1,601	0
17,716	0	17,716	Capital work in progress	0	0	(8,382)	110
1,252,792	**23,531**	**1,229,261**	**TOTAL PROPERTY, PLANT AND EQUIPMENT**	**2,080**	**14,737**	**20,959**	**110**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 15 - PROPERTY PLANT AND EQUIPMENT (CONTINUED)

Table 1 (continued)

Current year disposals	Current year disposals depn	Current year impairment charges	Current year depn	Net Book Value	Cost	Accum. Depn and impairment charges	Carrying amount
$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's
0	0	0	736	19,518	20,254	736	19,518
87	86	0	446	645	2,515	1,870	645
20	15	0	183	856	2,009	1,153	856
0	0	0	0	27,973	27,973	0	27,973
0	0	0	135	739	1,449	710	739
158	103	0	300	1,455	2,722	1,267	1,455
0	0	0	180	4,064	4,246	182	4,064
265	**204**	**0**	**1,980**	**55,250**	**61,168**	**5,918**	**55,250**
0	0	0	319	15,825	16,145	319	15,825
30	1	0	702	17,624	18,325	701	17,624
0	0	0	127	5,278	5,405	127	5,278
47	7	0	820	12,748	13,561	813	12,748
903	208	0	4,671	565,553	570,017	4,464	565,553
34	1	0	1,053	70,390	71,443	1,053	70,390
66	11	0	4,288	154,048	158,325	4,277	154,048
86	5	0	2,509	96,920	99,424	2,504	96,920
1,166	**233**	**0**	**14,489**	**938,386**	**952,645**	**14,258**	**938,386**
0	0	0	0	246,603	251,253	4,650	246,603
574	0	0	0	8,870	8,870	0	8,870
2,005	**437**	**0**	**16,469**	**1,249,109**	**1,273,936**	**24,826**	**1,249,109**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 15 - PROPERTY PLANT AND EQUIPMENT (CONTINUED)

Table 2

1 July 2010				30 June 2011			
Cost / Revaluation	Accum.dep and impairment charges	Carrying amount		Current year revaluation	Acc.depn reversed on revaluation	Current year additions	Assets Reclassified
$000's	$000's	$000's		$000's	$000's	$000's	$000's
			OPERATIONAL ASSETS				
22,261	697	21,564	Buildings	(1,176)	697	164	0
2,210	1,306	904	Computer hardware	0	0	235	0
1,907	808	1,099	Furniture and fittings	0	0	36	0
57,295	0	57,295	Land	835	0	0	(30,436)
1,122	450	672	Library collections	0	0	153	0
2,199	989	1,210	Plant and machinery	0	0	583	0
4,345	261	4,084	Refuse processing and disposal	(143)	261	280	0
91,339	**4,511**	**86,828**	**Total Operational Assets**	**(484)**	**958**	**1,451**	**(30,436)**
			INFRASTRUCTURAL ASSETS				
15,105	285	14,819	Bridges and culverts	480	285	53	0
17,531	647	16,884	Footpaths	(400)	647	548	152
5,929	116	5,813	Harbour facilities	(2)	116	223	0
10,451	721	9,730	Reserves improvements	(942)	721	486	0
504,819	4,081	500,738	Roads	34,597	4,080	8,839	(152)
66,345	1,114	65,231	Stormwater	(10,051)	1,114	868	0
170,992	4,360	166,632	Wastewater	(4,290)	4,360	8,019	0
100,836	2,316	98,520	Water	(5,638)	2,316	1,316	0
892,008	**13,640**	**878,367**	**Total Infrastructural Assets**	**13,754**	**13,639**	**20,352**	**0**
199,560	0	199,560	Restricted Assets: Reserves land	16,183	0	3,473	30,436
19,768	0	19,768	Capital Work in Progress	0	0	(1,617)	0
1,202,675	**18,151**	**1,184,523**	**TOTAL PROPERTY, PLANT AND EQUIPMENT**	**29,453**	**14,597**	**23,659**	**0**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 15 - PROPERTY PLANT AND EQUIPMENT (CONTINUED)

Table 2 (continued)

30 June 2010							
Current year disposals	Current year disposals depn	Current year impairment charges	Current year depn	Net Book Value	Cost	Accum. Depn and impairment charges	Carrying amount
$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's
59	3	0	708	20,485	21,190	705	20,485
182	182	0	386	753	2,263	1,510	753
0	0	0	177	958	1,943	985	958
0	0	0	0	27,694	27,694	0	27,694
0	0	0	125	700	1,275	575	700
306	236	21	296	1,406	2,476	1,070	1,406
17	4	3	274	4,192	4,465	273	4,192
564	**425**	**24**	**1,966**	**56,188**	**61,306**	**5,118**	**56,188**
0	0	0	302	15,335	15,638	302	15,335
27	1	0	668	17,137	17,804	667	17,137
9	0	0	119	6,022	6,141	119	6,022
58	8	0	806	9,139	9,937	798	9,139
1,435	318	0	4,414	542,571	546,668	4,097	542,571
2	0	0	980	56,180	57,160	980	56,180
465	12	0	4,529	169,739	174,256	4,517	169,739
0	0	0	2,283	94,231	96,514	2,283	94,231
1,996	**339**	**0**	**14,101**	**910,355**	**924,118**	**13,763**	**910,355**
0	0	4,650	0	245,002	249,652	4,650	245,002
435	0	0	0	17,716	17,716	0	17,716
2,995	**764**	**4,674**	**16,067**	**1,229,261**	**1,252,792**	**23,531**	**1,229,261**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 15 - PROPERTY PLANT AND EQUIPMENT (CONTINUED)

Significant Acquisitions or Replacements of Assets for 2011/2012

The Local Government Act 2002 requires councils to provide information regarding any significant assets acquired or replaced during the year.

The Council's significance policy deems amounts to be significant if:

- It involves $5,000,000 or more budgeted expenditure; or
- It involves $500,000 or more unbudgeted expenditure.

	Budget 2011-12 ($000's)	Actual 2011-12 ($000's)
Whitianga Sports Ground	**$1,400**	**$2,210**
The purpose of this project is to create a large multi-sports complex facility in Whitianga. The packages of work in relation to this project are highly dependent on external factors, such as the weather and each individual contract tender process. Work on this project has advanced quicker than that originally anticipated to date. The budget was adjusted accordingly throughout the year and the 2012/2013 annual plan budget has been adjusted to reflect the current work load.		

Valuation

Land (operational, restricted, and infrastructural)

Land is valued at fair value using market-based evidence based on its highest and best use with reference to comparable land values. Adjustments have been made to the "unencumbered" land value where there is a designation against the land or the use of the land is restricted because of reserve or endowment status. These adjustments are intended to reflect the negative effect on the value of the land where an owner is unable to use the land more intensely.

The most recent valuation was performed by QV Valuations, Hamilton, and the valuation is effective as at 1 July 2010.

Buildings (operational and restricted)

Specialised buildings are valued at fair value using depreciated replacement cost. Depreciated replacement cost is determined using a number of significant assumptions. Significant assumptions include:

- Where buildings are not readily tradable, such as public toilets, the valuer has assessed their value within the context of Fair Value being the price that they would expect Council to pay for such a facility, if that situation had arisen.
- The remaining useful life of assets is estimated.
- Straight-line deprecation has been applied in determining the depreciated replacement cost value of the asset.

Non-specialised buildings (for example, residential buildings) are valued at fair value using market-based evidence.

The most recent valuation of buildings was performed by an independent valuer, Curnow Tizard Limited (Registered Valuers) Hamilton, and the valuation is effective as at 1 July 2011.

Infrastructural asset classes: Sewerage, Water, Stormwater Harbours, Solid Waste, Roads, Footpaths and Bridges

Sewerage, water, stormwater, harbours, solid waste and roading infrastructural assets are valued using the depreciated replacement cost method.

There are a number of estimates and assumptions exercised when valuing infrastructural assets using the depreciated replacement cost method. These include:

- Estimating any obsolescence or surplus capacity of the asset.
- Estimating the replacement cost of the asset. The replacement cost is derived from recent construction contracts in the region for similar assets. Where this information wasn't available, rates have been calculated based on those used in the last valuation adjusted by the appropriate cost adjustment factor.
- Estimates of the remaining useful life over which the asset will be depreciated. These estimates can be affected 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 Council could be over-or underestimating the annual deprecation charge recognised as an expense in the statement of comprehensive income. To minimise this risk, 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 15 - PROPERTY PLANT AND EQUIPMENT (CONTINUED)

- Asset inspections, deterioration, and condition-modeling are also carried out regularly as part of asset management planning activities, which provides further assurance over useful life estimates.

The most recent valuation for Wastewater, Water, Stormwater, Harbours, Parks and Solid Waste assets were performed by MWH New Zealand Limited of Christchurch and AECOM of Hamilton. The valuations were effective as at 1 July 2011.

Early in 2011, AECOM were commissioned by Council to carry out an independent review of the data and asset hierarchy used to populate the asset data base for wastewater and water utility plant data. Following on from this project, AECOM were asked to provide unit costs for these utility plant asset types.

MWH were contracted to review unit rates for all utility reticulation assets (water supply, wastewater and stormwater), solidwaste and parks and garden assets (reserves, recreational areas and facilities, landscape furniture and structures, playgrounds, harbours and cemeteries).

The unit rates generated by AECOM and the rates peer reviewed by MWH were then used in two modules within Council's asset database system in order to run the valuation for

- All utility reticulation assets
- Wastewater and water utility plant data
- Solid waste; and
- Parks and garden assets.

This valuation methodology is the same used in previous valuations by external providers for the same class of assets with the exception of utility plant data. Previously, this data was valued from an excel spreadsheet.

AECOM were also contracted to value all stormwater plant assets. These assets are as yet to be transferred to Council's asset database system and as such, were valued externally by AECOM. The valuation for all these asset types is effective as at 1 July 2011.

The most recent valuation for all Roading assets (including footpaths, bridges and land under roads) was performed by Opus International Consultants Limited of Paeroa, and the valuation is effective as at 1 July 2011.

Work in progress

The total amount of property, plant and equipment in the course of construction is $10.8 million (2011: $19.2 million).

Leasing

The net carrying amount of photocopiers held under finance leases is $11,230 (2011: $56,218).

Security

No property, plant or equipment has been pledged as security for any liability.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 16 - INTANGIBLE ASSETS

1 July 2011				30 June 2012	
Cost	Acc. Amort and impairment	Carrying Amount		Reclassifcation Reclassifcation	Current year additions
$000's	$000's	$000's		$000's	$000's
2,943	2,360	583	Computer software	0	248
443	264	179	Aerial photography	0	0
3,207	322	2,885	Resource consents	0	2,080
1,506	0	1,506	Capital work in progress	(110)	635
8,099	**2,946**	**5,153**	**TOTAL INTANGIBLE ASSETS**	**(110)**	**2,963**

1 July 2010				30 June 2011	
Cost	Acc. Amort and impairment	Carrying Amount		Reclassifcation Reclassifcation	Current year additions
$000's	$000's	$000's		$000's	$000's
2,844	2,128	716	Computer software	0	99
244	205	39	Aerial photography	0	199
1,915	186	1,729	Resource consents	0	1,292
1,061	0	1,061	Capital work in progress	0	445
6,064	**2,519**	**3,545**	**TOTAL INTANGIBLE ASSETS**	**0**	**2,035**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 16 - INTANGIBLE ASSETS (CONTINUED)

Current year disposals	Disposal Acc. Amortisation	Amortisation Charge	Closing Carrying Amount	Cost	Acc. Amort and impairment	Carrying Amount
$000's	$000's	$000's	$000's	$000's	$000's	$000's
176	159	247	567	3,015	2,448	567
0	0	89	90	443	353	90
0	0	209	4,756	5,287	531	4,756
92	0	0	1,939	1,939	0	1,939
268	**159**	**545**	**7,352**	**10,684**	**3,332**	**7,352**

30 June 2010						
Current year disposals	Disposal Acc. Amortisation	Amortisation Charge	Closing Carrying Amount	Cost	Acc. Amort and impairment	Carrying Amount
$000's	$000's	$000's	$000's	$000's	$000's	$000's
0	0	232	583	2,943	2,360	583
0	0	59	179	443	264	179
0	0	136	2,885	3,207	322	2,885
0	0	0	1,506	1,506	0	1,506
0	**0**	**427**	**5,153**	**8,099**	**2,946**	**5,153**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 16 - INTANGIBLE ASSETS (CONTINUED)

There are no restrictions over the title of intangible assets. No intangible assets are placed as security for liabilities.

Computer Software Assets

Computer software licences are carried at cost less accumulated amortisation. These intangible assets have been assessed as having a finite life and are amortised using the straight line method over a five year period. The amortisation expense has been recognised in the statement of comprehensive income.

Resource Consents

Resource consents are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the straight line method to allocate the cost of the resource consent over the period for which the consent is granted. The amortisation expense has been recognised in the statement of comprehensive income. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

NOTE 17 - FORESTRY

2011		2012
Actual		Actual
$000's		$000's
1,948	Balance at 1 July	2,437
0	Increases due to purchases	0
284	Gains(Losses) arising from changes attributable to physical changes	173
781	Gains(Losses) arising from changes attributable to price changes	(247)
(576)	Decrease due to harvest	0
2,437	**BALANCE AT 30 JUNE**	**2,363**

No forest was harvested in the year ending 30 June 2012 (2011: 27.3 hectares).

Zone 1:

In March 2005 Council purchased an area of forest as a result of the responsibility that Council has in disposing of waste water from Whangamata Township and the need to ensure the continued availability of the forest area for effluent disposal.

The land is owned by the Crown as State Forest and is leased to Rayonier (Matariki Forests) under a Crown Forests License. Council however, purchased the trees standing on that parcel of land (known as Zone 1) and occupies this land under the terms of a separate Crown Forest Licence known as the Whangamata Crown Forest Licence. The land continues to be Crown owned until such time as the Crown disposes of it.

The total area of the stand is 52 hectares with 39 hectares being stocked productive forest, consisting of mature radiata pine.

Zone 2, 3 and 5:

As the town grew, so did the amount of water needed to be treated and disposed of. To meet this growing demand Council purchased further areas of Tairua Forest in March 2005 (from CHH) and again in January 2008 (from Matariki Forests). The areas purchased are collectively known as Zones 2, 3 and 5. Zones 2, 3 and 5 now allow for sufficient forest in which to dispose of water while some of the mature forest is harvested.

The total area of the stand is 169.9 hectares of forest consisting predominantly of radiata pine of various ages plus some smaller areas of other species.

As with Zone 1, the land is owned by the Crown as State Forest and is leased to Rayonier (Matariki Forests) under a Crown Forests License. Council however, purchased the trees standing on that parcel of land and occupies this land under the terms of a separate Crown Forest Licence. The land continues to be Crown owned until such time as the Crown disposes of it.

The current licence fee payable in respect of Tairua Forest is based on the market value of the land. Council has provided a guarantee to the Crown for the amount of $45,000 to cover the part of the Tairua Crown Forest subject to a Crown Forest Licence. The Council guarantee has been included in Note 28: Contingent liabilities; Council Guarantees.

Valuation

Council revalues its forestry assets annually. Independent registered valuers, Hammond Resource Management Ltd conducted a valuation of the forestry assets as at 30 June 2012. The following significant valuation assumptions have been adopted in determining the fair value of forestry assets:

- The value is of standing timber only, exclusive of the value of the underlying land.
- Irrigation has no affect on wood quality that translates into different log prices.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 17 - FORESTRY (CONTINUED)

- For the mid rotation immature stands, discounting future cash flows is appropriate as these trees need another few years to reach maturity.
- For the areas of mature trees, the realisable ("immediate liquidation") valuation method is most appropriate.
- The youngest stands have been valued using compounded costs;
- Where appropriate a combination of these methods has also been used.
- For the purposes of compounding costs, it is assumed that low levels of site preparation are required and normal planting and post planting techniques have been assumed.
- Discounted cash flow required the projection of future growth, as well as the costs and returns net to the grower, expected up to and including the time of harvest.
- Costs include future tending and management, annual overheads, and the direct costs associated with the harvesting operations: log and load, cartage, management fees, and any tracking or roading required. Revenue includes the market value of logs delivered to the sale point – mill or wharf.
- Stumpage is the net revenue (EBIT) to the grower derived from the log sale price (at wharf or at mill door), less harvesting and marketing costs directly associated with that harvest. These costs include marketing and harvesting commissions, transport, logging and loading, and any roading, tracking and stand preparation required for harvesting.
- All values expressed in the report were exclusive of GST and were pre tax. No account is taken of the impact of any "cost of bush" the owner may have access to.
- The clearfell age has assumed as 28 years for radiata pine. The trees may in reality be held for more than 28 years or may be harvested earlier.
- 3% has been adopted as an appropriate compounding rate after taking into consideration both the nominal and real returns available to investors if investing within a low risk venture (i.e. Bank deposits).
- A discount rate of 6% (2011: 6%) has been used in discounting the present value of expected cash flows.

Council has not incurred any deforestation obligations (as defined in the New Zealand Emissions Trading Scheme (ETS) as at 30 June 2012.

We note that in the future however, Council may be liable for future deforestation obligations if, after the future forest clearances, the following thresholds are met:

- Four years after clearing, the forest land does not have at least 500 stems per hectare of forest species.

And either:

- If after 10 years the forest species are predominantly exotic species, there is not 30% crown cover from trees that have reached five metres in height ; or
- If after 20 years, the forest species are predominantly indigenous species, there is not 30% crown cover from trees that have reached five metres in height

The tests above are applied to the forest land on a hectare-by-hectare basis.

In addition to the above, we note that as Council does not own the land on which the trees are situated, Council is not entitled to apply for a one off allocation of New Zealand Carbon Credit Units (NZUs) from the Government. As such, should any future obligations arise under the ETS, Council will be unable to offset these with NZUs and will instead be required to settle these with cash.

Council is exposed to financial risks arising from changes in timber prices. Council intends to hold the forestry long-term and does not expect timber prices to decline significantly in the foreseeable future. Therefore, no measures have been taken to manage the risks of a decline in timber prices. Council reviews its outlook for timber prices regularly in considering the need for active financial risk management.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 18 - JOINT VENTURE

The Council has a 40% interest in the Thames Valley Emergency Operating Area. This is a committee run as a joint venture with the Matamata-Piako and Hauraki District Councils, who each have a 34% and 26% interest in the venture, respectively. The Council is the administering body of the joint venture.

The joint venture shares a common balance date with the Council, but the financial statements have not been audited. The Council's share of the surplus/deficit has been included in "share of joint venue surplus/ (deficit) in the statement of comprehensive income. The Council's share of equity has been recorded in other financial assets (note 11) in the statement of financial position.

Movements in the carrying amount of the investment in the joint venture:

2011 Actual $000's		2012 Actual $000's
56	Opening balance	51
(5)	Share of surplus/(deficit)	13
51	**CLOSING BALANCE**	**64**

Council's interest in the joint venture is disclosed in the financial statements of the joint venture under the classifications shown below:

36	Current assets	41
39	Non-current assets	33
(24)	Current liabilities	(10)
51	**NET ASSETS**	**64**
209	Share of income	209
(214)	Share of expenses	(195)
(5)	**SHARE OF SURPLUS/(LOSS)**	**14**

Details of any commitments and contingent liabilities arising from the Council's involvement in the joint venture are disclosed separately in notes 28 and 29.

Details of any related party transactions with the joint venture are disclosed separately in note 26.

NOTE 19 - CREDITORS AND OTHER PAYABLES

2011 Actual $000's		2012 Actual $000's
10,945	Trade payables	12,073
1,365	Deposits and bonds	1,154
1,220	Contract retentions	1,055
342	Accrued expenses	607
799	Revenue in advance	681
14,671	**TOTAL CREDITORS AND OTHER PAYABLES**	**15,570**

Fair value

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, excluding contract retentions, therefore the carrying value of creditors and other payables approximates their fair value.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 20 - EMPLOYEE ENTITLEMENTS

2011 Actual $000's		2012 Actual $000's
1,675	Current	1,172
306	Non-current	348
1,981	**TOTAL EMPLOYEE ENTITLEMENTS**	**1,520**

Employee entitlements are comprised of:

	CURRENT PORTION	
421	Accrued salaries and wages	6
1,139	Annual leave	1,069
79	Retirement and long service leave	63
36	Sick leave	34
1,675	**Total current portion**	**1,172**
	NON-CURRENT PORTION	
306	Retirement and long service leave	348
306	**Total non-current portion**	**348**
1,981	**TOTAL EMPLOYEE ENTITLEMENTS**	**1,520**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 21 - PROVISIONS

2011 Actual $000's		2012 Actual $000's
400	Current	812
4,691	Non-current	6,195
5,091	**TOTAL PROVISIONS**	**7,007**

Movements for each class of the provision are as follows:

	CURRENT PORTION	
187	Landfill aftercare	582
213	Weathertight homes	150
0	Reserve contribution credits	80
400	**Total current provisions**	**812**
	NON-CURRENT PORTION	
2,098	Landfill aftercare	1,660
641	Weathertight homes	1,064
1,952	Reserve contribution credits	3,471
4,691	**Total non-current provisions**	**6,195**
5,091	**TOTAL PROVISIONS**	**7,007**

	Landfill aftercare liability	
2,177	Opening balance	2,285
(4)	Additional/(reduced) provision made during the year	(23)
(78)	Amounts used during the year	(91)
190	Discount unwinding	71
2,285	**Closing balance**	**2,242**

	Weathertight homes	
982	Opening balance	854
222	Additional/(reduced) provision made during the year	379
(350)	Amounts used during the year	(20)
854	**Closing balance**	**1,214**

	Reserve contribution credits	
80	Opening balance	1,952
1,872	Additional/(reduced) provision made during the year	1,599
0	Amounts used during the year	0
1,952	**CLOSING BALANCE**	**3,551**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 21 - PROVISIONS (CONTINUED)

Movements for each class of the provision are as follows:

Landfill aftercare
As the owner of various closed landfills around the District, the Council has a legal obligation to ensure these sites are rehabilitated to a standard that minimises any negative impact on the environment. The Council has obtained resource consents for the closure of the following landfills:

- Mercury Bay landfill - granted until 30 June 2037;
- Coromandel landfill - granted until 1 January 2035;
- Thames landfill - granted until 30 September 2044.

The Council has a responsibility under the resource consent to provide long-term maintenance and monitoring until such time that Waikato Regional Council is satisfied that the leachate quality has improved to a level that does not have a negative impact on the environment.

The Council has contracted AECOM to determine whether Council requires resource consent for the closure of other major landfills in the District. The full conditions of the consent are unknown until the consent is granted. However it is probable that the Council will be responsible for the provision of ongoing maintenance and monitoring of the landfill after the site is closed. The expected term of the maintenance and monitoring services that will be required is 25 to 35 years.

In the interim, Waikato Regional Council has approved a ‘Monitoring and Management Plan’ for all closed landfills located around the peninsula. These plans are intended to formalise Council’s current sampling regimes and help with the preparation of the ‘remediation and aftercare plan’ for each site. These plans will be based on the results from the samples taken.

Expenditure on rehabilitation works will be funded by an internal loan which is serviced by the general rate. 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 known changes to legal requirements. The gross provision before discounting is $4,106,124 (2011: $4,460,198).

The following major assumptions have been made in calculating the provision:

- The discount rate used to arrive at the present value is 7.95% (2011: 7.85%).
- The aftercare has been estimated to continue until 2044. The annual inflation factor applied to the estimated aftercare costs for 2011/2012 to 2021/2022 is the October 2011 Local Government price level change forecast. An annual inflation rate of 3.49% has been applied to years 2022/2023 to 2043/2044 (2011: 2.61%).
- Estimates of the life and future expenditure are based on the 2009-2019 Long-term Council Community Plan budgets and the 2011/2012 Annual Plan.

Provision for Weathertight homes
This provision is based on the Council’s most likely exposure to notified claims. As at 30 June 2012, Council was aware of 17 unsettled notified claims (2011:11).

Also see Note 28 *Contingent liabilities* for further disclosure and comment.

Reserve contribution credits
Council has negotiated with a Developer to purchase 10 hectares of land situated in Whitianga for the development of a Multi-Sports Complex Centre. As part of this purchase agreement, Council entered into a Development Contributions Deed with the Developer which outlined when Development and Reserve Contributions Credits would be considered payable to Council. It also outlined the staged arrangement in which Council would purchase the land from the Developer.

The agreement stated that Council would purchase the three individual parcels of land (totalling $6.5 million) on the following dates:

- Lot 1 DP 440527 on 30 April 2011
- Lot 2 DP 440527 on 30 September 2011; and
- Lot 3 DP 440527 on 30 September 2012.

The agreement also stated that the Developer would be invoiced for:

- 314 Development/Reserve Contribution Credits on 30 April 2011
- 155 Development Contribution Credits on 30 September 2011; and
- A further 155 Development Contributions on 30 September 2012.

Accordingly, on 30 April 2011 Council billed the first instalment of contribution credits for $3,273,742 and Council subsequently purchased Lot 1 of DP 440527 for $3,273,742. On 30 September 2011 Council billed the second instalment of contribution credits for $1,599,125 and subsequently purchased Lot 2 of DP 440527 for $1,599,125.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 21 - PROVISIONS (CONTINUED)

As at 30 June 2012 only $1,401,750 of the Reserve Contribution Credits have been applied and therefore recognised within Council's accounts as revenue. As such a provision of $3,471,116 was recognised within Council's balance sheet reflecting that at balance date these Contribution Credits were effectively revenue received in advance by Council. As further development contributions credits fall due, the provision will be used to offset any further liability established by the developer.

In addition to the above, two further provisions of $13,691 and $66,309 have been recognised for historic reserve contribution credits as a result of subdivision's vesting of reserves prior to the introduction of the development contribution policy in October 2004. Applications to recognise these historic reserve credits under the Local Government Act 2002 (LGA) are being addressed by Council on a case-by-case basis.

In the past, a reserve contribution credit has been provided to certain developers for additional reserves land vested in Council that was over and above the requirement under the Resource Management Act 1991. The reserve contribution requirement under the transitional provisions of the Resource Management Act 1991 was 130m2. The credit was then available for developers to apply against reserve contributions required in the future on subsequent subdivisions. The development contributions policy, under the Local Government Act 2002 requires a market valuation to be obtained an the development contributions payable by the developer are then calculated on the average market value of 15m2 for each additional allotment. For this reason, the conversion of these historic reserve credits issued under the Resource Management Act 1991 are difficult to measure and quantify under the Local Government Act 2002.

The provision recognises that these credits will result in an outflow of resources representing economic benefits. However estimating the value of these credits is uncertain because it relies on factors such as the future development potential of any residual land, future land values, the value of the land when vested, the zoning of the land and any other district plan mechanism such as structure plans and the reasons for the land being vested at the time.

Also see *Note 28 Contingent Liabilities* for further disclosure and comment.

Financial Guarantees
For further details refer to Note 28.

NOTE 22 - BORROWINGS

2011 Actual $000's		2012 Actual $000's
91	Current	30,956
45,449	Non-current	16,493
45,540	**TOTAL BORROWINGS**	**47,449**

Borrowings are comprised of:

2011 Actual $000's		2012 Actual $000's
	CURRENT BORROWINGS	
41	Finance leases	6
50	Term loans	30,950
91	**Total current borrowings**	**30,956**
	NON-CURRENT BORROWINGS	
11	Finance leases	5
0	Hire purchase	0
45,438	Term loans	16,488
45,449	**Total non-current borrowings**	**16,493**
45,540	**TOTAL BORROWINGS**	**47,449**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 22 - BORROWINGS (CONTINUED)

The following is a maturity analysis of Council's borrowings including finance leases and hire purchase contracts.

2011		2012
Actual		Actual
$000's		$000's
	ANALYSIS OF FINANCE LEASES	
41	Current	6
11	Non-current	5
52	**TOTAL FINANCE LEASES**	**11**
	Total minimum finance lease payments are payable:	
43	Not later than one year	7
13	Later than one year and not later than five years	6
0	Later than five years	0
56	Total minimum lease payments	13
(4)	Future finance charges	(2)
52	**PRESENT VALUE OF MINIMUM LEASE PAYMENTS**	**11**
	Present value of minimum finance lease payments are payable:	
41	Not later than one year	6
11	Later than one year and not later than five years	5
0	Later than five years	0
52	**PRESENT VALUE OF MINIMUM LEASE PAYMENTS**	**11**

Term loans

2011		2012
Actual		Actual
$000's		$000's
	ANALYSIS OF LOANS	
50	Current	30,950
45,438	Non-current	16,488
45,488	**TOTAL LOANS**	**47,438**
	Total minimum loan payments payable:	
50	Not later than one year	30,950
45,438	Later than one year and not later than five years	16,488
0	Later than five years	0
45,488	**TOTAL LOANS**	**47,438**

Current borrowings represent the amount expected to be settled within 12 months of balance date.

The bank two and four year multi-option facilities of $20 million and $32 million dollars respectively are issued at floating rates of interest. The floating interest rate is reset quarterly based on the 90 day bill rate plus a bank margin for credit risk. These $20 million and $32 million dollar facilities are due to expire on 20 January 2013 and 20 January 2015, respectively.

The bank term loan and committed money market line facility of $5 million (2011: $5 million) is issued at floating rates of interest. The interest is reset quarterly at the 90 day bill rate plus a bank margin for credit risk.

The stock issuance debenture of $10 million (2011: $10 million) is issued at a floating rate of interest. The interest is set quarterly at the 90 day bill rate plus a margin of 0.15% for credit risk.

The bank fixed rate term loan of $10 million (2011: $10 million) is set with an interest rate of 6.45%. This loan is due to expire on 24 July 2013.

The stock issuance debenture is due to be repaid in October 2012, at which time the terms and conditions will be renegotiated. If the Council decides to refinance this loan it anticipates that the terms and conditions will be similar to the current arrangement. The only likely change to the current arrangement will be a higher margin for credit risk.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 22 - BORROWINGS (CONTINUED)

2011			2012	
Facilities Held	Drawings on Facilities		Facilities Held	Drawings on Facilities
$000's	$000's		$000's	$000's
250	0	Overdraft facility	250	0
5,000	0	Bank term loan and committed money market line facility	5,000	900
0	0	Bank three-year rolling flexible rate term loan facility	20,000	20,000
0	0	Bank three-year rolling flexible rate term loan facility	32,000	6,400
10,000	10,000	Bank fixed rate term loan facility	10,000	10,000
45	0	Indemnity/performance bond facility	0	0
400	0	Clean credit facility	0	0
188	188	Energy Efficiency and Conservation Authority (EECA)	250	137
20,000	20,000	Bank two-year multi-option credit facility	0	0
32,000	5,300	Bank four-year multi-option credit facility	0	0
10,000	10,000	Stock Issuance Facility	10,000	10,000
77,883	**45,488**	**TOTAL LIMITS**	**77,500**	**47,438**

Security

The overdraft is unsecured. The maximum amount that can be drawn down against the overdraft facility is $250,000 (2011: $250,000). There are no restrictions on the use of this facility.

The Council's loans are secured through a debenture which grants security to the lender by way of a charge over the Council's general rates and rates revenue. This security is held for all monies advanced in connection with the facilities detailed below, that have a total nominal amount of $77 million (2011: $77 million).

- Bank term loans and committed money market line facility $5,000,000
- Bank two year multi-option credit facility $20,000,000
- Bank four year multi-option credit facility $32,000,000
- Bank fixed rate term loan $10,000,000
- The stock issuance facility $10,000,000

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

Loan to finance interest expense

Included in borrowings for the year under review is the amount of $2,704,891 (2011: $393,010) which was raised to fund the interest on additional capacity loans that was not met by developer's contributions. This is in accordance with the Council's Development Contributions Policy.

Secured loan covenants

The Council is required to ensure that the following covenants for secured loans are achieved during the year:

- Compliance with the Local Government Act 2002 with respect to the keeping and filing of reports, accounts and statements and registration of charges including the debenture trust deed;
- Ensure that the financial statements and other records of the Council are audited and retained for a period of at least seven years after the date on which they are made or the date of completion of the transaction to which they relate in accordance with statutory requirements;
- Give notice in writing to the trustee of any matter which would cause any current stock issuance certificate to be materially defective;
- Compliance with the Securities Act applicable to the issuance of stock, prior to the issue of any prospectus or investment statement and forward a draft copy to the trustee;
- Provide details of the amount owing in respect of security stock to the trustee within ten business days whenever requested;

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 22 - BORROWINGS (CONTINUED)

→ Notify the trustee immediately in writing of the occurrence of any enforcement event giving full details of any action that has been taken as a result;

→ Refund the trustee for all expenditure plus interest if deemed necessary or expedient by reason of any default on the part of the Council in performing any of covenants; and

→ To provide the trustee with a copy of the following reports:

- Ten Year Plan, Annual Plan, Annual Report and Liability Management Policy within one month of adoption.
- Interim financial information prepared for external distribution;
- Material amendments to any Ten Year Plan or Liability Management Policy that have been approved and adopted by the Council;
- Reporting certificate completed and signed at the same time that the Annual Report and interim financial information is furnished and within 21 days of a written request by the trustee;
- Any information requested by the trustee with respect to matters relating to the financial statements.

Fair value

The fair value of finance leases are $11,230 (2011: $52,212). Fair value has been determined using contractual cash flows discounted using a rate based on market borrowing rates at balance date ranging from 8% to 9.7% (2011: 8% and 9.7%).

The carrying amounts of secured loans approximate their fair value because interest rates reset to a market rate each quarter.

Description of leasing arrangements

Finance leases have been entered into for photocopiers. The net carrying amount of the leased items within property, plant and equipment is included in *Note 15: Property, plant and equipment*.

The finance leases can be renewed at the Council's option, with rents set by reference to current market rates for items of equivalent age and condition. The terms of the leases are for three years. The Council does not have the option to purchase the asset at the end of the lease term.

The Council is not permitted to pledge the leased assets as security nor can it sublease the leased equipment without the permission of the lessor.

There are no other restrictions placed on the Council by any of the finance leasing arrangements.

Compliance

The Council manages its borrowings in accordance with its funding and financial policies, which includes a liability management policy. These policies have been adopted as part of the Council's 2009-2019 Long-term Council Community Plan.

There have been no significant amendments to or departures from the investment policy during the year ended 30 June 2012 (2011: nil).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 23 - RECONCILIATION OF NET SURPLUS (DEFICIT) TO NET CASH FLOW FROM OPERATING ACTIVITES

2011		2012
Actual		Actual
$000's		$000's
6,749	**Reported operating surplus**	**344**
(2,700)	Vested assets	(846)
427	Amortisation	545
16,067	Depreciation	16,471
(488)	(Gains)/losses in fair value of forestry assets	74
0	Net (gains)/losses on foreign exchange	0
943	Net (gains)/losses on interest rate swaps	2,017
(128)	Movement in weathertight buildings provision	359
1,872	Movement in reserve contribution credits	1,599
(82)	Movement in landfill aftercare provision	(114)
220	Impairment of receivables	45
36	Impairment of spare parts	176
190	Interest unwind on landfill aftercare	71
16,356	**Add/(less) non-cash items**	**20,397**
(1,544)	Increase/(decrease) in accounts payable	531
80	Increase/(decrease) in employee benefits	(460)
(205)	(Increase)/decrease in accounts receivable	(1,059)
(1,669)	**Add/(less) movements in working capital items**	**(988)**
2,176	Net losses on sale of property, plant and equipment	1,618
6	Share of joint venture loss/(Gain)	(14)
2,182	**Add/(less) items classified as investing activities**	**1,604**
23,618	**NET CASH INFLOW FROM OPERATING ACTIVITIES**	**21,357**

NOTE 24 - SEVERANCE AGREEMENTS

Under clause 33(i)(a) of schedule 10 of the Local Government Act 2002, the Council is required to disclose:

1. The amount of any severance payments made to any Chief Executive who vacated office in the year,
2. The number of employees to whom severance payments were made in the year, and
3. The amount of every such severance payment.

For the year ended 30 June 2012, the Council made 0 (2011: 2) severance payments to employees totalling $0 (2011: $45,000).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 25 - REMUNERATION

Elected representatives received the following remuneration:

2011		2012
Actual		Actual
$000's		$000's
	Elective Representatives	
	Previous Council (July-October 2010)	
28	Mayor Philippa Barriball JP	0
12	Deputy Mayor Adrian Catran JP	0
9	Councillor Bill Barcley	0
9	Councillor Jan Bartley	0
9	Councillor Noel Hewlett JP	0
9	Councillor Dal Minogue	0
9	Councillor John Morrissey	0
9	Councillor Strat Peters	0
10	Councillor Dirk Sieling	0
	Present Council (from October 2010)	
70	Mayor Glenn Leach	103
24	Deputy Mayor Peter French	37
19	Councillor Tony Brljevich	31
20	Councillor Diane Connors	28
22	Councillor Tony Fox	35
24	Councillor Wyn Hoadley QSO	36
22	Councillor Murray McLean JP	33
19	Councillor Jack Wells	28
20	Councillor Jan Bartley	28
344	**TOTAL ELECTED REPRESENTATIVES' REMUNERATION**	**359**
	Chief Executive	
	Chief Executive (July 2011 to December 2011)	
287	Salary	122
17	Vehicle (market value plus FBT)	9
1	Telephone	0
1	Professional fees	0
6	Medical insurance (market value plus FBT)	2
	Chief Executive (January 2012 to 30 June 2012)	
0	Salary	108
0	Vehicle (market value plus FBT)	9
0	Telephone	0
0	Professional fees	0
0	Medical insurance (market value plus FBT)	0
312	**TOTAL CHIEF EXECUTIVE'S REMUNERATION**	**250**

For the year ended 30 June 2012, the total annual cost (including fringe benefit tax) to Council with regards to the remuneration package being received by the Chief Executive was calculated to be $250,031 (2011 $311,997).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 26 - RELATED PARTY TRANSACTIONS

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

No provision has been required, nor any expense recognised for impairment of receivables for any loans or other receivables to related parties during the year ending 30 June 2012 (2011: nil). No related party debts have been written off or forgiven during the period (2011: nil).

The following transactions were carried out with related parties:

- Peter Mickleson is a former employee of the Council and was a member of the Strategy team as well as a director of Sandpiper Three Limited. This company provided consultancy services to the Council to the value of $17,187.50 plus GST (2011: $21,187.50).
- Naomi Harsant is a library assistant employed by the Council and is the wife of Arthur Harsant who undertakes various handyman type tasks for Council. Amounts paid to Arthur Harsant for the year under review amounted to $29.60 plus GST (2011 $153.86).
- Margaret Harrison is a staff member at the Coromandel office and is a trustee of the Coromandel Independent Living Trust. Payments made to the trust for the year under review amounted to $19,739.00 plus GST (2011: $42,276.37).
- Hunsa Newland is a librarian employed by the Council whose partner owns Thames Hire Centre. Amounts paid to the Thames Hire Centre for the year under review amounted to $0 (2011: $67.56).
- Christine Towgood is employed by the Council as a casual library assistant at the Whitianga library. She also undertakes cleaning services under contract for the Council. Amounts paid to her for cleaning services for the year under review amounted to $1,359.00 plus GST (2011: $16,337.54).
- Diane Connors is a member of Council and an employee of the Thames Information Centre. Amounts paid to the Thames Information Centre for the year under review amounted to $54,644.58 plus GST (2011: $24,363.71).
- Katherine Davies is a former senior planner employed by the Council. Her partner is a director and shareholder of KTB Planning Consultants Limited who provide planning services to the Council. Amounts paid to KTB Planning Consultants Limited for the year under review amounted to $102,823.05 plus GST (2011: $102,450.04)
- Dirk Sieling was a member of Council until 15 October 2010 and leases a property at 90 Moewai Road, Whitianga. For the year under review, lease rental received by the Council amounted to $20,000.03 plus GST (2011: 13,939.61).
- Strat Peters was a member of Council until 15 October 2010 and is Chairman of the Thames Community Board from 15 October 2010. Strat Peters is also a shareholder and director of Shaun Richards Electrical and during the period under review the Council paid Shaun Richards Electrical $10,311.17 plus GST (2011:$19,400.93).

Key Management Personnel

Key Management personnel include the Mayor, Councillors, Chief Executive and other senior management personnel.

2011		2012
Actual		Actual
$000's		$000's
1,526	Salaries and other short term employee benefits	1,633
1,526	**TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION**	**1,633**

Thames Valley Emergency Operating Area

The Thames Valley Emergency Operating Area (TVEOA) is a joint venture of the Council that provides rural fire and emergency services.

2011		2012
Actual		Actual
$000's		$000's
207	Grants and levies paid by Council	207
55	Council reimbursements to TVEOA for items bought on behalf of Council	55
23	Administration services provided by Council including rent and rates	26
2	Insurance and ACC levies reimbursed to Council as paid on behalf of TVEOA	3
24	Other reimbursements to Council paid on behalf of TVEOA	1
191	Gross salaries reimbursed to Council as paid on behalf of TVEOA	241
502	**TOTAL PAID TO THAMES VALLEY EMERGENCY OPERATING AREA**	**533**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 26 - RELATED PARTY TRANSACTIONS (CONTINUED)

Local Authority Shared Services Limited

2011		2012
Actual		Actual
$000's		$000's
49	Services provided to Council	62
49	**TOTAL PAID TO LOCAL AUTHORITY SHARED SERVICES LIMITED**	**62**

The Council has an interest in the above company which was established to provide a shared service to local authorities within the Waikato Region, in particular a shared valuation database service.

Destination Coromandel

During the course of the year the Council provided to Destination Coromandel Trust (formerly Tourism Coromandel Inc.) a sum of $483,793.00 plus GST (2011: $472,118). Destination Coromandel Trust is a charitable trust with a purpose of promoting tourism and travel for the benefit of the people in the communities in the Coromandel and Hauraki regions.

Prior year figures have been changed to exclude GST to be consistent with this year's figures.

NOTE 27 - EVENTS AFTER BALANCE DATE

No post balance date events occurred up to the date of the report adoption that is known to have a material affect on the financial statements and notes to the financial statements of the Council.

NOTE 28 - CONTINGENT LIABILITIES

The Council is aware of the following contingent liabilities as at 30 June 2012:

2011		2012
Actual		Actual
$000's		$000's
455	Miscellaneous non-insured claims	750
8,500	Weather tight homes	8,835
1,896	Council guarantees	1,896
10,851	**TOTAL CONTINGENT LIABILITIES**	**11,481**

Native lands agreement

In 1877 the Thames Borough Council entered an agreement with local iwi for the purchase of land required for the Paeroa-Thames highway. As part of the agreement the Council agreed that any land owned by iwi would be exempt from rates indefinitely. The Maori Land Court subsequently ruled that the agreement was ultra vires Council's statutory powers. The Council has assessed rates on properties affected by the agreement for a number of years.

In 1999, the Council reviewed the background to this issue and agreed to enter into discussions with iwi to explore ways of settling the grievance issues that they have with the Council in relation to this matter. These discussions are continuing and may lead to the need to refund some rates previously assessed. The extent of any contingent liability cannot be determined and forms part of the current discussions.

Weathertight homes

The weather tightness problem, commonly known as "leaky homes" or "leaky buildings", refers to those buildings where water has penetrated the building envelope or cladding system and is not able to drain or dry for some time. The problem affects apartments, townhouses and stand-alone homes, mostly built between 1992 and 2005.

The term "leaky homes claims" refers to claims against the Council for damages relating to a leaky building. Risk and liability related to Council's building control functions such as building consent processing, inspections and issuing code compliance certificates cannot be avoided. Where the Council has failed to discharge its duty of care when providing building control services and loss has been suffered as a result, the Council may be found negligent. This is the basis for claims for damages against the Council.

In the 2010 Budget, the Government announced its intention to set up a new financial assistance package to help homeowners repair their leaky homes faster. The package will see the Government meet 25% of homeowners' agreed repair costs, local authorities contribute 25%, and homeowners fund the remaining 50%.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 28 - CONTINGENT LIABILITIES (CONTINUED)

To help quantify the cost of this assistance package to both Central and local Government, Price Waterhouse Cooper (PWC) was contracted in 2009 by the Government to carry out research, analysis and modeling to provide an estimate of the size and cost of the leaky homes problem across the country. The report concluded there is a wide range of the possible number of homes affected, from a low of 22,000 to a high of 89,000. The wide range reflects a high level of uncertainty about the number of homes affected that prevents an exact and accurate estimate. Nevertheless, the report estimated it is most likely approximately 42,000 homes have been affected.

According to the report, of the leaky homes covered by the estimate approximately 3,500 have already been repaired; 9,000 are likely to be outside the 10-year limitation period for legal liability. There are therefore likely up to around 29,500 dwellings that have already failed, but have not been repaired, or will fail in the future throughout the Country (within the 10-year limitation period for legal proceedings).

Based on the report issued by PWC and future TCDC modeling, it is estimated that Council could face around 68 future claims. The estimated total cost of Council's contribution towards settlement of these claims ranged between $5.6 million and $8.5 million.

38 Claims have been lodged to date with the Weathertight Homes Resolution Service (WHRS) for buildings located within the District (2011: 33). Of these, 16 claims were registered on the WHRS website as active as at 30 June 2012 (2011: 11 claims). Council was aware of one further claim at balance date, but this was yet to be registered with the WHRS at 30 June 2012. The amounts sought by the claimants of these unsettled claims total to $2,379,000 including eight for unknown amounts (2011: $1,651,000 including three for unknown amounts). Claims are dealt with on a case-by-case basis. It is not yet certain whether these claims are valid and who will be liable for the claimed building defects, therefore Council is unable to assess its exposure to the claims lodged with WHRS.

We note that a provision for $1,213,815 has been recognised for accounting purposes for the potential settlement of claims that have been notified to Council at balance date (for further information see Note 21 *Provisions*) (2011: $854,000). However, based on the information obtained during this financial year and taking into consideration the report produced by PWC during the 2010 financial year, Council has estimated that it may face a further $8.835 million in emergent claims (2011: $8.5 million). Unreported claims are treated as a contingency owing to the inherent uncertainties in quantifying the number and quantum of unreported claims.

Hauraki Rail Trail

The Council, along with Hauraki District Council (HDC) and Matamata-Piako District Council (MPDC) are party to a trust deed which has formed the Hauraki Rail Trail Charitable Trust (the Trust). The deed, signed on 2 March 2012, allows the Trust to own, operate, maintain, repair, develop and facilitate the use and enjoyment of a cycleway within the region.

Upon formation of The Trust, it also entered into a "Management Agreement" to manage the cycleway. As part of that agreement, the Trust is required to obtain income from the cycleway to provide funding for its 'management obligations'. If the Trust is unable to obtain sufficient income from the Cycleway to meet is management obligations, the Council, HDC and MPDC have agreed to contribute additional funding to the Trust (as set out in the management agreement).

If Council is notified that a shortfall exists, then Council is required to pay to the trust the lesser of:

→ One third of the shortfall specified in the relevant Trust's notice; or the following amount.
→ $41,600 for establishment costs; or
→ $31,600 for the year ended 30 June 2012 ; or
→ $45,700 for the year ended 30 June 2013; or
→ $55,800 for the year ended 30 June 2014; or
→ $57,500 for the year ended 30 June 2015; or
→ $60,000 for the year ended 30 June 2016.

Reserve contribution credits

Reserve Contribution Credits result from historical vesting of reserve land which was over and above the required reserve area for the particular subdivision. Applications to recognise any potential historic reserve credits will be assessed on a case-by-case basis when and if a further Resource Consent is granted for the property to which the credits relate. However estimating the value of these credits is uncertain because it relies on factors such as the future development potential of any residual land, future land values, the value of the land when vested, the zoning of the land and any other district plan mechanism such as structure plans and the reasons for the land being vested at the time.

Council has recognised that there are three developers that have reserve contribution credits available to them as at 30 June 2012 should they proceed with any further development at a later date. However, at the time of writing this report there were no current land-use consents recognising these reserve contribution credits.

Council Guarantees

The Council is listed as a guarantor to a number of sporting and community organisation bank loans. 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 28 - CONTINGENT LIABILITIES (CONTINUED)

The terms and conditions of the guarantee require:

- The organisation to provide the Council with a copy of their annual report and proposed budget to enable the financial stability to be assessed on an annual basis, and
- An indemnity to the Council that transfer's ownership of the assets to the Council in the event of the guarantee being called up.

The Council's exposure to any risk is therefore mitigated and considered minimal.

These have not been recognised as liabilities in the statement of financial position as the Council consider there is very little probability that any expenditure will be incurred to settle them.

The following loan guarantees have been given by the Council:

2012

Year of Guarantee	Term in Years		Amount of Original Guarantee	Current Level of Guarantee Outstanding
			000's	000's
Feb-2001	25	Thames Tennis Club	58	0
Jul-2002	15	Thames Pensioner Housing Trust	510	179
Jan-2009	25	Housing New Zealand	1,283	296
Jan-2008	NA	Land Information New Zealand*	45	45
			1,896	**520**

2011

Year of Guarantee	Term in Years		Amount of Original Guarantee	Current Level of Guarantee Outstanding
			000's	000's
Feb-2001	25	Thames Tennis Club	58	0
Jul-2002	15	Thames Pensioner Housing Trust	510	179
Jan-2009	25	Housing New Zealand	1,283	296
Jan-2008	NA	Land Information New Zealand*	45	45
			1,896	**520**

*The Council has entered into a performance bond with Land Information New Zealand to provide the Crown with security in the form of a bond that ensures that the Council's obligations under the Crown Forest Licence are fulfilled.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 28 - CONTINGENT LIABILITIES (CONTINUED)

Employer contributions to defined contribution plans

The Council is a participating employer in the DBP Contributors Scheme (the scheme), which is a multi-employer defined benefit scheme.

If the other participating employers ceased to participate in the scheme, the Council could be responsible for any deficit of the scheme. Similarly, if a number of employers ceased to participate in the scheme, the Council could be responsible for an increased share of any deficit.

As at 31 March 2012, the scheme had an estimated past service surplus of $43.145 million (exclusive of employer superannuation contribution tax). This surplus was calculated using a discount rate equal to the expected return on net assets, but otherwise the assumptions and methodology were consistent with requirements of NZIAS 19. The actuary of the scheme recommended that the employer's contributions were to be suspended with effect from 1 April 2011. In the latest report, the Actuary recommended employer contributions remain suspended.

Joint venture contingent liabilities

There are no contingent liabilities associated with the joint venture, Thames Valley Emergency Operating Area, as at 30 June 2012 (2011: $nil).

Contingent Assets

The Council has no contingent assets (2011: $nil).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 29 - COMMITMENTS

Operating Leases as Lessee

The Council leases property, plant and equipment in the normal course of business. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

2011 Actual $000's		2012 Actual $000's
	Non-cancellable operating lease commitments	
9	Not later than one year	19
0	Later than one year, not later than two years	9
0	Later than two years, not later than five years	0
0	Later than five years	0
9	**Total non-cancellable operating lease commitments**	**28**
	Non-cancellable contracts for operation of water, stormwater, wastewater, roading, solid waste collection and disposal, and community facilities	
17,581	Not later than one year	21,894
9,638	Later than one year, not later than two years	4,551
5,076	Later than two years, not later than five years	0
0	Later than five years	0
32,295	**Total non-cancellable contracts**	**26,445**
1,525	Other contracts for miscellaneous operating functions	3,272
33,829	**TOTAL NON-CANCELLABLE OPERATING LEASES AND CONTRACTS**	**29,745**

Joint venture operating lease commitments

There are no operating lease commitments associated with the joint venture, Thames Valley Emergency Operating Area, as at 30 June 2012 (2011: $nil).

Capital commitments

2011 Actual $000's		2012 Actual $000's
	Capital expenditure contracted for at balance date but not yet incurred for property, plant and equipment	
2,108	Not later than one year	3,117
1,613	Later than one year, not later than two years	0
0	Later than two years, not later than five years	0
0	Later than five years	0
3,721	**Total contractual capital commitments**	**3,117**
30,941	In addition to these commitments above, Council has authorised additional capital works for 2012/13 in the 2012/22 Ten Year Plan	30,963
34,662	**TOTAL CAPITAL WORKS COMMITTED TO FROM 2012/2013 ONWARDS**	**34,080**

There are no capital commitments in relation to the Council's interest in the joint venture, Thames Valley Combined Civil Defence Emergency Planning Committee, as at 30 June 2012 (2011: $nil).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 29 - COMMITMENTS (CONTINUED)

Operating Leases as Lessor

The Council leases some properties held for future strategic purposes under operating leases. The future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

2011		2012
Actual		Actual
$000's		$000's
897	Not later than one year	841
2,910	Later than one year, not later than five years	2,506
5,131	Later than five years	4,128
8,938	**TOTAL NON-CANCELLABLE LEASES OPERATING LEASES AS LESSOR**	**7,475**

No contingent rents have been recognised in the statement of comprehensive income during the period.

For further details on properties leased by the Council to related parties, refer Note 26 Related party transactions.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 30 - CAPITAL WORKS PROGRAMME

2011		2012			
Total Expended		Completed Work	Work in Progress	Total Expended	Budget
$000's		$000's	$000's	$000's	$000's
	DISTRICT				
165	Public Conveniences	164	0	164	166
0	Leadership	4	0	4	355
990	Strategic Planning	561	445	1,006	1,586
46	Emergency Management	26	1	26	67
41	Cemeteries	352	0	352	4
6,442	District Transportation	6,464	83	6,547	8,383
281	Solid Waste Disposal	199	0	199	275
4,280	Wastewater	1,446	1,289	2,735	5,821
12,245	**Total District**	**9,215**	**1,818**	**11,033**	**16,656**
	THAMES				
64	Local Transportation	489	0	489	128
0	Halls	0	0	0	2
99	Libraries	125	0	125	161
36	Swimming Pools	5	0	5	5
181	Parks and Reserves	261	0	261	287
451	Stormwater	897	1	898	986
706	Water	987	263	1,250	2,597
1,537	**Total Thames**	**2,764**	**264**	**3,028**	**4,166**
	COROMANDEL				
39	Local Transportation	49	12	61	114
5	Halls	0	36	36	91
0	Harbours	0	212	212	1,100
23	Parks and Reserves	31	0	31	74
15	Stormwater	102	7	109	103
159	Water	48	0	48	155
241	**Total Coromandel**	**230**	**267**	**497**	**1,637**
	MERCURY BAY				
342	Local Transportation	562	163	725	464
1	Halls	282	193	475	167
45	Libraries	51	1	52	57
64	Harbours	46	0	46	50
5,976	Parks and Reserves	2,072	2,343	4,415	4,056
334	Stormwater	573	127	700	732
141	Water	121	0	121	556
6,903	**Total Mercury Bay**	**3,707**	**2,827**	**6,534**	**6,082**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 30 - CAPITAL WORKS PROGRAMME (CONTINUED)

	TAIRUA/PAUANUI				
368	Local Transportation	197	0	197	139
17	Libraries	19	0	19	22
82	Parks and Reserves	303	23	326	485
150	Stormwater	36	13	49	298
555	Water	144	287	431	1,567
1,172	**Total Tairua/Pauanui**	**699**	**323**	**1,022**	**2,511**
	WHANGAMATA				
165	Local Transportation	41	21	62	97
21	Halls	37	2	39	70
0	Harbours	82	0	82	80
64	Parks and Reserves	301	46	347	812
101	Stormwater	321	0	321	628
542	Water	99	98	197	311
893	**Total Whangamata**	**881**	**167**	**1,048**	**1,998**
22,991	**TOTAL FOR THE DISTRICT**	**17,496**	**5,666**	**23,161**	**33,050**

2011		**2012**			
Total Expended		**Completed Work**	**Work in Progress**	**Total Expended**	**Budget**
$000's		**$000's**	**$000's**	**$000's**	**$000's**
978	Local Transportation	1,338	196	1,534	942
6,442	District Transportation	6,464	83	6,547	8,383
165	Public Conveniences	164	0	164	166
0	Leadership	4	0	4	355
990	Strategic Planning	561	445	1,006	1,586
46	Emergency Management	26	1	26	67
41	Cemeteries	352	0	352	4
27	Halls	319	231	550	330
160	Libraries	195	1	196	240
64	Harbour Facilities	128	212	340	1,230
36	Swimming Pools	5	0	5	5
6,326	Parks and Reserves	2,968	2,412	5,380	5,714
281	Solid Waste Disposal	199	0	199	275
1,052	Stormwater	1,929	148	2,077	2,747
4,280	Wastewater	1,446	1,289	2,735	5,821
2,104	Water	1,399	648	2,047	5,186
22,991	**TOTAL PER ACTIVITY**	**17,496**	**5,666**	**23,161**	**33,050**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 31 - FINANCIAL INSTRUMENT CATEGORIES

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

2011 Actual $000's		2012 Actual $000's
	Financial Assets	
	Loans and receivables	
57	Cash and cash equivalents	823
2,734	Debtors and other receivables	2,993
210	Rates postponement receivables	315
	Other financial assets	
78	Term deposits	82
3,079	**Total loans and receivables**	**4,213**
	Fair value through other comprehensive income	
198	Unlisted shares	206
198	**Total fair value through other comprehensive income**	**206**
	Financial liabilities	
	Fair value through surplus or deficit-held for trading	
2,780	Derivative financial instrument liabilities	4,790
2,780	**Total fair value through surplus or deficit - held for trading**	**4,790**
	Financial liabilities at amortised cost	
12,862	Creditors and other payables	14,182
	Borrowings	
52	Finance Lease liabilities	11
45,488	Term loans	47,438
58,402	**Total financial liabilities at amortised cost**	**61,631**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 32 - FAIR VALUE HIERARCHY DISCLOSURES

For those instruments recognised at fair value on the statement of financial position, fair values are determined according to the following hierarchy:

- **Quoted market price** – Financial instruments with quoted prices for identical instruments in active markets.
- **Valuation technique using observable inputs** – Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- **Valuation techniques with significant non-observable inputs –** Financial instruments valued using models where one or more significant inputs are not observable.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value on the statement of financial position:

		Valuation technique		
	Total	Quoted market price	Observable inputs	Non-observable inputs
	$000's	$000's	$000's	$000's
2012				
Financial assets				
Shares	206	0	0	206
Financial liabilities				
Derivatives	4,790	0	4,790	0
2011				
Financial assets				
Shares	198	0	0	198
Financial liabilities				
Derivatives	2,780	0	2,780	0

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 33 - FINANCIAL INSTRUMENT RISKS

The Council is party to financial instruments as part of its normal operations. The Council has a series of policies to manage the risks associated with financial instruments. The Council is risk averse and seeks to minimise exposure arising from its treasury activities. The Council has a liability management policy and an investment policy that provides risk management for interest rates and the concentration of credit risk.

These policies do not allow any transactions that are speculative in nature to be entered into.

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 not exposed to equities securities price risk on its investments.

Fair value interest rate risk

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

Borrowings and investments issued at fixed rates of interest expose the Council to fair value interest rate risk.

The Council’s liability management policy outlines the level of borrowing that is considered acceptable using fixed rate instruments. In the normal course of business, any long-term debt is at floating interest rates. Short-term borrowing and investments are subject to normal market fluctuations.

Interest rate management instruments are used to manage floating wholesale market interest rate movements by converting floating rates to fixed rates. Consequently, investments at fixed rates expose the Council to fair value interest rate risk.

The interest rates on the Council’s investments are disclosed in Note 10 *Derivative Financial Instruments* and on Council’s borrowings in Note 22 *Borrowings*.

The Council borrowed at fixed rates directly. Under the interest rate swaps, the Council agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

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 to cash flow interest rate risk.

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

Credit Risk

Credit risk is the risk that a third party will default on its obligation to the Council causing it to incur a loss. Due to the timing of its cash inflows and outflows, surplus cash is invested into term deposits which give rise to credit risk. Financial instruments which potentially subject the Council to credit risk principally consist of cash and on-call deposits, accounts receivable, investments in company shares and interest rate swaps.

The Council’s investment policy limits the amount of credit exposure to any one financial institution or organisation. The Council reduces its exposure to credit risk by only placing investments in accordance with its investment policy which ensures dispersion and minimisation of risk.

Credit risk is minimised as a result of several key controls:

→ Maintaining maximum limits for the amount of credit exposure with any one institution,
→ Limiting investments to registered banks and strongly rated state owned enterprises and corporations,
→ Controlling the level and spread of accounts receivable outstanding.

As a result of these controls there are no significant concentrations of credit risk. The maximum exposure to credit risk at 30 June 2012 is the fair value of these instruments as stated in the statement of financial position.

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 33 - FINANCIAL INSTRUMENT RISKS (CONTINUED)

Maximum exposure to credit risk

The Councils maximum credit risk exposure for each class of financial instrument is as follows:

2011 Actual 000's		2012 Actual 000's
135	Cash at bank and term deposits	905
2,734	Debtors and other receivables	2,993
210	Rates postponement receivables	315
520	Financial guarantees	520
3,599	**TOTAL CREDIT RISK**	**4,733**

Credit Quality of Financial Assets

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

2011 Actual 000's		2012 Actual 000's
	Counterparties with credit ratings	
	Cash at bank and term deposits	
135	AA	905
135	**Total cash at bank and term deposits**	**905**

Debtors and other receivables mainly arise from the Council'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 Council has only one significant concentration of credit risk in relation to debtors (New Zealand Transport Agency).

This concentration of risk and reliance on Government is not considered to be a matter of concern because of the New Zealand Government's strong credit rating.

The Council has $819,438 cash and cash equivalents held in deposit accounts with ANZ National Bank Limited, Bank of New Zealand and Westpac New Zealand.

As it has a large number of credit customers, mainly ratepayers, and the Council has powers under the Local Government (Rating) Act 2002 to recover outstanding debts from ratepayers, there is no other significant risk.

Provision of additional capacity infrastructure for growth and the associated development contributions risk

The provision of additional capacity for growth within the Council's infrastructural assets is a key driver of a significant portion of the Council's capital works programme.

To date the Council has had a policy of providing the infrastructure required to meet the needs of both existing and new development in the serviced settlements. This policy has included expanding that infrastructure to meet the needs of forecast growth that is allowed for through the district plan. The provision of this spare capacity is developed based upon the Council's growth projections.

The Council funds this additional capacity capital expenditure through debt which is then repaid through development contributions received from developers.

It is important to recognise that development is a business decision made by individual developers, not by the Council. Ultimately it is the developer who will determine if, when, and where they develop land. Developers can often be motivated by market forces as well as the viability of their proposed development.

There is a risk that given that the Council currently provides the infrastructure for growth, and if the growth does not materialise as projected then the Council may need to fund the shortfall until the growth crystallises. As such, any deferment in growth may require the Council to raise additional debt to cover the shortfall in development contributions not collected resulting from such a slow down.

In managing this risk, the Council has closely monitored projected and actual growth within the District. In cases where envisaged growth has not eventuated the Council has, where considered prudent to do so, sought to defer the provision of the associated additional capacity infrastructure.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 33 - FINANCIAL INSTRUMENT RISKS (CONTINUED)

Liquidity Risk

The management of liquidity risk

Liquidity risk is the risk that the Council will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Council aims to maintain flexibility in funding by keeping committed credit lines available.

In meeting its liquidity requirements, the Council maintains a target level of investments that must mature within the next 12 months.

The Council manages its borrowings in accordance with its funding and financial policies, which includes a liability management policy. These policies have been adopted as part of the Council's Ten Year Plan.

The Council has a maximum amount that can be drawn down against its overdraft facility of $250,000 (2011: $250,000). There are no restrictions on the use of this facility. For a summary of the facilities held by the Council refer to Note 22 *Borrowings*.

maturity profiles of financial assets and liabilities.

Contractual Maturity Analysis of Financial Liabilities

The maturity profiles of the Council's interest bearing investments and borrowings are disclosed in *Note 10 Derivative Financial Instruments* and *Note 22 Borrowings,* respectively.

The following table analyses financial liabilities (excluding derivatives) into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. Future interest payments on the floating rate debt are based on the floating rate on the instrument at balance date. The amounts disclosed are the contractual undiscounted cash flows.

2012	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years	More than 5 years
	$000's	$000's	$000's	$000's	$000's
Creditors and other payables	14,182	14,182	14,182	0	0
Not settled derivative liabilities	4,790	4,790	934	3,142	714
Secured loans	47,438	47,438	30,950	16,488	0
Finance leases	11	13	7	6	0
Financial guarantees	520	520	520	0	0
Total	**66,941**	**66,943**	**46,593**	**19,636**	**714**

2011	Carrying amount	Contractual cash flows	Less than 1 year	2-5 years	More than 5 years
	$000's	$000's	$000's	$000's	$000's
Creditors and other payables	12,862	12,862	14,671	0	0
Not settled derivative liabilities	2,780	2,780	655	1,691	434
Secured loans	45,488	45,488	50	45,438	0
Finance leases	52	56	43	13	0
Financial guarantees	520	520	520	0	0
Total	**61,702**	**61,706**	**15,939**	**47,142**	**434**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 33 - FINANCIAL INSTRUMENT RISKS (CONTINUED)

The table below analyses derivative financial instrument assets into those that are settled net and those that will be settled on a gross basis into their relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	2012				
	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years	More than 5 years
	$000's	$000's	$000's	$000's	$000's
Cash and cash equivalents	823	823	823	0	0
Debtors and other receivables	2,993	2,993	312	2,681	0
Rates postponement receivables	315	315	0	0	315
Other financial assets:					
Term deposits	82	82	82	0	0
Unlisted shares	142	142	0	0	142
Total	**4,355**	**4,355**	**1,217**	**2,681**	**457**

	2011				
	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years	More than 5 years
	$000's	$000's	$000's	$000's	$000's
Cash and cash equivalents	57	57	57	0	0
Debtors and other receivables	2,734	2,734	344	2,390	0
Rates postponement receivables	210	210	0	0	210
Other financial assets:					
Term deposits	78	78	78	0	0
Unlisted shares	147	147	0	0	147
Total	**3,226**	**3,226**	**479**	**2,390**	**357**

Sensitivity Analysis

The table below illustrates the potential surplus or deficit and equity (excluding retained earnings) impact for reasonably possible market movements, with all other variables held constant, based on financial instrument exposures at the balance date.

	2012			
		-100bps		+100bps
	Surplus	Other Equity	Surplus	Other Equity
	$000's	$000's	$000's	$000's
Financial liabilities				
Derivatives - held for trading	(2,254)	0	2,141	0
Total sensitivity to interest rate risk	**(2,254)**	**0**	**2,141**	**0**

	2011			
		-100bps		+100bps
	Surplus	Other Equity	Surplus	Other Equity
	$000's	$000's	$000's	$000's
Financial liabilities				
Derivatives - held for trading	(1,953)	0	1,791	0
Total sensitivity to interest rate risk	**(1,953)**	**0**	**1,791**	**0**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 33 - FINANCIAL INSTRUMENT RISKS (CONTINUED)

Derivatives

Comparatives have been presented to enable a meaningful comparison to the current year.

Explanation of interest rate risk sensitivity

The interest rate sensitivity is based on a reasonable possible movement in interest rates, with all other variables held constant, measured as a basis points (bps) movement. For example, a decrease in 50 bps is equivalent to a decrease in interest rates of 0.5%.

The sensitivity for derivatives (interest rate swaps) has been calculated using a derivative valuation model based on a parallel shift in interest rates of -100bps/+100bps (2011: -100bps/+100bps).

NOTE 34 - CAPITAL MANAGEMENT

The Council's capital is its equity (or ratepayer's funds), which comprise retained earnings, asset revaluation reserves and fair value through comprehensive income reserves. Equity is represented by net assets.

The Local Government Act 2002 requires the Council to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community. Ratepayer's funds are largely managed as a by-product of managing revenues, expenses, assets, liabilities, investments, and general financial dealings.

The objective of managing these items is to achieve intergenerational equity, which is a principle promoted in the Act and applied by the Council.

Intergenerational equity requires today's ratepayers to meet the costs of utilising the Council's assets and not expecting them to meet the full cost of long term assets that will benefit ratepayers in future generations. Additionally, the Council has in place asset management plans for major classes of assets detailing renewal and maintenance programmes, to ensure ratepayers in future generations are not required to meet the costs of deferred renewals and maintenance.

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

The Council has the following Council created reserves:

- Specifically named reserves available to fund activities
- Retained revenue reserves available to fund activities
- Funded depreciation reserves to fund capital items
- Special LGAC reserves to fund capital items

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 35 - EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Explanations for major variances from the Council's budget in the 2011-12 Annual Plan are as follows:

Statement of Comprehensive Income
The Councils operating surplus of $0.33 million compares with a budgeted surplus of $4.32 million. This is due to the net effect of the following variances in revenue and expenditure detailed further below.

Revenue was $76.19 million (including assets vested in the Council) compared to the budgeted revenue of $82.11 million.

Expenditure was $75.86 million compared to the plan of $77.79 million.

Revenue
Refer to Note 3 *Revenue*.

→ ***Activity Revenue***
Activity revenue variances are reported in detail by significant activity in the cost of service statements in section three: Council Activities. Planning for the Future variance $447,000 (page 36), Strong Communities variance $88,000 (page 46) and Safeguarding the Environment variance ($425,000 (page 82).

→ ***Rates revenue***
Rates are showing an decrease from the planned figure of $59.29 million to $59.25 million, a difference $0.04 million which is due to shifts in the rating database numbers between the time the budget for the 2009-19 Ten Year Plan is finalised and the actual assessment of rates is conducted at the close of the District valuation roll.

→ ***Subsidies revenue***
The subsidies revenue received from New Zealand Transport Agency was $0.75 million lower than budget, largely due to delays in maintenance work, pavement rehabilitation and sealed road . Subsidies are directly linked to the amount of money the Council spends in the roading activity, whether capital expenditure or operating expenditure. For further details refer to roading cost of service statement within section three of this report.

→ ***Vested assets***
Vested assets are mainly infrastructural assets received from developers once a subdivision is complete. This is a non cash item and is subject to the number of subdivisions that are completed during the year. Assets worth $0.85 million have been vested in the Council which is below budget due to reduced subdivision activity in the present economic climate.

Expenditure
Refer to Note 4 *Expenditure*.

→ ***Depreciation and amortisation***
Depreciation is less than budgeted due to lower than budgeted asset revaluations and therefore a lower depreciation charge. Also deferral of the completion date for large wastewater, stormwater and water projects again resulted in a lower depreciation charge.

→ ***Personnel costs***
Personnel costs are $0.20 million less than the budget of $13.58 million. The reason for this saving is due to reduction in headcount .

→ ***Finance costs***
Finance costs are lower than budget (by $1.00 million) due to less capital expenditure than budgeted occurring and therefore less borrowing was required as well as lower funding required due to the reduction in operating expenditure.

→ ***Other direct operating costs***
Operating expenditure was lower than budget by ($3.32 million). Variances are reported in detail by significant activity in the cost of service statements in section three: Council Activities.

→ ***Other losses***
During the replacement process of the Council's infrastructural assets, existing assets are often disposed of for minimal or nil value resulting in a loss on disposal which is reflected in the statement of comprehensive income. During the 2011/2012 financial year these losses amounted to ($1.62 million) (see Note 6). Other losses also include a loss on the revaluation of derivative instruments (interest rate swaps) which are taken out to protect the Council's budgeted interest expense against fluctuations in the market totaling ($2.0 million).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 35 - EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET (CONTINUED)

Other Comprehensive Income

→ ***Gain on property revaluation***

Under the revised NZ IAS 1 Council is required to disclose items in the statement of comprehensive income. The gain on property revaluation is $16.82 million. (2011 $44.05 million). The accumulated property revaluations are disclosed in Note 7a. The revaluation gain of $16.82 million compares to the budgeted revaluations gain of $31.63 million. The major variation is the negative valuation in wastewater of ($19.09 million) principally for the Eastern Seaboard plants, where design costs have been written off in the valuation process and the oxidation ponds in Coromandel, Thames & Cooks Beach.

In addition other movements consist of the decommissioning or disposing of old assets over a number of years that were previously unidentified in the old fixed asset register. This is particularly the case with Harbour and wastewater assets.

Statement of Changes in Equity

Equity is showing an increase of $17.16 million for the year made up of the operating surplus of $0.33 million plus other comprehensive income of $16.82 million which has been explained in the previous two paragraphs.

This compares to the budgeted increase of $35.9 million. The major reasons are revenue lower that budget by ($5.9 million, partially offset by expenses being $1.9 million under budget. Property revaluations were less than that budgeted by ($14.8 million). Refer above for more detailed explanations.

Statement of Financial Position

Assets

→ ***Property Plant and Equipment***

Property Plant and Equipment increased by $19.85 million net of depreciation during the year. $16.82 million relates to property revaluations. The increase in Property Plant and equipment is lower than budgeted by ($38.2 million) due to fewer assets vested as a result of the lower number of subdivisions and the deferral of some large capital works projects to future years. Also revaluation of Property Plant and equipment was lower than that budgeted. Refer to section 3; capital works variance notes for details of these projects. For more detail refer to *Note 15 Property, plant and equipment* and *Note 16 Intangible assets.*

Liabilities

→ Total borrowings increased by a minimal amount of $1.9 million during the year to fund council's activities but still remain at a conservative level of 4% of net assets. Borrowing are $21.1 million lower than that budgeted principally due to the lower capitalisation of Property Plant and Equipment (see above) and savings in operating expenses.

→ Provisions have increased by $1.92 million with the provision for reserve contributions increasing by $1.6 million and an increase in the provision for weather tight homes of $0.36 million. Refer to comments with *Note 21 Provisions.* Compared to budget provisions have increased by $4.0 million. Again this related to the increased provision required for weather tight homes and reserve contributions.

→ Derivative financial instruments are higher than anticipated due to market fluctuations in the interest rate swap market. Refer to *Note 10 Derivative financial instruments*. This has required the provision to be increased to $4.8 million (budget $1.8 million)

Council Controlled Organisations

Council-controlled organisations or CCO's are organisations in which one or more councils control 50% or more of the voting rights, or have the right to appoint half or more of the directors. Council-controlled trading organisations (CCTO) are council-controlled organisations that trade to make a profit.

The Thames Valley Combined Civil Defence Emergency Management Committee is not disclosed as a CCO because Thames-Coromandel District Council has resolved to exempt this organisation in accordance with the Local Government Act 2002, under section 7.

Thames-Coromandel District Council has an interest in one CCO in 2011/2012, the Local Authority Shared Services Ltd (LASS).

Local Authority Shared Services Limited (LASS)

The Council has a one-twelfth ordinary shareholding (one share at $1,000) in LASS. The remaining shares are owned by Waikato Regional Council,Hamilton City Council, Waikato, Waipa, Hauraki, Matamata-Piako, Otorohanga, Waitomo, South Waikato, Taupo and Rotorua District Councils.

The Council also holds service shares in the Waikato Region Aerial Photography Service (WRAPS) (6,476 shares at $1), the Shared Valuation Data Service (108,015 shares at $1) and the Waikato Regional Transport Model (2,250 shares at $10). As at 30 June 2012, both WRAPS and LASS shares remained uncalled. These service shareholdings give no rights to a share in the distribution of surplus assets, nor do they provide voting rights.

Introduction

The LASS CCO was incorporated in December 2005.

LASS was developed as a joint initiative between the 13 Councils of the Waikato region. Its evolution can be traced from a range of projects that were implemented between local councils. These projects highlighted the benefits of a jointly owned governance structure to provide an opportunity for collaborative management and development. Central government devolution, closer working relationships between councils and a desire to benefit from cost saving opportunities offered by jointly progressing shared initiatives have fostered more efficient services.

LASS provide an effective structure that can promote such developments to the benefit of those councils that choose to be actively involved in a particular joint service. Each council owns an equal number of shares in LASS and as such has an equal say in its development.

The LASS governance structure enables the directors appointed by the shareholders to decide on the future direction of those services that will be promoted under its auspices. Any such services will be operated as a stand alone business unit with an advisory group appointed by the shareholders participating in that service to provide direction but answerable to the directors.

The shared valuation database service (SVDS) has been developed to enable the construction of a database service that is available online with updated valuation data. The short-term aim is to incorporate all property data for the whole of the Waikato region in this single database to enable competition and improvements in the valuation service provider market.

Objectives

The objective of the company is to provide Waikato region local authorities with a vehicle to develop shared services that demonstrate a benefit to the ratepayers and provide those services to local authorities.

Performance Measures

The following performance measures were incorporated into the statement of intent for the 2011/2012 financial year:

Perfomance Measure	Actual Outcome
The company will carry out an annual survey of shareholders to assist Directors in developing improvements on behalf of the shareholders, and to receive a majority of shareholder approval on the service provided.	Annual survey of shareholders was completed in July with all of the shareholder Councils replying. Eleven councils replied that the concept of LASS was still delivering benefits to their Council. Five Councils replied that LASS was fulfilling the expectations of shareholders and seven replied "fairly satisfied". Those who responded "fairly satisfied" were generaly satisfied with the existing services but considered more could be achieved through other shared service opportunities.
Administration expenditure shall not exceed that budgeted by more than 5% unless prior approval is obtained from the Directors.	Achieved, actual expenditure was $13,642 favourable to budget.
The company maintains an overall positive cash flow position	Achieved. Cash, cash equivalents and bank accounts at end of year were $283,692.
The Board will provide a written report on the business operations and financial position of the LASS as a minimum on a six monthly basis.	Six monthly reports have been sent to shareholders.
There will be an annual report to directors that all statutory requirements of the LASS are being adhered to.	Reported to the August Board meeting.

Council Controlled Organisations (CONTINUED)

Perfomance Measure	Actual Outcome
That SVDS is available to users at least 99% of normal working hours.	SVDS was available 99.93% of working hours.
That at least 98% of agreed timelines are met for sale and property files that have been delivered to the FTP server for access to customers.	100% of Sales and Property files were supplied to Terralink/ Property IQ on time.
That over 50% of the Intergen support hours are spent on major development work.	35% of Intergen Support hours were spent on major development work as result of much higher Bug Fix and Admin time. This has been the subject of discussions with Intergen management and a new model for controlling this is in place.
That all required modelling reports are actioned within the required timeframe.	Achieved
That a full report on progress of the model be provided to the LASS Board twice each year.	Achieved

Conclusion

The Council's own significant policies and objectives as set out in the 2009-2019 Ten Year Plan have been met during the year.