

# Financial Information

## Prospective Income Statement

For the year ended 30 June:	LTCCP 2011/12	AP 2011/12	Difference 2011/12	Notes
	\$'000	\$'000	\$'000	
<b>INCOME</b>				
Fees, Charges, Rents and Miscellaneous	6,629	4,954	-1,675	
Financial Assistance	10,937	8,568	-2,369	
General Rates	3,249	3,291	42	
Rate Penalties	127	127	-	
Targeted Rates	19,897	17,941	-1,956	
<b>Total Income</b>	<b>40,839</b>	<b>34,881</b>	<b>-5,958</b>	
<b>EXPENDITURE</b>				
Community Leadership	2,428	3,623	-1,195	
Central Administration	865	693	172	
Roading Services	17,986	16,002	1,984	
Wastewater & Drainage	2,140	2,090	50	
Water Services	5,170	5,297	-127	
Sanitary Services	1,912	2,008	-96	
Community Services	4,634	4,123	554	
Regulatory Services	1,204	1,173	31	
Emergency Services	268	297	-29	
In-House Professional Services	-30	-41	11	
<b>Total Expenditure</b>	<b>36,577</b>	<b>35,265</b>	<b>1,312</b>	
<b>NET SURPLUS/ (DEFICIT) FROM ACTIVITIES</b>	<b>4,262</b>	<b>-384</b>	<b>-4,646</b>	
<b>NET SURPLUS/(DEFICIT)</b>	<b>4,262</b>	<b>-384</b>	<b>-4,646</b>	

### Included in Fees, Charges, Rents and Miscellaneous

For the year ended 30 June:	LTCCP 2011/12	AP 2011/12	Difference 2011/12	Notes
Reserve Interest <sup>1</sup>	485	912	427	

<sup>1</sup> Interest that is credited to reserve funds and not directly to activities.

### Included in Expenditure Above

For the year ended 30 June:	LTCCP 2011/12	AP 2011/12	Difference 2011/12	Notes
Depreciation	12,853	13,061	208	
Interest	533	803	270	
Other Expenses	23,191	21,401	-1,790	
	36,577	35,265	-1,312	

## Statement of Prospective Changes in Equity

For the year ended 30 June:	LTCCP 2011/12	AP 2011/12	Difference 2011/12	Notes
	\$'000	\$'000	\$'000	
Opening Equity	891,944	888,384	-3,560	
Net Forecast Surplus/(Deficit) from operations	4,262	-384	-4,646	
Revaluation Reserve	-	-	-	
Total recognised revenue and expenses for the year	4,262	-384	-4,646	
Closing Equity	896,206	888,000	-8,206	

## Prospective Balance Sheet

*This statement summarises Council's financial obligations to others and financial assets as at the end of each financial year.*

As at 30 June:	LTCCP 2011/12	AP 2011/12	Difference 2011/12	Notes
<b>CURRENT ASSETS</b>	\$'000	\$'000	\$'000	
Cash and Cash Equivalents	374	477	103	
Trade and Other Receivables	2,939	4,307	1,368	
Inventories - development property	34	13	-21	
Other Financial Assets	6,303	10,200	3,897	
<b>Total Current Assets</b>	<b>9,650</b>	<b>14,997</b>	<b>5,347</b>	
Trade and Other Receivables	12	70	58	
Other Financial Assets	94	103	9	
Property, Plant & Equipment	889,207	877,511	-11,696	
Intangible Assets	138	126	-12	
Forestry	953	1,364	411	
<b>Total Non-current Assets</b>	<b>890,404</b>	<b>879,174</b>	<b>-11,230</b>	
<b>TOTAL ASSETS</b>	<b>900,054</b>	<b>894,171</b>	<b>-5,883</b>	
Trade and Other Payables	2,957	5,216	-2,259	
Employee Entitlements	441	494	-53	
Current Portion of Term Debt	3	3	-	
<b>Total Current Liabilities</b>	<b>3,401</b>	<b>5,713</b>	<b>-2,312</b>	
Borrowings	8	8	-	
Provisions	348	353	-5	
Other Liabilities	91	97	-6	
<b>Total Non Current Liabilities</b>	<b>447</b>	<b>458</b>	<b>-11</b>	
<b>TOTAL LIABILITIES</b>	<b>3,848</b>	<b>6,171</b>	<b>-2,323</b>	
<b>NET ASSETS</b>	<b>896,206</b>	<b>888,000</b>	<b>-8,206</b>	
Accumulated Operating Funds	39,899	25,192	-14,707	
Ratepayer Equity	219,469	219,469	-	
Revaluation Reserves	615,885	617,130	1,245	
Reserves	20,439	25,774	5,335	
Trust Funds	514	435	79	
<b>TOTAL</b>	<b>896,206</b>	<b>888,000</b>	<b>-8,206</b>	

FINANCIAL  
INFORMATION

# Statement of Prospective Cashflows

*This statement outlines the movements of cash in and out of Council's accounts.*

For the year ended 30 June:	LTCCP 2011/12	AP 2011/12	Difference 2011/12	Notes
	\$'000	\$'000	\$'000	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<i>Cash was provided from:</i>				
Rating and Sundry fees	40,349	33,968	-6,381	
Interest Income (external)	485	912	-427	
<i>Cash was applied to:</i>				
Payments to suppliers and employees	-23,740	-22,225	1,515	
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>17,094</b>	<b>12,655</b>	<b>-4,439</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<i>Cash was provided from:</i>				
Repayment of Long Term Debtors	-	-	-	
Decrease in Investments	3,398	8,042	4,644	
Decrease in Development Property	-	-	-	
<i>Cash was applied to:</i>				
Increase in Investments	-	-	-	
Purchase of Fixed Assets	-20,376	-20,644	-268	
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>-16,978</b>	<b>-12,602</b>	<b>4,376</b>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<i>Cash was applied to:</i>				
Settlement of long term debt	-3	-3	-	
<b>NET CASH AVAILABLE FROM FINANCING</b>	<b>-3</b>	<b>-3</b>	<b>-</b>	
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	<b>113</b>	<b>50</b>	<b>-63</b>	
Add opening cash brought forward	261	431	170	
<b>ENDING CASH CARRIED FORWARD</b>	<b>374</b>	<b>481</b>	<b>107</b>	

# Prospective Financial Statement Disclosures

## Disclosures

- This document has been produced to meet legislative requirements of the Local Government Act 2002. It may not be appropriate for any other purpose.
- These financial statements comply with FRS - 42.
- Actual financial results during 2011/12 are likely to vary from the information presented, and those variations may be material.
- Actual events and transactions have not been reflected in the prospective financial statements as they have not yet taken place.
- These prospective financial statements were authorised for issue on 7 April 2011 by a resolution of Council.
- The Clutha District Council is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other disclosures.
- It is intended that the prospective financial statements will be reviewed and updated annually via the Annual Plan process, and three yearly via the Long Term Plan process.
- The degree of uncertainty covered by the significant forecasting assumption, and therefore the prospective financial statements increases as the years increase.

## SUMMARY OF ACCOUNTING POLICIES

### Reporting Entity

The Clutha District Council (“the Council or CDC”) is a territorial authority governed by the Local Government Act 2002.

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

### Statement of Compliance

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

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for public benefit entities.

All available public benefit entity reporting exemptions under NZ IFRS have been adopted.

### Basis of Preparation

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and in future periods if the revision affects both current and future periods.

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

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

The financial statements are presented in New Zealand dollars. New Zealand dollars are the Council’s functional currency.

The following accounting policies which materially affect the measurement of results and financial position have been applied:

## SIGNIFICANT ACCOUNTING POLICIES

### Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and GST.

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.

### **Rates Revenue**

Rates revenue is recognised when it is levied.

### **Other Revenue**

Revenue from services rendered is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity. The stage of completion at balance date is assessed based on the value of services performed to date as a percentage of the total services to be performed.

Government grants are recognised as revenue when eligibility has been established with the grantor agency. Roothing subsidies are recognised when the claims are approved by Land Transport New Zealand.

Dividends are recognised when the entitlement to receive the dividends is established.

Interest revenue is recognised on a time proportionate basis using the effective interest method.

### **Other Gains and Losses**

Net gains or losses on the sale of property, plant and equipment, property intended for sale and financial assets are recognised when an unconditional contract is in place and it is probable that the Council will receive the consideration due.

### **Grant expenditure**

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

Discretionary grants are those grants where the 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 the Council's decision.

### **Leasing**

Leases which effectively transfer to the lessee substantially all the risks and benefits incident to ownership of the leased item are classified as finance leases.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases.

#### **(a) The Council as Lessor**

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Council's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Council's net investment outstanding in respect of the leases.

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

#### **(b) The Council as Lessee**

Assets held under finance leases are recognised as assets of the Council at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

### (c) Lease Incentives

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

### Taxation

The Council is exempt from Income Tax in accordance with the Income Tax Act 2004, Section CW32.

### Goods and Services Tax

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

### Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and other short-term highly liquid investments that are readily convertible to a known amount of cash.

### Financial Instruments

Financial assets and financial liabilities are recognised on the Council's Statement of Financial Position when the Council becomes a party to contractual provisions of the instrument. The Council is party to financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, other financial assets, trade and other receivables, trade and other payables and borrowings. The relevant accounting policies are stated under separate headings.

Investments are recognised and de-recognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as fair value through profit or loss which are initially valued at fair value.

#### (i) Financial Assets

Financial Assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The effective interest method, referred to below, is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

#### Financial Assets at Fair Value Through Profit or Loss

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

- Has been acquired principally for the purpose of selling in the near future;
- Is a part of an identified portfolio of financial instruments that the Council manages together and has a recent actual pattern of short-term profit-taking; or
- Is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the Statement of Financial Performance. The net gain or loss is recognised in the Statement of Financial Performance and incorporates any dividend or interest earned on the financial asset. Fair value is

determined in the manner described later in this note.

The Council has classified its managed funds, held with ING, as financial assets at fair value through profit or loss. This fund includes cash, bonds and tradable securities.

### **Held-to-Maturity Investments**

Investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis. The Council does not hold any financial assets in this category.

### **Available-for-Sale Financial Assets**

Available-for-sale financial assets are those that are designated as fair value through equity or are not classified in any of the other categories. This category encompasses investments that Council intends to hold long-term but which may be realised before maturity and equity securities that Council holds for strategic purposes.

Equity securities held by the Council have been classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described later in this note. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve, with the exception interest calculated using the effective interest method and impairment losses which are recognised directly in the Statement of Financial Performance. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in the Statement of Financial Performance for the period.

### **Loans and Receivables**

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. An allowance for doubtful debts is established when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the allowance is expensed in the Statement of Financial Performance.

Loans, including loans to community organisations made by the 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 a similar asset/investment. They are subsequently measured at amortised cost using the effective interest method. The difference between the face value and present value of expected future cash flows of the loan is recognised in the Statement of Financial Performance as a grant.

Money Market Deposits and Sinking Funds are included within this classification. Until 1 July, 1998 in certain circumstances funds were required to be set aside each year to meet future payments of loans and commitments. These funds, described as Sinking Funds, are administered by an independent body of Sinking Fund Commissioners appointed by the Council. The funds are included in the Statement of Financial Position. The Council drew down the sinking funds in 2007 to discharge the related liabilities..

Dividends on available-for-sale equity securities are recognised in the Statement of Financial Performance when the Council's right to receive payments is established.

### **Impairment of Financial Assets**

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent the carrying amount of the investment at the date of impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## **(ii) Financial Liabilities**

### **Trade and Other Payables**

Trade payables and other accounts payable are recognised when the Council becomes obliged to make future payments resulting from the purchase of goods and services. Trade and other payables are initially recognised at fair value and are subsequently measured at amortised cost, using the effective interest method.

### **Borrowings**

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the Statement of Financial Performance over the period of the borrowing using the effective interest method.

## **(iii) Derivative Financial Instruments**

From time to time the Council enters into certain derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps. Further details of derivative financial instruments are disclosed in Note 26 to the financial statements.

The Council does not hold derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance date.

Derivative instruments entered into by the Council do not qualify for hedge accounting. The resulting gain or loss is recognised in the Statement of Financial Performance immediately.

There were no derivative financial instruments held by Council at 30 June 2009 or 30 June 2008.

### **Fair Value Estimation**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance date. The quoted market price used for financial assets held by the Council is the current bid price; the appropriate quoted market price for financial liabilities is the current offer price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Council uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term investment and debt instruments held.

### **Embedded Derivatives**

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the Statement of Financial Performance.

## **Inventories**

### **Development Properties**

Development properties classified within Inventory are stated at the lower of cost or net realisable value. Cost includes planning expenditure and any other expenditure to bring the development property to its present condition.

### **Other inventories**

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis with an appropriate allowance for obsolescence and deterioration.

### **Property, Plant and Equipment**

The Council has the following classes of property, plant and equipment:

#### (a) Operational Assets

Land, buildings, furniture and equipment, plant and motor vehicles, land under forests and library books.

#### (b) Infrastructural Assets

Infrastructural assets are the fixed utility systems owned by the Council. Each asset type includes all items that are required for the network to function:

- Roads, bridges and lighting
- Land under roads
- Stormwater
- Wastewater
- Water

The nature of land under roads is considered equivalent to land improvements and as such it does not incur a loss of service potential over time. Accordingly land under roads assets are not depreciated.

### **Cost/Valuation**

Property, plant and equipment is recorded at cost or valuation (as appropriate) less accumulated depreciation and any accumulated impairment losses.

All assets are valued at cost, except for the following:

- Stormwater, wastewater and water infrastructural assets were valued at depreciated replacement value as at 30 June 2009 by Council staff and reviewed by Opus International Limited. Additions subsequent to 30 June 2009 are valued at cost. Stormwater, wastewater and water assets are revalued every 3 years.
- The roading infrastructural assets (excluding land under roads) were revalued on a depreciated replacement value at 30 June 2009 by MWH Limited. Subsequent additions are recorded at cost. Roading assets are revalued every 3 years.

All valuations are carried out or reviewed by independent qualified valuers and are carried out at least triennially. Valuations will be undertaken more regularly if necessary to ensure that no individual item within a class is included at a valuation that is materially different from its fair value.

Of the property, plant and equipment at cost the following classes are at deemed cost:

- Land and buildings - based on valuation at October 1990 with subsequent additions at cost.

## Additions

Cost includes expenditure that is directly attributable to the acquisition of the assets. Where an asset is acquired for no cost, or for a nominal cost, it is recognised at fair value at the date of acquisition.

Costs incurred in obtaining any resource consents are capitalised as part of the asset to which they relate. If a resource consent application is declined then all capitalised costs are written off.

## Accounting for revaluations

The Council accounts for revaluations of property, plant and equipment on a class of asset basis.

The results of revaluing are credited or debited to an asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the Statement of Financial Performance. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the Statement of Financial Performance will be recognised first in the Statement of Financial Performance up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

## Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment other than land, land under forests and land under roads. Rates are calculated to allocate the cost (or valuation) less estimated realisable value over the estimated useful life of assets.

Expenditure incurred to maintain these assets at full operating capability is charged to the Statement of Financial Performance in the year incurred.

The following estimated useful lives are used in the calculation of depreciation:

	Years	Depreciation Rate
<b>Operational Assets</b>		
Land	n/a	Not depreciated
Buildings	40-50	2% - 2.5%
Furniture and Equipment	3-10	10% - 33.3%
Plant and Motor Vehicles	3-10	10% - 33.3%
Land Under Forest	n/a	Not depreciated
Library Books	7	14.3%
<b>Infrastructural Assets</b>		
Roads - Formation	n/a	Not depreciated
Roads - Pavement (Sealed)	2-100	2%-50%
Roads - Pavement (Unsealed)	35-100	1%-2.86%
Roads - Other Roading Assets	20-150	0.6%-5%
Roads - Other	10-50	2%-10%
Roads - Bridges	50-150	0.6%-2%
Land Under Roads	n/a	Not depreciated
Stormwater	20-100	1-5%
Wastewater	20-100	1-5%
Water	20-100	1-5%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

## Disposal

An item of property, plant and equipment is de-recognised upon disposal or recognised as impaired when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Financial Performance in the period the asset is de-recognised.

## Borrowing Costs

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

**Forestry assets**

Forestry assets are independently revalued annually at fair value less estimated point of sale costs. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined pre-tax rate.

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

The costs to maintain the forestry assets are included in the Statement of Financial Performance.

**Finite life intangible assets**

Finite life intangible assets are recorded at cost less accumulated amortisation. Amortisation is charged on a straight line basis over their estimated useful life. The estimated useful life and amortisation period is reviewed at the end of each annual reporting period.

(a) Software acquisition and development

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

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

**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 from the date the asset is available for use and ceases at the date that the asset is de-recognised. The amortisation charge for each period is recognised in the Statement of Financial Performance

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

Computer Software	3 - 5 years	33%
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**Impairment of Non-Financial Assets**

At each reporting date, the Council reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Council estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset’s ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential. In assessing value in use for cash-generating assets, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for



which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the Statement of Financial Performance immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

### **Provisions**

Provisions are recognised when the Council has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

### **Landfill Post-Closure Costs**

The Council, as operator of the District's landfill, has a legal obligation under the resource consent to provide ongoing maintenance and monitoring services at the landfill site after closure. A provision for post closure costs is recognised as a liability when the obligation for post-closure care arises.

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

Amounts provided for landfill post-closure are capitalised to the landfill asset. Components of this are depreciated over their useful lives.

The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the Council.

### **Employee Entitlements**

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Council in respect of services provided by employees up to reporting date.

### **Cash Flow Statement**

Cash means cash balances on hand, held in bank accounts and demand deposits the Council invests in as part of its day to day cash management.

Operating activities include cash received from all income sources of the Council and record the cash payments

made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets. Financing activities comprise the change in equity and debt structure of the Council.

### **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 reserves.

### **Reserves and Council Created Reserves**

Reserves are a component of equity generally representing a particular use to which various parts of equity have been assigned. Reserves may be legally restricted or created by Council.

Restricted reserves are those subject to specific conditions accepted as binding by the Council and which may not be revised by the Council without reference to the Courts or a third party. Transfers from these reserves may be made only for certain specified purposes or when specified conditions are met.

Council created reserves are reserves established by Council decision. The Council may alter them without reference to third party. Transfers to and from these reserves are at the discretion of the Council.

The Council's objectives, policies and processes for managing capital are described in Note 26.

### **Budget Figures**

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

### **Allocation of Overheads**

Those costs of service not directly charged to activities are allocated as overheads using appropriate cost drivers such as actual usage, staff numbers and floor area.

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

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

- Landfill aftercare provision

Note 14 discloses an analysis of the exposure of the Council in relation to the estimates and uncertainties surrounding the landfill aftercare provision.

- Infrastructural assets

There are a number of assumptions and estimates used when performing Depreciated Replacement Cost (DRC) valuations over infrastructural assets. These include:

- the physical deterioration and condition of an asset; for example, the Council could be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets, which are not visible, for example stormwater, wastewater and water supply pipes that are underground. This

risk is minimised by Council performing a combination of physical inspections and condition modelling assessments of underground assets;

- estimating any obsolescence or surplus capacity of an asset; and
- estimates are made when determining the remaining useful lives over which the asset will be depreciated. These estimates can be impacted by the local conditions, for example weather patterns 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 under-estimating the annual depreciation charge recognised as an expense in the statement of financial performance. To minimise this risk the Council's infrastructural asset useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group, and have been adjusted for local conditions based on past experience. Asset inspections, deterioration and condition modelling are also carried out regularly as part of the Council's asset management planning activities, which gives the Council further assurance over its useful life estimates.

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

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

#### **Critical Judgements**

Management has exercised the following critical judgements in applying the Council's accounting policies for the period ended 30 June 2009:

- Classification of Property

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

# Funding Impact Statement

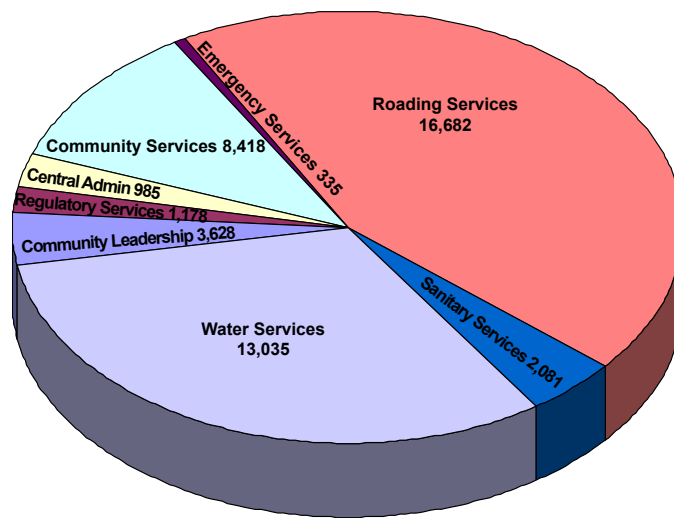
## Introduction

In terms of the Local Government (Rating) Act 2002 and the Local Government Act 2002, Council is required to prepare a Funding Impact Statement disclosing the revenue and financing mechanisms it intends to use.

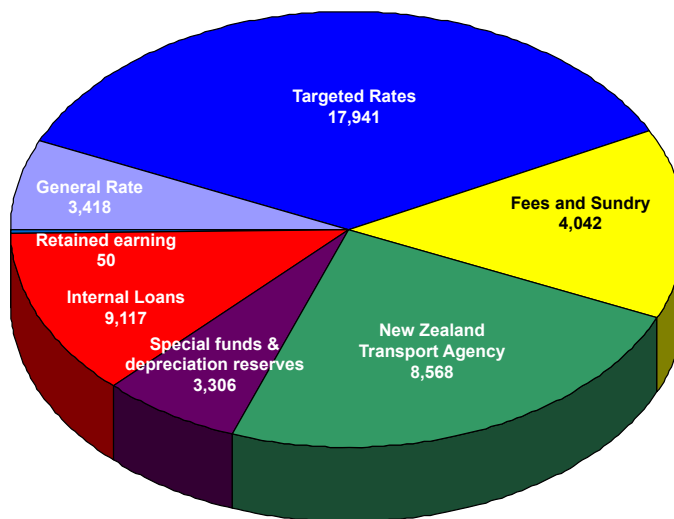
The information in this Funding Impact Statement is intended to achieve compliance with this legislation by, among other things, giving ratepayers full details of how rates are calculated.

This statement should be read in conjunction with Council's Revenue and Financing Policy which sets out Council's policies with respect to each source of funding of operating and capital expenses, i.e. the revenue and financing mechanisms to be used to cover the estimated expenses of the Council.

**Total Estimated Expenditure  
2011/2012 (\$'000)**



**Funding Sources  
2011/2012 (\$'000)**



The charts above show total estimated expenditure for the 2011/12 year, and how this expenditure will be funded.

## Estimated Expenditure & Funding Statement

	LTCCP 2011/12	AP 2011/12	Diff 2011/12	Notes
<b>ESTIMATED EXPENDITURE</b>	<b>(\$'000)</b>	<b>(\$'000)</b>	<b>(\$'000)</b>	
Community Leadership	2,437	3,628	1,191	
Central Administration	1,109	985	-24	
Regulatory Services	1,228	1,178	-50	
Community Services	7,238	8,418	1,180	
Emergency Services	268	335	67	
Roading Services	22,393	16,682	-5,711	
Sanitary Services	1,976	2,081	105	
Water Services	10,651	13,035	2,384	
<b>Total</b>	<b>47,300</b>	<b>46,342</b>	<b>-958</b>	
<b>REVENUE &amp; FINANCING MECHANISMS</b>				
UAGC	3,249	3,418	169	
Targeted Rates	20,025	17,499	-2,526	
Fees & Sundry (1)	6,143	4,042	-2,101	
NZ Transport Agency	10,932	8,568	-2,364	
Special Funds & Depreciation	3,232	3,306	74	
Internal Loans / Sinking Funds	3,830	9,117	5,287	
Retained Earnings	-111	50	161	
<b>TOTAL</b>	<b>47,300</b>	<b>46,342</b>	<b>-958</b>	

(1) Includes rate penalties and in-house business unit income but excludes interest income accrued in the income statement that is not used to offset expenditure.

### Borrowings

The Council is undertaking internal borrowing of just over \$9.1 million in the 2011/12 financial year. These loans are to be taken out in line with the Council Liability Management Policy. The loans will be used to fund the cost of upgrades of various infrastructure assets and renewal of older loans. Interest payments and capital repayments will be funded from rates. The term of the loans will be determined at the time funds are raised.

	LTCCP 2011/12	AP 2011/12	Diff 2011/12	Notes
<b>Total Internal and External Debt</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	
Opening Balance	16,652	15,465	-1,187	
New Internal Loans	3,830	9,117	5,287	
Capital Repaid	-489	-578	-89	
<b>CLOSING INTERNAL DEBT</b>	<b>19,993</b>	<b>24,004</b>	<b>4,011</b>	

## Detailed Description of Rate Funding Mechanisms

Council sets the following rates for the year commencing 1 July 2011 and ending 30 June 2012 in accordance with the Local Government Act 2002 and the Local Government (Rating) Act 2002. All monetary values disclosed below are exclusive of GST.

### DISTRICT WIDE TARGETED RATES

#### DISTRICT ROADING

The roading rating is split between general rates for district roading and targeted rates for local roading. District roading recognises that the roading network is used by everyone in the district. The allocation takes into account the hierarchy of roads (arterial, collector and local). The rate for district roading will be set according to the capital value of all rating units in the district, at a rate of 0.040837 cents per \$1 of capital value.

The amount to be collected is \$2,706,800 (exclusive of GST).

#### COMMUNITY WASTEWATER UPGRADE SUPPORT

This Community Wastewater Upgrade Support rate is used to fund investigations into establishing new sewage schemes and improving sewage disposal from existing systems. The rate for community wastewater upgrade support will be set according to the capital value of all rating units in the district, at a rate of 0.000247 cents per \$1 of capital value.

The amount to be collected is \$16,300 for 2011/12.

#### WASTE MINIMISATION

A waste minimisation rate will be charged at a fixed amount of \$7.50 (excl GST) per separately used or inhabited part of a rating unit. This will be used to fund waste minimisation education and the introduction of drop-off recycling facilities.

The amount to be collected is \$78,200 (exclusive of GST).

#### PLANNING/REGULATORY

The District Planning/Regulatory rate is used to fund the ongoing expense of managing the District Plan and fund the operation of regulatory services. It will be set on the Capital Value of all rating units in the district at a rate of 0.004392 cents per \$ of capital value.

The amount to be collected is: \$291,100 (exclusive of GST).

A 'separately used or inhabited part of a rating unit' includes any part or parts of a property that can be separately used or occupied in addition to the principal habitation or use.

## UNIFORM ANNUAL GENERAL CHARGE (UAGC)

A uniform annual general charge has been set on each separately used or inhabited part of a rating unit. The UAGC is offset by income from various sources. This is also outlined in the table below.

The amount to be collected from rates is \$3,985,300 (exclusive of GST).

The UAGC will be \$384.40 (excl. GST) per separately used or inhabited part of a rating unit throughout the district.

The uniform annual general charge will be used to fund the following Council activities:

Activity	Amount \$	Amount \$
Council	703,100	67.80
District Development	648,000	62.50
Community Support	520,800	50.20
Main street improvements	31,100	3.00
Parks, reserves, sportsgrounds and playgrounds	232,800	22.50
Halls and community centres	86,100	8.30
Swimming pools	220,500	21.30
Corporate Management	402,100	38.80
Service Centres	458,600	44.20
Libraries	629,200	60.70
Animal Control	15,000	1.40
Civil Defence and Emergency Services	105,100	10.10
Cemeteries	130,200	12.60
Public Conveniences	347,000	33.50
Environmental Health	163,500	15.80
Rural Fire	64,400	6.20
Waiholo Domain and Kaka Point Foreshore	31,100	3.00
<b>Subtotal</b>	<b>4,788,600</b>	
<b>UAGC (without other income)</b>		<b>461.90</b>
<b>Other income</b>		
Property including camping grounds	222,900	21.50
General - petrol tax and investment income	538,200	51.90
In house professional services	42,200	4.10
<b>Subtotal</b>	<b>803,300</b>	<b>77.50</b>
<b>Total to be rated for (GST exclusive)</b>	<b>3,985,300</b>	
<b>TOTAL (GST exclusive)</b>		<b>384.40</b>

## TARGETED RATES

### Local Rooding

The local rooding rate funds the construction and maintenance of roads and footpaths within a locality/rating area (including traffic services). For Balclutha and Milton the local rooding rate also includes their portion of costs of funding main street improvements.

The local rooding targeted rate has been set on a differential basis based on location and will be charged on the land value of all the rating units in the District according to the table below.

Rating area	Amount	Cents in \$ land value
Balclutha	324,400	0.32284
Clinton	31,400	0.76459
Kaitangata	98,000	1.09461
Kaka Point	35,400	0.09759
Lawrence	57,400	0.33628
Milton	139,800	0.28891
Owaka	30,200	0.44876
Stirling	21,000	0.41564
Tapanui	48,600	0.58479
Waihola	19,300	0.09734
Rural	3,892,900	0.08853
<b>TOTAL</b>	<b>4,698,400</b>	

### New Footpaths

A new footpath targeted rate has been set for the areas listed below. The rate will fund the construction of new footpaths. The targeted rate will be set differentially for each area as a fixed charge for each separately used or inhabited part of a rating unit according to the table below:

Rating area	Amount	Fixed Charge
Balclutha	39,600	18.60
Clinton	3,500	18.60
Kaitangata	3,600	8.20
Kaka Point	4,800	17.20
Lawrence	2,000	5.60
Milton	34,200	31.30
Owaka	3,800	18.80
Stirling	1,400	9.20
Tapanui	4,200	9.30
Waihola	3,100	14.60
<b>Total to be collected</b>	<b>100,200</b>	

### Clutha Recreation Centre

A targeted rate has been set for the Clutha Recreation Centre. The rate has been set at a uniform charge per separately used or inhabited rating unit depending upon ward. The amount of the fixed charge varies according to the proximity of the ward to the facility.

Area	Fixed Charge
Balclutha ward	34.06
Clutha Valley & Kaitangata Matau wards	25.54
Clinton & Catlins wards	17.03
Lawrence-Tuapeka & Bruce wards	10.22
West Otago ward	3.41

## COMMUNITY SERVICES

The Community Services rate is used to fund Town Halls, Community Centres, Camping Grounds, Parks and Reserves, Berms Sportsgrounds (for Balclutha rating area this includes the proposed Recreation Centre), Rural Stormwater, Rural Fire, Swimming Pools.

The Community Services targeted rate has been set on a differential basis based on location and will be charged on the land value of the rating units according to the table below.

	Amount	Cents in \$ LV
Balclutha Township	481,600	0.46375
Clinton Township	24,300	0.58919
Kaitangata Township	106,400	1.17727
Kaka Point Township	7,900	0.01990
Lawrence Township	59,000	0.33851
Milton Township	159,900	0.29453
Owaka Township	19,800	0.28083
Stirling Township	2,200	0.03795
Tapanui Township	28,900	0.32634
Waiholo Township	15,900	0.06660
Rural	237,800	0.00543
<b>Total to be collected</b>	<b>1,143,700</b>	

## WASTE COLLECTION CHARGES

Waste collection charges are used to fund the cost of waste collection and disposal.

An annual waste collection charge has been set as a fixed charge based on the level of service provided.

Where a Council provided collection service is available the charge is set on the basis of the number of containers of waste which the Council is prepared to collect as part of its normal waste collection service, that is, one wheelie bin per property per week.

Additional bins provided to a rating unit will be subjected to an additional charge on a per bin basis. The provision of additional bins is at the discretion of Council.

**Wheelie Bin Waste Collection: \$153.20 (exclusive of GST) per waste bin.**

The amount to be collected is: \$888,000 (exclusive of GST).

From 2011/12 waste collection charges will also include a fixed charge for the proposed recycling kerbside collection service. The charge has been set as a fixed charge based on the level of service provided. The service provided is in conjunction with the provision of an existing or future wheelie bin.

**Recycling Bin Collection: \$18.00 (exclusive of GST) per waste bin.**

The amount to be collected is: \$104,100 (exclusive of GST).

## COMMUNITY BOARD TARGETED RATES

A targeted rate has been set as a fixed charge for each separately used or inhabited part (SUIP) of a rating unit for each community board area. The fixed charge for each area is the following:

Location	Amount	Per SUIP
West Otago Area	62,000	53.10
Lawrence/Tuapeka Area	62,000	66.90
<b>Total to be collected (GST exclusive)</b>	<b>124,000</b>	

These rates will fund the operations of the individual community boards. A portion of the rate collected will also fund 80% of main street improvements in Tapanui/Lawrence.

## WATER SUPPLY TARGETED RATES

### Township Supplies

Water rates will be applied to the operating, maintenance and capital expenditure of urban water schemes. A targeted rate for urban water supply has been set as a fixed charge for each separately used or inhabited part (SUIP) of a rating unit within the district that is either connected to one of the following schemes, or for which a connection is available for each SUIP. This targeted rate is differentiated based on the provision or availability of the service provided by Council (the categories are “connected” and “serviceable”). The rate for each scheme is shown in the table below:

Location	Amount	Connected Per SUIP	Serviceable Per SUIP
Balclutha	435,900	201.00	100.50
Benhar	20,500	401.90	-
Clinton	82,600	456.50	228.30
Kaitangata	176,200	418.50	209.30
Kaka Point	87,800	352.50	176.30
Lawrence	165,700	457.60	228.80
Milton	459,900	440.10	220.10
Owaka	51,100	214.00	107.00
Stirling/Cherry Lane	42,200	273.80	136.90
Tapanui	231,100	457.60	228.80
Waiholo	74,600	324.40	162.20
<b>Total to be collected (exclusive of GST)</b>	<b>1,827,600</b>		

### Rural Supplies

Water rates will be applied to the operation, maintenance and capital expenditure for individual water supplies. Targeted rates for rural water supply have been set based on volume of water supplied to all consumers connected to the water schemes in the table below:

Location	Amount	Per Unit of Water
Balmoral 1	125,200	170.20
Balmoral 2	252,100	160.70
Clydevale/Pomahaka	546,600	310.20
Glenkenich	308,000	153.10
Moa Flat	315,800	124.10
North Bruce	315,000	163.30
Richardson	429,800	180.20
South Bruce	205,700	140.20
Tuapeka	382,300	239.70
Waipahi	185,200	273.50
Wangaloa	101,700	245.00
<b>Total to be collected (exclusive of GST)</b>	<b>3,167,400</b>	

Note: A unit of water = one cubic metre per day

## SEWERAGE CHARGES

Wastewater rates will be applied to the operating and maintenance costs and capital expenditure for respective schemes. A targeted rate for wastewater has been set as a fixed charge for each separately used or inhabited part (SUIP) of a rating unit within the district which is either connected to one of the following schemes, or for which a connection is available for each SUIP. This targeted rate is differentiated based on the provision or availability of the service provided by the Council (the categories are “connected” and ‘serviceable”). The rate for each scheme is shown in the table below:

Location	Amount	Connected Per SUIP	Serviceable Per SUIP
Balclutha	422,600	195.20	97.60
Clinton	60,100	326.80	163.40
Heriot	29,500	382.90	-
Kaitangata	97,500	248.70	124.35
Kaka Point	89,600	355.60	177.80
Lawrence	112,200	350.60	175.30
Milton	215,800	214.80	107.40
Owaka	81,000	380.40	190.20
Stirling	53,400	381.50	190.75
Tapanui	117,300	257.20	128.60
Waiholā	60,500	296.80	148.40
<b>Total to be collected (exclusive of GST)</b>	<b>1,339,500</b>		

## CAPITAL SEWERAGE LOAN

A targeted capital sewerage loan rate has been set as a fixed charge for each separately used or inhabited part (SUIP) of a rating unit within the historical area of Balclutha benefiting from the loan, that did not elect to make a lump sum contribution. This targeted rate is differentiated based on the provision or availability of the service provided by Council.

Location	Amount	Connected per SUIP	Serviceable per SUIP
Balclutha	38,100	68.70	34.35

These charges are to fund the debt servicing costs of loans.

## STORMWATER CHARGES

Stormwater rates will be applied to the operating, maintenance and capital expenditure for individual schemes. A differentiated targeted rate has been set for stormwater as a fixed charge for each separately used or inhabited part (SUIP) of a rating unit within the district that is either connected to one of the following schemes, or for which a connection is available. This targeted rate is differentiated based on the provision or availability of the service provided by the Council (the categories are “connected” and ‘serviceable”). The rate for each scheme is shown in the table below:

Location	Amount	Connected Per SUIP	Serviceable Per SUIP
Balclutha	208,300	104.30	52.15
Clinton	17,200	108.20	-
Kaitangata	41,200	119.20	-
Kaka Point	24,800	102.70	-
Lawrence	41,300	140.00	70.00
Milton	129,000	138.90	69.45
Owaka	12,500	67.90	-
Tapanui	57,800	137.70	68.85
<b>Total to be collected</b>	<b>532,100</b>		

# Payment of Rates

## DUE DATES FOR PAYMENT OF RATES

All rates will be payable in four installments. The due dates for these installments are:

- Friday 26 August 2011
- Friday 25 November 2011
- Friday 24 February 2012
- Friday 25 May 2012

## GOOD AND SERVICES TAX (GST)

All of the rates and amounts set out in the Funding Impact Statement do not include GST which will be added to the rates invoices at the rate of 15%.

## PENALTIES

A 10% penalty is to be added on the next business day (i.e. 29 August 2011, 28 November 2011, 27 February 2012, 28 May 2012 respectively) to so much of any installment not paid on or before the due date.

Rates unpaid from previous years will incur a further 10% penalty on 1 October 2011 and again on 1 April 2012.

## DISCOUNT

Council will allow a discount of 2.5% where a ratepayer pays the year's rates in full on or before the due date for the first installment of the year, being Friday, 26 August 2011.

## PAYMENT OPTIONS

Rates shall be payable by any of the following ways:

Cash, cheque or EFTPOS (excluding credit cards) made at any of the following places:

- Council Office, 1 Rosebank Terrace, Balclutha
- Balclutha Information Centre, 4 Clyde Street, Balclutha
- Milton Service Centre, 124-126 Union Street, Milton
- Tapanui Service Centre, Suffolk Street, Tapanui
- Lawrence Service Centre, 5 Peel Street, Lawrence

Cheques posted to Clutha District Council, PO Box 25, Balclutha.

Monthly or quarterly direct debits

Automatic payments

Council does not accept payments by credit cards.

## UNECONOMIC BALANCES

Rates set on rating units that are \$10 or less are considered uneconomic and will not be collected.