

# FINANCIAL OVERVIEW

## STATEMENT OF COMPLIANCE AND RESPONSIBILITY

### Compliance

The Council and management of the Clutha District Council confirm that all the statutory requirements of the Local Government Act 2002 have been complied with.

### Responsibility

The Council and management of the Clutha District Council accept responsibility for the preparation of the annual Financial Statements and the judgements used in them. The Council and management of the Clutha District Council accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. In the opinion of the Council and management of the Clutha District Council, the annual Financial Statements for the year ended 30 June 2009 fairly reflect the financial position and operations of the Clutha District Council.

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Juno Hayes

MAYOR

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Date

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Charles Hakkaart

CHIEF EXECUTIVE

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Date

## FINANCIAL OVERVIEW

### STATEMENT OF FINANCIAL PERFORMANCE

For the Financial Year ended 30 June, 2009

	Notes	2009 \$	Budget \$	2008 \$
<b>Income</b>				
Rates revenue	2 (a)	19,052,090	18,619,976	17,956,764
Other revenue	2 (a)	13,533,002	12,341,262	15,110,759
Other gains/(losses)	2 (b)	2,014,339	1,440,710	757,944
<b>Total income</b>	2 (h)	34,599,431	32,401,948	33,825,467
<b>Expenditure</b>				
Employee benefits expense	2 (c)	3,882,167	3,962,119	3,780,250
Depreciation and amortisation expense	2 (d)	13,466,264	12,621,609	12,319,046
Finance costs	2 (e)	1,078	1,078	1,363
Other expenses	2 (f)	15,376,016	14,188,054	13,964,561
<b>Total operating expenditure</b>	2 (h)	32,725,525	30,772,860	30,065,220
<b>Surplus for the period</b>		1,873,906	1,629,088	3,760,247

The accompanying notes form part of these financial statements.

## FINANCIAL OVERVIEW

### STATEMENT OF FINANCIAL POSITION

As at 30 June, 2009

	Notes	2009 \$	Budget \$	2008 \$
<b>Current assets</b>				
Cash and cash equivalents	22 (a)	-	316,751	238,676
Trade and other receivables	5	3,376,324	2,925,494	4,176,301
Inventories – development property	6	8,923	873,572	33,712
Other financial assets	7	24,162,459	15,094,325	23,710,663
<b>Total current assets</b>		<b>27,547,706</b>	<b>19,210,142</b>	<b>28,159,352</b>
<b>Non-current assets</b>				
Trade and other receivables	5	67,601	12,184	14,155
Other financial assets	7	101,470	93,717	101,133
Property, plant and equipment	8	858,344,670	769,856,392	759,135,415
Intangible assets	9	45,421	138,323	87,704
Forestry asset	10	1,241,455	952,963	1,182,525
<b>Total non-current assets</b>		<b>859,800,617</b>	<b>771,053,579</b>	<b>760,520,932</b>
<b>Total assets</b>		<b>887,348,323</b>	<b>790,263,721</b>	<b>788,680,284</b>
<b>Current liabilities</b>				
Bank overdraft	22 (a)	10,758	-	-
Trade and other payables	11	4,674,881	3,445,873	4,709,125
Employee entitlements	12	532,602	440,941	494,752
Borrowings	13	3,848	3,848	5,045
<b>Total current liabilities</b>		<b>5,222,089</b>	<b>3,890,662</b>	<b>5,208,922</b>
<b>Non-current liabilities</b>				
Borrowings	13	18,037	18,037	21,885
Provisions	14	412,768	407,802	429,820
Other liabilities		92,519	91,339	93,106
<b>Total non-current liabilities</b>		<b>523,324</b>	<b>517,178</b>	<b>544,811</b>
<b>Total liabilities</b>		<b>5,745,413</b>	<b>4,407,840</b>	<b>5,753,733</b>
<b>Net assets</b>		<b>\$881,602,910</b>	<b>\$785,855,881</b>	<b>\$782,926,551</b>
<b>Equity</b>				
Reserves	15	638,690,935	539,105,839	540,859,027
Retained Earnings	16	242,911,975	246,750,042	242,067,524
		<b>\$881,602,910</b>	<b>785,855,881</b>	<b>\$782,926,551</b>

The accompanying notes form part of these financial statements.

## FINANCIAL OVERVIEW

### STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the Financial Year ended 30 June, 2009

	Notes	2009 \$	Budget \$	2008 \$
Available-for-sale financial assets valuation gain/(loss) taken to equity	15 (a)	337	-	7,416
Gain/(loss) on property, plant and equipment revaluation	15(b)	96,802,116	-	-
<b>Net income recognised directly in equity</b>		96,802,453	-	7,416
Surplus for the period		1,873,906	1,629,088	3,760,247
<b>Total recognised income and expense for the year</b>		98,676,359	1,629,088	3,767,663

### STATEMENT OF CHANGES IN EQUITY

For the Financial Year ended 30 June, 2009

	2009 \$	Budget \$	2008 \$
Equity at beginning of year	782,926,551	784,226,793	779,158,888
Surplus for the year	1,873,906	1,629,088	3,760,247
Movement in Available-for-Sale Financial Assets Revaluation Reserve	337	-	7,416
Movement in Asset Revaluation Reserve	96,802,116	-	-
<b>Total recognised income and expenses</b>	98,676,359	1,629,088	3,767,663
<b>Equity at end of year</b>	\$881,602,910	\$785,855,881	\$782,926,551

The accompanying notes form part of these financial statements.

## FINANCIAL OVERVIEW

### CASH FLOW STATEMENT

For the Financial Year ended 30 June, 2009

	Notes	2009 \$	Budget \$	2008 \$
<b>Cash flows from operating activities</b>				
Receipts from customers		32,854,840	32,243,000	34,119,822
Interest received		109,035	170,000	241,228
Payments to suppliers and employees		(18,884,890)	(17,905,000)	(15,009,546)
Finance costs		(1,078)	-	(1,363)
GST (net)		320,442	55,000	66,771
Net cash inflow/(outflow) from operating activities	22 (c)	14,398,349	14,563,000	19,416,912
<b>Cash flows from investing activities</b>				
Receipt from non-current receivable		(53,446)	-	(1,971)
Proceeds from sale of property, plant and equipment		172,665	-	256,128
Purchase of property, plant and equipment		(16,111,370)	(19,053,000)	(17,245,487)
(Purchase)/Sale of other financial assets		1,350,000	4,495,000	(2,000,000)
Net cash inflow/(outflow) from investing activities		(14,642,151)	(14,558,000)	(18,991,330)
<b>Cash flows from financing activities</b>				
Proceeds from borrowings		(587)	-	1,767
Repayment of borrowings		(5,045)	(5,000)	(5,424)
Net cash inflow /(outflow) from financing activities		(5,632)	(5,000)	(3,657)
<b>Net increase/(decrease) in Cash and cash equivalents</b>		(249,434)	-	421,925
<b>Cash and cash equivalents at the beginning of the financial year</b>		238,676	317,000	(183,249)
<b>Cash and cash equivalents(overdraft) at the end of the financial year</b>	22 (a)	\$(10,758)	\$317,000	\$238,676

The accompanying notes form part of these financial statements.

# FINANCIAL OVERVIEW

## NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 30 June, 2009

### 1. SUMMARY OF ACCOUNTING POLICIES

#### Reporting Entity

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

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 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.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

**For the Financial Year ended 30 June, 2009**

#### **SUMMARY OF ACCOUNTING POLICIES cont.**

Standards and interpretations issued and not yet adopted.

The Council has adopted all new standards as issued by the Financial Reporting Standards Board except for those listed in the table below. Initial application of the following standards will not affect any of the amounts recognised in the financial statements, but may change the disclosures presently made in relation to the Council's financial statements:

<b>Standard/Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
NZIAS 1 "Presentation of Financial Statements	1 January 2009	30 June 2010
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2008	Various*	30 June 2010
Omnibus Amendments (2008)	1 January 2009	30 June 2010
Improving Disclosure about Financial Instruments (amendments to NZ IFRS 7 Financial Instruments Disclosures)	1 January 2009	30 June 2010
Omnibus Amendments (2009)	1 July 2009	30 June 2010
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2009	**	30 June 2011

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

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

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

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. Roading 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.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### SUMMARY OF ACCOUNTING POLICIES cont.

##### (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 derecognised 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.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### SUMMARY OF ACCOUNTING POLICIES cont.

##### (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.

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.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### SUMMARY OF ACCOUNTING POLICIES cont.

##### Financial Instruments cont.

- 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 are included within this classification.

##### 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.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### SUMMARY OF ACCOUNTING POLICIES cont.

##### Financial Instruments cont.

###### (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 remeasured 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.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### SUMMARY OF ACCOUNTING POLICIES cont.

##### Financial Instruments cont.

##### 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 are considered equivalent to land improvements and as such they do 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. 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. Roding assets are revalued every 3 years.

All valuations are carried out or reviewed by independent qualified valuers and are carried out at least tri-annually. 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.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### SUMMARY OF ACCOUNTING POLICIES cont.

##### Property, Plant and Equipment cont.

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 revaluating 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
<u>Operational Assets</u>		
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%
<u>Infrastructural Assets</u>		
Roads - Formation	n/a	Not depreciated
Roads - Pavement (Sealed)	2-100	2%-50%
Roads - Pavement (Unsealed)	35-100	1%-2.86%
Roads - Other Roding 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.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### SUMMARY OF ACCOUNTING POLICIES cont.

##### Property, Plant and Equipment cont.

###### Disposal

An item of property, plant and equipment is derecognised 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 derecognition 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 derecognised.

###### 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 derecognised. 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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## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### SUMMARY OF ACCOUNTING POLICIES cont.

##### 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 it's 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 landfills, 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.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### **SUMMARY OF ACCOUNTING POLICIES cont.**

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.

# FINANCIAL OVERVIEW

## NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

### SUMMARY OF ACCOUNTING POLICIES cont.

#### 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.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### SUMMARY OF ACCOUNTING POLICIES cont.

#### 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.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

	Notes	2009 \$	2008 \$
<b>2. SURPLUS FROM OPERATIONS</b>			
<b>(a) Revenue</b>			
Revenue consisted of the following items:			
<u>Rates Revenue:</u>			
General rates		7,480,801	6,989,015
Targeted rates (i)		11,388,489	10,814,192
Rates Penalties		182,800	153,557
		\$19,052,090	\$17,956,764
 (i) Targeted Rates attributable to activities:			
Governance and Planning		146,052	143,149
Central Administration		44,262	77,587
Roading		2,841,721	2,475,244
Water		3,999,103	3,820,797
Stormwater and Wastewater		1,542,255	1,460,495
Sanitary Services		864,265	844,211
Community Services		1,528,151	1,408,563
Regulatory Services		422,680	584,146
		\$11,388,489	\$10,814,192
 <u>Other Revenue:</u>			
Revenue from rendering of services:			
Fees		460,960	598,298
Permits and licences		392,523	421,488
Other fees		632,674	516,308
		1,486,157	1,536,094
Rental Revenue:			
Operating lease rental revenue		692,529	628,356
		692,529	628,356
Interest Revenue:			
Bank deposits		-	-
Other loans and receivables	2(g)	104,349	241,228
		104,349	241,228
Dividend Revenue:			
Available-for-Sale-Investments		4,686	4,450
		4,686	4,450
Government grants – LTNZ subsidy		10,039,613	9,823,554
Other grants and subsidies		213,317	216,598
Other revenue		992,351	2,660,479
		\$13,533,002	\$15,110,759

There are no unfulfilled conditions and other contingencies attached to government grants recognised.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

	Notes	2009 \$	2008 \$
<b>(b) Other Gains / (Losses)</b>			
Vested assets		-	-
Gain / (loss) on disposal of property, plant and equipment		153,613	(966,731)
Gain on changes in fair value of financial assets at fair value through profit or loss	2 (g)	1,801,796	1,495,114
Gain on changes in fair value of forestry asset	10	58,930	229,561
		<u>\$2,014,339</u>	<u>\$757,944</u>
<b>(c) Employee Benefits Expense</b>			
Salaries and wages		<u>3,882,167</u>	<u>3,780,250</u>
		<u>\$3,882,167</u>	<u>\$3,780,250</u>
<b>(d) Depreciation and Amortisation Expense</b>			
Depreciation of property, plant and equipment	8	13,423,981	12,229,687
Amortisation of intangible assets	9	42,283	89,359
		<u>\$13,466,264</u>	<u>\$12,319,046</u>
<b>(e) Finance Costs</b>			
Interest on loans carried at amortised cost	2 (g)	1,078	1,363
Other interest Expense		-	-
		<u>\$1,078</u>	<u>\$1,363</u>
<b>(f) Other Expenses</b>			
Net bad and doubtful debts		-	-
Minimum lease payments for operating leases		24,762	14,951
Grants		368,925	323,802
Roading repairs and maintenance		6,720,896	6,403,570
Other expenses		8,261,433	7,222,238
		<u>\$15,376,016</u>	<u>\$13,964,561</u>

Expenses by nature are disclosed under Note 2(h).

Audit fees are disclosed in Note 4.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

	Notes	2009 \$	2008 \$
<b>2. SURPLUS FROM OPERATIONS</b>			
<b>(g) Financial Instruments</b>			
Surplus/(deficit) for the year includes the following income and expenses arising from financial instruments classified as:			
<u>Loans and receivables:</u>			
Interest revenue	2(a)	104,349	241,228
		104,349	241,228
<u>Financial assets at fair value through profit or loss:</u>			
Change in fair value of financial assets classified as held for trading	2 (b)	1,801,796	1,495,114
		1,801,796	1,495,114
<u>Financial liabilities at amortised cost:</u>			
Interest expense	2 (e)	1,078	1,363
		1,078	1,363

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

	2009	2008
	\$	\$
<b>2. SURPLUS FROM OPERATIONS cont.</b>		
<b>(h) Summary Cost of Services By Activity</b>		
<b>Income</b>		
Community Leadership - Governance	250	227
Roading	10,151,916	9,968,081
Water Services - Water	556,148	2,414,832
Water Services - Sewerage	439,524	147,993
Sanitary Services – Waste Management	265,302	268,112
Sanitary Services - Cemeteries	58,149	56,110
Community Services - Library/Service Centre/Information Centre	76,420	83,370
Community Services - Swimming Pools	69,676	64,201
Community Services - Parks/Reserves/Sportsgrounds	11,389	13,584
Community Services - Halls & Community Centres	84,813	87,525
Community Services - Other Council Property	726,618	608,458
Regulatory Services - Resource Management	56,849	83,863
Regulatory Services - Animal Control	152,081	141,222
Regulatory Services - Environmental Health	16,370	15,411
Regulatory Services - Building Control	368,138	420,601
Regulatory Services - Liquor Licensing	38,025	30,796
Emergency Services - Civil Defence	5,604	5,809
Emergency Services - Rural Fire	2,166	56,035
<b>Total activity income</b>	<b>\$13,079,438</b>	<b>\$14,466,230</b>
<b>Add</b>		
Rates (refer Note 2(a))	19,052,090	17,956,764
Available for Sale Revaluation Reserve (refer note 15(a))	337	7,416
Other Gains/(Losses)(refer note 2(b))	2,014,339	757,944
Petrol Tax	203,071	215,093
Other Income	250,156	422,020
	21,519,993	19,359,237
<b>Total Income</b>	<b>\$34,599,431</b>	<b>\$33,825,467</b>

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

	2009	2008
	\$	\$
<b>Expenditure</b>		
Community Leadership - Governance	843,119	815,027
Community Leadership - District Development	522,660	568,107
Community Leadership - Community Support	372,135	363,276
Roading	17,675,578	16,604,223
Water Services - Water	4,758,037	4,119,017
Water Services - Stormwater	482,146	324,835
Water Services - Sewerage	1,320,699	1,074,081
Sanitary Services - Waste Management	944,070	875,566
Sanitary Services - Public Conveniences	196,393	158,806
Sanitary Services - Cemeteries	168,073	139,976
Community Services - Library/Service Centre/Information Centre	1,085,144	1,050,643
Community Services - Swimming Pools	541,885	507,732
Community Services - Parks/Reserves/Sportsgrounds	627,273	689,597
Community Services - Halls & Community Centres	360,294	275,779
Community Services - Other Council Property	439,886	333,477
Regulatory Services - Resource Management	263,116	312,425
Regulatory Services - Animal Control	136,912	145,365
Regulatory Services - Environmental Health	148,328	131,436
Regulatory Services - Building Control	431,147	442,821
Regulatory Services - Liquor Licensing	63,385	61,987
Emergency Services - Civil Defence	70,652	64,349
Emergency Services - Rural Fire	225,953	174,351
<b>Total activity expenditure</b>	<b>\$31,676,885</b>	<b>\$29,232,876</b>
<u>Add</u>		
Additional Depreciation	269,953	366,454
Forestry Expenses	171,219	164,654
Finance Costs (refer note 2(e))	1,078	1,363
Other Expenditure	606,390	299,873
	1,048,640	832,344
<b>Total Operating Expenditure</b>	<b>\$32,725,525</b>	<b>\$30,065,220</b>

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### 3. KEY MANAGEMENT PERSONNEL COMPENSATION

The compensation of the Chief Executive, other senior management and Councillors, being the key management personnel of the Council, is set out below:

	2009 \$	2008 \$
Short-term employee benefits	979,985	957,075
	<u>\$979,985</u>	<u>\$957,075</u>

#### 4. REMUNERATION OF AUDITORS

Audit fees for financial statement audit	86,720	83,460
Audit fees for assurance and related services	66,480	10,000
Fees for tax related services	-	-
	<u>\$153,200</u>	<u>\$93,460</u>

Audit fees for assurance and related services include:

- audit of the Long Term Council Community Plan.

The auditor of Clutha District Council, for and on behalf of the Controller and Auditor-General, is Deloitte.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

	<b>2009</b>	<b>2008</b>
	\$	\$
<b>5. TRADE AND OTHER RECEIVABLES</b>		
Trade and other receivables (i)	294,136	1,398,700
Rates receivables	788,706	736,199
Allowance for doubtful debts (ii)	(75,000)	(75,000)
	1,007,842	2,059,899
LTNZ Subsidy	2,436,083	2,130,557
	\$3,443,925	\$4,190,456
Disclosed in the financial statements as:		
Current	3,376,324	4,176,301
Non-current	67,601	14,155
	\$3,443,925	\$4,190,456

(i) Trade receivables are non-interest bearing and generally on monthly terms.

The Council does not provide for any impairment on rates receivable as it has various powers under the Local Government (Rating) Act 2002 to recover any outstanding debts. Ratepayers can apply for payment plan options in special circumstances. Where such payment plans are in place, debts are discounted to the present value of future repayments.

The Council holds no collateral as security or other credit enhancements over receivables that are either past due or impaired.

Included within the Council's trade and other receivable balance are debtors which are past due at the reporting date for which the Council has not provided as there has not been a significant change in credit quality and the Council believes that the amounts are still considered recoverable.

The age of these trade and other receivables that are past due, but are not impaired are as follows:

	<b>2009</b>	<b>2008</b>
	\$	\$
Past due 1 to 3 months	212,003	229,832
Past due 3 to 6 months	201,122	181,822
Past due 6 to 9 months	187,871	170,300
Past due 9 to 12 months	187,871	170,300
Past due > 12 months	38,000	55,000
	\$826,867	\$807,254

## FINANCIAL OVERVIEW

(ii) Movement in the allowance for doubtful debts:

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Balance at Beginning of year	75,000	75,000
Amounts written off during the year	-	-
Amounts recovered during the year	-	-
Increase/(decrease) in allowance recognised in Statement of Financial Performance	-	-
	<hr/>	<hr/>
Balance at end of Year	<u>\$75,000</u>	<u>\$75,000</u>

An allowance has been made for estimated irrecoverable amounts and has been calculated based on expected losses. Expected losses have been determined based on reference to past default experience and review of specific debtors.

In determining the recoverability of a trade receivable the Council considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

Other than Land Transport New Zealand, the Council has no significant concentrations of credit risk, as it has a large number of credit customers, mainly ratepayers. The Council believes no further credit provision is required in excess of the allowance for doubtful debts.

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>6. INVENTORIES</b>		
Development property (at cost)	<hr/> 8,923	<hr/> 33,712
	<hr/> <u>\$8,923</u>	<hr/> <u>\$33,712</u>

The carrying amount of inventories pledged as security for liabilities is \$Nil (2008: \$Nil).

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

	2009	2008
	\$	\$
<b>7. OTHER FINANCIAL ASSETS</b>		
<i>At fair value through profit or loss:</i>		
<u>Classified as held for trading</u>		
<u>Current</u>		
ING – NZ Government Stock	9,305,171	8,196,284
ING – NZ Local Authority Bonds	1,212,260	1,422,619
ING – NZ Corporate Bonds	4,813,420	4,046,580
ING – NZ State Owned Enterprises	664,827	1,079,055
ING – NZ Floating Rate Notes	3,021,619	4,133,388
ING – NZ Dollars	52,487	127,611
ING - NZ Discounted Securities	4,442,675	2,705,126
	23,512,459	21,710,663
<i>Available-for-sale at fair value:</i>		
<u>Non Current</u>		
Equity Securities – Civic Assurance	101,470	101,133
	101,470	101,133
<i>Loans and Receivables at amortised cost:</i>		
<u>Current</u>		
Money Market Deposit	650,000	2,000,000
	650,000	2,000,000
	\$24,263,929	\$23,811,796
Disclosed in the financial statements as:		
Current	24,162,459	23,710,663
Non-current	101,470	101,133
	\$24,263,929	\$23,811,796

There are no impairment provisions for other financial assets.

# FINANCIAL OVERVIEW

## NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

### 8. PROPERTY, PLANT AND EQUIPMENT

2009

	Cost /Valuation 1 July 2008	Additions	Disposals	Other	Revaluation	Cost /Valuation 30 June 2009	Accumulated depreciation and impairment charges 1 July 2008	Impairment losses charged in Statement of Financial Performance	Depreciation expense	Accumulated depreciation reversed on disposal	Accumulated depreciation reversed on revaluation	Accumulated depreciation and impairment charges 30 June 2009	Carrying amount 30 June 2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Operational Assets</b>													
<b>At Cost</b>													
Land	2,719,858	78,862	(8,400)	-	-	2,790,320	-	-	-	-	-	-	2,790,320
Buildings	8,259,789	138,762	-	-	-	8,398,551	(1,979,479)	-	(168,507)	-	-	(2,147,986)	6,250,565
Land - restricted (i)	1,261,015	-	-	-	-	1,261,015	-	-	-	-	-	-	1,261,015
Land under forests	113,475	2,650	-	-	-	116,125	-	-	-	-	-	-	116,125
Buildings - restricted (i)	2,838,731	-	-	-	-	2,838,731	(734,568)	-	(54,740)	-	-	(789,308)	2,049,423
Furniture and equipment	1,392,800	320,670	-	-	-	1,713,470	(1,073,089)	-	(99,992)	-	-	(1,173,081)	540,389
Plant and Motor vehicles	1,390,581	179,293	(111,956)	-	-	1,457,918	(908,420)	-	(141,641)	101,304	-	(948,757)	509,161
Library Books	1,857,993	93,953	-	-	-	1,951,946	(1,568,293)	-	(92,188)	-	-	(1,660,481)	291,465
<b>Total Operational Assets</b>	<b>19,834,242</b>	<b>814,190</b>	<b>(120,356)</b>	<b>-</b>	<b>-</b>	<b>20,528,076</b>	<b>(6,263,849)</b>	<b>-</b>	<b>(557,067)</b>	<b>101,304</b>	<b>-</b>	<b>(6,719,612)</b>	<b>13,808,464</b>
<b>Infrastructural Assets</b>													
Roads - Formation	413,218,312	884,828	-	-	59,995,068	474,098,208	-	-	-	-	-	-	474,098,208
Roads - Pavement (sealed)	110,515,250	6,245,294	-	-	(13,174,770)	103,585,774	(9,829,772)	-	(5,287,063)	-	15,116,835	-	103,585,774
Roads - Pavement (unsealed)	75,677,900	1,381,120	-	-	4,769,460	81,828,480	(5,443,172)	-	(3,387,502)	-	8,830,674	-	81,828,480
Roads - Other roading assets	38,413,746	2,162,910	-	-	(3,894,416)	36,682,240	(1,793,397)	-	(930,988)	-	2,724,385	-	36,682,240
Roads - Other	3,742,016	315,956	-	-	853,022	4,910,994	(1,178,671)	-	(622,607)	-	1,801,278	-	4,910,994
Roads - Bridges	45,009,484	1,073,939	-	-	(2,236,845)	43,846,578	(1,437,875)	-	(726,523)	-	2,164,398	-	43,846,578
Land under roads	7,833,222	-	-	-	-	7,833,222	-	-	-	-	-	-	7,833,222
Stormwater	6,620,967	97,862	-	-	1,288,522	8,007,351	(261,521)	-	(169,478)	-	430,999	-	8,007,351
Wastewater	25,676,108	17,352	-	-	4,521,982	30,215,442	(926,370)	-	(557,121)	-	1,483,491	-	30,215,442
Water	38,807,911	1,166,598	-	-	9,410,394	49,384,903	(1,532,009)	-	(1,185,632)	-	2,717,641	-	49,384,903
Work in Progress	2,452,893	-	-	1,690,121	-	4,143,014	-	-	-	-	-	-	4,143,014
<b>Total Infrastructural Assets</b>	<b>767,967,809</b>	<b>13,345,859</b>	<b>-</b>	<b>1,690,121</b>	<b>61,532,417</b>	<b>844,536,206</b>	<b>(22,402,787)</b>	<b>-</b>	<b>(12,866,914)</b>	<b>-</b>	<b>35,269,701</b>	<b>-</b>	<b>844,536,206</b>
<b>Total Property, Plant and Equipment</b>	<b>787,802,051</b>	<b>14,160,049</b>	<b>(120,356)</b>	<b>1,690,121</b>	<b>61,532,417</b>	<b>865,064,282</b>	<b>(28,666,636)</b>	<b>-</b>	<b>(13,423,981)</b>	<b>101,304</b>	<b>35,269,701</b>	<b>(6,719,612)</b>	<b>858,344,670</b>

# FINANCIAL OVERVIEW

## NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

### 8. PROPERTY, PLANT AND EQUIPMENT cont

2008

	Cost /Valuation 1 July 2007	Additions	Disposals	Other	Revaluation	Cost /Valuation 30 June 2008	Accumulated depreciation and impairment charges 1 July 2007	Impairment losses charged in Statement of Financial Performance	Depreciation expense	Accumulated depreciation reversed on disposal	Accumulated depreciation reversed on revaluation	Accumulated depreciation and impairment charges 30 June 2008	Carrying amount 30 June 2008
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Operational Assets</b>													
<b>At Cost</b>													
Land	2,723,956	-	(4,098)	-	-	2,719,858	-	-	-	-	-	-	2,719,858
Buildings	8,158,688	101,101	-	-	-	8,259,789	(1,814,967)	-	(164,512)	-	-	(1,979,479)	6,280,310
Land - restricted (i)	1,261,015	-	-	-	-	1,261,015	-	-	-	-	-	-	1,261,015
Land under forests	113,475	-	-	-	-	113,475	-	-	-	-	-	-	113,475
Buildings - restricted (i)	2,838,731	-	-	-	-	2,838,731	(677,699)	-	(56,869)	-	-	(734,568)	2,104,163
Furniture and equipment	1,348,104	44,696	-	-	-	1,392,800	(965,674)	-	(107,415)	-	-	(1,073,089)	319,711
Plant and Motor vehicles	1,268,448	175,022	(52,889)	-	-	1,390,581	(821,417)	-	(139,892)	52,889	-	(908,420)	482,161
Library Books	1,761,249	96,744	-	-	-	1,857,993	(1,464,474)	-	(103,819)	-	-	(1,568,293)	289,700
<b>Total Operational Assets</b>	<b>19,473,666</b>	<b>417,563</b>	<b>(56,987)</b>	<b>-</b>	<b>-</b>	<b>19,834,242</b>	<b>(5,744,231)</b>	<b>-</b>	<b>(572,507)</b>	<b>52,889</b>	<b>-</b>	<b>(6,263,849)</b>	<b>13,570,393</b>
<b>Infrastructural Assets</b>													
Roads - Formation	412,292,194	926,118	-	-	-	413,218,312	-	-	-	-	-	-	413,218,312
Roads - Pavement (sealed)	103,439,511	7,075,739	-	-	-	110,515,250	(4,783,623)	-	(5,046,149)	-	-	(9,829,772)	100,685,478
Roads - Pavement (unsealed)	74,388,650	1,289,250	-	-	-	75,677,900	(2,509,682)	-	(2,933,490)	-	-	(5,443,172)	70,234,728
Roads - Other roading assets	37,499,920	913,826	-	-	-	38,413,746	(890,810)	-	(902,587)	-	-	(1,793,397)	36,620,349
Roads - Other	3,516,280	225,736	-	-	-	3,742,016	(576,027)	-	(602,644)	-	-	(1,178,671)	2,563,345
Roads - Bridges	44,387,659	621,825	-	-	-	45,009,484	(722,091)	-	(715,784)	-	-	(1,437,875)	43,571,609
Land under roads	7,833,222	-	-	-	-	7,833,222	-	-	-	-	-	-	7,833,222
Stormwater	6,151,165	510,090	(40,288)	-	-	6,620,967	(128,369)	-	(134,902)	1,750	-	(261,521)	6,359,446
Wastewater	25,606,739	173,880	(104,511)	-	-	25,676,108	(462,265)	-	(473,393)	9,288	-	(926,370)	24,749,738
Water	31,726,802	8,202,455	(1,121,346)	-	-	38,807,911	(754,767)	-	(848,233)	70,991	-	(1,532,009)	37,275,902
Work in Progress	5,671,478	-	-	(3,218,585)	-	2,452,893	-	-	-	-	-	-	2,452,893
<b>Total Infrastructural Assets</b>	<b>752,513,620</b>	<b>19,938,919</b>	<b>(1,266,145)</b>	<b>(3,218,585)</b>	<b>-</b>	<b>767,967,809</b>	<b>(10,827,634)</b>	<b>-</b>	<b>(11,657,182)</b>	<b>82,029</b>	<b>-</b>	<b>(22,402,787)</b>	<b>745,565,022</b>
<b>Total Property, Plant and Equipment</b>	<b>771,987,286</b>	<b>20,356,482</b>	<b>(1,323,132)</b>	<b>(3,218,585)</b>	<b>-</b>	<b>787,802,051</b>	<b>(16,571,865)</b>	<b>-</b>	<b>(12,229,689)</b>	<b>134,918</b>	<b>-</b>	<b>(28,666,636)</b>	<b>759,135,415</b>

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### 8. PROPERTY, PLANT AND EQUIPMENT cont

- (i) Restricted Assets – these are assets that cannot be disposed of due to legal or other restrictions. They include reserves vested in Council, endowments and assets held in trust.

#### 9. FINITE LIFE INTANGIBLE ASSETS

	<b>Computer Software</b>
	<b>\$</b>
<b>Gross carrying amount</b>	
Balance at 1 July 2007	403,689
Additions	38,740
Disposals	-
	442,429
Balance at 1 July 2008	442,429
Additions	-
Disposals	-
	-
Balance at 30 June 2009	\$442,429
<b>Accumulated amortisation and impairment</b>	
Balance at 1 July 2007	265,366
Amortisation expense (i)	89,359
Disposals	-
Impairment losses charged to Statement of Financial Performance	-
	-
Balance at 1 July 2008	354,725
Amortisation expense (i)	42,283
Disposals	-
Impairment losses charged to Statement of Financial Performance	-
	-
Balance at 30 June 2009	\$397,008
<b>Net Book Value</b>	
As at 30 June 2008	\$87,704
As at 30 June 2009	\$45,421

- (i) Amortisation expense is included in the line item 'depreciation and amortisation expense' in the Statement of Financial Performance.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### 10. FORESTRY ASSET

	2009 \$	2008 \$
Balance at beginning of year	1,182,525	1,209,092
Increases due to purchases		-
Gains/(losses) arising from changes in fair value less estimated point of sales costs attributable to physical changes	30,000	181,364
Gains/(losses) arising from changes in fair value less estimated point of sales costs attributable to price changes	28,930	33,887
Decreases due to sales		-
Decreases due to harvest	-	(241,818)
Balance at end of year	\$1,241,455	\$1,182,525

The Council owns 374.4 hectares (2008: 374.4 hectares) of Pinus radiata, Macrocarpa and Douglas fir forest, which are at varying stages of maturity ranging from 0 to 39 years.

No forestry blocks have been harvested during the period (2008: Balclutha Water Supply Forestry Block).

Independent registered valuers PF Olsen and Company Limited have valued forestry assets as at 30 June, 2009 (30 June 2008). A post-tax discount rate of 7% (2008:7%) has been used in discounting the present value of expected cash flows.

#### Financial Risk Management Strategies

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

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

	2009	2008
	\$	\$
<b>11. TRADE AND OTHER PAYABLES</b>		
Trade & sundry payables (i)	4,052,742	4,260,819
Rates in advance	149,066	136,626
Deposits and retentions	368,352	392,831
Goods And Services Tax (GST) Payable	104,721	(81,151)
	\$4,674,881	\$4,709,125
	\$4,674,881	\$4,709,125

(i) The average credit period on purchases is 30 days.

### 12. EMPLOYEE ENTITLEMENTS

Salary & Wage Accrual	106,363	84,576
Annual leave	340,931	310,927
Long service leave	10,593	10,923
Retirement gratuities	74,715	88,326
	\$532,602	\$494,752
	\$532,602	\$494,752

### 13. BORROWINGS

#### **Secured - at amortised cost**

Bank borrowings (i)	-	-
Other borrowings (i), (ii)	21,885	26,930
	\$21,885	\$26,930
	\$21,885	\$26,930

Disclosed in the financial statements as:

Current	3,848	5,045
Non-current	18,037	21,885
	\$21,885	\$26,930
	\$21,885	\$26,930

(i) The Council loans are secured over either future general rates of the district or Council assets. Interest is charged on a fixed rate basis. At balance date the current weighted average effective interest rate on the Bank borrowings is 3.50 % (2008: 3.50%). Refer Note 26 for maturity profile.

(ii) Rural housing loans are included in Council debt. The value of these loans at 30 June 2009 is \$5,856 (2008: \$8,743). Interest is charged on a fixed rate basis. The current weighted average effective interest rate on the other borrowings is 5.70% (2008: 5.84%).

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

	2009 \$	2008 \$
<b>14. PROVISIONS</b>		
<u>Landfill aftercare provision (i)</u>		
Balance at beginning of year	429,820	447,802
Additional provisions recognised	-	-
Reductions arising from payments/other sacrifices of future economic benefits	(17,052)	(17,982)
Reductions resulting from re-measurement or settlement without cost	-	-
Unwinding of discount and effect of changes in the discount rate	-	-
	\$412,768	\$429,820
	\$412,768	\$429,820

(i) Provision for landfill aftercare costs.

The Council gained a resource consent in May 1995 to operate the Mount Cooee Landfill near Balclutha. The Council has responsibility under several resource consents to provide ongoing maintenance and monitoring of the landfill after the sites are closed and also to monitor a number of historic closed landfill sites around the district.

The management of the landfill will influence the timing of recognition of some future liabilities. However, it is likely that the main restriction on the future use of the current site will be the statutory and regulatory limitations rather than the capacity of the site. It is anticipated that the site will cease operating when the current consent expires in October 2023. At the current rates of usage there will be significant volumetric capacity remaining in 2023.

The cash outflows for Council's closed landfills are expected to occur between 2009 and 2026. The long-term nature of the liability means that there are inherent uncertainties in estimating costs that will be incurred. The provision has been estimated taking into account existing technology and using a discount rate of 6% excluding inflation.

Other assumptions made in the calculation of the provision are:

- no major capital projects will be required at existing closed landfill sites;
- the Mt Cooee Landfill will close when the current consent expires in 2023.

### 15. RESERVES

Available-for-sale revaluation reserve (a)	24,272	23,935
Asset revaluation reserve (b)	617,104,066	520,301,950
Trust Funds (c)	407,181	396,275
Reserves (d)	21,155,416	20,136,867
	\$638,690,935	\$540,859,027
	\$638,690,935	\$540,859,027

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

	2009 \$	2008 \$
<b>15. RESERVES cont.</b>		
<b>(a) Available-for-Sale Revaluation Reserve</b>		
Balance at beginning of year	23,935	16,519
Valuation gain/(loss) recognised		
– Equity securities	337	7,416
Balance at end of year	\$24,272	\$23,935

The available-for-sale revaluation reserve arises on the revaluation of equity securities. Where a revalued financial asset is sold that portion of the reserve which relates to that financial asset, and is effectively realised, is recognised in the Statement of Financial Performance. Where a revalued financial asset is impaired that portion of the reserve which relates to that financial asset is recognised in the Statement of Financial Performance.

#### **(b) Asset Revaluation Reserve**

Balance at beginning of year	520,301,950	520,301,950
Revaluation increase / (decrease)		
– Roding revaluation	76,949,088	-
– Stormwater revaluation	1,702,169	-
– Wastewater revaluation	6,022,825	-
– Water revaluation	12,128,034	-
	96,802,116	-
Transferred from/(to) retained earnings	-	-
Balance at end of year	\$617,104,066	\$520,301,950

The asset revaluation reserve arises on the revaluation of infrastructural assets. Where a revalued asset is sold, the portion of the asset revaluation reserve which relates to that asset, and is effectively realised, is transferred directly to retained earnings.

#### Reconciliation of Revaluation Reserve

	<u>Roding</u> \$	<u>Stormwater</u> \$	<u>Wastewater</u> \$	<u>Water</u> \$	<u>Total</u> \$
Balance at 1 July 2007	\$489,746,235	\$2,520,718	\$16,778,187	\$11,256,810	\$520,301,950
Revaluation increase /(decrease)	-	-	-	-	-
Balance at 30 June 2008	\$489,746,235	\$2,520,718	\$16,778,187	\$11,256,810	\$520,301,950
Revaluation increase /(decrease)	76,949,088	1,702,169	6,022,825	12,128,034	96,802,116
Balance at 30 June 2009	\$566,695,323	\$4,222,887	\$22,801,012	\$23,384,844	\$617,104,066

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### (c) Trust Funds (restricted)

Balance at beginning of year	396,275	375,378
Transfer from/(to) retained earnings		
– Transfer from retained earnings	26,093	24,243
– Transfer to retained earnings	(15,187)	(3,346)
Balance at end of year	<u>\$407,181</u>	<u>\$396,275</u>

Trust Funds relate to trust and Special funds that have been provided to the Council by various people for specific purposes.

#### (d) Reserves

Balance at beginning of year	20,136,867	18,952,392
Transfer from/(to) retained earnings		
– Transfer from retained earnings	4,537,835	4,528,782
– Transfer to retained earnings	(3,519,286)	(3,344,307)
Balance at end of year	<u>\$21,155,416</u>	<u>\$20,136,867</u>

Reserves are funds for different areas of benefit are used where there is a discrete set of rate or levy payers as distinct from the general rate or funds are built up annually from general rates and are made available for specific events or purposes.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

	2009 \$	2008 \$
<b>16. RETAINED EARNINGS</b>		
Balance at beginning of year	242,067,524	239,512,649
Net Surplus for the year	1,873,906	3,760,247
Transfer from/(to)		
– Transfer from Reserves	3,519,286	3,344,307
– Transfer from Trust Funds	15,187	3,346
– Transfer to Reserves	(4,537,835)	(4,528,782)
– Transfer to Trust Funds	(26,093)	(24,243)
	\$242,911,975	\$242,067,524

### 17. COMMITMENTS

#### (a) Expenditure Commitments (Non cancellable contracts)

Not later than 1 year	16,415,618	15,862,067
Later than 1 year, less than 5 years	20,320,923	20,171,237
Later than 5 years	-	-
	\$36,736,541	\$36,033,304

#### (b) Lease Commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in Note 19 to the financial statements.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### 18. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no contingent liabilities and contingent assets for the year ended 30 June 2009. (2008: Nil)

#### 19. LEASES

##### Disclosures for lessees

##### (a) Leasing Arrangements

Operating leases relate to photocopier equipment leases.

	2009 \$	2008 \$
<b>(b) Non-Cancellable Operating Lease Payments</b>		
Not longer than 1 year	20,088	13,599
Longer than 1 year and not longer than 5 years	37,104	7,532
Longer than 5 years	-	-
	<hr/> \$57,192	<hr/> \$21,131

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### 20. RELATED PARTY DISCLOSURES

##### (a) Transactions with Related Parties

The Council undertakes transactions with related parties in the normal course of business on an arms-length commercial basis.

Mayor Juno Hayes is a director of Bruce Sawmilling Co. Ltd. During the financial year covered by this report transactions totalling \$104 were entered into (2008: \$Nil). No amount was outstanding at 30 June 2009. (2008:Nil)

Councillor Jeff Seymour is a director in the accounting firm Shand Thomson Ltd. During the financial period covered by this report, accounting and financial services valued at \$17,325 (2008: \$2,380) were purchased from Shand Thomson. No amount was outstanding at 30 June 2009 (2008: \$Nil).

Councillor Mary Johnstone is a director in Johnstones Retravision. During the financial period covered by this report, transactions valued at \$1,748 were entered into. (2008: \$Nil). No amount was outstanding at 30 June 2009 (2008: \$Nil).

##### (b) Other Transactions Involving Related Parties

There were no other transactions with related parties.

#### 21. SUBSEQUENT EVENTS

When the New Zealand Transport Agency (NZTA) released their National Land Transport Programme for the 3 year period 2009/12, Clutha District Council's approved programme was \$7.9 million less than budgeted in the LTCCP. The NZTA's rationale for this is that their performance indicators confirm that the Clutha District's roading network is being managed in a sensible manner and is performing well when measured against our comparable peer group. The reduced funding may result in a reduced level of service over time as road and bridge renewals are not completed.

#### 22. NOTES TO THE CASH FLOW STATEMENT

##### (a) Reconciliation of Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in bank and short term deposits with maturity dates of three months or less, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Statement of Financial Position as follows:

	2009 \$	2008 \$
Cash and cash equivalents	-	238,676
Bank overdraft	(10,758)	-
	<u>(\$10,758)</u>	<u>\$238,676</u>

The total value of cash and cash equivalents that can only be used for a specified purpose as outlined in the relevant Trust deeds is \$92,519 (2008: \$93,106).

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

	2009 \$	2008 \$
<b>22. NOTES TO THE CASH FLOW STATEMENT cont</b>		
<b>(b) Borrowing Facilities</b>		
Secured bank overdraft facility with Westpac Banking Corporation, payable at call.		
• Amount used	-	-
• Amount unused	250,000	250,000
	250,000	250,000
	\$250,000	\$250,000
Multi Option Credit Facility with Westpac Banking Corporation,		
• Amount used	-	-
• Amount unused	3,000,000	-
	3,000,000	-
	\$3,000,000	\$-
<b>(c) Reconciliation of Surplus for the Period to Net Cash Flows From Operating Activities</b>		
Surplus for the period	1,873,906	3,760,247
Add/(less) non-cash items:		
Depreciation and amortisation	13,466,264	12,319,046
(Gain) on fair value of forestry asset	(58,930)	(229,561)
(Gain)/Loss on sale of property, plant and equipment	(153,613)	966,731
Unrealised (gain) on revaluation of other financial assets to fair value	(1,801,796)	(1,495,114)
Vested Assets	-	-
	11,451,925	11,561,102
Movement in working capital:		
Trade and other receivables	799,977	2,273,648
Inventories – development properties	24,789	839,860
Trade and other payables	(34,244)	681,600
Employee entitlements	37,850	28,101
Provisions	(17,052)	(17,983)
	811,320	3,805,226
Items classified as Investing Activities:		
Movement in Property, plant and equipment included in trade and other payables	261,198	290,335
Net cash inflow from operating activities	\$14,398,349	\$19,416,910

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### 23. EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Explanation of major variations from Council's estimated figures in the 2008/09 budget are as follows:

##### Statement of Financial Performance

The net operating surplus of \$1.9 million was slightly ahead of budget. The components of this are explained below.

Revenue was approximately \$2.2 million greater than budget for the year ended 30 June 2009. The following major variances contributed:

- Rates revenue was above budget by \$432,000 as a result of variations in the rating base. Also, rate penalties were ahead of budget by \$62,800
- Land Transport New Zealand financial assistance was \$409,000 greater than budget.
- Water and Sewerage miscellaneous income was ahead of budget by \$758,266. The main component of this was \$379,059 received from the Department of Corrections in respect to major capital upgrades at the Milton sewerage treatment plant.
- Interest income was more than budget by approximately \$306,000. This occurred principally as a consequence of the increase in the unrealised market value of Council's fixed interest investments.

Operating expenditure was also above budget by \$1.95 million for the year ended 30 June 2009. The following major variances contributed to this variance:

- Rooding operational costs were ahead of budget by \$1.1 million due to frost and flooding events and an increase in rooding depreciation.
- Water was ahead of budget by \$639,000. Operational costs exceeded budget by \$288,000. This was due to increases in electricity usage and pricing. Also Council incurred increased operating costs in operating new plant. Additionally changes in the chemicals to treat water resulted in higher costs at some treatment plants. The other component of increased water costs was depreciation which exceeded budget by \$351,000.

##### Statement of Financial Position

- Short term investments exceeded budget by \$9.0 million. This occurred because capital costs were less than budgeted.
- Property plant & equipment was higher than budget by \$84 million. This is due to the revaluation of rooding, stormwater, wastewater and water which increased the carrying value of assets by a combined value of \$96 million.
- The revaluation reserve increased by \$96.78 million as a result of the revaluation of rooding, wastewater, stormwater and water.

##### Statement of Changes in Equity

Variances in the surplus have been commented on under the Statement of Financial Performance above.

##### Statement of Cashflows

Variances in the surplus have been commented on under the Statement of Financial Performance above.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### 24. SEVERANCE PAYMENTS

For the year ended 30 June 2009 Council made no severance payments to employees.(2008: Nil)

#### (G) REMUNERATION

During the year to 30 June, 2009, the total remuneration and value of other non-financial benefits received by or payable to the Mayor, other Councillors, Community Board members and Chief Executive of the Council were as follows:

<i>Elected Representatives</i>	<b>2009</b>	<b>2008</b>
	\$	\$
His Worship the Mayor CE Hayes	76,035	91,694
<b>Councillors</b>		
Hamish Anderson	25,706	19,474
Geoff Blackmore	16,325	17,552
Bryan Cadogan	-	3,375
John Cochrane	15,821	15,104
Margaret Collins	-	5,889
Gaynor Finch	15,446	14,348
Ted Gallagher	14,912	13,740
Chris Hargest	12,835	8,749
Bryan Hayden	-	3,195
Norman Hewett	-	6,797
Mary Johnstone	13,425	6,409
Bruce McCorkindale	17,891	11,036
Murray McLean	13,644	9,086
Jeff McKenzie	17,352	11,680
Peter McPherson	29,608	28,084
Vanessa Robertson-Briggs	-	4,811
Jeff Seymour	21,605	19,950
Kevin Thompson	16,371	15,285
Bruce Vollweiler	22,362	20,607
<b>Lawrence/Tuapeka Community Board</b>		
Roger Cotton	3,625	3,578
Geoff Davidson	7,250	6,750
Brad Houghton	3,625	2,521
Rowena Little	3,625	3,578
Jason Martin	-	1,057
Gary McCorkindale	3,625	3,578
Nick Salt	1,812	2,521
Mary Trifunovich	-	1,057
<b>West Otago Community Board</b>		
Lindsay Alderton	7,250	6,115
Richard Davidson	3,625	3,705
Barbara Hanna	3,625	3,705
Kate Hazlett	-	1,184
John Herbert	3,625	2,521
Michelle Kennedy	3,625	3,705
Raymond McKenzie	-	1,184
Joy Lietze	3,625	2,521

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### Remuneration contd.

##### *Chief Executive*

Charles Hakkaart, the Chief Executive of the Council appointed under Section 42 of the Local Government Act 2002 received a salary of \$201,550 (2008: \$195,305).

For the year ended 30 June 2009, the total annual cost including fringe benefit tax to the Council of the remuneration package being received by the Chief Executive is calculated at \$212,870 (2008: \$206,670).

#### (h) FINANCIAL INSTRUMENTS

##### (a) Capital Risk Management

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

The Local Government Act 2002 (the Act) requires the Council to manage its revenue, expenses, assets, liabilities, investments and general financial dealings prudently and in a manner that promotes the current and future interests of the community. Public equity is 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 by 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 asset classes detailing renewal and maintenance programmes, to ensure ratepayers in future generations are not required to meet the costs of deferred renewals and maintenance.

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

The Council has the following Council created reserves:

- Reserves for different areas of benefit;
- Trust and Special reserves.

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

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

The Council's overall strategy remains unchanged from 2008.

##### (b) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, and the basis of measurement applied in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

**(i) ©Categories of Financial Instruments**

	2009 \$	2008 \$
<b>Financial Assets</b>		
Cash and cash equivalents	-	238,676
Trade and other receivables	3,443,925	4,190,456
Other financial assets		
• Fair value through profit or loss - held for trading	23,512,459	21,710,663
• Loans and receivables	650,000	2,000,000
• Available-for-sale financial assets	101,470	101,133
<b>Financial Liabilities</b>		
Bank overdraft	10,758	-
Trade and other payables	4,674,881	4,709,125
Borrowings	21,885	26,930
Other Liabilities	92,519	93,106

**(j) Financial Risk Management Objectives**

The Council has a series of policies to manage the risks associated with financial instruments. The Council is risk adverse and seeks to minimise exposure from its treasury activities. The Council has established Council approved Liability Management and Investment policies. These provide a framework for prudent debt management and the management of financial resources in an efficient and effective way.

The Council does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

**(k) Interest Rate Risk**

Council is exposed to interest rate risk as it has bonds, notes and cash investments held for trading as part of its managed funds held with ING. The risk is managed by the diversification of the Council's investment portfolio in accordance with the limits set out in the Council's Investment Policy.

The Council's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk section of this note.

**(l) Other Price Risks**

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Council is exposed to price risks arising from tradable non equity investments. The Council also holds equity securities which are designated as available-for-sale. This price risk is managed by diversification of the Council's investment portfolio in accordance with the limits set out in the Council's Investment Policy.

**(m) Credit Risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Council.

Other than LTNZ, Council has no significant concentrations of credit risk arising from trade receivables, as it has a large number of credit customers, mainly ratepayers, and Council has powers under the Local Government (Rating) Act 2002 to recover outstanding debts from ratepayers.

With respect to Other Financial Assets, credit risk is reduced by the number of securities held with different counterparties.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

**For the Financial Year ended 30 June, 2009**

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Council's maximum exposure to credit risk without taking account of the value of any collateral obtained.

#### (n) **Liquidity Risk Management**

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

The Council manages liquidity risk by maintaining adequate funds on deposit, reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 22 is a listing of additional undrawn facilities that the Council has at its disposal to further reduce liquidity risk.

The maturity profiles of the Council's interest bearing investments and borrowings are disclosed below.

#### **Maturity Profiles of Financial Instruments**

The following tables detail the Council's remaining contractual maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Council anticipates that the cashflow will occur in a different period.:

2009	Weighted Average Effective Interest Rate %	Variable Interest Rate \$'000	Fixed Maturity Dates					Non Interest Bearing \$'000	Total \$'000
			Less than 1 year \$'000	1-2 Years \$'000	2-3 Years \$'000	3-4 Years \$'000	4-5 Years \$'000		
<b>Financial assets:</b>									
Cash and cash equivalents	-	-	-	-	-	-	-	-	-
Trade and other receivables	-	-	-	-	-	-	-	3,444	3,444
Other financial assets	-	-	-	-	-	-	-	-	-
– ING NZ Government Stock	4.81	-	1,226	-	-	6,396	-	3,985	11,607
– ING NZ Local Authority Bonds	7.03	-	21	-	-	-	894	771	1,686
– ING NZ Corporate Bonds	9.19	-	-	-	224	2,406	2,145	2,022	6,797
– ING – NZ State Owned Enterprises	7.69	-	-	-	-	-	-	1,225	1,225
– ING – NZ Floating Rate Notes	3.35	-	-	525	420	3,649	-	-	4,594
– ING – NZ Dollars	-	52	-	-	-	-	-	-	52
– ING – NZ Discounted Securities	2.48	-	4,460	-	-	-	-	-	4,460
– Equity securities – Civic Assurance	-	-	-	-	-	-	-	101	101
– Money Market – Deposit Account	5.15	-	650	-	-	-	-	-	650
<b>Total</b>		<b>52</b>	<b>6,357</b>	<b>525</b>	<b>644</b>	<b>12,451</b>	<b>3,039</b>	<b>8,003</b>	<b>34,616</b>
<b>Financial liabilities:</b>									
Bank Overdraft	-	11	-	-	-	-	-	-	11
Trade and other payables	-	-	-	-	-	-	-	4,674	4,674
Borrowings	4.82	-	4	3	3	3	9	-	22
<b>Total</b>		<b>11</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>9</b>	<b>4,674</b>	<b>4,707</b>

The above table also represents the maturity dates of the underlying securities.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

2008	Weighted Average Effective Interest Rate %	Variable Interest Rate \$'000	Fixed Maturity Dates						Non Interest Bearing \$'000	Total \$'000	
			Less than 1 year \$'000	1-2 Years \$'000	2-3 Years \$'000	3-4 Years \$'000	4-5 Years \$'000	5+ Years \$'000			
<b>Financial assets:</b>											
Cash and cash equivalents	-	239	-	-	-	-	-	-	-	-	239
Trade and other receivables	-	-	-	-	-	-	-	-	-	4,190	4,190
Other financial assets	-	-	-	-	-	-	-	-	-	-	-
– ING NZ Government Stock	6.90	-	1,731	2,734	-	-	-	1,926	3,904	-	10,292
– ING NZ Local Authority Bonds	8.40	-	296	-	-	-	-	-	1,775	-	2,071
– ING NZ Corporate Bonds	9.27	-	54	-	-	236	2,830	3,075	-	-	6,195
– ING – NZ State Owned Enterprises	7.63	-	445	-	-	-	-	1,271	-	-	1,716
– ING – NZ Floating Rate Notes	9.17	-	102	-	626	4,617	-	-	-	-	5,345
– ING – NZ Dollars	-	127	-	-	-	-	-	-	-	-	127
– ING – NZ Discounted Securities	8.65	-	2,740	-	-	-	-	-	-	-	2,740
– Equity securities – Civic Assurance	-	-	-	-	-	-	-	-	-	101	101
– Money Market – Deposit Account	7.98	-	2,000	-	-	-	-	-	-	-	2,000
<b>Total</b>			<b>366</b>	<b>7,368</b>	<b>2,734</b>	<b>626</b>	<b>4,853</b>	<b>4,756</b>	<b>10,025</b>	<b>4,291</b>	<b>35,016</b>
<b>Financial liabilities:</b>											
Trade and other payables	-	-	-	-	-	-	-	-	-	4,793	4,793
Borrowings	7.57	-	5	4	3	3	3	3	9	-	27
			<b>-</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>9</b>	<b>4793</b>	<b>4,820</b>

The above table also represents the maturity dates of the underlying securities.

The NZ Floating Rate Notes are invested in asset pools which have a maturity date over periods of up to 2041. For the purposes of the above maturity profile it is assumed such Notes will be sold at the end of 4 years.

## FINANCIAL OVERVIEW

### NOTES TO THE FINANCIAL STATEMENTS (Cont.)

For the Financial Year ended 30 June, 2009

#### 26. FINANCIAL INSTRUMENTS cont.

##### (i) Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The Council considers that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their fair values.

##### (j) Currency Risk

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

##### (k) Sensitivity Analysis

The Council is exposed to interest rate risk arising from bonds, notes and cash investments held for trading as part of its managed funds held with ING.

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At reporting date, if interest rates had been 10% higher or lower and all other variables were held constant, the Council's:

- Surplus would decrease/increase by \$23,460 (2008: \$21,583). This is mainly attributable to the Council's exposure to interest rates on its investments within its managed funds held with ING.
- Other equity reserves would remain unaffected.

The Council's sensitivity to interest rates has not changed significantly from the prior year.

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date.

At reporting date, if equity prices had been 10% higher or lower and all other variables were held constant, the Council's:

- Surplus would remain unchanged.
- Other equity reserves would increase / decrease by \$101 (2008 \$94) as the equity investments are classified as available for sale investments.

The Council's sensitivity to equity prices has not changed significantly from the prior year.