

# FINANCIAL STATEMENTS



## OTOROHANGA DISTRICT COUNCIL INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

Actual 30 June 2007	Note	Budget 30 June 2008	Actual 30 June 2008
	<b>Income</b>		
7,806,262	Rates revenue 2	8,120,950	8,260,195
5,055,219	Other income 3	5,011,192	6,108,527
106,752	Others gains/(losses) on asset disposal 4	-	397,757
12,968,233	Total income	13,132,142	14,766,479
	<b>Expenditure</b>		
2,466,963	Employee benefit expenses 5	2,517,950	2,650,307
2,849,594	Depreciation and amortisation 6	3,030,204	2,884,653
5,779,289	Other expenses 7	5,132,889	6,012,329
849,857	Finance costs 8	1,034,217	936,756
11,945,703	Total operating expenditure	11,715,261	12,484,045
1,022,530	Profit before income tax expense	1,416,881	2,282,434
-	Tax expense	-	-
1,022,530	Profit for the year	1,416,881	2,282,434

The accompanying notes on pages 14-57 form part of these financial statements.



# OTOROHANGA DISTRICT COUNCIL

## BALANCE SHEET

### AS AT 30 JUNE 2008

Actual 30 June 2007	Note	Budget 30 June 2008	Actual 30 June 2008
	<b>Assets</b>		
	<b>Current assets</b>		
981,595	Cash and cash equivalents 9	1,150,000	1,272,173
2,057,887	Trade and other receivables 10	1,750,000	2,133,114
2,139	Other financial assets 12	-	-
424,458	Development property held for sale 13	1,448,878	225,431
3,466,079	<b>Total current assets</b>	4,348,878	3,630,718
	<b>Non-current assets</b>		
32,222	Trade and other receivables 10	-	-
160,973	Equity Investments 11	712,087	163,066
196,150,748	Property, plant and equipment 14	197,537,599	198,014,752
23,604	Intangible assets 15	-	41,727
196,367,547	<b>Total non-current assets</b>	198,249,686	198,219,545
199,833,626	<b>Total assets</b>	202,598,564	201,850,263
	<b>Liabilities</b>		
	<b>Current Liabilities</b>		
2,563,127	Trade and other payables 16	1,775,000	2,157,863
4,000	Provisions 17	-	4,000
250,360	Employee benefit liabilities 18	162,710	270,324
2,164,878	Borrowings 19	1,290,152	4,588,093
4,982,365	<b>Total current liabilities</b>	3,227,862	7,020,280
	<b>Non-current liabilities</b>		
26,752	Provisions 17	-	22,752
86,691	Employee benefit liabilities 18	-	61,970
11,240,906	Borrowings 19	13,484,364	8,962,936
11,354,349	<b>Total non-current liabilities</b>	13,484,364	9,047,658
16,336,714	<b>Total liabilities</b>	16,712,226	16,067,938
183,496,912	<b>Net Assets</b>	185,886,338	185,782,325
	<b>Equity</b>		
148,737,681	Retained earnings 20	137,308,718	150,725,012
34,759,231	Other reserves 20	48,577,620	35,057,313
183,496,912	<b>Total equity attributable to ODC</b>	185,886,338	185,782,325

The accompanying notes on pages 14-57 form part of these financial statements.



## OTOROHANGA DISTRICT COUNCIL STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

Actual 30 June 2007	Notes	Budget 30 June 2008	Actual 30 June 2008
182,468,820	<b>Balance at 1 July</b>	184,469,457	183,496,912
5,562	Available for sale investments gain/(loss) taken to equity	-	2,979
-	Gain/(loss) on asset revaluation	-	-
1,022,530	Surplus/(deficit) for the year	1,416,881	2,282,434
1,028,092	Total recognised income/(expense) for the year ended 30 June	1,416,881	2,285,413
<b>183,496,912</b>	<b>Balance at 30 June</b>	<b>185,886,338</b>	<b>185,782,325</b>

The accompanying notes on pages 14-57 form part of these financial statements.



**OTOROHANGA DISTRICT COUNCIL  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2008**

Actual 30 June 2007	Notes	Budget 30 June 2008	Actual 30 June 2008
	<b>Cash flows from operating activities</b>		
8,801,315	Receipts from rates revenue	8,120,950	9,288,884
5,489,847	Receipts from other revenue	4,940,992	6,473,319
105,646	Interest received	70,200	175,431
3,632	Dividends received	-	3,820
(10,143,384)	Payments to suppliers and employees	(7,251,930)	(11,222,957)
(900,466)	Interest paid	(885,000)	(919,865)
<b>3,365,590</b>	<b>Net cash provided by Operating Activities</b> 21	<b>4,995,212</b>	<b>3,798,632</b>
	<b>Cash flows from investing activities</b>		
311,708	Proceeds from Sale of Property, Plant and Equipment	627,777	365,274
292,110	Proceeds from sale of development property held for sale	-	651,478
(3,794,051)	Purchase of property, plant and equipment	(6,300,600)	(4,652,228)
(10,245)	Purchase of intangible assets	-	(17,823)
<b>(3,200,488)</b>	<b>Net cash (used in) Investing Activities</b>	<b>(5,672,823)</b>	<b>(3,653,299)</b>
	<b>Cash flows from financing activities</b>		
1,665,000	Proceeds from borrowings	694,732	2,285,886
(1,563,100)	Repayment of borrowings	(17,121)	(2,140,641)
<b>101,900</b>	<b>Net cash provided by/(used in) Financing Activities</b>	<b>677,611</b>	<b>145,245</b>
<b>267,002</b>	<b>Net (decrease)/increase in cash, cash equivalents and bank overdrafts</b>	<b>-</b>	<b>290,578</b>
714,593	Cash, cash equivalents and bank overdrafts at the beginning of the year	1,150,000	981,595
<b>981,595</b>	<b>Cash and cash equivalents at the end of the year.</b> 9	<b>1,150,000</b>	<b>1,272,173</b>

The accompanying notes on pages 14-57 form part of these financial statements.



# **OTOROHANGA DISTRICT COUNCIL NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

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## Otorohanga District Council

### Notes to the Financial Statements for the year ended 30 June 2008 – continued

#### 1. Summary of significant accounting policies.

##### Reporting Entity

Otorohanga District Council (ODC) is a territorial local authority governed by the Local Government Act 2002.

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

The financial statements of ODC are for the year ended 30 June 2008. The financial statements were authorised for issue by Council on 29 October 2008. These financial statements comprise solely of the ODC financial results.

##### Statement of Compliance

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

These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

##### Standards and Interpretations issued and not yet effective

At the date of authorisation of the financial statements, a number of Standards and Interpretations were in issue but not yet effective.

Application of the following Standards, Amendments and Interpretations is not expected to have a material impact on the financial statement account balances of ODC but may require additional financial statement disclosures for NZ IFRS 8 and NZ IAS 1. A number of other Standards, Amendments and Interpretations are also on issue, however, these have been deemed to have no effect on ODC and have therefore not been included in the table.

**Otorohanga District Council****Notes to the Financial Statements for the year ended 30 June 2008 – continued**

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• NZ IAS-1 'Presentation of Financial Statements' – revised standard	1 January 2009	30 June 2010
• NZ IFRS-8 'Operating Segments'	1 January 2009	30 June 2010
• NZ IFRIC-12 'Service Concession Arrangements'	1 January 2008	30 June 2009
• IFRIC-14 'IAS-19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'	1 January 2008	30 June 2009
• NZ IAS-27 'Consolidated and Separate Financial Statements' – revised 2008	1 July 2009	30 June 2010
• Revised Amendments to NZ IAS-32 'Financial Instruments: Presentation' and NZ IAS-1 'Presentation of Financial Statements' – Puttable Financial Instruments and Obligation Arising on Liquidation	1 January 2009	30 June 2010
• NZ IAS-23 'Borrowing Costs' – revised standard	1 January 2009	30 June 2010
• Improvements to New Zealand Equivalents to International Financial Reporting Standards 2008*	Various	30 June 2010
• Amendments to NZ IFRS-1 'First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards' and NZ IAS-27 'Consolidated and Separate Financial Statements' – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009	30 June 2010
• Omnibus Amendments (2007)	1 January 2008	30 June 2009

\* Improvements of NZ equivalents to International Financials Reporting Standards 2008. The effective date and transitional provisions vary by Standard and the impact of these revisions has not been assessed. 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.

**Basis of Preparation**

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

The financial statements have been prepared on a historical cost basis, apart from the revaluation of land and buildings, certain infrastructural assets and financial instruments, which are stated at their fair value.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar. The functional and reporting currency of ODC is New Zealand dollars.

**Revenue**

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

*Rates revenue*

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

*Other income*



## Otorohanga District Council

### Notes to the Financial Statements for the year ended 30 June 2008 – continued

Water billing income is recognised on an accrual basis. Unbilled usage, as a result of unread meters at year end, is accrued on an average usage basis.

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

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided.

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

Interest income is recognised using the effective interest method.

Dividends are recognised as income when the rights to receive payment have been established.

Development and financial contributions are recognised as revenue when Council provides, or is able to provide, the service for which the contribution was charged. Otherwise development and financial contributions are recognised as liabilities until such time the Council provides, or is able to provide, the service. Development contributions are classified as part of "Other Income"

#### **Borrowing costs**

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

#### **Grant expenditure**

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

Discretionary grants are those grants where ODC 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 ODC's decision.

#### **Operating Leases**

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.



## Otorohanga District Council

### Notes to the Financial Statements for the year ended 30 June 2008 – continued

#### Cash and cash equivalents

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

Bank overdrafts are shown within borrowing in current liabilities in the Balance Sheet.

#### Financial Assets

ODC classifies its financial assets into the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available for sale financial assets. ODC currently only has loans and receivables and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluate this designation at every reporting date.

Financial assets are initially recognised at fair value plus transaction costs except for those financial assets classified as fair value through profit and loss. Financial liabilities are recognised initially at fair value net of transaction costs.

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price for an asset held or liability to be issued is the current bid price and for an asset to be acquired or liability held, the asking price.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured shall be measured at cost.

The categories of financial assets held by ODC are:

- Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial recognition they are measured at amortised cost using the effective interest method. The effective interest rate method 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 rate that exactly discounts estimated future cash receipts through the expected life of a financial asset or where appropriate, a shorter period to the carrying amount of the financial asset.

Gains and losses when the asset is impaired or derecognised are recognised in the Income Statement. 'Trade and other receivables' and 'Rural Housing loans' are classified as loans and receivables.

A provision for impairment of receivables is established when there is objective evidence that ODC will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted using the effective interest method.

- Available for sale financial assets

Available for sale financial assets are those that do not fall into any other financial instrument category.

This category encompasses:



## Otorohanga District Council

### Notes to the Financial Statements for the year ended 30 June 2008 – continued

- Investments that ODC intends to hold long-term but which may be realised before maturity; and
- Shareholdings that ODC holds for strategic purposes.

After initial recognition the shareholdings in listed companies are measured at their fair value.

Gains and losses are recognised directly in equity except for impairment losses, which are recognised in the Income Statement. In the event of impairment, any cumulative losses previously recognised in equity will be removed from equity and recognised in Income Statement even though the asset has not been derecognised.

On derecognition the cumulative gain or loss previously recognised in equity is recognised in the Income Statement.

#### Impairment of financial assets

At each balance sheet date ODC assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised in the Income Statement.

#### Development Property Held For Sale

Development Property Held for Sale is measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of Development Property Held For Sale are recognised in the Income Statement.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

#### Property, plant and equipment

Property, plant and equipment consist of:

*Operational assets* – These include land, buildings, landfill post closure, library books, plant and equipment, and motor vehicles.

*Restricted assets* – Restricted assets are parks and reserves owned by ODC which provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.

*Infrastructure assets* – Infrastructure assets are the fixed utility systems owned by ODC. Each asset class includes all items that are required for the network to function, for example, sewer reticulation includes reticulation piping and sewer pump stations.

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



## Otorohanga District Council

### Notes to the Financial Statements for the year ended 30 June 2008 – continued

#### Additions

The cost of an item or property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to ODC and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

#### Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Income Statement. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

#### Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to ODC and the cost of the item can be measured reliably.

**Otorohanga District Council****Notes to the Financial Statements for the year ended 30 June 2008 – continued**

## Depreciation

Depreciation is provided on a straight-line basis or diminishing value basis on all property, plant and equipment other than land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

	Useful Life (Years)	Depreciation Rate
Buildings – Concrete	100	1%
Buildings – Wooden	40	2.5%
Improvements	20	5%
Vehicles	6.6	15%
Computers	3-4	25-33.33%
Office Equipment	4-10	10-25% DV
Furniture/ Fixtures	10	10% DV
Library Books	6.6	15% DV
Plant and Machinery	2.5-3	33.33 – 40%
<u>Water Treatment</u>		
Piping	36-80	1.25-2.7%
Equipment	2-50	2-50%
Other	20	5%
<u>Water Reticulation</u>		
Piping	5-80	1.25-20%
Equipment	5-30	3.33-20%
Other	25	4%
<u>Wastewater</u>		
Piping	14-80	1.25-7.14%
Equipment	3-60	1.66-33%
Other	19-37	2.7-5.26%
<u>Stormwater</u>		
Piping	13-80	1.25-7.7%
Equipment	8-60	1.66-12.5%
Other	25	4%
<b><u>Roading</u></b>		
<u>Pavement (Basecourse)</u>		
- Sealed	1-60	1.66-100%
- Unsealed	1-6	16.5-100%
Seal	1-15	6.7-100%
Culverts	10-80	1.25-10%
Bridges	12-94	1-8.5%
Kerb & Channel/ Catchpits	45	2.2%
Footpaths	20-55	1.8-5%
Streetlights	5-46	2-20%
Signposting	5-20	5-20%
Delineators/ RPMs	3-7	14.3 -33.3%



## Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued

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

### Revaluation

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

### *Operational land and buildings*

At fair value as determined from market-based evidence by an independent valuer. The most recent valuation was performed by Quotable Value (Registered Valuers) and the valuation took effect in the financial year ended 30 June 2006.

### *Restricted land and buildings*

At fair value as determined from market-based evidence by an independent valuer. The most recent valuation was performed by Quotable Value (Registered Valuers), and the valuation took effect in the financial year ended 30 June 2006.

### *Infrastructural asset classes: roads, water reticulation, sewerage reticulation and stormwater systems:*

At fair value determined on a depreciated replacement cost basis by sufficiently experienced in-house engineering staff. The valuation was independently reviewed and confirmed to have met the appropriate valuation and financial reporting standards, and deemed suitable for inclusion in the financial statements by Maunsell (Registered Valuers). The most recent valuation took effect in the financial year ended 30 June 2006.

### *Land under roads*

Land under roads, was valued based on land value of land within the ward the road is in. This valuation was performed by sufficiently experienced in-house engineering staff, based on information obtained from Quotable Value (Registered Valuers), and the average for each ward is used as the basis of the valuation of land under roads. This valuation was independently reviewed by Maunsell (Registered Valuers). The most recent valuation took effect in the financial year ended 30 June 2006.

### *Accounting for revaluations*

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

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



## Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued

### **Intangible assets**

#### *Software acquisition*

Acquired computer software licences 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.

#### *Amortisation*

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

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

Computer software	3 years	33.3%
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### **Impairment of non-financial assets**

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the assets ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

The value in use for cash-generating assets is the present value of expected future cash flows.

If an assets carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the Income Statement.

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

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

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



## Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued

### **Employee benefits**

#### *Short-term benefits*

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

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

ODC recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that ODC anticipates it will be used by staff to cover those future absences.

#### *Long-term benefits*

### **Long service leave and retirement leave**

Entitlements that are payable beyond 12 months, such as long service leave, have been calculated on an actuarial basis. The calculations are based on:

- Likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- The present value of the estimated future cash flows. A discount rate of 8.25%, and an inflation factor of 2.5% were used. The discount rate is based on the weighted average of Government interest rates for stock with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.

Retirement leave is recorded at the time of entitlement of staff, as this represents the amount that can be claimed at any time after entitlement.

### **Superannuation schemes**

#### *Defined contribution schemes*

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the Income Statement as incurred. Defined contribution schemes includes Kiwisaver, where legislation states that Council must contribute a matching contribution to the employee of 1%, rising to 4% in 2011.

### **Provisions**

ODC recognise a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditures will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.



## Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

### **Borrowings**

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method net of transaction costs.

### **Equity**

Equity is the community's interest in ODC and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of reserves.

The components of equity are:

- Retained earnings
- Restricted reserves
- Asset revaluation reserves
- Available for sale revaluation reserve

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

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

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

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

The available for sale revaluation reserve arises on the revaluation of available for sale financial assets. Where a revalued asset is sold, the portion of the reserve that relates to that financial asset, and is effectively realised, is recognised in profit or loss. Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is recognised in profit or loss.

ODC's objectives, policies and processes for managing capital are described in note 31.



## **Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued**

### **Landfill post-closure costs**

ODC, as operator of the Otorohanga and Kawhia closed landfills, has a legal obligation under the resource consents to provide ongoing maintenance and monitoring services at the landfill. A provision for post-closure costs is recognised as a liability.

The provision is measured based on the present value of future cash flows expected to be incurred, taking into account future events including new legal requirements and known improvements in technology.

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 liability.

### **Goods and Services Tax (GST)**

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net GST paid to, or received for the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitment and contingencies are disclosed exclusive of GST.

### **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 ODC for the preparation of the financial statements.

### **Cost Allocation**

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

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

Direct costs are charged directly to significant activities. Indirect costs are charged to significant activities using appropriate cost drivers such as actual usage, staff numbers and floor area.

### **Trade and other payables**

Trade and other accounts payable are recognised when ODC becomes obliged to make future payments resulting from the purchase of goods and services. Subsequent to initial recognition, trade payables and other accounts payable are recorded at amortised cost.



## Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued

### Financial Instruments issued by the Council

#### *Debt and Equity instruments*

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

#### *Interest and dividends*

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instrument.

#### *Financial guarantee contract liabilities*

Financial guarantee contract liabilities are measured initially at their fair value and are subsequently measured at the higher of the amount of the obligation under the contract, as determined in accordance with NZ IAS-37 'Provisions, Contingent Liabilities and Contingent Assets'; and the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with NZ IAS-18 'Revenue'.

### Statement of Cashflows

Cashflows from operating activities are presented using the direct method. Definitions of terms used in the Statement of cashflows:

- Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.
- Investing activities comprise the purchase and sale of property, plant & equipment and investments.
- Financing activities comprise the change in equity and debt capital structure of ODC
- Operating activities include all transactions and events that are not investing or financing activities.

### Critical accounting estimates and assumptions

In preparing these financial statements ODC 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 assumption that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### *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 and obsolescence or surplus capacity of an asset; and



## Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued

- 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 ODC could be over or under estimating the annual depreciation charge recognised as an expense in the Income Statement. To minimise this risk ODC'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 ODC's asset management planning activities, which gives ODC further assurance over its useful life estimates.

During the year, management reconsidered the recoverability of its infrastructural assets, which are included in the balance sheet as at 30 June 2008 at \$172,205,604.

### **Critical judgements in applying ODC's accounting policies**

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

#### **1. Classification of property**

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

#### **2. Classification of investments**

ODC owns a number of investments in other companies. The dividends received from these investments are incidental to holding the investments. These investments are held for strategic purposes, and are intended to be held for the long term. As such these investments have been classified as available for sale financial assets.

#### **3. Useful lives of Property, Plant and Equipment**

The useful lives of property, plant and equipment have been determined based on the asset management plans used during the creation of the LTCCP. For infrastructural assets this has been based on the information provided by the National Asset Management Steering Group (NAMS) regarding the useful life of infrastructural assets. For all other property, plant and equipment, the depreciation schedules included in the Income Tax Act have been used as a basis for setting the useful lives.

#### **4. Fair value of Property, Plant and Equipment**

The values of Operational Land & Buildings, Restricted Assets and infrastructural assets as at 1 July 2005 have been taken as the deemed cost of these items on transition to NZ IFRS. These assets were revalued during the year ended 30 June 2006. The current carrying value of property, plant and equipment is recorded in note 14.



**Otorohanga District Council**  
**Notes to the Financial Statements for the year ended 30 June 2008 –**  
**continued**

**2. Rates revenue**

	Actual 2007	Actual 2008
General Rates	3,008,490	3,123,687
<b>Targeted rates attributable to activities</b>		
Water	456,102	467,161
Sewerage	376,751	395,171
Refuse	207,550	203,334
Land Transport	3,552,735	3,849,002
Security	71,823	75,490
Erosion Protection	30,237	32,444
CBD Development	15,503	15,755
Halls	19,609	22,215
Rates penalties	67,462	75,936
<b>Total revenue from rates</b>	<b>7,806,262</b>	<b>8,260,195</b>

**3. Other Income**

	Actual 2007	Actual 2008
User charges	1,131,740	1,194,527
Metal Royalties	15,251	25,299
Land Transport NZ government grants	2,738,092	3,292,926
Regulatory revenue	606,009	773,925
Petrol tax	96,675	98,555
Vested assets revenue	329,705	515,811
Donations	-	8,000
Interest income for financial assets not at fair value through profit and loss		
- cash and cash equivalents	105,321	175,283
- loans and receivables	325	148
Dividend income	3,632	3,820
Other	28,469	20,233
<b>Total other income</b>	<b>5,055,219</b>	<b>6,108,527</b>



**Otorohanga District Council  
Notes to the Financial Statements for the year ended 30 June 2008 –  
continued**

**4. Other gains/(losses) on asset disposals**

	<b>Actual 2007</b>	<b>Actual 2008</b>
Gain/(loss) on disposal of development property held for sale	317,186	398,751
Gain/(loss) on disposal of property, plant and equipment	(210,434)	(994)
<b>Total other gains/(losses) on asset disposal</b>	<b>106,752</b>	<b>397,757</b>

**5. Employee Benefit Expenses**

	<b>Actual 2007</b>	<b>Actual 2008</b>
Salaries and wages	2,384,764	2,608,597
Employer contributions to defined contribution plans	50,320	46,467
Increase/(decrease) in employee benefit liabilities	31,879	(4,757)
<b>Total employee benefit expenses</b>	<b>2,466,963</b>	<b>2,650,307</b>

No additional liability exists to ODC related to the defined contribution plans.

**6. Depreciation and Amortisation**

	<b>Actual 2007</b>	<b>Actual 2008</b>
Depreciation	2,822,813	2,858,769
Amortisation	26,781	25,884
<b>Total depreciation and amortisation</b>	<b>2,849,594</b>	<b>2,884,653</b>



## Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued

### 7. Other Expenses

	Actual 2007	Actual 2008
Audit fees for financial statement audit	89,910	93,920
Audit fees for LTCCP/Annual Plan audit	7,589	-
Audit fees for NZ IFRS transition	-	14,000
Donations	-	-
Impairment of receivables	35,260	(24,336)
Impairment of property, plant and equipment	-	-
Minimum lease payments under operating leases	36,527	40,036
Activity Operation	882,941	926,173
Asset Maintenance	591,156	516,327
Road Maintenance	2,588,271	2,680,144
Other expenses	1,547,635	1,766,065
<b>Total other expenses</b>	<b>5,779,289</b>	<b>6,012,329</b>

Otorohanga District Council is exempt from tax under the Income Tax Act 2004.

The impairment of receivables relates to the writing off of rates debtors after the statutory deadline of 7 years, as well as writing off rates debtors that were deemed to be uncollectible.

### 8. Finance costs

	Actual 2007	Actual 2008
<b>Interest expense</b>		
Interest on bank borrowings	849,857	936,756
<b>Total finance costs</b>	<b>849,857</b>	<b>936,756</b>

### 9. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cashflow statement are reconciled to the related items in the balance sheet as follows:

	Actual 2007	Actual 2008
Cash and cash equivalents	981,595	1,272,173
<b>Total cash and cash equivalents</b>	<b>981,595</b>	<b>1,272,173</b>

Cash at the bank and in hand includes two amounts which have restrictions on what the money can be used for. These are:



## Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued

- Subdivision reserve fund \$132,063 (2007: \$99,716)
- Otorohanga Community Charitable Trust Deposit \$50,000 (2007: \$50,000)

The money held in the subdivision reserve fund can only be used to fund capital expenditure related to district parks and reserves.

The money from the Otorohanga Community Charitable Trust is a deposit held by ODC, which provides a return to the trust on a quarterly basis. This money can be called by the Trust at any time. A corresponding liability exists for this deposit, and this is included in the Trade and other payables balance – refer Note 16

### 10.

#### 10. Trade and other receivables

	Actual 2007	Actual 2008
Rates receivables	221,738	237,481
Other receivables	973,229	1,427,449
Sundry debtors	364,195	69,912
Property sale receivables	392,515	380,555
Work In Progress	211,938	115,578
	2,163,615	2,230,975
Less provision for impairment of receivables	(73,506)	(97,841)
<b>Total trade and other receivables</b>	<b>2,090,109</b>	<b>2,133,134</b>
Less non-current portion:		
Property sale receivables	32,222	-
<b>Total non-current portion</b>	<b>32,222</b>	<b>-</b>
<b>Current portion</b>	<b>2,057,887</b>	<b>2,133,134</b>

Rates are struck on the 1<sup>st</sup> of July each year, and are charged in two instalments. In the year ended 30 June 2008 these instalments were due on 3<sup>rd</sup> August 2007 and 4<sup>th</sup> January 2008. A charge of 10% is added to all rates levied and due for the 2007/08 year that remains unpaid after 24<sup>th</sup> August 2007 and 25<sup>th</sup> January 2008. A further 10% charge is added to all rates that have been levied in any financial year previous to 1 July 2007 which remained unpaid as at that date.

Property sale receivables have differing terms depending on the terms of the sale and purchase agreement. No interest is payable on any property sale receivables.

All other receivables have standard terms of 30 days from the date of the invoice. No interest is charged for other receivables that remain unpaid after the completion of the term.



**Otorohanga District Council  
Notes to the Financial Statements for the year ended 30 June 2008 –  
continued**

**2008**

	< 1 year	> 1 year and < 2 years	>2 years and < 5	> 5 years
Rates receivables	237,481	-	-	-
Other receivables	1,427,449	-	-	-
Sundry debtors	69,912	-	-	-
Work In Progress	115,578	-	-	-
Property sale receivables	380,555	-	-	-
<b>Total Trade and other receivables</b>	<b>2,230,975</b>	<b>-</b>	<b>-</b>	<b>-</b>

**2007**

	< 1 year	> 1 year and < 2 years	>2 years and < 5	> 5 years
Rates receivables	221,738	-	-	-
Other receivables	973,229	-	-	-
Sundry debtors	364,195	-	-	-
Work In Progress	211,938	-	-	-
Property sale receivables	360,293	32,222	-	-
<b>Total Trade and other receivables</b>	<b>2,131,393</b>	<b>32,222</b>	<b>-</b>	<b>-</b>

*Impairment*

Movements in the provision for impairment of receivables are as follows:

	Actual 2007	Actual 2008
Balance at beginning of the year	(108,766)	(73,506)
Amounts written off as uncollectible	35,260	54,783
Increase in provision	-	(79,118)
Balance at end of the year	(73,506)	(97,841)

*Ageing of Trade and other receivables*

	2007			2008		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	1,971,299	-	1,971,299	1,964,111	-	1,964,111
Past due 1-60 days	-	-	-	-	-	-
Past due 61-90 days	-	-	-	12,301	-	12,301
Past due > 90 days	224,538	(73,506)	151,032	254,563	(97,841)	156,722
<b>Total</b>	<b>2,195,837</b>	<b>(73,506)</b>	<b>2,122,331</b>	<b>2,230,975</b>	<b>(97,841)</b>	<b>2,133,134</b>



**Otorohanga District Council**  
**Notes to the Financial Statements for the year ended 30 June 2008 –**  
**continued**

**11. Equity Investments**

	Actual 2007	Actual 2008
<b>Available for sale Financial Assets</b>		
Unlisted shares – Waikato Regional Airport Ltd	89,375	89,375
Unlisted shares – Balance Agrinutrients	11,272	12,220
Listed shares – King Country Energy	47,792	46,453
Unlisted shares – NZ Local Govt Insurance Corporation Ltd	12,534	15,018
<b>Total equity investments</b>	<b>160,973</b>	<b>163,066</b>

The fair value of listed shares is determined by reference to published price quotations in an active market. The market value of ODC's King Country Energy shares as at 30 June 2008 was \$46,453 (2007: \$47,792)

*Unlisted shares*

The fair value of unlisted shares of Waikato Regional Airport Ltd, Balance Agrinutrients and the NZ Local Government Insurance Corporation Ltd are not able to be determined reliably and as such have been measured at cost. A range of estimates within which the fair values would be likely to lie are unable to be determined.

ODC holds a 7.69% shareholding in Local Authority Shared Services Limited, a company established by the 13 territorial and regional councils in the Waikato region. This share has a cost of \$1,000, but the capital has not been called yet, and therefore no investment has been recognised in the balance sheet. Refer to note 23 – Contingencies for a discussion of the uncalled capital.

*Maturity analysis and effective interest rates*

Refer to note 30 – Financial Instruments Risk

**12. Other Financial Assets**

**13.**

	Actual 2007	Actual 2008
Rural Housing Loans	2,139	-
<b>Total other financial assets</b>	<b>2,139</b>	<b>-</b>

There are no impairment provisions for other financial assets.



**Otorohanga District Council  
Notes to the Financial Statements for the year ended 30 June 2008 –  
continued**

**13. Development Property Held For Sale**

	<b>Actual 2007</b>	<b>Actual 2008</b>
Westridge	225,452	26,425
Progress park	199,006	199,006
<b>Total Development Property Held for Sale</b>	<b>424,458</b>	<b>225,431</b>

These development properties held for sale represent properties within the Progress Park and Westridge subdivisions, which were developments done by Otorohanga District Council. The Progress Park development was an industrial park development and was completed in 2005 and comprised of 25 lots. Currently only 3 lots remain unsold (2007: 3 unsold). These properties are expected to be sold within the year ended 30 June 2009, and these sales are expected to occur through regular real estate transactions.

The Westridge development was a residential development and was completed in 2006. Westridge comprises of 36 lots and a right of way, of which 1 remains unsold at balance date (2007: 11 unsold). This property is expected to be sold within the year ended 30 June 2009, and the sale is expected to occur through regular real estate transactions.

No development properties held for sale were recognised as expenses during the year, and there were no write-downs of development properties held for sale. No development properties held for sale have been pledged as securities against any liabilities ODC holds.

## Otorohanga District Council

### Notes to the Financial Statements for the year ended 30 June 2008 – continued

#### 14. Property, plant and equipment 2008

	Cost /revaluation 1 July 2007	Accumulated depreciation	Carrying amount	Current year additions	Current year disposals	Current year impairment charges	Current year depreciation	Revaluation surplus	Cost /revaluation 30 June 2008	Accumulated depreciation	Carrying amount
<b>Council Operational assets</b>											
Land	8,674,104	-	8,674,104	4,067	30,163	-	-	-	8,648,008	-	8,648,008
Buildings	5,529,480	207,432	5,322,048	356,795	-	-	114,842	-	5,886,275	322,274	5,564,001
Plant & Machinery/ Motor Vehicles	587,017	201,075	385,942	148,937	65,151	-	58,690	-	617,120	206,082	411,038
Furniture & Equipment/ Library Books	1,679,790	1,046,440	633,350	157,990	22,348	-	140,176	-	1,764,602	1,135,785	628,817
Total operational assets	16,470,391	1,454,947	15,015,444	667,789	117,662	-	313,709	-	16,916,005	1,664,141	15,251,864
<b>Council infrastructural assets</b>											
Sewerage system	4,616,213	252,284	4,363,929	7,697	8,787	-	129,554	-	4,615,120	381,835	4,233,285
Water system	3,539,382	224,088	3,315,295	90,907	2,558	-	109,447	-	3,626,790	332,593	3,294,197
Rural water supply	4,864,393	253,264	4,611,129	30,151	7,599	-	134,097	-	4,886,534	387,106	4,499,428
Drainage network	2,383,458	72,281	2,311,177	144,695	-	-	36,915	-	2,528,153	109,196	2,418,957
Stopbanks	1,089,000	-	1,089,000	-	-	-	-	-	1,089,000	-	1,089,000
Roading network	136,844,206	3,386,529	133,457,677	2,760,073	147,657	-	1,709,445	-	139,398,800	5,038,113	134,360,687
Bridges and culverts	22,140,534	773,368	21,367,166	1,361,349	29,874	-	388,708	-	23,234,529	924,596	22,309,933
Total infrastructural assets	175,477,186	4,961,814	170,515,373	4,394,872	196,475	-	2,508,166	-	179,378,926	7,173,440	172,205,487
<b>Council restricted assets</b>											
Land	7,448,445	-	7,448,445	7,145	50,686	-	-	-	7,404,904	-	7,404,904
Buildings	3,244,658	73,172	3,171,486	17,905	-	-	36,894	-	3,262,563	110,066	3,152,497
Total restricted assets	10,693,103	73,172	10,619,931	25,050	50,686	-	36,894	-	10,667,467	110,066	10,557,401
<b>Total ODC property, plant and equipment</b>	202,640,680	6,489,933	196,150,748	5,087,711	364,823	-	2,858,769	-	206,962,398	8,947,647	198,014,752

Land under roads included in Roothing network totals \$18,830,374.

**Otorohanga District Council**  
**Notes to the Financial Statements for the year ended 30 June 2008 – continued**

2007

	Cost /revaluation 1 July 2006	Accumulated depreciation	Carrying amount	Current year additions	Current year disposals	Current year impairment charges	Current year depreciation	Revaluation surplus	Cost /revaluation 30 June 2007	Accumulated depreciation	Carrying amount
<b>Council Operational assets</b>											
Land	8,708,533	-	8,708,533	28,804	63,233	-	-	-	8,674,104	-	8,674,104
Buildings	5,245,079	101,370	5,143,709	284,401	-	-	106,061	-	5,529,480	207,432	5,322,048
Plant & Machinery/ Motor Vehicles	596,053	218,959	377,094	195,831	131,701	-	55,282	-	587,017	201,075	385,942
Furniture & Equipment/ Library Books	2,113,526	1,495,999	617,527	153,327	16,556	-	120,949	-	1,679,790	1,046,440	633,350
Total operational assets	16,663,191	1,816,328	14,846,863	662,363	211,490	-	282,292	-	16,470,391	1,454,947	15,015,444
<b>Council infrastructural assets</b>											
Sewerage system	4,494,248	126,141	4,368,107	125,033	2,144	-	143,220	-	4,616,213	252,284	4,363,929
Water system	3,450,427	113,213	3,337,214	115,542	24,531	-	112,930	-	3,539,382	224,088	3,315,295
Rural water supply	4,826,539	129,162	4,697,377	56,493	10,144	-	132,598	-	4,864,393	253,264	4,611,129
Drainage network	2,295,931	35,830	2,260,101	87,527	-	-	36,451	-	2,383,458	72,281	2,311,177
Stopbanks	1,089,000	-	1,089,000	-	-	-	-	-	1,089,000	-	1,089,000
Roading network	134,325,523	1,694,694	132,630,829	2,607,900	79,454	-	1,701,598	-	136,844,206	3,386,529	133,457,677
Bridges and culverts	21,736,730	386,098	21,350,632	417,222	13,418	-	387,270	-	22,140,534	773,368	21,367,166
Total infrastructural assets	172,218,398	2,485,138	169,733,260	3,409,717	129,691	-	2,514,067	-	175,477,186	4,961,814	170,515,373
<b>Council restricted assets</b>											
Land	7,440,155	-	7,440,155	8,290	-	-	-	-	7,448,445	-	7,448,445
Buildings	3,214,371	36,355	3,178,016	30,287	-	-	36,817	-	3,244,658	73,172	3,171,486
Total restricted assets	10,654,526	36,355	10,618,171	38,577	-	-	36,817	-	10,693,103	73,172	10,619,931
<b>Total ODC property, plant and equipment</b>	199,536,115	4,337,818	195,198,294	4,110,657	341,181	-	2,833,176	-	202,640,680	6,489,933	196,150,748

Land under roads included in Roothing network totals \$18,821,278.



**Otorohanga District Council  
Notes to the Financial Statements for the year ended 30 June 2008 –  
continued**

An independent valuation of the entity's land and buildings was performed by Quotable Value, independent registered valuers not related to the entity, to determine the fair value of the land and buildings. The valuation was effective in the year ended 30 June 2006. The total fair value of Land and Building's valued by Quotable Value at balance date after the revaluation was \$24,470,413. The carrying amount prior to the revaluation was \$12,667,617.

The infrastructural assets were valued by sufficiently experienced in-house engineering staff. The valuations were independently reviewed and confirmed to have met the appropriate valuation and financial reporting standards, and deemed suitable for inclusion in the financial statements by Maunsell (Registered Valuers). The valuation was effective in the year ended 30 June 2006. The total fair value of Infrastructural assets valued by in-house engineering staff at balance date after the revaluation was \$169,733,260. The carrying amount prior to the revaluation was \$146,177,152.

As at balance date no items of property, plant and equipment were temporarily idle. No items of property, plant and equipment were retired from active use and not classified as held for sale.

Rental property held by the Council is held to provide housing for the elderly, and the carrying amount as at 30 June 2008 is \$1,493,049 (2007: \$1,314,666)

**15. Intangible assets – Computer Software**

	Actual 2007	Actual 2008
Balance as at 1 July		
Cost	451,098	420,112
Accumulated amortisation	(413,694)	(396,508)
Opening carrying amount	37,404	23,604
Year ended 30 June		
Additions	10,245	39,309
Disposals – cost	(41,231)	(4,900)
Disposals – accumulated amortisation	41,231	4,900
Amortisation charge	(24,045)	(21,186)
Closing carrying amount	23,604	41,727
Balance at 30 June		
Cost	420,112	454,521
Accumulated amortisation	(396,508)	(412,794)
Closing carrying amount	23,604	41,727



**Otorohanga District Council  
Notes to the Financial Statements for the year ended 30 June 2008 –  
continued**

Amortisation of intangibles is included in the depreciation and amortisation line within the Income Statement. Refer to note 6 for a breakdown of this item.

Some items of software have been fully amortised but are still in use by the entity. These items include operating systems and other key software used in the day-to-day running of council.



## Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued

### *Other intangibles*

ODC has a number of easements over properties, giving Council access to inspect and maintain items of infrastructural importance. These easements hold no commercial value, and therefore no amount has been recorded for these easements.

### 16. Trade and other payables

	Actual 2007	Actual 2008
Trade payables	1,480,971	851,003
Deposits and bonds owing	359,384	539,929
Accrued expenses	426,628	425,623
Rates in advance	296,144	341,308
<b>Total trade and other payables</b>	<b>2,563,127</b>	<b>2,157,863</b>

Trade and other payables are non-interest bearing and are normally settled on 30 day terms, therefore the carrying value of trade and other payables approximates their fair value. The entity has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

### 17. Provisions

	Actual 2007	Actual 2008
Opening Balance	34,752	30,752
Reduction in Landfill Aftercare Liability	-	-
Maintenance and Monitoring Costs	(4,000)	(4,000)
Closing balance	30,752	26,752
Represented by:		
Current portion	4,000	4,000
Non-current provisions	26,752	22,752
	30,752	26,752

### Landfill aftercare provision

ODC gained resource consents to operate its Otorohanga and Kawhia landfills. ODC has responsibility under the resource consent to provide ongoing maintenance and monitoring of the landfill after the sites are closed.



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**Otorohanga District Council  
Notes to the Financial Statements for the year ended 30 June 2008 –  
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Both landfills are closed. There are closure and post-closure responsibilities such as the following:



**Otorohanga District Council  
Notes to the Financial Statements for the year ended 30 June 2008 –  
continued**

**Closure responsibilities**

- Final cover application and vegetation
- Incremental drainage control features
- Completing facilities for leachate collection and monitoring
- Completing facilities for water quality monitoring
- Completing facilities for monitoring and recovery of gas.

**Post-closure responsibilities**

- Treatment and monitoring of leachate
- Ground water and surface monitoring
- Gas monitoring and recovery
- Implementation of remedial measures such as needed for cover, and control of systems.
- Ongoing site maintenance for drainage systems, final cover and vegetation.

**Capacity of the Site**

The Otorohanga and Kawhia landfill's have been capped.

The cash outflows for landfill post-closure are expected to occur between 2007 and 2033. The long term nature of the liability means that there are inherent uncertainties in estimating costs that will be incurred. The provision has been estimated taking into account existing technology and is discounted using a discount rate of 7.00% (2007: 7.00%)

**18. Employee benefit liabilities**

	Actual 2007	Actual 2008
Accrued pay	45,467	60,037
Annual leave	199,973	205,399
Long service leave	24,710	19,611
Retirement gratuities	61,981	42,360
Sick leave	4,920	4,887
<b>Total employee benefit liabilities</b>	337,051	332,294
Comprising:		
Current	250,360	270,324
Non-current	86,691	61,970
<b>Total employee benefit liabilities</b>	337,051	332,294



**Otorohanga District Council**  
**Notes to the Financial Statements for the year ended 30 June 2008 –**  
**continued**

**19. Borrowings**

	<b>Actual 2007</b>	<b>Actual 2008</b>
<b>Current</b>		
Secured loans	2,164,878	4,588,093
<b>Total current borrowings</b>	<b>2,164,878</b>	<b>4,588,093</b>
<b>Non-current</b>		
Secured loans	11,240,906	8,962,936
<b>Total non-current borrowings</b>	<b>11,240,906</b>	<b>8,962,936</b>

*Fixed-rate debt*

ODC's secured debt of \$13,551,030 (2007: \$13,405,784) is issued at fixed rates of interest ranging from 5.47% - 9.00% (2007: 5.47% - 7.97%).

**Security**

The overdraft is unsecured. The maximum amount that can be drawn down against the overdraft facility is \$200,000 (2007: \$200,000). There are no restrictions on the use of this facility.

ODC's loans are secured over either separate or general rates of the district.

**Refinancing**

ODC manages its borrowings in accordance with its funding and financial policies, which includes a Liability Management policy. These policies have been adopted as part of the ODC's Long-Term Council Community Plan (LTCCP).

**Maturity analysis**

Refer to note 30 – Financial Instruments Risk

Fair value is disclosed in Note 30.



**Otorohanga District Council  
Notes to the Financial Statements for the year ended 30 June 2008 –  
continued**

**20. Equity**

	Actual 2007	Actual 2008
<b>Retained earnings</b>		
As at 1 July	147,673,023	148,737,681
Transfer from:		
Revaluation reserves	64,601	76,133
Transfers to:		
Restricted reserves	(22,473)	(371,236)
Surplus/(deficit) for the year	1,022,530	2,282,434
As at 30 June	148,737,681	150,725,012
<b>Restricted reserves</b>		
As at 1 July	674,701	697,174
Transfer from:		
Retained earnings	22,473	371,236
Transfers to:		
Retained earnings	-	-
As at 30 June	697,174	1,068,410
Restricted reserves consist of:		
Subdivision reserve	99,716	146,143
General funds reserves	597,458	922,267
<b>Available for sale Revaluation Reserve</b>		
As at 1 July	5,141	10,703
Revaluation gains/(losses)	5,562	2,979
As at 30 June	10,703	13,682



**Otorohanga District Council**  
**Notes to the Financial Statements for the year ended 30 June 2008 –**  
**continued**

<b>Asset revaluation reserves</b>		
As at 1 July	34,115,955	34,051,354
Revaluation gains/(losses)	-	-
Transfer of revaluation reserve to retained earnings on disposal of property, plant and equipment	(64,601)	(76,133)
As at 30 June	34,051,354	33,975,221
Asset revaluation reserves consist of:		
<i>Operational assets</i>		
Land	5,837,875	5,817,061
Buildings	1,055,776	1,055,776
<i>Infrastructural assets</i>		
Sewerage system	784,114	784,113
Water system	524,494	523,940
Drainage network	258,784	258,784
Rural Water Supply	517,758	517,603
Bridges and Culverts	1,915,997	1,903,997
Roading network	17,915,930	17,900,547
<i>Restricted assets</i>		
Land	3,957,886	3,930,660
Buildings	1,282,740	1,282,740
<b>Total Asset Revaluation Reserves</b>	<b>34,051,354</b>	<b>33,975,221</b>
Restricted Reserves	697,174	1,068,410
Available for Sale Revaluation Reserve	10,703	13,682
Asset Revaluation Reserves	34,051,354	33,975,221
<b>Total Reserves</b>	<b>34,759,231</b>	<b>35,057,313</b>

Restricted reserves relate to:

- Subdivision reserves, which are used to record financial contributions on subdivisions. These financial contributions are accepted in lieu of the developer creating a reserve, and the money is used by Council for work on reserves within the area.
- General funds reserve, which is used for specific purposes that Council elects to use it for. Any use of money from this reserve has to be designated within the LTCCP or Annual Plan. This reserve is typically used for one-off non operational items.



**Otorohanga District Council**  
**Notes to the Financial Statements for the year ended 30 June 2008 –**  
**continued**

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

	<b>Actual 2007</b>	<b>Actual 2008</b>
<b>Surplus/(deficit) after tax</b>	1,022,530	2,282,434
<b>Add/(less) non-cash items:</b>		
Depreciation and amortisation	2,849,594	2,884,653
Net (gain)/loss on asset disposal	(106,752)	(397,757)
Impairment of receivables	35,260	(24,336)
Vested assets	(329,705)	(515,811)
<b>Add/(less) movements in working capital items:</b>		
Trade and other receivables	(353,325)	(112,890)
Trade and other payables	377,911	(414,021)
Work In Progress	(138,923)	96,360
<b>Net cash inflow/(outflow) from operating activities</b>	<b>3,356,590</b>	<b>3,798,632</b>

Trade and other payables includes the movement in creditors, accruals, provisions and employee entitlements.

Trade and other receivables includes the movement in trade and other receivables (excluding work in progress) and other financial assets.

**22. Capital commitments and operating leases**

	<b>Actual 2007</b>	<b>Actual 2008</b>
<b>Capital commitments</b>		
Capital expenditure contracted for at balance date but not yet incurred for property, plant and equipment	113,127	31,058
<b>Other Expenditure Commitments</b>		
Maintenance Contracts	5,655,555	4,083,121

**Operating leases as lessee**

ODC leases property, plant and equipment in the normal course of its business. The majority of these leases have a non-cancellable term of 60 months. The future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:



**Otorohanga District Council  
Notes to the Financial Statements for the year ended 30 June 2008 –  
continued**

	<b>Actual 2007</b>	<b>Actual 2008</b>
<b>Non-cancellable operating leases as lessee</b>		
Not later than one year	44,557	48,929
Later than one year and not later than two years	43,455	48,929
Later than two year and not later than five years	74,844	63,638
Later than five years	-	-
<b>Total non-cancellable operating leases</b>	<b>162,856</b>	<b>161,496</b>



## Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued

### Operating leases as lessor

ODC leases its property under operating leases. The majority of these leases have non-cancellable terms of 5 years, with lease terms ranging from 2 years up to 21 years in selected cases. The future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

	Actual 2007	Actual 2008
<b>Non-cancellable operating leases as lessor</b>		
Not later than one year	216,341	212,478
Later than one year and not later than two years	209,009	204,055
Later than two year and not later than five years	222,585	210,201
Later than five years	230,042	215,558
<b>Total non-cancellable operating leases</b>	<b>877,977</b>	<b>842,292</b>

### 23. Contingencies

#### Contingent Liabilities

	Actual 2007	Actual 2008
Guarantees	112,000	112,000
Court Cases	21,500	-
Uncalled Capital – Waikato Regional Airport Limited	675,000	675,000
Uncalled Capital – Local Authority Shared Services	1,000	1,000
<b>Total Contingent Liabilities</b>	<b>809,500</b>	<b>788,000</b>

#### *Guarantees*

The value of guarantees disclosed as contingent liabilities reflects ODC's assessment of the undiscounted portion of financial guarantees that are not recognised in the Balance Sheet. At the year end it was not probable that the counterparty to the financial guarantee contract will claim under the contract.

As at 30 June 2008 the Kawhia Sports Club loan of \$42,000 has been repaid, however the guarantee remains in force for two years from the repayment.

#### *Uncalled Capital*

During May 2004, the shareholders of Waikato Regional Airport Ltd (WRAL) of which ODC has a 3.125% shareholding, authorised the company issuing further shares totalling \$21.6m to existing shareholders. This capital restructure is part of the WRAL



**Otorohanga District Council  
Notes to the Financial Statements for the year ended 30 June 2008 –  
continued**

Airport Development and allows WRAL to borrow at commercially favourable interest rates. The WRAL Airport Development is estimated to cost \$20.5m over five years, which is being funded by new external borrowings of \$14.6m and retained earnings. Whilst there are no plans to call up the capital, Council has a contingent liability for \$675,000 for uncalled capital.

The uncalled share capital for Local Authority Shared Services amounts to \$1,000 as at 30 June 2008. At present ODC is not aware of any plan to call the capital in the near future.



## Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued

### 24. Related party transactions

*The following transactions were carried out with related parties:*

#### **Key management personnel**

Key management personnel include the Mayor, Councillor's, Chief Executive and other senior management personnel.

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

ODC also had transactions with Waikato Regional Airport Limited, but these were conducted as part of a normal customer relationship (such as payment of departure taxes and parking charges).

During the year Council had transactions with Potter Contracting, of which Councillor Adam was an employee. Awarding of these contracts is an arms length transaction by the management team, and not the Council.

No provision has been required, nor any expense recognised for impairment of receivables to related parties (2007: \$nil).

#### *Key management personnel compensation*

	<b>Actual 2007</b>	<b>Actual 2008</b>
Salaries and other short term employee benefits	675,710	748,636
Post employment benefits (defined contribution plan)	6,985	8,954
Other long term benefits	-	-
Termination benefits	-	-
<b>Total Key Management Personnel Compensation</b>	<b>682,695</b>	<b>757,590</b>



## Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued

### 25. Remuneration

#### *Chief Executive*

The Chief Executive of ODC appointed under section 42 of the Local Government Act 2002 received a salary of \$157,706 (2007: \$135,660).

In terms of his contract, the Chief Executive also received the following benefits:

	Cost during the financial year	
	Actual 2007	Actual 2008
Telephone rental	740	740
Memberships	600	600
Superannuation Contribution	-	3,154

For the year ended 30 June 2008, the total annual cost including fringe benefit tax to the ODC of the remuneration package being received by the Chief Executive is calculated at \$162,200 (2007: \$146,221).

#### *Elected representatives*

	Total remuneration	
	Actual 2007	Actual 2008
Dale Williams, Mayor	55,883	58,565
Hugh Earwaker, Deputy Mayor	24,626	25,811
Graham Wilshier	19,044	6,400
Kit Jeffries	18,594	6,072
Doreen De Haan	11,262	3,711
Deborah Pilkington	17,023	17,381
Sue Blackler	11,148	12,652
Leveson Gower	11,436	12,244
Robert Prescott	-	13,348
Steve Adam	-	8,552
Andrew Ormsby	-	13,355



## Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued

### 26. Severance payments

For the year ended 30 June 2008 ODC made no (2007: none) severance payments to employees.

### 27. Transit NZ Amendment Act Disclosure

	Actual 2007	Actual 2008
<b>ODC Professional Engineering Services Business Unit</b>		
In-House Professional Services for TNZ Works	524,910	443,970
In-House Professional Services for other Works	161,504	178,793
Total Works/Services provided	686,414	622,763
Total Operating Costs	(667,237)	(654,689)
Net Gain/ (Loss) on Operations	19,177	(31,926)

The gain or loss on the operation of the Engineering Business Unit is represented in the operating surplus for the year.

The above information is presented in accordance with Section 31 of the Transit New Zealand Act.

### 28. Statement of Financial Involvement in Council Controlled Organisations (CCO's)

#### *Waikato Regional Airport Limited (WRAL)*

This Company, established in 1989, operated the Airport situated at Rukuhia within Waipa District. The local authority part owners negotiated the purchase of the Crown's former shareholding to secure the retention of the airport as a major infrastructural facility important to the economy of the Waikato.

The objective of the airport company is to operate a successful commercial business, providing safe, appropriate and efficient services for the transportation of people and freight in and out of the port of Hamilton.



## Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued

Council holds 3.125% of the airport company's shares. The remaining shares are owned by Hamilton City Council, Matamata-Piako, Waipa and Waikato District Councils.

Waikato Regional Airport Ltd reported a net surplus of \$3.9m for the year ended 30 June 2008 (2007: \$2.7m surplus).

No dividend was paid in 2008 (2007: nil)

Council intends to maintain its current shareholding for the foreseeable future. There are no formal policies or objectives relating to ownership and control of Waikato Regional Airport.

A comparison of the company's financial and performance measures for the year ended 30 June 2008 is shown below:

### Waikato Regional Airport Limited (WRAL) *Targets and Achievements*

	Actual to 30 June 2008	Statement of Corporate Intent
Operating Surplus after Taxation to Average Shareholders' Funds	7.96%	4.30%
Operating Surplus before tax/interest to total assets	6.16%	1.83%
Operating Surplus after taxation to total assets	4.56%	2.73%
Operating Surplus before tax/interest to average shareholders' funds	10.75%	2.88%
Percentage of Non Landing Charges Revenue to Total Revenue	75.82%	81.42%
Earnings before Interest, Taxation and Depreciation	\$2,951k	\$2,346k
Interest Rate Cover	2.21	1.7
Total Liabilities/Shareholders Funds: (Debt/Equity Ratio)	29:71	35:65

### *Local Authorities Shared Services (LASS)*

	Ownership Interest	
	Actual 2007	Actual 2008
Local Authority Shared Services	7.69%	7.69%



**Otorohanga District Council  
Notes to the Financial Statements for the year ended 30 June 2008 –  
continued**

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The contingent liability arising from ODC's interest in joint ventures is disclosed in note 23. There are no capital commitments arising from ODC's interest in the LASS.

The Local Authority Shared Service Ltd (LASS) CCO was incorporated in December 2005.

LASS objective

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



## Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued

### Introduction

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

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

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

### **29. Events after balance sheet date**

There were no significant events after balance date

### **30. Financial instrument risks**

#### **Financial instruments categories**

	<b>Actual 2007</b>	<b>Actual 2008</b>
<b>FINANCIAL ASSETS</b>		
<b>Loans and receivables</b>		
Cash and cash equivalents	981,595	1,272,173
Trade and other receivables	2,090,109	2,133,114
Other financial assets		
- community loans	2,139	-
<i>Total loans and receivables</i>	<i>3,073,843</i>	<i>3,405,287</i>
<b>Available for sale financial assets</b>		



**Otorohanga District Council  
Notes to the Financial Statements for the year ended 30 June 2008 –  
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Listed shares	47,792	46,453
Unlisted shares	113,181	116,613
<i>Total available for sale financial assets</i>	160,973	163,066
<b>FINANCIAL LIABILITIES</b>		
<b>Financial liabilities at amortised cost</b>		
Trade and other payables	2,563,127	2,157,863
Borrowings		
- secured loans	13,405,784	13,551,029
<i>Total financial liabilities at amortised cost</i>	15,968,911	15,708,892

Otorohanga District Council has a series of policies to manage the risks associated with financial instruments. ODC is risk averse and seeks to minimise exposure from its treasury activities. ODC has established Council approved Liability Management and Investment policies. These policies do not allow any transactions that are speculative in nature to be entered into.

**Fair values of Financial Instruments**

The carrying amounts and the fair values of financial instruments are as follows:

	Carrying Value		Fair Value	
	2007	2008	2007	2008
<b>Assets</b>				
Cash and Cash Equivalents	981,595	1,272,173	981,595	1,272,173
Trade and other receivables	2,090,109	2,133,114	2,090,109	2,133,114
Other financial assets	2,139	-	2,139	-
<b>Liabilities</b>				
Trade and other payables	2,563,127	2,157,863	2,563,127	2,157,863
Secured loans - current	2,164,878	4,588,093	2,164,878	4,588,093
Secured loans - term	11,240,906	8,962,936	10,851,386	8,530,323

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents, receivables, other financial assets and short term payables and accruals: The carrying value of these items is equivalent to the fair value  
The fair values of term secured loans are based on cash flows discounted using a rate based on the official cash rate of 8.25% (2007: 8.00%).



## Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued

The carrying amounts of borrowings repayable within one year approximate their fair value.

### **Market risk**

#### *Price risk*

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. ODC is exposed to price risk through its listed securities.

#### *Currency risk*

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

### **Interest rate risk**

The interest rates on ODC's investments and borrowings are disclosed below.

#### *Fair value interest risk*

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Borrowing issued at fixed rates exposes ODC to fair value interest rate risk. ODC's Treasury Management policy outlines the level of borrowing that is to be secured using fixed rate instruments.

#### *Cash flow interest rate risk*

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings and investments issued at variable interest rates expose ODC to cash flow interest rate risk.

ODC does not have any significant cashflow interest rate risk on financial liabilities or financial assets, as they do not have significant variable interest borrowings or investments, except for short-term bank deposits that are at floating rates.

### **Credit risk**

Credit risk is the risk that a third party will default on its obligation to ODC, causing ODC to incur a loss. ODC has no significant concentrations of credit risk, as it has a large number of credit customers, mainly ratepayers, and ODC has powers under the Local Government (Rating) Act 2002 to recover outstanding debts from ratepayers.

ODC has a credit risk related to the two financial guarantees given for loans taken by local community organisations. As at 30 June 2008 one of these loans, totalling \$42,000, had been repaid, with the guarantee remaining in effect for two years. The other loan, guaranteed for \$70,000, is not likely to be defaulted on.



## Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued

In the normal course of its business, ODC incurs credit risk from trade receivables. The extent of concentration of credit risk lies in trade receivables. This is explained in the table below.

Except as currently provided for, ODC does not expect the non performance in respect of any outstanding obligations at balance date.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses represents ODC's maximum exposure to credit risk without taking into account of any collateral obtained. No security is held on any of the above amounts.

ODC invests funds only in deposits with registered banks and local authority stock and its Treasury Management policy limits the amount of credit exposure to any one institution or organisation.

### *Maximum exposure to credit risk*

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

	Actual 2007	Actual 2008
Cash at bank and term deposits	981,595	1,272,173
Trade and other receivables	2,090,109	2,133,114
Community loans	2,139	-
Financial guarantees	112,000	112,000
<b>Total maximum credit exposure risk</b>	<b>3,185,843</b>	<b>3,517,287</b>



**Otorohanga District Council  
Notes to the Financial Statements for the year ended 30 June 2008 –  
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*Credit quality of financial assets*

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

	Actual 2007	Actual 2008
<b>COUNTERPARTIES WITH CREDIT RATINGS</b>		
<b>Cash at bank and term deposits</b>		
AA	981,595	1,272,173
<i>Total cash at bank and term deposits</i>	981,595	1,272,173
<b>COUNTERPARTIES WITHOUT CREDIT RATINGS</b>		
<b>Trade and other receivables</b>		
Existing counterparties with no defaults in the past	2,090,109	2,133,114
<b>Community loans</b>		
Existing counterparty with no defaults in the past	2,139	-
	2,092,248	2,133,114

Trade and other receivables mainly arise from ODC’s statutory functions, therefore there are no procedures in place to monitor or report the credit quality of trade and other receivables with reference to internal or external credit ratings. ODC has no significant concentrations of credit risk in relation to trade and other receivables, as it has a large number of credit customers, mainly ratepayers, and ODC has powers under the Local Government (rating) Act 2002 to recover outstanding debts from ratepayers.

**Liquidity risk**

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

ODC manages its borrowings in accordance with its funding and financial policies, which includes a Treasury Management policy. These policies have been adopted as part of the ODC’s Long Term Council Community Plan.



**Otorohanga District Council**  
**Notes to the Financial Statements for the year ended 30 June 2008 –**  
**continued**

ODC has a maximum amount that can be drawn down against its overdraft facility of \$200,000 (2007: \$200,000). There are no restrictions on the use of this facility.

*Contractual maturity analysis of financial liabilities*

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



**Otorohanga District Council  
Notes to the Financial Statements for the year ended 30 June 2008 –  
continued**

	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
2008						
Trade and other payables	2,157,863	2,157,863	2,157,863	-	-	-
Secured loans	13,551,029	15,006,349	4,761,614	7,947,970	1,849,152	447,613
Operating leases	161,496	161,496	48,929	48,929	63,638	-
Financial Guarantees	112,000	-	-	-	-	-

	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
2007						
Trade and other payables	2,563,127	2,563,127	2,563,127	-	-	-
Secured loans	13,405,784	15,444,738	2,221,427	5,076,994	7,981,317	165,000
Operating leases	162,856	162,856	44,557	43,455	74,844	-
Financial Guarantees	112,000	-	-	-	-	-

At the year end it was not probable that the counterparties to the financial guarantee contracts will claim under the contract. Consequently the amount included above is nil.

*Contractual maturity analysis of financial assets*

The table below analyses ODC's financial assets into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date.

	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
2008						
Cash and cash equivalents	1,272,173	1,272,173	1,272,173	-	-	-
Trade and other receivables	2,133,114	2,133,114	2,133,114	-	-	-
Other financial assets - community loans	-	-	-	-	-	-

	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5
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**Otorohanga District Council**  
**Notes to the Financial Statements for the year ended 30 June 2008 –**  
**continued**

						<b>years</b>
2007						
Cash and cash equivalents	981,595	981,595	981,595	-	-	-
Trade and other receivables	2,090,109	2,090,109	2,057,887	32,222	-	-
Other financial assets - community loans	2,139	2,139	2,139	-	-	-





## **Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued**

Cash and cash equivalents includes deposits on call totalling \$1,143,961 (2007 \$682,327) which are at floating rates. A movement in interest rates of plus or minus 1.0% has an effect on interest income of \$11,440 (2007: \$6,823)

### 2. Community loans

Council had no rural housing loans receivables at year end (2007 \$2,139), which are at a floating rate. A movement in interest rates of plus or minus 1.0% has an effect on interest income of nil (2007: \$21)

### 3. Secured loans

Council has floating rate debt with a principal amount totalling \$8,830 (2007: \$27,031). A movement in interest rates of plus or minus 1.0% has an effect on interest expense of \$88 (2007 \$270). A movement in market interest rates on fixed debts does not have any impact because secured loans are accounted for at amortised using the effective interest method.

### 4. Listed shares

ODC holds listed equity instrument in King Country Energy, which are publicly traded. If there was a movement of plus or minus 10% in the share price the effect would have an movement in the revaluation reserve of \$4,645 (2007: \$4,779).

## **31. Capital management**

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

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

The objective of managing these items is to achieve intergenerational equity, which is a principle promoted in the Act and applied by the Council. Intergenerational equity requires today's ratepayers to meet the costs of utilising the Council's assets and not expecting them to meet the full cost of long term assets that will benefit ratepayers in future generations. Additionally, the Council has in place asset management plans for major classes of assets detailing renewal and maintenance programmes, to ensure ratepayers in future generations are not required to meet the costs of deferred renewals and maintenance.



## **Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued**

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

ODC has the following restricted reserves:

- Subdivision reserve
- General funds reserve

Subdivision reserves, which are used to record financial contributions on subdivisions. These financial contributions are accepted in lieu of the developer creating a reserve, and the money is used by Council for work on reserves within the area.

General funds reserve, which is used for specific purposes that Council elects to use it for. Any use of money from this reserve has to be designated within the LTCCP or Annual Plan. This reserve is typically used for one-off non operational items.



## Otorohanga District Council Notes to the Financial Statements for the year ended 30 June 2008 – continued

### 32. Explanation of major variances against budget

Explanations for major variations from the Council estimate figures in the 2007-2008 Annual Plan are as follows:

#### Income Statement

Rates revenue is higher than estimates by \$139,245 due to the rates being struck on the values as at 1 July each year, which can differ from the values used when the estimates were created due to new subdivisions.

Other income has increased by \$1,097,335 over budget. This is due to vested assets of \$515,811, which were not budgeted for, as well as increases in both the LTNZ roading grants and the regulatory revenue, due to increased work performed.

Other gains/losses were \$397,757 over budget. This comprised of gains on sales of Westridge and Progress Park properties of \$398,751 offset by losses on disposal of assets of \$993. Given the nature of property sales and asset disposals the gains and losses were not estimated.

Other expenses are \$879,440 over budget, which is due to a number of factors. The main increase has been in the planning department, as a result of a number of staff changes and increased costs of legal and consultants. There have also been increased corporate planning costs associated with initial LTCCP work.

#### Balance Sheet

Development property held for sale is down on the budgeted figure by \$1,223,447. This is due to the Waiwera Street development not being completed during the year, which was budgeted for.

Property, plant and equipment is up on budget due to additional unbudgeted capital expenditure related to the Waiharakeke Bridge work.

Equity investments is down on the budget for other financial assets as a result of the prior period error with the valuation of the Waikato Regional Airport Limited.

Current borrowings is up on the estimate due to the timing of repaying of loans being underestimated. Overall borrowings are down on the total borrowings estimate by \$1,223,487, which is due to the loans for Waiwera Street not being raised, as well as less borrowings required during the year.

Trade and other payables is \$382,863 over budget, which is a result of the timing of works performed and payment of invoices.

Retained earnings is \$13,417,179 over budget, while the other reserves is down on budget by \$13,521,193. The net movement of \$104,014 is due to the proceeds of sales of properties during the year being transferred to the general funds reserve.

#### Statement of Cashflows



**Otorohanga District Council  
Notes to the Financial Statements for the year ended 30 June 2008 –  
continued**

Receipts from revenue and payments to suppliers are over budget due to the cashflows including GST, which has not been included in the budgeted figures. Overall operating activities is under budget by \$1,196,580, as a result of the payments to suppliers being over budget for the year.

Purchase of property, plant and equipment is under budget by \$1,648,372, which is in part attributable to the Waiwera Street development, with the rest related to underspending of \$500,000 in the Sundry District Reserves activity.