

# **FINANCIAL STATEMENTS**

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# **NOTES TO THE ACCOUNTS**



MASTERTON DISTRICT COUNCIL

**STATEMENT OF FINANCIAL POSITION as at 30 June 2011**

\$ 30 June 2010		Notes	\$ 30 June 2011	\$ Plan
<b>CURRENT ASSETS</b>				
4,260,479	Cash & cash equivalents	10	4,270,977	1,997,026
2,778,384	Other financial assets	11	4,237,157	1,850,000
180,112	Inventories	8	190,223	184,974
0	Derivative financial instruments	21	0	0
2,368,492	Debtors and other receivables	9	3,611,207	3,032,000
<u>9,587,467</u>	Total Current Assets		<u>12,309,564</u>	<u>7,064,000</u>
<b>NON-CURRENT ASSETS</b>				
85,450,326	Property, equipment & other assets	12,13	86,127,320	88,280,000
514,161,185	Infrastructural assets	12,13	591,313,058	575,242,000
5,014,263	Intangible assets	14	4,970,992	4,857,000
490,745	Forestry assets	15	864,706	550,000
1,574,800	Investment property	16	1,574,800	1,950,000
5,929	Derivative financial instruments	21	0	100,000
7,015,260	Other financial assets	11	9,578,054	4,900,000
<u>613,712,508</u>	Total Non-current Assets		<u>694,428,930</u>	<u>675,879,000</u>
<u><b>\$623,299,975</b></u>	<b>TOTAL ASSETS</b>		<u><b>\$706,738,494</b></u>	<u><b>\$682,943,000</b></u>
<b>CURRENT LIABILITIES</b>				
5,382,623	Creditors & other payables	20	7,558,487	4,906,174
44,264	Derivative financial instruments	21	51,899	0
631,410	Employee benefits	22	734,926	600,000
58,963	Provisions (current)	23	75,472	100,000
960,237	Financial liabilities - current portion	24	949,464	2,114,000
<u>7,077,497</u>	Total Current Liabilities		<u>9,370,248</u>	<u>7,720,174</u>
<b>NON-CURRENT LIABILITIES</b>				
17,279,637	Financial liabilities	24	25,830,042	40,885,000
787,299	Derivative financial instruments	21	1,659,487	300,000
95,340	Employee benefits	22	72,618	125,000
328,666	Provisions & other liabilities	23	308,289	385,000
<u>18,490,942</u>	Total Non-current Liabilities		<u>27,870,436</u>	<u>41,695,000</u>
<u><b>\$597,731,536</b></u>	<b>NET ASSETS</b>		<u><b>\$669,497,810</b></u>	<u><b>\$633,527,826</b></u>
<b>PUBLIC EQUITY</b>				
420,232,038	Retained earnings (ratepayers' equity)	25	424,501,697	429,875,826
161,752,341	Revaluation reserves	25	226,775,083	191,202,000
15,747,157	Special funds & restricted reserves	28	18,221,030	12,450,000
<u><b>\$597,731,536</b></u>	<b>TOTAL PUBLIC EQUITY</b>		<u><b>\$669,497,810</b></u>	<u><b>\$633,527,826</b></u>

*The accompanying notes form part of these financial statements.*



MASTERTON DISTRICT COUNCIL

<b>STATEMENT OF COMPREHENSIVE INCOME</b>				
<b>For the Year Ended 30 June 2011</b>				
\$ Actual 2009/10		Note	\$ Actual 2010/11	\$ Plan 2010/11
<b>INCOME</b>				
18,202,808	Rates Revenue	3	19,714,552	19,851,385
	Capital Rates & Subsidy			
0	- Riversdale Beach sewerage	3 & 4	4,874,201	4,201,520
9,550,088	Other Operating Revenue	4	10,220,011	10,979,055
692,817	Finance Income	5	997,448	695,000
330,484	Assets vested from subdivisions	4	0	0
285,071	Other Gains	4a	570,935	0
<u>29,061,268</u>	<b>Total Operating Revenue</b>		<u>36,377,147</u>	<u>35,726,960</u>
<b>EXPENDITURE</b>				
4,657,666	Personnel Costs	6	4,840,873	4,981,030
14,581,103	Other Expenses	7	15,753,049	16,548,822
992,265	Finance Costs	5,24	1,464,425	1,817,232
9,009,053	Depreciation & amortisation	12, 13, 14	9,038,911	8,516,050
773,014	Other Losses	4a	1,821,677	-
<u>30,013,102</u>	<b>Total Operating Expenditure</b>		<u>32,918,936</u>	<u>31,863,134</u>
(\$951,834)	<b>Surplus/(Deficit) before tax</b>		\$3,458,211	\$3,863,826
0	Income tax expense		0	0
<u>(\$951,834)</u>	<b>SURPLUS/(DEFICIT) AFTER TAX</b>		<u>\$ 3,458,211</u>	<u>\$3,863,826</u>
<b>Other Comprehensive Income (CI)</b>				
-	Gain on Infrastructure asset revaluations	12	65,526,209	29,443,000
-	Infrastructure assets inventory adjustments	12	2,845,741	-
(485,513)	Revaluation portion of asset disposals		-	-
	Change in value of financial assets at fair value through comprehensive income		(63,887)	-
59,956				
<u>(425,557)</u>			<u>68,308,063</u>	<u>29,443,000</u>
<u>(\$1,377,391)</u>	<b>TOTAL COMPREHENSIVE INCOME</b>		<u>\$ 71,766,274</u>	<u>\$33,306,826</u>

<b>STATEMENT OF CHANGES IN EQUITY</b>						
<b>For the Year Ended 30 June 2011</b>						
	\$ Revaluations (Note 25)	\$ Special Funds & Reserves (Note 28)	\$ Ratepayers' Equity (Note 25)	\$ Total 2010/11	\$ Plan 2010/11	\$ Total 2009/010
<b>Opening Balance</b>						
1 July 2010	161,752,341	15,747,157	420,232,038	<b>\$597,731,536</b>	600,221,000	\$599,108,927
Comprehensive Income for the year	65,526,209		6,240,065	<b>71,766,274</b>	33,306,826	(1,377,391)
Tsf disposals revaltns	(503,467)		503,467			
Transfers from Reserves		(3,397,805)	3,397,805	0		
Transfers to Reserves		2,793,360	(2,793,360)	0		
Tsf proceeds on sale of assets		180,914	(180,914)	0		
Tsf depreciation to reserves		2,897,404	(2,897,404)	0		
<b>Closing Balance</b>	<u>226,775,083</u>	<u>18,221,030</u>	<u>424,501,697</u>	<u>\$669,497,810</u>	<u>633,527,826</u>	<u>\$597,731,536</u>

The accompanying notes form part of these financial statements.



MASTERTON DISTRICT COUNCIL

**STATEMENT OF CASHFLOWS for the Year Ending 30 June 2011**

<b>Last Year</b>		<b>Actual</b>	<b>Plan</b>
<b>2009/10</b>	<b>Cash Flows from Operating Activities:</b>	<b>2010/11</b>	<b>2010/11</b>
	Cash was provided from:		
18,208,681	Rates (M.D.C. only)	19,647,248	19,946,385
-	Riversdale sewerage rates & subsidy	4,874,201	4,201,520
3,624,667	Subsidies and grants	3,173,573	4,684,000
698,460	Interest received	915,190	690,000
5,980	Dividends received	891	5,000
6,097,387	Other operating receipts	6,710,413	6,295,055
<u>28,635,175</u>		<u>35,321,516</u>	<u>35,821,960</u>
	Cash was applied to:		
(19,006,830)	Payments to suppliers and employees	(19,686,955)	(21,246,852)
(950,615)	Interest paid	(1,411,725)	(1,817,232)
(79,286)	Goods and services tax (paid)/received (net)	(245,929)	-
<u>(20,036,731)</u>		<u>(21,344,609)</u>	<u>(23,064,084)</u>
<b>8,598,444</b>	<b>Net Cash from Operating Activities</b>	<b>13,976,907</b>	<b>12,757,876</b>
	<b>Cash Flows from Investing Activities:</b>		
	Cash was provided from:		
106,380	Proceeds from sale of property, plant and equipment	49,957	65,000
	Proceeds from sale of investments	-	1,210,000
<u>106,380</u>		<u>49,957</u>	<u>1,275,000</u>
	Cash was applied to:		
(9,687,732)	Purchase of property, plant and equipment	(18,728,971)	(38,741,850)
(604,107)	Purchase of intangible assets	(300,857)	(200,000)
(1,608,841)	Acquisition of investments	(3,526,170)	-
<u>(11,900,680)</u>		<u>(22,555,998)</u>	<u>(38,941,850)</u>
<b>(11,794,300)</b>	<b>Net Cash from Investing Activities</b>	<b>(22,506,041)</b>	<b>(37,666,850)</b>
	<b>Cash Flows from Financing Activities:</b>		
	Cash was provided from:		
3,647,484	Proceeds from new financial liabilities	9,520,511	25,854,000
<u>3,647,484</u>		<u>9,520,511</u>	<u>25,854,000</u>
	Cash was applied to:		
(429,650)	Repayment of term liabilities	(946,351)	(763,000)
(29,274)	Repayment of finance lease liabilities	(34,528)	(35,000)
<u>(458,924)</u>		<u>(980,879)</u>	<u>(798,000)</u>
<b>3,188,560</b>	<b>Net Cash from Financing Activities</b>	<b>8,539,632</b>	<b>25,056,000</b>
<b>(\$7,296)</b>	<b>Net Increase/(Decrease) in Cash and cash equivalents</b>	<b>\$10,498</b>	<b>\$147,026</b>
4,267,775	Cash and cash equivalents at beginning of the year	4,260,479	1,850,000
<u><b>\$ 4,260,479</b></u>	<b>Cash and cash equivalents at the end of the year</b>	<u><b>\$ 4,270,977</b></u>	<u><b>\$ 1,997,026</b></u>

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

During the period, MDC acquired PPE (office equipment) totalling \$20,511 (2010: \$39,763) by means of finance leases.

*The accompanying notes form part of these financial statements.*

**MASTERTON DISTRICT COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Statement of Accounting Policies**  
**For the Year Ended 30 June 2011**

**Reporting Entity**

Masterton District Council ("MDC"/"the Council") is a Territorial Authority governed by the Local Government Act 2002. The Council was constituted on 1st November, 1989 pursuant to the Local Government (Wellington Region) Reorganisation Order 1989. The Council consists of a single operating entity with no subsidiaries or associates.

The primary objective of the Masterton District Council is to provide goods & services for the community or social benefit rather than making a financial return. Accordingly, MDC 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 MDC are for the year ended 30 June 2011. The financial statements were authorised for issue by the Council on 26<sup>th</sup> October 2011. The Council does not have the power to amend the financial statements after issue.

**Basis of Preparation**

**Statement of compliance**

The financial statements of MDC have been prepared in accordance with the requirements of the Local Government Act 2002: Part 6, Section 98 and Part 3 of Schedule 10, which includes the requirements 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.

**Measurement base**

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, infrastructural assets, investment property, forestry assets, library books and certain financial instruments (including derivative instruments). The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The financial statements are presented in New Zealand dollars. The functional currency of MDC is New Zealand dollars.

**Changes in accounting policies**

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

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

- NZ IFRS 7 *Financial Instruments: Disclosures* – The effect of early adopting these amendments is the following information is no longer disclosed:
  - the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated; and
  - the maximum exposure to credit risk by class of financial instrument if the maximum credit risk exposure is best represented by their carrying amount in the statement of financial position.
- NZ IAS 24 *Related Party Disclosures (Revised 2009)* replaces NZ IAS 24 *Related Party Disclosures (Issued 2004)*. The revised standard simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. The Council has elected to early adopt the revised standard and its effect has been to disclose further information about commitments between related parties.

**Standards, amendments and interpretations issued that are not yet effective and have not been early adopted.** Those that are relevant to the MDC include:

- NZ IFRS 9 *Financial Instruments* will eventually replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of the financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39. The new standard is required to be adopted for the year ended 30 June 2014. The Council has not yet assessed the effect of the new standard and expect it will not be early adopted.
- FRS-44 *New Zealand Additional Disclosures and Amendments to NZ IFRS to harmonise with IFRS and Australian Accounting Standards (Harmonisation Amendments)* – These were issued in May 2011 with the purpose of harmonising Australia and New Zealand’s accounting standards with source IFRS and to eliminate many of the differences between the accounting standards in each jurisdiction. The amendments must first be adopted for the year ended 30 June 2012. The MDC has not yet assessed the effects of FRS-44 and the Harmonisation Amendments.

## Significant Accounting Policies

### Revenue

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

- **Rates revenue**

Rates are set annually by resolution and according to the processes required under the Local Government Act 2002 and the LG (Rating) Act 2002 and they 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 payable. Rates collected on behalf of the Greater Wellington Regional Council (GWRC) are not recognised in the financial statements, as the Council is acting as an agent for GWRC.

- **Other revenue**

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

Parking and dog control infringements are recognised when infringement notices are issued.

MDC receives government grants from the New Zealand Transport Agency, which subsidises part of MDC’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.

Sales of goods and services are recognised when a product is sold to the customer. Sales are usually in cash or by credit account.

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

Interest income is recognised using the effective interest method.

Dividends are recognised when the right to receive payment has been established.

For Development and Financial Contributions the revenue recognition point is at the latter of the point when MDC is ready to provide the service for which the contribution was levied, or the event that will

give rise to a requirement for a development or financial contribution under the legislation. Development contributions are classified as part of "Other Revenue".

### **Construction contracts**

Contract costs are recognised as expenses by reference to the stage of completion of the contract at balance date. The stage of completion is measured by reference to the contract costs incurred up to balance date as a percentage of total estimated costs for each contract.

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

### **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 MDC 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 MDC's decision.

### **Income Tax**

Income tax expense in relation to the surplus or deficit for the period comprises current tax and deferred tax. Generally, MDC's structure and activities mean no income tax is applicable.

### **Leases**

#### **Finance leases**

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the commencement of the lease term, MDC recognises finance leases as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether MDC will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

#### **Operating leases**

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

### **Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less from date of acquisition, and bank overdrafts. Bank overdrafts (if any) are shown within borrowings in current liabilities in the Statement of Financial Position.

### **Debtors and other receivables**

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Loans, including loans to community organisations made by MDC at nil, or below-market interest rates are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar asset/investment. They are subsequently measured at amortised cost

using the effective interest method. The difference between the face value and present value of expected future cash flows of the loan is recognised in the balance sheet as a grant.

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

## **Inventories**

Inventories (such as spare parts and other items) held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at the lower of cost and current replacement cost. The cost of purchased inventory is determined using the FIFO method.

The write down from cost to current replacement cost or net realisable value is recognised in the surplus or deficit in the Statement of Comprehensive Income.

## **Financial assets**

MDC classifies its financial assets into one of the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and financial assets at fair value through comprehensive income. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

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

Purchases and sales of investments are recognised on trade-date, the date on which MDC 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 MDC has transferred substantially, all the risks and rewards of ownership.

The fair value of financial instruments, whether traded in active markets or not, is based on a market price valuation supplied by an investment advisor.

The four categories of financial assets are:

*Financial assets at fair value through surplus or deficit.* This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognised in the Statement of Comprehensive Income. Financial assets in this category include the investment funds managed by ING Ltd.

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

After initial recognition, they are measured at amortised cost using the effective interest method, less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit. There are no loans to community organizations made at nil or below-market interest rates. Loans and receivables are classified as "debtors and other receivables" in the Statement of Financial Position.

*Held to maturity investments* are assets with fixed or determinable payments and fixed maturities that MDC has the positive intention and ability to hold to maturity. After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the Statement of Comprehensive Income.

*Financial assets at fair value through other comprehensive income* are those that are not classified in any of the other categories above. They are included in non current assets unless council intends to dispose of the share investment within 12 months of balance date or if the debt instrument is not expected to be

realised within 12 months of balance date. This category encompasses: investments that MDC intends to hold long-term, but which may be realised before maturity; and shareholdings that MDC holds for strategic purposes. After initial recognition these investments are measured at their fair value. Gains and losses are recognised directly in other comprehensive income except for impairment losses, which are recognised in the surplus or deficit. In the event of impairment, any cumulative losses previously recognised in equity will be removed from equity and recognised in the surplus or deficit even though the asset has not been de-recognised. On de-recognition the cumulative gain or loss previously recognised in other comprehensive income is re-classified from equity to surplus or deficit.

### **Impairment of financial assets**

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

### **Accounting for derivative financial instruments and hedging activities**

MDC does use derivative financial instruments to manage exposure to interest rate risks arising from financing activities. In accordance with its treasury policy, MDC does not hold or issue derivative financial instruments for trading purposes.

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

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. MDC designates certain derivatives as either: hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or hedges of highly probable forecast transactions (cash flow hedge).

### **Non-current assets held for sale**

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the surplus or deficit. Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

### **Property, plant and equipment**

Property, plant and equipment consists 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 MDC 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 MDC. Each asset class includes all items that are required for the network to function, for example, sewer reticulation includes reticulation piping, manholes, sewer pump stations and a portion of the laterals to private properties.

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

#### **Additions**

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

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



materially different to fair value.

#### *Operational land and buildings*

At fair value as determined from market-based evidence by an independent valuer. The most recent valuation was performed by Darroch Valuations Ltd, and the valuation is effective as at 30 June 2009.

#### *Restricted land and buildings*

At fair value as determined from market-based evidence by an independent valuer. The most recent valuation was performed by Darroch Valuations Ltd, and the valuation is effective as at 30 June 2009.

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

At fair value determined on a depreciated replacement cost basis by an independent valuer. At balance date MDC assesses the carrying values of its infrastructural assets to ensure that they do not differ materially from the assets' fair values. If there is a material difference, then the off-cycle asset classes are revalued. The most recent valuation was performed by Opus International Consultants Ltd and the valuation is effective as at 30 June 2011. All infrastructural asset classes carried at valuation were revalued as below.

#### *Land under roads*

Land under roads was valued based on fair value of adjacent land determined by Opus International Consultants Ltd, effective 30 June 2003. Under NZ IFRS MDC has elected to use the fair value of land under roads as at 30 June 2003 as deemed cost. Land under roads is no longer revalued.

#### *Library collections*

At depreciated replacement cost in accordance with the guidelines released by the New Zealand Library Association and the National Library of NZ in May 2002. Library valuations are performed by the District Librarian and are not subject to an independent review because there are readily available market prices to determine fair value. The last valuation was performed in June 2011.

#### *Accounting for revaluations*

MDC 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 in other comprehensive income. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the surplus or deficit. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the surplus or deficit, will be recognised first in the surplus or deficit up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

## **Intangible assets**

#### *Software acquisition and development*

Acquired computer software licenses are capitalised as intangible assets on the basis of the costs incurred to acquire and use the specific software. Costs associated with maintaining computer software are recognised as an expense when incurred. MDC has not incurred any costs that are directly associated with the in-house development of software for use by MDC only. Software assets are depreciated, straight line, over 4 years.

#### *Resource consents*

MDC holds resource consents for many of its activities. Where the consent has a life beyond one year and the costs of obtaining the consents have been identified separately from the asset, the value of the consent is treated as an intangible asset and is amortised over its useful life. Costs associated with gaining a consent are included with the consent value e.g. engineering investigations, assessment of environmental effects, legal review, consent processing charges, hearings and appeals. The period over which the consent value is amortised over (straight line) is based on the life of the consent as granted by the Greater Wellington Regional Council (consent granted is for 25 years).

#### *Easements*

While MDC holds easements for only some of its assets, no comprehensive register is kept, no historical cost information is available and no attempt has been made to place a value on the easements held.

Because easements have an indefinite useful life and are not generally amortised, the lack of recognition of the value does not significantly affect the financial results of the Council.

### **Forestry assets**

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

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

### **Investment property**

MDC currently holds no properties solely to earn rentals. Any properties which are leased to third parties under operating leases are owned primarily to meet service delivery objectives. MDC does hold some properties for strategic purposes and hence is gaining capital appreciation.

The investment properties have been valued at fair value as determined annually by an independent valuer. Gains or losses arising from a change in the fair value of investment property are recognised in the surplus or deficit.

### **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 as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

The value in use for cash-generating assets is the present value of expected future cash flows. If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the surplus or deficit.

For assets not carried at a revalued amount, the total impairment loss is recognised in the surplus or deficit.

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 the surplus or deficit, a reversal of the impairment loss is also recognised in the surplus or deficit.

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

### **Employee entitlements**

#### *Short-term employee entitlements*

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

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

MDC 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 MDC anticipates it will be used by a portion of staff to cover those future absences.

MDC recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

#### *Long-term employee entitlements*

Retirement leave entitlements that are payable beyond 12 months, 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 7%, and an inflation factor of 2% were used. The discount rate is based on the weighted average of Government interest rates for stock with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.

#### *Superannuation schemes*

Defined contribution schemes: obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the surplus or deficits incurred.

Defined benefit schemes: MDC has five employees who belong to the Defined Benefit Plan Contributors Scheme (the scheme), which is managed by the Board of Trustees of the National Provident Fund. The scheme is a multi-employer defined benefit scheme. MDC's contributions to the scheme are based on the employees' annual earnings and the resulting contribution level calculated by the scheme managers. There is a very low level of variability of earnings of the five employees, hence predictability of scheme contributions is high and solely the responsibility of the scheme managers. MDC have no expectation that a future scheme deficit will result in any liability for future extra employer contributions.

## **Provisions**

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

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

#### *Financial guarantee contracts*

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

Financial guarantee contracts are initially recognised at fair value. If a financial guarantee contract was issued in a stand-alone arm's length transaction to an unrelated party, its fair value at inception is equal to the consideration received. When no consideration is received a provision is recognised based on the probability MDC will be required to reimburse a holder for a loss incurred, discounted to present value. The portion of the guarantee that remains unrecognised, prior to discounting to fair value, is disclosed as a contingent liability.

Financial guarantees are subsequently measured at the initial recognition amount less any amortisation, however if MDC assesses that it is probable that expenditure will be required to settle a guarantee, then the provision for the guarantee is measured at the present value of the future expenditure.

## **Borrowings**

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

Borrowings are classified as current liabilities unless Council have an unconditional right to defer settlement of the liability for at least 12 months after the balance date or if the borrowings are expected to be settled within 12 months.

## **Equity**

Equity is the community's interest in MDC 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
- Special funds & restricted reserves
- Asset revaluation reserves

### **Special funds and restricted reserves**

These are a component of equity representing a particular use to which various parts of equity have been assigned. Reserves may be legally restricted or created by MDC for a designated purpose.

Restricted reserves are those subject to specific conditions accepted as binding by MDC and which may not be revised by MDC 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 this category are reserves restricted by Council decision. The Council may alter them without reference to any third party or the Courts. Transfers to and from these reserves are at the discretion of the Council.

MDC's objectives, policies and processes for managing capital are described in Note 27.

Property revaluation reserve

This reserve relates to the revaluation of property, plant and equipment to fair value.

### **Good and Service 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 amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position. The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

### **Budget figures**

The budget figures are those approved by the Council at the beginning of the year in the Long Term Council Community Plan and/or Annual Plan. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by MDC for the preparation of the financial statements.

### **Cost allocation**

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

- Direct costs are those costs directly attributable to an 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 an allocation model that utilises cost drivers such as actual usage of support services, staff numbers and rates funding required.

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

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

#### *Landfill aftercare provision*

Note 23 discloses an analysis of the exposure of MDC in relation to the estimates and uncertainties surrounding the landfill aftercare provision.

#### *Infrastructural assets*

There are a number of assumptions and estimates used when performing DRC valuations of infrastructural assets. These include:

- the physical deterioration and condition of an asset, for example the Council could be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets which are not visible, for example stormwater, wastewater and water supply pipes that are underground. This risk is minimised by Council performing a combination of physical inspections and condition modelling assessments of underground assets;
- estimating any obsolescence or surplus capacity of an asset;
- 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 MDC could be over or under estimating the annual depreciation charge recognised as an expense in the surplus or deficit. To minimise this risk MDC'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 MDC's asset management planning activities, which gives MDC further assurance over its useful life estimates.

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

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

Management has exercised the following critical judgements in applying the MDC's accounting policies for the period ended 30 June 2011

#### *Classification of property*

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

MDC currently has partly-occupied land and buildings in its ownership that had previously been occupied by the Masterton Borough Council depot and gasworks. This land has been identified by MDC as surplus to requirements, but site contamination issues and previous ownership issues will require further work before it can realistically be regarded as a 'property intended for sale'. It remains listed within Property, Plant and Equipment, with its valuation discounted as a result of the site contamination.

#### *Urban Wastewater Resource Consent*

The Council has been working through the process of renewing its resource consent for its waste water treatment and disposal facility. Over the past 10 years, costs relating to the options analysis, consultation, concept design and resource consent application process, have been capitalised as intangible assets – recognising the one-off costs of gaining the consent. In May 2009 the Council was granted a consent, based on a proposed scheme, for 25 years. A review process was also required as a consent condition and the first review looking at irrigation disposal options took place during the last year. The capitalised costs of the consent have been assumed to be written off over the 25 year life of the consent.



<b>RATES REQUIREMENT SUMMARY</b>				
<b>2009/10 Actual</b>		<b>2010/11 Actual</b>	<b>2010/11 Plan</b>	<b>Variance</b>
	<b>Groups &amp; Activities</b>			
\$	<b>Transport</b>	\$	\$	\$
4,927,576	Roading	5,038,827	5,042,688	3,861
(42,296)	Parking	(37,867)	(38,741)	(874)
84,600	Airport	122,032	104,331	(17,701)
	<b>Water Services</b>			
2,079,807	Urban Water supply	2,274,289	2,271,307	(2,982)
60,104	Rural Water supplies & races	84,189	73,900	(10,289)
	<b>Waste Services</b>			
2,182,421	Urban Sewerage system	3,143,668	3,128,733	(14,935)
160,249	Rural Sewerage systems	3,156,590	2,810,400	(346,190)
285,370	Stormwater	322,063	323,029	966
1,221,930	Solid Waste Management	1,270,699	1,275,247	4,548
	<b>Community Facilities</b>			
1,501,851	Parks, Reserves & Sportsfields	1,607,159	1,568,468	(38,691)
987,770	Genesis Energy Recreation Centre	1,067,927	990,941	(76,986)
69,035	Cemeteries	53,842	59,456	5,614
246,260	District Building	256,821	277,855	21,034
442	Housing for Elderly	-	174	174
480,336	Other Property	475,169	540,746	65,577
	<b>Community Services</b>			
1,277,080	Library & Archive	1,335,649	1,329,131	(6,518)
358,724	Community Development	348,060	350,224	2,164
327,099	Arts & Culture	325,721	326,569	848
516,755	Economic Development & Promotior	532,000	556,661	24,661
	<b>Planning &amp; Regulatory Services</b>			
515,224	Resource Management & Planning	570,815	557,508	(13,307)
282,409	Environmental Health	262,477	272,079	9,602
229,780	Building Control	155,269	153,007	(2,262)
49,715	Bylaw Control/General Inspection	51,655	66,735	15,080
188,807	Rural Fire	165,940	172,346	6,406
9,543	Dog Control	10,670	10,004	(666)
151,391	Emergency Management	154,535	156,085	1,550
	<b>Governance</b>			
438,196	Representation	498,096	481,366	(16,730)
(35,009)	<b>Internal Functions</b>	(29,888)	(32,343)	(2,455)
18,555,170	<b>Total Rates Requirement</b>	23,216,408	22,827,905	(388,503)
	<b>Rates Income</b>			
<b>18,562,081</b>	Masterton District rates levied	<b>20,226,402</b>	20,146,385	80,017
	Riversdale Beach Sewerage capital contrib.	<b>3,074,201</b>	2,706,520	367,681
<b>159,647</b>	Rates penalties	<b>151,574</b>	150,000	1,574
<b>(127,383)</b>	Rates remissions	<b>(117,573)</b>	(120,000)	2,427
<b>(26,661)</b>	Discounts (on prompt payment)	<b>(102,978)</b>	(55,000)	(47,978)
<b>18,567,685</b>	<b>Rates Revenue (incl Council properties)</b>	<b>23,231,626</b>	<b>22,827,905</b>	<b>403,721</b>
<b>12,515</b>	<b>Net Rates Surplus/(Deficit)</b>	<b>15,218</b>	<b>0</b>	<b>15,218</b>

The figures above represent the net requirement for rates funding for each significant activity of the Council.

The figures include capital expenditure from rates, transfers to and from reserves and loan principal repayments funded from rates. Depreciation not funded into asset replacement reserves has been reversed before arriving at the net figures.



## Notes to the Accounts

## Note 3

<b>RATES REVENUE</b>		<i>Notes</i>	\$ Actual 2010/11	\$ Plan 2010/11	\$ Last Year 2009/10
	Gross MDC Rates Levied		20,226,402	20,146,385	18,562,081
<i>less</i>	Rates levied on Council properties		(454,234)	(270,000)	(373,985)
<i>plus</i>	Rates Penalties		151,574	150,000	159,647
<i>less</i>	Rates Remissions	<u>30</u>	(117,573)	(120,000)	(127,383)
<i>less</i>	Discounts on prompt payment		(91,617)	(55,000)	(17,552)
			19,714,552	19,851,385	18,202,808
	Riversdale Beach Sewerage capital contributions		3,074,201	2,706,520	-
	<b>Total Revenue From Rates</b>		<b>\$22,788,753</b>	<b>\$22,557,905</b>	<b>\$18,202,808</b>

## Notes to the Accounts

## Note 4

<b>OTHER REVENUE</b>		\$ Actual 2010/11	\$ Plan 2010/11	\$ Last Year 2009/10
	User charges	3,733,846	3,647,995	3,482,134
	Regulatory income	1,178,183	1,091,970	1,058,810
	Infringements and fines	65,393	70,000	61,181
	Dividend income	891	5,000	5,625
	Roading subsidies ex NZTA	3,658,121	4,550,500	3,624,864
	Other Government grants	322,659	213,340	209,346
	Local authority petrol tax	159,700	180,000	170,338
	Financial contributions (from developers)	501,364	502,000	379,262
	Other operating revenue	599,854	718,250	558,528
	Sub total	10,220,011	10,979,055	9,550,088
	MoH SWSS subsidy (Riversdale Beach Sewerage)	1,800,000	1,495,000	-
	Revenue recognised from vested assets	-	-	330,484
	<b>Total Other Revenue</b>	<b>\$12,020,011</b>	<b>\$12,474,055</b>	<b>\$9,880,572</b>

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

## Notes to the Accounts

## Note 4a

<b>OTHER GAINS/(LOSSES)</b>		\$ Actual 2010/11	\$ Plan 2010/11	\$ Last Year 2009/10
<b>Gains</b>				
	Forestry asset revaluation gain	373,961	-	110,209
	Property, plant and equipment gains on disposal	130,957	-	35,014
	Library books revaluation gain	-	-	10,152
	Total non-financial instrument gains	504,918	-	155,375
	Gain on valuation of financial assets (fair value thru surplus/deficit)	66,017	-	129,696
	<b>Total Gains</b>	<b>570,935</b>	<b>-</b>	<b>285,071</b>
<b>Losses</b>				
	Property, plant and equipment losses on disposal	(908,004)	-	(389,417)
	Library books revaluation loss	(27,921)	-	-
	Investment property revaluation losses	-	-	(17,400)
	Total non-financial instrument losses	(935,925)	-	(406,817)
	Loss on mark-to-market valuation of cash flow hedges *	(885,752)	-	(366,197)
	<b>Total Losses</b>	<b>(1,821,677)</b>	<b>-</b>	<b>(773,014)</b>

\* Interest rate swaps (or cash flow hedges) are disclosed in Note 21. Their change in value is required to be brought through the Surplus/Deficit as per NZ IAS 39.

## Notes to the Accounts

## Note 5

<b>FINANCE INCOME &amp; FINANCE COSTS</b>	<b>\$ Actual 2010/11</b>	<b>\$ Plan 2010/11</b>	<b>\$ Last Year 2009/10</b>
<b>Finance income</b>			
Interest Income on:			
- financial assets held/invested by MDC	627,719	335,000	300,390
- financial assets managed by ING (NZ) Ltd	369,729	360,000	392,427
<b>Total finance income</b>	<b>997,448</b>	<b>695,000</b>	<b>692,817</b>
<b>Finance costs</b>			
Interest expense:			
- on bank borrowings	1,082,442	1,382,232	584,588
- on debenture stock	349,045	400,000	375,155
- on finance leases	13,221	15,000	13,710
Discount unwind on provisions (Note 23)	19,717	20,000	18,812
<b>Total finance costs</b>	<b>1,464,425</b>	<b>1,817,232</b>	<b>992,265</b>
<b>Net Finance Costs/(Income)</b>	<b>\$466,977</b>	<b>\$1,122,232</b>	<b>\$299,448</b>

## Notes to the Accounts

## Note 6

<b>PERSONNEL COSTS</b>	<b>Actual 2010/11</b>	<b>Plan 2010/11</b>	<b>Last Year 2009/10</b>
Salaries & wages	4,527,401	4,726,700	4,355,615
Medical insurance (incl FBT)	106,619	105,730	99,726
Superannuation	142,233	148,600	140,247
Incr/(Decr) in employee benefits liability	64,620	-	62,078
<b>Total Personnel costs</b>	<b>\$4,840,873</b>	<b>\$4,981,030</b>	<b>\$4,657,666</b>

## Notes to the Accounts

## Note 7

<b>OTHER EXPENSES</b>	<b>Actual 2010/11</b>	<b>Plan 2010/11</b>	<b>Last Year 2009/10</b>
Fees to principal auditor			
Audit fees for annual report	93,137	92,000	89,445
Audit fees for LTCCP/projects	8,880	0	0
Donations	3,658	6,000	5,308
Grants - funding community development	396,763	434,880	336,881
Grants - funding arts & culture	298,289	291,500	292,835
Grants - funding economic development	401,464	592,300	445,740
ACC levies	38,979	36,240	34,950
Inventories (change in value)	(10,113)	-	(6,099)
Impairment of receivables	10,049	5,500	11,829
Election costs (net of recoveries)	38,533	50,000	12,615
Mayor & Councillors' honorariums	289,078	299,100	291,712
Civic entertainment costs	11,224	13,500	10,019
Ceremonies & presentations	4,221	5,300	5,002
Other operating expenses	14,168,887	14,722,502	13,050,866
<b>Total other expenses</b>	<b>\$15,753,049</b>	<b>\$16,548,822</b>	<b>\$14,581,103</b>

## Notes to the Accounts

## Note 7a

<b>COST OF SERVICE STMT RECONCILIATION - Note 2 to Other Notes</b>	<b>Actual 2010/11</b>	<b>Plan 2010/11</b>
<b>Revenue</b>		
Other Revenue (per Note 4)	12,020,011	12,474,055
Finance Income (per Note 5)	997,448	695,000
Total Operating Revenue (per Note 2)	<b>13,017,459</b>	<b>13,169,055</b>
<b>Expenditure</b>		
Personnel Costs (per Note 6)	4,840,873	4,981,030
Other Expenses (per Note 7)	15,753,049	16,548,822
Finance Costs (per Note 5)	1,464,425	1,817,232
Depreciation (per Notes 12,13,14)	9,038,913	8,516,050
Total Operating Expenditure (per Note 2)	<b>\$31,097,260</b>	<b>\$31,863,134</b>
Add back MDC rates on Council properties (net of discount)	442,873	270,000
<b>Net Operating Cost</b>	<b>\$18,522,674</b>	<b>\$18,964,079</b>

## Notes to the Accounts

Note 8

INVENTORIES		\$
30 June 2010		30 June 2011
87,948	Water & sewer reticulation spares	87,948
14,667	Street furniture & pavers	6,739
39,159	Water treatment chemicals	41,613
6,680	Rubbish bags & bins	20,958
12,281	Miscellaneous items	16,638
19,377	Pre-paid envelopes	16,327
<b>\$180,112</b>	<b>Total Stock</b>	<b>\$190,223</b>

No inventories are pledged as security for liabilities (2010 \$ nil). There are no inventories held for distribution.

## Notes to the Accounts

Note 9

DEBTORS & OTHER RECEIVABLES		\$
30 June 2010		30 June 2011
236,308	Rates receivables	313,287
865,344	Roading subsidies receivable	1,172,551
1,067,571	Sundry debtors & receivables	1,628,534
274	Related party receivables (Note 18)	7,845
240,138	GST receivable	513,495
0	Community loans	0
78,877	Prepayments	104,225
<b>2,488,512</b>		<b>3,739,937</b>
(120,020)	- less provision for doubtful debts	(128,730)
<b>\$2,368,492</b>	<b>Total Debtors &amp; Other Receivables</b>	<b>\$3,611,207</b>

*Fair Value*

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

*Impairment*

MDC provides only a nominal sum of \$4,000 for any impairment of rates receivable, as the Local Government (Rating) Act 2002 provides a range of powers to recover outstanding debts, including approaching mortgage holders and legal proceeding which can lead to sale of the property to recover the rate due. Ratepayers can apply for payment plan options to allow them to catchup, but the value of those debts is not considered significant enough to calculate discounted values.

The status of receivables as at 30 June 2010 and 2011 are detailed below:

30 June 2010		30 June 2011
2,043,294	Not past due	3,217,493
195,368	Past due 1-60 days	188,984
113,718	Past due 61-120 days	131,480
136,132	Past due > 120 days	201,979
<b>\$2,488,512</b>	<b>Total</b>	<b>\$3,739,937</b>

The impairment provision has been calculated based on potential losses from MDC's pool of debtors. Potential losses have been determined based on analysis of MDC's write-offs in previous periods and review of specific debtors.

30 June 2010		30 June 2011
27,180	Individual impairment	57,367
92,840	Collective impairment	71,363
<b>\$120,020</b>	<b>Total provision for impairment</b>	<b>\$128,730</b>

Individually impaired receivables have been determined to be impaired because of the doubt over the collectability of the debt. An analysis of the age of these debts is as follows:

30 June 2010		30 June 2011
0	Past due 1-60 days	0
0	Past due 61-120 days	0
27,180	Past due > 120 days	57,367
<b>\$27,180</b>	<b>Total individual impairment</b>	<b>\$57,367</b>

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

30 June 2010		30 June 2011
120,020	At 1 July	120,020
14,094	Additional provisions made during the year	38,866
(3,936)	Provisions reversed during the year	(30,156)
(124)	Receivables written off during the year	-
<b>\$120,020</b>	<b>As At 30 June</b>	<b>\$128,730</b>

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

**CASH & CASH EQUIVALENTS**

\$		\$	
30 June 2010		30 June 2011	
1,155,059	Cash at bank and in hand	770,977	
3,105,420	Short term deposits of 3 months or less (from acquisition)	3,500,000	
<b>\$4,260,479</b>	<b>Total cash and cash equivalents</b>	<b>\$4,270,977</b>	

The carrying value of cash at bank and term deposits with maturities less than three months approximate their fair value. The total value of cash and cash equivalents that can only be used for a specific purpose as outlined in the relevant Trust Deed is \$180,537.

**OTHER FINANCIAL ASSETS**

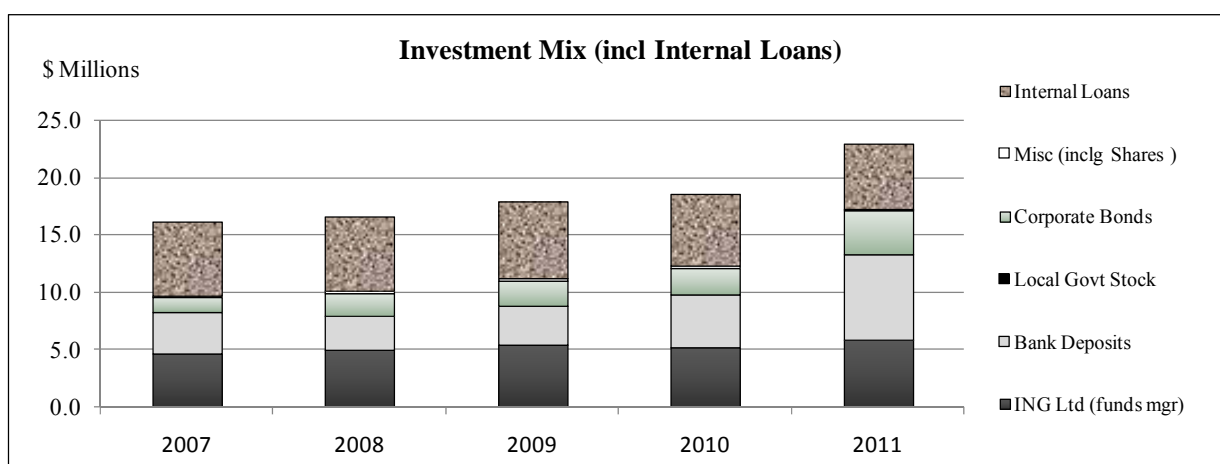
\$		\$	
30 June 2010	Current	Notes	30 June 2011
2,072,400	Short term deposits - maturities > 3 but less than 12 mths	*2	3,871,171
0	Corporate bonds	*4	251,159
705,984	Investments held by fund manager	*3	114,827
<b>\$2,778,384</b>	<b>Total Current Portion of Financial Assets</b>		<b>\$4,237,157</b>
<b>Non-current</b>			
198,772	Shares (NZLGIC & Airtel)	*1	117,480
2,258,790	Corporate bonds	*4	3,596,430
4,557,698	Investments held by fund manager	*3	5,864,144
<b>\$7,015,260</b>	<b>Total Non-Current Portion of Financial Assets</b>		<b>\$9,578,054</b>
<b>\$9,793,644</b>	<b>Total Other Financial Assets</b>		<b>\$13,815,211</b>
<b>Internal loans/investments</b>			
\$6,244,590	Internal Loans/Investments	*5	\$5,645,510
<b>\$20,298,713</b>	<b>Total Funds On Hand or Invested (including Cash &amp; Internal)</b>		<b>\$23,731,698</b>

**Notes:**

**Fair value:** the carrying amount of term deposits approximates their fair value.

**Impairment:** There are no impairment provisions for Other Financial Assets. None of the financial assets are either past due or impaired.

- \*1 Shares are valued as 'fair value through comprehensive income' and consist of:  
57,615 New Zealand Local Government Insurance Corporation Ltd fully paid ordinary \$1.00 shares valued at \$ 1.60 each and 18,600 Airtel Ltd shares valued at \$1.36 each. NZLGIC shares have been written down by \$1.44 per share based on their interim accounts at 30 June 2011. The \$82,966 write down reflects the impact of the Canterbury earthquakes on the business.
- \*2 Bank deposits have maturity dates which range from 1 to 12 months. The deposits are spread across a range of financial institutions, as per the Council's investment policy and are valued as 'held to maturity'.
- \*3 OnePath (formerly ING (NZ) Ltd) have been contracted to manage a portion of the Council's investments. All investments managed by OnePath are valued as 'fair value through surplus/deficit'.
- \*4 Corporate bonds held directly by the Council are valued as 'fair value through comprehensive income'.
- \*5 The Council has continued to utilise a level of internal loans/investment to fund capital projects.
- \*6 Weighted average interest being earned on investments at the 30 June 2011 was 5.16% (last year 5.05%)



## Notes to the Accounts

Note 12

**PROPERTY PLANT & EQUIPMENT****2011**

	Original Cost/ Valuation 30-Jun-10	Accum. Depreciation 30-Jun-10	Carrying Amount 30-Jun-10	Current Year Additions	Current Year Disposals *1	Current Year Transfers/ Adjustments *2	Current Year Depreciation	Current Year Revaluation	Original Cost/ Valuation 30-Jun-11	Accum. Depreciation 30-Jun-11	Carrying Amount 30-Jun-11
<b>Operational Assets</b>											
Land	50,410,580	-	50,410,580	10,000					50,420,580	-	50,420,580
Buildings	34,445,729	(1,428,797)	33,016,932	1,890,290	(299,853)	20,507	(1,453,100)	-	36,018,363	(2,843,587)	33,174,776
Plant & vehicles	2,175,412	(1,434,487)	740,925	196,695	(6,501)		(149,037)		2,213,331	(1,431,249)	782,082
Equipment & furniture	3,295,368	(2,662,158)	633,210	315,061	(1,597)		(214,319)		3,408,355	(2,676,000)	732,355
Office equip (finance lease)	181,816	(64,477)	117,339	20,511	-		(36,924)		202,327	(101,401)	100,926
Library books	2,451,687	(1,947,377)	504,310	149,376	(22,758)		(140,975)	(27,921)	2,527,626	(2,065,594)	462,032
Work in progress	27,016	-	27,016	448,060		(20,507)			454,569	-	454,569
<b>Total operational assets</b>	<b>92,987,608</b>	<b>(7,537,296)</b>	<b>85,450,312</b>	<b>3,029,993</b>	<b>(330,709)</b>	<b>-</b>	<b>(1,994,355)</b>	<b>(27,921)</b>	<b>95,245,151</b>	<b>(9,117,831)</b>	<b>86,127,320</b>
<b>Infrastructural Assets</b>											
Land (under roads)	84,955,923	-	84,955,923	-	-		-	77	84,956,000	-	84,956,000
Roading network	359,751,745	(9,154,304)	350,597,441	2,994,652	(68,866)	9,194	(4,378,777)	59,153,356	408,307,000	-	408,307,000
Urban water supply	30,694,148	(1,710,175)	28,983,973	464,551	(252,666)	1,760,245	(883,415)	4,512,312	34,585,000	-	34,585,000
Urban sewerage	25,661,646	(1,946,284)	23,715,362	1,540,521	(325,971)	3,015,547	(1,042,653)	809,197	27,712,003	-	27,712,003
Stormwater assets	12,219,564	(451,556)	11,768,008	125,974	(10,318)		(227,609)	132,945	11,789,000	-	11,789,000
Other infrastructure	9,191,492	(289,775)	8,901,717	3,669,374	-	2,930,006	(224,580)	914,482	16,190,999	-	16,190,999
Work in progress	5,288,624	(49,863)	5,238,761	7,399,706		(4,869,251)	-	3,840	7,773,056	-	7,773,056
<b>Total infrastructural assets</b>	<b>527,763,142</b>	<b>(13,601,957)</b>	<b>514,161,185</b>	<b>16,194,778</b>	<b>(657,821)</b>	<b>2,845,741</b>	<b>(6,757,034)</b>	<b>65,526,209</b>	<b>591,313,058</b>	<b>-</b>	<b>591,313,058</b>
<b>Total Property, Plant &amp; Equipment</b>	<b>\$ 620,750,750</b>	<b>(\$21,139,253)</b>	<b>\$ 599,611,497</b>	<b>\$ 19,224,771</b>	<b>(\$988,530)</b>	<b>\$ 2,845,741</b>	<b>(\$8,751,389)</b>	<b>\$ 65,498,288</b>	<b>\$ 686,558,209</b>	<b>(\$9,117,831)</b>	<b>\$ 677,440,378</b>

There are no restrictions over the title of MDC's Plant, Property and Equipment assets, nor are any assets pledged as security for liabilities.

Notes: Land and buildings were revalued as at 30 June 2009, the valuation undertaken by Darroch Valuations, registered valuers.

Library books are valued at depreciated replacement cost annually by the District Librarian.

Infrastructural assets (at fair value determined on an Optimised Depreciated Replacement Cost) were revalued as at 30 June 2011 by Opus International Consultants Ltd.

Land under roads was valued effective June 2003. On transition to NZ IFRS MDC elected to use fair value of land under roads as at 30 June 2003 as deemed cost and are no longer revalued..

The opening original cost & accumulated depreciation on Equipment & Furniture has decreased due to some fully depreciated software assets being shifted to intangibles.

The net difference in the opening carrying amount from 2010 is a decrease of \$15.

\*1 Disposals are reported net of accumulated depreciation.

\*2 In the Transfers & Adjustments column \$20,507 was transferred out of work in progress in the operational area and back to buildings for the landfill recycling building now completed.

Under infrastructural assets \$4,869,251 was transferred out of WIP for completed works. During the year, a reconciliation was carried out between valuation inventory and the pipe database.

This identified \$1,476,907 worth of water pipes & \$1,368,834 of sewer pipes, not previously valued. This total of \$2,845,741 shows on the statement of comprehensive income as infrastructural assets inventory adjustments.

## Notes to the Accounts

Note 13

**PROPERTY PLANT & EQUIPMENT**

<b>2010</b>	Original Cost/ Valuation 30-Jun-09	Accum. Depreciation 30-Jun-09	Carrying Amount 30-Jun-09	Current Year Additions	Current Year Disposals *1	Current Year Transfers/ Adjustments *2	Current Year Depreciation	Current Year Revaluation	Original Cost/ Valuation 30-Jun-10	Accum. Depreciation 30-Jun-10	Carrying Amount 30-Jun-10
<b>Operational Assets</b>											
Land	49,553,000	-	49,553,000	515,906	(33,326)	375,000			50,410,580	-	50,410,580
Buildings	34,063,472	-	34,063,472	381,948	(5,874)	6,707	(1,429,322)	-	34,445,729	(1,428,797)	33,016,932
Plant & vehicles	2,033,919	(1,327,232)	706,687	171,455	(3,140)		(134,077)		2,175,412	(1,434,487)	740,925
Equipment & furniture	3,192,259	(2,550,622)	641,637	200,329	(689)		(208,052)		3,354,567	(2,721,342)	633,225
Office equip. (finance lease)	183,951	(61,421)	122,530	39,765	(7,503)		(37,453)		181,816	(64,477)	117,339
Library books	2,333,679	(1,831,177)	502,502	134,175	(13,159)		(129,360)	10,152	2,451,687	(1,947,377)	504,310
Work in progress	20,923	-	20,923	12,800		(6,707)			27,016	-	27,016
<b>Total operational assets</b>	<b>91,381,203</b>	<b>(5,770,452)</b>	<b>85,610,751</b>	<b>1,456,378</b>	<b>(63,690)</b>	<b>375,000</b>	<b>(1,938,264)</b>	<b>10,152</b>	<b>93,046,807</b>	<b>(7,596,480)</b>	<b>85,450,327</b>
<b>Infrastructural Assets</b>											
Land (under roads)	84,874,707	-	84,874,707	81,216	-		-		84,955,923	-	84,955,923
Roading network	356,008,986	(4,635,785)	351,373,201	3,861,776	(119,017)		(4,518,519)		359,751,745	(9,154,304)	350,597,441
Urban water supply	30,504,558	(855,203)	29,649,355	540,118	(350,528)		(854,972)		30,694,148	(1,710,175)	28,983,973
Urban sewerage	25,285,461	(980,659)	24,304,802	711,251	(394,762)	57,193	(963,122)		25,661,646	(1,946,284)	23,715,362
Stormwater assets	12,175,407	(225,089)	11,950,318	44,157	-		(226,467)		12,219,564	(451,556)	11,768,008
Other infrastructure	8,865,931	(134,616)	8,731,315	219,416	(10,208)	115,172	(153,978)		9,191,492	(289,775)	8,901,717
Work in progress	2,058,916	(25,306)	2,033,610	3,780,756		(547,365)	(28,240)		5,288,624	(49,863)	5,238,761
<b>Total infrastructural assets</b>	<b>519,773,966</b>	<b>(6,856,658)</b>	<b>512,917,308</b>	<b>9,238,690</b>	<b>(874,515)</b>	<b>(375,000)</b>	<b>(6,745,298)</b>	<b>-</b>	<b>527,763,142</b>	<b>(13,601,957)</b>	<b>514,161,185</b>
<b>Total Property, Plant &amp; Equipment</b>	<b>\$ 611,155,169</b>	<b>(\$12,627,110)</b>	<b>\$ 598,528,059</b>	<b>\$ 10,695,068</b>	<b>(\$938,205)</b>	<b>\$ 0</b>	<b>(\$8,683,562)</b>	<b>\$ 10,152</b>	<b>\$ 620,809,949</b>	<b>(\$21,198,437)</b>	<b>\$ 599,611,512</b>

There are no restrictions over the title of MDC's Plant, Property and Equipment assets, nor are any assets pledged as security for liabilities.

Notes: Land and buildings were revalued as at 30 June 2009, the valuation undertaken by Darroch Valuations, registered valuers.

Library books are valued at depreciated replacement cost annually by the District Librarian.

Infrastructural assets (at fair value determined on an Optimised Depreciated Replacement Cost) were revalued as at 30 June 2008 by Opus International Consultants Ltd.

Land under roads was valued effective June 2003. On transition to NZ IFRS MDC elected to use fair value of land under roads as at 30 June 2003 as deemed cost.

Land under roads is no longer revalued, except for adjustments for inventory changes.

\*1 Disposals are reported net of accumulated depreciation.

\*2 In the Transfers & Adjustments column the \$375,000 under land is due to a transfer of Riversdale Sewerage land formerly carried under Infrastructural work in progress.

\$6,707 was also transferred back from WIP to buildings. Under Infrastructural WIP, in addition to the \$375,000, another \$172,365 was transferred out of WIP; \$57193 to completed urban sewerage works & \$115,172 to Castlepoint Seawall.

## Notes to the Accounts

## Note 14

INTANGIBLE ASSETS	\$		\$	\$		\$
	2010	2010		2011	2011	
	Computer Software	Resource Consents	2010 Total	Computer Software	Resource Consents	2011 Total
Opening Original Cost	677,518	5,520,202	6,197,720	767,247	6,102,113	6,869,360
Opening Accum. Amortisation	(542,474)	(927,932)	(1,470,406)	(648,895)	(1,206,187)	(1,855,082)
Carrying Amount (start of year)	135,044	4,592,270	4,727,314	118,352	4,895,926	5,014,278
Additions	30,529	581,911	612,440	20,718	223,524	244,242
Disposals (net BV)	-	-	-	-	-	-
Amortisation Change	(47,236)	(278,255)	(325,491)	(50,794)	(236,734)	(287,527)
Closing Original Cost	708,047	6,102,113	6,810,160	787,965	6,325,637	7,113,602
Closing Accum. Amortisation	(589,710)	(1,206,187)	(1,795,897)	(699,689)	(1,442,921)	(2,142,610)
Carrying Amount (end of year)	118,337	4,895,926	\$ 5,014,263	88,276	4,882,716	\$ 4,970,992

There are no restrictions over the title of MDC's Intangible assets, nor are any assets pledged as security for liabilities.

Computer software is amortised over the assessed useful life of 4 years.

Resource consents are amortised over the number of years for which each consent has been granted. Those consents which have yet to be granted by GWRC are amortised over the number of years for which the consent has been applied for. In the case of the Homebush sewage treatment and disposal consent, the Council has received a 25 year consent.

The Council does hold easements over some of its assets where they affect private property, but the incomplete nature of the easement coverage means little reliance could be placed on the valuation of easements, hence no disclosure has been made as part of these financial statements.

The opening original cost & accumulated depreciation on Computer Software has increased due to some fully depreciated software assets being shifted from Equipment & Furniture. The net difference in the opening carrying amount from 2010 is a increase of \$15.

## Notes to the Accounts

## Note 15

FORESTRY ASSETS	Actual 2011	Actual 2010
Opening balance 1 July	490,745	380,536
Gains/(losses) arising from changes in fair value	373,961	110,209
Decreases due to harvest	-	-
Balance at 30 June	\$ 864,706	\$ 490,745

The Council's investments in forestry total some 74 has and are spread across the district in relatively small areas of planting. These areas have generally been planted for one of two reasons: firstly, the desire to best utilise what would otherwise be unproductive land and secondly for stabilisation of roadsides. Currently 29 separate blocks are recognised, measured and valued. The largest two blocks, Kaituna & Blairlogie, are 16 and 11.7 ha respectively and were both planted in the mid 1980's and make up 59% of the value of the asset. Roadside and other blocks vary from 0.3 ha to 9.5 ha.

Roadside blocks are primarily planted for road asset protection and where a negative value is identified because of costs associated with removal of the trees, a zero value has been assumed as no loss or liability is currently relevant.

No blocks were harvested during the year.

Independent registered valuers PF Olsen Ltd (Mr Colin Hercus) have valued the forestry assets as at 30 June 2011, in accordance with NZ IAS 41. A pre-tax discount rate of 7% has been used to discount the present value of expected cash flows.

## Notes to the Accounts

## Note 16

INVESTMENT PROPERTY	Actual 2011	Actual 2010
Opening balance 1 July	1,574,800	1,695,200
Additions from acquisitions	-	-
Disposals	-	(103,000)
Fair value gains/(losses) on valuation	-	(17,400)
Balance at 30 June	\$ 1,574,800	\$ 1,574,800

MDC's investment properties are valued at fair value effective 30 June 2011. All investment properties were valued on open market evidence. The valuation was performed by Kerry Stewart FNZIV, an independent valuer from Darroch Valuations.

CAPITAL EXPENDITURE SUMMARY Significant Activity / Project		2010/11 Plan	2010/11 Actual	Source of Funding		
				Rates	Reserves	Other
<b>Transport</b>						
	<i>(Renewal/New)</i>					
Roading	Subsidised roading renewals - rural	R 2,682,000	2,313,002	1,024,809		1,288,193 *2
	Subsidised roading renewals - urban	R 962,100	649,670	274,249		375,421 *2
	Subsidised bridge renewals	R 600,000				
	Urban footpath renewals	R 225,000	45,323	45,323		
	CBD footpath resurfacing project	R 331,000				
	Car park seal renewals	R 18,100				
	Solway Cres reconstruction	N	52,375		52,375	
Airport	Airport runway reseal	R 390,000				
	Airport services extension	N	126,031		126,031	
Parking	Parking meter replacements (c/fwd)	R 300,000				
<b>Water Services</b>						
Urban Water	Water treatment plant equip renewal	R 75,000	119,683		119,683	
	Water treatment buildings & grounds	R 10,000	15,316		15,316	
	Water tmt filter refurbishment	R 985,000	22,076			22,076 *1
	Water connections renewals	R 207,000	265,777		252,986	12,791 *3
	Water retic - mains, trunks & reservoirs	R 785,000	363,715		363,715	
	Clear water tank retaining wall	R -	51,832			51,832 *1
Rural Water	Rural water supplies - Wainuioru	R 57,000	5,223		5,223	
	Rural water races -Te Ore Ore & Opaki	R -	12,450		12,450	
<b>Waste Services</b>						
Urban Sewerage	Homebush sewerage plant upgrade	N 19,820,000	6,285,350			6,285,350 *1&3
	Sewerage reticulation renewals	R 1,865,000	1,413,054		485,442	927,612 *1&3
Rural Sewerage	Riversdale sewerage scheme	N 5,020,000	4,036,043	2,236,043		1,800,000 *3
	Tinui sewerage upgrade	R -	49,579	28,600		20,979 *1
Solid Waste	Urban transfer station upgrades	R -	118,652		13,345	105,307 *1
	Recycling facilities (budget combined)	N 1,080,000	1,232,365			1,175,765 *1
						56,600 *3
Stormwater	Stormwater - renewals	R 300,000	125,974		125,974	
	Stormwater - catchment project	N 30,000	-			
<b>Community Facilities</b>						
Parks & Reserves	Q. E. Park renewal programme	R 185,000	70,139		70,139	
	Recreation trails project	N 40,000	-			
	Henley Lake upgrade projects	N 50,000	17,515		17,515	
	Street tree strategy	N 15,000	5,496		5,496	
	Robinson Park land acquisition	R -	10,000		10,000	
	Urban & rural reserves upgrades	R 15,000	12,653		12,653	
Rural Reserves	Castlepoint - seawall stage II	N 260,000	200,102			200,102 *1&3
Sportsfields	Sportsfields - buildings upgrades	R 20,000	43,625		43,625	
Cemeteries		N -	-			
GE Rec Centre	Genesis Energy Recreation Centre	R 26,000	149,806		93,561	56,245 *1&3
District Building	District bldg upgrades & equip	R 77,700	27,625		27,625	
	District bldg - office alterations	N 180,400	51,483			51,483 *1
	District bldg - town hall stage equip	R 125,000	-			
Elderly	Pensioner housing upgrades	R 97,000	45,611		45,611	
Other Property	Public toilets (24 hour) - replacement	R 157,000	-			
	Public conveniences - Riversdale sewer	N 63,600	75,610			75,610 *1
	Public conveniences - Riversdale (new)	N 150,000	-			
	Public conveniences - other	R 15,500	7,487		7,487	
	Mawley Park facility upgrades	R 1,200,000	924,390		150,000	774,390 *1
	Rental & other property upgrades	R 37,200	77,598		77,598	
	Rural Hall upgrades	R 31,000	32,174		28,525	3,648 *3
	sub totals to carry forward to next page	<b>38,487,600</b>	<b>19,054,804</b>	<b>3,609,024</b>	<b>2,162,376</b>	<b>13,283,404</b>

CAPITAL EXPENDITURE SUMMARY Significant Activity / Project		2010/11 Plan	2010/11 Actual	Source of Funding			
				Rates	Reserves	Other	
sub totals carried forward		<b>38,487,600</b>	<b>19,054,804</b>	3,609,024	2,162,376	13,283,404	
<b>Community Services</b>							
Library	Library book purchases	R	135,700	149,376	149,376		
	Computer & equipment upgrades	R	32,000	22,045	22,045		
	Library building & furniture upgrades	R	20,000	12,064	12,064		
Economic Devlpm	CBD security cameras	R	-	2,380	2,380		
	CBD under verandah lighting	R	-	14,693	14,693		
<b>Planning &amp; Regulatory Services</b>							
Inspectorate	Council vehicle fleet replacements	R	88,000	65,551	65,551		
	Environmental Health testing equip	R	7,250	3,559	3,559		
Civil Defence	Emergency mgmt equip. & software	N	3,100	11,216		11,216 *3	
Dog Control	Dog Control Services Upgrade	R	-	6,949	6,949		
Rural Fire	Rural fire capital upgrades	R	6,200	14,873	8,244	6,629 *3	
<b>Corporate Services/Internal Functions</b>							
	Computer and office equip upgrades	R	82,000	87,152	87,152		
	Engineers traffic counting equipment	R	-	3,839	3,839		
	Records management system	N	80,000	-			
<b>Total Capital Expenditure</b>			<b>\$ 38,941,850</b>	<b>\$ 19,448,501</b>	\$ 3,609,024	\$ 2,538,229	\$ 13,301,248
*1 External loan funding totals \$9,631,749, Internal loan funding totals \$0 (\$54,245 Rec Centre against last years EECA Loan)							
*2 NZ Transport Agency subsidies on roading capital and renewals expenditure totals \$1,663,614							
*3 External grants & contributions towards asset purchases \$2,005,886 (including \$1.8m Riversdale Beach sewerage subsidy)							
*4 Vested assets from subdivision include Roading \$0; Water \$0; Sewer & Stormwater \$0							
<b>Capital Expenditure Analysis</b>							
			<b>Plan</b>	<b>Actual</b>			
	Asset Renewals		12,149,750	7,303,084			
	New Asset Expenditure		26,792,100	12,145,417			
	Vested Assets		-	-			
			<b>\$ 38,941,850</b>	<b>\$ 19,448,501</b>			

**REPORT ON CAPITAL EXPENDITURE VARIANCES****Transport -**

Both the rural and urban road renewals were underspent due to the reseal programme not going ahead. The extension of asset life of the seal component has meant the Council could defer this component of work. Black Swamp bridge renewal did not proceed to construction as further design options were considered. Urban and CBD footpath resurfacing work was deferred until the broadband work programme is known. The parking meter upgrade was also held up, to be done in conjunction with the CBD footpaths. Solway Crescent upgrading was allowed for in 2009/10, while only design work was done this year. The airport runway reseal work has been deferred until 2011/12. The QE Park footbridge work was scheduled in 2009/10.

**Water Services -**

The scheduled water treatment plant filter refurbishment did not proceed, but further investigations into options was done. Water main renewals were progressed, but trunk main replacement work was not done.

**Waste Services -**

Delays to the start of the urban sewerage treatment plant project occurred as Council considered alternative disposal options as part of the resource consent requirements, while additional undercut and strengthening of the new pond walls was needed and contributed to slower progress than anticipated in the Plan. The delays meant the full summer construction season could not be utilised fully. Sewer mains renewal work continued through 2010/11, with some \$320,000 worth of work 'in progress' at year end. Riversdale Beach sewerage system made very good progress through the year but still had the oxidation ponds to finish at year end. The new recycling facility at Nursery Road was completed during the year, with costs going slightly over budget due to additional features being added to the project.

**Community Facilities -**

Replacing the QE Park 24 hour toilets was deferred by the Council, as the best location for the replacement was investigated. Energy efficiency measures were installed at the Recreation centre, allowed for in the prior year and the water heating plant required renewal work. The District Building office space alterations was partly completed with a more scaled back option than the plan allowed for. Town Hall stage equipment renewals was deferred, awaiting more detailed reporting. New public toilets at Riverdale Beach domain were not progressed as the sewerage system was not available. The upgrade of Mawley Park was underway, but not completed at year end.

**Regulatory Services -**

A Civil Defence tsunami warning system, largely funded by central Government, was the variance to Plan.

**Internal Functions -**

The installation of an electronic records management system did not progress during the year.

**RELATED PARTY TRANSACTIONS**

During the year Councillors and staff of the Council were involved in minor transactions with the Council (such as payment of rates, trade waste charges and building consents). In addition, during the year the Council had dealings with the organisations listed below where there is a direct relationship between a Councillor or staff member and the named organisation.

- \* Mayor G.E. Daniell was a shareholder in a group of companies which trades as Masterton Mitre 10 and is the owner of Wairarapa Concrete Ltd. These companies are suppliers of goods to the Council.
- \* Mayor G.E. Daniell and Cr C. Petersen were elected members of the Masterton Trust Lands Trust (M.T.L.T.) which is both a supplier to the Council and a provider of grants funding.
- \* Cr L. Patterson is the Council appointee and chair of the Workforce Development Trust which received a grant.
- \* Cr J. Hooker is a trustee of Wairarapa All Weather Track Trust and Workforce Development Trust, which received grants from the Council. He also provided services as a civil defence controller via Synergy Consultants Ltd.
- \* Cr J. Hooker and Mr D. Paris (Manager Finance) are members of the Wairarapa Balloon Society Inc. which received a grant from the Council.
- \* Cr G. McClymont is the owner of GT Environmental Services Ltd and GTG Ltd t/a Deco Precasters, to which the Council both receives & supplies services.
- \* Mrs J. Gerritsen was a trustee of the Wairarapa Community Councillings Centre which received Council grants.
- \* Ex Cr E. Perry was the Chairperson of Nga Kanohi Marae O Wairarapa Inc until 18th June 2010.

Significant transactions and balances outstanding are as follows:	\$ 2010/11	\$ 2009/10
Value of goods supplied by Mstn.Mitre 10	10,429	14,512
Value of goods supplied by Wai. Concrete Ltd.		329
Value of services supplied to Masterton Mitre 10 (landfill charges)	1,342	4,748
Value of services supplied to Wairarapa Concrete (landfill charges)	167	
Council owes / is owed by Masterton Mitre 10 Ltd at year end	515 / 121	736 / 274
Value of goods & services supplied by M.T.L.T.	3,318	3,318
Value of grants income received by Council from M.T.L.T.	71,000	79,800
Council is owed from M.T.L.T at year end	55,000	55,000
Value of services supplied by GT Environmental Services Ltd and GTG Ltd.	5,470	0
Value of services supplied to GT Environmental Services Ltd (landfill charges)	77,000	68,594
Council owes / is owed by GT Environmental Services Ltd at year end	0 / 7724	0 / 5324
Grant given to the Wairarapa Workforce Development Trust	2,000	2,000
Payments to Synergy Consultants Ltd (as CD controller)	293	2,922
Payments to Synergy Consultants Ltd (event management)	6,000	4,400
Grant given by the Council to Wairarapa Balloon Society Inc.	10,000	12,000
Council is owed from Wairarapa Balloon Society at year end	0	2,177
Grants given to the Wairarapa Community Counselling Centre	2,000	1,500
Grants & project payments to Nga Kanohi Marae O Wairarapa Inc (pre June 2010)	0	8,500

Transactions with key management personnel	\$ 2010/11	\$ 2009/10
Salaries & performance payments	880,979	868,252
Other benefits (professional fees, Kiwisaver, etc)	14,632	9,106
Post-employment, long term or termination benefits	0	0
	<u>\$895,611</u>	<u>\$877,358</u>

Key management personnel includes the Mayor, 10 Councillors, Chief Executive and 3 senior management personnel.

**Severance payments** - for the year ended 30 June 2011 MDC made 0 severance payments (2009/10 = 0)

**REMUNERATION - Elected Representatives**

		\$ 2010/11	\$ 2009/10
The Masterton District Council consists of a Mayor and ten councillors. The Mayor's honorarium and Councillors' 'pool' of remuneration are set by the Remuneration Authority, with the allocation basis decided by the Council.			
Mayor	Garry Daniell	73,410	69,798
Deputy Mayor	Jane Terpstra	25,889	26,972
Councillor & committee chair	Chris Peterson	25,889	26,972
Councillor & committee chair	Jonathan Hooker	25,889	26,972
Councillor & committee chair	Lyn Patterson	24,129	20,553
Councillor	Judith Callaghan	20,035	20,553
Councillor	David Holmes	20,035	20,553
Councillor (since Oct'10)	Doug Bracewell	14,224	-
Councillor (since Oct'10)	Gary Caffell	14,224	-
Councillor (since Oct'10)	Phillipa Hannon	14,224	-
Councillor (since Oct'10)	Graham McClymo	14,224	-
Councillor (until Oct'10)	Brent Goodwin	5,636	20,553
Councillor (until Oct'10)	Rod McKenzie	5,636	20,553
Councillor (until Oct'10)	Edwin Perry	5,636	20,553
Councillor (until May'10)	Jeff Workman	-	17,680
		<u>\$ 289,080</u>	<u>\$ 291,712</u>

## Notes to the Accounts

Note 19 contd

**REMUNERATION - Chief Executive Officer**

The Chief Executive Officer of the Masterton District Council is appointed under section 42 of the LG Act 2002. Mr Wes ten Hove's re-appointment was confirmed in December 2008, for the period to 30 June 2012. The annual salary package, including benefits is:

	\$ 2010/11 Per Agreement	\$ 2010/11 Paid to CEO	\$ 2009/10 Paid to CEO
Annual salary	180,500	181,254	181,461
Other (medical, phone, prof. fees inclgd FBT)	2,500	3,209	3,203
	<u>\$183,000</u>	<u>\$184,463</u>	<u>\$184,664</u>

Note: Variations between the agreed salary and the actual paid will occur due to holidays paid at a higher rate in complying with the Holidays Act 2003 and one extra day in the pay year.

## Notes to the Accounts

Note 20

**CREDITORS & OTHER PAYABLES**

30 June 2010		\$ 30 June 2011
4,076,498	Trade payables	6,306,062
295,494	Deposits & bonds	288,654
47,604	Agency rates collected - Greater Wellington Regional Council	58,339
640,720	Income received in advance	593,325
322,307	Community organisations - funds held in trust	312,106
<u>\$5,382,623</u>		<u>\$7,558,487</u>

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.

## Notes to the Accounts

Note 21

**DERIVATIVE FINANCIAL INSTRUMENTS**

30 June 2010		Actual 30 June 2011
\$	<b>Current Asset portion</b>	\$
-	Interest rate swaps - fair value hedges	-
	<b>Non-current Asset portion</b>	
5,929	Interest rate swaps - fair value hedges	-
<u>\$5,929</u>		<u>\$0</u>
	<b>Current Liability portion</b>	
44,264	Interest rate swaps - fair value hedges	51,899
	<b>Non-current Liability portion</b>	
787,299	Interest rate swaps - fair value hedges	1,659,487
<u>\$831,563</u>		<u>\$1,711,386</u>

**Fair value**

The fair value of interest rate swaps have been determined using a discounted cash flows valuation technique based on current market prices and have been provided by ETOS Resolution Ltd.

**Interest rate swaps**

The notional principal amounts and interest rate details of the interest rate swap contracts are:

#	Notional Principal	Term remaining	Maturity Date	Interest Rate (excl margin)
2A	2,500,000	29 days	29/07/11	7.050%
Replaces #2A on maturity 2B	2,500,000	7.1 years	31/07/18	6.320%
3	2,500,000	7.6 years	30/01/19	6.660%
4	2,500,000	6 mths	29/12/11	4.840%
7	1,000,000	8.8 years	29/03/19	5.165%
8	1,200,000	2 years	20/07/13	4.675%
9	800,000	6 years	20/07/17	5.780%
10	1,200,000	2.8 years	20/04/14	5.240%
11	1,000,000	7 years	20/07/18	5.800%
12	1,500,000	3.4 years	22/11/14	5.230%
13	2,000,000	3.7 years	21/03/15	5.600%
14	2,000,000	2.5 years	22/12/13	5.510%
15	2,000,000	1.6 years	25/02/13	4.690%
16	2,500,000	7.3 years	23/10/18	5.350%
17	2,000,000	4.9 years	24/05/16	4.925%
18	2,000,000	3.3 years	20/10/14	4.810%
19	2,000,000	7 years	22/06/18	5.320%
20	2,000,000	5.9 years	22/05/17	5.220%
21	2,000,000	3.4 years	21/11/14	4.990%
22	2,000,000	4.2 years	22/09/15	5.055%
23	2,000,000	6.1 years	25/07/17	5.230%
24	1,000,000	4.6 years	22/02/16	5.640%

Movements in the value of the derivative instruments are shown through the Surplus/(Deficit) in the Statement of Comprehensive Income, as per NZ IFRS 7 and NZ IAS 39.

## Notes to the Accounts

## Note 22

<b>EMPLOYEE BENEFIT LIABILITIES</b>		<b>\$</b>
<b>30 June 2010</b>		<b>30 June 2011</b>
586,786	Staff holiday provision	625,683
(17,289)	Salaries & wages accrued	31,984
(535)	Councillor's honorariums payable	19,359
7,402	Staff sick leave provision	8,897
150,385	Staff retirement gratuities	121,622
<b>\$726,749</b>	Total Employee Benefit Liabilities	<b>\$807,545</b>
631,410	Comprising: Current	734,926
95,340	Non-current	72,618
<b>\$726,749</b>	Total Employee Benefit Liabilities	<b>\$807,545</b>

## Notes to the Accounts

## Note 23

<b>PROVISIONS</b>		<b>\$</b>
<b>30 June 2010</b>		<b>30 June 2011</b>
<b>\$</b>	<b>Landfill Aftercare Provision</b>	<b>\$</b>
390,917	<b>Opening balance</b>	387,629
(77,368)	Amounts used during the year	(58,963)
18,868	Unused amounts brought forward	-
36,400	Adjustments to provision*	35,378
18,812	Discount unwinding (Note 5)	19,717
<b>\$387,629</b>	<b>Closing balance</b>	<b>\$383,761</b>
<b>Provision for Landfill aftercare costs</b>		
<p>The Nursery Road landfill was closed for general refuse on 30th September 2006. An interim closure plan was accepted by the GWRC and a resource consent application has been lodged for the closure plan and on-going limited disposal of special wastes. MDC's responsibilities under the closure plan include progressive capping using cleanfill (as it is deposited) and on-going monitoring. The liabilities for this work were recognised and allowed for over a 10 year time period to 2020. *In 2010/11 the resource consent, including a closure plan was finalised. The sums expended in 2010/11 included GWRC costs of processing the consent and on-going cover material storage. The capping and closure is now required over a four year period finishing in 2015.</p>		
<b>Provision for Financial Guarantees</b>		
<p>MDC has provided banks and other financial institutions guarantees on the borrowings of a number of community organisations. MDC is obligated under these guarantees to pay the overdraft or debt if the community organisation defaults. The list of groups and amount of exposure to MDC are listed below. The exercising of guarantees will be dependent on the financial stability of the community organisations, which will vary over time. A financial provision is considered prudent to be carried in the event that any one of these groups' guarantees is called upon.</p>		
	Value of Guarantee	Debt as at 30 June 2011
		Debt as at 30 June 2010
Abbeyfield Masterton Inc. (mortgage secured over property)	325,000	126,668
Harlequin Theatre Inc.	35,000	6,627
	<b>360,000</b>	<b>133,295</b>
<b>30 June 2010</b>	<b>\$0</b>	<b>30 June 2011</b>
	<b>Value of Financial Guarantee Provision carried</b>	<b>\$0</b>
<b>\$</b>	<b>Total Provisions</b>	<b>\$</b>
387,629	Landfill Aftercare Provision	383,761
0	Financial Guarantees Provision	0
<b>\$387,629</b>	<b>Closing carrying value - Provisions</b>	<b>\$383,761</b>
58,963	<b>Current</b>	75,472
328,666	<b>Non-current</b>	308,289
<b>\$387,629</b>		<b>\$383,761</b>

## Notes to the Accounts

## Note 24

<b>FINANCIAL LIABILITIES as at 30 June 2011</b>		<b>\$</b>	<b>\$</b>	<b>\$</b>
		<b>30 June 2010</b>	<b>30 June 2011</b>	<b>Plan 2011</b>
	Secured loans	12,993,211	21,570,460	38,149,000
	Debenture stock	5,000,000	5,000,000	4,815,000
	EECA Energy Efficiency Crown Loan	118,210	94,610	0
	Finance leases	128,453	114,436	35,000
	Internal loans	6,244,591	5,645,512	5,879,000
	Sub total - all financial liabilities	24,484,465	32,425,018	48,878,000
	Less current portion of external liabilities	(960,237)	(949,464)	(2,114,000)
	Internal loans/investments reversed	(6,244,591)	(5,645,512)	(5,879,000)
	<b>Total non-current borrowings</b>	<b>\$17,279,637</b>	<b>\$25,830,042</b>	<b>\$40,885,000</b>

FINANCIAL LIABILITIES as at 30 June 2011		\$	\$
<b>COST OF DEBT SERVICING</b>		<b>Actual</b>	<b>Plan</b>
Loan repayments (external)		980,879	797,674
Interest expense (external)		1,444,708	1,847,400
<b>Cost of Debt Servicing (external)</b>		<b>2,425,587</b>	<b>2,645,074</b>
Loan repayments (internal)		676,583	366,140
Interest expense (internal)		331,190	366,887
<b>Cost of Debt Servicing (internal)</b>		<b>1,007,773</b>	<b>733,027</b>
<b>Treasury Policy Compliance</b>		Policy Limits	
Net External Debt to Operating Revenues	73.6%	150%	120.4%
Interest (external) as % of operating revenue	4.0%	10%	5.2%
Interest (external) as % of total rates revenue	7.3%	15%	9.3%
Interest (internal & external) as % of total rates revenue	9.0%	20%	11.2%

MOVEMENTS IN TOTAL DEBT	\$ Actual	\$ Plan
<b>Opening Balance 1 July 2010</b>	<b>\$24,484,465</b>	<b>\$24,187,814</b>
Loan repayments	(1,657,462)	(1,163,814)
New borrowing (external & finance leases)	9,520,511	25,854,000
New borrowing (internal loans)	77,504	
<b>Closing Balance 30 June 2011</b>	<b>\$32,425,018</b>	<b>\$48,878,000</b>

**MATURITY ANALYSIS**

The following is a maturity analysis of MDC's borrowings (excluding finance leases & internal borrowings).

	30 Jun 2010	30 Jun 2011	
Repayments due in less than one year	925,707	917,377	Weighted average interest on external loans
Later than one year, less than five	8,739,066	8,840,433	
Later than five years	8,446,648	16,907,260	
	<b>\$18,111,421</b>	<b>\$26,665,070</b>	

**ANALYSIS OF FINANCE LEASE LIABILITIES**

	Actual 2010	Actual 2011
Payable no later than one year	47,753	48,360
Later than one, not later than two years	48,365	39,255
Later than two, not later than five years	60,781	22,122
Future financing charges	(28,446)	(15,812)
	<b>\$128,453</b>	<b>\$114,436</b>
Representing lease liabilities - Current	47,753	48,360
- Non-current	80,700	66,076

**Security:** The Council has secured its loans and debenture borrowing using a Debenture Trust Deed (DTD). Under the DTD the Council's rates revenue is offered as security and all lenders rank equally, with a trustee representing the lenders. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

**Term:** Each bank loan facility has a term which may be shorter than the sanctioned term of the borrowing, but for the maturity analysis above, it has been assumed that they will be repaid over sanctioned terms and refinanced as they mature. The loans include four Committed Cash Advance Facilities (CCAFs) with \$21.5m drawn and \$16.3m undrawn. The CCAFs have interest rate resets every 90 days, priced off the bank bill rate plus a margin. Interest rate swaps have been used to fix interest rates for terms ranging from 2 to 9 years.

**Debentures:** Debenture stock of \$5m was issued in July 2007 for 5 years with interest reset based on the 90 day bank bill rate plus a margin of 0.12%. Two swap transactions, one for 5 years and another for 10 years have fixed the interest rates. At 30 June 2011 the 'all up' rate was 6.61%.

**Leases:** The Council has entered into finance leases for a number of photocopiers. The value of these assets is disclosed in Note 13. The finance leases can be renewed at MDC's option and MDC does have the option to purchase the assets at the end of the lease term. There are no restrictions placed on MDC by any of the finance leasing arrangements. Two finance leases for \$20,511 were taken on during year ending 30 June 2011.

**New Debt:** The Council borrowed \$10 million externally to fund capital projects, including the Homebush upgrade. \$9.5 million was for new borrowing and \$500,000 replaced a BNZ CAF facility was repaid.

**Internal loans:** Internal loans of \$77,505 were repaid during the year.

Internal interest paid/earned totalled \$331,190 and was charged on the average balance due. The interest rates charged were 5.04% to 31 December 2010 and 5.34% to 30 June 2011. These rates were based on the mid-point between what the Council could earn and what Council was paying on its external loans.

**EQUITY****RETAINED EARNINGS**

\$		\$
<u>30 June 2010</u>		<u>30 June 2011</u>
421,241,862	Opening Balance	420,232,038
4,717,933	Transfers From Special Funds & Reserves	3,397,805
(4,835,879)	Transfers (To) Special Funds & Reserves	(5,871,678)
59,956	Change in fair value of financial assets taken to equity	(63,887)
	Revaluation reserve on disposal assets to equity	503,467
	Infrastructure assets inventory adjustments	2,845,741
(951,834)	Surplus/(Deficit) for the year	3,458,211
<b>\$420,232,038</b>	Closing Balance	<b>\$424,501,697</b>

**REVALUATION RESERVES**

\$		\$	\$	\$
30 June 2010		<u>Movements due</u>	<u>Revaluation</u>	<u>30 June 2011</u>
	Notes	to asset	Movements	
		disposals		
34,527,324	Land	*		34,527,324
13,510,242	Buildings	*	(253,816)	13,256,426
	Infrastructural Assets	*		
3,709,511	Land (under roads)		78	3,709,589
84,780,859	Roading network	(12,169)	59,153,356	143,922,046
8,769,818	Urban water supply	(94,148)	4,519,758	13,195,428
10,777,163	Urban sewerage system	(137,255)	818,602	11,458,510
4,155,147	Stormwater assets	(6,079)	132,945	4,282,013
1,430,380	Other infrastructure assets		989,527	2,419,907
91,897	Work In Progress		(88,057)	3,840
<b>\$ 161,752,341</b>		<b>(\$503,467)</b>	<b>\$ 65,526,209</b>	<b>\$ 226,775,083</b>

*Analysis of Movements*

\*1 Land revalued by Darroch Valuations as at 30 June 2009, per 3 yearly cycle.

Land disposals: nil

\*2 Buildings revalued to market value as at 30 June 2009, per 3 yearly cycle.

Buildings disposals:

- Te Whiti House sold \$35,000
- Compost Shed destroyed by arson \$32,040
- Glasshouses QE Park demolished \$28,379
- Sheds QE Park demolished \$16,763
- Native Bird Pen QE Park demolished \$38,998
- Oval Toilets QE Park demolished \$22,024
- Mawley Park assets removed \$82,857

\*3 Infrastructural assets were revalued as at 30 June 2011 resulting in \$65.5 million (12.5%) increase in depreciated replacement cost (DRC) over 3 years, after taking account of additions and depreciation during that 3 year period ending 30th June 2011.

Infrastructure assets disposed/replaced included the following:

Roading assets: - Kerb & channel, signs, culverts

Water assets: - water mains & connections

Sewerage assets: - sewer mains & laterals

**FINANCIAL INSTRUMENTS****Financial instrument categories**

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

	\$000	\$000
<b>Financial Assets</b>	<b>30 June 2011</b>	<b>30 June 2010</b>
<b>Fair value through profit &amp; loss</b>		
Fund manager - cash and cash equivalents	11	290
Fund manager - current financial assets	115	706
Fund manager - non-current financial assets	5,864	4,558
	<u>5,990</u>	<u>5,553</u>
<b>Cash Deposits, Receivables &amp; Community Loans</b>		
Debtors and other receivables	3,611	2,368
Cash and cash equivalents	4,260	3,970
Bank deposits - current financial assets	3,871	2,072
	<u>11,742</u>	<u>8,411</u>
<b>Fair value through comprehensive income</b>		
Derivative financial instrument assets	0	6
Corporate bonds - current	251	0
Corporate bonds - non-current	3,596	2,259
Unlisted shares	165	199
	<u>4,012</u>	<u>2,463</u>
<b>Financial Liabilities</b>		
<b>Fair value through comprehensive income</b>		
Derivative financial instrument liabilities	1,711	832
<b>Financial liabilities at amortised cost</b>		
Trade and other payables	7,558	5,383
Borrowings - secured loans	21,665	12,993
- debentures	5,000	5,000
	<u>34,224</u>	<u>23,376</u>

**FINANCIAL INSTRUMENT RISKS**

Masterton District Council (MDC) has a Treasury Management Policy in place to manage the risks associated with financial instruments. MDC is risk averse and seeks to minimise exposure from its treasury activities. MDC 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.

**Price risk**

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. MDC is exposed to equity securities price risk on its investments, which are classified as financial assets held at fair value through equity and fair value through P&L. This price risk arises due to market movements in tradeable securities. This price risk is managed by diversification of MDC's investment portfolio in accordance with the limits set out in MDC's Investment policy.

MDC holds shares (equity instruments) in NZ Local Government Insurance Corporation and Airtel Ltd, neither of which are publicly traded. Change in value is calculated by calculating MDC's share of the reported value of the entity's equity.

**Currency risk**

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

**Interest rate risk**

The weighted average interest rates on MDC's investments are disclosed in Note 11 and on MDC's borrowings in Note 24.

**Fair value interest rate risk**

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Borrowing issued at fixed rates exposes the MDC to fair value interest rate risk. MDC's Liability Management Policy outlines the minimum level of borrowing (20%) that is to be secured using fixed rate instruments. Floating to fixed interest rate swaps have been entered into to hedge the fair value interest rate risk arising where MDC has borrowed at floating rates.

In addition, investments at fixed interest rates expose the MDC to fair value interest rate risk. If interest rates on investments at 30 June 2011 had fluctuated by plus or minus 1%, the effect would have been to decrease/increase the fair value through P&L and/or equity reserve by \$179,600 (2010 \$135,600).

If interest rates on borrowings at 30 June 2011 had fluctuated by plus or minus 1%, the effect would be to decrease/increase the surplus/(deficit) in future periods by up to \$267,800 (2010 \$174,900) as a result of higher/lower interest expense on borrowings.

**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 MDC to cash flow interest rate risk.

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

**Credit risk**

Credit risk is the risk that a third party will default on its obligation to MDC, causing MDC to incur a loss.

<b>Maximum exposure to credit risk</b>	<b>\$000</b>	<b>\$000</b>
	<b>30 June 2011</b>	<b>30 June 2010</b>
Cash at bank and term deposits	8,142	6,333
Debtors and other receivables	3,611	2,368
Local authority and government stock	4,407	3,862
Corporate bonds/discounted securities/SOEs	5,169	3,660
Derivative financial instrument assets	0	6
Financial guarantees	133	171
	21,462	16,401
<b>Credit quality of financial assets</b>		
The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard & Poor's credit ratings (if available) or to historical information about counterparty default rates:		
<b>Counterparties credit ratings</b>		
Cash at bank and term deposits	AA	7,871
	Not Rated	271
		8,142
		6,333
Government stock	AAA	2,884
Local authority stock	Not Rated	1,522
		4,407
		3,862
Corporate bonds/discounted securities	AA +	251
	AA	2,069
	A to AA-	2,648
	A-1+	319
	BBB	133
		5,420
		4,997
<b>Counterparties without credit ratings</b>		
Debtors and other receivables	3,611	2,368
Financial guarantees	133	171
	3,744	2,540
Debtors and other receivables mainly arise from MDC's statutory functions, therefore there are no procedures in place to monitor or report the credit quality of debtors with reference to internal or external credit ratings.		

### Credit risk (continued)

Due to the timing of its cash inflows and outflows, the MDC invests surplus cash into term deposits. MDC also holds reserve funds that are invested in a number of financial instruments, according to criteria in the Investment Policy. These investments can give rise to a credit risk. MDC invests funds only in deposits with registered banks, local authority stock and corporate bonds of BBB credit rating or better, and its Investment policy limits the amount of credit exposure to any one institution or organisation and the percentage of the portfolio that can be invested in less than A rated instruments. Investments in other Local Authorities are secured by charges over rates.

MDC has no significant concentrations of credit risk in its general debtor assets as it has a large number of credit customers, mainly ratepayers, and MDC has powers under the Local Government (Rating) Act 2002 to recover outstanding debts from ratepayers.

### Liquidity risk

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

In meeting its liquidity requirements, MDC maintains a prudent level of investments held short term to enable operational access to funds if required.

MDC 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 MDC's Long Term Council Community Plan.

MDC extended the Westpac Multi Option credit line out to \$28m and drew down \$10m from this facility during 2010/11. The maximum amount that can be drawn down against the three bank cash advance facilities is \$37.8m (2010 \$17.8m). The intent of using these type of facilities is two-fold: 1) to assist meeting cashflow requirements on capital projects prior to conversion to longer term debt, and 2) to enable floating-to-fixed interest rate risk management instruments to be used. The amount currently drawn against the CAFs is \$21.5m (2010 \$12.1m).

The maturity profile of MDC's interest bearing investments is disclosed in Note 11 with a split between cash, deposits of less than 3 months, financial assets of less than 12 months and financial assets with terms greater than 12 months.

Note 26a

<b>Contractual maturity analysis of financial liabilities</b>					
	Carrying amount	Contractual cash flows	Less than 1 year	1 -5 years	More than 5 years
	\$000	\$000	\$000	\$000	\$000
<b>As at 30 June 2010</b>					
Creditors and other payables	5,383	5,383	5,383		
Net settled derivative liabilities*	832	1,603	289	975	339
Committed cash advances	12,078	14,277	1,428	5,711	7,138
Secured loans	283	305	92	213	
Debenture stock	5,000	5,301	285	5,016	
Finance leases	128	100	48	81	
Financial guarantees	171	171	171		
	23,875	27,140	7,696	11,995	7,477
<b>As at 30 June 2011</b>					
Creditors and other payables	7,558	7,558	7,558		
Net settled derivative liabilities*	1,711	2,321	515	1,312	494
Committed cash advances	21,461	29,827	1,723	28,103	
Secured loans	204	210	91	119	
Debenture stock	5,000	5,156	144	5,012	
Finance leases	114	114	32	82	
Financial guarantees	133	133	133		
	36,182	45,320	10,196	34,629	494

\* Contractual cashflow estimate is based on the variance between fixed rate and floating rate on balance date

### Contractual maturity of financial liabilities

Note 24 contains a table which discloses the relevant maturity groupings of MDC's term liabilities. The table on the previous page analyses all MDC's financial liabilities based on the remaining period from the balance date to the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate on the instrument at the balance date. The amounts disclosed are the undiscounted cash flows.

The table below analyses the MDC's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

<b>Note 26a</b>						
<b>Derivatives maturity analysis</b>						
	Liability carrying amount \$000	Asset carrying amount \$000	Contractual cash flows \$000	Less than 1 year \$000	1 -2 years \$000	More than 2 years \$000
<b>As at 30 June 2010</b>						
Interest rate hedging contracts:	832	6				
- outflow			4,290	838	757	2,695
- inflow			2,779	549	491	1,740
<b>As at 30 June 2011</b>						
Interest rate hedging contracts:	1,711	0				
- outflow			6,145	1,384	2,207	2,554
- inflow			4,976	1,147	1,818	2,011

### FAIR VALUE HIERACHY DISCLOSURES

**Note 26b**

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

- Quoted market prices (level 1)
- Valuation technique using observable inputs (level 2)
- Valuation techniques with significant non-observable inputs (level 3)

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

Fair Value Hierarchy	Total	Valuation technique		
		Quoted market price	Observable inputs	Significant non-observable inputs
	\$000	\$000	\$000	\$000
<b>as at 30 June 2010</b>				
<b>Financial Assets</b>				
Derivatives	6	0	6	0
Local Authority stock	1,438	0	1,438	0
Shares	199	0	0	199
Corporate bonds & disc. securities	3,454	3,454	0	0
Government Bonds	2,631	2,631	0	0
	7,727	6,085	1,444	199
<b>Financial Liabilities</b>				
Derivatives	832		832	
<b>as at 30 June 2011</b>				
<b>Financial Assets</b>				
Derivatives	0	0	6	0
Local Authority stock	1,522	0	1,522	0
Shares	117	0	0	117
Corporate bonds & disc. securities	5,094	5,094	0	0
Government Bonds	3,211	3,211	0	0
	9,944	8,304	1,528	117
<b>Financial Liabilities</b>				
Derivatives	1,711		1,711	

**CAPITAL MANAGEMENT**

The Council's capital is its equity (or ratepayers' funds), which comprise retained earnings, revaluation reserves and special funds 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.

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 the factors that the Council is required to consider when determining the most appropriate sources of funding for each of its activities. The sources and levels of funding are set out in the funding and financial policies in the Council's LTCCP.

MDC has the following types of Council-created Special Funds and Reserves:

- Reserves representing accumulating asset replacement provisions;
- Reserves representing developer contributions towards assets & infrastructure;
- General purpose reserves originating from asset sales and carried forward funding;
- Restricted reserves intended for special purpose assets or originating from a bequest.

Reserves for asset replacement are used where there is a discrete asset for which renewal or replacement expenditure is required to be met over and above annual revenue.

Developer contributions taken under the District Plan are held in reserves and applied to asset development projects, giving effect to the intent of the District Plan, to help fund the impacts of growth.

Interest is added to reserve fund balances as per the Council policy of protecting the reserve funds against inflation while maximising the interest return for use on Council development projects. Full interest is allocated to bequest and special purpose asset reserves. Deductions from reserves are made based on Council's Annual Plan decisions on the funding source for a range of expenditure.

<b>MOVEMENTS IN SPECIAL FUNDS &amp; RESERVES - 2010/11</b>					
	<b>Opening Balance</b>	<b>Transfers Out</b>	<b>Transfers In</b>	<b>Closing Balance</b>	<b>Plan</b>
Plant & Equipment Funds	1,456,750	(295,510)	392,083	1,553,323	1,228,557
Reserves Development Funds	982,769	(116,764)	187,268	1,053,273	478,464
General Capital Funds	4,387,294	(332,887)	478,764	4,533,171	4,142,716
Investment Interest Funds	1,047	(545,000)	602,146	58,193	4,962
Property Funds	3,475,599	(550,460)	1,020,143	3,945,282	2,720,354
Infrastructural Assets Funds	5,130,246	(1,310,501)	1,978,360	5,798,105	3,828,639
Miscellaneous Special Funds	313,452	(246,683)	1,212,914	1,279,683	46,522
<b>Total</b>	<b>15,747,157</b>	<b>(3,397,805)</b>	<b>5,871,678</b>	<b>18,221,030</b>	<b>12,450,215</b>
				<b>Actual 2010/11</b>	<b>Plan 2010/11</b>
Funding of Capital Expenditure from special funds & reserves				2,538,229	4,814,150
Funding of Operating Expenditure from special funds & reserves				859,576	1,363,250
				<b>3,397,805</b>	<b>6,177,400</b>
<b>Analysis of Transfers 'IN' to Funds &amp; Reserves</b>					
Reserves & Development Contributions received				167,109	180,000
Infrastructure & Roading Contributions received				260,006	322,000
Carry forward funding for on-going project commitments				1,414,891	57,000
Interest earned and retained in special funds				349,208	221,038
Interest earned and allocated to Investment Interest fund				602,146	618,962
				<b>Sub Total</b>	<b>1,399,000</b>
Depreciation funded into asset replacement reserves funds				2,897,404	2,944,854
				<b>Total of Transfers into funds from Operations</b>	<b>4,343,854</b>
Proceeds from sale of plant & equipment assets				24,865	15,000
Proceeds from sale of land & buildings assets				156,049	50,000
				<b>Total Transfers into funds from Asset Sales</b>	<b>65,000</b>
				<b>5,871,678</b>	<b>4,408,854</b>

**Explanation of variances from Plan:****Plant & Equipment Funds**

Parking meter replacements of \$300k not drawn from the fund.

**Reserves Development Funds**

There has been less draw on these funds than planned - specifically for Mawley Park, Riversdale toilets and QE Park.

**General Capital Funds**

The draw on these funds was less than planned due to a number of planned items not proceeding during the year, including the grant of \$300k for athletics track and \$50k for community centre. Proceeds from the sale/disposal of assets were credited to this fund and were not planned. Interest income was more than planned.

**Property Funds**

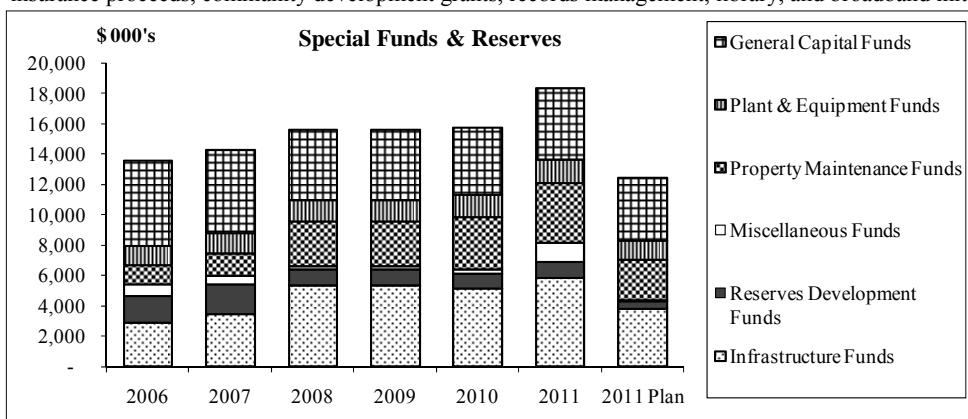
Several Property and Parks projects were planned to be funded from these reserves, but they have not progressed. These include QE Park toilets, District Building upgrades, airport runway reseal, recreation trails and other property upgrades.

**Infrastructural Assets Funds**

Less renewals expenditure on bridges and footpaths (\$332k) and water, sewer and stormwater (\$854k) than planned.

**Miscellaneous Funds**

Funding for a range of projects not completed in the financial year, has been carried forward, including roading and footpaths, insurance proceeds, community development grants, records management, library, and broadband initiatives.



<b>RECONCILIATION OF NET SURPLUS/(DEFICIT) TO NET CASH INFLOW</b>		
2009/10	<b>FROM OPERATING ACTIVITIES</b>	2010/11
(\$951,834)	<b>Operating Surplus / (Deficit)</b>	<b>\$ 3,458,211</b>
	- Add (less) non-cash items	
9,009,053	Depreciation and amortisation	9,038,911
(330,484)	Vested asset gains	
(110,209)	(Gains)/losses in fair value of biological assets (forestry)	(373,961)
17,400	(Gains)/losses in fair value of investment property	-
(10,152)	Other non-cash items	27,921
	- Add (less) items classified as investing or financing	
354,403	(Gains)/losses on disposal of property, plant & equipment	777,047
236,501	(Gains)/losses on change in fair value of financial assets/liabilities	819,735
	- Add (less) movements in working capital items	
(284,717)	Receivables & current assets	(1,252,826)
122,913	Accounts payable	151,080
(146,452)	Payroll & accrued leave liabilities	80,794
692,021	Other current liabilities	1,249,995
<b>\$ 8,598,444</b>	<b>Net Cash Inflow from Operating Activities</b>	<b>\$ 13,976,907</b>

<b>RATING POLICIES REPORT</b>				
<b>RATES REMISSIONS</b>				
	2010/11		2009/10	
	No.	\$	No.	\$
The cost of the Council's Rates Remission Policy is summarised below.				
Rates remissions were given on:				
Community halls, volunteer & charitable groups	42	41,315	43	39,488
Sporting, arts and cultural use	15	25,284	15	23,607
Land protected for conservation or heritage purposes	28	2,191	28	2,066
Rate arrears penalties*	1,108	38,286 *	1,097	54,511
Uniform charges on non-contiguous units	8	2,336	8	2,233
Urban land with rural use	18	8,161	16	5,477
Total (as per Note 3)	<u>1,219</u>	<u>\$117,573</u>	<u>1,207</u>	<u>\$127,383</u>
* Note: The majority of these penalty remissions were given to properties which had an automatic payment (AP) or direct debit (DD) in place to clear the instalment by the end of the quarter. At the penalty date they had a balance due on which an automatic penalty has been calculated, then remitted.				
No estimate has been attempted to establish the value of rates income which would have been chargeable on those properties which the Rating Act 2002 makes non-rateable. If those properties had been rateable the Council would have still collected the same total rates to fund its activities and the rates-in-the-\$ would have been less, effectively making all other ratepayers' rates less.				
<b>RATES POSTPONEMENTS - Subdivision Developments</b>				
Under the Council policy on Rates Postponements for subdivision developments, zero (2010 = 0) ratepayers have received the benefit of being allowed to postpone 50% of the rates on unsold sections.				
<b>- Postponements for Hardship or Against Equity</b>				
In 2010/11, no properties (2009/10 = 0) requested or were allowed to postpone rates based on the Council's policy for postponement under extreme financial circumstances, or for postponement against equity on the homes of elderly ratepayers.				

<b>PLAN COMPARISON &amp; BUDGET VARIATIONS</b>	<b>2010/11</b>	<b>2010/11</b>	<b>2009/10</b>
<b>Ratio Analysis</b>	<b>Actual</b>	<b>Plan</b>	<b>Actual</b>
Current Ratio (current assets to current liabilities)	1.3 : 1	0.9 : 1	1.4 : 1
Term debt to Total public equity	3.9%	6.5%	2.9%
External financing debt to PP&E (excl. Infrastructural)	30.5%	47.7%	21.0%
Term debt as % of Operating revenue	71.0%	114.4%	59.5%
Interest expense as % of Rates revenue	7.4%	9.2%	5.5%
Term debt per capita (external)	\$1,142	\$1,807	\$764
Investments as a percentage of rates income	70.3%	34.1%	76.2%

### Major Variations from Plan

Explanations for major variations from the Council's 2010/11 Annual Plan are as follows:

#### Statement of Comprehensive Income

The accounting surplus of \$3.46m is 9.7% less than planned, but after excluding one-off Gains & Losses, the surplus is \$880,000 (23%) more than planned.

**Total Operating Revenue of \$36.4m is more than plan by \$650,000 1.8%**

- Riversdale Beach sewerage capital contributions and government subsidy totalled \$4.87m which was \$0.67m more than planned. This was partly due to more paying the 95% contribution option than was expected.
- Roading subsidies on operating expenditure were less than plan by \$114,000 or 5.45%, while renewals and capital expenditure was less than planned and the resulting subsidy income is below plan by \$778,400 or 32%.
- Other recoveries for rural fires (\$103,000) and government grants to community development projects (\$80,000) contributed to above planned income.
- Interest income of \$997,000 was \$302,000 better than planned due to better cashflows than expected.

**Personnel & Other Expenses are less than plan by \$936,000 4.3%**

- Savings were made against a range of operating budgets, with personnel costs being \$144,000 (2.9%) less. Economic & community development grants were below plan by \$309,000 due to two large planned grants not proceeding (athletics track and community centre). Corporate administration costs were below planned by \$182,000 (5%). A range of planned property maintenance costs were underspent during the year, totalling some \$202,000 which is 11% of the planned expenditure.
- Areas where costs were higher than planned include the Parks & Reserves and the Genesis Energy Recreation Centre where expenditure exceeded planned by \$51,300 (2.8%) and \$88,100 (7.1%) respectively. Rural water costs were \$66,200 above the planned expenditure (30.7%) due to the costs of maintaining water race inflow channels at times of low river flows.

**Finance costs were less than plan by \$352,800 19.4%**

- The later starting of several projects, including Homebush, Mawley Park and the recycling facility, meant a reduced need for loan funding and hence lower interest/financing costs than planned.

**Depreciation & amortisation is more than plan by \$523,000 -6.1%**

- The plan depreciation provision anticipated a reduction of roading depreciation due to a change in the underlying assumptions of asset lives. The resulting dollar reduction was not as great as was expected.

**Other Gains & Losses (net) were more loss than planned by \$1,250,742**

- These were not allowed for in the Annual Plan. There were gains on asset revaluation of forestry and some asset disposals, while losses include value write-downs on asset disposals, reduced values of investments and unrealised losses on cashflow hedges. Other items included in comprehensive income include \$2.85m recognised gain in the value of water and sewer pipeline assets following the incorporation of improved inventory information.
- The revaluation of infrastructural assets as at 30 June 2011 has resulted in an increased asset value of \$65.5 m. This has been recognised through comprehensive income and the revaluation reserve portion of ratepayers equity.

#### Statement of Financial Position as at 30 June 2011

- More cash and other financial assets were held at year end due to the need to fund the higher than expected level of capital expenditure at 30 June 2011.
- Infrastructural asset revaluation was \$36.1m more than planned, but project expenditure was less than planned so asset values are only \$16.1 more than planned.
- Non-current financial assets are more than planned because less use of reserve funds were made during the year.
- Creditors are higher than planned as several large projects were underway at 30 June 2011.
- Non-current liabilities are less than planned due to less borrowing for capital projects.

#### Statement of Movements in Equity

- Equity is more than planned because of the revaluation of infrastructural assets and less use of reserves.

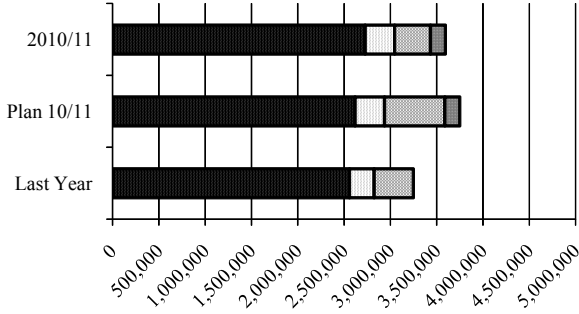
#### Statement of Cashflows

- Operating cashflows 'in' are less than planned due to less roading subsidies, but cashflows 'out' are also less than planned due to operational savings and less interest paid on loans.
- Investing activities are less - capital expenditure was less. Less was needed from loan financing.

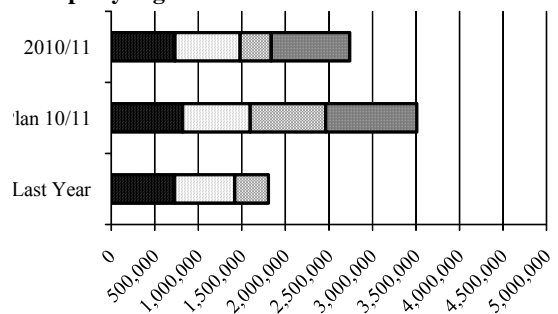
**Funding Comparisons by Activity**

■ Rates □ Other revenue ▨ Reserves ■ Loans

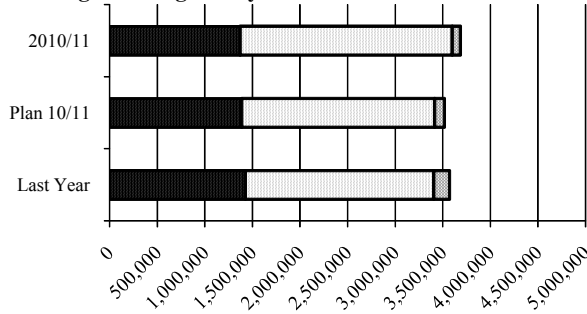
**Parks & Recreation**



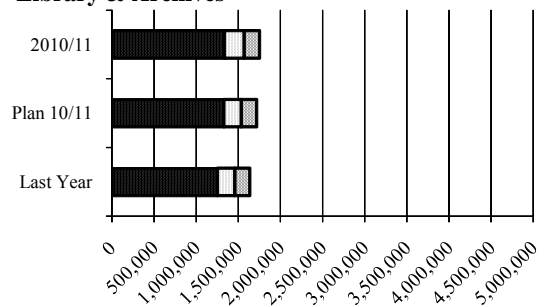
**Property Mgmt**



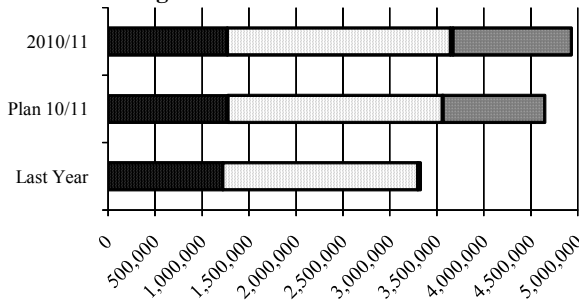
**Res. Mgmt & Regulatory**



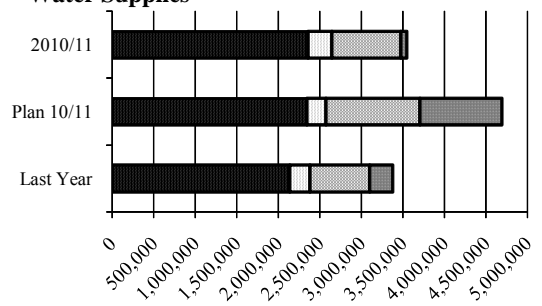
**Library & Archives**



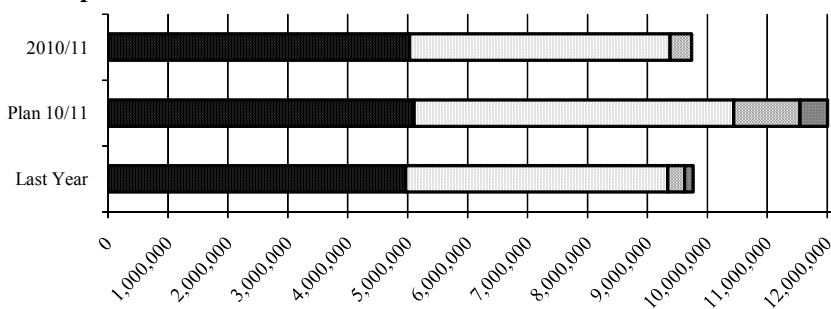
**Solid Waste Mgmt.**



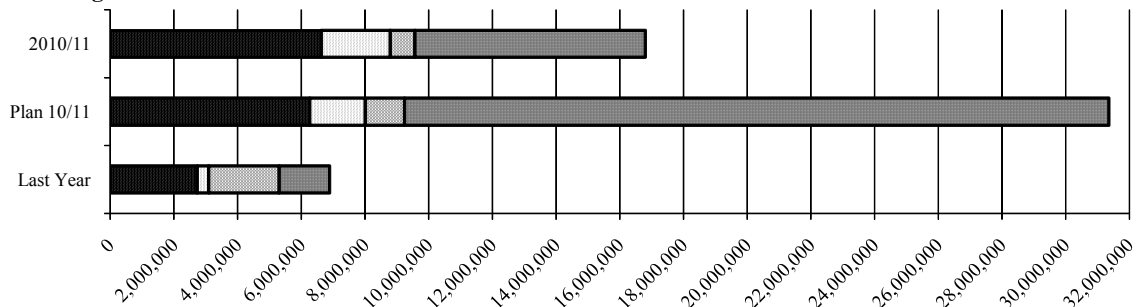
**Water Supplies**



**Transport Services**



**Sewerage & Stormwater**



**STATEMENT OF COMMITMENTS AND CONTINGENCIES****As at 30 June 2011**

This statement gives an indication of the funds that the Council is committed to spending on major projects and discloses information on contingent liabilities.

**Capital Commitments - Projects**

There are 13 significant construction contracts in progress at 30 June 2011 (2010 = 2). These were:

- ♦ Mawley Park - the refurbishment project had three separate contracts underway with the following building firms: Uniplan Group, Tararua Builders and KBL Builder. Commitments total approximately \$315,000
- ♦ Sewerage Treatment Plant (Homebush) - Hopper Construction holds three contracts, all of which were started during 2010/11. Approximate value of the remaining contract commitments: Pond construction \$8.76m, irrigation/border strips \$5.67m, structural/mechanical/electrical (SME) \$5.96m
- ♦ Riversdale Beach Sewerage Scheme - Hopper Construction hold the contract to build this scheme. At 30 June 2011 there were aspects of the scheme to be completed - value \$964,000. Irrigation Services Ltd have been contracted to install irrigation for the scheme - balance of commitment at 30 June 2011 is \$63,000
- ♦ Two water main renewal contracts with Oldfield Asphalts were part completed - commitment \$72,000
- ♦ Three sewer main renewal contracts were part completed, Oldfields \$76,000 and G & C Diggers \$245,000

**Contract Commitments**

Council has let a **professional services contract** for the urban sewerage upgrade project to Beca Carter Hollings and Ferner Ltd. Work on this project is billed monthly.

One other professional services engagement which was active at 30 June 2011 relates to the Riversdale sewerage scheme where CPG Ltd have been retained to progress the project through the design, tendering and construction stages. Work on this project is billed monthly.

Commitments have been made relating to **maintenance contracts** for roading, services, parks, solid waste and the facilities management of the Recreation Centre. The parks maintenance contract was re-tendered in 2004 and has one year left to run (to 30 June 2012). The roading maintenance contract was re-tendered in 2009 and won by Fulton Hogan Ltd. The Utility Services maintenance contract was re-tendered and let to City Care Ltd from 1 July 2010. The Recreation Centre management contract with Community Leisure Management (CLM Ltd) was extended for another three years from 1 July 2009. Solid waste contracts for collection of waste and recycling and operation of the recycling and composting facilities was tendered in 2010 and let to Green Fingers Garden Bags Ltd, with the contract commencing 1 July 2010.

**Operating Lease Commitments (as a lessee)**

Council leases property in the normal course of its business. Two of these leases have non-cancellable terms: they are the Wairarapa Archive at 79 Queen Street, and office space in the Public Trust Building.

Future aggregate minimum lease payments payable under non-cancellable operating leases are as follows:

	2011	2010
Not later than one year	21,468	37,040
Later than one year and not later than five years	0	18,248
Later than five years	0	0
<b>Total Non-cancellable operating leases</b>	<b>\$21,468</b>	<b>\$55,288</b>

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

**Operating Lease Commitments (as a lessor)**

In the course of its business Council has a number of leases in place. Residential tenancies and parking leases are not included as they have two weeks to one month notice periods respectively. The non-cancellable leases include 14 for grazing, 14 sporting groups (including a mix of ground & building rentals), 21 airport sites and 8 other properties. 10 of these leases expire in the next 12 months, 27 within five years and 10 have terms greater than five years. The future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

	2011	2010
Not later than one year	249,608	196,281
Later than one year and not later than five years	504,261	386,962
Later than five years	68,343	102,266
<b>Total Non-cancellable operating leases</b>	<b>\$822,212</b>	<b>\$685,509</b>

*No contingent rents have been recognised during the period.*

**STATEMENT OF COMMITMENTS AND CONTINGENCIES****As at 30 June 2011****Contingencies****Contaminated Sites**

The Council is aware of the existence of three sites within the Masterton urban boundary which have some level of contamination as a result of the operation of former gas works. The Council is meeting its obligations with respect to disclosure about these sites pursuant to the Resource Management Act and has commissioned studies into the levels of contamination and continues to undertake monitoring as required.

The former gas works site in Bentley Street is owned by the Council and may need some remediation in the future. The investigations to date indicate some limited off-site migration of a number of contaminants. This is not considered significant as the groundwater is not utilised in the area and the plumes are generally very limited in extent. Council is currently working with the Greater Wellington Regional Council as a resource consent for this site is required and will involve on-going monitoring costs in the order of \$40,000 per annum.

The Council purchased, for a nominal sum, a piece of land on the corner of Church St and Colombo Road. The site has confirmed sub-soil contamination and subsidence problems and will be used for passive recreation. One other site is in part Council ownership, part private. Further studies have been commissioned by Council to establish if the level of contamination is causing any threat to the current occupiers and has accepted no liability for this site and is working with the property owners and insurers to resolve any issues.

**Weather-tight Homes**

In 2008/09 the Council and its insurers (Riskpool) resolved one case of a home where the weather-tightness was disputed. No other 'leaky homes' cases have been notified to the Council or its insurers. Riskpool, as a mutual liability fund, have made three calls on their member Councils to make up a shortfall in the fund years 2002/03 and 2003/04. The MDC share of those calls has been \$67,904 (two calls) expensed in 2009/10 and \$46,297 expensed in 2010/11. There is potential for further calls to be made as the claims being met by the Riskpool funds are resolved. No estimate of the extent of future liability is available.

**Contingent Assets - carbon credits**

The Council owns land and forestry assets that were planted prior to 1990. These forested areas will be eligible for carbon credits under the Government's emissions trading scheme (ETS). The full extent of eligible area were still being measured as at 30 June 2011, including roadside stabilisation forestry stands. An account for NZU carbon credits has been setup in the Council's name and an application will be made before 30th November 2011. To date only a ball park estimate of the potential future value of carbon credits has been done, and no asset value has been included in the Council's financial statements.

There were no other contingent assets.

**Events After Balance Date**

Note 34

There are no events after the balance date that affect the financial statements.

## STATEMENT OF RESOURCES

### Year Ended 30th June 2011

Masterton District Council provides a wide range of services to the residents, businesses and visitors to the area. In order to meet its objectives and provide the services required, the Council employs a large number of resources. Although some of these resources are valued within the Statement of Financial Position, in many cases the quantitative information is more meaningful.

This statement therefore tends to reflect in quantitative terms those resources the Council uses in its day-to-day activities in order to service the community.

#### Statistics

##### **Population (Census 2006)**

Masterton	Rural area	4,956	<u>Area</u>	229,500 ha
	Urban area	<u>17,664</u>		(urban area – 1,796 ha)
		<u>22,620</u>		

##### **District Rateable Valuations (June 2010)**

Land Value	Rural	\$1,902,700,000	Capital Value	Rural	\$2,655,000,000
	Urban	\$1,016,400,000		Urban	\$2,225,600,000

No. Rateable Properties	Rural	3,744
	Urban	<u>8,177</u>
		11,921

##### **Staff**

	<u>Male</u>	<u>Female</u>	<u>Total</u>
Full time	37	29	66
Part time	3	11	14

##### **Water Reticulation (urban only)**

Storage capacity (megalitres)	12
Kaituna	9
Lansdowne	3

Length of watermains (kms)	160
Storage reservoirs and tanks (megalitres)	12
Hydrants	1,051
Valves	819
Peak daily demand (Mstn) (m <sup>3</sup> )	29,550
Water treatment plant at Kaituna	

##### **Sewage Reticulation (urban only)**

Length of sewers (kms)	137
Number of pumping stations	2
Number of manholes	1,760
Qty treated daily (average) (m <sup>3</sup> )	14,600

##### **Roading**

System length (kilometres)	801
Sealed	516
Metalled	285

##### **Buildings (owned)**

District Building (including offices, town hall, council chambers and meeting rooms)	8
Rental houses	0
Retail outlets	86
Residential flats	9
Public halls	1
Library	12
Sports/recreation facilities	845
Off-street carpark	5
Fire stations	1
First aid post	13
Public toilets	
Camping ground & cabins	24
Camping ground ancillary	5
Landfill buildings	6
Bentley Street ex-depot	1
Parks buildings	

##### **Vehicles**

Fleet number	26
Utilities/vans	9
Cars	8
Fire engines	7
Tractors	2

##### **Recreation Reserves**

Total Area (hectares)	205	
	<u>Urba</u>	<u>Rural</u>
	<u>n</u>	
Natural Bush	2	39
Beach Front esplanades	-	9
Nursery, cemeteries/sports grounds/formal gardens	54	5
Neighbourhood reserves	49	47

# MAP OF DISTRICT

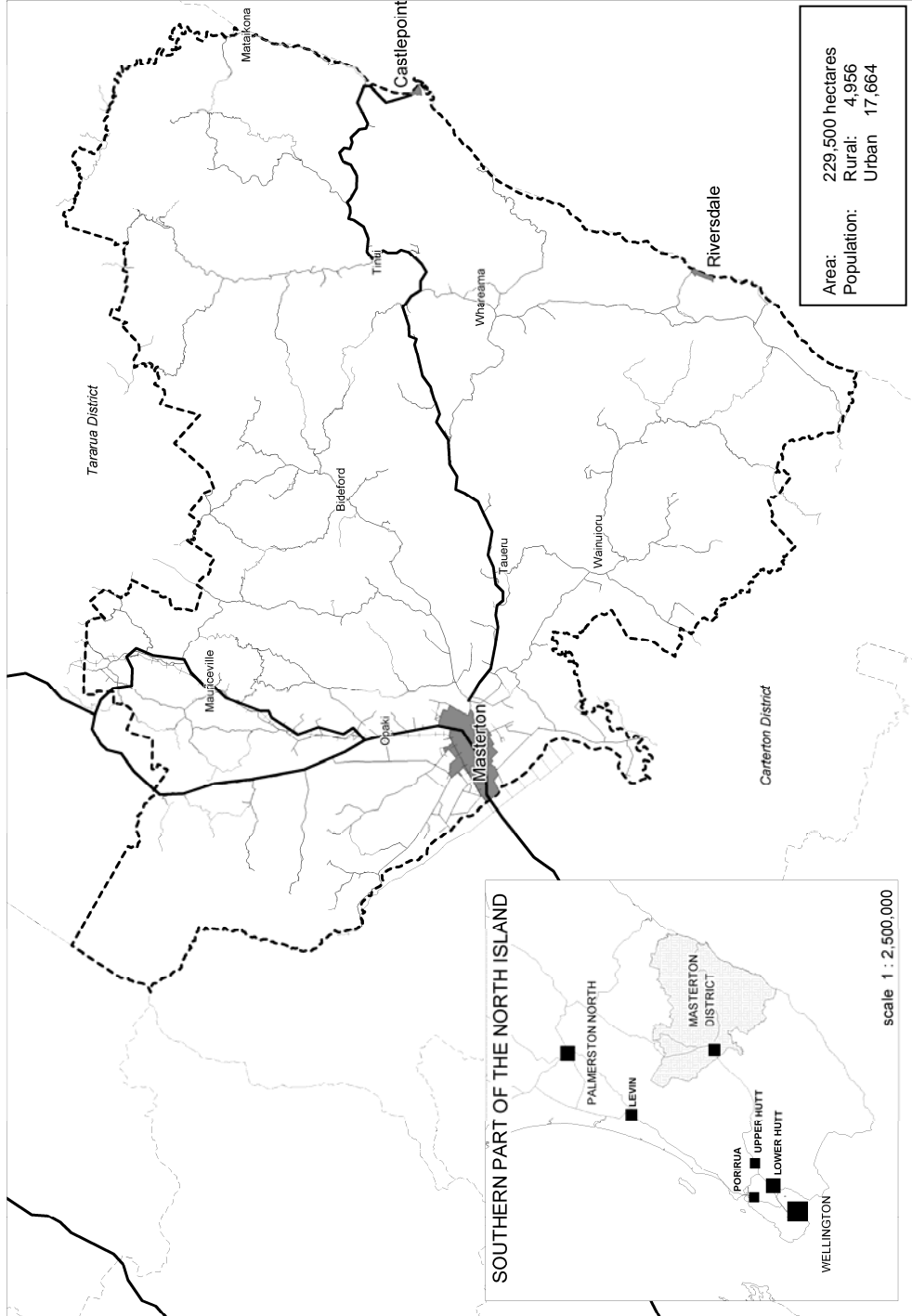


## MASTERTON DISTRICT

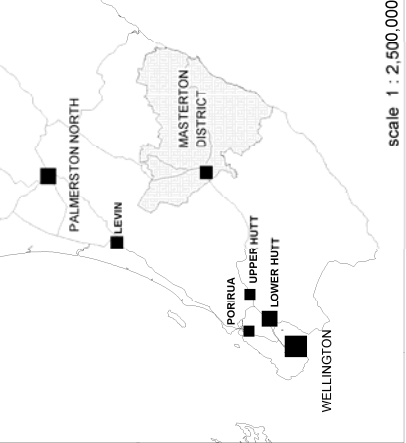
SCALE 1 : 400,000



Masterton District Council



### SOUTHERN PART OF THE NORTH ISLAND



scale 1 : 2,500,000