

FINANCIAL STATEMENTS

&

NOTES TO THE ACCOUNTS



MASTERTON DISTRICT COUNCIL

STATEMENT OF FINANCIAL POSITION as at 30 June 2008

\$ 30 June 2007		Notes	\$ 30 June 2008	\$ Plan
CURRENT ASSETS				
3,006,811	Cash & cash equivalents	10	1,819,655	50,000
1,905,144	Other financial assets	11	3,308,987	5,305,000
172,956	Inventories	8	158,704	200,000
0	Derivative financial instruments	22	320	
3,325,249	Debtors and other receivables	9	2,352,768	2,750,000
8,410,160	Total Current Assets		7,640,434	8,305,000
NON-CURRENT ASSETS				
64,206,453	Property, equipment & other assets	12,13	64,365,985	68,145,000
389,854,972	Infrastructural assets	12,13	504,570,000	450,000,000
3,021,448	Intangible assets	14	3,921,296	4,000,000
499,579	Forestry assets	15	372,975	500,000
1,841,000	Investment property	16	1,988,200	1,900,000
4,866,785	Other financial assets	11	5,343,115	3,500,000
464,290,237	Total Non-current Assets		580,561,571	528,045,000
\$472,700,397	TOTAL ASSETS		\$588,202,005	\$536,350,000
CURRENT LIABILITIES				
4,326,557	Creditors & other payables	20	3,690,321	4,916,000
536,527	Employee benefits	21	679,153	0
110,008	Provisions (current)	23	50,738	0
433,875	Financial liabilities - current portion	24	479,095	494,000
5,406,967	Total Current Liabilities		4,899,307	5,410,000
NON-CURRENT LIABILITIES				
12,032,321	Financial liabilities	24	13,004,523	15,053,000
0	Derivative financial instruments	22	95,473	0
121,626	Employee benefits	21	122,575	192,000
419,099	Provisions & other liabilities	23	407,747	441,000
12,573,046	Total Non-current Liabilities		13,630,318	15,686,000
\$454,720,384	NET ASSETS		\$569,672,380	\$515,254,000
PUBLIC EQUITY				
414,074,678	Retained earnings (ratepayers' equity)	25	414,618,390	309,427,000
26,371,951	Revaluation reserves	25	140,657,260	192,647,000
14,273,755	Special funds & restricted reserves	28	14,396,730	13,180,000
\$454,720,384	TOTAL PUBLIC EQUITY		\$569,672,380	\$515,254,000

The accompanying notes form part of these financial statements.



MASTERTON DISTRICT COUNCIL

STATEMENT OF FINANCIAL PERFORMANCE				
For the Year Ended 30 June 2008				
\$			\$	\$
Last Year			Actual	Plan
2006/07		Note	2007/08	2007/08
REVENUE				
14,612,412	Rates Revenue	3	15,828,245	15,790,953
10,525,016	Other Operating Revenue	4	10,818,714	11,228,876
846,575	Other Gains	4a	222,888	0
25,984,003	Total Operating Revenue		26,869,847	27,019,829
EXPENDITURE				
3,964,917	Personnel Costs	6	4,197,483	4,096,850
14,634,990	Other Expenses	7	13,669,639	14,949,169
525,441	Finance Costs	5,24	937,250	1,079,300
6,410,434	Depreciation & amortisation	12, 13, 14	7,005,115	6,395,070
473,537	Other Losses	4a	432,233	0
26,009,319	Total Operating Expenditure		26,241,720	26,520,389
(\$25,316)	Net Surplus/(Deficit) of Income over Expenditure		\$628,127	\$499,440

STATEMENT OF CHANGES IN EQUITY						
For the Year Ended 30 June 2008						
	\$	\$	\$	\$	\$	\$
Opening Balance	Revaluations	Special Funds	Ratepayers'	Total	Plan	Total
	(Note 25)	& Reserves	Equity	2007/08	2007/08	2006/07
		(Note 28)	(Note 25)			
1 July 2007	26,371,951	14,273,755	414,074,678	\$454,720,384	454,754,560	\$454,671,738
Surplus/(Deficit) for the year			628,127	628,127	499,440	(25,316)
Change in value of financial assets at fair value			38,560	38,560		25,724
Asset revaluation changes taken to equity (Note 25)	114,285,309			114,285,309	60,000,000	48,238
Total recognised revenues and expenses for the period				114,951,996	60,499,440	48,646
Transfers from Reserves		(4,484,452)	4,484,452	0		
Transfers to Reserves		2,280,327	(2,280,327)	0		
Tsf proceeds on sale of assets		71,072	(71,072)	0		
Tsf depreciation to reserves		2,256,028	(2,256,028)	0		
Closing Balance	140,657,260	14,396,730	414,618,390	\$569,672,380	515,254,000	\$454,720,384

The accompanying notes form part of these financial statements.



MASTERTON DISTRICT COUNCIL

STATEMENT OF CASHFLOWS for the Year Ending 30 June 2008

Last Year 2006/07		Notes	Actual 2007/08	Plan 2007/08
	Cash Flows from Operating Activities:			
	Cash was provided from:			
14,760,191	Rates (M.D.C. only)		15,895,717	15,731,000
3,640,118	Subsidies and grants		4,285,186	4,051,100
616,216	Interest received		693,370	870,000
7,614	Dividends received		8,496	0
5,526,640	Other operating receipts		6,060,357	6,308,900
<u>24,550,779</u>			<u>26,943,126</u>	<u>26,961,000</u>
	Cash was applied to:			
(17,421,915)	Payments to suppliers and employees		(17,888,573)	(19,089,000)
(521,379)	Interest paid		(937,250)	(1,055,000)
(383,216)	Goods and services tax (paid)/received (net)		605,724	-
<u>(18,326,510)</u>			<u>(18,220,099)</u>	<u>(20,144,000)</u>
6,224,269	Net Cash from Operating Activities	<u>28</u>	8,723,027	6,817,000
	Cash Flows from Investing Activities:			
	Cash was provided from:			
117,745	Proceeds from sale of property, plant and equipment		39,195	270,000
874,126	Proceeds from sale of investments		-	2,848,000
<u>991,871</u>			<u>39,195</u>	<u>3,118,000</u>
	Cash was applied to:			
(10,017,532)	Purchase of property, plant and equipment		(8,251,600)	(11,070,000)
(577,387)	Purchase of intangible assets		(1,026,057)	(510,000)
-	Acquisition of investments		(1,689,143)	-
<u>(10,594,919)</u>			<u>(10,966,800)</u>	<u>(11,580,000)</u>
(9,603,048)	Net Cash from Investing Activities		(10,927,605)	(8,462,000)
	Cash Flows from Financing Activities:			
	Cash was provided from:			
5,000,000	Proceeds from new financial liabilities		1,444,388	2,000,000
<u>5,000,000</u>			<u>1,444,388</u>	<u>2,000,000</u>
	Cash was applied to:			
(384,337)	Repayment of term liabilities		(400,899)	(405,000)
(23,013)	Repayment of finance lease liabilities		(26,067)	-
<u>(407,350)</u>			<u>(426,966)</u>	<u>(405,000)</u>
4,592,650	Net Cash from Financing Activities		1,017,422	1,595,000
\$1,213,871	Net Increase/(Decrease) in Cash and cash equivalents		(\$1,187,156)	(\$50,000)
1,792,940	Cash and cash equivalents at beginning of the year		3,006,811	100,000
<u>\$ 3,006,811</u>	Cash and cash equivalents at the end of the year	<u>10</u>	<u>\$ 1,819,655</u>	<u>\$ 50,000</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 \$40,715 (2007: \$0) 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 2008

Reporting Entity

Masterton District Council ("MDC") 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 2008. The financial statements were authorised for issue by the Council on 29 October 2008. The Council does not have the power to amend the financial statements after issue.

Basis of Preparation

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. This is the second set of financial statements prepared using NZ IFRS so comparatives for the year ended 30 June 2007 were also prepared using NZ IFRS.

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

Revenue

Revenue is measured at the fair value of consideration received.

- **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.

- **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 Land Transport New Zealand, 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 later 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.

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 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.

Trade and other receivables

Trade 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 Statement of Financial Performance.

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 equity. 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 profit or loss in which case the transaction costs are recognised in the Statement of Financial Performance.

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 profit and loss. 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 remeasurement are recognised in the Statement of Financial Performance. Financial assets in this category include the investment fund 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. 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 Financial Performance. Loans and receivables are classified as "trade 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 Financial Performance.

Financial assets at fair value through equity are those that are not classified in any of the other categories above. 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 equity except for impairment losses, which are recognised in the statement of financial performance. In the event of impairment, any cumulative losses previously recognised in equity will be removed from equity and recognised in the Statement of Financial Performance even though the asset has not been derecognised. On derecognition the cumulative gain or loss previously recognised in equity is recognised in the Statement of Financial Performance.

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 Statement of Financial Performance.

Accounting for derivative financial instruments and hedging activities

MDC does use derivative financial instruments to hedge 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 Statement of Financial Performance. 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, laterals to private property boundary and sewer pump stations.

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.

Disposals

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

Subsequent costs

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

Depreciation

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

Buildings - component lives range from	5 to 100 years	(1%-20%)
Landfill post closure	20 years	(5%)
Plant and equipment	10 years	(10%)
Intangibles - software	4 years	(25%)
Motor vehicles	6.67 years	(15%)
Office equipment, office furniture	4 and 5 years	(20% and 25%)
Library books	5 to 7 years	(14.3% to 20%)
Infrastructural assets		
Roading network		
Top surface (seal)	13 to 18 years	(5.5%-8%)
Road metal (unsealed)	3 years	(33%)
Pavement (base course) 75% depreciated	40 yrs (rural), 80 yrs	(2.5% and 1.25%)
Pavement (sub base) 25% depreciated	(urban)	
Formation (not depreciated)		
Pipe culverts	90 years	(1.11%)
Footpaths (basecourse & seal)	50 years and 15 years	(2% and 6.67%)
Kerbs	100 years	(1%)
Signs	12 years	(8.33%)
Road markings	1 year	(100%)
Streetlights (lamps & poles)	30 years and 40 years	(3.33% and 2.5%)
Bridges	80 to 100 years	(1% to 1.25%)
Other structures	50 years	(2%)
Water system		
Treatment plant	10 to 100 years	(1% to 10%)
Pipes	60 to 80 years	(1.25% to 1.6%)
Valves, hydrants, connections	50 years	(2%)
Reservoirs & tanks	50 and 80 years	(1.25% and 2%)
Sewerage system		
Pipes	60 to 80 years	(1.25% to 1.6%)
Manholes	75 years	(1.33%)
Treatment plant	10 to 80 years	(1.25% to 10%)
Drainage network		
Pipes	70 to 90 years	(1.1% to 1.4%)
Stopbanks & seawall	100 years	(1%)
Airport runway		
Pavement & seal	80 years and 15 years	(1.25% and 6.67%)

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each revaluation, which are carried out every 3 years.

Revaluation

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

Operational land and buildings

At fair value as determined from market-based evidence by an independent valuer. The most recent valuation was performed by QV Valuations Ltd, and the valuation is effective as at 30 June 2006.

Restricted land and buildings

At fair value as determined from market-based evidence by an independent valuer. The most recent valuation was performed by QV Valuations Ltd, and the valuation is effective as at 30 June 2006.

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 2008. 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 2008.

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

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 eg 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.

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

Investment property

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

The investment properties, for the purposes of transition to IFRS, have been transferred at valuation and any revaluation reserve associated has been transferred to equity. After initial recognition, MDC will measure all investment property 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 Statement of Financial Performance.

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 Statement of Financial Performance.

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

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 Statement of Financial Performance, a reversal of the impairment loss is also recognised in the Statement of Financial Performance.

For assets not carried at a revalued amount (other than goodwill) the reversal of an impairment loss is recognised in the Statement of Financial Performance.

Employee benefits

Short-term benefits

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 benefits

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 Statement of Financial Performance as incurred.

Defined benefit schemes: MDC has six 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 six 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.

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.

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 IFRS, 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 Statement of Financial Performance. 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 2008

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.

RATES REQUIREMENT SUMMARY				
2006/07		2007/08	2007/08	
Actual		Actual	Plan	Variance
	Groups & Activities			
\$	Transport	\$	\$	\$
4,113,240	Roading	4,725,421	4,598,169	(127,252)
(37,221)	Parking	(30,158)	(34,227)	(4,069)
47,466	Airport	48,497	13,532	(34,965)
	Water Services			
1,698,668	Urban Water supply	1,790,532	1,854,450	63,918
55,542	Rural Water supplies & races	52,555	53,290	735
	Waste Services			
1,403,545	Urban Sewerage system	1,613,685	1,602,261	(11,424)
63,935	Rural Sewerage systems	79,663	57,055	(22,608)
244,197	Stormwater	215,259	221,039	5,780
807,703	Solid Waste Management	859,399	796,891	(62,508)
	Community Facilities			
1,293,506	Parks, Reserves & Sportsfields	1,354,311	1,430,480	76,169
959,387	Genesis Energy Recreation Centre	954,948	990,223	35,275
60,580	Cemeteries	50,294	53,279	2,985
214,406	District Building	216,454	225,519	9,065
(103)	Housing for Elderly	(83)	100	183
358,678	Other Property	389,418	421,524	32,106
	Community Services			
1,114,378	Library & Archive	1,200,354	1,205,844	5,490
328,440	Community Development	336,855	347,007	10,152
302,848	Arts & Culture	299,684	303,135	3,451
501,930	Economic Development & Promotion	509,806	503,377	(6,429)
	Planning & Regulatory Services			
420,327	Resource Management & Planning	445,633	397,982	(47,651)
201,931	Environmental Health	211,392	224,081	12,689
16,587	Building Control	28,848	12,135	(16,713)
44,432	Bylaw Control/General Inspection	61,880	30,852	(31,028)
156,310	Rural Fire	144,908	158,722	13,814
7,414	Dog Control	7,251	8,165	914
131,377	Emergency Management	142,995	137,420	(5,575)
	Governance			
430,047	Representation	436,502	459,325	22,823
(22,918)	Internal Functions	(27,062)	(30,677)	(3,615)
14,916,632	Total Rates Requirement	16,119,241	16,040,953	(78,288)
	Rates Income			
14,827,253	Masterton District rates levied	16,080,976	16,027,953	53,023
131,506	Rates penalties	112,626	100,000	12,626
(70,841)	Rates remissions	(77,389)	(65,000)	(12,389)
(22,422)	Discounts (on prompt payment)	(23,405)	(22,000)	(1,405)
14,865,496	Rates Revenue (incl Council properties)	16,092,808	16,040,953	51,855
(51,136)	Net Rates Surplus/(Deficit)	(26,433)	-	(26,433)

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 2

COST OF SERVICES SUMMARY for the 2007/08 Year			Actual Net Operating Cost	Plan Net Operating Cost	Capital Expenditure
	Operating Revenue	Operating Expenditure			
Transport					
Roading	2,009,219	8,197,830	6,188,611	6,119,441	4,551,514
Parking	203,317	129,921	(73,396)	(82,345)	-
Airport	162,613	200,815	38,202	2,802	54,823
Water Services					
Urban Water supply	102,014	1,979,089	1,877,075	1,905,522	534,537
Rural Water supplies & races	148,539	200,258	51,719	56,040	19,813
Waste Services					
Urban Sewerage system	286,220	2,303,007	2,016,787	1,937,534	1,620,275
Rural Sewerage systems	2,930	162,932	160,002	83,100	152,873
Stormwater	-	376,393	376,393	386,039	-
Solid Waste Management	1,633,185	2,765,088	1,131,903	836,686	66,659
Community Facilities					
Parks, Reserves & Sportsfields	77,194	1,692,671	1,615,477	1,596,234	734,350
Genesis Energy Recreation Centre	73,708	1,210,124	1,136,416	1,171,773	7,362
Cemeteries	60,826	144,308	83,482	65,279	-
District Building	226,083	440,749	214,666	329,019	57,573
Housing for Elderly	285,453	381,899	96,446	87,875	35,376
Other Property	172,846	671,134	498,288	524,424	233,698
Community Services					
Library & Archive	178,626	1,378,980	1,200,354	1,210,844	247,194
Community Development	58,610	359,479	300,869	359,007	
Arts & Culture	56,200	338,734	282,534	320,135	
Economic Development & Promotion	62,337	765,503	703,166	625,877	10,719
Planning & Regulatory Services					
Resource Management & Planning	1,000,104	843,654	(156,450)	235,482	
Environmental Health	382,898	592,290	209,392	224,081	9,001
Building Control	658,758	677,606	18,848	2,135	
Bylaw Control/General Inspection	235,732	312,612	76,880	45,852	113,867
Rural Fire	63,002	207,910	144,908	158,722	1,987
Dog Control	293,462	288,713	(4,749)	16,165	-
Emergency Management	5,631	148,626	142,995	132,420	
Governance					
Representation	308,000	752,010	444,010	479,325	
Internal Functions	4,144,907	3,136,039	(1,008,868)	(959,677)	213,395
External funding of capital expenditure*	2,510,624		(2,510,624)	(2,328,278)	
Eliminate internal recoveries**	(4,584,324)	(4,848,887)			
	10,818,714	25,809,487	15,255,337	15,541,513	8,665,016
* Includes LTNZ subsidy for roading renewals					
** Includes rates paid for council properties					
		Capital expenditure	8,665,016	11,580,830	-
		Add loan principal repayments	634,225	653,374	
		Less loan funds applied	(1,482,076)	(3,359,000)	
		Transfers to reserves	2,280,285	1,391,500	
		Transfers from reserves	(4,484,452)	(5,703,845)	
			20,868,335	20,104,372	
		Depreciation not funded from rates	(4,749,094)	(4,063,419)	
		Rates Requirement	\$16,119,241	\$16,040,953	

Notes to the Accounts

Note 3

RATES REVENUE	Notes	\$	\$	\$
		Actual 2007/08	Plan 2007/08	Last Year 2006/07
Gross MDC Rates Levied		16,080,976	16,027,953	14,827,253
less Rates levied on Council properties		(271,052)	(250,000)	(259,573)
plus Rates Penalties		112,626	100,000	131,506
less Rates Remissions	30	(77,389)	(65,000)	(70,841)
less Discounts on prompt payment (excluding Council)		(16,916)	(22,000)	(15,933)
Total Revenue From Rates		\$15,828,245	\$15,790,953	\$14,612,412

Notes to the Accounts

Note 4

OTHER REVENUE	Notes	\$	\$	\$
		Actual 2007/08	Plan 2007/08	Last Year 2006/07
User charges		2,995,802	3,473,675	3,030,868
Regulatory income		1,208,504	1,162,050	1,073,578
Infringements and fines		72,804	71,000	77,544
Finance income	5	704,013	870,000	620,180
Dividend income		8,496	-	1,246
Roading subsidies ex LTNZ		3,985,640	4,051,101	3,853,884
Local authority petrol tax		177,328	172,000	178,238
Financial contributions (from developers)		981,619	345,000	555,364
Other operating revenue		684,508	1,084,050	849,525
Revenue recognised from vested assets		-	-	284,589
Total Other Revenue		\$10,818,714	\$11,228,876	\$10,525,016

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

Notes to the Accounts

Note 4a

OTHER GAINS/(LOSSES)		\$	\$	\$
		Actual 2007/08	Plan 2007/08	Last Year 2006/07
Gains				
Forestry asset revaluation gain		-	-	140,994
Property, plant and equipment gains on disposal		31,877	-	30,981
Investment property revaluation gains		147,200	-	674,600
Total non-financial instrument gains		179,077	-	846,575
Gain on valuation of financial assets (fair value thru P&L)		43,811	-	-
Total Gains		222,888	-	846,575
Losses				
Forestry asset revaluation loss		(90,682)	-	-
Property, plant and equipment losses on disposal		(341,551)	-	(286,762)
Total non-financial instrument losses		(432,233)	-	(286,762)
Loss on valuation of financial assets (fair value thru P&L)		-	-	(186,775)
Total Losses		(432,233)	-	(473,537)

Notes to the Accounts

Note 5

FINANCE INCOME & FINANCE COSTS	\$ Actual 2007/08	\$ Plan 2007/08	\$ Last Year 2006/07
Finance income			
Interest Income on:			
- financial assets held/invested by MDC	375,462	510,000	433,405
- financial assets managed by ING (NZ) Ltd	328,551	360,000	186,775
Total finance income	704,013	870,000	620,180
Finance costs			
Interest expense:			
- on bank borrowings	524,454	645,100	525,441
- on debenture stock	374,466	400,000	-
- on finance leases	11,647	10,000	11,549
Discount unwind on provisions (Note 23)	26,683	24,200	34,165
Fair value gains on hedging instruments			
- transfer from equity for cash flow hedges	-	-	-
Total finance costs	937,250	1,079,300	571,155
Net Finance Costs/(Income)	\$233,237	\$209,300	(\$49,025)

Notes to the Accounts

Note 6

PERSONNEL COSTS	Actual 2007/08	Plan 2007/08	Last Year 2006/07
Salaries & wages	4,015,446	3,860,850	3,571,284
Medical insurance (incl FBT)	92,615	87,385	83,818
Superannuation	134,363	148,615	139,467
Incr/(Decr) in employee benefit liabil.	(44,941)	-	170,348
Total Personnel costs	\$4,197,483	\$4,096,850	\$3,964,917

Notes to the Accounts

Note 7

OTHER EXPENSES	Actual 2007/08	Plan 2007/08	Last Year 2006/07
Fees to principal auditor			
Audit fees for financial statement audit	80,000	80,000	75,000
Audit fees for projects (NZ IFRS/LTCCP)	3,895	10,000	20,000
Donations	2,659	2,750	3,950
Grants - funding community development	307,894	336,240	305,933
Grants - funding arts & culture	320,358	324,120	278,805
Grants - funding economic development	515,920	453,000	572,449
ACC levies	38,119	30,035	32,198
Inventories (change in value)	14,252	-	(4,146)
Impairment of receivables	12,258	7,500	120,353
Lease payments under finance leases	37,714	35,000	34,562
Election costs (net of recoveries)	49,783	30,000	9,028
Mayor & Councillors' honorariums	267,792	273,650	268,141
Entertainment costs	26,790	13,000	15,629
Ceremonies & presentations	1,521	3,000	2,341
Other operating expenses	11,990,684	13,350,874	12,900,747
Total other expenses	\$13,669,639	\$14,949,169	\$14,634,990

Notes to the Accounts

Note 8

INVENTORIES		\$
30 June 2007		30 June 2008
72,937	Water & sewer reticulation spares	75,982
13,876	Street furniture & pavers	11,100
29,434	Water treatment chemicals	41,782
4,351	Rubbish bags & bins	4,349
13,579	Miscellaneous items	12,373
38,779	Pre-paid envelopes	13,118
\$172,956	Total Stock	\$158,704

No inventories are pledged as security for liabilities (2007 \$nil). There are no inventories held for distribution.

Notes to the Accounts

Note 9

DEBTORS & OTHER RECEIVABLES		\$
30 June 2007		30 June 2008
210,386	Rates receivables	134,480
1,323,198	Roading subsidies receivable (from LTNZ)	1,151,608
1,127,233	Sundry debtors & receivables	1,041,934
313	Related party receivables (Note 18)	15,340
655,605	GST receivable	9,380
2,594	Community loans	0
95,976	Prepayments	92,685
3,415,305		2,445,427
(90,056)	- less provision for doubtful debts	(92,659)
\$3,325,249	Total Debtors & Other Receivables	\$2,352,768

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 2008 and 2007 are detailed below:

30 June 2007		30 June 2008
2,880,772	Not past due	2,111,176
148,328	Past due 1-60 days	124,934
113,584	Past due 61-120 days	43,810
272,621	Past due > 120 days	165,507
\$3,415,305	Total	\$2,445,427

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 as detailed below:

30 June 2007		30 June 2008
9,766	Individual impairment	5,217
80,290	Collective impairment	87,442
\$90,056	Total provision for impairment	\$92,659

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 2007		30 June 2008
291	Past due 1-60 days	0
0	Past due 61-120 days	381
9,475	Past due > 120 days	4,836
\$9,766	Total individual impairment	\$5,217

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

30 June 2007		30 June 2008
90,264	At 1 July	90,056
13,006	Additional provisions made during the year	13,107
(3,786)	Provisions reversed during the year	(1,724)
(9,428)	Receivables written off during the year	(8,780)
\$90,056	As At 30 June	\$92,659

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

CASH & CASH EQUIVALENTS

\$		\$	
30 June 2007		30 June 2008	
145,256	Cash at bank and in hand	361,655	
2,861,555	Short term deposits of 3 months or less (from acquisition)	1,458,000	
\$3,006,811	Total cash and cash equivalents	\$1,819,655	

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 \$8,000.

OTHER FINANCIAL ASSETS

\$		\$	
30 June 2007		30 June 2008	
672,931	Short term deposits - maturities > 3 but less than 12 mths (valued as held-to-maturity) *2	1,473,541	
677,736	Corporate bonds (at fair value through equity)	501,734	
554,477	Investments held by fund manager (at fair value through P&L) *3	1,333,712	
\$1,905,144	Total Current Portion of Financial Assets	\$3,308,987	
Non-current			
180,443	Shares (NZLGIC & Airtel) (at fair value through equity) *1	194,049	
564,490	Corporate bonds (at fair value through equity)	1,487,710	
4,121,852	Investments held by fund manager (at fair value through P&L) *3	3,661,356	
\$4,866,785	Total Non-Current Portion of Financial Assets	\$5,343,115	
\$6,771,929	Total Other Financial Assets	\$8,652,102	
Internal loans/investments			
\$6,457,187	Internal Loans/Investments *4	\$6,505,940	
\$16,235,927	Total Funds On Hand or Invested (including Cash & Internal)	\$16,977,697	

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.

Notes:

*1 Shares consist of:

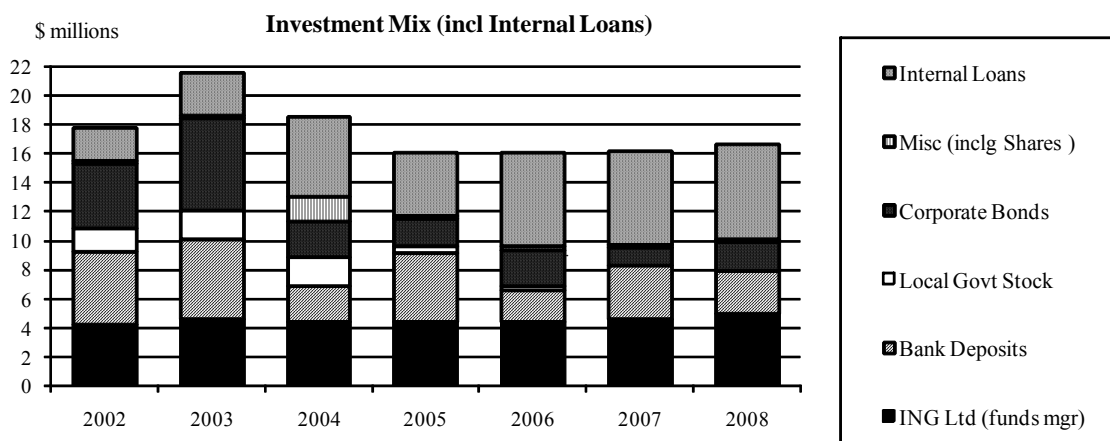
57,615 New Zealand Local Government Insurance Corporation Ltd fully paid ordinary \$1.00 shares, valued at \$ 3.00 each and 18,600 \$1.14 Airtel shares.

*2 Bank deposits have maturity dates which range from 1 to 8 months. The deposits are spread across a range of financial institutions, as per the Council's investment policy.

*3 ING (NZ) Ltd have been contracted to manage a portion of the Council's investments.

*4 The Council has continued to utilise a level of internal investment to fund capital projects.

*5 Weighted average interest being earned on investments at the 30 June 2008 was 7.84% (last year 7.46%)



Notes to the Accounts

Note 12

PROPERTY PLANT & EQUIPMENT

2008	Original Cost/ Valuation 30-Jun-07	Accum. Depreciation 30-Jun-07	Carrying Amount 30-Jun-07	Current Year Additions	Current Year Disposals *1	Current Year Depreciation	Current Year Revaluation	Original Cost/ Valuation 30-Jun-08	Accum. Depreciation 30-Jun-08	Carrying Amount 30-Jun-08
Operational Assets										
Land	33,185,316	-	33,185,316	1,987	-			33,187,303	-	33,187,303
Buildings	30,081,379	(1,020,625)	29,060,754	903,814	(32,509)	(1,048,347)		30,950,993	(2,067,281)	28,883,712
Plant & vehicles	2,001,993	(1,273,215)	728,778	191,638	(29,038)	(131,409)		1,980,258	(1,220,289)	759,969
Equipment & furniture	3,237,745	(2,616,012)	621,733	535,058	(419)	(215,585)		3,324,563	(2,383,776)	940,787
Office equip. (finance lease)	133,919	(47,806)	86,113	40,715	(46,885)	(23,637)		75,515	(19,209)	56,306
Library books	2,051,253	(1,623,265)	427,988	127,990	(12,455)	(108,394)		2,166,788	(1,731,659)	435,129
Work in progress	95,771	-	95,771	7,008				102,779	-	102,779
Total operational assets	70,787,376	(6,580,923)	64,206,453	1,808,210	(121,306)	(1,527,372)	0	71,788,199	(7,422,214)	64,365,985
Infrastructural Assets										
Land (under roads)	78,065,389	-	78,065,389	11,100			3,709,511	81,786,000	-	81,786,000
Roading network	269,246,287	(6,767,896)	262,478,391	4,553,214	(124,030)	(3,888,387)	84,806,814	347,826,000	-	347,826,000
Urban water supply	22,606,461	(1,205,536)	21,400,925	328,655	(81,385)	(602,937)	9,036,250	30,081,508	-	30,081,508
Urban sewerage	14,729,444	(1,028,180)	13,701,264	586,250	(62,536)	(519,334)	11,097,260	24,802,905	-	24,802,905
Stormwater assets	8,167,076	(281,313)	7,885,763	44,145		(141,057)	4,155,147	11,944,000	-	11,944,000
Other infrastructure	5,622,520	(197,543)	5,424,977	33,428	5,656	(102,020)	1,452,085	6,814,125	-	6,814,125
Work in progress	898,263	-	898,263	325,302			91,897	1,315,462	-	1,315,462
Total infrastructural assets	399,335,440	(9,480,468)	389,854,972	5,882,094	(262,295)	(5,253,735)	114,348,964	504,570,000	-	504,570,000
Total Property, Plant & Equipment	\$ 470,122,816	(\$16,061,391)	\$ 454,061,425	\$ 7,690,304	(\$383,601)	(\$6,781,107)	\$ 114,348,964	\$ 576,358,199	(\$7,422,214)	\$ 568,935,985

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 2006, the valuation undertaken by QV Valuations, registered valuers.

Library books are valued at depreciated replacement cost annually by librarian, L Workman, with an independent peer review.

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.

Notes to the Accounts

Note 13

PROPERTY PLANT & EQUIPMENT

2007	Original Cost/ Valuation 1-Jul-06	Accum. Depreciation 1-Jul-06	Carrying Amount 1-Jul-06	Current Year Additions	Current Year Disposals	Current Year Depreciation	Current Year Revaluation	Original Cost/ Valuation 30-Jun-07	Accum. Depreciation 30-Jun-07	Carrying Amount 30-Jun-07
Operational Assets										
Land	29,583,089	-	29,583,089	3,668,227	(66,000)			33,185,316	-	33,185,316
Buildings	28,872,658	(559)	28,872,098	1,282,622	(68,879)	(1,025,087)		30,081,379	(1,020,625)	29,060,754
Plant & vehicles	1,948,632	(1,185,851)	762,781	113,112	(20,394)	(126,722)		2,001,993	(1,273,215)	728,778
Equipment & furniture	3,171,029	(2,534,682)	636,347	192,484	(17,734)	(189,363)		3,237,745	(2,616,012)	621,733
Office equip. (finance lease)	133,919	(21,022)	112,897			(26,784)		133,919	(47,806)	86,113
Library books	1,938,988	(1,517,813)	421,175	114,873	(2,607)	(105,452)		2,051,253	(1,623,265)	427,988
Work in progress	686,475	-	686,475	(590,704)				95,771	-	95,771
Total operational assets	66,334,790	(5,259,927)	61,074,862	4,780,614	(175,614)	(1,473,408)	0	70,787,376	(6,580,923)	64,206,453
Infrastructural Assets										
Land (under roads)	78,037,025	-	78,037,025	28,364				78,065,389	-	78,065,389
Roading network	266,095,043	(3,392,513)	262,702,530	3,205,744	(54,500)	(3,375,383)		269,246,287	(6,767,896)	262,478,391
Urban water supply	22,396,443	(597,523)	21,798,920	263,803	(53,785)	(608,013)		22,606,461	(1,205,536)	21,400,925
Urban sewerage	14,523,871	(510,605)	14,013,266	205,573		(517,575)		14,729,444	(1,028,180)	13,701,264
Stormwater assets	8,167,076	(140,477)	8,026,599	0		(140,836)		8,167,076	(281,313)	7,885,763
Other infrastructure	4,832,111	(97,210)	4,734,901	791,398	(989)	(100,333)		5,622,520	(197,543)	5,424,977
Work in progress	560,155		560,155	338,108				898,263	-	898,263
Total infrastructural assets	394,611,724	(4,738,328)	389,873,396	4,832,990	(109,274)	(4,742,140)	0	399,335,440	(9,480,468)	389,854,972
Total Property, Plant & Equipment	\$ 460,946,514	(\$9,998,255)	\$ 450,948,258	\$ 9,613,604	(\$284,888)	(\$6,215,548)	\$ 0	\$ 470,122,816	(\$16,061,391)	\$ 454,061,425

Note: Land and buildings were revalued as at 30 June 2006, the valuation undertaken by QV Valuations, registered valuers.

Library books are valued annually, per collection type, with the valuation peer reviewed.

Infrastructural assets (at Optimised Depreciated Replacement Value) were revalued as at 30 June 2005 by Opus International Consultants Ltd.

Notes to the Accounts

Note 14

INTANGIBLE ASSETS	\$		\$ 2007 Total	\$		\$ 2008 Total
	2007 Computer Software	2007 Resource Consents		2008 Computer Software	2008 Resource Consents	
Opening Original Cost	554,787	2,945,660	3,500,447	507,336	3,473,135	3,980,471
Opening Accum. Amortisation	(503,035)	(328,693)	(831,728)	(467,339)	(491,684)	(959,023)
Carrying Amount (start of year)	51,752	2,616,967	2,668,719	39,997	2,981,451	3,021,448
Additions	20,142	527,475	547,617	97,457	1,026,403	1,123,860
Disposals (net BV)	(2)	-	(2)	-	-	-
Amortisation Change	(31,895)	(162,991)	(194,886)	(38,823)	(185,189)	(224,012)
Closing Original Cost	507,336	3,473,135	3,980,471	604,793	4,499,538	5,104,331
Closing Accum. Amortisation	(467,339)	(491,684)	(959,023)	(506,162)	(676,873)	(1,183,035)
Carrying Amount (end of year)	39,997	2,981,451	\$ 3,021,448	98,631	3,822,665	\$ 3,921,296

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 the which the consent has been applied for. In the case of the Homebush sewage treatment and disposal consent, the Council has requested a 35 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.

Notes to the Accounts

Note 15

FORESTRY ASSETS	Actual 2008	Actual 2007
Opening balance 1 July	499,579	360,403
Gains/(losses) arising from changes in fair value	(90,682)	140,994
Decreases due to harvest	(35,922)	(1,818)
Balance at 30 June	\$ 372,975	\$ 499,579

The Council's investments in forestry 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 60% 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.

The Riversdale dump and Te Roto blocks were harvested during the period.

Independent registered valuers PF Olsen Ltd (Mr Noel Burn-Murdoch, NZIF) have valued forestry assets as at 30 June 2008. A pre-tax discount rate of 7% has been used in discounting the present value of expected cash flows.

Notes to the Accounts

Note 16

INVESTMENT PROPERTY	Actual 2008	Actual 2007
Opening balance 1 July	1,841,000	1,166,400
Additions from acquisitions	-	-
Disposals	-	-
Fair value gains/(losses) on valuation	147,200	674,600
Balance at 30 June	\$ 1,988,200	\$ 1,841,000

MDC's investment properties are valued at fair value effective 30 June 2008. 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		2007/08 Plan	2007/08 Actual	Source of Funding		
				Rates	Reserves	Other
Transport						
Roading	Subsidised roading renewals - rural	2,826,000	3,457,231	1,548,634		1,908,597 *2
	Subsidised roading renewals - urban	699,960	742,023	291,492	35,779	414,752 *2
	Subsidised bridge renewals	300,000	-			
	Urban footpath & footbridge renewals	258,000	211,972	106,972	105,000	
	Urban footpath construction (High St)	45,000	90,975	21,411	29,800	39,764 *2
	CBD footpath resurfacing projects (stage1)	50,000	-			
	Car park renewals & upgrades	20,000	38,213		38,213	
	Blair St Corner Splay	-	11,100		11,100	
Airport	Airport services & facilities extension	250,000	54,823			54,823 *1
	Airport runway reseal	210,000	-			
Parking	Parking meter replacements	65,000	-			
Water Services						
Urban Water	Water treatment plant & infrastr. renewals	72,940	97,566		97,566	
	Water treatment buildings & grounds	20,840	23,908		23,908	
	Water treatment replacement vehicle	-	24,626		24,626	
	Water treatment filter refurbishment	1,041,000	-			
	Water reticulation renewals (incl reservoirs)	100,000	256,391		220,840	35,551 *3
	Boost pump replacement	-	132,046		132,046	
	Water supply - trunk line renewals	20,840	-			
Rural Water	Wainuioru water supply renewals	-	16,588		16,588	
	Tinui water supply equip. renewal	-	2,334		2,334	
	Castlepoint water supply plant renewal	-	891		891	
Waste Services						
Urban Sewerage	Sewerage system upgrade (part)	510,000	1,026,403			1,026,403 *1
	Sewerage reticulation renewals	940,120	586,251		535,977	50,274 *3
	Sewerage plant renewals	-	7,621		7,621	
Rural Sewerage	Tinui sewerage system upgrade	-	16,572		16,572	
	Castlepoint sewerage system upgrade	-	2,110		2,110	
	Riversdale sewerage scheme design	500,000	134,191			134,191 *1
Solid Waste Mgmt	Special wastes processing facility (c/fwd)	100,000	-			
	Urban transfer station & resource recovery	125,000	66,659			66,659 *1
	Tinui transfer station	100,000	-			
	Rural transfer stations upgrades	51,000	-			
Stormwater	Stormwater - various upgrades c/fwd	250,000	-			
Community Facilities						
Parks & Reserves	Q. E. Park rejuvenation - phase II (c/fwd)	525,500	515,041		315,041	200,000 *1
	Q. E. Park - water feature	336,000	-			
	Q. E. Park - replace Dixon St toilets	230,000	-			
	Q. E. Park - grandstand internal upgrade	46,000	-			
	Q.E. Park - Sportsbowl path lighting	12,000	10,327		10,327	
	Q.E. Park - Sportsbowl irrigation	-	15,161		15,161	
	Q.E. Park - rented buildings upgrade	42,000	22,972		22,972	
	Q.E Park - playground equipment upgrades	-	31,052			31,052 *3
	Lansdowne recreational trails	-	15,349		15,349	
	Outdoor stage replacement	-	21,587		21,587	
	Henley Lake outlet & bank upgrading	30,000	-			
	Memorial Park - grandstand upgrade	94,000	6,245		6,245	
	Opaki tennis courts astroturf	15,000	22,010		12,010	10,000 *3
	Street tree strategy	20,000	15,541		15,541	
	Castlepoint - landscaping road reserve	160,000	59,065		59,065	
GE Rec Centre	Recreation centre - minor capital items	100,000	7,362		4,362	3,000 *3
Cemeteries	Cemetery upgrades	41,160	-			
District Building	District building upgrades & equipment	130,000	57,573		57,573	
	District building - office alterations	212,000	-			
	District building - Town Hall stage equip	120,000	-			
Housing for Elderly	Pensioner housing upgrades	30,870	35,376		35,376	
Other Property	Castlepoint toilet upgrade c/fwd	210,000	207,414		207,414	
	Public conveniences	12,500	8,781		8,781	
	Rental property upgrades	46,000	10,388		10,388	
	Mawley Park facility upgrades	40,000	-			
	Rural Hall upgrades	-	7,115		7,115	
sub totals to carry forward to next page		11,008,730	8,068,853	1,968,509	2,125,278	3,975,066

CAPITAL EXPENDITURE SUMMARY Significant Activity / Project		2007/08 Plan	2007/08 Actual	Source of Funding		
				Rates	Reserves	Other
sub totals carried forward		11,008,730	8,068,853	1,968,509	2,125,278	3,975,066
Community Services						
Library & Archive	Book purchases	128,500	127,990		127,990	
	Computer & equipment upgrades	62,000	68,890		60,874	8,016 *3
	Library building & furniture upgrades	5,000	18,272		18,272	
	Library air conditioning upgrade	-	32,042		32,042	
Economic Devlpmt	Jubilee site works	-	2,219		1,102	1,117 *3
	CBD security cameras	-	8,500			8,500 *3
Planning & Regulatory Services						
Inspectorate	Council vehicle fleet replacements	80,000	113,867		113,867	
	Health & Civil Defence equipment	10,300	9,001		9,001	
Rural Fire	Wainuioru fire station land	-	1,987		1,987	
Dog Control	Dog pound building upgrade	10,300	-			
Corporate Services/Internal Functions						
	Computer & office equipment upgrades	100,000	63,471		63,471	
	Records Management system	41,000	-			
	Phone system upgrade c/fwd	135,000	148,276		148,276	
	Engineering surveillance camera	-	1,648		1,648	
Total Capital Expenditure		\$ 11,580,830	\$ 8,665,016	\$ 1,968,509	\$ 2,703,808	\$ 3,992,699

*1 External loan funding totals \$1,200,000, Internal loan funding totals \$282,076

*2 Land Transport NZ subsidies on roading capital and renewals expenditure totals \$2,363,113

*3 External grants & contributions towards asset purchases \$147,510

REPORT ON CAPITAL EXPENDITURE VARIANCES

Transport - Roading renewals are \$673,000 more than planned. One road rehabilitation contract which was not completed at 30 June 2007, was completed in 2007/08 - value \$132,500. Two categories of roading expenditure have been reclassified from maintenance to renewals since the Plan was prepared - these are re-metalling unsealed roads and roadmarking. The value of renewals expenditure in 2007/08 on these two items is \$548,000. The renewal work on the Black Swamp bridge was not progressed this year. The planned \$45,000 for the new footpath at High Street Solway was the net MDC funding expected. \$51,211 funding was required for the \$91,000 job. Planning for the airport runway reseal and services expenditure was dependent on developments related to a scheduled airline service. Those developments were still pending at year end. No significant progress was made on the parking meter replacements or the CBD footpath resurfacing projects.

Water Services - the refurbishment of two of the water filters was scheduled but was not progressed during the year. The number of reticulation connections (tobies) replaced was higher than planned, while the unreliability of the main line boost pump prompted the purchase of a replacement, although it had not been installed at year end.

Waste Services - following the additional land purchase in 2007, the Council has decided to revise its proposed scheme. The engineering and planning support required to support this decision included new preliminary scheme design, redrafting the consent application and the assessment of environment effects (AEE), hence the planned level of expenditure on the sewage treatment & disposal upgrade project was exceeded.

Riversdale Beach sewerage scheme was planned to be progressing through detailed design stage, but additional options were added to the consultation material for the consideration of the community, delaying the process, hence the expenditure is below the planned level.

Solid waste capital expenditure has been limited to improvements to the transfer station's operating area. Other items such as special wastes processing facilities, Tinui transfer station and resource recovery facilities have not been progressed, pending the Council's review of its waste management strategy.

The provision of \$250,000 that was allowed in the Plan to implement upgrades to urban stormwater assets was not used as priority was allocated to other services work.

Community Facilities - Stage II of the QE Park rejuvenation was largely completed during the year. The miniput kiosk and toilet building for the playground were still to be completed at year end. The water feature component in the Plan did not proceed as the Council went through a resource consent and appeals process relating to the removal of the Hosking Garden. The Dixon St toilet block was planned to be replaced, but this was delayed as a review of the facility needs in the area was undertaken. A number of other parks project items were completed, some carried forward from previous years eg recreational trails and the Sportsbowl irrigation. A new playground feature was installed, funded by a grant and the outdoor stage was replaced (by insurance). The landscape upgrade of the road reserve at Castlepoint has been designed, but no physical work was started as the community was consulted. The Castlepoint (western) toilets were completed during the year, within budget. The Genesis Energy Recreation Centre energy efficiency upgrades were delayed as operational aspects were looked at. Capital projects to upgrade the District Building office space and town hall stage were not progressed past the planning stages as the Council sought more information and advice. Work on renewing aspects of Mawley Park campground were not progressed, pending a review of management options for the facility.

Community Services - the completion of the library's airconditioning installation was carried over from last year. Funding from the Government's digital strategy was applied to computer systems to deliver aspects of the archive's project.

Internal Functions - the phone system was upgraded to up-to-date technology, while progress on replacing the records system was limited to assessing options.

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). In addition, during the year the Council had dealings with the organisations listed below where there is a relationship between a Councillor and the named organisation.

- * Mayor G.E. Daniell is 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 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.
- * Councillor J. Hooker is a trustee of Oasis Charitable Trust which received grants from the Council.
- * The former Mayor, Mr R.C. Francis, Cr J Hooker and Mr D Paris (Manager Finance) are members of the Wairarapa Balloon Society Inc. which received a grant from the Council.

	\$	\$
Significant transactions and balances outstanding are as follows:	2007/08	2006/07
Value of goods supplied by Mstn.Mitre 10 & Wai. Concrete Ltd.	8,457	7,844
Value of goods & services supplied to Mstn.Mitre 10 (landfill charges)	7,313	4,194
Council owes Mitre 10 / is owed by Mitre 10, at year end	573 / 576	2,182 / 313
Value of goods & services supplied by M.T.L.T.	1,106	0
Value of grants income received by Council from M.T.L.T.	80,800	72,000
Council is owed from M.T.L.T at year end	14,764	0
Grant given by the Council to Oasis Charitable Trust	0	1,000
Grant given by the Council to Wairarapa Balloon Society Inc.	10,000	20,000

Key management personnel compensation	2007/08	2006/07
Salaries & performance payments	842,009	786,441
Other benefits (professional fees etc)	10,762	9,936
Post employment, long term benefits & termination benefits	0	0
	<u>852,771</u>	<u>796,377</u>

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

The Council's senior management team consists of four people (see organisation chart).

Severance payments - for the year ended 30 June 2008 MDC made 0 severance payments (2006/07 = 0)

REMUNERATION OF CHIEF EXECUTIVE OFFICER

The Chief Executive Officer of the Masterton District Council is appointed under section 42 of the Local Government Act 2002. Mr Wes ten Hove was re-appointed from 1st October 2002. The annual salary package including benefits is as follows:

	2007/08	2007/08	2006/07
	Per Agreement (annual)	Paid to CEO	Paid to CEO
Annual salary	182,500	183,058	162,500
Performance provision	3,000	0	1,500
Other (medical, phone, prof. fees incldg FBT)	2,500	3,140	3,078
	<u>\$188,000</u>	<u>\$186,198</u>	<u>\$167,078</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.

REMUNERATION OF ELECTED REPRESENTATIVES

The Masterton District Council consists of a Mayor and ten councillors. Since October 2004 the payment of meeting fees was ceased and the Mayor's honorarium and total remuneration 'pool' has been set by the Remuneration Authority.

		2007/08	2006/07
Mayor (from Oct. 2007)	Garry Daniell	45,706	
Deputy Mayor (until Oct. 2007)	Garry Daniell	9,715	33,395
Deputy Mayor (from Oct. 2007, formerly Councillor)	Jane Terpstra	23,223	20,872
Councillor & committee chair	Chris Peterson	24,923	26,716
Councillor & committee chair	Jonathan Hooker	22,495	18,367
Councillor	Brent Goodwin	18,042	16,697
Councillor	Rod McKenzie	18,528	18,367
Councillor	Judith Callaghan	18,043	16,697
Councillor (since Oct. 07)	David Holmes	13,184	-
Councillor (since Oct. 07)	Jeff Workman	13,184	-
Councillor (since Oct. 07)	Edwin Perry	13,184	-
Councillor (since Oct. 07)	Lyn Patterson	13,184	-
Mayor (until Oct. 07)	Robert Francis	18,835	63,599
Councillor (until Oct. 07)	Bruce Bishop	4,858	16,697
Councillor & task group chair (until Oct. 07)	Owen Perry	5,344	18,367
Councillor & task group chair (until Oct. 07)	Derek Daniell	5,344	18,367
		<u>\$ 267,792</u>	<u>\$ 268,141</u>

Notes to the Accounts

Note 20

CREDITORS & OTHER PAYABLES		
\$		\$
30 June 2007		30 June 2008
3,038,233	Trade payables	2,242,327
286,847	Deposits & bonds	333,747
44,747	Agency rates collected - Greater Wellington Regional Council	36,275
534,577	Income received in advance	547,160
422,153	Community organisations - funds held in trust	530,812
\$4,326,557		\$3,690,321

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

EMPLOYEE BENEFIT LIABILITIES		
\$		\$
30 June 2007		30 June 2008
398,323	Staff holiday provision	472,797
102,439	Salaries & wages accrued	162,816
18,268	Councillor's honorariums payable	20,666
14,123	Staff sick leave provision	5,013
125,000	Staff retirement gratuities	140,436
\$658,153	Total Employee Benefit Liabilities	\$801,728
536,527	Comprising: Current	679,153
121,626	Non-current	122,575
\$658,153	Total Employee Benefit Liabilities	\$801,728

Notes to the Accounts

Note 22

DERIVATIVE FINANCIAL INSTRUMENTS		Actual
30 June 2007		30 June 2008
\$		\$
-	Current Asset portion	
	Interest rate swaps - fair value hedges	320
-	Non-current Asset portion	
	Interest rate swaps - fair value hedges	-
		320
-	Current Liability portion	
	Interest rate swaps - fair value hedges	0
-	Non-current Liability portion	
	Interest rate swaps - fair value hedges	95,473
		95,473
	Fair value	

The fair value of interest rate swaps have been determined using a discounted cash flows valuation technique based on market prices.

Interest rate swaps

The notional principal amounts and interest rate details of the two interest rate swap contracts were:
 \$1,000,000 notional principal is fixed until 30 June 2009 at an interest rate (excluding margin) of 8.095%.
 \$5,000,000 notional principal is fixed until July 2012 at an interest rate (excluding margin) of 8.04%.

Gains and losses recognised in the hedging revaluation reserve part of Equity (Note 25) on interest rate swap contracts as at 30 June 2008 will be released to the Statement of Financial Performance as interest is paid on the underlying debt.

PROVISIONS			
30 June 2007		30 June 2008	
\$	Landfill Aftercare Provision	\$	
486,847	Opening balance	469,107	
(50,944)	Amounts used during the year	(42,279)	
16,981	Unused amounts brought forward	14,151	
(17,942)	Adjustments to provision*	(9,177)	
34,165	Discount unwinding (Note 5)	26,683	
\$469,107	Closing balance	\$458,485	
Provision for Landfill aftercare costs			
<p>The Nursery Road landfill was closed for general refuse on 30th September 2006. A closure plan has been accepted by the GWRC and a resource consent application has been submitted for the short term use of the site for special burials. 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 have been recognised and allowed for over a 15 year time period to 2021. The 2007/08 year has seen some of the provision used, while other costs have been carried forward in the closing provision. The costs include progressive landfill covering, a monitoring regime and future river protection works.</p> <p>*Adjustments to the provision include reduced allowance for landfill cover, monitoring and river protection in 2009/10.</p>			
Provision for Financial Guarantees			
<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> <p>Wairarapa NZ Inc. has ceased operation during 2007/08 and the three Wairarapa Councils have guaranteed a loan which allowed them to pay their creditors. The MDC portion of that loan is now recognised as a term liability.</p>			
	Value of Guarantee	Bank O/D or Loan 30 June 2007	Bank O/D or Loan 30 June 2008
Abbeyfield Masterton Inc. (mortgage secured over property)	325,000	240,429	220,629
Harlequin Theatre Inc.	35,000	18,359	15,416
Masterton Park Bowling Club Inc.	85,850	1,600	0
Masterton Motoplex. Inc	55,000	37,107	23,978
Wairarapa NZ Inc. (Go Wairarapa)	60,000	155,955	0
	560,850	453,450	260,023
30 June 2007			30 June 2008
\$60,000	Value of Financial Guarantee Provision carried		\$0
\$	Total Provisions		\$
469,107	Landfill Aftercare Provision		458,485
60,000	Financial Guarantees Provision		0
\$529,107	Closing carrying value - Provisions		\$458,485
110,008	Current		50,738
419,099	Non-current		407,747
\$529,107			\$458,485

FINANCIAL LIABILITIES as at 30 June 2008

	\$	\$	\$
	30 June 2007	30 June 2008	Plan 2008
Secured loans	12,370,219	8,181,238	10,547,000
Debenture stock	0	5,000,000	5,000,000
Guaranteed bank loan called on	0	138,083	0
Finance leases	95,976	164,297	0
Internal loans	6,457,187	6,505,940	5,718,000
Sub total - all financial liabilities	18,923,382	19,989,558	21,265,000
Less current portion of external liabilities	(433,875)	(479,095)	(494,000)
Internal loans/investments reversed	(6,457,187)	(6,505,940)	(5,718,000)
Total non-current borrowings	\$12,032,320	\$13,004,523	\$15,053,000
COST OF DEBT SERVICING	Actual	Plan	
Loan repayments (external)	426,965	404,000	
Interest expense (external)	910,567	926,000	
Cost of Debt Servicing (external)	1,337,532	1,330,000	
Loan repayments (internal)	233,323	249,000	
Interest expense (internal)	598,160	509,000	
Cost of Debt Servicing (internal)	831,483	758,000	
Debt Service % of Rates Income*	13.7%	13.2%	<i>Treasury policy ceiling - 20%</i>
Debt Service as % of Operating Income*	8.2%	7.7%	<i>Treasury policy ceiling - 15%</i>
Term Debt as % of Ratepayers' Equity	2.4%	3.0%	
Average interest rate during the year	8.0%		

*Calculated including interest on internal loans

MOVEMENTS IN TOTAL DEBT

	\$ Actual	\$ Plan
Opening Balance 1 July 2007	\$18,923,382	\$18,559,000
Loan repayments	(660,288)	(653,000)
New borrowing (external & finance leases)	1,444,388	3,359,000
New borrowing (internal loans)	282,076	
Closing Balance 30 June 2008	\$19,989,558	\$21,265,000

MATURITY ANALYSIS

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

	30 Jun 2007	30 Jun 2008	
Repayments due in less than one year	408,230	422,373	Weighted average interest on external loans 8.4%
Later than one year, less than five	7,609,778	7,133,050	
Later than five years	4,352,211	625,815	
	\$12,370,219	\$8,181,238	

ANALYSIS OF FINANCE LEASE LIABILITIES

	Actual 2007	Actual 2008
Payable no later than one year	34,562	48,605
Later than one, not later than two years	34,562	48,605
Later than two, not later than five years	44,781	114,661
Future financing charges	(17,929)	(47,574)
	\$95,976	\$164,297
Representing lease liabilities - Current	34,562	48,605
- Non-current	61,414	115,692

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 three Committed Cash Advance Facilities (CCAFs) with \$5.5m drawn and \$4.3m undrawn. The CCAFs have interest rate resets every 90 days, priced off the 90-day bank bill rate plus a margin. Interest rate swaps can be used to fix interest rates for longer terms.

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%. A swap transaction has fixed the rate for 5 years at an 'all up' rate of 8.16%.

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.

Internal loans: Internal interest paid/earned totalled \$598,160 and was charged on the average balance due. The interest rates charged were 8.35% to 31 December 2007 and 8.70% to 30 June 2008. These rates were based on the mid-point between what the Council could earn and what Council was paying on its external loans.

FINANCIAL INSTRUMENTS**Financial instrument categories**

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

	\$000	\$000
Financial Assets	30 June 2007	30 June 2008
Fair value through profit & loss		
Fund manager - cash and cash equivalents	(38)	15
Fund manager - current financial assets	554	1,334
Fund manager - non-current financial assets	4,318	3,661
	<u>4,834</u>	<u>5,009</u>
Loans and receivables		
Debtors and other receivables	3,325	2,353
Cash and cash equivalents	3,045	1,804
Bank deposits - current financial assets	673	1,474
	<u>7,043</u>	<u>5,631</u>
Fair value through equity		
Derivative financial instrument assets	0	0
Corporate bonds - current	678	502
Corporate bonds - non-current	564	1,488
Unlisted shares	180	194
	<u>1,423</u>	<u>2,184</u>
Financial Liabilities		
Fair value through equity		
Derivative financial instrument liabilities	0	95
Financial liabilities at amortised cost		
Trade and other payables	4,327	3,690
Borrowings - secured loans	12,370	8,181
- debentures	0	5,000
	<u>16,697</u>	<u>16,872</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 2008 had fluctuated by plus or minus 0.5%, the effect would have been to decrease/increase the fair value through P&L and/or equity reserve by \$51,300 (2007 \$49,200). If interest rates on borrowings at 30 June 2008 had fluctuated by plus or minus 0.5%, the effect would be to decrease/increase the surplus/(deficit) in future periods by up to \$67,400 (2007 \$62,300) 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. 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.

Maximum exposure to credit risk		\$000	\$000
		30 June 2007	30 June 2008
Cash at bank and term deposits		3,680	3,293
Debtors and other receivables		3,325	2,353
Local authority and government stock		3,531	3,194
Corporate bonds/discounted securities/SOEs		2,585	3,791
Derivative financial instrument assets		-	-
Financial guarantees		453	260
		<u>13,574</u>	<u>12,890</u>
Credit quality of financial assets			
The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard & Poor's credit ratings (if available) or to historical information about counterparty default rates:			
Counterparties credit ratings			
Cash at bank and term deposits	AA	2,930	2,743
	Not Rated	750	550
		<u>3,680</u>	<u>3,293</u>
Government stock	AAA	2,515	2,709
Local authority stock	Not Rated	1,015	485
		<u>3,531</u>	<u>3,194</u>
Corporate bonds/discounted securities	AAA	50	51
	AA	425	1,028
	AA-	662	188
	A+	801	793
	A	307	764
	A-1+	197	832
	BBB	143	135
		<u>2,585</u>	<u>3,791</u>
Counterparties without credit ratings			
Debtors and other receivables		3,325	2,353
Financial guarantees		453	260
		<u>3,779</u>	<u>2,613</u>
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.			

Liquidity risk

Note 26a

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 has refinanced two loans in June 2008, converting them into a new Cash Advance Facility (CAF). The maximum amount that can be drawn down against the three CAFs is \$9,800,000 (2007 \$6,000,000). The intent of using these CAFs 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 \$5,500,000 (2007 \$5,500,000)

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.

Contractual maturity of financial liabilities

Note 24 contains a table which discloses the relevant maturity groupings of MDC's term liabilities. The table below 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.

Contractual maturity analysis of financial liabilities					
	Carrying amount	Contractual cash flows	Less than 1 year	1 -5 years	More than 5 years
	\$000	\$000	\$000	\$000	\$000
As at 30 June 2008					
Creditors and other payables	3,690	3,690	3,690		
Net settled derivative liabilities*	95	176	43	133	
Committed cash advances	5,500	7,118	629	6,489	
Secured loans	2,819	3,599	456	1,833	1,310
Debenture stock	5,000	6,666	408	6,258	
Finance leases	164	212	49	163	
Financial guarantees	260	260	260		
	17,529	21,721	5,536	14,876	1,310
As at 30 June 2007					
Creditors and other payables	4,327	4,327	4,327		
Net settled derivative liabilities	0	0	0		
Committed cash advances	5,500	7,149	444	6,705	
Secured loans	6,870	9,175	868	4,634	3,673
Finance leases	96	114	35	79	
Financial guarantees	453	453	453		
	17,246	21,218	6,127	11,418	3,673

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

The table on the following page 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.

Derivatives maturity analysis	Liability	Asset	Contractual	Less than 1 year	1 -2 years	More than 2 years
	carrying amount	carrying amount	cash flows			
	\$000	\$000	\$000	\$000	\$000	\$000
As at 30 June 2008						
Interest rate hedging contracts:	95	0				
- outflow			1,898	526	445	927
- inflow			1,721	482	402	837
As at 30 June 2007						
Interest rate hedging contracts:	0	0				
- outflow			0	0	0	0
- inflow			0	0	0	0

Notes to the Accounts

Note 27

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.

MOVEMENTS IN SPECIAL FUNDS & RESERVES - 2007/08

	Opening Balance	Transfers Out	Transfers In	Closing Balance	Plan
Plant & Equipment Funds	1,289,144	(439,308)	357,667	1,207,503	1,245,432
Reserves Development Funds	1,048,326	(433,189)	341,016	956,153	716,793
General Capital Funds	5,526,394	(932,403)	295,281	4,889,272	5,670,561
Investment Interest Funds	(41,526)	(672,731)	668,383	(45,874)	2,106
Property Funds	2,433,508	(513,828)	785,728	2,705,408	1,979,039
Infrastructural Assets Funds	3,439,254	(1,163,522)	1,968,817	4,244,549	3,201,578
Miscellaneous Special Funds	578,655	(329,471)	190,535	439,719	364,809
Total	14,273,755	(4,484,452)	4,607,427	14,396,730	13,180,318

	Actual 2007/08	Plan 2007/08
Analysis of Transfers 'OUT' of Funds & Reserves		
Funding of Capital Expenditure from special funds & reserves	2,703,808	3,242,800
Funding of Operating Expenditure from special funds & reserves	1,780,644	1,409,610
	4,484,452	4,652,410
Analysis of Transfers 'IN' to Funds & Reserves		
Reserves & Development Contributions received	321,170	225,000
Infrastructure & Roading Contributions received	660,448	120,000
Carry forward funding for on-going project commitments	327,903	96,500
Interest earned and retained in special fund investments	302,423	343,186
Interest earned and allocated to 'projects' fund	668,383	616,814
Sub Total	2,280,327	1,401,500
Depreciation funded into asset replacement reserves funds	2,256,028	2,332,152
Total of Transfers into funds from Operations	4,536,355	3,733,652
Proceeds from sale of plant assets	30,443	0
Proceeds from sale of land, forestry & buildings assets	40,629	260,000
Total Transfers into funds from Asset Sales	71,072	260,000
	4,607,427	3,993,652

Explanation of variances from Plan:**Reserves Development Funds** (33% more)

There has been less draw on these funds than planned for the QE Park rejuvenation project and Castlepoint landscaping.

General Capital Funds (14% less)

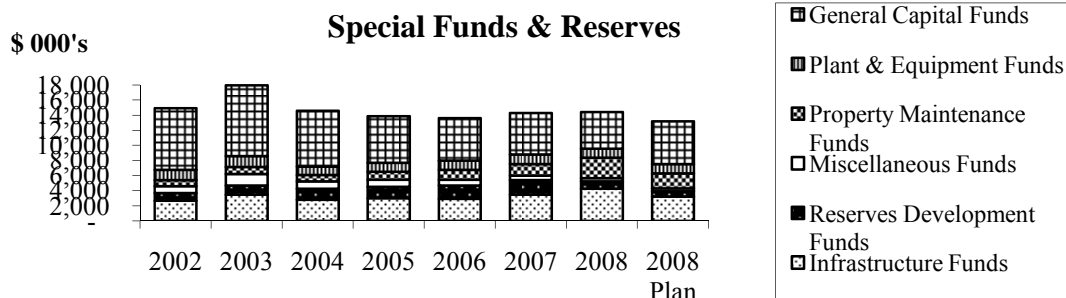
The Plan position anticipated proceeds from the sale of a holding paddock, which has not occurred. Also the deficit from the solid waste activity of \$240k and project cost of the Castlepoint IFMP of \$100k, have been drawn from this reserve. The Go Wairarapa deficit was funded from here, as was the \$100k under-funding of the sewerage activity, which was originally planned to come from Miscellaneous Special Funds.

Property Funds (37% more)

Several Airport and Parks projects were planned, but not progressed enough to draw on reserves to the planned extent.

Infrastructural Assets Funds (33% more)

A higher level of income from infrastructure contributions (than planned) was achieved and less renewals expenditure on bridges, sewer reticulation and stormwater was drawn from the fund.



RECONCILIATION OF NET SURPLUS/(DEFICIT) TO NET CASH INFLOW		
2006/07	FROM OPERATING ACTIVITIES	2007/08
(\$25,316)	Operating Surplus / (Deficit)	\$ 628,127
	- Add (less) non-cash items	
6,410,434	Depreciation and amortisation	7,005,115
(284,589)	Vested asset gains	-
(140,994)	(Gains)/losses in fair value of biological assets (forestry)	90,682
(674,600)	(Gains)/losses in fair value of investment property	(147,200)
-	Other non-cash items	-
	- Add (less) items classified as investing or financing	
255,781	(Gains)/losses on disposal of property, plant & equipment	309,674
186,775	(Gains)/losses on change in fair value of financial assets	(43,811)
	- Add (less) movements in working capital items	
(576,176)	Receivables & current assets	986,733
517,294	Accounts payable	(54,898)
169,385	Payroll & accrued leave liabilities	184,511
386,275	Other current liabilities	(235,906)
\$ 6,224,269	Net Cash Inflow from Operating Activities	\$ 8,723,027

RATES POLICIES REPORT - REMISSIONS	2007/08		2006/07	
	No.	\$	No.	\$
The cost of the Council's Rates Policies is summarised below.				
Rates remissions were given on:				
Community halls, volunteer & charitable groups	42	28,929	44	28,903
Sporting, arts and cultural use	12	18,609	13	16,209
Land protected for conservation or heritage purposes	30	4,082	29	1,789
Rate arrears penalties	273	18,972	308	18,029
Uniform charges on non-contiguous units	11	2,899	9	2,264
Urban land with rural use	22	3,897	22	3,647
Total (as per Note 3)	<u>390</u>	<u>\$77,388</u>	<u>425</u>	<u>\$70,841</u>
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.				
RATES POSTPONEMENTS - Subdivision Developments				
Under the Council policy on Rates Postponements for subdivision developments, zero (2007 = 0) ratepayers have received the benefit of being allowed to postpone 50% of the rates on unsold sections.				
- Postponements for Hardship or Against Equity				
In 2007/08, no properties (2006/07 = 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.				

PLAN COMPARISON & BUDGET VARIATIONS Ratio Analysis	2007/08	2007/08	2006/07
	Actual	Plan	Actual
Current Ratio (current assets to current liabilities)	1.6:1	1.5:1	1.6:1
Term debt to public equity	2.4%	3.0%	2.8%
External financing debt to PP&E	20.3%	22.2%	18.7%
Debt service costs to rates income (Treasury policy ceiling = 20%)	13.7%	13.2%	11.6%
Debt service cost to total revenue (Treasury policy ceiling = 15%)	8.2%	7.7%	6.7%
Term debt per capita (incl internal debt)	\$884	\$940	\$837
Investments (inc internal) as a percentage of rates income	107.1%	99.2%	110.1%

Major Variations from Plan

Explanations for major variations from the Council's 2007/08 Annual Plan are as follows:

Statement of Financial Performance

Other Operating Revenue is less than plan by \$410,000 3.7%

- Solid waste user charges from gate fees and bag sales are less than planned by \$349,300 (18%).
- Roading subsidies are below plan by \$67,000 (1.5%) due to the bridge renewal job not going ahead.
- In the sewerage activity, recoveries from private property fault repairs was planned as \$80,000, but did not eventuate as the second stage of the fault detection project has not started.
- Income charged to developers for reserves, development and infrastructure contributions totals some \$520,000 (160%) more than planned.

Operating Expenditure is less than plan by \$710,900 2.7%

- Roading operating expenditure shows as being \$669,000 (13.4%) less than planned. This is a result of a reclassification of two items of expenditure from operating to capital after the Annual Plan figures were finalised. The items are metalling of unsealed roads and roadmarking. The values now shown as capital are \$469,000 and \$78,000 respectively. There is an offsetting increase in depreciation expense.
- There are a number of other unders and overs against Plan expenditure, including:
 - urban water supply being under spent by \$55,000 (2.7%) due to the filter upgrade not going ahead.
 - Rural sewerage being over Plan by \$70,000 due to costs incurred on the Riversdale sewerage project.
 - Solid waste costs were under spent by \$54,000 (1.9%) due to savings in the waste minimisation areas.
 - District building was \$106,000 (19.4%) below planned because the repaint did not occur.
 - Economic development spent more than Plan due to the further write-off of Go Wairarapa's losses.
 - Regulatory services were \$230,000 over plan (2.3%) due to higher costs of the Wairarapa Combined District Plan development process and higher costs to deliver services.
- Depreciation expense is higher than planned due to the reclassification of two roading items noted above.

Statement of Financial Position as at 30 June 2008

- Current financial assets of \$5.13m compares close to the Plan of \$5.35m, although the mix between cash and short term was not anticipated in the Plan.
- Current receivables at \$2.35m are 14.5% less than Plan, while Current liabilities at \$4.9m are 9.4% less. Both figures were also lower last year, reflecting the lower level of activity in June 2008 than usual.
- Non-current assets reflect the revaluation of infrastructural assets being \$54m (12%) more than planned.
- Non-current financial assets are \$1.8m more than planned due largely to a number of reserves-funded projects not proceeding in 2007/08, hence funding was not called upon.
- Term liabilities are some \$2m less than planned due to a number of loan-funded capital projects not proceeding (eg water filters, airport developments).
- The variance in Equity reflects the infrastructural asset revaluation difference (see below).

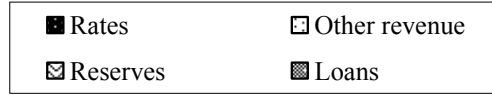
Statement of Movements in Equity

- Closing equity is \$54m (10%) more than planned due to the revaluation of infrastructural assets, which was planned to be \$60m but ended up being \$114m.

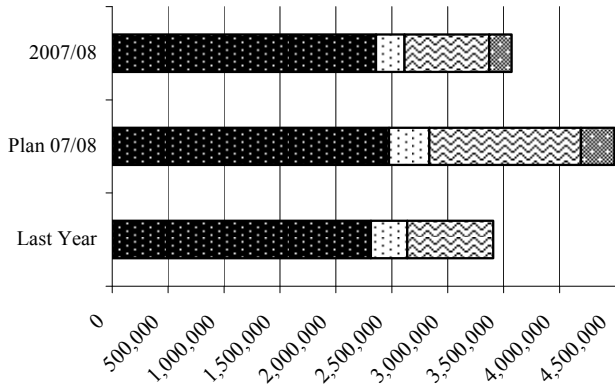
Statement of Cashflows

- Rates collection was better than planned, other operating receipts were less than planned due to landfill user charges not meeting plan.
- Payments to suppliers were 6% less than planned, partly due to the reclassification of roading costs to capital expenditure, as per above.
- The opening balance of cash on hand was reduced by year end through investment in financial assets.

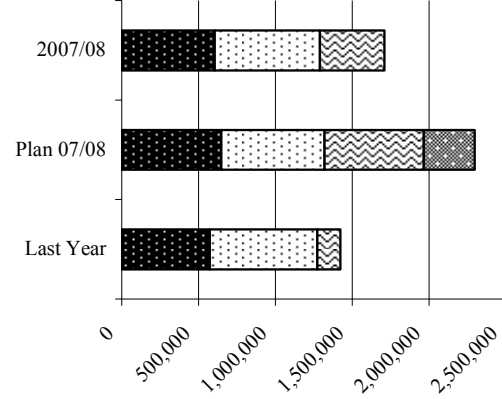
Funding Comparisons by Activity



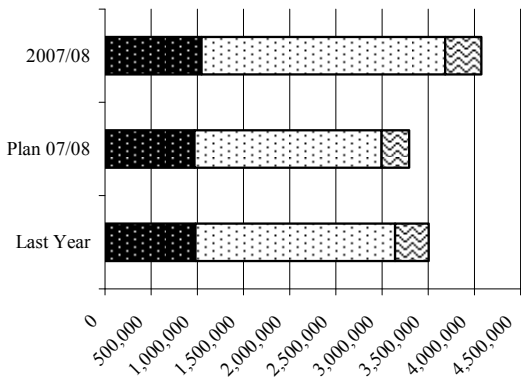
Parks & Recreation



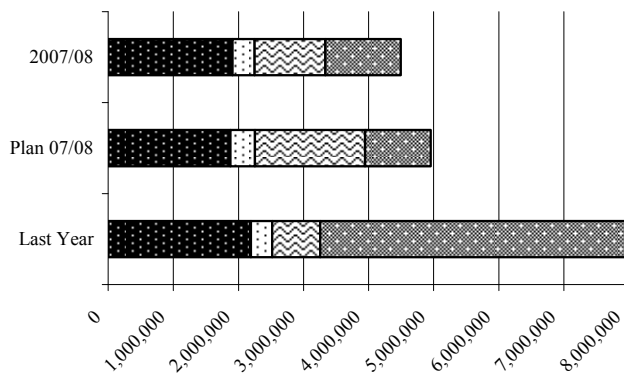
Property Mgmt



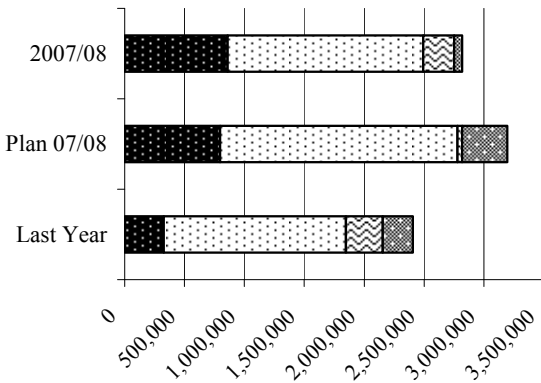
Res. Mgmt & Regulatory



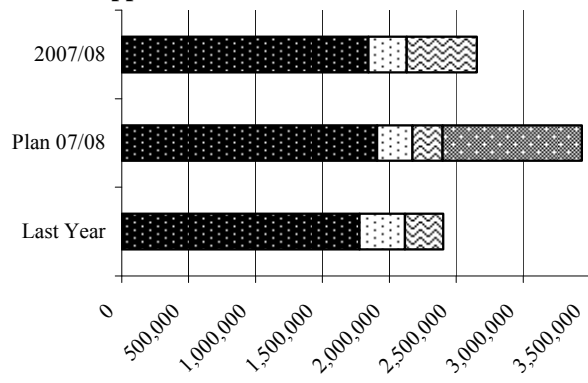
Sewerage & Stormwater



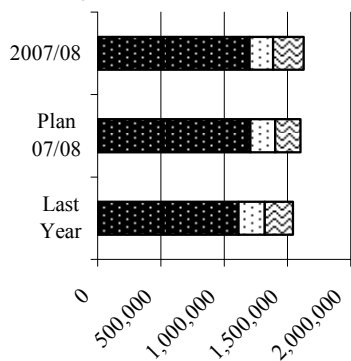
Solid Waste Mgmt.



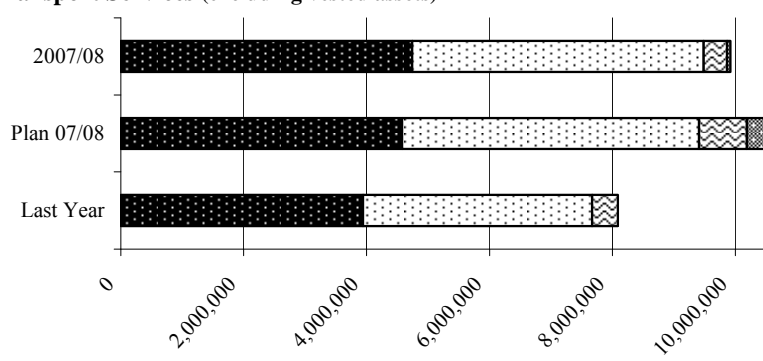
Water Supplies



Library & Archives



Transport Services (excluding vested assets)



STATEMENT OF COMMITMENTS AND CONTINGENCIES**As at 30 June 2008**

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

No **construction contracts** were underway at 30 June 2008 (2007 = 4).

Contract Commitments

Council has let a **professional services contract** prior to 30 June 2008, for the sewerage upgrade project to Beca Carter Hollings and Ferner Ltd. The Council adopted a preferred upgrade scheme in June 2005 and Beca have been re-engaged to progress the project through the resource consent stages. Work on this project is billed monthly.

One other professional services engagement which was active at 30 June 2008 relates to the Riversdale sewerage scheme where Opus International Consultants Ltd are retained to assist with the project until the Council completes a tender for professional services for the project (tendered Aug/Sept 2008).

Commitments have been made relating to **maintenance contracts** for roading, services, parks, solid waste and the facilities management of the Recreation Centre. The roading and parks maintenance contracts were re-tendered in early 2004 with two new contractors commencing from 1 July 2004. The Recreation Centre management contract with Community Leisure Management (CLM Ltd) was reviewed in June 2006 and renewed for at least three years.

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 and making application for a resource consent for this site.

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

The Council is aware of one case of a home where the weather-tightness of the structure is a disputed issue. The Council is being represented in the resolution process by its insurers, Riskpool. The maximum potential exposure is limited to the insurance policy excess that applies in leaky home cases, which is \$50,000.

Other

There were no contingent assets.

Events After Balance Date

Note 34

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