

FINANCIAL STATEMENTS

&

NOTES TO THE ACCOUNTS



MASTERTON DISTRICT COUNCIL

STATEMENT OF FINANCIAL PERFORMANCE

\$ Last Year 2005/06	For the Year Ended 30 June 2007	Note	\$ Actual 2006/07	\$ Plan 2006/07
REVENUE				
13,358,838	Rates Revenue	5	14,612,412	14,549,108
9,916,410	Other Operating Revenue	5	10,525,016	10,225,909
0	Government subsidy (Sanitary Works Scheme)		0	1,935,000
(216,266)	Other Gains/(Losses)	5	373,038	0
23,058,982	Total Operating Revenue	5	25,510,466	26,710,017
EXPENDITURE				
3,639,747	Employee Benefit Expenses	6	3,964,917	3,858,285
12,530,603	Other Expenses	7	14,634,990	13,788,302
532,906	Finance Costs (external)	24	525,441	594,000
6,462,927	Depreciation & amortisation	13, 14	6,410,434	6,307,430
23,166,183	Total Operating Expenditure		25,535,782	24,548,017
(\$107,201)	Net Surplus/(Deficit) of Income over Expenditure		(\$25,316)	\$2,162,000

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2007

	\$ Revaluations (Note 22)	\$ Special Funds & Reserves (Note 27)	\$ Ratepayers' Equity (Note 22)	\$ Total 2006/07	\$ Plan 2006/07	\$ Total 2005/06
Opening Balance						
1 July 2006	26,323,713	13,606,635	414,741,390	\$454,671,738	463,510,000	\$440,505,146
Surplus/(Deficit) for the year			(25,316)	(25,316)	2,162,000	(107,201)
Change in value of financial assets at fair value			25,724	25,724		(22,545)
Asset revaluation changes taken to equity (Note 22)	48,238			48,238	0	14,296,338
Total recognised revenues and expenses for the period				48,646	2,162,000	14,166,592
Transfers from Reserves		(3,211,652)	3,211,652	0		
Transfers to Reserves		1,599,123	(1,599,123)	0		
Tsf proceeds on sale of assets		115,927	(115,927)	0		
Tsf depreciation to reserves		2,163,722	(2,163,722)	0		
Closing Balance	26,371,951	14,273,755	414,074,678	\$454,720,384	465,672,000	\$454,671,738

The accompanying notes form part of these financial statements.



MASTERTON DISTRICT COUNCIL

STATEMENT OF FINANCIAL POSITION as at 30 June 2007

\$ 30 June 2006		Notes	\$ 30 June 2007	\$ Plan
CURRENT ASSETS				
1,792,940	Cash & cash equivalents	10	3,006,811	20,000
3,106,873	Other financial assets	11	1,905,144	6,592,000
221,839	Inventories	9	172,956	162,000
2,654,271	Trade and other receivables	8	3,325,249	2,897,000
<u>7,775,923</u>	Total Current Assets		<u>8,410,160</u>	<u>9,671,000</u>
NON-CURRENT ASSETS				
45,919	Trade and other receivables		0	0
61,074,862	Property, equipment & other assets	12,13	64,206,453	62,000,000
389,873,396	Infrastructural assets	12,13	389,854,972	403,992,000
2,668,719	Intangible assets	14	3,021,448	650,000
360,403	Forestry assets	15	499,579	360,000
1,166,400	Investment property	16	1,841,000	0
4,834,218	Other financial assets	11	4,866,785	3,311,000
<u>460,023,917</u>	Total Non-current Assets		<u>464,290,237</u>	<u>470,313,000</u>
<u>\$467,799,840</u>	TOTAL ASSETS		<u>\$472,700,397</u>	<u>\$479,984,000</u>
CURRENT LIABILITIES				
4,278,942	Trade & other payables	20	4,326,557	4,099,000
378,653	Employee benefits	21	536,527	350,000
50,994	Provisions (current)	23	110,008	0
409,009	Financial liabilities - current portion	24	433,875	705,000
<u>5,117,598</u>	Total Current Liabilities		<u>5,406,967</u>	<u>5,154,000</u>
NON-CURRENT LIABILITIES				
7,464,537	Financial liabilities	24	12,032,321	8,486,000
110,114	Employee benefits	21	121,626	206,000
435,853	Provisions & other liabilities	23	419,099	466,000
<u>8,010,504</u>	Total Non-current Liabilities		<u>12,573,046</u>	<u>9,158,000</u>
<u>\$454,671,738</u>	NET ASSETS		<u>\$454,720,384</u>	<u>\$465,672,000</u>
PUBLIC EQUITY				
414,741,390	Retained earnings (ratepayers' equity)	22	414,074,678	311,805,000
26,323,713	Revaluation reserves	22	26,371,951	141,466,000
13,606,635	Special funds & restricted reserves	27	14,273,755	12,401,000
<u>\$454,671,738</u>	TOTAL PUBLIC EQUITY		<u>\$454,720,384</u>	<u>\$465,672,000</u>

The accompanying notes form part of these financial statements.



MASTERTON DISTRICT COUNCIL

STATEMENT OF CASHFLOWS for the Year Ending 30 June 2007

Last Year 2005/06		Notes	Actual 2006/07	Plan 2006/07
	Cash Flows from Operating Activities:			
	Cash was provided from:			
13,327,946	Rates (M.D.C. only)		14,760,191	14,549,000
3,235,574	Subsidies and grants		3,640,118	3,780,492
747,270	Interest received		616,216	804,000
892	Dividends received		7,614	0
5,289,473	Other operating receipts		5,526,640	7,576,508
<u>22,601,155</u>			<u>24,550,779</u>	<u>26,710,000</u>
	Cash was applied to:			
(16,471,015)	Payments to suppliers and employees		(17,421,915)	(17,643,600)
(525,837)	Interest paid		(521,379)	(594,000)
(18,325)	Goods and services tax (GST) paid (net)		(383,216)	-
<u>(17,015,177)</u>			<u>(18,326,510)</u>	<u>(18,237,600)</u>
5,585,978	Net Cash from Operating Activities	<u>28</u>	6,224,269	8,472,400
	Cash Flows from Investing Activities:			
	Cash was provided from:			
49,751	Proceeds from sale of property, plant and equipment		117,745	-
<u>598,711</u>	Proceeds from sale of investments		<u>874,126</u>	<u>1,294,000</u>
648,462			991,871	1,294,000
	Cash was applied to:			
(6,544,809)	Purchase of property, plant and equipment		(10,017,532)	(10,589,700)
<u>(975,909)</u>	Purchase of intangible assets		<u>(577,387)</u>	<u>(420,000)</u>
(7,520,718)			(10,594,919)	(11,009,700)
(6,872,256)	Net Cash from Investing Activities		(9,603,048)	(9,715,700)
	Cash Flows from Financing Activities:			
	Cash was provided from:			
127,784	Proceeds from new financial liabilities		5,000,000	1,855,000
<u>127,784</u>			<u>5,000,000</u>	<u>1,855,000</u>
	Cash was applied to:			
(410,867)	Repayment of term liabilities		(384,337)	(611,700)
<u>(46,513)</u>	Repayment of finance lease liabilities		<u>(23,013)</u>	<u>-</u>
(457,380)			(407,350)	(611,700)
(329,596)	Net Cash from Financing Activities		4,592,650	1,243,300
(\$1,615,874)	Net Increase/(Decrease) in Cash and cash equivalents		\$1,213,871	\$0
3,408,814	Cash and cash equivalents at beginning of the year		1,792,940	20,000
<u>\$ 1,792,940</u>	Cash and cash equivalents at the end of the year	<u>10</u>	<u>\$ 3,006,811</u>	<u>\$ 20,000</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 \$0 (2006: \$127,784) 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 2007

Note 1

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 2007. The financial statements were authorised for issue by the Council on 31 October 2007. 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 first set of financial statements prepared using NZ IFRS and comparatives for the year ended 30 June 2006 have been restated to NZ IFRS accordingly. Reconciliations of equity and net surplus/(deficit) for the year ended 30 June 2006 under NZ IFRS to the balances reported in the 30 June 2006 financial statements are detailed in Note 2.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening NZ IFRS statement of financial position as at 1 July 2005 for the purposes of the transition to NZ IFRS.

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 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 not currently use derivative financial instruments to hedge exposure to interest rate risks arising from financing activities, but may do so in future. 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%)
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%)
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%)
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 2005. 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 2007.

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.

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 2007:

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.

Explanation of transition to NZ IFRS

Note 2

Transition to NZ IFRS

MDC's financial statements for the year ended 30 June 2007 are the first financial statements that comply with NZ IFRS. MDC has applied NZ IFRS 1 in preparing these financial statements.

MDC's transition date is 1 July 2005. MDC prepared its opening NZ IFRS balance sheet at that date. The reporting date of these financial statements is 30 June 2007. The MDC's NZ IFRS adoption date is 1 July 2006.

In preparing these consolidated financial statements in accordance with NZ IFRS 1, MDC has applied the mandatory exceptions and certain optional exemptions from full retrospective application of NZ IFRS.

Exemptions from full retrospective application elected by MDC

MDC has elected to apply the following optional exemptions from full retrospective application:

- Fair value as deemed cost exemption - MDC has elected to measure land under roads and infrastructural assets at fair value as at 1 July 2005 and use that fair value as the deemed cost at that date.
- Designation of financial assets and financial liabilities exemption - MDC designated various securities as financial assets at fair value through equity at the date of transition to NZ IFRS.

MDC is required to make the following mandatory exception from retrospective application:
Estimates exception:

- Estimates under NZ IFRS at 1 July 2005 are consistent with estimates made for the same date under previous NZ GAAP.

There are no standards, interpretations and amendments that have been issued, but are not yet effective, that the Council has not yet applied, other than NZ IFRS-7 (Financial Instrument Disclosures). Council has applied NZ IAS-32 (Financial Instruments Presentation).

Reconciliation of equity

The table on the following page shows the changes in equity, resulting from the transition from previous NZ GAAP to NZ IFRS as at 1 July 2005 and 30 June 2006.

Transition to NZ IFRS - Reconciliation of equity

	Notes	Effect on			Effect on		
		Previous NZ GAAP 1 July 2005 \$000	transition to NZ IFRS 1 July 2005 \$000	NZ IFRS 1 July 2005 \$000	Previous NZ GAAP 30 June 2006 \$000	transition to NZ IFRS 30 June 2006 \$000	NZ IFRS 30 June 2006 \$000
Assets							
Current Assets							
Cash and cash equivalents	a	129	3,280	3,409	133	1,660	1,793
Trade and other receivables	b	2,816	(105)	2,711	2,740	(86)	2,654
Inventories		163		163	222	-	222
Other financial assets	a,b,c	6,576	(3,310)	3,266	4,760	(1,653)	3,107
Total Current Assets		9,684	(135)	9,549	7,855	(79)	7,776
Non-Current Assets							
Trade and other receivables	d	-	52	52	-	46	46
Property, plant and equipment	e,f	47,891	(1,278)	46,613	62,492	(1,417)	61,075
Infrastructural assets	i	390,646	(1,614)	389,032	392,273	(2,399)	389,873
Intangible assets		-	1,948	1,948	-	2,669	2,669
Forestry assets	j	353		353	360	-	360
Investment property		-	957	957	-	1,167	1,167
Other financial assets	b,c	5,172	141	5,313	4,817	17	4,834
Other assets	f	13	(13)	-	19	(19)	-
Total Non-Current Assets		444,075	193	444,268	459,961	63	460,024
Total Assets		453,759	58	453,817	467,816	(16)	467,800
Liabilities							
Current Liabilities							
Trade and other payables		4,180		4,180	4,312	(33)	4,279
Employee benefits	h	344	14	358	331	48	379
Provisions	g			-	51		51
Borrowings		425		425	409		409
Total Current Liabilities		4,949	14	4,963	5,103	14	5,118
Non-Current Liabilities							
Borrowings		7,778		7,778	7,464		7,464
Employee benefits	h	176	(75)	101	178	(68)	110
Provisions and other liabilities	g	470	-	470	436		436
Total Non-Current Liabilities		8,424	(75)	8,348	8,078	(68)	8,010
Total Liabilities		13,373	(61)	13,311	13,181	(53)	13,128
Net Assets		440,386	119	440,506	454,635	37	454,672
Equity							
Retained earnings	c,h,i,j	307,661	106,747	414,408	307,829	106,912	414,741
Special funds & restricted reserves		13,835		13,835	13,607	-	13,607
Asset revaluation reserves	c,i,j	118,890	(106,627)	12,263	133,199	(106,875)	26,324
Total Equity		440,386	119	440,506	454,635	37	454,672

Explanatory notes – Reconciliation of equity

a. Cash and cash equivalents

Those term deposits and short term securities with maturities less than three months have been reclassified to Cash and cash equivalents and out of Other financial assets.

b. Trade and other receivables

MDC's financial asset investments have previously been valued at cost with accrued interest recorded in receivables. For the transition to value investments at fair value under NZ IAS 39 the accrued interest in receivables is transferred to the investment value.

c. Other financial assets

MDC has designated all investment assets to be carried at fair value, as per NZ IAS 39. Those with maturities of greater than 1 year are classified as Non-current assets. The effect on transition to NZ IFRS is a change in the carrying value of the investments and corresponding change through equity. After

adjustments against accrued interest (in b above), the equity changes are as follows: as at 30 June 2005 \$57,823 increase, as at 30 June 2006 \$16,449 decrease.

Under NZ GAAP shares in NZ Local Government Insurance Corporation have been valued at fair value but changes in value have been taken to the revaluation reserve. NZ IAS 39 requires these movements in the value of these assets be taken to equity. The revaluation reserve balance of \$75,665 at transition date and \$88,340 at 30 June 2006 has been transferred to equity.

d. Community loans

Under previous NZ GAAP community loans had been included in other financial assets and valued at the original loan principal amount, less any loan repayments made. NZ IAS 39 requires receivables to be initially recognised at fair value and subsequently measured at amortised cost. In accordance with NZ IAS 39 community loans have been valued at the net present value of expected future repayments, using market interest rates for instruments with a similar credit rating as the discount factor. The effect of this has been no change to the receivable carrying value.

e. Intangible assets

Resource consents

The costs of obtaining resource consents to undertake a range of council functions were classified as part of property, plant and equipment under previous NZ GAAP. Under NZ IAS 38 these costs are recognised as intangible assets. The value of resource consents recognised on transition to NZ IFRS and at 30 June 2006 is \$2,616,967.

f. Other assets

Property intended for sale was separately disclosed under NZ GAAP. MDC has determined that under NZ IAS 40 these assets qualify as investment property. A number of other properties owned by the Council have been identified as being held for capital appreciation, hence they have also been classified as investment property and the equivalent adjustment of any balance in the revaluation reserve has been made to equity.

g. Provisions

Financial guarantees were not required to be recognised under previous NZ GAAP, but instead disclosed as a contingent liability. NZ IAS 37 requires financial guarantees to be recognised at their fair value based on the probability MDC will be required to reimburse a holder for a loss incurred, discounted to present value. The portion that remains unrecognised, prior to discounting to fair value, is disclosed as a contingent liability. The balance of other term liabilities is the landfill aftercare provision.

h. Employee benefits

Sick leave was not recognised as a liability under previous NZ GAAP. NZ IAS 19 requires MDC to recognise employees unused sick leave entitlement that can be carried forward at balance date, to the extent that MDC anticipates it will be used by staff to cover future absences. An adjustment increasing current liabilities and reducing equity has been made in the 1 July 2005 opening balance comparatives.

The provision for retirement leave gratuity has been adjusted to reflect a discounted net present value, with the adjustment made to opening Equity and current year movements taken through the P & L.

i. Deemed cost

MDC has applied the deemed cost exemption that is available under NZ IFRS 1 in relation to land under roads and all infrastructural assets. This exemption allows MDC to measure an item of property, plant and equipment at its fair value, and use that fair value as its deemed cost on transition to NZ IFRS. The effect of this change is to transfer revaluation reserves attributed to land under roads and infrastructural assets of \$105.78 million, to equity. There have been no adjustments to the carrying amounts of land under roads or infrastructural assets in applying this exemption under NZ IFRS 1.

j. Forestry assets revaluation reserve

Movements in the value of forestry assets were taken to revaluation reserve under previous NZ GAAP. NZ IAS 41 requires these movements to be taken to the statement of financial performance. The forestry assets revaluation reserve has therefore been transferred to equity. The revaluation reserve balance of \$456,734 at transition date and a \$463,836 at 30 June 2006 was transferred to equity.

Reconciliation of surplus for the year ended 30 June 2006

	Notes	Previous	Effect on	
		NZ GAAP	transition to	NZ IFRS
		30 June 2006	30 June 2006	30 June 2006
		\$000	\$000	\$000
Income				
Rates revenue		13,359		13,359
Other revenue		9,268		9,268
Other gains/(losses)	a	471	(39)	432
Total Income		23,098	(39)	23,059
Expenditure				
Employee benefit expenses	b	3,556	8	3,564
Depreciation and amortisation		6,463		6,463
Other expenses		12,606		12,606
Finance costs		533		533
Total operating expenditure		23,158	8	23,166
Operating surplus/(deficit)		(60)	(47)	(107)

Explanatory notes – Reconciliation of surplus

a. Other financial assets

MDC has designated all investment assets with maturities greater than 3 months to be carried at fair value, as per NZ IAS 39. The effect on transition to NZ IFRS is a change in the carrying value of the investments and corresponding change through the operating surplus or equity. The equity changes are as follows: as at 30 June 2005 \$57,823 increase, as at 30 June 2006 \$16,449 decrease. The cumulative reduction in value taken through the operating surplus is \$39,053, while the reduction in value taken direct to equity is \$35,220.

b. Employee benefits

This represents the increase in the retirement gratuity provision which was not recognised under previous NZ GAAP.

Statement of Cashflows

On transition to NZ IFRS the Statement of cash flows for the year ended 30 June 2006 presents the increase and decrease in short term deposits with maturities of 4 – 12 months on a gross rather than a net basis and short term deposits with maturities less than 3 months are now included as part of cash and cash equivalents. This change and the reclassification of some term deposits to cash and cash equivalents has impacted on the statement of cash flows for the year ended 30 June 2006 as follows:

- The net decrease in investments of \$2,218,711 has changed to a decrease of \$598,711
- The amount of cash and cash equivalents has increased from \$132,940 to \$1,792,940

There have been no other material adjustments to the statement of cashflows for the year ended 30 June 2006, on transition to NZ IFRS.

RATES REQUIREMENT SUMMARY				
2005/06 Actual		2006/07 Actual	2006/07 Plan	Variance
	Groups & Activities			
\$	Transport	\$	\$	\$
3,903,277	Roading	4,113,240	4,263,922	150,682
(2,247)	Parking	(37,221)	(33,000)	4,221
38,024	Airport	47,466	15,777	(31,689)
	Water Services			
1,740,566	Urban Water supply	1,698,668	1,858,813	160,145
35,868	Rural Water supplies & races	55,542	47,870	(7,672)
	Waste Services			
1,256,618	Urban Sewerage system	1,403,545	1,405,660	2,115
33,789	Rural Sewerage systems	63,935	63,149	(786)
214,384	Stormwater	244,197	186,507	(57,690)
326,728	Solid Waste Management	807,703	507,135	(300,568)
	Community Facilities			
1,193,809	Parks, Reserves & Sportsfields	1,293,506	1,330,125	36,619
957,249	Genesis Energy Recreation Centre	959,387	941,583	(17,804)
56,557	Cemeteries	60,580	49,998	(10,582)
203,333	District Building	214,406	237,711	23,305
801	Housing for Elderly	(103)	100	203
305,101	Other Property	358,678	348,767	(9,911)
	Community Services			
1,063,823	Library & Archive	1,114,378	1,123,673	9,295
323,865	Community Development	328,440	336,815	8,375
273,297	Arts & Culture	302,848	300,591	(2,257)
473,312	Economic Development & Promotior	501,930	509,302	7,372
	Planning & Regulatory Services			
373,309	Resource Management & Planning	420,327	400,963	(19,364)
186,254	Environmental Health	201,931	185,528	(16,403)
2,756	Building Control	16,587	850	(15,737)
27,180	By Law Control/General Inspection	44,432	12,624	(31,808)
126,743	Rural Fire	156,310	156,509	199
8,102	Dog Control	7,414	8,231	817
109,937	Emergency Management	131,377	128,747	(2,630)
	Governance			
417,386	Representation	430,047	449,686	19,639
(27,905)	Internal Functions	(22,918)	(23,820)	(902)
<u>13,621,916</u>	Total Rates Requirement	<u>14,916,632</u>	<u>14,813,816</u>	<u>(102,816)</u>
	Rates Income			
13,567,693	Masterton District rates levied	14,827,253	14,780,816	46,437
119,153	Rates penalties	131,506	110,000	21,506
(65,923)	Rates remissions	(70,841)	(55,000)	(15,841)
(21,570)	Discounts (on prompt payment)	(22,422)	(22,000)	(422)
<u>13,599,353</u>	Rates Revenue (incl Council properties)	<u>14,865,496</u>	<u>14,813,816</u>	<u>51,680</u>
<u>(22,563)</u>	Net Rates Surplus/(Deficit)	<u>(51,136)</u>	-	<u>(51,136)</u>

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 4

COST OF SERVICES SUMMARY for the 2006/07 Year			Actual Net Operating Cost	Plan Net Operating Cost	Capital Expenditure
	Operating Revenue	Operating Expenditure			
Transport					
Rooding	2,560,161	8,753,867	6,193,706	5,799,188	3,224,567
Parking	208,715	126,761	(81,954)	(55,858)	
Airport	150,077	178,562	28,485	535	8,957
Water Services					
Urban Water supply	104,612	1,875,133	1,770,521	1,911,991	332,373
Rural Water supplies & races	188,955	237,044	48,089	50,620	
Waste Servies					
Urban Sewerage system	181,784	2,070,286	1,888,502	1,663,236	4,445,066
Rural Sewerage systems	13,650	144,518	130,868	53,400	384,673
Stormwater	-	418,123	418,123	329,507	130,638
Solid Waste Management	1,711,705	2,547,793	836,088	536,387	594,728
Community Facilities					
Parks, Reserves & Sportsfields	81,377	1,542,880	1,461,503	1,558,216	442,894
Genesis Energy Recreation Centre	67,154	1,201,941	1,134,787	1,220,583	41,286
Cemeteries	61,572	135,652	74,080	64,998	11,080
District Building	203,824	439,091	235,267	307,184	19,807
Housing for Elderly	277,933	371,454	93,521	98,100	13,566
Other Property	219,480	678,847	459,367	484,617	45,640
Community Services					
Library & Archive	196,694	1,330,534	1,133,840	1,148,673	204,421
Community Development	46,351	353,022	306,671	353,815	
Arts & Culture	18,568	299,066	280,498	300,591	
Economic Development & Promotic	61,723	785,678	723,955	622,302	76,449
Planning & Regulatory Services					
Resource Management & Planning	635,326	751,473	116,147	288,963	
Environmental Health	411,268	613,199	201,931	185,528	2,851
Building Control	588,838	602,925	14,087	10,850	
By Law Control/General Inspection	223,944	293,376	69,432	57,624	70,061
Rural Fire	11,829	168,139	156,310	156,509	31,677
Dog Control	276,631	277,045	414	8,231	3,856
Emergency Management	14,052	140,429	126,377	128,747	
Governance					
Representation	280,788	714,835	434,047	449,686	
Internal Functions	3,926,544	3,074,829	(851,715)	(918,820)	76,635
External funding of capital expenditure*	2,139,098		(2,139,098)	(4,192,750)	
Eliminate internal recoveries**	(4,337,637)	(4,590,721)			
	10,525,016	25,535,782	15,263,850	12,622,653	10,161,225
* Includes LTNZ subsidy for roading renewals					
** Includes rates paid for council properties					
		Capital expenditure	10,161,225	11,009,700	-
		Add loan principal repayments	603,216	611,711	
		Less loan funds applied	(5,252,415)	(2,055,290)	
		Transfers to reserves	1,599,123	1,265,000	
		Transfers from reserves	(3,211,655)	(4,652,410)	
			19,163,344	18,801,364	
		Depreciation not funded from rates	(4,246,712)	(3,987,547)	
		Rates Requirement	\$14,916,632	\$14,813,817	

ANALYSIS OF REVENUE		Notes	2006/07	2006/07 Plan	2005/06
RATES REVENUE					
	Gross MDC Rates Levied		14,827,253	14,766,108	13,567,693
<i>less</i>	Rates levied on Council properties		(259,573)	(250,000)	(246,544)
<i>plus</i>	Rates Penalties		131,506	110,000	119,153
<i>less</i>	Rates Remissions	<u>29</u>	(70,841)	(55,000)	(65,923)
<i>less</i>	Discounts on prompt payment (excluding Council)		(15,933)	(22,000)	(15,541)
Total Revenue From Rates			\$14,612,412	\$14,549,108	\$13,358,838
OTHER REVENUE					
	User charges		3,030,868	3,102,812	2,676,819
	Regulatory income		1,073,578	1,060,285	1,102,097
	Infringements and fines		77,544	63,000	68,584
	Interest income (external)		620,180	804,000	739,091
	Dividend income		1,246	-	8,151
	Roading subsidies ex LTNZ		3,853,884	3,780,492	3,168,921
	Local authority petrol tax		178,238	170,000	168,400
	Financial contributions (from developers)		555,364	270,000	467,657
	Riversdale sewerage SWSS subsidy		-	1,935,000	-
	Other operating revenue		849,525	975,320	1,045,177
	Revenue recognised from vested assets		284,589	-	471,513
Total Other Revenue			\$10,525,016	\$12,160,909	\$9,916,410
There are no unfulfilled conditions or other contingencies attached to government grants recognised.					
OTHER GAINS/(LOSSES)					
	Gain on changes in fair value of forestry assets		140,994	-	7,102
	Gain on disposal of property, plant and equipment		30,981	-	19,074
	Losses on disposal of property plant & equipment		(286,762)	-	(203,390)
	Gain on changes in fair value of investment property		674,600	-	-
	Gain/(loss) on valuation of financial assets		(186,775)	-	(39,052)
Total Gains/(Losses)			373,038	-	(216,266)
Operating Revenue			\$25,510,466	\$26,710,017	\$23,058,982

EMPLOYEE BENEFIT EXPENSES	Actual 2006/07	Plan 2006/07	2005/06
Salaries & wages	3,571,284	3,631,800	3,445,064
Medical insurance (incl FBT)	83,818	84,305	75,629
Superannuation	139,467	142,180	136,284
Incr/(Decr) in employee benefit liabil.	170,348	-	(17,230)
Total employee benefit expenses	\$3,964,917	\$3,858,285	\$3,639,747

Notes to the Accounts

Note 7

OTHER EXPENSES	Plan		
	2006/07	2006/07	2005/06
Fees to principal auditor			
Audit fees for financial statement audit	75,000	68,000	67,141
Audit fees for NZ IFRS transition	20,000	10,000	0
Audit related fees for assurance and services	0	0	0
Fees for other services (LTCCP in 2005/06)	0	0	34,724
Donations	3,950	3,000	3,258
Grants - funding community development	305,933	329,440	442,267
Grants - funding arts & culture	278,805	286,000	277,941
Grants - funding economic development	572,449	448,500	423,189
ACC levies	32,198	31,240	25,679
Inventories (change in value)	(4,146)	0	(57,874)
Impairment of receivables	120,353	15,500	13,689
Lease payments under operating leases	0	0	1,245
Lease payments under finance leases	34,562	34,500	27,445
Election costs (net of recoveries)	9,028	10,000	0
Mayor & Councillors' honorariums	268,141	268,100	255,681
Entertainment costs	15,629	15,000	12,818
Ceremonies & presentations	2,341	3,000	2,466
Other operating expenses	12,900,747	12,266,022	11,000,934
Total other expenses	\$14,634,990	\$13,788,302	\$12,530,603

Notes to the Accounts

Note 8

TRADE & OTHER RECEIVABLES		
30 June 2006		30 June 2007
\$		\$
364,528	Rates receivables	210,386
(7,386)	- less provision for doubtful debts	(4,000)
1,109,432	Roading Subsidies receivable from LTNZ	1,323,198
622,151	Sundry debtors	707,274
(82,878)	- less provision for doubtful debts	(86,056)
317,099	GST receivable	655,605
6,964	Community loans	2,594
297,666	Other receivables	420,272
26,695	Prepayments	95,976
\$2,654,271		\$3,325,249

Notes to the Accounts

Note 9

INVENTORIES		
30 June 2006		30 June 2007
124,177	Water & sewer reticulation spares	72,937
18,923	Street furniture & pavers	13,876
39,733	Water treatment chemicals	29,434
3,658	Rubbish bags & bins	4,351
7,557	Miscellaneous items	13,579
27,791	Pre-paid envelopes	38,779
\$221,839	Total Stock	\$172,956

CASH & CASH EQUIVALENTS

30 June 2006		30 June 2007
\$		\$
132,940	Cash at bank and in hand	145,256
1,660,000	Short term deposits of 3 months or less from date of acquisition	2,861,555
<u>\$1,792,940</u>	Total cash and cash equivalents	<u>\$3,006,811</u>

OTHER FINANCIAL ASSETS

30 June 2007		30 June 2007
\$	Current	\$
672,931	Short term deposits with maturities of 4-12 months (valued as held-to-maturity) *2	672,931
677,736	Corporate bonds (at fair value through equity)	677,736
0	Local authority stock (at fair value through equity)	0
554,477	Investments held by fund manager (at fair value through P&L)	554,477
<u>\$1,905,144</u>	Total Current Portion of Financial Assets	<u>\$1,905,144</u>
	Non-current	
180,443	Shares (NZLGIC & Airtel) (at fair value through equity) *1	180,443
564,490	Corporate bonds (at fair value through equity)	564,490
4,121,852	Investments held by fund manager (at fair value through P&L) *	4,121,852
<u>\$4,866,785</u>	Total Non-Current Portion of Financial Assets	<u>\$4,866,785</u>
\$6,771,929	Total Other Financial Assets	\$6,771,929

Internal loans/investments

\$6,457,187	Internal Loans/Investments	*4	\$6,457,187
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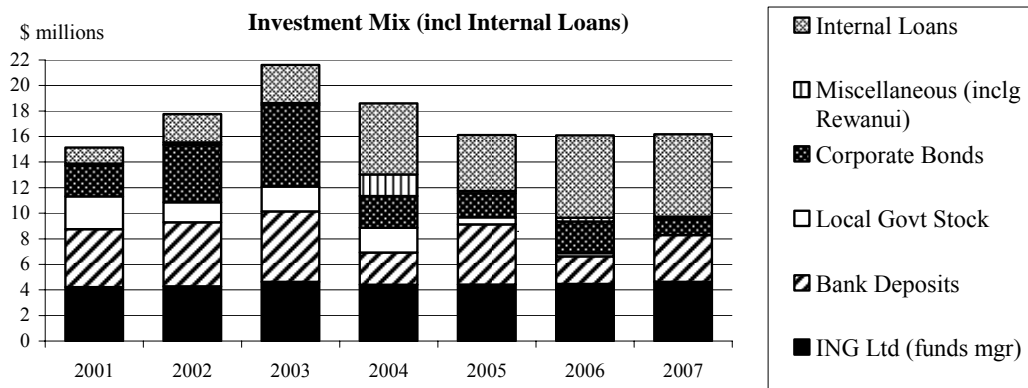
\$16,235,927 Total Funds On Hand or Invested (including Cash & Internal) **\$16,235,927**

Notes:

Investments are valued at fair value with changes in value taken via equity.

***1 Shares consist of:**

57,615 New Zealand Local Government Insurance Corporation Ltd fully paid ordinary \$1.00 shares, valued at \$ 2.78 each and 18,600 \$1.09 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 Council has maintained a level of internal investment to fund capital projects.*****5 Weighted average interest being earned on investments at the 30 June 2007 was 7.46% (last year 7.13%)**

Notes to the Accounts

Note 12

PROPERTY PLANT & EQUIPMENT

2006	Original Cost/ Valuation 1-Jul-05	Accum. Depreciation 1-Jul-05	Carrying Amount 1-Jul-05	Current Year Additions	Current Year Disposals	Current Year Depreciation	Current Year Revaluation	Original Cost/ Valuation 30-Jun-06	Accum. Depreciation 30-Jun-06	Carrying Amount 30-Jun-06
Operational Assets										
Land	20,699,537	-	20,699,537	322,813	(18,200)		8,578,939	29,583,089	-	29,583,089
Buildings	25,835,036	(1,701,672)	24,133,363	337,724	(10,300)	(1,089,578)	5,500,890	28,872,657	(559)	28,872,098
Plant & vehicles	2,156,462	(1,371,102)	785,360	122,260	(15,089)	(129,750)		1,948,632	(1,185,851)	762,781
Equipment & furniture	3,142,092	(2,634,214)	507,879	327,538	(680)	(198,390)		3,171,029	(2,534,682)	636,347
Office equip. (finance lease)	70,415	(37,068)	33,347	127,784	(24,816)	(23,418)		133,919	(21,022)	112,897
Library books	1,834,383	(1,415,224)	419,159	109,988	(2,231)	(105,742)		1,938,988	(1,517,813)	421,175
Work in progress	34,497	-	34,497	651,978				686,475	-	686,475
Total operational assets	53,772,422	(7,159,280)	46,613,142	2,000,085	(71,315)	(1,546,878)	14,079,829	66,334,789	(5,259,927)	61,074,862
Infrastructural Assets										
Land (under roads)	77,850,100		77,850,100	186,925				78,037,025	-	78,037,025
Roading network	262,869,000		262,869,000	3,226,043		(3,392,513)		266,095,043	(3,392,513)	262,702,530
Urban water supply	21,613,392		21,613,392	940,421	(157,370)	(597,523)		22,396,443	(597,523)	21,798,920
Urban sewerage	14,229,132		14,229,132	306,307	(11,568)	(510,605)		14,523,871	(510,605)	14,013,266
Stormwater assets	8,085,800		8,085,800	81,276		(140,477)		8,167,076	(140,477)	8,026,599
Other infrastructure	3,788,000		3,788,000	1,044,111		(97,210)		4,832,111	(97,210)	4,734,901
Work in progress	595,981	-	595,981	(35,826)				560,155		560,155
Total infrastructural assets	389,031,405	0	389,031,405	5,749,257	(168,938)	(4,738,328)	0	394,611,724	(4,738,328)	389,873,396
Total Property, Plant & Equipment	\$ 442,803,827	(\$7,159,280)	\$ 435,644,547	\$ 7,749,342	(\$240,253)	(\$6,285,206)	\$ 14,079,829	\$ 460,946,513	(\$9,998,255)	\$ 450,948,258

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.

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	\$		\$		\$	
	2006	2006	2006	2007	2007	2007
	Computer Software	Resource Consents	Total	Computer Software	Resource Consents	Total
Opening Original Cost	546,726	2,056,856	2,603,582	554,787	2,945,660	3,500,447
Opening Accum. Amortisation	(474,817)	(180,856)	(655,672)	(503,035)	(328,693)	(831,728)
Carrying Amount (start of year)	71,909	1,876,000	1,947,909	51,752	2,616,967	2,668,719
Additions	8,061	888,804	896,865	20,142	527,475	547,617
Disposals (net BV)	-	-	-	(2)	-	(2)
Amortisation Change	(28,218)	(147,837)	(176,055)	(31,895)	(162,991)	(194,886)
Closing Original Cost	554,787	2,945,660	3,500,447	507,336	3,473,135	3,980,471
Closing Accum. Amortisation	(503,035)	(328,693)	(831,728)	(467,339)	(491,684)	(959,023)
Carrying Amount (end of year)	51,752	2,616,967	2,668,719	39,997	2,981,451	3,021,448

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 2007	Actual 2006
Opening balance 1 July	360,403	353,301
Gains/(losses) arising from changes in fair value	140,994	7,102
Decreases due to harvest	(1,818)	-
Balance at 30 June	\$ 499,579	\$ 360,403

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 Manawa block of 1.4ha was harvested during the period.

Independent registered valuers PF Olsen Ltd (Mr Noel Burn-Murdoch, NZIF) have valued forestry assets as at 30 June 2007. 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 2007	Actual 2006
Opening balance 1 July	1,166,400	957,170
Additions from acquisitions	-	-
Disposals	-	-
Fair value gains/(losses) on valuation	674,600	209,230
Balance at 30 June	\$ 1,841,000	\$ 1,166,400

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

CAPITAL EXPENDITURE SUMMARY Significant Activity / Project		2006/07 Plan	2006/07 Actual	Source of Funding			
				Rates	Reserves	Other	
Transport							
Roading	Subsidised roading renewals	3,295,000	2,798,459	1,204,135	37,783	1,556,541	*2
	Car park developments	8,000	8,598		8,598		
	Bridge renewal	360,000	0				
	Urban footpath renewals	175,000	170,813	65,813	105,000		
	Footpath construction (new)	45,000	0				
	Car park development - Church St	0	10,340		10,340		
	Roading assets vested by subdividers	0	236,357			236,357	*4
Parking	Parking Meter upgrades	65,000	0				
Airport	Airport - upgrading facilities	200,000	8,957		8,957		
Water Services							
Urban Water	Water treatment - plant renewals	90,000	91,896		91,896		
	Water treatment - buildings & grounds	20,000	21,900		21,900		
	Water reticulation renewals	30,000	157,498		123,246	34,252	*3
	Water supply - siphon line renewal	0	26,529		26,529		
	Water treatment filter refurbishment	520,000	0				
	Strategic review of services	20,000	0				
	Assets vested by subdividers	0	12,244			12,244	*4
Rural Water	Wainuioru water supply renewals	0	22,306		22,306		
Waste Services							
Urban Sewerage	Homebush treatment plant upgrade	759,000	577,764			577,764	*1
	Sewerage reticulation renewals	675,000	169,585		99,008	70,577	*3
	Homebush land purchase	0	3,658,978			3,658,978	*1
	Sewerage reticulation plant renewals	0	2,751		1,111	1,640	*3
	Assets vested by subdividers	0	35,988			35,988	*4
Rural Sewerage	Riversdale sewerage scheme	2,195,000	301,713			301,713	*1
	Tinui sewerage scheme upgrade	50,000	82,960	15,431	15,000	52,529	*1&*3
Stormwater	Waipoua stopbank upgrade	100,000	0				
	Castlepoint seawall (completion)	0	130,638			130,638	*1
Solid Waste Mgmt	Urban transfer station (completion)	460,000	558,339		6,000	552,339	*1
	Special waste processing facility	100,000	0				
	Tinui transfer station	50,000	0				
	Rural transfer stations upgrades	50,000	36,389		36,389		
Community Facilities							
Parks & Reserves	Queen Elizabeth Park rejuvenation	380,000	274,025		249,025	25,000	*3
	Various Parks & Reserves upgrades	15,000	34,418		25,754	8,664	*3
	Castlepoint landscaping	160,000	0				
	Recreational trails	39,000	43,740		11,276	32,464	*3
	Henley Lake bird viewing platform	0	26,950		11,922	15,028	*3
	Henley Lake storm pipe	0	3,390		3,390		
	Parks buildings upgrade	37,000	32,463		13,765	18,698	*3
	Memorial Park upgrades	14,000	2,005		2,005		
	Street tree strategy	10,000	6,152		6,152		
	Cricket St landscaping	15,000	19,751		19,751		
GE Rec Centre	Basketball backboards, lighting	50,000	41,286		28,014	13,272	*3
Cemeteries	Cemetery Upgrade	37,000	11,080		11,080		
District Building	District building facilities & equip.	10,000	19,807		19,807		
	Town Hall stage equipment upgrade	120,000	0				
Housing for Elderly	Pensioner housing upgrades	30,000	13,566		13,566		
Other Property	Rental property upgrades	38,600	16,434		16,434		
	Castlepoint toilet upgrade	224,000	14,366		14,366		
	Mawley Park facility upgrades	35,000	11,294		11,294		
	Rural Hall upgrades		3,546		3,546		
Community Services							
Library & Archive	Book purchases	124,600	114,873		114,873		
	Computer & equipment upgrades	21,500	20,201		20,201		
	Library building upgrades	30,000	27,596		27,596		
	Furniture upgrades	12,000	6,339		6,339		
	Air conditioning upgrade	45,000	35,412		35,412		
Economic Devlpmt	CBD security cameras	0	68,314		22,121	46,193	*3
	Jubilee Fire Engine rebuild wheels	0	8,135			8,135	*3
	sub totals to carry forward to next page	10,714,700	9,976,143	1,285,379	1,301,751	7,389,014	

CAPITAL EXPENDITURE SUMMARY						
For the Year Ended 30 June 2007						
Department / Project		2006/07 Plan	2006/07 Actual	Source of Funding		
				Rates	Reserves	Other
Planning & Regulatory Services						
Inspectorate	Testing equipment	4,000	2,851		2,851	
	Council vehicle fleet replacements	80,000	70,061		70,061	
Rural Fire	Rural fire station upgrades	6,000	15,539		15,539	
	Wainuioru fire station land		9,249		9,249	
Dog Control	Rural Fire plant replacement		6,889		4,389	2,500 *3
	Pound - Quarantine yard	5,000	3,856		3,856	
Internal Functions						
	Computer & office equipment	80,000	76,635		76,635	
	Phone system upgrade	80,000				
	Records Management system	40,000				
Total Capital Expenditure		\$ 11,009,700	\$ 10,161,225	1,285,379	1,484,332	7,391,514
*1 External loan funding totals \$5,000,000, Internal loan funding totals \$252,416						
*2 Land Transport NZ subsidies on roading capital and renewals expenditure totals \$1,556,541						
*3 External grants & contributions towards asset purchases \$297,968						
*4 Subdivision assets include Roading \$236,357 Water \$12,244 ; Sewer & Stormwater \$35,988						

REPORT ON CAPITAL EXPENDITURE VARIANCES	
<p>Transport - the subsidised renewals programme was not able to be completed by year end - see the Roading activity performance report. The replacement of the Black Swamp bridge was not progressed past the design stage. The High St footpath construction was only subject to Council approval of the design at year end. The staged upgrading of parking meters was not progressed during the year due to other priorities. Airport services extension was not progressed as development options continued to be clarified.</p>	
<p>Water Services - More work than was planned was done on water connection replacements while a final contract payment on the siphon pipeline replacement job was made. The filter refurbishment project was not able to be progressed this year.</p>	
<p>Waste Services - The project to gain resource consent renewal and upgrading of the urban sewage treatment and disposal operation made good progress with the lodging of the consent application in May 2007. The upgrading of the inlet structure has been designed but not yet constructed. An opportunity to purchase 105ha of land which is strategically located next to the sewage treatment plant was taken during the year, thereby giving greater options for land-based disposal.</p> <p>Riversdale's sewerage scheme was not progressed as quickly as the LTCCP anticipated, however design and survey work was progressed and an option to purchase land for oxidation ponds was secured. A solution for the upgrading of the sewerage scheme at Tinui village was implemented and the Castlepoint seawall (stage 1) was completed.</p> <p>A contract for the replacement of 980 metres of Cockburn St sewer was let in June 2007.</p> <p>The urban transfer station at Nursery Road was completed and ready for the 1st October 2006 start. Progress on other solid waste facilities included upgrading Riversdale transfer station, but aspects of work were hampered by lack of staff resources.</p>	
<p>Community Facilities - Stage I of the rejuvenation project was completed during the year and design of stage II was being progressed at year end. The recreational trails project added a significant new section of trails in the Lansdowne area.</p> <p>The town hall stage equipment upgrade was not progressed as it depended on the outcome of the earthquake survey of the building, which was completed late in the year. At year end a tender had been let and construction had started on the replacement Castlepoint toilets building.</p>	
<p>Community Services - the opportunity to add four more security cameras in the Masterton CBD was taken during the year, with two thirds of the funding from external sources.</p>	
<p>Internal Functions - The project to replace the Council's aging phone system was progressed with a preferred supplier identified and pricing negotiations underway at year end. The capital purchase will occur in 2007/08.</p>	

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.

- * Councillor 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.
- * Councillors 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 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:	2006/07	2005/06
Value of goods & services supplied by Mstn.Mitre 10 & Wai. Concrete Ltd.	7,844	4,270
Value of goods & services supplied to Mstn.Mitre 10 (landfill charges)	4,194	3,472
Council owes Mitre 10 / is owed by Mitre 10, at year end	2182 / 313	334 / 176
Value of grants income received by Council from M.T.L.T.	72,000	79,800
Grant given by the Council to Oasis Charitable Trust	1,000	12,000
Grant given by the Council to Wairarapa Balloon Society Inc.	20,000	8,000

Key management personnel compensation

	\$	\$
	2006/07	2005/06
Salaries & performance payments	786,441	719,326
Other benefits (professional fees etc)	9,936	7,166
Post employment, long term benefits & termination benefits	0	0
	<u>796,377</u>	<u>726,491</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 2007 MDC made 0 (2006 = 0) severance payments to employees.

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:

	Per Contract (annual)	Paid to CEO	Benefit (incl Tax)
Annual salary	162,500	162,500	162,500
Performance provision	3,000	1,500	1,500
Other (medical, telephone, prof. fees)	2,500	2,500	3,078
	<u>\$168,000</u>	<u>\$166,500</u>	<u>\$167,078</u>

For the year ended 30th June 2007, the total annual cost, including fringe benefit tax, to the Masterton District Council of the remuneration paid to the C.E.O. is calculated at \$167,078 (2005/06 \$159,055)

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.

		2006/07	2005/06
Mayor	Robert Francis	63,599	62,103
Deputy Mayor & committee chair	Garry Daniell	33,395	31,513
Councillor & committee chair	Chris Peterson	26,716	25,211
Councillor	Brent Goodwin	16,697	15,757
Councillor & task group chair	Jonathan Hooker	18,367	17,332
Councillor & task group chair	Rod McKenzie	18,367	17,332
Councillor	Judith Callaghan	16,697	15,757
Councillor & committee chair	Jane Terpstra	20,872	19,696
Councillor	Bruce Bishop	16,697	15,757
Councillor & task group chair	Owen Perry	18,367	17,332
Councillor & task group chair	Derek Daniell	18,367	17,332
		<u>\$ 268,141</u>	<u>\$ 255,122</u>

Notes to the Accounts

Note 20

TRADE & OTHER PAYABLES		
\$		\$
30 June 2006		30 June 2007
3,159,962	Trade payables	3,038,233
230,200	Deposits & bonds	286,847
48,761	Agency rates collected - Greater Wellington Regional Council	44,747
357,196	Income received in advance	534,577
482,823	Community organisations - funds held in trust	422,153
<u>\$4,278,942</u>		<u>\$4,326,557</u>

Trade and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of trade and other payables approximates their fair value.

Notes to the Accounts

Note 21

EMPLOYEE BENEFIT LIABILITIES		
\$		\$
30 June 2006		30 June 2007
308,167	Staff holiday provision	398,323
33,772	Salaries & wages accrued	102,439
19,231	Councillor's honorariums payable	18,268
14,123	Staff sick leave provision	14,123
113,475	Staff retirement gratuities	125,000
<u>\$488,768</u>	Total Employee Benefit Liabilities	<u>\$658,153</u>
	Comprising	
378,653	Current	536,527
110,114	Non-current	121,626
<u>\$488,768</u>	Total Employee Benefit Liabilities	<u>\$658,153</u>

Notes to the Accounts

Note 22

EQUITY				
RETAINED EARNINGS				
June 30 2006				30 June 2007
414,407,219	Opening Balance			414,741,390
228,839	Net Transfers (To)/From Special Funds & Reserves			(667,120)
(22,545)	Change in fair value of financial assets taken to equity			25,724
235,078	Change in fair value of other assets taken to equity			-
(107,201)	Surplus/(Deficit) for the year			(25,316)
<u>\$414,741,390</u>	Closing Balance			<u>\$414,074,678</u>

REVALUATION RESERVES					
\$		Notes	Movements due to asset disposals	Revaluation Movements	\$
June 30 2006					30 June 2007
18,211,681	Land	*1	(41,500)		18,170,181
	- Stout St link strip sold (\$7,000)				
	- Mangapurupuru land sold (\$34,500)				
8,112,032	Buildings	*2	89,738		8,201,770
	- Johnstone St house sold \$29,357				
	- South Park building roof replaced \$255				
	- ex Information Centre removed \$60,126				
<u>\$ 26,323,713</u>			<u>\$ 48,238</u>	<u>\$ 0</u>	<u>\$ 26,371,951</u>

Analysis of Movements

*1 Land revalued by Quotable Value as at 30 June 2006, per 3 yearly cycle, less movement on land disposed of.

*2 Buildings revalued to market value as at 30 June 2006, per 3 yearly cycle, less movements on buildings disposed of.

PROVISIONS

30 June 2006		30 June 2007
\$	Landfill aftercare provision	\$
469,528	Opening balance	486,847
(9,434)	Amounts expected to be used during the year	(50,944)
-	Unused amounts brought forward	16,981
-	Adjustments to provision*	(17,942)
26,753	Discount unwinding	34,165
<u>\$486,847</u>	Closing balance	<u>\$469,107</u>

Provision for Landfill aftercare costs

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. The 2006/07 year has seen some of the costs allowed for spent, while others have been carried forward in the closing provision. The costs include progressive landfill covering, a monitoring regime and future river protection works.

*Adjustments to the provision include reduced allowance for landfill cover, monitoring and river protection in 2007/08.

Provision for Financial Guarantees

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. In 2006/07 the financial viability of Wairarapa NZ Inc. became doubtful, hence a provision has been made in case the guarantee is called upon.

	Value of Guarantee	Current Bank O/D or Loan 30 June 2007	Current Bank O/D or Loan 30 June 2006
Abbeyfield Masterton Inc. (mortgage secured over property)	325,000	240,429	260,648
Harlequin Theatr Inc.	35,000	18,359	20,294
Masterton Park Bowling Club Inc.	85,850	1,600	8,669
Masterton Motoplex. Inc	55,000	37,107	17,903
Wairarapa NZ Inc. (Go Wairarapa)	60,000	155,955	
	<u>560,850</u>	<u>453,450</u>	<u>307,514</u>
30 June 2006			30 June 2007
<u>\$0</u>	Value of Financial Guarantee Provision carried		<u>\$60,000</u>

\$	Total Provisions	\$
486,847	Landfill Aftercare Provision	469,107
0	Financial Guarantees Provision	60,000
<u>\$486,847</u>	Closing carrying value - Provisions	<u>\$529,107</u>
<u>\$50,994</u>	Current	<u>\$110,008</u>
<u>\$435,853</u>	Non-current	<u>\$419,099</u>
<u>\$486,847</u>		<u>\$529,107</u>

FINANCIAL LIABILITIES as at 30 June 2007			
	\$	\$	\$
	30 June 2006	30 June 2007	Plan
Secured bank loans	7,754,556	12,370,219	9,095,000
Finance leases	118,990	95,976	96,000
Internal loans	6,423,648	6,457,187	6,192,000
Sub total - all financial liabilities	14,297,194	18,923,382	15,383,000
Less current portion of external liabilities	(409,009)	(433,875)	(705,000)
Internal loans/investments reversed	(6,423,648)	(6,457,187)	(6,192,000)
Total non-current borrowings	\$7,464,537	\$12,032,321	\$8,486,000

COST OF DEBT SERVICING

	Actual	Plan
Loan repayments (external)	407,353	404,513
Interest expense (external)	525,441	594,000
Cost of Debt Servicing (external)	932,794	998,513
Loan repayments (internal)	218,877	207,198
Interest expense (internal)	549,477	418,736
Cost of Debt Servicing (internal)	768,354	625,934
Debt Service % of Rates Income*	7.9%	8.1%
Debt Service as % of Operating Income*	4.5%	4.5%
Term Debt as % of Ratepayers' Equity	2.6%	1.8%
Average interest rate during the year	7.6%	7.1%
*Calculated excluding interest on internal loans		
Debt Service % of Rates Income**	11.6%	11.0% Treasury policy ceiling - 20%
Debt Service as % of Operating Income**	6.7%	6.1% Treasury policy ceiling - 15%
**Calculated including interest on internal loans		

MOVEMENTS IN TERM DEBT

	\$ Actual	\$ Plan
Opening Balance 1 July 2006	\$14,297,194	\$13,939,421
Loan repayments	(626,230)	(611,711)
New borrowing (external & finance leases)	5,000,000	1,840,000
New borrowing (internal loans)	252,418	215,290
Closing Balance 30 June 2007	\$18,923,382	\$15,383,000

MATURITY ANALYSIS

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

	30 Jun 2006	30 Jun 2007	
Repayments due in less than one year	409,009	408,230	Weighted average interest on external loans 7.5%
Later than one year, less than five	2,504,149	7,609,778	
Later than five years	4,841,398	4,352,211	
	\$7,754,556	\$12,370,219	

ANALYSIS OF FINANCE LEASE LIABILITIES

	Actual 2006	Actual 2007
Payable no later than one year	34,562	34,562
Later than one, not later than two years	34,562	34,562
Later than two, not later than five years	79,343	44,781
Future financing charges	(29,477)	(17,929)
	\$118,990	\$95,976
Representing lease liabilities - Current	34,562	34,562
- Non-current	84,428	61,415

Note (i): The Council has upgraded its debt security documentation during the year to 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' interests.

Note (ii): The Council has, as at 30th June 2007, all but one of its external loans borrowed from banks and structured to allow repayments over the sanctioned terms of the loans, as per the Borrowing Management Policy. Each bank loan has a term which may be shorter than the sanctioned term of the borrowing, but it can be assumed that as the bank loans mature they will be refinanced to allow repayments to be spread over the sanctioned term. A cash advance facility (CAF) was utilised just prior to year end (see iv below). The CAF has subsequently been repaid on 31 July 2007 by a debenture issue of 5 year local govt stock of \$5m.

Note (iv): During the year \$5,000,000 external debt was raised to fund the land purchase at Homebush and a number of other capital projects, some of which had been funded by internal loans in prior years.

Note (v): Internal interest paid/earned totalled \$549,477 and was charged on the average balance due. The interest rates charged were 7.4% to 31 December 2006 and 7.9% to 30 June 2007. These rates were based on the mid-point between what Council could earn and what Council was paying on its external loans.

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 tradable 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 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 level of borrowing that is to be secured using fixed rate instruments. Fixed to floating interest rate swaps may be entered into to hedge the fair value interest rate risk arising where MDC has borrowed at fixed 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 2007 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 \$32,800 (2006 \$39,700).

If interest rates on borrowings at 30 June 2007 had fluctuated by plus or minus 0.5%, the effect would have been to decrease/increase the surplus/(deficit) by \$95,000 (2006 \$71,500) as a result of higher/lower interest expense on floating rate 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. MDC has no significant concentrations of credit risk, 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. 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. Investments in other Local Authorities are secured by charges over rates.

Liquidity risk

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

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

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

MDC has a maximum amount that can be drawn down against two Cash Advance Facilities (CAFs) of \$5,500,000 (2006 \$500,000). The intent of these CAFs is to assist meeting cashflow requirements on capital projects prior to conversion to longer term debt.

The maturity profiles of the MDC's interest bearing investments and borrowings are disclosed in notes 11 and 24 respectively.

Notes to the Accounts

Note 26

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 - 2006/07

	Opening Balance	Transfers Out	Transfers In	Closing Balance	Plan
Plant & Equipment Funds	1,234,013	(263,432)	318,563	1,289,144	1,197,364
Reserves Development Funds	1,770,951	(355,947)	555,237	1,970,241	1,510,477
General Capital Funds	5,634,622	(429,674)	321,446	5,526,394	5,234,444
Investment Interest Funds	457	(603,760)	561,777	(41,526)	6,909
Property Funds	1,286,686	(326,048)	550,953	1,511,591	1,367,814
Infrastructural Assets Funds	2,884,631	(825,293)	1,379,916	3,439,254	2,831,645
Miscellaneous Special Funds	795,275	(407,498)	190,880	578,655	252,439
Total	13,606,635	(3,211,652)	3,878,772	14,273,755	12,401,092

	Actual 2006/07	Plan 2006/07
Analysis of Transfers 'OUT' of Funds & Reserves		
Funding of Capital Expenditure from special funds & reserves	1,484,331	3,242,800
Funding of Operating Expenditure from special funds & reserves	1,727,321	1,409,610
	3,211,652	4,652,410
Analysis of Transfers 'IN' to Funds & Reserves		
Reserves & development contributions received from subdividers	509,180	270,000
Carry forward funding for on-going project commitments	236,146	85,000
Interest earned and retained in special fund investments	292,020	259,351
Interest earned and allocated to 'projects' fund	561,777	650,649
	Sub Total	1,265,000
Depreciation funded into asset replacement reserves funds	2,163,722	2,319,883
	Total of Transfers into funds from Operations	3,584,883
Proceeds from equipment disposals	15,038	0
Proceeds from sale of plant assets	24,333	12,000
Proceeds from sale of land & buildings assets	76,556	0
	Total Transfers into funds from Asset Sales	12,000
	3,878,772	3,596,883

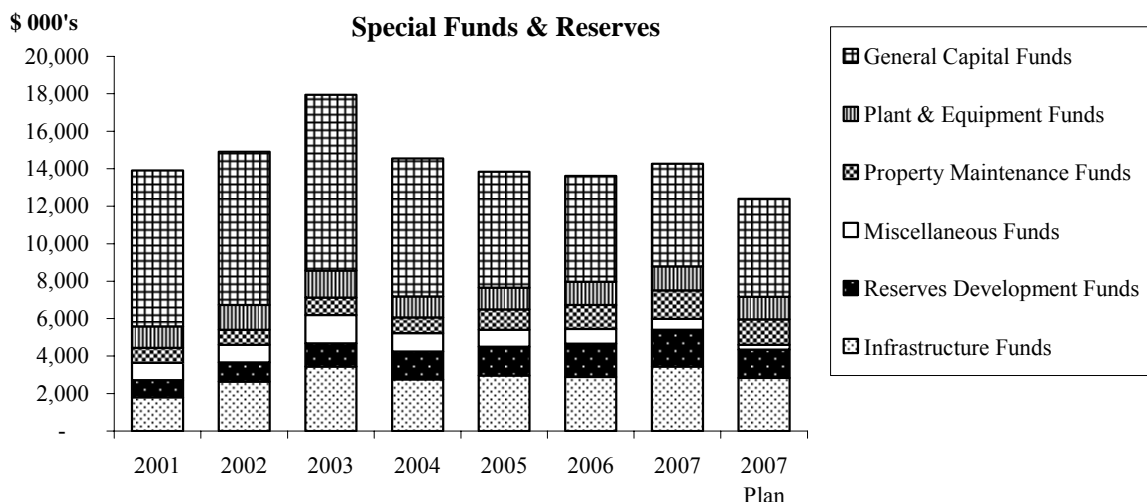
* Explanation of variances from Plan:

Reserves Development Funds - ended \$460,000 more than planned because of more income from reserves development contributions from subdivision than planned and less spent on capital projects than planned.

General Capital Funds - are \$292,000 more than planned Castlepoint toilet replacement job not being progressed as had been expected and a lower cost for earthquake assessment work than expected.

Investment Interest Fund - is \$48,000 less than planned due to less interest income earned than planned.

Infrastructural Assets Funds are \$607,000 more than planned largely because of a lower level of expenditure from those funds than planned. Work on the renewal of a section of sewerage reticulation was underway at year end.



RECONCILIATION OF NET SURPLUS/(DEFICIT) TO NET CASH INFLOW		
2005/06	FROM OPERATING ACTIVITIES	2006/07
(\$107,202)	Operating Surplus / (Deficit)	(\$25,316)
	- Add (less) non-cash items	
6,462,927	Depreciation and amortisation	6,410,434
(471,513)	Vested asset gains	(284,589)
(7,102)	(Gains)/losses in fair value of biological assets (forestry)	(140,994)
(6,100)	(Gains)/losses in fair value of investment property	(674,600)
54,966	Other non-cash items	-
	- Add (less) items classified as investing or financing	
166,176	(Gains)/losses on disposal of property, plant & equipment	255,781
16,449	(Gains)/losses on change in fair value of financial assets	186,775
	- Add (less) movements in working capital items	
17,184	Receivables & current assets	(576,176)
(499,558)	Accounts payable	517,294
(15,558)	Payroll & accrued leave liabilities	169,385
(24,691)	Other current liabilities	386,275
\$ 5,585,978	Net Cash Inflow from Operating Activities	\$ 6,224,269

RATES POLICIES REPORT - REMISSIONS	2006/07		2005/06	
	No.	\$	No.	\$
The cost of the Council's Rates Policies is summarised below.				
Rates remissions were given on:				
Community halls, volunteer & charitable groups	44	28,903	40	25,850
Sporting, arts and cultural use	13	16,209	9	11,981
Land protected for conservation or heritage purposes	29	1,789	30	2,119
Rate arrears penalties	308	18,029	279	8,847
Uniform charges on non-contiguous units	9	2,264	9	3,029
Uniform charges on subdivisions		0	6	1,842
Urban land with rural use	22	3,647	31	12,255
Total (as per Note 3)	<u>425</u>	<u>\$70,841</u>	<u>404</u>	<u>\$65,923</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 (2006 = 1) ratepayers have received the benefit of being allowed to postpone 50% of the rates on unsold sections. The value postponed in the prior year, across four sections, was \$7,875.				
- Postponements for Hardship or Against Equity				
In 2006/07, no properties (2005/06 = 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	2006/07	2006/07	2005/06
Ratio Analysis	<u>Actual</u>	<u>Plan</u>	<u>Actual</u>
Current Ratio (current assets to current liabilities)	1.6:1	1.9:1	1.6:1
Term debt to public equity	2.8%	2.0%	1.7%
External financing debt to PP&E	18.7%	13.7%	12.5%
Debt service costs to rates income	Treasury policy ceiling - 35% 11.6%	11.0%	11.2%
Debt service cost to total revenue	Treasury policy ceiling - 20% 6.7%	6.1%	6.6%
Term debt per capita (incl internal debt)	Treasury policy ceiling - 15% \$837	\$680	\$632
Investments (inc internal) as a percentage of rates income	110.1%	110.6%	117.9%

Major Variations from Plan

Explanations for major variations from the Council's 2006/07 Annual Plan are as follows:

Statement of Financial Performance

Other Operating Revenue exceeds plan by \$299,107 2.9%

- Reserves and infrastructure contributions from developers total some \$285,000 more than planned.
- Roading flood damage LTNZ subsidy exceeds plan but the bridge renewal job did not proceed, hence overall LTNZ subsidy is \$74,000 more than plan.
- Interest income was less than planned by \$184,000 while a community development grant of \$85,000 was expected in the plan from SPARC but was paid direct to Sport Wellington and not included by Council.
- Assets vested in the Council by developers as a result of subdivisions totaled \$284,600 more than plan.

Operating Expenditure is more than plan by \$987,765 4.0%

- Roading flood damage repairs and extra maintenance amounted to \$1,060,000 more than plan (13.8%)
- Solid waste operational costs were \$240,000 more than plan (10.4%) and include the loss from Council allowing to write off \$110,000 of recoveries income from the sale of refuse bags due to the bag supplier going into receivership in January 2007.
- Sewerage operating costs were \$127,500 more than plan (6.6%) and stormwater costs were \$88,600 more than plan (26.9%) following the storm events in July 2006 and the associated cleanup and recovery costs.
- Activities where costs were less than plan include urban water supply (-7.2%), community development, parks and recreation and the range of property activities.
- Across the Council, employee costs were \$106,632 (2.8%) more than plan largely because of the need to increase the provision for holiday pay following the increase in the minimum entitlement.

Statement of Financial Position as at 30 June 2007

- Cash and cash equivalents, under NZ IFRS, includes deposits of 3 months and less. The Plan did not anticipate this change, hence the large disparity between actual and plan.
- Trade receivables are \$428,000 more than planned due to higher LTNZ subsidies receivable at year end.
- Employee benefits are \$186,000 higher than planned due to the change in minimum entitlement to holidays.
- Current portion of provisions includes \$60,000 allowed to meet the guarantee of Go Wairarapa's overdraft.
- Non-current liabilities (term debt) is \$12m compared to the planned \$8.5m. The difference is a result of the Council decision to buy additional land for sewage treatment and disposal purposes.
- The ratepayers' equity and revaluation reserve have been adjusted to remove those assets now valued at deemed cost (under NZ IFRS). This was not anticipated in the plan statement.

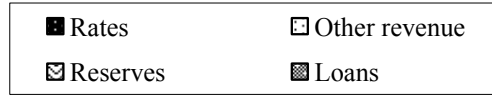
Statement of Movements in Equity

- The plan did not anticipate changes in fair value of financial assets to be taken straight to equity or the write back of revaluation amounts on assets disposed of.

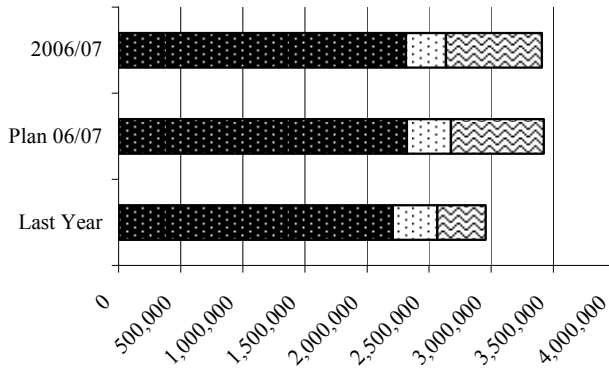
Statement of Cashflows

- Excluding the planned SWSS subsidy, inflows of cash from operating activities were within 1% of planned.
- Outflows of cash on operating activities were 0.5% above planned.
- The re-classification of cash & cash equivalents affects the comparison of cash from investing activities.

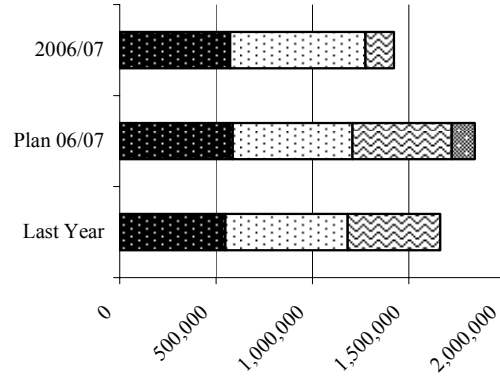
Funding Comparisons by Activity



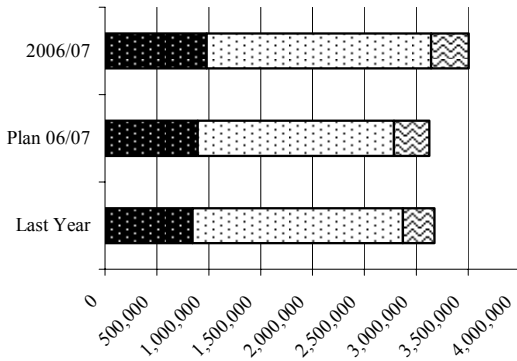
Parks & Recreation



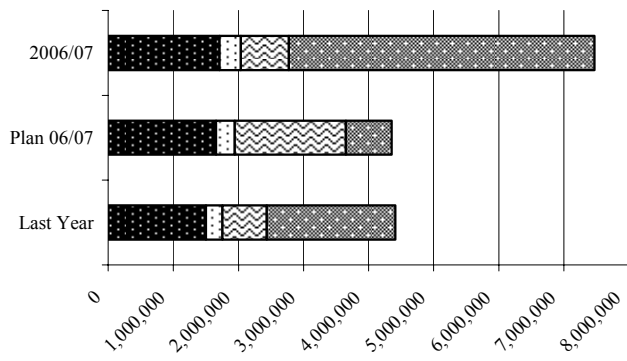
Property Mgmt



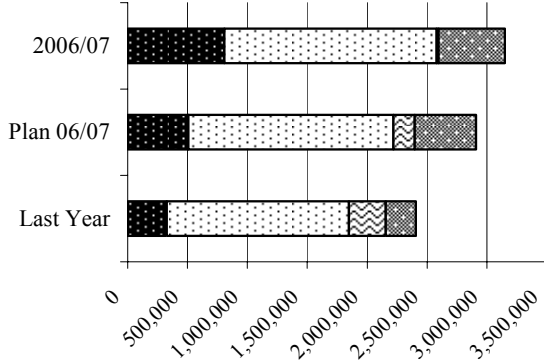
Res. Mgmt & Regulatory



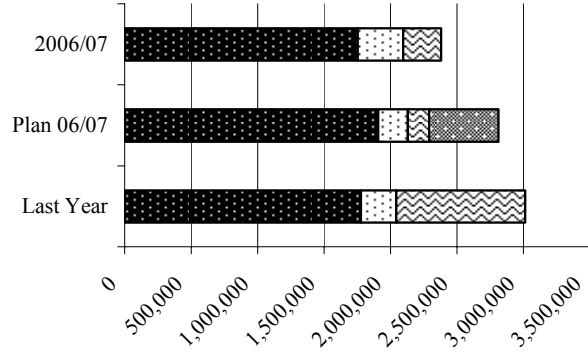
Sewerage & Stormwater



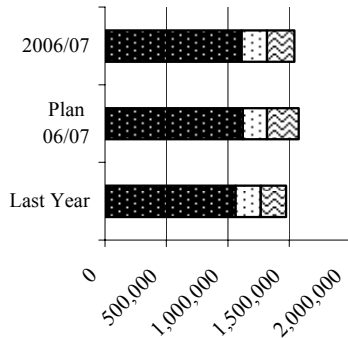
Solid Waste Mgmt.



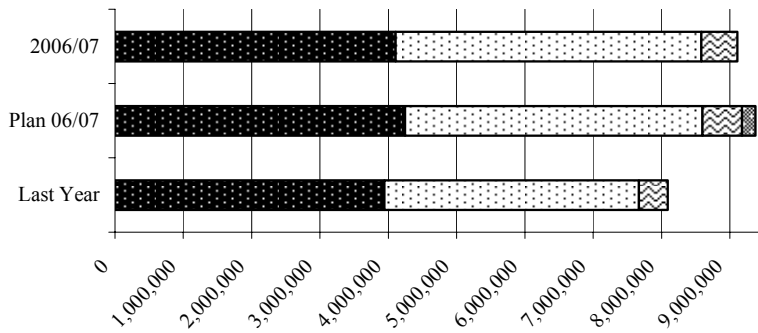
Water Supplies



Library & Archives



Transport Services (excluding vested assets)



STATEMENT OF COMMITMENTS AND CONTINGENCIES**As at 30 June 2007**

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

Four **construction contracts** were underway at 30 June 2007 (2006 = 2), the details as follows:

1. A contract for the construction of replacement public toilets at Castlepoint has been let to MB Brown Ltd for a value of **\$202,000**. At balance date one provisional payment of \$2,500 had been made.
2. An area wide pavement treatment (AWPT) contract let to Fulton Hogan in the Tinui area was not completed at balance date. A further **\$370,144** has been paid to the contractor on completion of the contract in the 07/08 financial year.
3. A contract for the replacement of some 980 metres of 225mm sewer and lower laterals in Cockburn St was let in June 2007 to Levin Bobcats Ltd. The value of the balance of the contract at 30 June 2007 was **\$365,236**.
4. A contract for the repair of up to 10 rural road dropouts was let to Wylie Contracting in March 2007. Some \$275,400 has been expended in 2006/07, with a sum of **\$106,800** paid to the contractor on completion of the contract in 2007/08.

Contract Commitments

Council has let a **professional services contract** prior to 30 June 2007, 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 2007 relates to the Riversdale sewerage scheme where Opus International Consultants Ltd are retained to assist with the project.

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 1991 and has commissioned studies into the levels of contamination and continues to undertake monitoring.

The former gas works site in Bentley Street is owned by the Council and will need to be cleaned up. The testing done to date indicates the contaminants are not moving off the site, while no suitable alternative disposal site has been able to be identified by Greater Wellington - the Regional Council.

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.

There have been no changes to the contingencies described above since they were reported in 2005/06.

Events After Balance Date

Note 33

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