

## Statement of financial performance for the year ended 30 June 2008

|   | Note | Council |          |        | Group  |        |
|---|------|---------|----------|--------|--------|--------|
|   |      | Actual  | Estimate | Actual | Actual | Actual |
|   |      | 2008    | 2008     | 2007   | 2008   | 2007   |
|   |      | \$000   | \$000    | \$000  | \$000  | \$000  |
| <b>REVENUE</b>                                  |      |         |          |        |        |        |
| Rates revenue                                   | 3    | 40,737  | 40,412   | 37,028 | 40,737 | 37,028 |
| Other revenue                                   | 4    | 41,786  | 36,159   | 33,586 | 42,875 | 35,025 |
| Profit on sale of shares in Port Nelson limited | 18   | 0       | 0        | 9,685  | 0      | 0      |
| Other gains                                     | 5    | 253     | 60       | 1,070  | 277    | 1,081  |
| Total Operating Revenue                         |      | 82,776  | 76,631   | 81,369 | 83,889 | 73,134 |
| <b>EXPENDITURE</b>                              |      |         |          |        |        |        |
| Employee benefit expenses                       | 6    | 10,928  | 11,000   | 10,205 | 15,741 | 14,902 |
| Depreciation and amortisation                   |      | 13,519  | 13,671   | 13,005 | 14,034 | 13,543 |
| Other expenses                                  | 7    | 34,030  | 33,031   | 29,722 | 32,597 | 27,524 |
| Finance costs                                   | 8    | 2,699   | 3,164    | 2,633  | 2,699  | 2,633  |
| Total Operating Expenditure                     |      | 61,176  | 60,866   | 55,565 | 65,071 | 58,602 |
| <b>SURPLUS/(DEFICIT) BEFORE TAX</b>             |      | 21,600  | 15,765   | 25,804 | 18,818 | 14,532 |
| Share of associate's surplus/(deficit)          |      | 0       | 2,052    | 0      | 4,222  | 3,711  |
|   |      | 21,600  | 17,817   | 25,804 | 23,040 | 18,243 |
| Taxation  | 9    | 52      | 1        | 87     | 327    | 267    |
| <b>NET SURPLUS/(DEFICIT)</b>                    |      | 21,548  | 17,816   | 25,717 | 22,713 | 17,976 |

The accompanying notes form part of these financial statements. See Note 33 on pages 82 - 86 for explanation of variations

## Movements in equity for the year ended 30 June 2008

| Note   | Council          |                  |                | Group            |                  |
|--|------------------|------------------|----------------|------------------|------------------|
|  | Actual           | Estimate         | Actual         | Actual           | Actual           |
|  | 2008             | 2008             | 2007           | 2008             | 2007             |
|  | \$000            | \$000            | \$000          | \$000            | \$000            |
| <b>Balance as 1 July</b>                           | <b>969,696</b>   | <b>1,003,036</b> | <b>912,240</b> | <b>1,018,088</b> | <b>966,577</b>   |
| Revaluation gains/(losses) taken to equity         | 34,453           | 25,517           | 31,739         | 43,844           | 33,535           |
| Net income/(expense) recognised in equity          | 34,453           | 25,517           | 31,739         | 43,844           | 33,535           |
| Surplus/(deficit) for year                         | 21,548           | 17,816           | 25,717         | 22,713           | 17,976           |
| Total recognised income/(expenditure) for the year | 56,001           | 43,333           | 57,456         | 66,557           | 51,511           |
| <b>EQUITY AT END OF YEAR</b>                       | <b>1,025,697</b> | <b>1,046,369</b> | <b>969,696</b> | <b>1,084,645</b> | <b>1,018,088</b> |

Movements in equity

FINANCIALS

The accompanying notes form part of these financial statements. See Note 33 on pages 82 - 86 for explanation of variations.

## Balance sheet as at 30 June 2008

### Balance sheet

|  | Note | Council          |                  |                  | Group            |                  |
|--|------|------------------|------------------|------------------|------------------|------------------|
|  |      | Actual           | Estimate         | Actual           | Actual           | Actual           |
|  |      | 2008             | 2008             | 2007             | 2008             | 2007             |
|  |      | \$000            | \$000            | \$000            | \$000            | \$000            |
| <b>Assets</b>                              |      |                  |                  |                  |                  |                  |
| <b>Current assets</b>                      |      |                  |                  |                  |                  |                  |
| Cash and cash equivalents                  | 10   | 6,538            | 8,813            | 10,844           | 7,461            | 11,771           |
| Trade and other receivables                | 11   | 12,378           | 7,921            | 8,748            | 13,288           | 9,275            |
| Inventories                                | 12   | 451              | 407              | 348              | 708              | 545              |
| Biological assets                          | 12   | 161              | 262              | 208              | 161              | 208              |
| Other financial assets                     | 13   | 2,000            | 0                | 1,000            | 2,000            | 1,000            |
| Taxation                                   | 11   | 123              | 0                | 0                | 123              | 0                |
| <b>Total current assets</b>                |      | <b>21,651</b>    | <b>17,403</b>    | <b>21,148</b>    | <b>23,741</b>    | <b>22,799</b>    |
| <b>Non-current assets</b>                  |      |                  |                  |                  |                  |                  |
| Trade and other receivables                | 11   | 2,530            | 3,158            | 2,161            | 2,530            | 2,161            |
| Property, plant and equipment              | 14   | 1,023,762        | 1,022,375        | 967,069          | 1,027,198        | 970,312          |
| Intangible assets                          | 15   | 996              | 723              | 842              | 1,027            | 857              |
| Forestry assets                            | 16   | 4,610            | 3,984            | 4,789            | 4,610            | 4,789            |
| Investment properties                      | 17   | 940              | 850              | 890              | 940              | 890              |
| Investments in associates and subsidiaries | 18   | 21,183           | 68,321           | 21,183           | 75,246           | 65,108           |
| Other financial assets                     | 13   | 140              | 140              | 140              | 370              | 335              |
| Deferred Taxation                          | 9    | 0                | 0                | 0                | 238              | 244              |
| <b>Total non-current assets</b>            |      | <b>1,054,161</b> | <b>1,099,551</b> | <b>997,074</b>   | <b>1,112,159</b> | <b>1,044,696</b> |
| <b>Total assets</b>                        |      | <b>1,075,812</b> | <b>1,116,954</b> | <b>1,018,222</b> | <b>1,135,900</b> | <b>1,067,495</b> |

The accompanying notes form part of these financial statements. See Note 33 on pages 82 - 86 for explanation of variations.

|                                      | Note | Council          |                  |                | Group            |                  |
|--------------------------------------|------|------------------|------------------|----------------|------------------|------------------|
|                                      |      | Actual           | Estimate         | Actual         | Actual           | Actual           |
|                                      |      | 2008             | 2008             | 2007           | 2008             | 2007             |
|                                      |      | \$000            | \$000            | \$000          | \$000            | \$000            |
| <b>Current liabilities</b>           |      |                  |                  |                |                  |                  |
| Trade and other payables             | 20   | 10,293           | 9,275            | 9,818          | 10,770           | 10,051           |
| Taxation payable                     |      | 0                | 0                | 154            | 14               | 192              |
| Provisions                           | 21   | 0                | 0                | 0              | 11               | 11               |
| Employee benefit liabilities         | 22   | 1,289            | 1,250            | 1,233          | 1,870            | 1,755            |
| Borrowings                           | 23   | 12,493           | 11,200           | 9,349          | 12,493           | 9,349            |
| <b>Total current liabilities</b>     |      | <b>24,075</b>    | <b>21,725</b>    | <b>20,554</b>  | <b>25,158</b>    | <b>21,358</b>    |
| <b>Non-current liabilities</b>       |      |                  |                  |                |                  |                  |
| Provisions                           | 21   | 1,311            | 1,267            | 1,167          | 1,311            | 1,167            |
| Employee benefit liabilities         | 22   | 519              | 500              | 495            | 576              | 572              |
| Borrowings                           | 23   | 24,210           | 47,093           | 26,310         | 24,210           | 26,310           |
| <b>Total non-current liabilities</b> |      | <b>26,040</b>    | <b>48,860</b>    | <b>27,972</b>  | <b>26,097</b>    | <b>28,049</b>    |
| <b>Total liabilities</b>             |      | <b>50,115</b>    | <b>70,585</b>    | <b>48,526</b>  | <b>51,255</b>    | <b>49,407</b>    |
| <b>Total net assets</b>              |      | <b>1,025,697</b> | <b>1,046,369</b> | <b>969,696</b> | <b>1,084,645</b> | <b>1,018,088</b> |
| <b>Equity</b>                        |      |                  |                  |                |                  |                  |
| Retained earnings                    | 24   | 270,475          | 992,227          | 247,201        | 283,246          | 258,807          |
| Other reserves                       | 24   | 755,222          | 54,142           | 722,495        | 801,399          | 759,281          |
| <b>Total equity</b>                  |      | <b>1,025,697</b> | <b>1,046,369</b> | <b>969,696</b> | <b>1,084,645</b> | <b>1,018,088</b> |

The accompanying notes form part of these financial statements. See Note 33 on pages 82 - 86 for explanation of variations.

## Cashflows as at 30 June 2008

### Cashflows

|   | PARENT   |          |          | CONSOLIDATED |          |
|---|----------|----------|----------|--------------|----------|
|   | Actual   | Estimate | Actual   | Actual       | Actual   |
|   | 2008     | 2008     | 2007     | 2008         | 2007     |
|   | \$000    | \$000    | \$000    | \$000        | \$000    |
| <b>Cash Flows From Operating Activities</b>         |          |          |          |              |          |
| Receipts from rates and other revenue               | 66,549   | 72,307   | 62,136   | 73,687       | 67,731   |
| Interest received                                   | 838      | 51       | 834      | 929          | 893      |
| Dividends received                                  | 2,258    | 193      | 2,123    | -            | 0        |
| Payments to suppliers and employees                 | (44,602) | (43,620) | (39,763) | (47,786)     | (42,073) |
| Interest paid                                       | (2,699)  | (3,164)  | (2,633)  | (2,699)      | (2,633)  |
| Taxation paid/(refund)                              | (329)    | 261      | 330      | (622)        | 165      |
| Net GST movement                                    | (330)    | 0        | (70)     | (346)        | (54)     |
| Net cash inflows from operating activities          | 21,685   | 26,028   | 22,957   | 23,163       | 24,029   |
|   |          |          |          |              |          |
| <b>Cash Flows From Investing Activities</b>         |          |          |          |              |          |
| Sale of fixed assets                                | 0        | 2,651    | 466      | 0            | 738      |
| Sale of investments                                 | 0        | 690      | 12,500   | 0            | 12,500   |
| Repayment of loans/advances                         | 0        | 0        | 0        | 0            | 0        |
| Goodwill on sale of business                        | 0        | 0        | 0        | 0            | 0        |
| Purchase of fixed assets                            | (25,924) | (43,833) | (28,439) | (17,233)     | (27,598) |
| Purchase of investments                             | (1,000)  | (9)      | 0        | (11,284)     | (1,677)  |
| Loans and advances                                  | (111)    | (1,239)  | (243)    | 0            | (243)    |
| Net cash outflow from investing activities          | (27,035) | (41,740) | (15,716) | (28,517)     | (16,280) |
|   |          |          |          |              |          |
| <b>Cash Flows From Financing Activities</b>         |          |          |          |              |          |
| Cash was provided from loans raised                 | 10,100   | 25,686   | 0        | 10,100       | 0        |
| Cash was applied to repayment of loans              | (8,775)  | (10,186) | (6,300)  | (8,775)      | (6,300)  |
| Net cash inflows/outflows from financing activities | 1,325    | 15,500   | (6,300)  | 1,325        | (6,300)  |
|   |          |          |          |              |          |
| Net increase/(decrease) in cash held                | (4,025)  | (212)    | 941      | (4,029)      | 1,449    |
| Plus opening cash balance                           | 10,295   | 8,107    | 9,354    | 11,222       | 9,773    |
| Closing Balance                                     | 6,270    | 7,895    | 10,295   | 7,193        | 11,222   |
|   |          |          |          |              |          |
| <b>Represented by:</b>                              |          |          |          |              |          |
| Cash and cash equivalents                           | 6,538    | 7,895    | 10,844   | 7,461        | 11,771   |
| Bank Overdraft                                      | (268)    | 0        | (549)    | (268)        | (549)    |
|   | 6,270    | 7,895    | 10,295   | 7,193        | 11,222   |

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.

The accompanying notes form part of these financial statements. See Note 33 on pages 82 - 86 for explanation of variations.

## Notes to accounts

### Note 1 - Accounting policies

#### Statement of accounting policies for the year ended 30 June 2008

##### Entity statement

Since 1 July 1992, the Council has been constituted a unitary authority assuming the responsibilities of the former Nelson Marlborough Regional Council and City Council.

These financial statements include details on the Council's share of subsidiaries and other associated activities. How each associated activity is accounted for and the consolidation policy are covered in the following pages.

The Nelson City Council Group consists of Nelson City Council, its subsidiaries, Nelmac Ltd, the Nelson Civic Trust, and the Nelson Regional Economic Development Agency and associates and joint ventures.

##### Accounting policies

These financial statements have been prepared in accordance with the requirements of the Local Government Act 2002 and Standards issued by the Institute of Chartered Accountants of New Zealand.

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (GAAP). They comply with New Zealand International Financial Reporting Standards (IFRS), and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

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

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land, certain infrastructural assets, investment property and biological assets.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of Nelson City Council is New Zealand dollars.

The financial statements of Nelson City Council are for the year ended 30 June 2008. The financial statements were authorised for issue by Council on 2 October 2008.



The measurement base adopted is that of historical cost, modified by the revaluation of certain assets. The following particular accounting policies, which materially affect the reported results, have been applied.

### Consolidation

Subsidiaries in which the Council has a controlling interest are consolidated by separate line-by-line aggregations of like items of assets, liabilities, equity, revenue, expense and cash flows into the consolidated financial statements. All significant inter-entity transactions are eliminated upon consolidation.

Nelmac Limited is a fully owned subsidiary and has been consolidated on a line-by-line basis.

The City of Nelson Civic Trust (Inc) and the Nelson Regional Economic Development Agency (REDA) are controlled by Council via the appointment of a majority of the trustees. The Trust and REDA has been consolidated on a line-by-line basis.

### Associate entities

Associate organisations are accounted for the Group by the equity method, which records the Council's share of surpluses and deficits for the period in the Statement of Financial Performance and shows the amount of equity held in Investments in the Statement of Financial Position. An associate organisation is one in which the Council has an equity interest of between 20% and 50% and the capacity to significantly influence the policies of that organisation.

As the Council does not have a controlling interest in any of the following, they have been accounted for using the equity method.

- Port Nelson Limited (PNL)
- Nelson Airport Limited
- Tasman Bays Heritage Trust
- Tourism Nelson Tasman Limited

### Joint ventures

The Council does not have a controlling interest in the Regional Sewerage Business Unit (NRSBU), Civil Defence or Ridgeway Joint Venture. As these are not separate legal entities, Council has consolidated their share by line-by-line proportionate consolidation in the parent financial statements.

The figures incorporated in these financial statements for the Civil Defence, Nelson Regional Sewerage Business Unit and Tasman Bays Heritage Trust are based on unaudited financial statements.



**Revenue**

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

**Rates Revenue**

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

Revenue from water rates by meter is recognised on an accrual basis. Unbilled usage, as a result of unread meters at year-end, is accrued on an average usage basis.

**Government grants**

Nelson City Council receives government grants from Land Transport New Zealand, which subsidises part of Nelson City Council'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.

**Provision of services**

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.

**Vested assets**

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

**Sales of goods**

Revenue from sales of goods is recognised when a product is sold to a customer.

**Traffic and parking infringements**

Traffic and parking infringements are recognised when tickets are issued.

**Interest and dividends**

Interest income is recognised using the effective interest method.

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

**Development contributions**

Development and financial contributions are recognised as revenue when the Council provides, or is able to provide, the



service for which the contribution was charged. Otherwise development and financial contributions are not recognised as liabilities until such time the Council provides, or is able to provide, the service.

#### **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, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

#### **Fixed assets and other assets**

Fixed assets consist of the following categories:

- Operational Assets – these include land, buildings, improvements, motor vehicles, plant and equipment, library books, forestry and the marina.
- Restricted Assets – restricted assets are land, buildings and improvements, which are owned by the Council but which benefit or service the community. Heritage assets consist of Museum artefacts, collections and historic buildings.
- Infrastructural Assets – infrastructural assets are the fixed utility systems owned by the Council. These include the roading, water, sewer, and stormwater networks.

All assets are valued at historical cost, except for the following:

- Land – operational and restricted land (with the exception of Walters Bluff and Ridgeway subdivisions) has been valued at net current value by Quotable Value NZ as at 30 June 2007. Quotable Value NZ has confirmed this as being appropriate for financial reporting purposes.
- Land under Roads – land under roads has been valued at net current value by Telfer Young registered valuers as at 30 June 2006. This is now considered to be deemed cost.
- Infrastructural Assets – infrastructural assets excluding specialised Infrastructural assets have been valued internally at depreciated replacement cost by Council engineers as at 30 June 2008. The valuation methodology has been peer reviewed by Opus International Consultants Ltd.
- Specialist infrastructural assets – specialised infrastructural assets include dams, water reservoir and sewage treatment plants. These assets have been valued at depreciated replacement cost as at 30 June 2008 by Opus International Consultants Ltd.

- Nelson Regional Sewerage Business Unit – land is valued at market valuation (30 June 2006) by Quotable Value and is reviewed annually and revalued if there is a material movement. Infrastructure assets are valued at depreciated replacement cost with assets optimised using least cost alternative by an independent valuer. The latest valuation was conducted as at 30 June 2007 by Duffill Watts and Tse Ltd, consultant engineers.
- Heritage Assets – museum assets have been valued on the basis of what a willing buyer would be prepared to pay a willing seller. The valuation was undertaken by Dunbar Sloane registered valuer as at 30 June 1999. The Cawthron steps and Broadgreen House have been valued on the basis of depreciated replacement cost by Quotable Value at 30 June 2002. Founders Park has been valued on the basis of depreciated replacement cost by Telfer Young at 30 June 2002. The Cawthron Steps, Broadgreen House and Founders Park were included in 2002 for the first time and are deemed to be at cost.
- Additions between valuations are recorded at cost except for vested assets.
- The vested assets are infrastructural assets such as roads, sewers and water mains, paid for by subdividers and vested in the City on completion of the subdivision. These have been valued based on the actual quantities of infrastructure components and the current “in the ground” cost of providing identical services.

Valuations are performed with sufficient regularity to ensure the carrying amount of property, plant and equipment does not materially differ from fair value.

### Depreciation

Depreciation has been provided on a straight line basis on all fixed assets other than forestry, heritage, operational land, restricted land and land under roads at rates which will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives.



Assets depreciated are as follows:

| Asset                | Depreciable life (years) |
|----------------------|--------------------------|
| <b>Operational</b>   |                          |
| Buildings            | 50 - 100                 |
| Improvements         | Nil-20                   |
| Motor vehicles       | 7                        |
| Plant and equipment  | 2 - 30                   |
| Library books        | 3 - 10                   |
| Marina               | 30 - 50                  |
| <b>Restricted</b>    |                          |
| Buildings            | 50 - 100                 |
| Improvements         | Nil - 20                 |
| <b>Roading</b>       |                          |
| Roads formation      | n/a                      |
| Sub-base             | n/a                      |
| Basecourse           | 5 - 80                   |
| Surfacing (sealed)   | 2 - 50                   |
| Surfacing (unsealed) | n/a                      |
| Bridges              | 20 - 100                 |
| Retaining/sea walls  | 75 - 150                 |
| Box culverts         | 60 - 90                  |
| Footpaths            | 5 - 100                  |
| Carparks             | 10 - 100                 |
| Streetlights         | 30 - 60                  |
| Signs                | 15                       |
| <b>Water</b>         |                          |
| Pipeline             | 55 - 120                 |
| Manholes             | 55 - 120                 |
| Reservoirs and tanks | 45 - 100                 |
| Dams                 | 16 - 200                 |
| <b>Sewer</b>         |                          |
| Pipeline             | 40 - 120                 |
| Manholes             | 80                       |
| Pump stations        | 10 - 50                  |
| Oxidation pond       | 22 - 139                 |
| <b>Stormwater</b>    |                          |
| Pipeline             | 50 - 80                  |
| Bank protection      | 25 - 100                 |
| Manholes             | 90                       |



| <b>Asset</b>       | <b>Depreciable life (years)</b> |
|--------------------|---------------------------------|
| <b>Solid waste</b> |                                 |
| Pipes              | 60 - 90                         |
| Ponds and dam      | 100                             |
| Gas Flare          | 20                              |
| Resource consents  | 24                              |

### **Forestry assets**

- Forestry – forestry assets are valued annually based on the estimated worth of maturing tree stocks in Council's plantation. The valuation methodology adopted is net present value based on the age and condition of the trees. The valuation was undertaken by PF Olsen on 30 June 2008.

Changes in the valuation of the assets are recognised in the statement of financial performance.

### **Intangible assets**

#### **Software acquisition and development**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software for internal use by Nelson City Council are recognised as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

#### **Amortisation**

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

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

|                   |         |     |
|-------------------|---------|-----|
| Computer software | 3 years | 33% |
|-------------------|---------|-----|

### **Inventory**

Inventories are valued at cost or net realisable value, whichever is lower. For the purposes of arriving at the cost, the weighted average cost method is used.



### **Work in progress**

Profits on contracts are recognised progressively over the period of each contract. The contract amount included in the Statement of Financial Performance, and the value of work in progress, are established by assessment of individual contract taking into account the proportion of work completed, cost analysis and estimated final results. Foreseeable losses on contracts are recognised immediately.

### **Financial instruments**

The Council and group is party to financial instrument arrangements as part of its everyday operations. These financial instruments include cash and bank, accounts receivable and payable, investments, and loans which have all been recognised in the financial statements. Revenues and expenses in relation to all financial instruments are recognised in the Statement of Financial Performance.

### **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.

### **Investments**

The activities of associated entities have been included in the parent financial statements at cost on acquisition.

Other investments are stated at cost, except the shares in the Local Government Insurance Corporation, which are recorded at their net asset value.

### **Investment property**

Nelson City Council's investment property is valued annually at fair value effective 30 June. Investment properties were valued based on open market evidence. The valuation was performed by Ian McKeage of Telfer Young (Nelson) Limited. Telfer Young (Nelson) Limited are experienced valuers with extensive market knowledge in the type of investment property owned by Nelson City Council.

### **Other financial instruments**

All other financial instruments, including cash, and bank and accounts payable, are recognised at their fair value.

Loans are recorded at cost.

### **Impairment of financial assets**

At each balance sheet date Nelson City Council assesses whether there is any objective evidence that a financial assets or group of financial assets is impaired. Any impairment losses are recognised in the statement of financial performance.

### Loans and other receivables

Impairment of a loan or a receivable is established when there is objective evidence that Nelson City Council will not be able to collect amounts due according to the original terms. Significant financial difficulties of the debtor/issuer, probability that the debtor/issuer will enter into bankruptcy, and default in payments are considered indicators that the asset is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of financial performance. When the receivable is uncollectable, it is written off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (i.e. not past due). For term deposits, local authority stock, government stock and community loans, impairment losses are recognised directly against the instruments carrying amount.

Impairment of term deposits, local authority, government stock and related party and community loans is established when there is objective evidence that the Nelson City Council will not be able to collect amounts due to the original terms of the instruments. Significant financial difficulties of the issuer, probability the issuer will enter into bankruptcy, and default in payments are considered indicators that the instrument is impaired.

### Properties intended for sale

Properties intended for sale are valued at the lower of cost and net realisable value.

### Employee entitlements

Provision is made in respect of the Council's liability for annual leave, long service leave and retirement gratuities. Annual leave due has been calculated on an actual entitlement basis at current rates of pay. Provision is also made for retirement gratuities and long service leave based on an actuarial calculation.

### Landfill

As operator of the York Valley landfill, the Council has a legal obligation to provide ongoing maintenance and monitoring services at the landfill sites after closure. This provision is calculated on the basis of discounting closure and post closure costs into present day values. The calculation assumes no



change in the resource consent conditions for closure and post closure treatment.

#### Income tax

Income tax expense comprises both current tax and deferred tax, and is calculated using tax rates that have been enacted or substantively enacted by balance date.

Current tax is the amount of income tax payable based on the taxable profit for the current year plus any adjustments to income tax payable in respect of prior years.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probably that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of transaction, affects neither accounting profit nor taxable profit.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.



Current tax and deferred tax is charged or credited to the statement of financial performance, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

#### **Good and services tax (GST)**

All amounts in the accounts are exclusive of GST except for debtors and creditors which are shown inclusive of GST.

#### **Allocation of overheads - Significant activities**

All overheads by way of the job costing system have been allocated to the significant activities. This allocation has been mainly on the basis of time spent, but where items of expenditure clearly relate to particular activities, then they are allocated on that basis.

#### **Expenditure recognition**

Borrowing costs are expensed when incurred.

#### **Reserves and Trusts**

Reserves are a component of equity generally representing a particular use to which various parts of equity have been assigned. Reserves may be:

Restricted reserves - reserves subject to specific conditions accepted as binding by the Council, and which may not be revised by the Council without reference to the courts or a third party. Transfer from these reserves may be made only for certain specified purposes or if certain specified conditions are met.

Council Created Reserves - part of the accumulated balance established at the will of the Council. 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.

Revaluation reserves – The results of revaluing land, infrastructural assets 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 for any class of asset, this is expensed in the Statement of Financial Performance. To the extent that increases in value offset previous decreases debited to the Statement of Financial Performance, the increase is credited to the Statement of Financial Performance.





### Statement of cashflows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Council or group invests as part of its day-to-day cash management.

Operating activities include cash received from all income sources of the group and record the cash payments made of the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise activities that change the equity and debt capital structure of the Council and group.

### Leases

Finance leases are leases of fixed assets where substantially all the risks and benefits incidental to ownership of the asset are transferred to the Council. The leased assets are recognised as non current assets in the Statement of Financial Position and are depreciated over the period the company is expected to benefit from their use. The corresponding liability is also recognised in the Statement of Financial Position.

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.

The accounting policy of recognising operating lease payments in the periods in which they are incurred does not comply with NZ IAS 17 Para 33, which requires operating lease payments to be recognised on a straight-line basis over the lease term (or another systematic basis that is more representative of the time pattern of the user's benefit).

### Standards, amendments and interpretations issued that are not yet effective and have not been early adopted

Standards, amendments and interpretations issued but not yet effective that have not been early adopted and which are relevant to Nelson City Council include:

- NZ IAS 1 Presentation of Financial Statements (revised 2007) replaces NZ IAS 1 Presentation of Financial Statements (issued 2004) and is effective for reporting periods beginning on or after 1 January 2009. The revised standard required information in the financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The statement of comprehensive income will enable readers

to analyse changes in equity resulting from non-owner changes separately from transactions with owners. The revised standard gives Nelson City Council the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). Nelson City Council intends to adopt this standard for the year ending 30 June 2010, and is yet to decide whether it will prepare a single statement of comprehensive income or a separate income statement followed by a statement of comprehensive income.

- NZ IAS 23 Borrowing Costs (revised 2007) replaces NZ IAS 23 Borrowing Costs (issued 2004) and is effective for reporting periods beginning on or after 1 January 2009. The revised standard requires all borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. The revised standard will also require borrowing costs to be considered when revaluing property, plant and equipment to fair value based on depreciated replacement cost. Any necessary adjustments to depreciated replacement cost carrying values will have flow on effects to depreciation expense. Nelson City Council intends to adopt this standard for the year ending 30 June 2010 and has not yet quantified the potential impact of the new standard.
- NZ IRRS 3 Borrowing Combinations (revised 2008) and the amended NZ IAS 27 Consolidated and Separate Financial Statements are effective for reporting periods beginning on or after 1 July 2009 and must be applied prospectively from that date. The main changes the revised NZ IFRS 3 and amended NZ IAS 27 will make to existing requirements or practice are:
  - Partial acquisitions. Non-controlling interests are measured either as their proportionate interest in the net identifiable assets (which is the original NZ IFRS 3 requirement) or at fair value.
  - Step acquisitions: The requirement to measure at fair value every asset and liability at each step for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill is measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired.



- Acquisition-related costs. Acquisition-related costs are generally recognised as expenses (rather than included in goodwill).

- Contingent consideration. Contingent consideration must be recognised and measured at fair value at the acquisition date. Subsequent changes in fair value are recognised in accordance with other IFRSs, usually in profit or loss (rather than by adjusting goodwill).

Nelson City Council will adopt the revised NZ IFRS 3 and amended NZ IAS 27 for the year ended 30 June 2010, which will impact on business combinations that occur on or after 1 July 2009.

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

In preparing these financial statements Nelson City Council has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions 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 21 presents an analysis of the exposure of Nelson City Council in relation to the estimates and uncertainties surrounding the landfill aftercare provision.

#### **Infrastructural assets**

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

- The physical deterioration and condition of an asset, for example the Council could be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets, which are not visible, for example storm water, wastewater and water supply pipes which are underground. This risk is minimised by Council performing a combination of physical inspections and condition modelling assessments of underground assets;
- estimating any obsolescence or surplus capacity of an asset; and
- Estimates are made when determining the remaining useful lives over which the asset will be depreciated. These

estimates can be impacted by the local conditions, for example weather patterns and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then Nelson City Council could be over or under estimating the annual depreciation charge recognised as an expense in the statement of financial performance. To minimise this risk Nelson City Council's infrastructural asset useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group, and have been adjusted for local conditions based on past experience. Asset inspections, deterioration and condition modelling are also carried out regularly as part of the Nelson City Council's asset management planning activities, which gives Nelson City Council further assurance over its useful life estimates.

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



## Note 2 - Summary cost of service

Notes to accounts

FINANCIALS

|  | Actual<br>2008<br>\$000 | Estimate<br>2008<br>\$000 | Actual<br>2007<br>\$000 |
|--|-------------------------|---------------------------|-------------------------|
| <b>Income</b>                            |                         |                           |                         |
| Water supply                             | 740                     | 393                       | 690                     |
| Sewage disposal                          | 3,785                   | 4,145                     | 3,921                   |
| Stormwater and flood protection          | 574                     | 220                       | 474                     |
| Roading and transport                    | 6,742                   | 5,321                     | 4,994                   |
| Solid waste management                   | 2,295                   | 2,320                     | 2,251                   |
| Environmental management                 | 288                     | 176                       | 257                     |
| Regulatory compliance                    | 2,460                   | 2,011                     | 2,163                   |
| Parks and open spaces                    | 1,402                   | 692                       | 1,338                   |
| Recreation and leisure                   | 262                     | 228                       | 282                     |
| Community facilities                     | 3,158                   | 8,915                     | 2,542                   |
| Economic and tourism support             | 10                      | 0                         | 3                       |
| Managing emergencies and natural hazards | 27                      | 14                        | 14                      |
| Social development                       | 296                     | 290                       | 402                     |
| Culture, heritage and arts               | 1,359                   | 793                       | 815                     |
| Democracy and administration             | 12,125                  | 11,917                    | 11,419                  |
| Reserves                                 | 2,524                   | 1,784                     | 3,138                   |
| Total activity income                    | 38,047                  | 39,219                    | 34,703                  |
| Less: internal income<br>remissions      | (6,264)<br>(82)         | (7,842)<br>(88)           | (6,091)<br>(92)         |
| General rates allocated                  | 20,681                  | 21,539                    | 19,281                  |
| Water rate                               | 10,875                  | 10,618                    | 9,518                   |
| Sewerage rate                            | 5,126                   | 5,109                     | 4,420                   |
| Stormwater rate                          | 4,137                   | 4,123                     | 3,901                   |
| Profit on sale Port shares               | 0                       | 0                         | 9,685                   |
| Vested assets                            | 9,835                   | 3,000                     | 5,612                   |
| Ridgeways joint venture                  | 361                     | 790                       | 425                     |
| Sundry                                   | 60                      | 163                       | 7                       |
| <b>Total Income</b>                      | <b>82,776</b>           | <b>76,631</b>             | <b>81,369</b>           |

|  | <b>Actual</b> | <b>Estimate</b> | <b>Actual</b> |
|--|---------------|-----------------|---------------|
|  | <b>2008</b>   | <b>2008</b>     | <b>2007</b>   |
|  | <b>\$000</b>  | <b>\$000</b>    | <b>\$000</b>  |
| <b>Expenditure</b>                       |               |                 |               |
| Water supply                             | 10,527        | 9,880           | 9,894         |
| Sewage disposal                          | 6,876         | 8,072           | 6,342         |
| Stormwater and flood protection          | 3,975         | 3,611           | 3,517         |
| Roading and transport                    | 10,041        | 9,963           | 9,276         |
| Solid waste management                   | 2,106         | 2,526           | 2,175         |
| Environmental management                 | 2,379         | 2,470           | 2,221         |
| Regulatory compliance                    | 4,148         | 3,821           | 3,774         |
| Parks and open spaces                    | 5,018         | 4,597           | 4,668         |
| Recreation and leisure                   | 2,241         | 2,286           | 2,058         |
| Community facilities                     | 6,505         | 7,429           | 5,826         |
| Economic and tourism support             | 641           | 661             | 605           |
| Managing emergencies and natural hazards | 323           | 320             | 277           |
| Social development                       | 871           | 872             | 986           |
| Culture, heritage and arts               | 3,931         | 3,262           | 3,075         |
| Democracy and administration             | 7,702         | 8,688           | 6,922         |
| Reserves                                 | 88            | 150             | 71            |
| Total activity expenditure               | 67,372        | 68,608          | 61,687        |
| Less: internal income                    | (6,264)       | (7,842)         | (6,091)       |
| remissions                               | (82)          | (88)            | (92)          |
| Sundry                                   | 150           | 188             | 61            |
| <b>Total expenditure</b>                 | <b>61,176</b> | <b>60,866</b>   | <b>55,565</b> |

Each activity is stated gross of internal costs and revenues, and includes targeted rates attributable to activities (refer note 3). In order to fairly reflect the total external operations for the Council in the Statement of Financial Performance, these transactions are eliminated as shown above.

### Note 3 - Rates revenue

|                          | <b>Actual<br/>2008</b> | <b>Actual<br/>2007</b> |
|--------------------------|------------------------|------------------------|
|                          | <b>\$000</b>           | <b>\$000</b>           |
| <b>General rates</b>     | 20,599                 | 19,189                 |
| <b>Targeted rates:</b>   |                        |                        |
| Water                    | 10,875                 | 9,518                  |
| Sewerage                 | 5,126                  | 4,420                  |
| Stormwater               | 4,137                  | 3,901                  |
| Total revenue from rates | <u>40,737</u>          | <u>37,028</u>          |

Rates revenue is shown net of rates remissions. Nelson City Council's rate remissions policy allows Nelson City Council to remit rates on:

- Community, sporting and other organisations to facilitate the ongoing provision of non-commercial community services and recreational opportunities.
- Rates penalties where payment had not been received due to circumstances outside the ratepayers control.
- Rates for residential properties in commercial/industrial areas.
- Rates on land protected for natural, historic or cultural conservation purposes.
- Excess water rates.
- Rates on cemeteries.
- Rates on golf practice greens.
- Rates for underground utilities.
- Rates on very low value properties.

|  | <b>Actual<br/>2008</b> | <b>Actual<br/>2007</b> |
|--|------------------------|------------------------|
|  | <b>\$000</b>           | <b>\$000</b>           |
| <b>Total rates revenue</b>   | 40,819                 | 37,120                 |
| <b>Rates remissions</b>  |                        |                        |
| Community, sporting and other organisations  | 42                     | 48                     |
| Rates penalties where payment has not been received due to circumstances outside the ratepayers control. | 18                     | 15                     |
| Rates for residential properties in commercial/industrial areas.   | 6                      | 4                      |
| Rates on land protected for natural, historic or cultural conservation purposes.                         | 0                      | 8                      |
| Rates on cemeteries.   | 15                     | 16                     |
| Rates on low value properties.   | 1                      | 1                      |
| Total remissions   | <u>82</u>              | <u>92</u>              |
| Rates revenue net of remissions  | <u>40,737</u>          | <u>37,028</u>          |

## Note 4 - Other revenue

|   | Council       |               | Group         |               |
|---|---------------|---------------|---------------|---------------|
|   | 2008          | 2007          | 2008          | 2007          |
|   | \$000         | \$000         | \$000         | \$000         |
| User charges                            | 8,618         | 8,505         | 8,620         | 8,507         |
| Land Transport NZ grants                | 3,226         | 1,827         | 3,226         | 1,827         |
| Regulatory revenue                      | 2,283         | 2,232         | 2,283         | 2,232         |
| Rental income and investment properties | 4,247         | 4,013         | 4,247         | 4,013         |
| Infringements and fines                 | 760           | 560           | 760           | 560           |
| Petrol tax                              | 337           | 311           | 337           | 311           |
| Vested assets                           | 9,835         | 5,612         | 9,835         | 5,612         |
| Interest income                         | 838           | 837           | 929           | 895           |
| Dividend income                         | 3,658         | 2,123         | 0             | 0             |
| Development/Financial contributions     | 4,342         | 4,598         | 4,342         | 4,598         |
| Grants/donations                        | 2,232         | 1,766         | 3,247         | 2,380         |
| Other                                   | 1,410         | 1,202         | 5,049         | 4,090         |
|   | <u>41,786</u> | <u>33,586</u> | <u>42,875</u> | <u>35,025</u> |

## Note 5 - Other gains

|  | Note | Council    |              | Group      |              |
|--|------|------------|--------------|------------|--------------|
|  |      | 2008       | 2007         | 2008       | 2007         |
|  |      | \$000      | \$000        | \$000      | \$000        |
| Gain on changes in fair value of forestry assets     | 16   | 0          | 806          | 0          | 806          |
| Gain on disposal of property, plant and equipment    | 14   | 154        | 207          | 178        | 218          |
| Gain on sale of investments                          |      | 0          | 0            | 0          | 0            |
| Provision discount unwinding                         |      | 49         | 17           | 49         | 17           |
| Gain on changes in fair value of investment property | 17   | 50         | 40           | 50         | 40           |
| <b>Total gains</b>                                   |      | <u>253</u> | <u>1,070</u> | <u>277</u> | <u>1,081</u> |



## Note 6 - Employee benefit expenses

|  | Council       |               | Group         |               |
|--|---------------|---------------|---------------|---------------|
|  | 2008          | 2007          | 2008          | 2007          |
|  | \$000         | \$000         | \$000         | \$000         |
| Salaries and wages   | 10,921        | 10,197        | 15,734        | 14,894        |
| Employer contributions to multi-employer defined benefit plans | 7             | 8             | 7             | 8             |
| <b>Total employee benefit expenses</b>                         | <b>10,928</b> | <b>10,205</b> | <b>15,741</b> | <b>14,902</b> |

## Note 7 - Other expenses

|   | Council       |               | Group         |               |
|---|---------------|---------------|---------------|---------------|
|   | 2008          | 2007          | 2008          | 2007          |
|   | \$000         | \$000         | \$000         | \$000         |
| Audit fees for financial statement audit                    | 97            | 101           | 127           | 130           |
| Audit fees for NZ IFRS transition                           | 13            | 6             | 13            | 17            |
| Audit fees for assurance and related services               | 0             | 3             | 0             | 3             |
| Audit fees for other services                               | 0             | 0             | 0             | 0             |
| Audit fees for LTCCP and amendments                         | 6             | 17            | 6             | 17            |
| Impairments of receivables                                  | 52            | 0             | 49            | 13            |
| Loss on disposal of property, plant and equipment (Note 14) | 1,104         | 438           | 1,104         | 438           |
| Loss on changes in fair value of forestry assets (Note 16)  | 179           | 0             | 179           | 0             |
| Decrease in value of investments                            | 0             | 0             | 25            | 0             |
| Other operating expenses                                    | 32,579        | 29,157        | 31,094        | 26,906        |
| <b>Total other expenses</b>                                 | <b>34,030</b> | <b>29,722</b> | <b>32,597</b> | <b>27,524</b> |

## Note 8 - Finance costs

|                               | Council      |              | Group        |              |
|-------------------------------|--------------|--------------|--------------|--------------|
|                               | 2008         | 2007         | 2008         | 2007         |
|                               | \$000        | \$000        | \$000        | \$000        |
| Interest on bank borrowings   | 2,628        | 2,633        | 2,628        | 2,633        |
| Write down interest free loan | 71           | 0            | 71           | 0            |
| <b>Total finance costs</b>    | <b>2,699</b> | <b>2,633</b> | <b>2,699</b> | <b>2,633</b> |

## Note 9 - Taxation

|   | Council   |           | Group      |            |
|---|-----------|-----------|------------|------------|
|   | 2008      | 2007      | 2008       | 2,007      |
|   | \$000     | \$000     | \$000      | \$000      |
| <b>Components of tax expense</b>                              |           |           |            |            |
| Current tax expense   | 52        | 87        | 321        | 309        |
| Deferred tax expense  | 0         | 0         | 6          | (42)       |
| <b>Income tax expense</b>                                     | <b>52</b> | <b>87</b> | <b>327</b> | <b>267</b> |
| <b>Relationship between tax expense and accounting profit</b> |           |           |            |            |
| Surplus/(deficit) before tax                                  | 21,600    | 25,804    | 23,040     | 18,243     |
| Tax at 33%  | 7,128     | 8,515     | 7,603      | 6,020      |
| Non taxable income  | 7,076     | 8,428     | 7,276      | 5,753      |
| <b>Tax expense</b>  | <b>52</b> | <b>87</b> | <b>327</b> | <b>267</b> |
| <b>Deferred tax assets/(liabilities)</b>                      |           |           |            |            |
| Balance 1 July  | 0         | 0         | 244        | 202        |
| Charged to profit and loss                                    | 0         | 0         | -6         | 42         |
| <b>Balance 30 June</b>  | <b>0</b>  | <b>0</b>  | <b>238</b> | <b>244</b> |

| <b>Deferred taxation movements statement</b> | Property, Plant & Equipment | Provisions | Employee Entitlements | Other | Total |
|--|-----------------------------|------------|-----------------------|-------|-------|
|  | Balance as at 1 July 2006   | 94         | 8                     | 105   | (5)   |
| Current year charge                          | 1                           | 10         | 30                    | 1     | 42    |
| Closing balance 30 June 2007                 | 95                          | 18         | 135                   | (4)   | 244   |
| Balance as at 1 July 2007                    | 95                          | 18         | 135                   | (4)   | 244   |
| Current year charge                          | (12)                        | 0          | 15                    | (9)   | (6)   |
| Closing balance 30 June 2008                 | 83                          | 18         | 150                   | (13)  | 238   |

## Note 10 - Cash and cash equivalents

|  | Council      |               | Group        |               |
|--|--------------|---------------|--------------|---------------|
|  | 2008         | 2007          | 2008         | 2007          |
|  | \$000        | \$000         | \$000        | \$000         |
| Cash at bank and in hand   | 238          | 894           | 1,161        | 1,821         |
| Short term deposits maturing three months or less from date of acquisition (Note 13) | 6,300        | 9,950         | 6,300        | 9,950         |
| <b>Total cash and cash equivalents</b>   | <b>6,538</b> | <b>10,844</b> | <b>7,461</b> | <b>11,771</b> |

The carrying value of short-term deposits with maturity dates of three months or less approximates their fair value.

Cash and bank overdrafts include the following for the purpose of the cash flow statement.

|   | Council      |               | Group        |               |
|---|--------------|---------------|--------------|---------------|
|   | 2008         | 2007          | 2008         | 2007          |
|   | \$000        | \$000         | \$000        | \$000         |
| Cash at bank and in hand                              | 238          | 894           | 1,161        | 1,821         |
| Short term bank deposits maturing within three months | 6,300        | 9,950         | 6,300        | 9,950         |
| Bank overdrafts (note 23)                             | (268)        | (549)         | (268)        | (549)         |
| <b>Total cash and cash equivalents</b>                | <b>6,270</b> | <b>10,295</b> | <b>7,193</b> | <b>11,222</b> |

## Note 11 - Trade and other receivables

|  | Note | Council       |               | Group         |               |
|--|------|---------------|---------------|---------------|---------------|
|  |      | 2008<br>\$000 | 2007<br>\$000 | 2008<br>\$000 | 2007<br>\$000 |
| Rates receivables                            |      | 4,870         | 4,369         | 4,870         | 4,369         |
| Other receivables                            |      | 2,885         | 2,108         | 3,795         | 2,574         |
| Dividend receivable                          |      | 1,400         | 0             | 1,400         | 0             |
| Sundry debtors                               |      | 2,453         | 1,686         | 2,453         | 1,747         |
|  |      | <u>11,608</u> | <u>8,163</u>  | <u>12,518</u> | <u>8,690</u>  |
| Less provision for impairment of receivables |      | 52            | 0             | 52            | 0             |
|  |      | <u>11,556</u> | <u>8,163</u>  | <u>12,466</u> | <u>8,690</u>  |
| Prepayments                                  |      | 770           | 529           | 770           | 529           |
| Community loans                              |      | 1,716         | 1,400         | 1,716         | 1,400         |
| Loans to related parties                     | 28   | 866           | 817           | 866           | 817           |
|  |      | <u>14,908</u> | <u>10,909</u> | <u>15,818</u> | <u>11,436</u> |
| Less non-current portion:                    |      |               |               |               |               |
| Loans to related parties                     |      | 866           | 817           | 866           | 817           |
| Community loans                              |      | 1,664         | 1,344         | 1,664         | 1,344         |
|  |      | <u>2,530</u>  | <u>2,161</u>  | <u>2,530</u>  | <u>2,161</u>  |
| <b>Current portion</b>                       |      | <u>12,378</u> | <u>8,748</u>  | <u>13,288</u> | <u>9,275</u>  |
| <b>Taxation</b>                              |      |               |               |               |               |
| Taxation in advance                          |      | <u>123</u>    | <u>0</u>      | <u>123</u>    | <u>0</u>      |

The loan to related parties is a loan of \$1.2 million to Tasman Bays Heritage Trust at zero interest rates. The loan has been written down based on a discounted interest rate of 8.5% (8% in 2006/07).

### Fair value

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

### Impairment

Nelson City Council does not provide for any impairment on rates receivables as it has various powers under the Local Government (Rating) Act 2002 to recover any outstanding debts.

Ratepayers can apply for payment plan options in special circumstances.

These powers allow Nelson City Council to commence legal proceedings to recover any rates that remain unpaid four months after the due date for payment. If payment has not been made within three months of the Court's judgement, then Nelson City Council can apply to the Registrar of the High Court to have the judgement enforced by sale or lease of the rating unit.

The status of receivables as at 30 June 2008 and 2007 are detailed below.

|                        | 2008           |                     |               | 2007           |                     |              |
|------------------------|----------------|---------------------|---------------|----------------|---------------------|--------------|
|                        | Gross<br>\$000 | Impairment<br>\$000 | Net<br>\$000  | Gross<br>\$000 | Impairment<br>\$000 | Net<br>\$000 |
| <b>Council</b>         |                |                     |               |                |                     |              |
| Not past due           | 9,968          | 0                   | 9,968         | 6,978          | 0                   | 6,978        |
| Past due 1 - 60 days   | 886            | 0                   | 886           | 637            | 0                   | 637          |
| Past due 61 - 120 days | 610            | 0                   | 610           | 440            | 0                   | 440          |
| Past due > 120 days    | 144            | (52)                | 92            | 108            | 0                   | 108          |
| <b>Total</b>           | <b>11,608</b>  | <b>(52)</b>         | <b>11,556</b> | <b>8,163</b>   | <b>0</b>            | <b>8,163</b> |
| <b>Group</b>           |                |                     |               |                |                     |              |
| Not past due           | 10,878         | 0                   | 10,878        | 7,505          | 0                   | 7,505        |
| Past due 1 - 60 days   | 886            | 0                   | 886           | 637            | 0                   | 637          |
| Past due 61 - 120 days | 610            | 0                   | 610           | 440            | 0                   | 440          |
| Past due > 120 days    | 144            | (52)                | 92            | 108            | 0                   | 108          |
| <b>Total</b>           | <b>12,518</b>  | <b>(52)</b>         | <b>12,466</b> | <b>8,690</b>   | <b>0</b>            | <b>8,690</b> |

## Note 12 - Inventories and biological assets

|  | Council       |               | Group         |               |
|--|---------------|---------------|---------------|---------------|
|  | 2008<br>\$000 | 2007<br>\$000 | 2008<br>\$000 | 2007<br>\$000 |
| Ridgeways properties                   | 451           | 348           | 451           | 348           |
| Civic Trust - flag stocks              | 0             | 0             | 3             | 5             |
| Nelmac - stocks                        | 0             | 0             | 148           | 124           |
| Nelmac - work in progress              | 0             | 0             | 106           | 68            |
| <b>Total inventories</b>               | <b>451</b>    | <b>348</b>    | <b>708</b>    | <b>545</b>    |
| Biological assets - Nursery plants     | 161           | 208           | 161           | 208           |
| <b>Total current biological assets</b> | <b>161</b>    | <b>208</b>    | <b>161</b>    | <b>208</b>    |

## Note 13 - Other financial assets

|  | Council |       | Group |       |
|--|---------|-------|-------|-------|
|  | 2008    | 2007  | 2008  | 2007  |
|  | \$000   | \$000 | \$000 | \$000 |
| <b>Current portion</b>                             |         |       |       |       |
| <i>Loans and receivables</i>                       |         |       |       |       |
| Short term deposits with maturities of 4-12 months | 2,000   | 1,000 | 2,000 | 1,000 |
| Total current portion                              | 2,000   | 1,000 | 2,000 | 1,000 |
| <b>Non-current portion</b>                         |         |       |       |       |
| Unlisted shares - Civic Insurance Ltd              | 140     | 140   | 140   | 140   |
| Civic Trust - 1st NZ Securities                    | 0       | 0     | 230   | 195   |
| <b>Total non current portion</b>                   | 140     | 140   | 370   | 335   |

The maturity dates for other financial assets with the exception of equity investments, and advances to subsidiaries and associates are as follows:

| 2008  | Short term deposits<br>Council<br>\$000 | Short term deposits<br>Group<br>\$000 | Local authority<br>stock, Council<br>and Group<br>\$000 |
|---|---|---------------------------------------|---|
| Short term deposits (with maturities of 3 months or less) | 6,300                                   | 6,300                                 | 0   |
| <i>Weighted average effective interest rate</i>           | <i>8.50%</i>                            | <i>8.50%</i>                          |   |
| Other investments maturing within 1 year:                 | 2,000                                   | 2,000                                 | 0   |
| <i>Weighted average effective interest rate</i>           | <i>8.85%</i>                            | <i>8.85%</i>                          |   |
|   | 8,300                                   | 8,300                                 | 0   |
| 2007  | Short term deposits<br>Council<br>\$000 | Short term deposits<br>Group<br>\$000 | Local authority<br>stock, Council<br>and Group<br>\$000 |
| Short term deposits (with maturities of 3 months or less) | 9,950                                   | 9,950                                 | 0   |
| <i>Weighted average effective interest rate</i>           | <i>8.04%</i>                            | <i>8.04%</i>                          |   |
| Other investments maturing within 1 year:                 | 1,000                                   | 1,000                                 | 0   |
| <i>Weighted average effective interest rate</i>           | <i>8.38%</i>                            | <i>8.38%</i>                          |   |
|   | 10,950                                  | 10,950                                | 0   |

## Note 14 - Property, plant and equipment

Notes to accounts

| 2008  | Cost/<br>revaluation<br>30 June<br>2007<br>\$000 | Accumulated<br>depreciation<br>and<br>impairment<br>charges<br>1 July 2007<br>\$000 | Carrying<br>amount<br>30 June<br>2007<br>\$000 | Current<br>year<br>additions<br>\$000 | Current<br>year<br>disposals<br>transfers<br>\$000 |
|---|--|---|--|---------------------------------------|--|
| <b>Council operational assets</b>                     |  |   |  |                                       |  |
| Land  | 65,881   |   | 65,881   | 790                                   | (126)  |
| Buildings   | 22,228   | (5,472)   | 16,756   | 3,128                                 |  |
| Other improvements                                    | 746  | (183)   | 563  | 1                                     |  |
| Landfill post closure                                 | 853  | (332)   | 521  |                                       |  |
| Library books   | 3,867  | (2,316)   | 1,551  | 338                                   | (1)  |
| Plant and equipment                                   | 13,380   | (9,852)   | 3,528  | 277                                   | (50)   |
| Motor vehicles  | 973  | (562)   | 411  | 139                                   | (20)   |
| Marina  | 6,079  | (138)   | 5,941  | 36                                    |  |
| Total operational assets                              | 114,007  | (18,855)  | 95,152   | 4,709                                 | (197)  |
| <b>Council infrastructural assets</b>                 |  |   |  |                                       |  |
| Sewerage system                                       | 100,446  | (1,716)   | 98,730   | 6,179                                 |  |
| Water system  | 132,575  | (3,191)   | 129,384  | 2,150                                 | (3)  |
| Drainage network                                      | 93,613   | (1,396)   | 92,217   | 5,149                                 |  |
| Solid waste   | 4,462  | (233)   | 4,229  | 155                                   | (1)  |
| Roading network                                       | 160,772  | (3,093)   | 157,679  | 7,147                                 | 0  |
| Roading land  | 268,792  |   | 268,792  | 2,134                                 | (375)  |
| Total infrastructural assets                          | 760,660  | (9,629)   | 751,031  | 22,914                                | (379)  |
| <b>Council restricted assets</b>                      |  |   |  |                                       |  |
| Land  | 88,352   |   | 88,352   | 403                                   | 20   |
| Buildings   | 13,240   | (2,811)   | 10,429   | 3,377                                 |  |
| Other improvements                                    | 23,231   | (1,126)   | 22,105   | 5,653                                 |  |
| Total restricted assets                               | 124,823  | (3,937)   | 120,886  | 9,433                                 | 20   |
| <b>Total NCC property,<br/>plant and equipment</b>    |  |   |  |                                       |  |
|   | 999,490  | (32,421)  | 967,069  | 37,056                                | (556)  |
| <b>Subsidiaries property,<br/>plant and equipment</b> |  |   |  |                                       |  |
| Land  | 942  | 0   | 942  | 0                                     | 0  |
| Buildings   | 800  | (420)   | 380  | 100                                   | 0  |
| Leasehold improvements                                | 22   | (5)   | 17   | 0                                     | 0  |
| Plant and equipment                                   | 3,771  | (2,292)   | 1,479  | 534                                   | (234)  |
| Motor vehicles  | 877  | (524)   | 353  | 130                                   | (37)   |
| Capitalised work in progress                          | 72   | 0   | 72   | 49                                    | (72)   |
| Total subsidiaries                                    | 6,484  | (3,241)   | 3,243  | 813                                   | (343)  |
| <b>Total Group property,<br/>plant and equipment</b>  |  |   |  |                                       |  |
|   | 1,005,974  | (35,662)  | 970,312  | 37,869                                | (899)  |

FINANCIALS

| <b>Current<br/>year<br/>loss on<br/>disposal<br/>\$000</b> | <b>Current<br/>year<br/>depreciation<br/>\$000</b> | <b>Revaluation<br/>surplus<br/>\$000</b> | <b>Cost/<br/>revaluation<br/>30 June<br/>2008<br/>\$000</b> | <b>Accumulated<br/>depreciation<br/>and<br/>impairment<br/>charges<br/>30 June 2008<br/>\$000</b> | <b>Carrying<br/>amount<br/>30 June<br/>2008<br/>\$000</b> |
|--|--|--|---|---|---|
|  |  |  | 66,545  |   | 66,545  |
|  | (601)  |  | 25,356  | (6,073)   | 19,283  |
|  | (19)   |  | 747   | (202)   | 545   |
|  | (7)  |  | 853   | (339)   | 514   |
|  | (334)  |  | 4,198   | (2,643)   | 1,555   |
|  | (632)  |  | 13,361  | (10,222)  | 3,139   |
|  | (80)   |  | 1,006   | (553)   | 453   |
|  | (135)  |  | 6,115   | (272)   | 5,843   |
| 0  | (1,808)  | 0  | 118,181   | (20,304)  | 97,877  |
| (180)  | (2,271)  | (1,230)                                  | 101,823   | (595)   | 101,228   |
| (417)  | (3,183)  | (3,049)                                  | 124,885   | 0   | 124,885   |
| (179)  | (1,409)  | 2,640                                    | 98,418  | 0   | 98,418  |
| (5)  | (241)  | 720                                      | 4,858   | 0   | 4,858   |
| (323)  | (3,036)  | 35,363                                   | 196,830   | 0   | 196,830   |
|  |  |  | 270,700   |   | 270,700   |
| (1,104)  | (10,140)   | 34,444                                   | 797,514   | (595)   | 796,919   |
|  |  |  | 88,776  |   | 88,776  |
|  | (277)  |  | 16,618  | (3,088)   | 13,530  |
|  | (1,097)  |  | 28,884  | (2,224)   | 26,660  |
| 0  | (1,374)  | 0  | 134,278   | (5,312)   | 128,966   |
| (1,104)  | (13,322)   | 34,444                                   | 1,049,973   | (26,211)  | 1,023,762   |
| 0  | 0  | 0  | 942   | 0   | 942   |
| 0  | (36)   | 0  | 900   | (456)   | 444   |
| 0  | (2)  | 0  | 22  | (7)   | 15  |
| 0  | (386)  | 0  | 4,071   | (2,477)   | 1,594   |
| 0  | (91)   | 0  | 970   | (578)   | 392   |
| 0  | 0  | 0  | 49  | 0   | 49  |
| 0  | (515)  | 0  | 6,954   | (3,518)   | 3,436   |
| (1,104)  | (13,837)   | 34,444                                   | 1,056,927   | (29,729)  | 1,027,198   |



| 2007   | Accumulated depreciation                        |  | Carrying amount<br>1 July<br>2006<br>\$000 | Current year<br>additions<br>\$000 | Current year<br>disposals<br>\$000 |
|--|---|--|--|------------------------------------|------------------------------------|
|  | Cost/<br>revaluation<br>1 July<br>2006<br>\$000 | and<br>impairment<br>charges<br>1 July 2006<br>\$000 |  |                                    |                                    |
| <b>Council operational assets</b>                    |   |  |  |                                    |                                    |
| Land   | 52,326  | 0  | 52,326                                     | 910                                | (196)                              |
| Buildings  | 21,427  | (4,874)  | 16,553                                     | 801                                |                                    |
| Other improvements                                   | 672   | (164)  | 508  | 74                                 |                                    |
| Landfill post closure                                | 853   | (321)  | 532  |                                    |                                    |
| Library books  | 3,539   | (2,003)  | 1,536                                      | 338                                | (1)                                |
| Plant and equipment                                  | 12,148  | (9,186)  | 2,962                                      | 1,236                              | (1)                                |
| Motor vehicles                                       | 1,009   | (579)  | 430  | 66                                 | (16)                               |
| Marina   | 5,952   | 0  | 5,952                                      | 127                                |                                    |
| Total operational assets                             | 97,926  | (17,127)   | 80,799                                     | 3,552                              | (214)                              |
| <b>Council infrastructural assets</b>                |   |  |  |                                    |                                    |
| Sewerage system                                      | 91,084  | (932)  | 90,152                                     | 9,729                              |                                    |
| Water system   | 129,520   | 0  | 129,520                                    | 3,054                              | (5)                                |
| Drainage network                                     | 90,206  | 0  | 90,206                                     | 3,407                              |                                    |
| Solid waste  | 3,950   | 0  | 3,950                                      | 513                                |                                    |
| Roading network                                      | 152,120   | 0  | 152,120                                    | 8,755                              | (100)                              |
| Roading land   | 261,413   | 0  | 261,413                                    | 113                                | (148)                              |
| Total infrastructural assets                         | 728,293   | (932)  | 727,361                                    | 25,571                             | (253)                              |
| <b>Council restricted assets</b>                     |   |  |  |                                    |                                    |
| Land   | 77,122  | 0  | 77,122                                     | 657                                |                                    |
| Buildings  | 12,703  | (2,526)  | 10,177                                     | 537                                |                                    |
| Other improvements                                   | 19,782  | (142)  | 19,640                                     | 3,449                              |                                    |
| Total restricted assets                              | 109,607   | (2,668)  | 106,939                                    | 4,643                              | 0                                  |
| <b>Total NCC property,<br/>plant and equipment</b>   |   |  |  |                                    |                                    |
|  | 935,826   | (20,727)   | 915,099                                    | 33,766                             | (467)                              |
| <b>Subsidiaries property, plant and equipment</b>    |   |  |  |                                    |                                    |
| Land   | 873   | 0  | 873  | 0                                  | 0                                  |
| Buildings  | 691   | (356)  | 335  | 108                                | 0                                  |
| Leasehold improvements                               | 22  | (2)  | 20   | 0                                  | 0                                  |
| Plant and equipment                                  | 3,479   | (2,116)  | 1,363                                      | 493                                | (201)                              |
| Motor vehicles                                       | 797   | (482)  | 315  | 125                                | (44)                               |
| Capitalised work in progress                         | 186   | 0  | 186  | 72                                 | (186)                              |
| Total subsidiaries                                   | 6,048   | (2,956)  | 3,092                                      | 798                                | (431)                              |
| <b>Total Group property,<br/>plant and equipment</b> |   |  |  |                                    |                                    |
|  | 941,874   | (23,683)   | 918,191                                    | 34,564                             | (898)                              |

| Current<br>year<br>loss on<br>disposal<br>\$000 | Current<br>year<br>depreciation<br>\$000 | Revaluation<br>surplus<br>\$000 | Cost/<br>revaluation<br>30 June<br>2007<br>\$000 | Accumulated<br>depreciation<br>and<br>impairment<br>charges<br>1 July 2007<br>\$000 | Carrying<br>amount<br>30 June<br>2007<br>\$000 |
|---|--|---------------------------------|--|---|--|
|   |  | 12,645                          | 65,881   |   | 65,881   |
|   | (598)                                    |                                 | 22,228   | (5,472)   | 16,756   |
|   | (19)                                     |                                 | 746  | (183)   | 563  |
|   | (10)                                     |                                 | 853  | (332)   | 521  |
|   | (322)                                    |                                 | 3,867  | (2,316)   | 1,551  |
|   | (669)                                    |                                 | 13,380   | (9,852)   | 3,528  |
|   | (70)                                     |                                 | 973  | (562)   | 411  |
|   | (138)                                    |                                 | 6,079  | (138)   | 5,941  |
| 0   | (1,826)                                  | 12,645                          | 114,007  | (18,855)  | 95,152   |
| (90)  | (2,174)                                  | 1,112                           | 100,446  | (1,716)   | 98,730   |
| (61)  | (3,130)                                  |                                 | 132,575  | (3,191)   | 129,384  |
| (44)  | (1,352)                                  |                                 | 93,613   | (1,396)   | 92,217   |
| (9)   | (224)                                    |                                 | 4,462  | (233)   | 4,229  |
| (234)   | (2,863)                                  |                                 | 160,772  | (3,093)   | 157,679  |
|   |  | 7,408                           | 268,792  |   | 268,792  |
| (438)   | (9,743)                                  | 8,520                           | 760,660  | (9,629)   | 751,031  |
|   |  | 10,575                          | 88,352   |   | 88,352   |
|   | (285)                                    |                                 | 13,240   | (2,811)   | 10,429   |
|   | (986)                                    |                                 | 23,231   | (1,126)   | 22,105   |
| 0   | (1,271)                                  | 10,575                          | 124,823  | (3,937)   | 120,886  |
| (438)   | (12,840)                                 | 31,740                          | 999,490  | (32,421)  | 967,069  |
| 0   | 0  | 69                              | 942  | 0   | 942  |
| 0   | (64)                                     | 0                               | 800  | (420)   | 380  |
| 0   | (3)                                      | 0                               | 22   | (5)   | 17   |
| 0   | (346)                                    | 0                               | 3,771  | (2,292)   | 1,479  |
|   | (40)                                     |                                 | 877  | (524)   | 353  |
| 0   | 0  | 0                               | 72   | 0   | 72   |
| 0   | (453)                                    | 69                              | 6,484  | (3,241)   | 3,243  |
| (438)   | (13,293)                                 | 31,809                          | 1,005,974  | (35,662)  | 970,312  |

NZ IAS 16 NZ 77.2(c) requires the total fair value of property, plant and equipment valued by each valuer for both the parent and group to be disclosed. An example could be;

Total fair value of property, plant and equipment by valuer:

|  | Council |       | Group |       |
|--|---------|-------|-------|-------|
|  | 2008    | 2007  | 2008  | 2007  |
|  | \$000   | \$000 | \$000 | \$000 |
| M Devgun of Opus International Consultants Ltd | 510     | 0     | 510   | 0     |
| G Butterworth of QV Valuations                 | 0       | 176   | 0     | 176   |
| P Ollivier of Duffill Watts Tse Ltd            | 0       | 0     | 0     | 15    |

## Note 15 - Intangible assets

|   | Council           |               | Group             |             |
|---|-------------------|---------------|-------------------|-------------|
|   | Computer Software | Council Total | Computer Software | Group Total |
|   | \$000             | \$000         | \$000             | \$000       |
| <b>Balance 1 July 2007</b>              |                   |               |                   |             |
| Cost                                    | 1,324             | 1,324         | 122               | 1,446       |
| Accumulated amortisation and impairment | (482)             | (482)         | (107)             | (589)       |
| Opening carrying amount                 | 842               | 842           | 15                | 857         |
| <br>                                    |                   |               |                   |             |
| Additions                               | 351               | 351           | 16                | 367         |
| Amortisation charge                     | (197)             | (197)         | 0                 | (197)       |
| Closing carrying amount                 | 996               | 996           | 31                | 1,027       |
| <br>                                    |                   |               |                   |             |
| <b>Balance at 30 June 2008</b>          |                   |               |                   |             |
| Cost                                    | 1,675             | 1,675         | 138               | 1,813       |
| Accumulated amortisation and impairment | (679)             | (679)         | (107)             | (786)       |
| Closing carrying amount                 | 996               | 996           | 31                | 1,027       |
| <br>                                    |                   |               |                   |             |
| <b>Balance 1 July 2006</b>              |                   |               |                   |             |
| Cost                                    | 1,040             | 1,040         | 115               | 1,155       |
| Accumulated amortisation and impairment | (317)             | (317)         | (102)             | (419)       |
| Opening carrying amount                 | 723               | 723           | 13                | 736         |
| <br>                                    |                   |               |                   |             |
| Additions                               | 284               | 284           | 7                 | 291         |
| Amortisation charge                     | (165)             | (165)         | (5)               | (170)       |
| Closing carrying amount                 | 842               | 842           | 15                | 857         |
| <br>                                    |                   |               |                   |             |
| <b>Balance at 30 June 2007</b>          |                   |               |                   |             |
| Cost                                    | 1,324             | 1,324         | 122               | 1,446       |
| Accumulated amortisation and impairment | (482)             | (482)         | (107)             | (589)       |
| Closing carrying amount                 | 842               | 842           | 15                | 857         |

## Note 16 - Forestry assets

|   | Council      |              | Group        |              |
|---|--------------|--------------|--------------|--------------|
|   | 2008         | 2007         | 2008         | 2007         |
|   | \$000        | \$000        | \$000        | \$000        |
| Balance at 1 July   | 4,789        | 3,983        | 4,789        | 3,983        |
| Increases due to purchases  | 0            | 0            | 0            | 0            |
| Gains/(losses) arising from changes in fair value less estimated point of sale costs attributable to physical changes and price changes | (179)        | 937          | (179)        | 937          |
| Decreases due to sales  | 0            | (131)        | 0            | (131)        |
| Decrease due to harvest   | 0            | 0            | 0            | 0            |
| <b>Balance 30 June</b>  | <b>4,610</b> | <b>4,789</b> | <b>4,610</b> | <b>4,789</b> |

The Nelson City Council owns 679.7 hectares of radiata pine, douglas fir and cupressus macrocarpa planted between 1976 and 2006. Stands of other species totalling 16.2 hectares were considered to have no commercial value. Independent registered valuers PF Olsen have valued the forestry assets as at 30 June 2008. A discount rate of 7% has been used in discounting the present value of expected after tax cash flows. This calculation is based on existing sustainable felling plans and assessments regarding growth, timber prices, felling costs and silvi-cultural costs and takes into consideration environmental, operational and market restrictions.

Gains or losses arising on initial recognition of biological assets at fair value less estimated costs to sell and from a change in fair value less estimated costs to sell are recognised in the statement of financial performance.

The costs to maintain forestry assets are included in the statement of financial performance.

Refer to Note 31 for a summary of the loss of value resulting from the severe storm on 30 July 2008.

## Note 17 - Investment properties

|   | Council    |            | Group      |            |
|---|------------|------------|------------|------------|
|   | 2008       | 2007       | 2008       | 2007       |
|   | \$000      | \$000      | \$000      | \$000      |
| <b>Balance at 1 July</b>                        | 890        | 850        | 890        | 850        |
| Additions from acquisitions                     | 0          | 0          | 0          | 0          |
| Disposals                                       | 0          | 0          | 0          | 0          |
| Fair value gains/(losses) on valuation (Note 5) | 50         | 40         | 50         | 40         |
| <b>Balance at 30 June</b>                       | <b>940</b> | <b>890</b> | <b>940</b> | <b>890</b> |

Nelson City Council's investment property is valued annually at fair value effective 30 June. Investment properties were valued based on open market evidence. The valuation was performed by Ian McKeage of Telfer Young (Nelson) Limited. Telfer Young (Nelson) Limited are experienced valuers with extensive market knowledge in the type of investment property owned by Nelson City Council.

## Note 18 - Investments in associates and subsidiaries

### Council

|                               | Proportion of<br>ownership | 2008<br>\$000 | 2007<br>\$000 |
|-------------------------------|----------------------------|---------------|---------------|
| Investment in;                |                            |               |               |
| Port Nelson Limited           | 50%                        | 12,708        | 12,708        |
| Tasman Bays Heritage Trust    | 50%                        | 4,922         | 4,922         |
| Nelson Airport Limited        | 50%                        | 1,200         | 1,200         |
| Tourism Nelson Tasman Limited | 50%                        | 0             | 0             |
| Nelmac                        | 100%                       | 2,353         | 2,353         |
| <b>Council total</b>          |                            | <b>21,183</b> | <b>21,183</b> |

### Group

|                               | 2008<br>\$000 | 2007<br>\$000 |
|-------------------------------|---------------|---------------|
| Port Nelson Limited           | 65,163        | 55,378        |
| Tasman Bays Heritage Trust    | 7,330         | 7,421         |
| Nelson Airport Limited        | 2,753         | 2,309         |
| Tourism Nelson Tasman Limited | 0             | 0             |
| <b>Total Group Investment</b> | <b>75,246</b> | <b>65,108</b> |

### Profit on sale of shares:

|   |   |        |
|---|---|--------|
| Port Nelson Ltd bought 2,815,315 shares at \$4.44 per share | 0 | 12,500 |
| Cost at \$1 per share                                       | 0 | 2,815  |
| Profit per share  | 0 | 9,685  |

Nelmac is a fully owned subsidiary and has been consolidated line by line. Port Nelson Limited, Tasman Bays Heritage Trust, Nelson Airport Limited and Tourism Nelson Tasman Limited are all 50% owned associates and only the equity value is consolidated.

**Movements in the carrying amount of investments in associates:**

|   |               |               |
|---|---------------|---------------|
| Opening balance                           | 65,108        | 74,254        |
| New investment                            | 0             | 0             |
|   | <hr/>         | <hr/>         |
|   | 65,050        | 74,254        |
| Disposals                                 | 0             | 12,500        |
|   | <hr/>         | <hr/>         |
|   | 65,050        | 61,754        |
| Share of recognised revenues and expenses | 4,268         | 3,681         |
| Share of revaluations                     | 9,394         | 1,709         |
|   | <hr/>         | <hr/>         |
|   | 78,711        | 67,144        |
| Share of dividend                         | 2,065         | 2,036         |
|   | <hr/>         | <hr/>         |
| <b>Balance as at 30 June 2008</b>         | <b>76,646</b> | <b>65,108</b> |

**The total assets and liabilities of the associates are as follows:**

|                   | <b>2008</b>  | <b>2007</b>  |
|-------------------|--------------|--------------|
|                   | <b>\$000</b> | <b>\$000</b> |
| Assets            | 107,050      | 91,296       |
| Liabilities       | 31,855       | 17,041       |
| Equity            | 75,195       | 83,938       |
| Revenues          | 22,238       | 18,610       |
| Surplus/(deficit) | 4,237        | 4,222        |

## Note 19 - Joint ventures

| <b>2008</b>             | <b>Regional<br/>Sewerage<br/>Scheme<br/>\$000</b> | <b>Ridgeways<br/>JV<br/>\$000</b> | <b>Civil<br/>Defence<br/>\$000</b> | <b>Total<br/>\$000</b> |
|-------------------------|---|-----------------------------------|------------------------------------|------------------------|
| Current assets          | 205   | 682                               | 56                                 | 943                    |
| Non-current assets      | 15,591  | 0                                 | 46                                 | 15,637                 |
| Current liabilities     | 1,402   | 7                                 | 1                                  | 1,410                  |
| Non-current liabilities | 3,000   | 0                                 | 0                                  | 3,000                  |
| Income                  | 2,813   | 323                               | 133                                | 3,269                  |
| Expenses                | 2,252   | 45                                | 151                                | 2,448                  |

| <b>2007</b>             | <b>Regional<br/>Sewerage<br/>Scheme<br/>\$000</b> | <b>Ridgeways<br/>JV<br/>\$000</b> | <b>Civil<br/>Defence<br/>\$000</b> | <b>Total<br/>\$000</b> |
|-------------------------|---|-----------------------------------|------------------------------------|------------------------|
| Current assets          | 862   | 443                               | 83                                 | 1,388                  |
| Non-current assets      | 14,703  | 0                                 | 38                                 | 14,741                 |
| Current liabilities     | 542   | 46                                | 1                                  | 589                    |
| Non-current liabilities | 5,000   | 0                                 | 0                                  | 5,000                  |
| Income                  | 3,288   | 364                               | 133                                | 3,785                  |
| Expenses                | 2,186   | 52                                | 123                                | 2,361                  |

The Ridgeways Joint Venture has a balance date of 31 March, whereas the rest of the group have balance dates of 30 June.

The Regional Sewerage Scheme is a 50/50 joint committee with Tasman District Council to provide sewerage disposal services to Nelson South, Richmond and surrounding areas.

The Ridgeways Joint Venture is a 50/50 venture with Homedale Holdings to develop the "Ridgeway" subdivision.

The Civil Defence Organisation is a 50/50 joint committee with Tasman District Council to co-ordinate services in the event of an emergency.



## Note 20 - Trade and other payables

|  | Council       |              | Group         |               |
|--|---------------|--------------|---------------|---------------|
|  | 2008          | 2007         | 2008          | 2007          |
|  | \$000         | \$000        | \$000         | \$000         |
| Trade payables                             | 5,985         | 6,374        | 6,057         | 6,426         |
| Deposits and bonds                         | 501           | 445          | 501           | 445           |
| Accrued expenses                           | 583           | 992          | 731           | 1,107         |
| Income in advance                          | 1,245         | 1,095        | 1,502         | 1,161         |
| Trust accounts                             | 205           | 267          | 205           | 267           |
| Amounts due to customers for contract work | 83            | 33           | 83            | 33            |
| Other                                      | 1,691         | 612          | 1,691         | 612           |
| <b>Total trade and other payables</b>      | <b>10,293</b> | <b>9,818</b> | <b>10,770</b> | <b>10,051</b> |

## Note 21 - Provisions

|   | Council      |              | Group        |              |
|---|--------------|--------------|--------------|--------------|
|   | 2008         | 2007         | 2008         | 2007         |
|   | \$000        | \$000        | \$000        | \$000        |
| <b>Current provisions are represented by:</b>     |              |              |              |              |
| Warranty provisions                               | 0            | 0            | 11           | 11           |
| <b>Total current provisions</b>                   | <b>0</b>     | <b>0</b>     | <b>11</b>    | <b>11</b>    |
| <b>Non-current provisions are represented by:</b> |              |              |              |              |
| Landfill redemption                               | 1,311        | 1,167        | 1,311        | 1,167        |
| <b>Total non current provisions</b>               | <b>1,311</b> | <b>1,167</b> | <b>1,311</b> | <b>1,167</b> |
| Balance 1 July                                    | 1,167        | 1,033        | 1,167        | 1,033        |
| Provision for year based on consumption           | 42           | 52           | 42           | 52           |
| Interest  | 102          | 82           | 102          | 82           |
| <b>Balance 30 June</b>                            | <b>1,311</b> | <b>1,167</b> | <b>1,311</b> | <b>1,167</b> |

Nelson City Council gained a resource consent in March 1999 to operate the York Valley Landfill. Nelson City Council has responsibility under the resource consent to provide ongoing maintenance and monitoring of the landfill after the site is closed.

The remaining capacity of the site is 1.399 million cubic metre (refuse, clean fill and cover). The estimated remaining life is 16 years. Estimates of the life have been made by Nelson City Council's engineers based on historical volume information. The cash outflows for landfill post closure are expected to occur in 17 to 47 years time, (between 2024 and 2054). The long term nature of the liability means that there are inherent uncertainties in estimating costs that will be incurred. The provision has been estimated taking into account existing technology and using a discount rate of 8.5%, and an inflation rate of 2.5%.

## Note 22 - Employee liability benefits

|   | Council      |              | Group        |              |
|---|--------------|--------------|--------------|--------------|
|   | 2008         | 2007         | 2008         | 2007         |
|   | \$000        | \$000        | \$000        | \$000        |
| Accrued pay                               | 447          | 450          | 580          | 599          |
| Annual leave                              | 762          | 710          | 1,151        | 1,058        |
| Long service leave                        | 257          | 242          | 310          | 289          |
| Retirement gratuities                     | 312          | 301          | 375          | 356          |
| Sick leave                                | 30           | 25           | 30           | 25           |
| <b>Total employee benefit liabilities</b> | <b>1,808</b> | <b>1,728</b> | <b>2,446</b> | <b>2,327</b> |
| Comprising:                               |              |              |              |              |
| Current                                   | 1,289        | 1,233        | 1,870        | 1,755        |
| Non-current                               | 519          | 495          | 576          | 572          |
| <b>Total employee benefit liabilities</b> | <b>1,808</b> | <b>1,728</b> | <b>2,446</b> | <b>2,327</b> |

## Note 23 - Borrowings

|                                     | Council       |               | Group         |               |
|-------------------------------------|---------------|---------------|---------------|---------------|
|                                     | 2008          | 2007          | 2008          | 2007          |
|                                     | \$000         | \$000         | \$000         | \$000         |
| <b>Current</b>                      |               |               |               |               |
| Bank overdraft                      | 268           | 549           | 268           | 549           |
| Secured loans                       | 12,225        | 8,800         | 12,225        | 8,800         |
| Lease liabilities                   | 0             | 0             | 0             | 0             |
| <b>Total current borrowings</b>     | <b>12,493</b> | <b>9,349</b>  | <b>12,493</b> | <b>9,349</b>  |
| <b>Non-current</b>                  |               |               |               |               |
| Secured loans                       | 24,110        | 26,310        | 24,110        | 26,310        |
| EECA loan                           | 100           | 0             | 100           | 0             |
| Lease liabilities                   |               |               |               |               |
| <b>Total non-current borrowings</b> | <b>24,210</b> | <b>26,310</b> | <b>24,210</b> | <b>26,310</b> |

The maturity dates for the above are:

|                | Nelson City Council | Regional Sewerage | Weighted average Total interest rate | Interest payable over remaining term |              |
|----------------|---------------------|-------------------|--------------------------------------|--------------------------------------|--------------|
|                | \$000               | \$000             | \$000                                | \$000                                |              |
| September 2008 | 3,000               |                   | 3,000                                | 6.54%                                | 42           |
| October 2008   | 0                   | 1,025             | 1,025                                | 6.95%                                | 21           |
| March 2009     | 8,200               |                   | 8,200                                | 6.72%                                | 414          |
| August 2009    | 0                   | 1,000             | 1,000                                | 7.00%                                | 79           |
| February 2010  | 0                   | 1,000             | 1,000                                | 7.10%                                | 116          |
| March 2010     | 5,000               |                   | 5,000                                | 7.22%                                | 617          |
| April 2010     | 0                   | 1,000             | 1,000                                | 7.32%                                | 131          |
| June 2010      | 5,110               |                   | 5,110                                | 6.95%                                | 696          |
| March 2011     | 2,500               |                   | 2,500                                | 8.69%                                | 589          |
| March 2011     | 2,500               |                   | 2,500                                | 8.35%                                | 566          |
| June 2011      | 3,000               |                   | 3,000                                | 6.93%                                | 615          |
| March 2012     | 3,000               |                   | 3,000                                | 8.25%                                | 878          |
|                | <b>32,310</b>       | <b>4,025</b>      | <b>36,335</b>                        |                                      | <b>4,764</b> |

## Note 24 - Equity

|  | Council        |                | Group          |                |
|--|----------------|----------------|----------------|----------------|
|  | 2008           | 2007           | 2008           | 2007           |
|  | \$000          | \$000          | \$000          | \$000          |
| <b>Retained earnings</b>   |                |                |                |                |
| As at 1 July   | 247,201        | 221,661        | 258,807        | 241,006        |
| Transfers to:  |                |                |                |                |
| Restricted reserves  | (2,382)        | (2,951)        | (2,382)        | (2,951)        |
| Transfers from:  |                |                |                |                |
| Asset revaluation reserve on disposal of property, plant and equipment |                |                |                |                |
| Restricted reserves  | 4,108          | 2,776          | 4,108          | 2,776          |
| Surplus/(deficit) for the year   | 21,548         | 25,715         | 22,713         | 17,976         |
| <b>As at 30 June</b>   | <b>270,475</b> | <b>247,201</b> | <b>283,246</b> | <b>258,807</b> |
| <b>Restricted reserves</b>   |                |                |                |                |
| As at 1 July   | 4,811          | 4,636          | 4,811          | 4,636          |
| Transfers to:  |                |                |                |                |
| Retained earnings  | (4,108)        | (2,776)        | (4,108)        | (2,776)        |
| Transfers from:  |                |                |                |                |
| Retained earnings  | 2,382          | 2,951          | 2,382          | 2,951          |
| <b>As at 30 June</b>   | <b>3,085</b>   | <b>4,811</b>   | <b>3,085</b>   | <b>4,811</b>   |
| <b>Hedging Reserve</b>   |                |                |                |                |
| Port Nelson Limited:   |                |                |                |                |
| As at 1 July   | 0              | 0              | 432            | 26             |
| Fair value movement  | 0              | 0              | (291)          | 606            |
| Deferred tax movement  | 0              | 0              | 107            | (200)          |
| <b>As at 30 June</b>   | <b>0</b>       | <b>0</b>       | <b>248</b>     | <b>432</b>     |
| <b>Contingency reserve</b>   |                |                |                |                |
| Regional Sewerage Scheme:  |                |                |                |                |
| As at 1 July   | 50             | 50             | 50             | 50             |
| Fair value movement  | 0              | 0              | 0              | 0              |
| <b>As at 30 June</b>   | <b>50</b>      | <b>50</b>      | <b>50</b>      | <b>50</b>      |

|  | Council        |                | Group          |                |
|--|----------------|----------------|----------------|----------------|
|  | 2008           | 2007           | 2008           | 2007           |
|  | \$000          | \$000          | \$000          | \$000          |
| <b>Asset revaluation reserve</b>   |                |                |                |                |
| As at 1 July   | 717,634        | 685,893        | 753,988        | 720,859        |
| Revaluation gains/(losses)   | 34,453         | 31,741         | 44,028         | 33,129         |
| Transfer of revaluation reserve to retained earnings on disposal of property, plan and equipment | 0              | 0              | 0              | 0              |
| <b>As at 30 June</b>   | <b>752,087</b> | <b>717,634</b> | <b>798,016</b> | <b>753,988</b> |
| Asset revaluation reserve consists of:   |                |                |                |                |
| Nelson City Council:   |                |                |                |                |
| Land   | 146,002        | 146,002        | 146,002        | 146,002        |
| Sewerage infrastructure  | 70,581         | 71,801         | 70,581         | 71,801         |
| Water infrastructure   | 100,107        | 103,156        | 100,107        | 103,156        |
| Drainage infrastructure  | 74,483         | 71,844         | 74,483         | 71,844         |
| Solid waste infrastructure   | 3,866          | 3,146          | 3,866          | 3,146          |
| Roading infrastructure   | 352,444        | 317,081        | 352,444        | 317,081        |
| Regional Sewerage Scheme   |                |                |                |                |
| Land   | 725            | 725            | 725            | 725            |
| Sewerage infrastructure  | 3,879          | 3,879          | 3,879          | 3,879          |
| Port Nelson:   |                |                |                |                |
| Land   | 0              | 0              | 39,351         | 32,245         |
| Wharves  | 0              | 0              | 4,991          | 2,340          |
| Buildings  | 0              | 0              | 456            | 574            |
| Tasman Bays Heritage Trust - land and buildings  | 0              | 0              | 564            | 696            |
| Nelmac - land  | 0              | 0              | 567            | 499            |
|  | <b>752,087</b> | <b>717,634</b> | <b>798,016</b> | <b>753,988</b> |
| <b>Total other reserves</b>  | <b>755,222</b> | <b>722,495</b> | <b>801,399</b> | <b>759,281</b> |

**Note 25 - Reconciliation of net surplus/(deficit) after tax to net cash flows from operating activities**

|   | <b>Council</b> |               | <b>Group</b>  |               |
|---|----------------|---------------|---------------|---------------|
|   | <b>2008</b>    | <b>2007</b>   | <b>2008</b>   | <b>2007</b>   |
|   | <b>\$000</b>   | <b>\$000</b>  | <b>\$000</b>  | <b>\$000</b>  |
| <b>Surplus/(deficit) after tax</b>  | 21,548         | 25,717        | 22,713        | 17,976        |
| <b>Add non-cash items:</b>  |                |               |               |               |
| Depreciation and amortisation   | 12,415         | 13,005        | 12,930        | 13,543        |
| Impairment charges  | 1,104          | 438           | 1,104         | 438           |
| Increase in deferred tax  | 0              | 0             | 6             | (42)          |
| Vested assets   | (9,835)        | (5,612)       | (9,835)       | (5,612)       |
| Increase/(Decrease) in Associates equity  | 0              | 0             | 0             | (1,664)       |
| (Gains)/losses in fair value of forestry assets                                   | 179            | (806)         | 179           | (806)         |
| (Gains)/losses in fair value of investment property                               | (50)           | (40)          | (50)          | (40)          |
| <b>Add/(less) items classified as investing or financial activities:</b>          |                |               |               |               |
| (Gains)/losses on disposal of property, plant and equipment                       | (154)          | (207)         | (178)         | (218)         |
| (Gains)/losses on disposal of investments classified as fair value through equity | 0              | (9,685)       | 0             | 0             |
| <b>Add/(less) movements in working capital items:</b>                             |                |               |               |               |
| Accounts receivable   | (3,271)        | 73            | (3,611)       | 119           |
| Inventories   | (56)           | 95            | (116)         | 78            |
| Prepayments   | (241)          | 3             | (241)         | 3             |
| Accounts payable  | 429            | (635)         | 646           | (547)         |
| Income tax payable  | (277)          | 417           | (301)         | 474           |
| Provisions  | 56             | 110           | 115           | 149           |
| Employee benefits   | 168            | 154           | 148           | 232           |
| Net GST   | (330)          | (70)          | (346)         | (54)          |
| <b>Net cash inflow/(outflow) from operating activities</b>                        | <b>21,685</b>  | <b>22,957</b> | <b>23,163</b> | <b>24,029</b> |

## Note 26 - Capital commitments and operating losses

|  | Council      |              | Group        |              |
|--|--------------|--------------|--------------|--------------|
|  | 2008         | 2007         | 2008         | 2007         |
|  | \$000        | \$000        | \$000        | \$000        |
| <b>Capital commitments</b>   |              |              |              |              |
| Capital expenditure commitments contracted for at balance date but not yet incurred for property, plant and equipment: |              |              |              |              |
| Nelson City Council  | 6,484        | 3,570        | 6,484        | 3,720        |
| Civic Trust  |              |              | 0            | 1            |
| Tasman Bay Heritage Trust  |              |              | 0            | 0            |
| Port Nelson Ltd  |              |              | 337          | 197          |
| Nelson Airport Ltd   |              |              | 0            | 123          |
|  | <u>6,484</u> | <u>3,570</u> | <u>6,821</u> | <u>4,041</u> |
| <b>Operating leases as lessee - Group</b>  |              |              |              |              |
| Less than one year   |              |              | 92           | 126          |
| One to five years  |              |              | 197          | 195          |
| Over five years  |              |              | 12           | 0            |
|  |              |              | <u>301</u>   | <u>321</u>   |
| <b>Operating lease as lessor</b>   |              |              |              |              |
| Nelson Airport Limited   |              |              | <u>606</u>   | <u>612</u>   |

## Note 27 - Contingent liabilities

Guarantees of bank loans or loans presently in force are as follows:

|   | <u>2008</u>  | <u>2007</u>  |
|---|--------------|--------------|
|   | <u>\$000</u> | <u>\$000</u> |
| <b>Council</b>                              |              |              |
| Weather tight homes                         | 200          | 350          |
| Westpac Credit Card                         | 42           | 42           |
| Celtic Rugby Football Club                  | 145          | 145          |
| Maitai Bowling Club                         | 200          | 200          |
|   | <u>587</u>   | <u>737</u>   |
| Nelson Regional Sewerage Business Unit      | 0            | 0            |
| Combined Civil Defence Organisation         | 0            | 0            |
| Ridgeways Joint Venture                     | 0            | 0            |
|   | <u>587</u>   | <u>737</u>   |
| <b>Total Council</b>                        |              |              |
| Port Nelson Limited                         | 0            | 0            |
| Nelson Airport Limited                      | 0            | 0            |
| Tasman Bays Heritage Trust                  | 0            | 0            |
| Tourism Nelson Tasman Limited               | 0            | 0            |
| Nelmac Limited                              | 0            | 0            |
| Nelson Regional Economic Development Agency | 0            | 0            |
| City of Nelson Civic Trust                  | 0            | 0            |
|   | <u>587</u>   | <u>737</u>   |

The Nelson City Council has four claims in relation to weather tight homes outstanding. The excess on the Council insurance is \$50,000 per claim and so the maximum contingent liability is \$200,000. It is hoped that the final cost will be significantly less than this.



**Note 28 - Related party transactions**

Nelson City Council is the ultimate parent of the group and controls three entities;

- Nelmac Limited
- Nelson Regional Economic Development Agency
- City of Nelson Civic Trust

It also has five associates;

- Port Nelson Limited
- Nelson Airport Limited
- Tasman Bays Heritage Trust
- Tourism Nelson Tasman Limited (trading as Nelson Tasman Tourism)

and three joint ventures:

- Nelson Regional Sewerage Business Unit
- Nelson Tasman Combined Civil Defence Organisation
- Ridgeways Joint Venture

The following matters are therefore disclosed;

|  | <u>2008</u> | <u>2007</u> |
|--|-------------|-------------|
|  | \$000       | \$000       |
| <b>Nelmac Limited</b>                              |             |             |
| Amounts paid by Nelson City Council                | 7,681       | 7,085       |
| Amounts paid to Nelson City Council                | 365         | 319         |
| Dividend paid to Nelson City Council               | 180         | 75          |
| Amount payable by Nelson City Council              | 772         | 821         |
| Amount payable to Nelson City Council              | 35          | 29          |
| <b>Nelson Regional Economic Development Agency</b> |             |             |
| Amounts paid by Nelson City Council                | 296         | 239         |
| Amounts paid to Nelson City Council                | 18          | 18          |
| <b>Port Nelson Limited</b>                         |             |             |
| Amounts paid by Nelson City Council                | 16          | 41          |
| Amounts paid to Nelson City Council                | 379         | 485         |
| Dividend paid to Nelson City Council               | 1,950       | 1,850       |
| Amount payable by Nelson City Council              | 1           | 10          |
| Amount payable to Nelson City Council              | 12          | 104         |
| <b>Nelson Airport Limited</b>                      |             |             |
| Amounts paid to Nelson City Council                | 319         | 186         |
| Dividend paid to Nelson City Council               | 115         | 212         |
| Amount payable to Nelson City Council              | 15          | 28          |

Nelson Airport Limited leases the airport land from the Nelson City Council for one peppercorn

|  | <u>2008</u> | <u>2007</u> |
|--|-------------|-------------|
|  | \$000       | \$000       |
| <b>Tasman Bays heritage Trust</b>                        |             |             |
| Amounts paid by Nelson City Council                      | 598         | 625         |
| Loan advanced by Nelson City Council                     | 1,200       | 1,200       |
| <b>Tourism Nelson Tasman Limited</b>                     |             |             |
| Amounts paid by Nelson City Council                      | 341         | 310         |
| Amounts paid to Nelson City Council                      | 52          | 57          |
| Amount payable by Nelson City Council                    | 2           | 0           |
| Amount payable to Nelson City Council                    | 0           | 1           |
| <b>Nelson Regional Sewerage Business Unit</b>            |             |             |
| Amounts paid by Nelson City Council                      | 2,181       | 2,260       |
| Amounts paid to Nelson City Council                      | 83          | 100         |
| Amount payable by Nelson City Council                    | 140         | 39          |
| Amount payable to Nelson City Council                    | 679         | 403         |
| <b>Nelson Tasman combined Civil Defence Organisation</b> |             |             |
| Amounts paid by Nelson City Council                      | 124         | 120         |
| Amounts paid to Nelson City Council                      | 11          | 11          |
| Computer equipment rental payable to Nelson City Council | 9           | 6           |
| Amount payable by Nelson City Council                    | 113         | 164         |
| <b>Ridgeways Joint Venture</b>                           |             |             |
| Amounts paid to Nelson City Council                      | 38          | 475         |

**Key management personnel**

During the year Councillors and key management, as part of a normal customer relationship, were involved in minor transactions with Nelson City Council (such as rates, purchase of rubbish bags etc).

The partner of one of the Management team received payment of \$3,000 for work carried out for the Council. (\$3,000 in 2006/07).

**Councillors**

During the 2007 year the Council entered into a land swap agreement with L.I.T.E. Housing Limited, a property development company in which Councillor Shaw and his partner owns a 20% share. During 2007/08 the Council paid L.I.T.E Housing Limited \$20,174. During 2006/07 L.I.T.E. Housing Limited paid the Council a net \$20,000.

Councillor Boswijk is a director of Boswijk Inc. Limited and during 2007/08 the Council paid the company \$1,800. (Nil in 2006/07).

Councillor Holmes is a director of Photomap NZ Limited and during 2007/08 the Council paid the company \$1,058. (Nil in 2006/07).

Councillor Rainey is a director of Eventiac Limited and during 2007/08 the Council paid the company \$20,823. (Nil in 2006/07).

Mayor Marshall is a trustee of the Cawthron Institute and during 2007/08 the Council paid the Cawthron Institute \$377,478.

These transactions are entered into on normal commercial terms.

No provision has been required, nor any expense recognised for impairment of receivables for any loans or other receivables to related parties (Nil in 2006/07).

**Key management personnel compensation:**

|   | <b>2008</b>  | <b>2007</b>  |
|---|--------------|--------------|
|   | <b>\$000</b> | <b>\$000</b> |
| Salaries and other short term employee benefits | 1,661        | 1,450        |
| Post employment benefits                        | 0            | 0            |
| Other long term benefits                        | 0            | 0            |
| Termination benefits                            | 0            | 0            |

Key management personnel include the Mayor, Councillors, Chief Executive and Executive Team.

## Note 29 - Remuneration

The Chief Executive of Nelson City Council appointed under section 42 of the Local Government Act 2002 received a salary of \$214,782 (\$185,359 in 2006/07)

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

Cost during the financial year

|                                 | <u>2008</u> | <u>2007</u> |
|---------------------------------|-------------|-------------|
| Vehicle (market value plus FBT) | 14,000      | 12,700      |
| Superannuation subsidy          | 3,120       | 3,120       |
| Subscription reimbursement      | 1,406       | 1,130       |
| Medical insurance               | 2,312       | 3,792       |
| Koru Club                       | 440         | 440         |

For the year ended 30 June 2008, the total annual cost including fringe benefit tax to the Nelson City Council of the remuneration package being received by the Chief Executive is calculated at \$235,992 (\$206,541 in 2006/07).

|   | <u>Council</u> |                | <u>Group</u>   |                |
|---|----------------|----------------|----------------|----------------|
|   | <u>2008</u>    | <u>2007</u>    | <u>2008</u>    | <u>2007</u>    |
| Mayor Matheson                              | 28,304         | 86,194         | 40,538         | 118,119        |
| Mayor Marshall (current Mayor)              | 61,636         | 0              | 61,636         | 0              |
| Councillor Aitken                           | 11,565         | 35,566         | 11,565         | 35,566         |
| Councillor Barker (current Councillor)      | 39,881         | 31,906         | 39,881         | 31,906         |
| Councillor Boswijk (current Councillor)     | 20,547         | 0              | 20,547         | 0              |
| Councillor Collingwood (current Councillor) | 33,548         | 35,566         | 33,548         | 35,566         |
| Councillor Cotton (current Councillor)      | 32,216         | 35,566         | 50,216         | 52,951         |
| Councillor Davy                             | 12,449         | 41,007         | 12,449         | 41,007         |
| Councillor Ford                             | 8,674          | 26,674         | 8,674          | 26,674         |
| Councillor Fry                              | 8,674          | 27,116         | 8,674          | 27,116         |
| Councillor Henigan (current Councillor)     | 31,378         | 30,898         | 31,378         | 30,898         |
| Councillor Holmes (current Councillor)      | 35,125         | 27,724         | 35,125         | 27,724         |
| Councillor McAlpine (current Councillor)    | 20,547         | 0              | 20,547         | 0              |
| Councillor Miccio (current Councillor)      | 20,547         | 0              | 20,547         | 0              |
| Councillor Rainey (current Councillor)      | 25,574         | 0              | 25,574         | 0              |
| Councillor Reese (current Councillor)       | 27,291         | 0              | 27,291         | 0              |
| Councillor Shaw (current Councillor)        | 38,350         | 38,986         | 38,350         | 38,986         |
| Councillor Thomas (current Councillor)      | 25,574         | 0              | 25,574         | 0              |
| Councillor Thorne                           | 8,674          | 26,674         | 8,674          | 26,674         |
| Councillor Turley                           | 8,674          | 28,477         | 8,674          | 28,477         |
|   | <u>499,228</u> | <u>472,354</u> | <u>529,462</u> | <u>521,664</u> |

Mayor Matheson was a director of Port Nelson Limited and Nelson Airport Limited and received directors fees of:

|                        | <u>2008</u> | <u>2007</u> |
|------------------------|-------------|-------------|
| Port Nelson Limited    | 7,667       | 21,925      |
| Nelson Airport limited | 4,567       | 10,000      |

Councillor Cotton is a director of Nelmac Limited and received directors fees of \$18,000 (\$17,385 in 2006/07).

### **Note 30 - Severance payments**

For the year ended 30 June 2008 Nelson City Council made three (three in 2006/07) severance payments to employees totalling \$61,751. (\$42,778 in 2006/07).

The value of each of the severance pays was \$25,000, \$20,000 and \$16,751. (\$20,000, \$17,905 and \$4,873 in 2006/07).

### **Note 31 - Events after the balance sheet date**

On 30 July 2008 a destructive wind storm event hit Nelson with wind gusts of up to 151 kph recorded at Princes Drive. The costs of the wind damage was extensive and in report 689921 which was considered by the Infrastructure Committee on 4 September 2008 it was estimated that the cost of the damage could amount to \$1.48 million plus a loss of value of the Council's pine plantations of \$0.84 million. The Council has an emergency fund which had a balance of \$1.01 million as at 30 June 2008. This reserve will be used in the first instance, and any excess costs will be funded by borrowings. There were no significant events after balance date for the 2006/07 year.

## Note 32 - Financial instruments

### A. Financial instrument categories

|  | Council |        | Group  |        |
|--|---------|--------|--------|--------|
|  | 2008    | 2007   | 2008   | 2007   |
|  | \$000   | \$000  | \$000  | \$000  |
| <b>Financial Assets</b>                        |         |        |        |        |
| <b>Loans and receivables</b>                   |         |        |        |        |
| Cash and cash equivalents                      | 6,538   | 10,844 | 7,461  | 11,771 |
| Trade and other receivables                    | 11,556  | 8,163  | 12,466 | 8,690  |
| Other financial assets                         |         |        |        |        |
| - term deposits                                | 2,000   | 1,000  | 2,000  | 1,000  |
| - community loans                              | 1,716   | 1,400  | 1,716  | 1,400  |
| - loans to related parties                     | 866     | 817    | 866    | 817    |
| Total loans and receivables                    | 22,676  | 22,224 | 24,509 | 23,678 |
| <b>Financial Liabilities</b>                   |         |        |        |        |
| <b>Financial liabilities at amortised cost</b> |         |        |        |        |
| Creditors and other payables                   | 10,293  | 9,818  | 10,770 | 10,051 |
| - bank overdraft                               | 268     | 549    | 268    | 549    |
| - secured loans                                | 36,335  | 35,110 | 36,335 | 35,110 |
| Total financial liabilities at amortised cost  | 46,896  | 45,477 | 47,373 | 45,710 |

### B. Financial instrument risks

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

#### Market risk

##### Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

Nelson City Council only holds short term investments with the major banks, and holds no listed equity instruments.

##### Currency risk

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

##### Interest rate risk

The interest rates on Nelson City Council investments are disclosed in Note 13 and on Nelson City Council borrowings in note 23.

All borrowings are raised at fixed interest rates.

**Fair values**

The fair value of financial instruments is their carrying amount as stated in the Balance Sheet.

**Credit risk**

Credit risk is the risk that a third party will default on its obligation to Nelson City Council, causing the Council to incur a loss. Principally, any risk is in respect of cash and cash equivalents, trade receivables and investments.

The details of the \$12.4 million trade receivables are outlined in Note 11. The largest single debtor is \$266,346 owed by Tasman District Council. (\$227,350 by the Tasman District Council in 2006/07).

Details of the investments are outlined in Notes 13 and 18. \$8.3 million is invested with the major banks with the largest amount with any one bank being \$4.0 million (\$3.8 million in 2006/07).

Nelson City Council's investment policy limits the amount of credit exposure to any one financial institution or organisation. Investments in other local authorities are secured by charges over rates. Other than other local authorities, the group only invests with entities that have a strong standard and poor's credit rating.

Nelson City Council has no collateral or other credit enhancements for financial instruments that give rise to credit risk.

**Maximum exposure to credit risk**

Nelson City Council's maximum credit exposure for each class of financial instrument is as follows:

|  | <b>Council</b> |               | <b>Group</b>  |               |
|--|----------------|---------------|---------------|---------------|
|  | <b>2008</b>    | <b>2007</b>   | <b>2008</b>   | <b>2007</b>   |
|  | <b>\$000</b>   | <b>\$000</b>  | <b>\$000</b>  | <b>\$000</b>  |
| Cash at bank and term deposits           | 8,538          | 11,844        | 9,461         | 12,771        |
| Trade and other receivables              | 11,556         | 8,163         | 12,466        | 8,690         |
| Community and related party loans        | 2,582          | 2,217         | 2,582         | 2,217         |
| Financial guarantees and possible claims | 587            | 737           | 587           | 737           |
|  | <u>23,263</u>  | <u>22,961</u> | <u>25,096</u> | <u>24,415</u> |

**Credit quality of financial assets**

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to standard and poor's credit rating or to historical information about counterparty default rates. All financial investments are with the five major banks.

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

## Liquidity risk

### Management of liquidity risk

Liquidity risk is the risk that Nelson City Council will encounter difficulty raising 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 facility to close out market positions. Nelson City Council aims to maintain its flexibility in funding by keeping committed credit lines available with Westpac and the Bank of New Zealand.

In meeting its liquidity requirements, Nelson City Council maintains a target level of short term investments sufficient to cover its restricted reserves. Nelson City Council manages its borrowing in accordance with its funding and financial policies, which include a Liability Management Policy. These policies have been adopted as part of the Nelson City Council's long term council community plan.

Nelson City Council has an overdraft facility of \$200,000.

### Sensitivity analysis

The table below illustrates the potential profit and loss and equity (excluding retained earnings) impact for reasonably possible market movements, with all other variables held constant, based on Nelson City Council's financial instrument exposures at the balance date.

|  | 2008                       |                            |                            |                            | 2007                       |                            |                            |                            |
|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
|  | \$000                      |                            | \$000                      |                            | \$000                      |                            | \$000                      |                            |
|  | -100bps<br>Other<br>Profit | +100bps<br>Other<br>equity | -100bps<br>Other<br>Profit | +100bps<br>Other<br>equity | -100bps<br>Other<br>Profit | +100bps<br>Other<br>equity | -100bps<br>Other<br>Profit | +100bps<br>Other<br>equity |
| <b>Interest Rate Risk</b>                      |                            |                            |                            |                            |                            |                            |                            |                            |
| <b>Financial assets</b>                        |                            |                            |                            |                            |                            |                            |                            |                            |
| Cash and cash equivalents                      | (63)                       | 0                          | 63                         | 0                          | (100)                      | 0                          | 100                        | 0                          |
| Other financial assets:                        |                            |                            |                            |                            |                            |                            |                            |                            |
| - local authority stock                        | 0                          | 0                          | 0                          | 0                          | 0                          | 0                          | 0                          | 0                          |
| <b>Financial liabilities</b>                   |                            |                            |                            |                            |                            |                            |                            |                            |
| Borrowings:                                    |                            |                            |                            |                            |                            |                            |                            |                            |
| - bank overdraft                               | 3                          | 0                          | (3)                        | 0                          | 5                          | 0                          | (5)                        | 0                          |
| <b>Total sensitivity to interest rate risk</b> | <b>(60)</b>                | <b>0</b>                   | <b>60</b>                  | <b>0</b>                   | <b>(95)</b>                | <b>0</b>                   | <b>95</b>                  | <b>0</b>                   |

A movement in market interest rate on fixed rate debt does not have any impact because secured loans are accounted for at amortised cost using the effective interest method.

## Note 33 - Explanation of major variances against budget

### Statement of financial performance

Other revenue is \$3.7 million over budget mainly due to vested assets being \$6.7 above budget, and \$0.5 million additional in festivals. The proceeds from the sale of Ridgeway sections were \$0.5 million under budget. The budget provided for a return on investment of \$0.5 million from the Regional Sewerage Business Unit but instead the business unit provided a rebate on its charges. It was therefore a reduced cost, and the income was that much less than budget.

Other expenses are \$1.0 million over budget mainly due to: \$385,000 spent on clean up after the major flood event in May 2007, and \$640,000 additional spending on festivals, (which was matched by \$540,000 additional revenue).





Finance costs were \$575,000 under budget. This was mainly due to delays in a number of the major capital projects, resulting in lower borrowings and hence lower interest costs.

The share of associate's surplus is zero as the associates are now only consolidated in the Group Accounts as a result of the adoption of New Zealand International Financial Reporting Standards.

#### **Statement of movements in equity**

Due to the high inflation levels in infrastructural assets the revaluations were \$8.9 million over budget.

#### **Balance Sheet**

The investments in associates is showing as \$47 million under budget but is simply because the retained earnings in these companies have been taken out of the Council figures and are now just shown in the Group figure as a result of the adoption of New Zealand International Financial Reporting Standards.

Borrowings are \$21 million under budget mainly due to many of the capital expenditure projects not proceeding as quickly as planned.

The split of equity between retained earnings and other reserves show major variations. When the LTCCP was prepared the Council had intended to go to deemed cost, and all the revaluation reserves were transferred to retained earnings, but the Council has now decided not to do so.

#### **Activity Summaries:**

##### **Water supply:**

Water sales were \$258,000 (2.4%) over budget due to the dry summer.

Financial contributions were well up on budget due to the rush before the new development contribution policy was implemented.

Depreciation was \$490,000 over budget and this has resulted in a similar increase in the loan repayments.

The surplus in the water account has been used to reduce borrowings.

##### **Sewage disposal:**

This account is a consolidation of the Nelson City's sewerage operation plus the city's share of the Nelson Regional Sewerage Scheme.

Financial contributions were well up on budget due to the rush before the new development contribution policy was implemented.

The other revenue budget allowed for a \$500,000 return on investment in the Regional Sewerage Business Scheme but instead this was provided as a rebate on its charges and so shows as reduced expenditure.

Capital expenditure is well under budget. This is mainly due to the Regional Scheme being \$2.3 million under budget as a result of delays in its upgrade, but the City's capital expenditure is \$860,000 over budget due to carry-overs from the previous year.

The transfer to reserve funds relates to the Nelson Regional Sewerage Scheme and is due to its upgrade not proceeding as quickly as planned.

The net reduction in loans raised and reduced loan repayments equates to the reduced capital expenditure.

#### **Stormwater and flood protection:**

Financial contributions were well up on budget due to the rush before the new development contribution policy was implemented.

Operating and maintenance expenses were \$381,000 over budget which was due to the \$385,000 clean up costs after major floods in May. The transfer from reserve funds is to fund these costs from the emergency fund.

Capital expenditure is well under budget due to delays in a number of the projects. As a result of this, the loans raised are well under budget.

#### **Roading and transport:**

Financial contributions were well up on budget due to the rush before the new development contribution policy was implemented.

Other revenue is well over budget which is mainly due to higher subsidies from Land Transport NZ. The most significant effect on this was the delay in the renewal of the Normanby Bridge of which \$1.7 million was carried forward from 2006/07.

Depreciation was \$464,000 over budget mainly in subsidised roading

Loans raised are well down due to the reduced capital expenditure, increased subsidies and increased depreciation.

#### **Managing solid waste:**

Operating and maintenance costs are \$522,000 under budget which is mainly due to savings in the operating contracts at the transfer station and landfill, (\$148,000), maintenance costs at the landfill (\$84,000), and savings in the disposal of green waste, (\$93,000).





**Environmental management:**

The “Clean Heat” loans did not proceed as fast as planned and so the loan investments are down by \$1 million and the loans raised are down by a similar amount.

**Regulatory compliance:**

Other revenue is \$449,000 over budget due to increased building services fees received, but there is a similar amount of additional operating costs due to the engagement of contractors to assist with processing building consents.

**Parks and open spaces:**

Other revenue was \$710,000 over budget, mainly due to additional grants from Tasman District Council towards the Saxton Field development, (\$297,000), a contribution from the Tennis Club which was budgeted to be received in the previous year, (\$128,000), a Canterbury Community Trust grant toward the Saxton Field development, (\$100,000), and donations towards the Chinese Gardens, (\$73,000).

Operating and maintenance is over budget by \$320,000 mainly in Esplanade and Foreshore Reserves and Sports Parks.

Depreciation is significantly higher, mainly in Sports Parks, and is a result of the revaluation on transition to New Zealand International Financial Reporting Standards.

Due to the high level of contributions to the subdivision reserve account it was possible to use these funds instead of raising loans.

**Recreation and leisure:**

No significant variations.

**Community facilities:**

The major variance in this activity was the capital expenditure being \$13.9 million under budget. The main areas of under spending were delays in Regional Community Facilities, (\$10.8 million due to delays in Saxton Field Stadium and the Trafalgar Centre), Community Housing (\$1.5 million for the Orchard Street redevelopment), and the marina, (\$1.3 million for the Akerston Street development). These delays have resulted in lower operating and maintenance, interest and depreciation costs. They also resulted in reduced borrowings and lower sales of assets, (Akerston Street properties).

**Economics and tourism support:**

No significant variations.

**Managing emergencies and natural hazards:**

No significant variations.

**Social development:**

No significant variations.

**Culture, heritage and arts:**

Both other revenue and operating and maintenance costs were over budget by over \$0.5 million due to additional revenue and costs in the festival account as a result of the Opera in the Park.

**Democracy and central administration.**

Other revenue is well over budget due to a change in accounting for an extra dividend of \$1.4 million from Port Nelson Limited. Under previous New Zealand Generally Accepted Accounting Practice (GAPP) Council recognised dividends as revenue when they were physically received (cash basis). NZ IAS 18, Revenue, requires that dividends be recognised when the shareholders right to receive payment has been established. This means that Council recognises dividend revenue when it is declared. Port Nelson Limited declared its final dividend on 20 June 2008 and so this dividend has been accrued as at 30 June 2008. As two final dividends have been accounted for during the year ended 30 June 2008, the second dividend has been transferred to the loan repayment reserve in line with Council policy.

Both internal interest received, and interest on loans are under budget by over \$1 million due to delays in major projects and the consequential reduced borrowings. Capital expenditure is under budget due to work on Civic House not proceeding as quickly as planned, and lower purchases and renewals of computer equipment.

The loans raised are \$2 million over budget due to the increase in transfers to reserves, the lower transfers from reserves, and the lower sales of section in the Ridgeways subdivision.

**Reserves and trusts**

Financial contributions were well up on budget due to the rush before the new development contribution policy was implemented. The net contributions and interest were transferred to the reserve account.



### Note 34 - Capital management

The Council's capital is its equity (or ratepayers' funds), which comprise retained earnings and reserves. Equity is represented by net assets. The Local Government Act 2002 (the Act) requires the Council to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community. Ratepayers' 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.